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News Summary

OFFICE OF THE PRESS SECRETARY

WEDNESDAY, DECEMBER 31, 1986 -- 6 a.m. EST EDITION

TODAY'S HEADLINES

IRAN -- NICARAGUA

REPORT: IRANIAN OFFERED ARMS-FOR-HOSTAGE DEAL -- An Iranian emissary envoy said he would try to win the release of one and possibly two Americans held hostage in Lebanon in exchange for U.S. anti-tank missiles, it was reported today. (Washington Post, UPI)

INTERNATIONAL NEWS

REAGAN TO AIR GREETING, BUT KREMLIN BALKS -- President Reagan will broadcast a New Year's Eve message to the people of the Soviet Union despite Mikhail Gorbachev's refusal to exchange mutual greetings on television, the White House announced yesterday.

(Washington Post, Washington Times, AP, Reuter, UPI)

NATIONAL NEWS

ECONOMIC INDICATORS RISE 1.2 PCT. IN NOVEMBER -- The nation's main barometer of future economic activity last month jumped 1.2 percent, the strongest rise since April, suggesting that the economy may be entering the new year stronger than expected. (New York Times, Washington Post, AP)

NETWORK NEWS (Tuesday Evening)

NEW YEAR'S GREETINGS -- President Reagan is going to send a New Year's message to the Soviet people tomorrow but not in the way he had hoped.

TRADE WAR -- President Reagan fired off a volley today in a growing trade war with Europe's Common Market.

KIMCHE -- David Kimche flatly denied today that it was his idea for the U.S. to divert profits from Iran arms sales to the Contras.

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IRAN -- NICARAGUA

IRANIAN OFFERED RELEASE OF AMERICAN HOSTAGE
FOR 500 TOW MISSILES

Early last October, an Iranian government emissary told U.S. representatives he would arrange for the release of an American hostage held in Lebanon if the United States would sell Iran 500 TOW antitank missiles, according to informed sources.

The Iranian, who had direct access to officials of Ayatollah Ruhollah Khomeini's government, said Tehran would pay in advance for the weapons and that he also would work on getting a second hostage out.

(Walter Pincus, Washington Post, A1)

Report: Iranian Offered Arms-For-Hostage Deal

An Iranian emissary envoy said he would try to win the release of one and possibly two Americans held hostage in Lebanon in exchange for U.S. anti-tank missiles, it was reported today.

The Administration has repeatedly denied it was engaged in an arms-for-hostages swap, characterizing its 18-month initiative with Iran as an effort to re-establish contact with "moderates" in the Islamic government.

(UPI)

NEGOTIATIONS ON IRAN ASSETS ARE EXTENDED

Negotiations to unfreeze \$500 million in Iranian assets held in a U.S. bank apparently have hit a snag and will carry over until next month, State Department officials said yesterday.

Monday's four-hour session was "constructive [and] progress was made, but we do not expect that we will be able to reach final agreement on all issues at this session," Phyllis Oakley said. She stressed in an opening announcement that there is no link between the talks and any possible aid from Iran in obtaining the release of U.S. hostages held in Lebanon.

(Joanne Omang, Washington Post, A8)

Iran, U.S. Report Progress In Talks On \$508 Million

THE HAGUE -- The United States and Iran reported progress in talks over returning nearly \$508 million in blocked assets to Iran, and scheduled another meeting today.

The Iranian source, who spoke on condition of anonymity, predicted the matter would be settled by face-to-face negotiations, without the need to ask the tribunal for a further decision.

(Abner Katzman, AP)

U.S., Iranian Officials Meet Today Over Frozen Money

THE HAGUE -- Iranian and U.S. officials prepared to resume talks today on releasing \$500 million in Iranian funds frozen in the United States during the 1979 Iranian hostage crisis.

The U.S. negotiators -- officials from the Treasury Department and the New York branch of the Federal Reserve Bank -- held a day of "internal consultation" with Washington Tuesday in preparation for their second round of talks with Iranian bankers, U.S. Embassy spokesman Sam Wunder said.

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(UPI)

NORTH CLAIMS ISRAELI CONNECTION IN CONTRA SCHEME

The Justice Department has been unable to corroborate Lt. Col. North's claim that an Israeli official first proposed funneling Iran arms sale profits to Nicaraguan rebels, officials say.

But officials said Justice Department investigators have been unable to confirm North's assertion in interviews with U.S. and Israeli officials in the past few weeks.

If North's assertions are true, however, Justice Department officials said they would suggest a larger Israeli role than first indicated when Meese made public the clandestine scheme Nov. 25 and said that only "representatives of Israel" had been involved in the Iranian arms sales.

(Lori Santos, UPI)

Kimche Denies Proposing Diversion To Contras

JERUSALEM -- An Israeli closely linked to the U.S.-Iranian arms sales scandal denied claims that he first proposed funneling profits from the sales to American-backed rebels in Nicaragua.

"The whole thing is, if in fact he said it, a figment of his imagination," Kimche told UPI.

"Or it could be a deliberate lie to divert attention from himself or to cover up for someone else," Kimche said during a telephone interview from his home in Tel Aviv.

(Steve Hagey, UPI)

SECURITY MAKES THE BIG DIFFERENCE BETWEEN WATERGATE, CONTRA PROBE

The charters establishing two special congressional committees to probe the Iran-Contra affair are based on guidelines used by the Senate panel that investigated the Watergate scandal, a source who helped define the roles of the new committees said yesterday.

"The big difference is that we are being much more security conscious," said the source, who added that all staff members of the special committees will be required to have top-secret security clearances.

(Michael Hedges, Washington Times, A2)

3,000 U.S. TROOPS BEGIN AN EXERCISE IN SOUTH HONDURAS Will Improve Airstrips

TEGUCIGALPA -- About 3,000 United States troops have begun a joint four-month military exercise with Honduras that will include improving airstrips in the southern part of the country, the armed forces announced today.

In addition, the first of 4,500 National Guardsmen from eight states and Puerto Rico will begin arriving in this Central American country next week for a separate four-month exercise.

(AP story, New York Times, A1)

U.S. DEMANDING EXPLANATION FOR OAS HEAD'S TRIP

The Reagan Administration, concerned over possible pro-Sandinista bias among Central American peacemakers, wants an explanation from the head of the Organization of American States for a trip U.S. officials worry could harm Nicaragua's Contra rebels.

The U.S. delegation to the OAS, led by Ambassador Richard McCormack, believes that OAS Secretary General Joao Baena Soares may be acting beyond his authority in agreeing to a request by Central American peace mediators to undertake the trip.
(George Gedda, AP)

DOCTORS DEVELOPING TREATMENT FOR CASEY

CIA Director Casey, who underwent surgery to remove a cancerous brain tumor, will begin anti-cancer treatment when his recovery is farther along, a hospital spokesman says.

Hospital spokeswoman Cynthia Byers said doctors were developing a "treatment plan" that would begin when he recovers further. Doctors have said they plan some form of anti-cancer therapy to prevent a recurrence, but the hospital has not said whether the cancer had spread to other parts of Casey's body.

White House spokesman Larry Speakes said in Palm Springs that President Reagan has not yet spoken with Casey because it is not "appropriate at this stage," but would not say whether that was because Casey was unable to talk.
(UPI)

After 2 Weeks, Crucial Questions On Casey Linger

Nearly two weeks after surgery in which a brain cancer was removed from William Casey, the Director of Central Intelligence, his doctors said again today that he was fully conscious and periodically sat in a bedside chair.

The statement from Georgetown University Hospital gave no indication that Mr. Casey's condition had changed since late last week, when the hospital said the same thing in its last report on the patient. And it leaves a number of crucial questions unanswered, including when or whether he will be capable of talking, walking or resuming his duties.

(Lawrence Altman, New York Times, A1)

REGAN NOTABLY ABSENT IN PALM SPRINGS

PALM SPRINGS -- For nearly two years, White House Chief of Staff Donald Regan has spent most of his waking hours in lockstep with President Reagan, and in the process, extended his powerful influence to every corner of the Administration.

But on this short New Year's vacation, the 68-year-old Mr. Regan is most notable by his absence at a time when the President is both widely criticized and vulnerable because of the twin disasters of the Iran-Contra scandal and the Democrats' seizure of the Senate.

The fact that Mr. Regan is playing golf in Florida while the President is vacationing at the desert estate of publisher Walter Annenberg may signal a waning interest by the former Merrill Lynch chief executive in continuing to serve in an embattled Administration, according to some observers here. (Jeremiah O'Leary, News Analysis, Washington Times, A1)

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Regan's Job Seems Safe, But Role Curtailed

For Donald Regan, the worst may be over -- for now.

Reagan Administration sources say the embattled White House chief of staff, who three weeks ago seemed all but certain to become a casualty of the unfolding Iran-contra scandal, may yet weather the storm.

Barring new evidence linking Mr. Regan to a scheme to channel profits from United States arms sales to Iran to Nicaraguan resistance fighters, these sources say, Regan could confound his critics by surviving until the end of the Reagan presidency.

But others note that with President Reagan broadening his circle of advisers to include a larger number of experts in and outside the White House, and with more White House officials gaining direct access to the Oval Office, Regan's influence is likely to be reduced.

(George Moffett, Christian Science Monitor, A1)

SWISS TO ACT ON CONTRA FUNDS

BERN -- Receipt of a French-language translation of a U.S. Justice Department petition has cleared the way for the Swiss government formally to freeze nine bank accounts believed used in the laundering of money to support Nicaraguan guerrillas, a government spokesman said today.

Those named in the U.S. request will have 10 days to appeal the Swiss action. To do so, however, they would have to acknowledge publicly that they hold the accounts in question.

(John Parry, Washington Post, A8)

LEFTIST TO GET PANEL ON CONTRA POLICY

A left-wing congressman who has sharply opposed the Reagan Administration's foreign policy is expected to become chairman of the House Foreign Affairs subcommittee with jurisdiction over Central American policy.

Rep. George Crockett, a Michigan Democrat who has among other things accused President Reagan of violating the War Powers Act, would replace outgoing Rep. Michael Barnes as chairman of the Western Hemisphere affairs subcommittee.

(Rita McWilliams, Washington Times, A1)

INTERNATIONAL NEWS

REAGAN PLANS MESSAGE TO SOVIETS

If Not Jammed, VOA Will Beam Taped Talk To The People

PALM SPRINGS -- President Reagan will try to reach the Soviet people with a taped radio message of New Year's greetings beamed to the Soviet Union over the Voice of America, White House spokesman Larry Speakes announced today.

Reagan's decision came in response to Soviet rejection of the President's proposal to exchange televised greetings with Soviet leader Gorbachev. Last year, after their Geneva summit, the two leaders addressed each other's people with optimistic messages that looked forward to improved relations between the superpowers.

(Lou Cannon, Washington Post, A16)

Reagan To Air Greeting, But Kremlin Balks

PALM SPRINGS -- President Reagan will broadcast a New Year's Eve message to the people of the Soviet Union despite Mikhail Gorbachev's refusal to exchange mutual greetings on television, the White House announced yesterday.

"We believe that an exchange of television addresses is a good thing," Gennady Gerasimov said. "But why instill in people illusions that everything is in order?" (Jeremiah O'Leary, Washington Times, A1)

Reagan To Try To Address Soviets, Despite Moscow Rejection Of Message Swap

PALM SPRINGS -- The United States will beam a New Year's message from President Reagan to the Soviet people, despite Moscow's rejection of a U.S. proposal that the two superpower leaders swap televised addresses.

"If this indeed is an indication of the way the Soviets feel about U.S.-Soviet relations, then that certainly speaks for itself," said Speakes. "But as far as the United States is concerned, we are prepared to make progress in our relationship on many fronts."

(Dale Nelson, AP)

Reagan Beams New Year's Message To Soviet Union

PALM SPRINGS -- President Reagan's New Year's radio address will be broadcast to the Soviet Union even though Moscow rejected his proposal for a second year of televised holiday messages from the superpowers.

To be broadcast over the VOA, Reagan scheduled a New Year's Eve address to the Soviet Union and asked the Kremlin to see that his message of good will and hope for better relations is not blocked by Soviet jammers.

White House spokesman Larry Speakes said Reagan taped a radio address Monday that would stress the "potential for improved relations and continuing progress on arms control in the new year."

(Norman Sandler, UPI)

Soviets Reject New Year's TV Exchange

MOSCOW -- The Soviet Union has rejected President Reagan's proposal for an exchange of televised New Year's greetings with Soviet leader Gorbachev on the grounds that sour relations between the two countries make the timing for such a gesture inappropriate. The two exchanged such greetings last New Year's Day.

Gennadi Gerasimov cited the Reagan Administration's decision to abandon the SALT II treaty despite Soviet protest, the U.S. refusal to join the Soviet moratorium on nuclear testing, and the fallout over the October U.S.-Soviet summit meeting in Reykjavik, Iceland, as evidence of the tensions in relations.

"All that gives no ground for an optimistic note," he said.

(Gary Lee, Washington Post, A1)

Reagan Sends Greetings Despite Soviet Nyet

PALM SPRINGS -- President Reagan, disappointed by Mikhail Gorbachev's nyet on a superpower exchange of New Year's greetings, plans to get his message to the Soviet people anyway.

White House spokesman Larry Speakes told reporters yesterday he could see no justification for the Soviet rebuff of Reagan's suggestion that he and Mikhail Gorbachev exchange messages as they did last year in the afterglow of the Geneva summit. (Patricia Wilson, Reuter)

EMBATTLED REAGAN PLANS DIPLOMATIC OFFENSIVE

With a strong assist from Secretary Shultz, President Reagan will try to pull himself out of the morass of the Iran-Contra affair in 1987 with a vigorous and productive diplomatic offensive in the four corners of the world.

The embattled President, trying also to overcome medical problems and to rebuild his credibility and popularity, intends to look for opportunities with the Soviet Union and elsewhere.

Apart from the pressures of the double scandal that has beset the Administration, Reagan has barely two years remaining to leave a mark on foreign affairs through a major arms control agreement with the Soviet Union, a new peace initiative in the Middle East or a solution to the bloody racial problems in southern Africa.

(Barry Schweid, News Analysis, AP)

U.S. OFFICIAL TO VISIT POLAND IN MOVE TO IMPROVE RELATIONS

Deputy Secretary of State John Whitehead is planning a trip to Poland early in the new year as part of a gradual process of normalizing relations between Washington and Warsaw, State Department officials said yesterday.

The trip, expected to take place in late January or early February, was described by officials as one of several recent or pending "political signals" between the Reagan Administration and the Warsaw regime of Gen. Wojciech Jaruzelski. (Don Oberdorfer, Washington Post, A16)

\$1.3 BILLION MORE SOUGHT IN FOREIGN AID PROGRAMS
Bulk Of Request Covers Security Assistance

The Reagan Administration plans to ask Congress next week for \$1.3 billion more in foreign aid spending for fiscal 1987, congressional sources said yesterday.

The supplemental increase, guaranteed to be controversial in a period of cuts elsewhere, will come on top of an international spending request for fiscal 1988 totaling \$19.5 billion, a 15.8 percent increase from last year's level, the sources said. (Joanne Omang, Washington Post, A13)

TARIFF ON EUROPEAN FOOD, SPIRITS COULD BRING RETALIATION

PALM SPRINGS -- President Reagan Tuesday slapped steep duties on a variety of European food and spirits in what could signal the escalation of a major international trade war.

The President imposed duties that could triple the cost of gin, brandy, white wine, cheese and other products imported from Europe in retaliation for trade barriers that effectively prohibit the import of American corn and feed grain.

"The intent is to stop that trade in its tracks," U.S. Trade Representative Clayton Yeutter told reporters in Palm Springs, where the President and First Lady Nancy Reagan are spending their New Year's holiday. (John Marelius, Copley)

Agricultural Trade War Looms Between U.S., Western Europe

The United States and the European Community yesterday headed toward a trade war over agricultural products, but both sides held out hope for a negotiated settlement.

Mr. Yeutter said the action is in retaliation for Europe's failure to compensate the United States for the loss of \$400 million a year in U.S. feed-grain exports to Spain as a result of Spain's joining the EC.

(Donald May, Washington Times, A1)

U.S. Hits European Trade Actions, But Seeks Further Talks

The United States has announced plans to slap huge increases in duties on European alcoholic beverages, cheese, olives, and canned ham in retaliation against European Community trade practices.

U.S. Trade Representatives Clayton Yeutter, in an announcement yesterday from Palm Springs, said the proposed levies could price European exports of the goods out of the U.S. market. But he left the door open for continued negotiations next month before the tariffs go into effect.

(Nelson Graves, Reuter)

'Yuppie Food' First Casualty In Trade Skirmish

PALM SPRINGS -- President Reagan launched an offensive in a transatlantic trade tiff that could escalate into a tit-for-tat economic war, and a "Yuppie list" of food and booze is the first casualty.

On Tuesday, Reagan sharply hiked duties on 11 European products ranging from British gin and French wines to Belgian endive and Dutch edam, setting the stage for a tense trade atmosphere that may not soon subside.

(Norman Sandler, UPI)

U.S.-CANADIAN NEGOTIATORS REACH 11TH-HOUR
AGREEMENT ON LUMBER DISPUTE

U.S. and Canadian negotiators reached an 11th-hour agreement Tuesday night to end a long and divisive dispute over Canadian construction lumber imports, U.S. trade officials said.

The negotiated breakthrough was announced by Commerce Department spokeswoman Desiree Tucker only hours before the department was scheduled to make a final decision on its preliminary finding last Oct. 16 that Canadian timber-cutting policies amount to an unfair subsidy.

(Tom Raum, AP)

U.S. And Canada Reach Last-Minute Lumber Accord

U.S. and Canadian negotiators reached an eleventh-hour agreement last night settling a trade battle over Canadian softwood lumber exports.

The agreement put an end to a trade showdown that had irritated U.S.-Canada relations and jeopardized free trade talks between the two countries.

(Nelson Graves, Reuter)

OIL TRADE GROUP SAYS ADMINISTRATION HURTING DOMESTIC PRODUCERS

The Reagan Administration is hurting domestic oil producers with some of its actions, the principal petroleum trade association is complaining.

The Administration response to the charge, from Interior Secretary Hodel, was only two sentences long and the first was: "You've got to be kidding."

But Charles DiBona, president of the American Petroleum Institute, was not kidding at a news conference Tuesday called to release a study of the impact of oil imports.

(Guy Darst, AP)

U.S. ACCUSES TURKEY OF INCREASING FORCES ON CYPRUS

The Reagan Administration has admonished Turkey for building up its military strength on Cyprus, an American official says.

A U.S. official Tuesday described the increase in troops on the island as only about 5 to 10 percent over previous strength. "More important," he said, "is a qualitative change in some of their armaments."

Ten House members urged Secretary of State Shultz to investigate reports of the buildup.

(Barry Schweid, AP)

NATIONAL NEWS

ECONOMIC INDICATORS RISE 1.2 PCT. IN NOVEMBER

The nation's main barometer of future economic activity last month jumped 1.2 percent, the strongest rise since April, suggesting that the economy may be entering the new year stronger than expected.

Although the strong increase in leading indicators signaled to some economists that the economy may be stronger than earlier believed, some also said the increase in activity could mean a pickup in inflation. This concern was based on the fact that the raw materials component of the index has increased in each of the last two months.

(Jane Seaberry, Washington Post, E1)

Index On Direction Of Economy Climbs

The Government index intended to predict the economy surged 1.2 percent in November, the biggest advance in seven months, the Commerce Department reported today.

The latest reading, which was somewhat stronger than expected, was widely regarded as pointing to continued economic growth in 1987.

Analysts differed markedly, however, about how vigorous the fifth straight year of expansion was likely to be. Many contended that the sharp November jump in the index of leading indicators overstated the economy's strength, partly because the new tax law that takes effect this week has been acting recently as an artificial spur to demand.

(Robert Hershey, New York Times, A1)

Leading Indicators Jump 1.2 Percent In November; New Home Sales Down

The Commerce Department says the government's main measure of future economic activity shot up 1.2 percent in November, the biggest rise in seven months, while new home sales fell 2.2 percent last month.

Private economists, however, were divided Tuesday over whether the surprisingly strong advance in the Index of Leading Indicators was a true signal of a rebounding economy. (AP)

SENIOR LAWMAKER CRITICIZES PENTAGON BUDGET PROPOSAL

Next year's proposed Pentagon budget, which will be formally unveiled next week, already is coming under fire from a lawmaker who normally steadfastly supports military spending.

The latest criticism came Tuesday from Rep. William Dickinson, ranking Republican on the House Armed Services Committee.

The Alabama congressman wrote to Defense Secretary Weinberger to complain that the Administration plans to give too much money to the Navy and "Star Wars" at the expense of the Army. (Tim Ahern, AP)

TAX CHANGE INSPIRES GIVING SPIRIT
Charities Benefit In Last Call For Some To Deduct Contributions

Area charities have been deluged with donations this month, with contributions ranging from such items as cemetery plots and houseboats to more mundane things such as clothing and small appliances.

Much of the giving has been spurred by changes in federal tax laws next year that will eliminate some deductions for charitable contributions, according to representatives of charitable organizations.

(Evelyn Hsu, Washington Post, A1)

BIG INCREASE IN U.S. PARK SPENDING URGED
Presidential Panel Stresses Local and Private Action
To Preserve Open Areas

A presidential panel yesterday recommended \$1 billion a year in federal funding for outdoor recreation, a dramatic increase that would run counter to the Reagan Administration's efforts to trim spending on new parkland.

But the 15-member commission, appointed by President Reagan last year to study future recreational needs, stuck by its recommendation for a billion-dollar trust fund to replace the 20-year-old Land and Water Conservation Fund when it expires in 1989.

(Cass Peterson, Washington Post, A3)

BALDRIGE IN HOSPITAL WITH UNDIAGNOSED LUNG AILMENT

ALBUQUERQUE -- Commerce Secretary Malcolm Baldrige remained in an Albuquerque hospital today for treatment of a lung ailment that doctors have not been able to identify, a hospital spokesman said.

"So far, his doctors have not been able to determine the cause of his problems," said Bob Hlady, a hospital spokesman. He added that heart disease, cancer, pulmonary embolism and most varieties of pneumonia have been ruled out.

(Reuter)

SOON, YOU WILL BE ABLE TO DIAL UP REAGAN'S WEEKEND RADIO ADDRESSES

PALM SPRINGS -- The White House, after experimenting with letting radio stations dial up President Reagan's weekly radio speeches on the telephone, will try to expand the audience by getting listeners to dial it for themselves.

"We hope to be able to get some more attention on it and give it a better try," Elizabeth Board, director of the White House television and radio office, said in a telephone interview Tuesday from Washington.

(Dale Nelson, AP)

NETWORK NEWS SUMMARY

NEW YEAR'S GREETINGS

NBC's GARRICK UTLEY: It was just a year ago that there was a glow of goodwill in the relations between the U.S. and the Soviet Union. Ronald Reagan and Gorbachev were preparing their New Year's speeches to be broadcast in each other's country. Today the Soviet Union turned down an American request for greetings this New Year claiming the climate between the two countries has turned sour.

NBC's CHRIS WALLACE: When the President and Gorbachev exchanged televised greetings a year ago, it was interpreted as a sign U.S.-Soviet relations were improving. But today a Soviet official said there will be no exchange this New Year's Day because the situation is now too tense.

(Gennadi Gerasimov: "Why should we create any illusions about our relations.")

Gerasimov accused the President of killing any progress made at the Reykjavik summit. He noted the U.S. has deployed another bomber with Cruise missiles, openly violating the SALT II arms treaty and that it has continued testing nuclear weapons forcing the Soviets to end their 18 month moratorium. In California spokesman Larry Speakes said the President regrets the Soviet turn down calling it inconsistent with Kremlin statements it wants to make progress.

(Larry Speakes: "We think this would be an opportunity to indicate on both sides that there is room for improvement in our relationship and we would pledge to do so for our part.")

The U.S. proposed the exchange of greetings just before Christmas but the Soviets rejected the idea four days later. White House officials believe it is all part of the Soviet propaganda campaign begun after arms talks broke down in Iceland to increase the sense of tension and force Mr. Reagan to make new concessions.

(Helmut Sonnenfeldt: "And they also don't want to seem to be weak toward the United States and they're in a way trying to punish President Reagan for not giving Gorbachev the kind of success that he was looking for at Reykjavik.")

Whatever the reason, the mood is now very different from what it was when the President spoke to the Soviets a year ago.

(President Reagan: "Let's work together to make it a year of peace. There is no better goal for 1986 or for any year.")

The President will deliver his New Year's greeting anyway sending a radio message over the Voice of America. U.S. officials hope the Soviets won't jam the broadcast but say they have been given no private assurances.

(NBC-Lead)

ABC's PETER JENNINGS: President Reagan is going to send a New Year's message to the Soviet people tomorrow but not in the way he had hoped. He will broadcast by radio on the Voice of America but not on Soviet television. The White House had suggested that just like last year he and Mr. Gorbachev appear on each other's television. The Soviets said no.

ABC's HILLARY BOWKER reports the Kremlin has ruled out a televised exchange of New Year's greetings between the two leaders because of the sorry state of superpower relations. Last year it was a different story, Gorbachev on the U.S. networks with a taped message for the American people and Soviet television broadcast a similar greeting from Mr. Reagan.

(President Reagan: "I want to share with you my hopes for the New Year. Hopes for peace, prosperity and goodwill that the American and Soviet people share.")

The State Department says it is disappointed.

(Spokesman Phyllis Oakley: "We proposed the messages by the President and the General Secretary be exchanged. We regret that the Soviets rejected our proposal.")

The signal the Kremlin is sending Washington is centered on arms control. The Soviets have tried desperately this year at least to be seen to be taking active measures on disarmament. No agreements have been signed, but the Soviets say there is still time in the New Year, but that it is now up to the U.S.

(ABC-Lead)

CBS's CHARLES KURALT: Mikhail Gorbachev, who has been complaining that President Reagan won't go his half of the way toward an arms agreement, deepened the Soviet-American chill today. The Russians denied Mr. Reagan permission to broadcast New Year's greetings to the Soviet people.

CBS's BILL PLANTE: President Reagan will try an end run around Gorbachev to the Soviet public sending a New Year's message recorded yesterday via short wave radio through the Voice of America, the reason, Moscow today said no to a U.S. request for a repeat of last year's exchange of televised messages between the two leaders. Gennadi Gerasimov said we have no basis for the exchange of such New Year's messages citing U.S.-Soviet disagreements over arms control, SALT II treaty limits and nuclear testing. Larry Speakes rejected the Soviet charges and said he hoped the Kremlin wouldn't interfere with the VOA broadcast.

(Speakes: "Regrettably the Soviet Union has declined our offer to exchange greetings. The unwillingness to agree to an open exchange of greetings is not consistent with the progress made at Reykjavik.")

The Soviets disagree that progress was made at Reykjavik and analysts here see the Soviet refusal as a tactic.

(Helmut Sonnenfeldt: "Well, I think at the moment they are trying to create the impression that relations really aren't very good and they are trying to put pressure on the Administration here to make some concessions and show flexibility on SDI.")

(Jonathan Sanders: "It would have been very significant if happened again. It would be an important tradition. The Soviet people got to see that Ronald Reagan was not a maniac with a gun, not a piston packing mamma.")

The U.S. position is that the exchange of greetings would have symbolized progress over the past year in U.S.-Soviet relations but privately U.S. officials are not surprised that the Soviets aren't willing to put Ronald Reagan on prime time t.v. given what they admit is the current lack of real momentum between the superpowers.

(CBS-Lead)

TRADE WAR

UTLEY: President Reagan fired off a volley today in a growing trade war with Europe's Common Market. Last summer the Europeans put a tariff on grain from the United States. Today the President announced a new tariff on an assortment of European farm products. The tariff will triple the price of such items as canned hams, olives, gin and brandy, white wine, and cheese. (NBC-5)

JENNINGS: Today the Reagan Administration has said it will impose a series of tremendous tariffs on a whole range of European products which are very popular with the American consumer. The Europeans seem determined to retaliate.

ABC's SHEILAH KAST: The trade action reads like the shopping list for an elegant party.... All together the action announced today will impose new tariffs of 200% on four hundred million dollars worth of European products making most of them too expensive to compete in the U.S.

(Clayton Yeutter: "The basic controversy here is over lost agricultural export sales, lost sales of corn and grain sorghum to Spain.")

President Reagan took the action to retaliate against higher tariffs by the European economic community or Common Market, which blocked four hundred million dollars worth of corn and sorghum U.S. farmers use to export to Spain....

(Yeutter: "The European producers of gin will probably not be willing to sell in the U.S. market at those prices.") ...

Those higher consumer prices will not directly restore the lost farm market in Spain but many farmers welcome the move.

(Bill Mullins: "Yes, I think it is very positive. We need to let the Europeans know that we are not going to stand back and let them not fulfill their commitments.")

(Alan Terhaar: "Yes, the farmers are holding the bag but the farmers want a firm line. The farmers want retaliation because it is felt that that's the only way we are going to get long-term concessions out of the E.C. on trade issues that are of importance to us.")

U.S. Trade Representative Yeutter said he hopes the Europeans will compromise before the tariffs take effect in a month. Failing that, he said the Europeans may retaliate and the U.S. may retaliate back again.

(ABC-4)

KURALT: President Reagan today ordered a 200% duty today on brandy, gin, ham and cheese and cheap white wine from Europe, such a stiff tariff that if it sticks it will mean some of those popular products won't come into the U.S. at all. This escalation of the trade war with Europe is in retaliation for a decision by Spain and Portugal to sharply reduce their purchase of American feed grain. There is still a slight hope of a compromise before the President's order takes effect at the end of January.

(CBS-2)

KIMCHE

UTLEY: Question: Where did the idea to divert the profits from the Iran sale to the contras originate? Justice Department sources tell NBC's Carl Stern that Oliver North said to Attorney General Meese that the idea came from an Israeli official. Meese gave this information to a congressional committee and said he believed the Israeli official was David Kimche who was involved in the early stages of the arms deal. There has been no corroboration, however, that North's claim to Meese is true. Today I asked David Kimche in Tel Aviv for his response to the allegation that the idea of the diversion of money from the Iran sale came from him.

(David Kimche: "I find it very difficult to believe that Col. North actually did say the things they are supposed to have said because it is just pure shear unadulterated nonsense. It couldn't be further from the truth. If he said what he is supposed to have said then he is an unmitigated liar. And I emphasize the 'if' because I still find it difficult to believe it.") (NBC-6)

ABC's DENNIS TROUTE reports Justice Department sources say that when the Attorney General gave closed door testimony before the Senate Intelligence committee December 17th, he dropped a potential bombshell on U.S.-Israeli relations. Answering questions about the origin of the plan to funnel money illegally from Iran arms sales to the Contras, Meese said North had told him the idea came from David Kimche. The Israeli government repeatedly has denied that its officials had any part in schemes to support the contras and today David Kimche strongly denounced this new allegation as untrue. Today North had no comment on public reports about his charges. Federal investigators have spent the past few weeks trying verify North's story through interviews with U.S. and Israeli officials but they still do not know if it is true. If it is true it suggests that Israel authored the most controversial part of the scheme that has so damaged the Reagan Administration. If it is not, Col. North may have lied to the Attorney General. (ABC-2)

KURALT reports a former official of the Israeli government (David Kimche) flatly denied today that it was his idea for the U.S. to divert profits from Iranian arms sales to the Nicaraguan contras. (CBS-3)

WEINBERGER

JENNINGS: Secretary Weinberger has suffered a defeat in Administration maneuvering over the new budget. ABC's Bob Zelnick has learned the Pentagon will request \$312 billion in spending authority for fiscal year 1988, a real increase of just three percent. Weinberger had been fighting for a much higher figure. (ABC-6)

INDEX OF LEADING INDICATORS

KURALT: The government issued a promising economic forecast today. The Commerce Department said the index of leading indicators rose 1.2% in November, the sharpest increase since April. The index is designed to predict economic activity six to nine months in advance. (CBS-6, ABC-9)

FEDERAL BUDGET

KURALT: Big spending cuts in domestic social programs again figure prominently in the federal budget President Reagan will propose in a few days.

LESLEY STAHL reports President Reagan will ask for substantial cuts in funds for guaranteed student loans in his new budget. Opposition in Congress to similar cuts last year was overwhelming. It will be like an instant replay of past budget battles between the White House and Congress fighting over what to cut.

(OMB Director Miller: "The President's priorities remain very much the same, in some cases though, programs we proposed to terminate abruptly, proposed phasing down, in other things we'll do things a bit differently so I'm hopeful that Congress will look at the budget more seriously this year than last.")

(Rep. William Gray: "I don't think Congress is going to be prepared to make massive reductions again on the domestic side primarily to transfer it to the Pentagon and for foreign aid. It is very difficult politically to say you are going to cut food aid to kids in America to increase farm aid abroad.")

The White House will push for its programs and its cuts but officials are preparing for an even more contentious budget battle than last year with the new Congress controlled by the Democrats. (CBS-8)



News Summary

OFFICE OF THE PRESS SECRETARY

WEDNESDAY, DECEMBER 31, 1986 -- 6 a.m. EST EDITION

TODAY'S HEADLINES

IRAN -- NICARAGUA

REPORT: IRANIAN OFFERED ARMS-FOR-HOSTAGE DEAL -- An Iranian emissary envoy said he would try to win the release of one and possibly two Americans held hostage in Lebanon in exchange for U.S. anti-tank missiles, it was reported today. (Washington Post, UPI)

INTERNATIONAL NEWS

REAGAN TO AIR GREETING, BUT KREMLIN BALKS -- President Reagan will broadcast a New Year's Eve message to the people of the Soviet Union despite Mikhail Gorbachev's refusal to exchange mutual greetings on television, the White House announced yesterday.

(Washington Post, Washington Times, AP, Reuter, UPI)

NATIONAL NEWS

ECONOMIC INDICATORS RISE 1.2 PCT. IN NOVEMBER -- The nation's main barometer of future economic activity last month jumped 1.2 percent, the strongest rise since April, suggesting that the economy may be entering the new year stronger than expected. (New York Times, Washington Post, AP)

NETWORK NEWS (Tuesday Evening)

NEW YEAR'S GREETINGS -- President Reagan is going to send a New Year's message to the Soviet people tomorrow but not in the way he had hoped.

TRADE WAR -- President Reagan fired off a volley today in a growing trade war with Europe's Common Market.

KIMCHE -- David Kimche flatly denied today that it was his idea for the U.S. to divert profits from Iran arms sales to the Contras.

IRAN--NICARAGUA.....A-2

INTERNATIONAL NEWS...A-6

NATIONAL NEWS.....A-10

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IRAN -- NICARAGUA

IRANIAN OFFERED RELEASE OF AMERICAN HOSTAGE
FOR 500 TOW MISSILES

Early last October, an Iranian government emissary told U.S. representatives he would arrange for the release of an American hostage held in Lebanon if the United States would sell Iran 500 TOW antitank missiles, according to informed sources.

The Iranian, who had direct access to officials of Ayatollah Ruhollah Khomeini's government, said Tehran would pay in advance for the weapons and that he also would work on getting a second hostage out.

(Walter Pincus, Washington Post, A1)

Report: Iranian Offered Arms-For-Hostage Deal

An Iranian emissary envoy said he would try to win the release of one and possibly two Americans held hostage in Lebanon in exchange for U.S. anti-tank missiles, it was reported today.

The Administration has repeatedly denied it was engaged in an arms-for-hostages swap, characterizing its 18-month initiative with Iran as an effort to re-establish contact with "moderates" in the Islamic government.

(UPI)

NEGOTIATIONS ON IRAN ASSETS ARE EXTENDED

Negotiations to unfreeze \$500 million in Iranian assets held in a U.S. bank apparently have hit a snag and will carry over until next month, State Department officials said yesterday.

Monday's four-hour session was "constructive [and] progress was made, but we do not expect that we will be able to reach final agreement on all issues at this session," Phyllis Oakley said. She stressed in an opening announcement that there is no link between the talks and any possible aid from Iran in obtaining the release of U.S. hostages held in Lebanon.

(Joanne Omang, Washington Post, A8)

Iran, U.S. Report Progress In Talks On \$508 Million

THE HAGUE -- The United States and Iran reported progress in talks over returning nearly \$508 million in blocked assets to Iran, and scheduled another meeting today.

The Iranian source, who spoke on condition of anonymity, predicted the matter would be settled by face-to-face negotiations, without the need to ask the tribunal for a further decision.

(Abner Katzman, AP)

U.S., Iranian Officials Meet Today Over Frozen Money

THE HAGUE -- Iranian and U.S. officials prepared to resume talks today on releasing \$500 million in Iranian funds frozen in the United States during the 1979 Iranian hostage crisis.

The U.S. negotiators -- officials from the Treasury Department and the New York branch of the Federal Reserve Bank -- held a day of "internal consultation" with Washington Tuesday in preparation for their second round of talks with Iranian bankers, U.S. Embassy spokesman Sam Wunder said.

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(UPI)

NORTH CLAIMS ISRAELI CONNECTION IN CONTRA SCHEME

The Justice Department has been unable to corroborate Lt. Col. North's claim that an Israeli official first proposed funneling Iran arms sale profits to Nicaraguan rebels, officials say.

But officials said Justice Department investigators have been unable to confirm North's assertion in interviews with U.S. and Israeli officials in the past few weeks.

If North's assertions are true, however, Justice Department officials said they would suggest a larger Israeli role than first indicated when Meese made public the clandestine scheme Nov. 25 and said that only "representatives of Israel" had been involved in the Iranian arms sales.

(Lori Santos, UPI)

Kimche Denies Proposing Diversion To Contras

JERUSALEM -- An Israeli closely linked to the U.S.-Iranian arms sales scandal denied claims that he first proposed funneling profits from the sales to American-backed rebels in Nicaragua.

"The whole thing is, if in fact he said it, a figment of his imagination," Kimche told UPI.

"Or it could be a deliberate lie to divert attention from himself or to cover up for someone else," Kimche said during a telephone interview from his home in Tel Aviv.

(Steve Hagey, UPI)

SECURITY MAKES THE BIG DIFFERENCE BETWEEN WATERGATE, CONTRA PROBE

The charters establishing two special congressional committees to probe the Iran-Contra affair are based on guidelines used by the Senate panel that investigated the Watergate scandal, a source who helped define the roles of the new committees said yesterday.

"The big difference is that we are being much more security conscious," said the source, who added that all staff members of the special committees will be required to have top-secret security clearances.

(Michael Hedges, Washington Times, A2)

3,000 U.S. TROOPS BEGIN AN EXERCISE IN SOUTH HONDURAS Will Improve Airstrips

TEGUCIGALPA -- About 3,000 United States troops have begun a joint four-month military exercise with Honduras that will include improving airstrips in the southern part of the country, the armed forces announced today.

In addition, the first of 4,500 National Guardsmen from eight states and Puerto Rico will begin arriving in this Central American country next week for a separate four-month exercise. (AP story, New York Times, A1)

U.S. DEMANDING EXPLANATION FOR OAS HEAD'S TRIP

The Reagan Administration, concerned over possible pro-Sandinista bias among Central American peacemakers, wants an explanation from the head of the Organization of American States for a trip U.S. officials worry could harm Nicaragua's Contra rebels.

The U.S. delegation to the OAS, led by Ambassador Richard McCormack, believes that OAS Secretary General Joao Baena Soares may be acting beyond his authority in agreeing to a request by Central American peace mediators to undertake the trip. (George Gedda, AP)

DOCTORS DEVELOPING TREATMENT FOR CASEY

CIA Director Casey, who underwent surgery to remove a cancerous brain tumor, will begin anti-cancer treatment when his recovery is farther along, a hospital spokesman says.

Hospital spokeswoman Cynthia Byers said doctors were developing a "treatment plan" that would begin when he recovers further. Doctors have said they plan some form of anti-cancer therapy to prevent a recurrence, but the hospital has not said whether the cancer had spread to other parts of Casey's body.

White House spokesman Larry Speakes said in Palm Springs that President Reagan has not yet spoken with Casey because it is not "appropriate at this stage," but would not say whether that was because Casey was unable to talk. (UPI)

After 2 Weeks, Crucial Questions On Casey Linger

Nearly two weeks after surgery in which a brain cancer was removed from William Casey, the Director of Central Intelligence, his doctors said again today that he was fully conscious and periodically sat in a bedside chair.

The statement from Georgetown University Hospital gave no indication that Mr. Casey's condition had changed since late last week, when the hospital said the same thing in its last report on the patient. And it leaves a number of crucial questions unanswered, including when or whether he will be capable of talking, walking or resuming his duties.

(Lawrence Altman, New York Times, A1)

REGAN NOTABLY ABSENT IN PALM SPRINGS

PALM SPRINGS -- For nearly two years, White House Chief of Staff Donald Regan has spent most of his waking hours in lockstep with President Reagan, and in the process, extended his powerful influence to every corner of the Administration.

But on this short New Year's vacation, the 68-year-old Mr. Regan is most notable by his absence at a time when the President is both widely criticized and vulnerable because of the twin disasters of the Iran-Contra scandal and the Democrats' seizure of the Senate.

The fact that Mr. Regan is playing golf in Florida while the President is vacationing at the desert estate of publisher Walter Annenberg may signal a waning interest by the former Merrill Lynch chief executive in continuing to serve in an embattled Administration, according to some observers here. (Jeremiah O'Leary, News Analysis, Washington Times, A1)

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Regan's Job Seems Safe, But Role Curtailed

For Donald Regan, the worst may be over -- for now.

Reagan Administration sources say the embattled White House chief of staff, who three weeks ago seemed all but certain to become a casualty of the unfolding Iran-contra scandal, may yet weather the storm.

Barring new evidence linking Mr. Regan to a scheme to channel profits from United States arms sales to Iran to Nicaraguan resistance fighters, these sources say, Regan could confound his critics by surviving until the end of the Reagan presidency.

But others note that with President Reagan broadening his circle of advisers to include a larger number of experts in and outside the White House, and with more White House officials gaining direct access to the Oval Office, Regan's influence is likely to be reduced.

(George Moffett, Christian Science Monitor, A1)

SWISS TO ACT ON CONTRA FUNDS

BERN -- Receipt of a French-language translation of a U.S. Justice Department petition has cleared the way for the Swiss government formally to freeze nine bank accounts believed used in the laundering of money to support Nicaraguan guerrillas, a government spokesman said today.

Those named in the U.S. request will have 10 days to appeal the Swiss action. To do so, however, they would have to acknowledge publicly that they hold the accounts in question.

(John Parry, Washington Post, A8)

LEFTIST TO GET PANEL ON CONTRA POLICY

A left-wing congressman who has sharply opposed the Reagan Administration's foreign policy is expected to become chairman of the House Foreign Affairs subcommittee with jurisdiction over Central American policy.

Rep. George Crockett, a Michigan Democrat who has among other things accused President Reagan of violating the War Powers Act, would replace outgoing Rep. Michael Barnes as chairman of the Western Hemisphere affairs subcommittee.

(Rita McWilliams, Washington Times, A1)

INTERNATIONAL NEWS

REAGAN PLANS MESSAGE TO SOVIETS

If Not Jammed, VOA Will Beam Taped Talk To The People

PALM SPRINGS -- President Reagan will try to reach the Soviet people with a taped radio message of New Year's greetings beamed to the Soviet Union over the Voice of America, White House spokesman Larry Speakes announced today.

Reagan's decision came in response to Soviet rejection of the President's proposal to exchange televised greetings with Soviet leader Gorbachev. Last year, after their Geneva summit, the two leaders addressed each other's people with optimistic messages that looked forward to improved relations between the superpowers.

(Lou Cannon, Washington Post, A16)

Reagan To Air Greeting, But Kremlin Balks

PALM SPRINGS -- President Reagan will broadcast a New Year's Eve message to the people of the Soviet Union despite Mikhail Gorbachev's refusal to exchange mutual greetings on television, the White House announced yesterday.

"We believe that an exchange of television addresses is a good thing," Gennady Gerasimov said. "But why instill in people illusions that everything is in order?" (Jeremiah O'Leary, Washington Times, A1)

Reagan To Try To Address Soviets, Despite Moscow Rejection Of Message Swap

PALM SPRINGS -- The United States will beam a New Year's message from President Reagan to the Soviet people, despite Moscow's rejection of a U.S. proposal that the two superpower leaders swap televised addresses.

"If this indeed is an indication of the way the Soviets feel about U.S.-Soviet relations, then that certainly speaks for itself," said Speakes. "But as far as the United States is concerned, we are prepared to make progress in our relationship on many fronts."

(Dale Nelson, AP)

Reagan Beams New Year's Message To Soviet Union

PALM SPRINGS -- President Reagan's New Year's radio address will be broadcast to the Soviet Union even though Moscow rejected his proposal for a second year of televised holiday messages from the superpowers.

To be broadcast over the VOA, Reagan scheduled a New Year's Eve address to the Soviet Union and asked the Kremlin to see that his message of good will and hope for better relations is not blocked by Soviet jammers.

White House spokesman Larry Speakes said Reagan taped a radio address Monday that would stress the "potential for improved relations and continuing progress on arms control in the new year."

(Norman Sandler, UPI)

Soviets Reject New Year's TV Exchange

MOSCOW -- The Soviet Union has rejected President Reagan's proposal for an exchange of televised New Year's greetings with Soviet leader Gorbachev on the grounds that sour relations between the two countries make the timing for such a gesture inappropriate. The two exchanged such greetings last New Year's Day.

Gennadi Gerasimov cited the Reagan Administration's decision to abandon the SALT II treaty despite Soviet protest, the U.S. refusal to join the Soviet moratorium on nuclear testing, and the fallout over the October U.S.-Soviet summit meeting in Reykjavik, Iceland, as evidence of the tensions in relations.

"All that gives no ground for an optimistic note," he said.

(Gary Lee, Washington Post, A1)

Reagan Sends Greetings Despite Soviet Nyet

PALM SPRINGS -- President Reagan, disappointed by Mikhail Gorbachev's nyet on a superpower exchange of New Year's greetings, plans to get his message to the Soviet people anyway.

White House spokesman Larry Speakes told reporters yesterday he could see no justification for the Soviet rebuff of Reagan's suggestion that he and Mikhail Gorbachev exchange messages as they did last year in the afterglow of the Geneva summit.

(Patricia Wilson, Reuter)

EMBATTLED REAGAN PLANS DIPLOMATIC OFFENSIVE

With a strong assist from Secretary Shultz, President Reagan will try to pull himself out of the morass of the Iran-Contra affair in 1987 with a vigorous and productive diplomatic offensive in the four corners of the world.

The embattled President, trying also to overcome medical problems and to rebuild his credibility and popularity, intends to look for opportunities with the Soviet Union and elsewhere.

Apart from the pressures of the double scandal that has beset the Administration, Reagan has barely two years remaining to leave a mark on foreign affairs through a major arms control agreement with the Soviet Union, a new peace initiative in the Middle East or a solution to the bloody racial problems in southern Africa.

(Barry Schweid, News Analysis, AP)

U.S. OFFICIAL TO VISIT POLAND IN MOVE TO IMPROVE RELATIONS

Deputy Secretary of State John Whitehead is planning a trip to Poland early in the new year as part of a gradual process of normalizing relations between Washington and Warsaw, State Department officials said yesterday.

The trip, expected to take place in late January or early February, was described by officials as one of several recent or pending "political signals" between the Reagan Administration and the Warsaw regime of Gen. Wojciech Jaruzelski.

(Don Oberdorfer, Washington Post, A16)

\$1.3 BILLION MORE SOUGHT IN FOREIGN AID PROGRAMS
Bulk Of Request Covers Security Assistance

The Reagan Administration plans to ask Congress next week for \$1.3 billion more in foreign aid spending for fiscal 1987, congressional sources said yesterday.

The supplemental increase, guaranteed to be controversial in a period of cuts elsewhere, will come on top of an international spending request for fiscal 1988 totaling \$19.5 billion, a 15.8 percent increase from last year's level, the sources said. (Joanne Omang, Washington Post, A13)

TARIFF ON EUROPEAN FOOD, SPIRITS COULD BRING RETALIATION

PALM SPRINGS -- President Reagan Tuesday slapped steep duties on a variety of European food and spirits in what could signal the escalation of a major international trade war.

The President imposed duties that could triple the cost of gin, brandy, white wine, cheese and other products imported from Europe in retaliation for trade barriers that effectively prohibit the import of American corn and feed grain.

"The intent is to stop that trade in its tracks," U.S. Trade Representative Clayton Yeutter told reporters in Palm Springs, where the President and First Lady Nancy Reagan are spending their New Year's holiday. (John Marelus, Copley)

Agricultural Trade War Looms Between U.S., Western Europe

The United States and the European Community yesterday headed toward a trade war over agricultural products, but both sides held out hope for a negotiated settlement.

Mr. Yeutter said the action is in retaliation for Europe's failure to compensate the United States for the loss of \$400 million a year in U.S. feed-grain exports to Spain as a result of Spain's joining the EC.

(Donald May, Washington Times, A1)

U.S. Hits European Trade Actions, But Seeks Further Talks

The United States has announced plans to slap huge increases in duties on European alcoholic beverages, cheese, olives, and canned ham in retaliation against European Community trade practices.

U.S. Trade Representatives Clayton Yeutter, in an announcement yesterday from Palm Springs, said the proposed levies could price European exports of the goods out of the U.S. market. But he left the door open for continued negotiations next month before the tariffs go into effect.

(Nelson Graves, Reuter)

'Yuppie Food' First Casualty In Trade Skirmish

PALM SPRINGS -- President Reagan launched an offensive in a transatlantic trade tiff that could escalate into a tit-for-tat economic war, and a "Yuppie list" of food and booze is the first casualty.

On Tuesday, Reagan sharply hiked duties on 11 European products ranging from British gin and French wines to Belgian endive and Dutch edam, setting the stage for a tense trade atmosphere that may not soon subside.

(Norman Sandler, UPI)

U.S.-CANADIAN NEGOTIATORS REACH 11TH-HOUR
AGREEMENT ON LUMBER DISPUTE

U.S. and Canadian negotiators reached an 11th-hour agreement Tuesday night to end a long and divisive dispute over Canadian construction lumber imports, U.S. trade officials said.

The negotiated breakthrough was announced by Commerce Department spokeswoman Desiree Tucker only hours before the department was scheduled to make a final decision on its preliminary finding last Oct. 16 that Canadian timber-cutting policies amount to an unfair subsidy.

(Tom Raum, AP)

U.S. And Canada Reach Last-Minute Lumber Accord

U.S. and Canadian negotiators reached an eleventh-hour agreement last night settling a trade battle over Canadian softwood lumber exports.

The agreement put an end to a trade showdown that had irritated U.S.-Canada relations and jeopardized free trade talks between the two countries.

(Nelson Graves, Reuter)

OIL TRADE GROUP SAYS ADMINISTRATION HURTING DOMESTIC PRODUCERS

The Reagan Administration is hurting domestic oil producers with some of its actions, the principal petroleum trade association is complaining.

The Administration response to the charge, from Interior Secretary Hodel, was only two sentences long and the first was: "You've got to be kidding."

But Charles DiBona, president of the American Petroleum Institute, was not kidding at a news conference Tuesday called to release a study of the impact of oil imports.

(Guy Darst, AP)

U.S. ACCUSES TURKEY OF INCREASING FORCES ON CYPRUS

The Reagan Administration has admonished Turkey for building up its military strength on Cyprus, an American official says.

A U.S. official Tuesday described the increase in troops on the island as only about 5 to 10 percent over previous strength. "More important," he said, "is a qualitative change in some of their armaments."

Ten House members urged Secretary of State Shultz to investigate reports of the buildup.

(Barry Schweid, AP)

NATIONAL NEWS

ECONOMIC INDICATORS RISE 1.2 PCT. IN NOVEMBER

The nation's main barometer of future economic activity last month jumped 1.2 percent, the strongest rise since April, suggesting that the economy may be entering the new year stronger than expected.

Although the strong increase in leading indicators signaled to some economists that the economy may be stronger than earlier believed, some also said the increase in activity could mean a pickup in inflation. This concern was based on the fact that the raw materials component of the index has increased in each of the last two months.

(Jane Seaberry, Washington Post, E1)

Index On Direction Of Economy Climbs

The Government index intended to predict the economy surged 1.2 percent in November, the biggest advance in seven months, the Commerce Department reported today.

The latest reading, which was somewhat stronger than expected, was widely regarded as pointing to continued economic growth in 1987.

Analysts differed markedly, however, about how vigorous the fifth straight year of expansion was likely to be. Many contended that the sharp November jump in the index of leading indicators overstated the economy's strength, partly because the new tax law that takes effect this week has been acting recently as an artificial spur to demand.

(Robert Hershey, New York Times, A1)

Leading Indicators Jump 1.2 Percent In November; New Home Sales Down

The Commerce Department says the government's main measure of future economic activity shot up 1.2 percent in November, the biggest rise in seven months, while new home sales fell 2.2 percent last month.

Private economists, however, were divided Tuesday over whether the surprisingly strong advance in the Index of Leading Indicators was a true signal of a rebounding economy.

(AP)

SENIOR LAWMAKER CRITICIZES PENTAGON BUDGET PROPOSAL

Next year's proposed Pentagon budget, which will be formally unveiled next week, already is coming under fire from a lawmaker who normally steadfastly supports military spending.

The latest criticism came Tuesday from Rep. William Dickinson, ranking Republican on the House Armed Services Committee.

The Alabama congressman wrote to Defense Secretary Weinberger to complain that the Administration plans to give too much money to the Navy and "Star Wars" at the expense of the Army.

(Tim Ahern, AP)

TAX CHANGE INSPIRES GIVING SPIRIT
Charities Benefit In Last Call For Some To Deduct Contributions

Area charities have been deluged with donations this month, with contributions ranging from such items as cemetery plots and houseboats to more mundane things such as clothing and small appliances.

Much of the giving has been spurred by changes in federal tax laws next year that will eliminate some deductions for charitable contributions, according to representatives of charitable organizations.

(Evelyn Hsu, Washington Post, A1)

BIG INCREASE IN U.S. PARK SPENDING URGED
Presidential Panel Stresses Local and Private Action
To Preserve Open Areas

A presidential panel yesterday recommended \$1 billion a year in federal funding for outdoor recreation, a dramatic increase that would run counter to the Reagan Administration's efforts to trim spending on new parkland.

But the 15-member commission, appointed by President Reagan last year to study future recreational needs, stuck by its recommendation for a billion-dollar trust fund to replace the 20-year-old Land and Water Conservation Fund when it expires in 1989.

(Cass Peterson, Washington Post, A3)

BALDRIGE IN HOSPITAL WITH UNDIAGNOSED LUNG AILMENT

ALBUQUERQUE -- Commerce Secretary Malcolm Baldrige remained in an Albuquerque hospital today for treatment of a lung ailment that doctors have not been able to identify, a hospital spokesman said.

"So far, his doctors have not been able to determine the cause of his problems," said Bob Hlady, a hospital spokesman. He added that heart disease, cancer, pulmonary embolism and most varieties of pneumonia have been ruled out.

(Reuter)

SOON, YOU WILL BE ABLE TO DIAL UP REAGAN'S WEEKEND RADIO ADDRESSES

PALM SPRINGS -- The White House, after experimenting with letting radio stations dial up President Reagan's weekly radio speeches on the telephone, will try to expand the audience by getting listeners to dial it for themselves.

"We hope to be able to get some more attention on it and give it a better try," Elizabeth Board, director of the White House television and radio office, said in a telephone interview Tuesday from Washington.

(Dale Nelson, AP)

NETWORK NEWS SUMMARY

NEW YEAR'S GREETINGS

NBC's GARRICK UTLEY: It was just a year ago that there was a glow of goodwill in the relations between the U.S. and the Soviet Union. Ronald Reagan and Gorbachev were preparing their New Year's speeches to be broadcast in each other's country. Today the Soviet Union turned down an American request for greetings this New Year claiming the climate between the two countries has turned sour.

NBC's CHRIS WALLACE: When the President and Gorbachev exchanged televised greetings a year ago, it was interpreted as a sign U.S.-Soviet relations were improving. But today a Soviet official said there will be no exchange this New Year's Day because the situation is now too tense.

(Gennadi Gerasimov: "Why should we create any illusions about our relations.")

Gerasimov accused the President of killing any progress made at the Reykjavik summit. He noted the U.S. has deployed another bomber with Cruise missiles, openly violating the SALT II arms treaty and that it has continued testing nuclear weapons forcing the Soviets to end their 18 month moratorium. In California spokesman Larry Speakes said the President regrets the Soviet turn down calling it inconsistent with Kremlin statements it wants to make progress.

(Larry Speakes: "We think this would be an opportunity to indicate on both sides that there is room for improvement in our relationship and we would pledge to do so for our part.")

The U.S. proposed the exchange of greetings just before Christmas but the Soviets rejected the idea four days later. White House officials believe it is all part of the Soviet propaganda campaign begun after arms talks broke down in Iceland to increase the sense of tension and force Mr. Reagan to make new concessions.

(Helmut Sonnenfeldt: "And they also don't want to seem to be weak toward the United States and they're in a way trying to punish President Reagan for not giving Gorbachev the kind of success that he was looking for at Reykjavik.")

Whatever the reason, the mood is now very different from what it was when the President spoke to the Soviets a year ago.

(President Reagan: "Let's work together to make it a year of peace. There is no better goal for 1986 or for any year.")

The President will deliver his New Year's greeting anyway sending a radio message over the Voice of America. U.S. officials hope the Soviets won't jam the broadcast but say they have been given no private assurances.

(NBC-Lead)

ABC's PETER JENNINGS: President Reagan is going to send a New Year's message to the Soviet people tomorrow but not in the way he had hoped. He will broadcast by radio on the Voice of America but not on Soviet television. The White House had suggested that just like last year he and Mr. Gorbachev appear on each other's television. The Soviets said no.

ABC's HILLARY BOWKER reports the Kremlin has ruled out a televised exchange of New Year's greetings between the two leaders because of the sorry state of superpower relations. Last year it was a different story, Gorbachev on the U.S. networks with a taped message for the American people and Soviet television broadcast a similar greeting from Mr. Reagan.

(President Reagan: "I want to share with you my hopes for the New Year. Hopes for peace, prosperity and goodwill that the American and Soviet people share.")

The State Department says it is disappointed.

(Spokesman Phyllis Oakley: "We proposed the messages by the President and the General Secretary be exchanged. We regret that the Soviets rejected our proposal.")

The signal the Kremlin is sending Washington is centered on arms control. The Soviets have tried desperately this year at least to be seen to be taking active measures on disarmament. No agreements have been signed, but the Soviets say there is still time in the New Year, but that it is now up to the U.S. (ABC-Lead)

CBS's CHARLES KURALT: Mikhail Gorbachev, who has been complaining that President Reagan won't go his half of the way toward an arms agreement, deepened the Soviet-American chill today. The Russians denied Mr. Reagan permission to broadcast New Year's greetings to the Soviet people.

CBS's BILL PLANTE: President Reagan will try an end run around Gorbachev to the Soviet public sending a New Year's message recorded yesterday via short wave radio through the Voice of America, the reason, Moscow today said no to a U.S. request for a repeat of last year's exchange of televised messages between the two leaders. Gennadi Gerasimov said we have no basis for the exchange of such New Year's messages citing U.S.-Soviet disagreements over arms control, SALT II treaty limits and nuclear testing. Larry Speakes rejected the Soviet charges and said he hoped the Kremlin wouldn't interfere with the VOA broadcast.

(Speakes: "Regrettably the Soviet Union has declined our offer to exchange greetings. The unwillingness to agree to an open exchange of greetings is not consistent with the progress made at Reykjavik.")

The Soviets disagree that progress was made at Reykjavik and analysts here see the Soviet refusal as a tactic.

(Helmut Sonnenfeldt: "Well, I think at the moment they are trying to create the impression that relations really aren't very good and they are trying to put pressure on the Administration here to make some concessions and show flexibility on SDI.")

(Jonathan Sanders: "It would have been very significant if happened again. It would be an important tradition. The Soviet people got to see that Ronald Reagan was not a maniac with a gun, not a piston packing mamma.")

The U.S. position is that the exchange of greetings would have symbolized progress over the past year in U.S.-Soviet relations but privately U.S. officials are not surprised that the Soviets aren't willing to put Ronald Reagan on prime time t.v. given what they admit is the current lack of real momentum between the superpowers. (CBS-Lead)

TRADE WAR

UTLEY: President Reagan fired off a volley today in a growing trade war with Europe's Common Market. Last summer the Europeans put a tariff on grain from the United States. Today the President announced a new tariff on an assortment of European farm products. The tariff will triple the price of such items as canned hams, olives, gin and brandy, white wine, and cheese. (NBC-5)

JENNINGS: Today the Reagan Administration has said it will impose a series of tremendous tariffs on a whole range of European products which are very popular with the American consumer. The Europeans seem determined to retaliate.

ABC's SHEILAH KAST: The trade action reads like the shopping list for an elegant party.... All together the action announced today will impose new tariffs of 200% on four hundred million dollars worth of European products making most of them too expensive to compete in the U.S.

(Clayton Yeutter: "The basic controversy here is over lost agricultural export sales, lost sales of corn and grain sorghum to Spain.")

President Reagan took the action to retaliate against higher tariffs by the European economic community or Common Market, which blocked four hundred million dollars worth of corn and sorghum U.S. farmers use to export to Spain....

(Yeutter: "The European producers of gin will probably not be willing to sell in the U.S. market at those prices.") ...

Those higher consumer prices will not directly restore the lost farm market in Spain but many farmers welcome the move.

(Bill Mullins: "Yes, I think it is very positive. We need to let the Europeans know that we are not going to stand back and let them not fulfill their commitments.")

(Alan Terhaar: "Yes, the farmers are holding the bag but the farmers want a firm line. The farmers want retaliation because it is felt that that's the only way we are going to get long-term concessions out of the E.C. on trade issues that are of importance to us.")

U.S. Trade Representative Yeutter said he hopes the Europeans will compromise before the tariffs take effect in a month. Failing that, he said the Europeans may retaliate and the U.S. may retaliate back again.

(ABC-4)

KURALT: President Reagan today ordered a 200% duty today on brandy, gin, ham and cheese and cheap white wine from Europe, such a stiff tariff that if it sticks it will mean some of those popular products won't come into the U.S. at all. This escalation of the trade war with Europe is in retaliation for a decision by Spain and Portugal to sharply reduce their purchase of American feed grain. There is still a slight hope of a compromise before the President's order takes effect at the end of January.

(CBS-2)

KIMCHE

UTLEY: Question: Where did the idea to divert the profits from the Iran sale to the contras originate? Justice Department sources tell NBC's Carl Stern that Oliver North said to Attorney General Meese that the idea came from an Israeli official. Meese gave this information to a congressional committee and said he believed the Israeli official was David Kimche who was involved in the early stages of the arms deal. There has been no corroboration, however, that North's claim to Meese is true. Today I asked David Kimche in Tel Aviv for his response to the allegation that the idea of the diversion of money from the Iran sale came from him.

(David Kimche: "I find it very difficult to believe that Col. North actually did say the things they are supposed to have said because it is just pure shear unadulterated nonsense. It couldn't be further from the truth. If he said what he is supposed to have said then he is an unmitigated liar. And I emphasize the 'if' because I still find it difficult to believe it.") (NBC-6)

ABC's DENNIS TROUTE reports Justice Department sources say that when the Attorney General gave closed door testimony before the Senate Intelligence committee December 17th, he dropped a potential bombshell on U.S.-Israeli relations. Answering questions about the origin of the plan to funnel money illegally from Iran arms sales to the Contras, Meese said North had told him the idea came from David Kimche. The Israeli government repeatedly has denied that its officials had any part in schemes to support the contras and today David Kimche strongly denounced this new allegation as untrue. Today North had no comment on public reports about his charges. Federal investigators have spent the past few weeks trying verify North's story through interviews with U.S. and Israeli officials but they still do not know if it is true. If it is true it suggests that Israel authored the most controversial part of the scheme that has so damaged the Reagan Administration. If it is not, Col. North may have lied to the Attorney General. (ABC-2)

KURALT reports a former official of the Israeli government (David Kimche) flatly denied today that it was his idea for the U.S. to divert profits from Iranian arms sales to the Nicaraguan contras. (CBS-3)

WEINBERGER

JENNINGS: Secretary Weinberger has suffered a defeat in Administration maneuvering over the new budget. ABC's Bob Zelnick has learned the Pentagon will request \$312 billion in spending authority for fiscal year 1988, a real increase of just three percent. Weinberger had been fighting for a much higher figure. (ABC-6)

INDEX OF LEADING INDICATORS

KURALT: The government issued a promising economic forecast today. The Commerce Department said the index of leading indicators rose 1.2% in November, the sharpest increase since April. The index is designed to predict economic activity six to nine months in advance. (CBS-6, ABC-9)

FEDERAL BUDGET

KURALT: Big spending cuts in domestic social programs again figure prominently in the federal budget President Reagan will propose in a few days.

LESLEY STAHL reports President Reagan will ask for substantial cuts in funds for guaranteed student loans in his new budget. Opposition in Congress to similar cuts last year was overwhelming. It will be like an instant replay of past budget battles between the White House and Congress fighting over what to cut.

(OMB Director Miller: "The President's priorities remain very much the same, in some cases though, programs we proposed to terminate abruptly, proposed phasing down, in other things we'll do things a bit differently so I'm hopeful that Congress will look at the budget more seriously this year than last.")

(Rep. William Gray: "I don't think Congress is going to be prepared to make massive reductions again on the domestic side primarily to transfer it to the Pentagon and for foreign aid. It is very difficult politically to say you are going to cut food aid to kids in America to increase farm aid abroad.")

The White House will push for its programs and its cuts but officials are preparing for an even more contentious budget battle than last year with the new Congress controlled by the Democrats. (CBS-8)



News Summary

OFFICE OF THE PRESS SECRETARY

WEDNESDAY, DECEMBER 31, 1986 -- 6 a.m. EST EDITION

TODAY'S HEADLINES

IRAN -- NICARAGUA

REPORT: IRANIAN OFFERED ARMS-FOR-HOSTAGE DEAL -- An Iranian emissary envoy said he would try to win the release of one and possibly two Americans held hostage in Lebanon in exchange for U.S. anti-tank missiles, it was reported today. (Washington Post, UPI)

INTERNATIONAL NEWS

REAGAN TO AIR GREETING, BUT KREMLIN BALKS -- President Reagan will broadcast a New Year's Eve message to the people of the Soviet Union despite Mikhail Gorbachev's refusal to exchange mutual greetings on television, the White House announced yesterday.

(Washington Post, Washington Times, AP, Reuter, UPI)

NATIONAL NEWS

ECONOMIC INDICATORS RISE 1.2 PCT. IN NOVEMBER -- The nation's main barometer of future economic activity last month jumped 1.2 percent, the strongest rise since April, suggesting that the economy may be entering the new year stronger than expected. (New York Times, Washington Post, AP)

NETWORK NEWS (Tuesday Evening)

NEW YEAR'S GREETINGS -- President Reagan is going to send a New Year's message to the Soviet people tomorrow but not in the way he had hoped.

TRADE WAR -- President Reagan fired off a volley today in a growing trade war with Europe's Common Market.

KIMCHE -- David Kimche flatly denied today that it was his idea for the U.S. to divert profits from Iran arms sales to the Contras.

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INTERNATIONAL NEWS...A-6

NATIONAL NEWS.....A-10

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IRAN -- NICARAGUA

IRANIAN OFFERED RELEASE OF AMERICAN HOSTAGE
FOR 500 TOW MISSILES

Early last October, an Iranian government emissary told U.S. representatives he would arrange for the release of an American hostage held in Lebanon if the United States would sell Iran 500 TOW antitank missiles, according to informed sources.

The Iranian, who had direct access to officials of Ayatollah Ruhollah Khomeini's government, said Tehran would pay in advance for the weapons and that he also would work on getting a second hostage out.

(Walter Pincus, Washington Post, A1)

Report: Iranian Offered Arms-For-Hostage Deal

An Iranian emissary envoy said he would try to win the release of one and possibly two Americans held hostage in Lebanon in exchange for U.S. anti-tank missiles, it was reported today.

The Administration has repeatedly denied it was engaged in an arms-for-hostages swap, characterizing its 18-month initiative with Iran as an effort to re-establish contact with "moderates" in the Islamic government.

(UPI)

NEGOTIATIONS ON IRAN ASSETS ARE EXTENDED

Negotiations to unfreeze \$500 million in Iranian assets held in a U.S. bank apparently have hit a snag and will carry over until next month, State Department officials said yesterday.

Monday's four-hour session was "constructive [and] progress was made, but we do not expect that we will be able to reach final agreement on all issues at this session," Phyllis Oakley said. She stressed in an opening announcement that there is no link between the talks and any possible aid from Iran in obtaining the release of U.S. hostages held in Lebanon.

(Joanne Omang, Washington Post, A8)

Iran, U.S. Report Progress In Talks On \$508 Million

THE HAGUE -- The United States and Iran reported progress in talks over returning nearly \$508 million in blocked assets to Iran, and scheduled another meeting today.

The Iranian source, who spoke on condition of anonymity, predicted the matter would be settled by face-to-face negotiations, without the need to ask the tribunal for a further decision.

(Abner Katzman, AP)

U.S., Iranian Officials Meet Today Over Frozen Money

THE HAGUE -- Iranian and U.S. officials prepared to resume talks today on releasing \$500 million in Iranian funds frozen in the United States during the 1979 Iranian hostage crisis.

The U.S. negotiators -- officials from the Treasury Department and the New York branch of the Federal Reserve Bank -- held a day of "internal consultation" with Washington Tuesday in preparation for their second round of talks with Iranian bankers, U.S. Embassy spokesman Sam Wunder said.

-more-

(UPI)

NORTH CLAIMS ISRAELI CONNECTION IN CONTRA SCHEME

The Justice Department has been unable to corroborate Lt. Col. North's claim that an Israeli official first proposed funneling Iran arms sale profits to Nicaraguan rebels, officials say.

But officials said Justice Department investigators have been unable to confirm North's assertion in interviews with U.S. and Israeli officials in the past few weeks.

If North's assertions are true, however, Justice Department officials said they would suggest a larger Israeli role than first indicated when Meese made public the clandestine scheme Nov. 25 and said that only "representatives of Israel" had been involved in the Iranian arms sales.

(Lori Santos, UPI)

Kimche Denies Proposing Diversion To Contras

JERUSALEM -- An Israeli closely linked to the U.S.-Iranian arms sales scandal denied claims that he first proposed funneling profits from the sales to American-backed rebels in Nicaragua.

"The whole thing is, if in fact he said it, a figment of his imagination," Kimche told UPI.

"Or it could be a deliberate lie to divert attention from himself or to cover up for someone else," Kimche said during a telephone interview from his home in Tel Aviv.

(Steve Hagey, UPI)

SECURITY MAKES THE BIG DIFFERENCE BETWEEN WATERGATE, CONTRA PROBE

The charters establishing two special congressional committees to probe the Iran-Contra affair are based on guidelines used by the Senate panel that investigated the Watergate scandal, a source who helped define the roles of the new committees said yesterday.

"The big difference is that we are being much more security conscious," said the source, who added that all staff members of the special committees will be required to have top-secret security clearances.

(Michael Hedges, Washington Times, A2)

3,000 U.S. TROOPS BEGIN AN EXERCISE IN SOUTH HONDURAS Will Improve Airstrips

TEGUCIGALPA -- About 3,000 United States troops have begun a joint four-month military exercise with Honduras that will include improving airstrips in the southern part of the country, the armed forces announced today.

In addition, the first of 4,500 National Guardsmen from eight states and Puerto Rico will begin arriving in this Central American country next week for a separate four-month exercise.

(AP story, New York Times, A1)

U.S. DEMANDING EXPLANATION FOR OAS HEAD'S TRIP

The Reagan Administration, concerned over possible pro-Sandinista bias among Central American peacemakers, wants an explanation from the head of the Organization of American States for a trip U.S. officials worry could harm Nicaragua's Contra rebels.

The U.S. delegation to the OAS, led by Ambassador Richard McCormack, believes that OAS Secretary General Joao Baena Soares may be acting beyond his authority in agreeing to a request by Central American peace mediators to undertake the trip. (George Gedda, AP)

DOCTORS DEVELOPING TREATMENT FOR CASEY

CIA Director Casey, who underwent surgery to remove a cancerous brain tumor, will begin anti-cancer treatment when his recovery is farther along, a hospital spokesman says.

Hospital spokeswoman Cynthia Byers said doctors were developing a "treatment plan" that would begin when he recovers further. Doctors have said they plan some form of anti-cancer therapy to prevent a recurrence, but the hospital has not said whether the cancer had spread to other parts of Casey's body.

White House spokesman Larry Speakes said in Palm Springs that President Reagan has not yet spoken with Casey because it is not "appropriate at this stage," but would not say whether that was because Casey was unable to talk. (UPI)

After 2 Weeks, Crucial Questions On Casey Linger

Nearly two weeks after surgery in which a brain cancer was removed from William Casey, the Director of Central Intelligence, his doctors said again today that he was fully conscious and periodically sat in a bedside chair.

The statement from Georgetown University Hospital gave no indication that Mr. Casey's condition had changed since late last week, when the hospital said the same thing in its last report on the patient. And it leaves a number of crucial questions unanswered, including when or whether he will be capable of talking, walking or resuming his duties.

(Lawrence Altman, New York Times, A1)

REGAN NOTABLY ABSENT IN PALM SPRINGS

PALM SPRINGS -- For nearly two years, White House Chief of Staff Donald Regan has spent most of his waking hours in lockstep with President Reagan, and in the process, extended his powerful influence to every corner of the Administration.

But on this short New Year's vacation, the 68-year-old Mr. Regan is most notable by his absence at a time when the President is both widely criticized and vulnerable because of the twin disasters of the Iran-Contra scandal and the Democrats' seizure of the Senate.

The fact that Mr. Regan is playing golf in Florida while the President is vacationing at the desert estate of publisher Walter Annenberg may signal a waning interest by the former Merrill Lynch chief executive in continuing to serve in an embattled Administration, according to some observers here. (Jeremiah O'Leary, News Analysis, Washington Times, A1)

Regan's Job Seems Safe, But Role Curtailed

For Donald Regan, the worst may be over -- for now.

Reagan Administration sources say the embattled White House chief of staff, who three weeks ago seemed all but certain to become a casualty of the unfolding Iran-contra scandal, may yet weather the storm.

Barring new evidence linking Mr. Regan to a scheme to channel profits from United States arms sales to Iran to Nicaraguan resistance fighters, these sources say, Regan could confound his critics by surviving until the end of the Reagan presidency.

But others note that with President Reagan broadening his circle of advisers to include a larger number of experts in and outside the White House, and with more White House officials gaining direct access to the Oval Office, Regan's influence is likely to be reduced.

(George Moffett, Christian Science Monitor, A1)

SWISS TO ACT ON CONTRA FUNDS

BERN -- Receipt of a French-language translation of a U.S. Justice Department petition has cleared the way for the Swiss government formally to freeze nine bank accounts believed used in the laundering of money to support Nicaraguan guerrillas, a government spokesman said today.

Those named in the U.S. request will have 10 days to appeal the Swiss action. To do so, however, they would have to acknowledge publicly that they hold the accounts in question.

(John Parry, Washington Post, A8)

LEFTIST TO GET PANEL ON CONTRA POLICY

A left-wing congressman who has sharply opposed the Reagan Administration's foreign policy is expected to become chairman of the House Foreign Affairs subcommittee with jurisdiction over Central American policy.

Rep. George Crockett, a Michigan Democrat who has among other things accused President Reagan of violating the War Powers Act, would replace outgoing Rep. Michael Barnes as chairman of the Western Hemisphere affairs subcommittee.

(Rita McWilliams, Washington Times, A1)

INTERNATIONAL NEWS

REAGAN PLANS MESSAGE TO SOVIETS

If Not Jammed, VOA Will Beam Taped Talk To The People

PALM SPRINGS -- President Reagan will try to reach the Soviet people with a taped radio message of New Year's greetings beamed to the Soviet Union over the Voice of America, White House spokesman Larry Speakes announced today.

Reagan's decision came in response to Soviet rejection of the President's proposal to exchange televised greetings with Soviet leader Gorbachev. Last year, after their Geneva summit, the two leaders addressed each other's people with optimistic messages that looked forward to improved relations between the superpowers.

(Lou Cannon, Washington Post, A16)

Reagan To Air Greeting, But Kremlin Balks

PALM SPRINGS -- President Reagan will broadcast a New Year's Eve message to the people of the Soviet Union despite Mikhail Gorbachev's refusal to exchange mutual greetings on television, the White House announced yesterday.

"We believe that an exchange of television addresses is a good thing," Gennady Gerasimov said. "But why instill in people illusions that everything is in order?" (Jeremiah O'Leary, Washington Times, A1)

Reagan To Try To Address Soviets, Despite Moscow Rejection Of Message Swap

PALM SPRINGS -- The United States will beam a New Year's message from President Reagan to the Soviet people, despite Moscow's rejection of a U.S. proposal that the two superpower leaders swap televised addresses.

"If this indeed is an indication of the way the Soviets feel about U.S.-Soviet relations, then that certainly speaks for itself," said Speakes. "But as far as the United States is concerned, we are prepared to make progress in our relationship on many fronts."

(Dale Nelson, AP)

Reagan Beams New Year's Message To Soviet Union

PALM SPRINGS -- President Reagan's New Year's radio address will be broadcast to the Soviet Union even though Moscow rejected his proposal for a second year of televised holiday messages from the superpowers.

To be broadcast over the VOA, Reagan scheduled a New Year's Eve address to the Soviet Union and asked the Kremlin to see that his message of good will and hope for better relations is not blocked by Soviet jammers.

White House spokesman Larry Speakes said Reagan taped a radio address Monday that would stress the "potential for improved relations and continuing progress on arms control in the new year."

(Norman Sandler, UPI)

Soviets Reject New Year's TV Exchange

MOSCOW -- The Soviet Union has rejected President Reagan's proposal for an exchange of televised New Year's greetings with Soviet leader Gorbachev on the grounds that sour relations between the two countries make the timing for such a gesture inappropriate. The two exchanged such greetings last New Year's Day.

Gennadi Gerasimov cited the Reagan Administration's decision to abandon the SALT II treaty despite Soviet protest, the U.S. refusal to join the Soviet moratorium on nuclear testing, and the fallout over the October U.S.-Soviet summit meeting in Reykjavik, Iceland, as evidence of the tensions in relations.

"All that gives no ground for an optimistic note," he said.

(Gary Lee, Washington Post, A1)

Reagan Sends Greetings Despite Soviet Nyet

PALM SPRINGS -- President Reagan, disappointed by Mikhail Gorbachev's nyet on a superpower exchange of New Year's greetings, plans to get his message to the Soviet people anyway.

White House spokesman Larry Speakes told reporters yesterday he could see no justification for the Soviet rebuff of Reagan's suggestion that he and Mikhail Gorbachev exchange messages as they did last year in the afterglow of the Geneva summit.

(Patricia Wilson, Reuter)

EMBATTLED REAGAN PLANS DIPLOMATIC OFFENSIVE

With a strong assist from Secretary Shultz, President Reagan will try to pull himself out of the morass of the Iran-Contra affair in 1987 with a vigorous and productive diplomatic offensive in the four corners of the world.

The embattled President, trying also to overcome medical problems and to rebuild his credibility and popularity, intends to look for opportunities with the Soviet Union and elsewhere.

Apart from the pressures of the double scandal that has beset the Administration, Reagan has barely two years remaining to leave a mark on foreign affairs through a major arms control agreement with the Soviet Union, a new peace initiative in the Middle East or a solution to the bloody racial problems in southern Africa.

(Barry Schweid, News Analysis, AP)

U.S. OFFICIAL TO VISIT POLAND IN MOVE TO IMPROVE RELATIONS

Deputy Secretary of State John Whitehead is planning a trip to Poland early in the new year as part of a gradual process of normalizing relations between Washington and Warsaw, State Department officials said yesterday.

The trip, expected to take place in late January or early February, was described by officials as one of several recent or pending "political signals" between the Reagan Administration and the Warsaw regime of Gen. Wojciech Jaruzelski.

(Don Oberdorfer, Washington Post, A16)

\$1.3 BILLION MORE SOUGHT IN FOREIGN AID PROGRAMS
Bulk Of Request Covers Security Assistance

The Reagan Administration plans to ask Congress next week for \$1.3 billion more in foreign aid spending for fiscal 1987, congressional sources said yesterday.

The supplemental increase, guaranteed to be controversial in a period of cuts elsewhere, will come on top of an international spending request for fiscal 1988 totaling \$19.5 billion, a 15.8 percent increase from last year's level, the sources said. (Joanne Omang, Washington Post, A13)

TARIFF ON EUROPEAN FOOD, SPIRITS COULD BRING RETALIATION

PALM SPRINGS -- President Reagan Tuesday slapped steep duties on a variety of European food and spirits in what could signal the escalation of a major international trade war.

The President imposed duties that could triple the cost of gin, brandy, white wine, cheese and other products imported from Europe in retaliation for trade barriers that effectively prohibit the import of American corn and feed grain.

"The intent is to stop that trade in its tracks," U.S. Trade Representative Clayton Yeutter told reporters in Palm Springs, where the President and First Lady Nancy Reagan are spending their New Year's holiday. (John Marelus, Copley)

Agricultural Trade War Looms Between U.S., Western Europe

The United States and the European Community yesterday headed toward a trade war over agricultural products, but both sides held out hope for a negotiated settlement.

Mr. Yeutter said the action is in retaliation for Europe's failure to compensate the United States for the loss of \$400 million a year in U.S. feed-grain exports to Spain as a result of Spain's joining the EC.

(Donald May, Washington Times, A1)

U.S. Hits European Trade Actions, But Seeks Further Talks

The United States has announced plans to slap huge increases in duties on European alcoholic beverages, cheese, olives, and canned ham in retaliation against European Community trade practices.

U.S. Trade Representatives Clayton Yeutter, in an announcement yesterday from Palm Springs, said the proposed levies could price European exports of the goods out of the U.S. market. But he left the door open for continued negotiations next month before the tariffs go into effect.

(Nelson Graves, Reuter)

'Yuppie Food' First Casualty In Trade Skirmish

PALM SPRINGS -- President Reagan launched an offensive in a transatlantic trade tiff that could escalate into a tit-for-tat economic war, and a "Yuppie list" of food and booze is the first casualty.

On Tuesday, Reagan sharply hiked duties on 11 European products ranging from British gin and French wines to Belgian endive and Dutch edam, setting the stage for a tense trade atmosphere that may not soon subside.

(Norman Sandler, UPI)

U.S.-CANADIAN NEGOTIATORS REACH 11TH-HOUR
AGREEMENT ON LUMBER DISPUTE

U.S. and Canadian negotiators reached an 11th-hour agreement Tuesday night to end a long and divisive dispute over Canadian construction lumber imports, U.S. trade officials said.

The negotiated breakthrough was announced by Commerce Department spokeswoman Desiree Tucker only hours before the department was scheduled to make a final decision on its preliminary finding last Oct. 16 that Canadian timber-cutting policies amount to an unfair subsidy.

(Tom Raum, AP)

U.S. And Canada Reach Last-Minute Lumber Accord

U.S. and Canadian negotiators reached an eleventh-hour agreement last night settling a trade battle over Canadian softwood lumber exports.

The agreement put an end to a trade showdown that had irritated U.S.-Canada relations and jeopardized free trade talks between the two countries.

(Nelson Graves, Reuter)

OIL TRADE GROUP SAYS ADMINISTRATION HURTING DOMESTIC PRODUCERS

The Reagan Administration is hurting domestic oil producers with some of its actions, the principal petroleum trade association is complaining.

The Administration response to the charge, from Interior Secretary Hodel, was only two sentences long and the first was: "You've got to be kidding."

But Charles DiBona, president of the American Petroleum Institute, was not kidding at a news conference Tuesday called to release a study of the impact of oil imports.

(Guy Darst, AP)

U.S. ACCUSES TURKEY OF INCREASING FORCES ON CYPRUS

The Reagan Administration has admonished Turkey for building up its military strength on Cyprus, an American official says.

A U.S. official Tuesday described the increase in troops on the island as only about 5 to 10 percent over previous strength. "More important," he said, "is a qualitative change in some of their armaments."

Ten House members urged Secretary of State Shultz to investigate reports of the buildup.

(Barry Schweid, AP)

NATIONAL NEWS

ECONOMIC INDICATORS RISE 1.2 PCT. IN NOVEMBER

The nation's main barometer of future economic activity last month jumped 1.2 percent, the strongest rise since April, suggesting that the economy may be entering the new year stronger than expected.

Although the strong increase in leading indicators signaled to some economists that the economy may be stronger than earlier believed, some also said the increase in activity could mean a pickup in inflation. This concern was based on the fact that the raw materials component of the index has increased in each of the last two months.

(Jane Seaberry, Washington Post, E1)

Index On Direction Of Economy Climbs

The Government index intended to predict the economy surged 1.2 percent in November, the biggest advance in seven months, the Commerce Department reported today.

The latest reading, which was somewhat stronger than expected, was widely regarded as pointing to continued economic growth in 1987.

Analysts differed markedly, however, about how vigorous the fifth straight year of expansion was likely to be. Many contended that the sharp November jump in the index of leading indicators overstated the economy's strength, partly because the new tax law that takes effect this week has been acting recently as an artificial spur to demand.

(Robert Hershey, New York Times, A1)

Leading Indicators Jump 1.2 Percent In November; New Home Sales Down

The Commerce Department says the government's main measure of future economic activity shot up 1.2 percent in November, the biggest rise in seven months, while new home sales fell 2.2 percent last month.

Private economists, however, were divided Tuesday over whether the surprisingly strong advance in the Index of Leading Indicators was a true signal of a rebounding economy. (AP)

SENIOR LAWMAKER CRITICIZES PENTAGON BUDGET PROPOSAL

Next year's proposed Pentagon budget, which will be formally unveiled next week, already is coming under fire from a lawmaker who normally steadfastly supports military spending.

The latest criticism came Tuesday from Rep. William Dickinson, ranking Republican on the House Armed Services Committee.

The Alabama congressman wrote to Defense Secretary Weinberger to complain that the Administration plans to give too much money to the Navy and "Star Wars" at the expense of the Army. (Tim Ahern, AP)

TAX CHANGE INSPIRES GIVING SPIRIT
Charities Benefit In Last Call For Some To Deduct Contributions

Area charities have been deluged with donations this month, with contributions ranging from such items as cemetery plots and houseboats to more mundane things such as clothing and small appliances.

Much of the giving has been spurred by changes in federal tax laws next year that will eliminate some deductions for charitable contributions, according to representatives of charitable organizations.

(Evelyn Hsu, Washington Post, A1)

BIG INCREASE IN U.S. PARK SPENDING URGED
Presidential Panel Stresses Local and Private Action
To Preserve Open Areas

A presidential panel yesterday recommended \$1 billion a year in federal funding for outdoor recreation, a dramatic increase that would run counter to the Reagan Administration's efforts to trim spending on new parkland.

But the 15-member commission, appointed by President Reagan last year to study future recreational needs, stuck by its recommendation for a billion-dollar trust fund to replace the 20-year-old Land and Water Conservation Fund when it expires in 1989.

(Cass Peterson, Washington Post, A3)

BALDRIGE IN HOSPITAL WITH UNDIAGNOSED LUNG AILMENT

ALBUQUERQUE -- Commerce Secretary Malcolm Baldrige remained in an Albuquerque hospital today for treatment of a lung ailment that doctors have not been able to identify, a hospital spokesman said.

"So far, his doctors have not been able to determine the cause of his problems," said Bob Hlady, a hospital spokesman. He added that heart disease, cancer, pulmonary embolism and most varieties of pneumonia have been ruled out.

(Reuter)

SOON, YOU WILL BE ABLE TO DIAL UP REAGAN'S WEEKEND RADIO ADDRESSES

PALM SPRINGS -- The White House, after experimenting with letting radio stations dial up President Reagan's weekly radio speeches on the telephone, will try to expand the audience by getting listeners to dial it for themselves.

"We hope to be able to get some more attention on it and give it a better try," Elizabeth Board, director of the White House television and radio office, said in a telephone interview Tuesday from Washington.

(Dale Nelson, AP)

NETWORK NEWS SUMMARY

NEW YEAR'S GREETINGS

NBC's GARRICK UTLEY: It was just a year ago that there was a glow of goodwill in the relations between the U.S. and the Soviet Union. Ronald Reagan and Gorbachev were preparing their New Year's speeches to be broadcast in each other's country. Today the Soviet Union turned down an American request for greetings this New Year claiming the climate between the two countries has turned sour.

NBC's CHRIS WALLACE: When the President and Gorbachev exchanged televised greetings a year ago, it was interpreted as a sign U.S.-Soviet relations were improving. But today a Soviet official said there will be no exchange this New Year's Day because the situation is now too tense.

(Gennadi Gerasimov: "Why should we create any illusions about our relations.")

Gerasimov accused the President of killing any progress made at the Reykjavik summit. He noted the U.S. has deployed another bomber with Cruise missiles, openly violating the SALT II arms treaty and that it has continued testing nuclear weapons forcing the Soviets to end their 18 month moratorium. In California spokesman Larry Speakes said the President regrets the Soviet turn down calling it inconsistent with Kremlin statements it wants to make progress.

(Larry Speakes: "We think this would be an opportunity to indicate on both sides that there is room for improvement in our relationship and we would pledge to do so for our part.")

The U.S. proposed the exchange of greetings just before Christmas but the Soviets rejected the idea four days later. White House officials believe it is all part of the Soviet propaganda campaign begun after arms talks broke down in Iceland to increase the sense of tension and force Mr. Reagan to make new concessions.

(Helmut Sonnenfeldt: "And they also don't want to seem to be weak toward the United States and they're in a way trying to punish President Reagan for not giving Gorbachev the kind of success that he was looking for at Reykjavik.")

Whatever the reason, the mood is now very different from what it was when the President spoke to the Soviets a year ago.

(President Reagan: "Let's work together to make it a year of peace. There is no better goal for 1986 or for any year.")

The President will deliver his New Year's greeting anyway sending a radio message over the Voice of America. U.S. officials hope the Soviets won't jam the broadcast but say they have been given no private assurances.

(NBC-Lead)

ABC's PETER JENNINGS: President Reagan is going to send a New Year's message to the Soviet people tomorrow but not in the way he had hoped. He will broadcast by radio on the Voice of America but not on Soviet television. The White House had suggested that just like last year he and Mr. Gorbachev appear on each other's television. The Soviets said no.

ABC's HILLARY BOWKER reports the Kremlin has ruled out a televised exchange of New Year's greetings between the two leaders because of the sorry state of superpower relations. Last year it was a different story, Gorbachev on the U.S. networks with a taped message for the American people and Soviet television broadcast a similar greeting from Mr. Reagan.

(President Reagan: "I want to share with you my hopes for the New Year. Hopes for peace, prosperity and goodwill that the American and Soviet people share.")

The State Department says it is disappointed.

(Spokesman Phyllis Oakley: "We proposed the messages by the President and the General Secretary be exchanged. We regret that the Soviets rejected our proposal.")

The signal the Kremlin is sending Washington is centered on arms control. The Soviets have tried desperately this year at least to be seen to be taking active measures on disarmament. No agreements have been signed, but the Soviets say there is still time in the New Year, but that it is now up to the U.S. (ABC-Lead)

CBS's CHARLES KURALT: Mikhail Gorbachev, who has been complaining that President Reagan won't go his half of the way toward an arms agreement, deepened the Soviet-American chill today. The Russians denied Mr. Reagan permission to broadcast New Year's greetings to the Soviet people.

CBS's BILL PLANTE: President Reagan will try an end run around Gorbachev to the Soviet public sending a New Year's message recorded yesterday via short wave radio through the Voice of America, the reason, Moscow today said no to a U.S. request for a repeat of last year's exchange of televised messages between the two leaders. Gennadi Gerasimov said we have no basis for the exchange of such New Year's messages citing U.S.-Soviet disagreements over arms control, SALT II treaty limits and nuclear testing. Larry Speakes rejected the Soviet charges and said he hoped the Kremlin wouldn't interfere with the VOA broadcast.

(Speakes: "Regrettably the Soviet Union has declined our offer to exchange greetings. The unwillingness to agree to an open exchange of greetings is not consistent with the progress made at Reykjavik.")

The Soviets disagree that progress was made at Reykjavik and analysts here see the Soviet refusal as a tactic.

(Helmut Sonnenfeldt: "Well, I think at the moment they are trying to create the impression that relations really aren't very good and they are trying to put pressure on the Administration here to make some concessions and show flexibility on SDI.")

(Jonathan Sanders: "It would have been very significant if happened again. It would be an important tradition. The Soviet people got to see that Ronald Reagan was not a maniac with a gun, not a piston packing mamma.")

The U.S. position is that the exchange of greetings would have symbolized progress over the past year in U.S.-Soviet relations but privately U.S. officials are not surprised that the Soviets aren't willing to put Ronald Reagan on prime time t.v. given what they admit is the current lack of real momentum between the superpowers. (CBS-Lead)

TRADE WAR

UTLEY: President Reagan fired off a volley today in a growing trade war with Europe's Common Market. Last summer the Europeans put a tariff on grain from the United States. Today the President announced a new tariff on an assortment of European farm products. The tariff will triple the price of such items as canned hams, olives, gin and brandy, white wine, and cheese. (NBC-5)

JENNINGS: Today the Reagan Administration has said it will impose a series of tremendous tariffs on a whole range of European products which are very popular with the American consumer. The Europeans seem determined to retaliate.

ABC's SHEILAH KAST: The trade action reads like the shopping list for an elegant party.... All together the action announced today will impose new tariffs of 200% on four hundred million dollars worth of European products making most of them too expensive to compete in the U.S.

(Clayton Yeutter: "The basic controversy here is over lost agricultural export sales, lost sales of corn and grain sorghum to Spain.")

President Reagan took the action to retaliate against higher tariffs by the European economic community or Common Market, which blocked four hundred million dollars worth of corn and sorghum U.S. farmers use to export to Spain....

(Yeutter: "The European producers of gin will probably not be willing to sell in the U.S. market at those prices.") ...

Those higher consumer prices will not directly restore the lost farm market in Spain but many farmers welcome the move.

(Bill Mullins: "Yes, I think it is very positive. We need to let the Europeans know that we are not going to stand back and let them not fulfill their commitments.")

(Alan Terhaar: "Yes, the farmers are holding the bag but the farmers want a firm line. The farmers want retaliation because it is felt that that's the only way we are going to get long-term concessions out of the E.C. on trade issues that are of importance to us.")

U.S. Trade Representative Yeutter said he hopes the Europeans will compromise before the tariffs take effect in a month. Failing that, he said the Europeans may retaliate and the U.S. may retaliate back again.

(ABC-4)

KURALT: President Reagan today ordered a 200% duty today on brandy, gin, ham and cheese and cheap white wine from Europe, such a stiff tariff that if it sticks it will mean some of those popular products won't come into the U.S. at all. This escalation of the trade war with Europe is in retaliation for a decision by Spain and Portugal to sharply reduce their purchase of American feed grain. There is still a slight hope of a compromise before the President's order takes effect at the end of January.

(CBS-2)

KIMCHE

UTLEY: Question: Where did the idea to divert the profits from the Iran sale to the contras originate? Justice Department sources tell NBC's Carl Stern that Oliver North said to Attorney General Meese that the idea came from an Israeli official. Meese gave this information to a congressional committee and said he believed the Israeli official was David Kimche who was involved in the early stages of the arms deal. There has been no corroboration, however, that North's claim to Meese is true. Today I asked David Kimche in Tel Aviv for his response to the allegation that the idea of the diversion of money from the Iran sale came from him.

(David Kimche: "I find it very difficult to believe that Col. North actually did say the things they are supposed to have said because it is just pure shear unadulterated nonsense. It couldn't be further from the truth. If he said what he is supposed to have said then he is an unmitigated liar. And I emphasize the 'if' because I still find it difficult to believe it.") (NBC-6)

ABC's DENNIS TROUTE reports Justice Department sources say that when the Attorney General gave closed door testimony before the Senate Intelligence committee December 17th, he dropped a potential bombshell on U.S.-Israeli relations. Answering questions about the origin of the plan to funnel money illegally from Iran arms sales to the Contras, Meese said North had told him the idea came from David Kimche. The Israeli government repeatedly has denied that its officials had any part in schemes to support the contras and today David Kimche strongly denounced this new allegation as untrue. Today North had no comment on public reports about his charges. Federal investigators have spent the past few weeks trying verify North's story through interviews with U.S. and Israeli officials but they still do not know if it is true. If it is true it suggests that Israel authored the most controversial part of the scheme that has so damaged the Reagan Administration. If it is not, Col. North may have lied to the Attorney General. (ABC-2)

KURALT reports a former official of the Israeli government (David Kimche) flatly denied today that it was his idea for the U.S. to divert profits from Iranian arms sales to the Nicaraguan contras. (CBS-3)

WEINBERGER

JENNINGS: Secretary Weinberger has suffered a defeat in Administration maneuvering over the new budget. ABC's Bob Zelnick has learned the Pentagon will request \$312 billion in spending authority for fiscal year 1988, a real increase of just three percent. Weinberger had been fighting for a much higher figure. (ABC-6)

INDEX OF LEADING INDICATORS

KURALT: The government issued a promising economic forecast today. The Commerce Department said the index of leading indicators rose 1.2% in November, the sharpest increase since April. The index is designed to predict economic activity six to nine months in advance. (CBS-6, ABC-9)

FEDERAL BUDGET

KURALT: Big spending cuts in domestic social programs again figure prominently in the federal budget President Reagan will propose in a few days.

LESLEY STAHL reports President Reagan will ask for substantial cuts in funds for guaranteed student loans in his new budget. Opposition in Congress to similar cuts last year was overwhelming. It will be like an instant replay of past budget battles between the White House and Congress fighting over what to cut.

(OMB Director Miller: "The President's priorities remain very much the same, in some cases though, programs we proposed to terminate abruptly, proposed phasing down, in other things we'll do things a bit differently so I'm hopeful that Congress will look at the budget more seriously this year than last.")

(Rep. William Gray: "I don't think Congress is going to be prepared to make massive reductions again on the domestic side primarily to transfer it to the Pentagon and for foreign aid. It is very difficult politically to say you are going to cut food aid to kids in America to increase farm aid abroad.")

The White House will push for its programs and its cuts but officials are preparing for an even more contentious budget battle than last year with the new Congress controlled by the Democrats. (CBS-8)



News Summary

OFFICE OF THE PRESS SECRETARY

WEDNESDAY, DECEMBER 31, 1986 -- 6 a.m. EST EDITION

TODAY'S HEADLINES

IRAN -- NICARAGUA

REPORT: IRANIAN OFFERED ARMS-FOR-HOSTAGE DEAL -- An Iranian emissary envoy said he would try to win the release of one and possibly two Americans held hostage in Lebanon in exchange for U.S. anti-tank missiles, it was reported today. (Washington Post, UPI)

INTERNATIONAL NEWS

REAGAN TO AIR GREETING, BUT KREMLIN BALKS -- President Reagan will broadcast a New Year's Eve message to the people of the Soviet Union despite Mikhail Gorbachev's refusal to exchange mutual greetings on television, the White House announced yesterday.

(Washington Post, Washington Times, AP, Reuter, UPI)

NATIONAL NEWS

ECONOMIC INDICATORS RISE 1.2 PCT. IN NOVEMBER -- The nation's main barometer of future economic activity last month jumped 1.2 percent, the strongest rise since April, suggesting that the economy may be entering the new year stronger than expected. (New York Times, Washington Post, AP)

NETWORK NEWS (Tuesday Evening)

NEW YEAR'S GREETINGS -- President Reagan is going to send a New Year's message to the Soviet people tomorrow but not in the way he had hoped.

TRADE WAR -- President Reagan fired off a volley today in a growing trade war with Europe's Common Market.

KIMCHE -- David Kimche flatly denied today that it was his idea for the U.S. to divert profits from Iran arms sales to the Contras.

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NATIONAL NEWS.....A-10

NETWORK NEWS.....B-1

IRAN -- NICARAGUA

IRANIAN OFFERED RELEASE OF AMERICAN HOSTAGE
FOR 500 TOW MISSILES

Early last October, an Iranian government emissary told U.S. representatives he would arrange for the release of an American hostage held in Lebanon if the United States would sell Iran 500 TOW antitank missiles, according to informed sources.

The Iranian, who had direct access to officials of Ayatollah Ruhollah Khomeini's government, said Tehran would pay in advance for the weapons and that he also would work on getting a second hostage out.

(Walter Pincus, Washington Post, A1)

Report: Iranian Offered Arms-For-Hostage Deal

An Iranian emissary envoy said he would try to win the release of one and possibly two Americans held hostage in Lebanon in exchange for U.S. anti-tank missiles, it was reported today.

The Administration has repeatedly denied it was engaged in an arms-for-hostages swap, characterizing its 18-month initiative with Iran as an effort to re-establish contact with "moderates" in the Islamic government.

(UPI)

NEGOTIATIONS ON IRAN ASSETS ARE EXTENDED

Negotiations to unfreeze \$500 million in Iranian assets held in a U.S. bank apparently have hit a snag and will carry over until next month, State Department officials said yesterday.

Monday's four-hour session was "constructive [and] progress was made, but we do not expect that we will be able to reach final agreement on all issues at this session," Phyllis Oakley said. She stressed in an opening announcement that there is no link between the talks and any possible aid from Iran in obtaining the release of U.S. hostages held in Lebanon.

(Joanne Omang, Washington Post, A8)

Iran, U.S. Report Progress In Talks On \$508 Million

THE HAGUE -- The United States and Iran reported progress in talks over returning nearly \$508 million in blocked assets to Iran, and scheduled another meeting today.

The Iranian source, who spoke on condition of anonymity, predicted the matter would be settled by face-to-face negotiations, without the need to ask the tribunal for a further decision.

(Abner Katzman, AP)

U.S., Iranian Officials Meet Today Over Frozen Money

THE HAGUE -- Iranian and U.S. officials prepared to resume talks today on releasing \$500 million in Iranian funds frozen in the United States during the 1979 Iranian hostage crisis.

The U.S. negotiators -- officials from the Treasury Department and the New York branch of the Federal Reserve Bank -- held a day of "internal consultation" with Washington Tuesday in preparation for their second round of talks with Iranian bankers, U.S. Embassy spokesman Sam Wunder said.

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(UPI)

NORTH CLAIMS ISRAELI CONNECTION IN CONTRA SCHEME

The Justice Department has been unable to corroborate Lt. Col. North's claim that an Israeli official first proposed funneling Iran arms sale profits to Nicaraguan rebels, officials say.

But officials said Justice Department investigators have been unable to confirm North's assertion in interviews with U.S. and Israeli officials in the past few weeks.

If North's assertions are true, however, Justice Department officials said they would suggest a larger Israeli role than first indicated when Meese made public the clandestine scheme Nov. 25 and said that only "representatives of Israel" had been involved in the Iranian arms sales.

(Lori Santos, UPI)

Kimche Denies Proposing Diversion To Contras

JERUSALEM -- An Israeli closely linked to the U.S.-Iranian arms sales scandal denied claims that he first proposed funneling profits from the sales to American-backed rebels in Nicaragua.

"The whole thing is, if in fact he said it, a figment of his imagination," Kimche told UPI.

"Or it could be a deliberate lie to divert attention from himself or to cover up for someone else," Kimche said during a telephone interview from his home in Tel Aviv.

(Steve Hagey, UPI)

SECURITY MAKES THE BIG DIFFERENCE BETWEEN WATERGATE, CONTRA PROBE

The charters establishing two special congressional committees to probe the Iran-Contra affair are based on guidelines used by the Senate panel that investigated the Watergate scandal, a source who helped define the roles of the new committees said yesterday.

"The big difference is that we are being much more security conscious," said the source, who added that all staff members of the special committees will be required to have top-secret security clearances.

(Michael Hedges, Washington Times, A2)

3,000 U.S. TROOPS BEGIN AN EXERCISE IN SOUTH HONDURAS Will Improve Airstrips

TEGUCIGALPA -- About 3,000 United States troops have begun a joint four-month military exercise with Honduras that will include improving airstrips in the southern part of the country, the armed forces announced today.

In addition, the first of 4,500 National Guardsmen from eight states and Puerto Rico will begin arriving in this Central American country next week for a separate four-month exercise.

(AP story, New York Times, A1)

U.S. DEMANDING EXPLANATION FOR OAS HEAD'S TRIP

The Reagan Administration, concerned over possible pro-Sandinista bias among Central American peacemakers, wants an explanation from the head of the Organization of American States for a trip U.S. officials worry could harm Nicaragua's Contra rebels.

The U.S. delegation to the OAS, led by Ambassador Richard McCormack, believes that OAS Secretary General Joao Baena Soares may be acting beyond his authority in agreeing to a request by Central American peace mediators to undertake the trip. (George Gedda, AP)

DOCTORS DEVELOPING TREATMENT FOR CASEY

CIA Director Casey, who underwent surgery to remove a cancerous brain tumor, will begin anti-cancer treatment when his recovery is farther along, a hospital spokesman says.

Hospital spokeswoman Cynthia Byers said doctors were developing a "treatment plan" that would begin when he recovers further. Doctors have said they plan some form of anti-cancer therapy to prevent a recurrence, but the hospital has not said whether the cancer had spread to other parts of Casey's body.

White House spokesman Larry Speakes said in Palm Springs that President Reagan has not yet spoken with Casey because it is not "appropriate at this stage," but would not say whether that was because Casey was unable to talk. (UPI)

After 2 Weeks, Crucial Questions On Casey Linger

Nearly two weeks after surgery in which a brain cancer was removed from William Casey, the Director of Central Intelligence, his doctors said again today that he was fully conscious and periodically sat in a bedside chair.

The statement from Georgetown University Hospital gave no indication that Mr. Casey's condition had changed since late last week, when the hospital said the same thing in its last report on the patient. And it leaves a number of crucial questions unanswered, including when or whether he will be capable of talking, walking or resuming his duties.

(Lawrence Altman, New York Times, A1)

REGAN NOTABLY ABSENT IN PALM SPRINGS

PALM SPRINGS -- For nearly two years, White House Chief of Staff Donald Regan has spent most of his waking hours in lockstep with President Reagan, and in the process, extended his powerful influence to every corner of the Administration.

But on this short New Year's vacation, the 68-year-old Mr. Regan is most notable by his absence at a time when the President is both widely criticized and vulnerable because of the twin disasters of the Iran-Contra scandal and the Democrats' seizure of the Senate.

The fact that Mr. Regan is playing golf in Florida while the President is vacationing at the desert estate of publisher Walter Annenberg may signal a waning interest by the former Merrill Lynch chief executive in continuing to serve in an embattled Administration, according to some observers here. (Jeremiah O'Leary, News Analysis, Washington Times, A1)

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Regan's Job Seems Safe, But Role Curtailed

For Donald Regan, the worst may be over -- for now.

Reagan Administration sources say the embattled White House chief of staff, who three weeks ago seemed all but certain to become a casualty of the unfolding Iran-contra scandal, may yet weather the storm.

Barring new evidence linking Mr. Regan to a scheme to channel profits from United States arms sales to Iran to Nicaraguan resistance fighters, these sources say, Regan could confound his critics by surviving until the end of the Reagan presidency.

But others note that with President Reagan broadening his circle of advisers to include a larger number of experts in and outside the White House, and with more White House officials gaining direct access to the Oval Office, Regan's influence is likely to be reduced.

(George Moffett, Christian Science Monitor, A1)

SWISS TO ACT ON CONTRA FUNDS

BERN -- Receipt of a French-language translation of a U.S. Justice Department petition has cleared the way for the Swiss government formally to freeze nine bank accounts believed used in the laundering of money to support Nicaraguan guerrillas, a government spokesman said today.

Those named in the U.S. request will have 10 days to appeal the Swiss action. To do so, however, they would have to acknowledge publicly that they hold the accounts in question.

(John Parry, Washington Post, A8)

LEFTIST TO GET PANEL ON CONTRA POLICY

A left-wing congressman who has sharply opposed the Reagan Administration's foreign policy is expected to become chairman of the House Foreign Affairs subcommittee with jurisdiction over Central American policy.

Rep. George Crockett, a Michigan Democrat who has among other things accused President Reagan of violating the War Powers Act, would replace outgoing Rep. Michael Barnes as chairman of the Western Hemisphere affairs subcommittee.

(Rita McWilliams, Washington Times, A1)

INTERNATIONAL NEWS

REAGAN PLANS MESSAGE TO SOVIETS

If Not Jammed, VOA Will Beam Taped Talk To The People

PALM SPRINGS -- President Reagan will try to reach the Soviet people with a taped radio message of New Year's greetings beamed to the Soviet Union over the Voice of America, White House spokesman Larry Speakes announced today.

Reagan's decision came in response to Soviet rejection of the President's proposal to exchange televised greetings with Soviet leader Gorbachev. Last year, after their Geneva summit, the two leaders addressed each other's people with optimistic messages that looked forward to improved relations between the superpowers.

(Lou Cannon, Washington Post, A16)

Reagan To Air Greeting, But Kremlin Balks

PALM SPRINGS -- President Reagan will broadcast a New Year's Eve message to the people of the Soviet Union despite Mikhail Gorbachev's refusal to exchange mutual greetings on television, the White House announced yesterday.

"We believe that an exchange of television addresses is a good thing," Gennady Gerasimov said. "But why instill in people illusions that everything is in order?" (Jeremiah O'Leary, Washington Times, A1)

Reagan To Try To Address Soviets, Despite Moscow Rejection Of Message Swap

PALM SPRINGS -- The United States will beam a New Year's message from President Reagan to the Soviet people, despite Moscow's rejection of a U.S. proposal that the two superpower leaders swap televised addresses.

"If this indeed is an indication of the way the Soviets feel about U.S.-Soviet relations, then that certainly speaks for itself," said Speakes. "But as far as the United States is concerned, we are prepared to make progress in our relationship on many fronts."

(Dale Nelson, AP)

Reagan Beams New Year's Message To Soviet Union

PALM SPRINGS -- President Reagan's New Year's radio address will be broadcast to the Soviet Union even though Moscow rejected his proposal for a second year of televised holiday messages from the superpowers.

To be broadcast over the VOA, Reagan scheduled a New Year's Eve address to the Soviet Union and asked the Kremlin to see that his message of good will and hope for better relations is not blocked by Soviet jammers.

White House spokesman Larry Speakes said Reagan taped a radio address Monday that would stress the "potential for improved relations and continuing progress on arms control in the new year."

(Norman Sandler, UPI)

Soviets Reject New Year's TV Exchange

MOSCOW -- The Soviet Union has rejected President Reagan's proposal for an exchange of televised New Year's greetings with Soviet leader Gorbachev on the grounds that sour relations between the two countries make the timing for such a gesture inappropriate. The two exchanged such greetings last New Year's Day.

Gennadi Gerasimov cited the Reagan Administration's decision to abandon the SALT II treaty despite Soviet protest, the U.S. refusal to join the Soviet moratorium on nuclear testing, and the fallout over the October U.S.-Soviet summit meeting in Reykjavik, Iceland, as evidence of the tensions in relations.

"All that gives no ground for an optimistic note," he said.

(Gary Lee, Washington Post, A1)

Reagan Sends Greetings Despite Soviet Nyet

PALM SPRINGS -- President Reagan, disappointed by Mikhail Gorbachev's nyet on a superpower exchange of New Year's greetings, plans to get his message to the Soviet people anyway.

White House spokesman Larry Speakes told reporters yesterday he could see no justification for the Soviet rebuff of Reagan's suggestion that he and Mikhail Gorbachev exchange messages as they did last year in the afterglow of the Geneva summit.

(Patricia Wilson, Reuter)

EMBATTLED REAGAN PLANS DIPLOMATIC OFFENSIVE

With a strong assist from Secretary Shultz, President Reagan will try to pull himself out of the morass of the Iran-Contra affair in 1987 with a vigorous and productive diplomatic offensive in the four corners of the world.

The embattled President, trying also to overcome medical problems and to rebuild his credibility and popularity, intends to look for opportunities with the Soviet Union and elsewhere.

Apart from the pressures of the double scandal that has beset the Administration, Reagan has barely two years remaining to leave a mark on foreign affairs through a major arms control agreement with the Soviet Union, a new peace initiative in the Middle East or a solution to the bloody racial problems in southern Africa.

(Barry Schweid, News Analysis, AP)

U.S. OFFICIAL TO VISIT POLAND IN MOVE TO IMPROVE RELATIONS

Deputy Secretary of State John Whitehead is planning a trip to Poland early in the new year as part of a gradual process of normalizing relations between Washington and Warsaw, State Department officials said yesterday.

The trip, expected to take place in late January or early February, was described by officials as one of several recent or pending "political signals" between the Reagan Administration and the Warsaw regime of Gen. Wojciech Jaruzelski.

(Don Oberdorfer, Washington Post, A16)

\$1.3 BILLION MORE SOUGHT IN FOREIGN AID PROGRAMS
Bulk Of Request Covers Security Assistance

The Reagan Administration plans to ask Congress next week for \$1.3 billion more in foreign aid spending for fiscal 1987, congressional sources said yesterday.

The supplemental increase, guaranteed to be controversial in a period of cuts elsewhere, will come on top of an international spending request for fiscal 1988 totaling \$19.5 billion, a 15.8 percent increase from last year's level, the sources said. (Joanne Omang, Washington Post, A13)

TARIFF ON EUROPEAN FOOD, SPIRITS COULD BRING RETALIATION

PALM SPRINGS -- President Reagan Tuesday slapped steep duties on a variety of European food and spirits in what could signal the escalation of a major international trade war.

The President imposed duties that could triple the cost of gin, brandy, white wine, cheese and other products imported from Europe in retaliation for trade barriers that effectively prohibit the import of American corn and feed grain.

"The intent is to stop that trade in its tracks," U.S. Trade Representative Clayton Yeutter told reporters in Palm Springs, where the President and First Lady Nancy Reagan are spending their New Year's holiday. (John Marelus, Copley)

Agricultural Trade War Looms Between U.S., Western Europe

The United States and the European Community yesterday headed toward a trade war over agricultural products, but both sides held out hope for a negotiated settlement.

Mr. Yeutter said the action is in retaliation for Europe's failure to compensate the United States for the loss of \$400 million a year in U.S. feed-grain exports to Spain as a result of Spain's joining the EC.

(Donald May, Washington Times, A1)

U.S. Hits European Trade Actions, But Seeks Further Talks

The United States has announced plans to slap huge increases in duties on European alcoholic beverages, cheese, olives, and canned ham in retaliation against European Community trade practices.

U.S. Trade Representatives Clayton Yeutter, in an announcement yesterday from Palm Springs, said the proposed levies could price European exports of the goods out of the U.S. market. But he left the door open for continued negotiations next month before the tariffs go into effect.

(Nelson Graves, Reuter)

'Yuppie Food' First Casualty In Trade Skirmish

PALM SPRINGS -- President Reagan launched an offensive in a transatlantic trade tiff that could escalate into a tit-for-tat economic war, and a "Yuppie list" of food and booze is the first casualty.

On Tuesday, Reagan sharply hiked duties on 11 European products ranging from British gin and French wines to Belgian endive and Dutch edam, setting the stage for a tense trade atmosphere that may not soon subside.

(Norman Sandler, UPI)

U.S.-CANADIAN NEGOTIATORS REACH 11TH-HOUR
AGREEMENT ON LUMBER DISPUTE

U.S. and Canadian negotiators reached an 11th-hour agreement Tuesday night to end a long and divisive dispute over Canadian construction lumber imports, U.S. trade officials said.

The negotiated breakthrough was announced by Commerce Department spokeswoman Desiree Tucker only hours before the department was scheduled to make a final decision on its preliminary finding last Oct. 16 that Canadian timber-cutting policies amount to an unfair subsidy.

(Tom Raum, AP)

U.S. And Canada Reach Last-Minute Lumber Accord

U.S. and Canadian negotiators reached an eleventh-hour agreement last night settling a trade battle over Canadian softwood lumber exports.

The agreement put an end to a trade showdown that had irritated U.S.-Canada relations and jeopardized free trade talks between the two countries.

(Nelson Graves, Reuter)

OIL TRADE GROUP SAYS ADMINISTRATION HURTING DOMESTIC PRODUCERS

The Reagan Administration is hurting domestic oil producers with some of its actions, the principal petroleum trade association is complaining.

The Administration response to the charge, from Interior Secretary Hodel, was only two sentences long and the first was: "You've got to be kidding."

But Charles DiBona, president of the American Petroleum Institute, was not kidding at a news conference Tuesday called to release a study of the impact of oil imports.

(Guy Darst, AP)

U.S. ACCUSES TURKEY OF INCREASING FORCES ON CYPRUS

The Reagan Administration has admonished Turkey for building up its military strength on Cyprus, an American official says.

A U.S. official Tuesday described the increase in troops on the island as only about 5 to 10 percent over previous strength. "More important," he said, "is a qualitative change in some of their armaments."

Ten House members urged Secretary of State Shultz to investigate reports of the buildup.

(Barry Schweid, AP)

NATIONAL NEWS

ECONOMIC INDICATORS RISE 1.2 PCT. IN NOVEMBER

The nation's main barometer of future economic activity last month jumped 1.2 percent, the strongest rise since April, suggesting that the economy may be entering the new year stronger than expected.

Although the strong increase in leading indicators signaled to some economists that the economy may be stronger than earlier believed, some also said the increase in activity could mean a pickup in inflation. This concern was based on the fact that the raw materials component of the index has increased in each of the last two months.

(Jane Seaberry, Washington Post, E1)

Index On Direction Of Economy Climbs

The Government index intended to predict the economy surged 1.2 percent in November, the biggest advance in seven months, the Commerce Department reported today.

The latest reading, which was somewhat stronger than expected, was widely regarded as pointing to continued economic growth in 1987.

Analysts differed markedly, however, about how vigorous the fifth straight year of expansion was likely to be. Many contended that the sharp November jump in the index of leading indicators overstated the economy's strength, partly because the new tax law that takes effect this week has been acting recently as an artificial spur to demand.

(Robert Hershey, New York Times, A1)

Leading Indicators Jump 1.2 Percent In November; New Home Sales Down

The Commerce Department says the government's main measure of future economic activity shot up 1.2 percent in November, the biggest rise in seven months, while new home sales fell 2.2 percent last month.

Private economists, however, were divided Tuesday over whether the surprisingly strong advance in the Index of Leading Indicators was a true signal of a rebounding economy. (AP)

SENIOR LAWMAKER CRITICIZES PENTAGON BUDGET PROPOSAL

Next year's proposed Pentagon budget, which will be formally unveiled next week, already is coming under fire from a lawmaker who normally steadfastly supports military spending.

The latest criticism came Tuesday from Rep. William Dickinson, ranking Republican on the House Armed Services Committee.

The Alabama congressman wrote to Defense Secretary Weinberger to complain that the Administration plans to give too much money to the Navy and "Star Wars" at the expense of the Army. (Tim Ahern, AP)

TAX CHANGE INSPIRES GIVING SPIRIT
Charities Benefit In Last Call For Some To Deduct Contributions

Area charities have been deluged with donations this month, with contributions ranging from such items as cemetery plots and houseboats to more mundane things such as clothing and small appliances.

Much of the giving has been spurred by changes in federal tax laws next year that will eliminate some deductions for charitable contributions, according to representatives of charitable organizations.

(Evelyn Hsu, Washington Post, A1)

BIG INCREASE IN U.S. PARK SPENDING URGED
Presidential Panel Stresses Local and Private Action
To Preserve Open Areas

A presidential panel yesterday recommended \$1 billion a year in federal funding for outdoor recreation, a dramatic increase that would run counter to the Reagan Administration's efforts to trim spending on new parkland.

But the 15-member commission, appointed by President Reagan last year to study future recreational needs, stuck by its recommendation for a billion-dollar trust fund to replace the 20-year-old Land and Water Conservation Fund when it expires in 1989.

(Cass Peterson, Washington Post, A3)

BALDRIGE IN HOSPITAL WITH UNDIAGNOSED LUNG AILMENT

ALBUQUERQUE -- Commerce Secretary Malcolm Baldrige remained in an Albuquerque hospital today for treatment of a lung ailment that doctors have not been able to identify, a hospital spokesman said.

"So far, his doctors have not been able to determine the cause of his problems," said Bob Hlady, a hospital spokesman. He added that heart disease, cancer, pulmonary embolism and most varieties of pneumonia have been ruled out.

(Reuter)

SOON, YOU WILL BE ABLE TO DIAL UP REAGAN'S WEEKEND RADIO ADDRESSES

PALM SPRINGS -- The White House, after experimenting with letting radio stations dial up President Reagan's weekly radio speeches on the telephone, will try to expand the audience by getting listeners to dial it for themselves.

"We hope to be able to get some more attention on it and give it a better try," Elizabeth Board, director of the White House television and radio office, said in a telephone interview Tuesday from Washington.

(Dale Nelson, AP)

NETWORK NEWS SUMMARY

NEW YEAR'S GREETINGS

NBC's GARRICK UTLEY: It was just a year ago that there was a glow of goodwill in the relations between the U.S. and the Soviet Union. Ronald Reagan and Gorbachev were preparing their New Year's speeches to be broadcast in each other's country. Today the Soviet Union turned down an American request for greetings this New Year claiming the climate between the two countries has turned sour.

NBC's CHRIS WALLACE: When the President and Gorbachev exchanged televised greetings a year ago, it was interpreted as a sign U.S.-Soviet relations were improving. But today a Soviet official said there will be no exchange this New Year's Day because the situation is now too tense.

(Gennadi Gerasimov: "Why should we create any illusions about our relations.")

Gerasimov accused the President of killing any progress made at the Reykjavik summit. He noted the U.S. has deployed another bomber with Cruise missiles, openly violating the SALT II arms treaty and that it has continued testing nuclear weapons forcing the Soviets to end their 18 month moratorium. In California spokesman Larry Speakes said the President regrets the Soviet turn down calling it inconsistent with Kremlin statements it wants to make progress.

(Larry Speakes: "We think this would be an opportunity to indicate on both sides that there is room for improvement in our relationship and we would pledge to do so for our part.")

The U.S. proposed the exchange of greetings just before Christmas but the Soviets rejected the idea four days later. White House officials believe it is all part of the Soviet propaganda campaign begun after arms talks broke down in Iceland to increase the sense of tension and force Mr. Reagan to make new concessions.

(Helmut Sonnenfeldt: "And they also don't want to seem to be weak toward the United States and they're in a way trying to punish President Reagan for not giving Gorbachev the kind of success that he was looking for at Reykjavik.")

Whatever the reason, the mood is now very different from what it was when the President spoke to the Soviets a year ago.

(President Reagan: "Let's work together to make it a year of peace. There is no better goal for 1986 or for any year.")

The President will deliver his New Year's greeting anyway sending a radio message over the Voice of America. U.S. officials hope the Soviets won't jam the broadcast but say they have been given no private assurances.

(NBC-Lead)

ABC's PETER JENNINGS: President Reagan is going to send a New Year's message to the Soviet people tomorrow but not in the way he had hoped. He will broadcast by radio on the Voice of America but not on Soviet television. The White House had suggested that just like last year he and Mr. Gorbachev appear on each other's television. The Soviets said no.

ABC's HILLARY BOWKER reports the Kremlin has ruled out a televised exchange of New Year's greetings between the two leaders because of the sorry state of superpower relations. Last year it was a different story, Gorbachev on the U.S. networks with a taped message for the American people and Soviet television broadcast a similar greeting from Mr. Reagan.

(President Reagan: "I want to share with you my hopes for the New Year. Hopes for peace, prosperity and goodwill that the American and Soviet people share.")

The State Department says it is disappointed.

(Spokesman Phyllis Oakley: "We proposed the messages by the President and the General Secretary be exchanged. We regret that the Soviets rejected our proposal.")

The signal the Kremlin is sending Washington is centered on arms control. The Soviets have tried desperately this year at least to be seen to be taking active measures on disarmament. No agreements have been signed, but the Soviets say there is still time in the New Year, but that it is now up to the U.S. (ABC-Lead)

CBS's CHARLES KURALT: Mikhail Gorbachev, who has been complaining that President Reagan won't go his half of the way toward an arms agreement, deepened the Soviet-American chill today. The Russians denied Mr. Reagan permission to broadcast New Year's greetings to the Soviet people.

CBS's BILL PLANTE: President Reagan will try an end run around Gorbachev to the Soviet public sending a New Year's message recorded yesterday via short wave radio through the Voice of America, the reason, Moscow today said no to a U.S. request for a repeat of last year's exchange of televised messages between the two leaders. Gennadi Gerasimov said we have no basis for the exchange of such New Year's messages citing U.S.-Soviet disagreements over arms control, SALT II treaty limits and nuclear testing. Larry Speakes rejected the Soviet charges and said he hoped the Kremlin wouldn't interfere with the VOA broadcast.

(Speakes: "Regrettably the Soviet Union has declined our offer to exchange greetings. The unwillingness to agree to an open exchange of greetings is not consistent with the progress made at Reykjavik.")

The Soviets disagree that progress was made at Reykjavik and analysts here see the Soviet refusal as a tactic.

(Helmut Sonnenfeldt: "Well, I think at the moment they are trying to create the impression that relations really aren't very good and they are trying to put pressure on the Administration here to make some concessions and show flexibility on SDI.")

(Jonathan Sanders: "It would have been very significant if happened again. It would be an important tradition. The Soviet people got to see that Ronald Reagan was not a maniac with a gun, not a piston packing mamma.")

The U.S. position is that the exchange of greetings would have symbolized progress over the past year in U.S.-Soviet relations but privately U.S. officials are not surprised that the Soviets aren't willing to put Ronald Reagan on prime time t.v. given what they admit is the current lack of real momentum between the superpowers. (CBS-Lead)

TRADE WAR

UTLEY: President Reagan fired off a volley today in a growing trade war with Europe's Common Market. Last summer the Europeans put a tariff on grain from the United States. Today the President announced a new tariff on an assortment of European farm products. The tariff will triple the price of such items as canned hams, olives, gin and brandy, white wine, and cheese. (NBC-5)

JENNINGS: Today the Reagan Administration has said it will impose a series of tremendous tariffs on a whole range of European products which are very popular with the American consumer. The Europeans seem determined to retaliate.

ABC's SHEILAH KAST: The trade action reads like the shopping list for an elegant party.... All together the action announced today will impose new tariffs of 200% on four hundred million dollars worth of European products making most of them too expensive to compete in the U.S.

(Clayton Yeutter: "The basic controversy here is over lost agricultural export sales, lost sales of corn and grain sorghum to Spain.")

President Reagan took the action to retaliate against higher tariffs by the European economic community or Common Market, which blocked four hundred million dollars worth of corn and sorghum U.S. farmers use to export to Spain....

(Yeutter: "The European producers of gin will probably not be willing to sell in the U.S. market at those prices.") ...

Those higher consumer prices will not directly restore the lost farm market in Spain but many farmers welcome the move.

(Bill Mullins: "Yes, I think it is very positive. We need to let the Europeans know that we are not going to stand back and let them not fulfill their commitments.")

(Alan Terhaar: "Yes, the farmers are holding the bag but the farmers want a firm line. The farmers want retaliation because it is felt that that's the only way we are going to get long-term concessions out of the E.C. on trade issues that are of importance to us.")

U.S. Trade Representative Yeutter said he hopes the Europeans will compromise before the tariffs take effect in a month. Failing that, he said the Europeans may retaliate and the U.S. may retaliate back again.

(ABC-4)

KURALT: President Reagan today ordered a 200% duty today on brandy, gin, ham and cheese and cheap white wine from Europe, such a stiff tariff that if it sticks it will mean some of those popular products won't come into the U.S. at all. This escalation of the trade war with Europe is in retaliation for a decision by Spain and Portugal to sharply reduce their purchase of American feed grain. There is still a slight hope of a compromise before the President's order takes effect at the end of January.

(CBS-2)

KIMCHE

UTLEY: Question: Where did the idea to divert the profits from the Iran sale to the contras originate? Justice Department sources tell NBC's Carl Stern that Oliver North said to Attorney General Meese that the idea came from an Israeli official. Meese gave this information to a congressional committee and said he believed the Israeli official was David Kimche who was involved in the early stages of the arms deal. There has been no corroboration, however, that North's claim to Meese is true. Today I asked David Kimche in Tel Aviv for his response to the allegation that the idea of the diversion of money from the Iran sale came from him.

(David Kimche: "I find it very difficult to believe that Col. North actually did say the things they are supposed to have said because it is just pure shear unadulterated nonsense. It couldn't be further from the truth. If he said what he is supposed to have said then he is an unmitigated liar. And I emphasize the 'if' because I still find it difficult to believe it.") (NBC-6)

ABC's DENNIS TROUTE reports Justice Department sources say that when the Attorney General gave closed door testimony before the Senate Intelligence committee December 17th, he dropped a potential bombshell on U.S.-Israeli relations. Answering questions about the origin of the plan to funnel money illegally from Iran arms sales to the Contras, Meese said North had told him the idea came from David Kimche. The Israeli government repeatedly has denied that its officials had any part in schemes to support the contras and today David Kimche strongly denounced this new allegation as untrue. Today North had no comment on public reports about his charges. Federal investigators have spent the past few weeks trying verify North's story through interviews with U.S. and Israeli officials but they still do not know if it is true. If it is true it suggests that Israel authored the most controversial part of the scheme that has so damaged the Reagan Administration. If it is not, Col. North may have lied to the Attorney General. (ABC-2)

KURALT reports a former official of the Israeli government (David Kimche) flatly denied today that it was his idea for the U.S. to divert profits from Iranian arms sales to the Nicaraguan contras. (CBS-3)

WEINBERGER

JENNINGS: Secretary Weinberger has suffered a defeat in Administration maneuvering over the new budget. ABC's Bob Zelnick has learned the Pentagon will request \$312 billion in spending authority for fiscal year 1988, a real increase of just three percent. Weinberger had been fighting for a much higher figure. (ABC-6)

INDEX OF LEADING INDICATORS

KURALT: The government issued a promising economic forecast today. The Commerce Department said the index of leading indicators rose 1.2% in November, the sharpest increase since April. The index is designed to predict economic activity six to nine months in advance. (CBS-6, ABC-9)

FEDERAL BUDGET

KURALT: Big spending cuts in domestic social programs again figure prominently in the federal budget President Reagan will propose in a few days.

LESLEY STAHL reports President Reagan will ask for substantial cuts in funds for guaranteed student loans in his new budget. Opposition in Congress to similar cuts last year was overwhelming. It will be like an instant replay of past budget battles between the White House and Congress fighting over what to cut.

(OMB Director Miller: "The President's priorities remain very much the same, in some cases though, programs we proposed to terminate abruptly, proposed phasing down, in other things we'll do things a bit differently so I'm hopeful that Congress will look at the budget more seriously this year than last.")

(Rep. William Gray: "I don't think Congress is going to be prepared to make massive reductions again on the domestic side primarily to transfer it to the Pentagon and for foreign aid. It is very difficult politically to say you are going to cut food aid to kids in America to increase farm aid abroad.")

The White House will push for its programs and its cuts but officials are preparing for an even more contentious budget battle than last year with the new Congress controlled by the Democrats. (CBS-8)