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Summary:

A summary of the North Korean smuggling scandal in Scandinavia produced by the US intelligence community.

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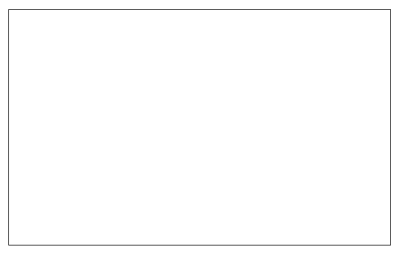
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TO:	NAME AND ADDRESS	DATE	INITIALS
1	HR		
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	ACTION	DIRECT REPLY	PREPARE REPLY
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NATIONAL INTELLIGENCE DAILY CABLE

Tuesday November 2, 1976

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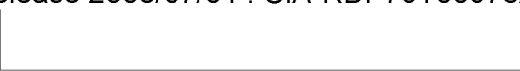
State Dept. review completed.

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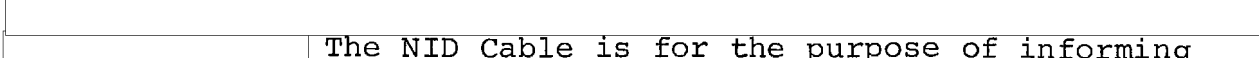
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The NID Cable is for the purpose of informing senior US officials.

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YUGOSLAVIA-USSR: Brezhnev Visit Set

[redacted] Soviet party chief Brezhnev will visit Yugoslavia in mid-November, according to an announcement from Moscow. Information circulating in the Belgrade diplomatic community suggests that the visit will begin on November 16--possibly at Tito's villa in a hunting preserve in northeast Croatia.

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[redacted] The Brezhnev visit is a sign that problems over Yugoslav allegations of Soviet meddling in Yugoslavia have been set aside for now. Both Brezhnev and Tito evidently recognize that their efforts since 1971 to create a durable working relationship have not yet been completely successful. Both leaders are likely to treat contentious issues very gingerly.

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[redacted] //There are reportedly some influential Yugoslav officials, including Stane Dolanc, who believe that Tito has come too strongly under Brezhnev's influence during past meetings. They will want to have a close look at the agenda before Brezhnev arrives.//

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[redacted] The two leaders are likely to renew their pledge--made in 1971--that their regimes will pursue closer cooperation, particularly in party activities. They will also try to mute the polemics that occasionally surface and give new life to deep-seated, mutual suspicions. Belgrade, in particular, will expect Brezhnev to reaffirm past Soviet promises to respect Yugoslav independence and to treat the Yugoslav party as an autonomous equal.

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[redacted] Brezhnev nonetheless is expected to reiterate Soviet interest in increased use of Yugoslav naval facilities in the Adriatic, as did Soviet Admiral Gorshkov last August.

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[redacted] Brezhnev is scheduled to be in Romania for an official visit on November 22. A meeting of the Warsaw Pact Political Consultative Committee will be held after several days of talks between the Soviet leader and the Romanian hierarchy. It is doubtful Brezhnev would return to Moscow between the Yugoslav and Romanian visits, so he may be planning to spend up to six days in Yugoslavia.

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USSR-CHINA: Victor Louis Recants

[redacted] Soviet journalist Victor Louis has published a second article in *France-Soir* trying to undo damage caused by his article of October 14, in which he said the Chinese must respond within a month to Soviet gestures for better relations.

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[redacted] Louis' latest article, which claims to perceive a Sino-Soviet thaw, seeks to raise concern in the West over a rapprochement between the two countries and thus undercut Secretary Kissinger's recent warnings against threatening China.

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[redacted] The fact that Moscow ordered Louis to write such an article is an indication of how seriously Moscow took Washington's reaction to Louis' first piece.

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[redacted] Another sign of Soviet sensitivity was editorial comment in last Wednesday's *Pravda* that took Secretary Kissinger to task for allegedly exploiting the Louis article. *Pravda* denied that Moscow entertained any hostile intentions toward China and accused the Secretary of trying to spoil or strain Sino-Soviet relations.

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[redacted] The main implication of the second Louis article, which was datelined Blagoveshchensk on the Sino-Soviet border, is that the Chinese are moving in the direction the Soviets want and that there is therefore no need for the "irreversible" Soviet decisions on China that Louis warned about in his first piece. In the second article Louis asserted that although it had been less than a month since his earlier article, certain changes in Chinese behavior along the border augur well for Sino-Soviet relations.

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[redacted] Louis claimed, among other things, that:

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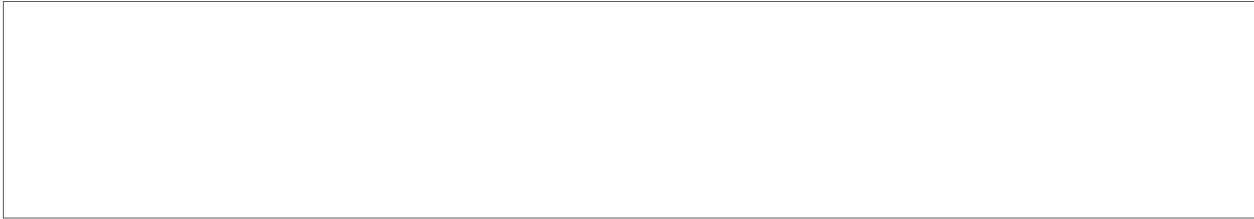
--Anti-Soviet slogans painted on Chinese houses across the river from Blagoveshchensk have been removed.

--The Chinese are now making friendly gestures to the Russians they pass in boats along the border rivers.

--Chinese sailors using the river are now observing the rules of navigation, which according to Louis they had long disregarded.




--There has been a change in the tone of Chinese propa-
ganda broadcasts to the USSR.




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CHINA: Promotion Rumors

 A Chinese Foreign Ministry spokesman yesterday denied reports that Li Hsien-nien had been named as premier, Yeh Chien-ying as chairman of the National People's Congress (de facto head of state), and Chen Hsi-lien as defense minister.

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 Word of the promotions reportedly appeared in wall posters in Shanghai, but we have had no eyewitness account of the alleged posters, and stories of their existence may all be coming from a single Japanese source. There are no indications that similar posters have appeared anywhere else in China.

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 The Foreign Ministry spokesman said that Hua Kuo-feng is still premier, Yeh remains minister of defense and the de facto head of state job is still open. Li Hsien-nien was identified as vice premier during a public appearance yesterday.

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NORTH KOREA: The Drug Bust

 Pyongyang is trying to limit the damage from the recent highly publicized expulsions of North Korean diplomatic personnel from the Nordic countries for trafficking in narcotics, duty-free liquor and cigarettes. Since the issue surfaced in mid-October North Korea has:

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--Acknowledged privately that some of its representatives were engaged in illegal activities.



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[redacted]

--Withdrawn ambassadors and staff members as requested without a major public protest--an implicit admission of guilt.

--Avoided any retaliatory acts against Scandinavian officials in Pyongyang.

--Moved quickly to replace the ousted diplomats.

[redacted] The timing of the episode is particularly poor for North Korea. Its international reputation had already suffered in recent months as a result of its large-scale default on foreign debts, its heavy-handed tactics at the nonaligned conference at Colombo, and the slayings of US personnel at Panmunjom.

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[redacted] Pyongyang is anxious to forestall any move by the Nordic countries to use the smuggling scandal as a pretext for terminating several incomplete and financially troubled industrial development projects in North Korea. The Danes and Japanese are jointly constructing a large cement plant, the Swedes are building an ore processing facility, and the Finns have supplied equipment for a paper mill.

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[redacted] The illegal actions in Scandinavia were part of a systematic effort by the North Koreans to exploit their diplomatic status for profit. Similar activities--although not on the same scale--have been reported in Burma, Nepal, Malaysia, Switzerland, Egypt, and Argentina.

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[redacted] The illegally acquired funds are used to help defray operating expenses for Pyongyang's embassies and trade missions as well as to finance intelligence and propaganda activities abroad. Over the past year or so, North Korea has been cutting back some of its larger overseas staffs in an apparent effort to reduce expenses. The scope of the recent smuggling operations in Scandinavia suggests that the North Korean embassies there may have been under some special injunction to become self-supporting in view of Pyongyang's shortage of foreign exchange.

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[redacted] North Korea has clearly suffered a serious black eye in the diplomatic community. For the near term, it probably will act cautiously, especially in Western Europe

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where the press has been giving heavy coverage to the smuggling. An international forum on Korea, organized by Pyongyang, had been scheduled in Brussels for late October but has now been postponed indefinitely.

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The scandal also will further complicate North Korea's commercial and trade relations with the West. Foreign governments and business firms are likely to be even less inclined to extend credit or debt relief.//

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So far, none of the countries in which North Korea abused its diplomatic privileges has indicated it will break diplomatic relations. The Scandinavian countries, for example, all have noted that they do not wish the expulsions to disrupt relations with Pyongyang further, and none of them has yet ordered the closure of a North Korean mission.

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SOUTH AFRICA: Ineffective Strike

Only a small minority of the black industrial workers in the Johannesburg area appear to be heeding a call for a five-day strike issued last week by a militant student group in Soweto township.

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[redacted]

[redacted] Although the strike was supposed to begin yesterday, businesses contacted by the US consulate reported only scattered absenteeism--not enough to lower production significantly. Trains from Soweto--by far the largest of the black townships around Johannesburg--reportedly carried only slightly less than the usual 220,000 commuters to industrial areas yesterday morning.

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[redacted] A three-day strike in September called by the same student organization was much more successful. Workers appear more concerned this time about losing their pay, both because of clearer warnings from employers that strikers would be docked for absenteeism and because the students have called for a longer strike than in September. [redacted]

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IRAN: Gas Export Project Canceled

[redacted] Iran has canceled a multi-billion dollar liquefied natural gas project involving El Paso Natural Gas and a consortium of European companies, ostensibly because the companies tried to alter a preliminary agreement signed in December 1974.

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[redacted] Both sides probably were satisfied to see an end to plans for the project. Inflation over the past four years has eroded the companies' anticipated profits. Projected capital investment rose from \$5.9 billion to \$8.1 billion, and the rate of return on capital declined from 16 percent to 12 percent. Fifteen percent is considered the minimum acceptable rate of return for such projects.

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[redacted] Iran, for its part, urgently needs large quantities of gas for reinjection, a process that extends oil output at old oilfields. Iranian officials now believe that use of the gas for this purpose, as well as for domestic household needs and to fire projected steel mills, will be more profitable than exports.

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[redacted] Iran consequently will not consider any new agreements to export natural gas. It will continue exporting gas to the USSR by pipeline and will also supply gas to countries involved in another liquefied natural gas project, should a final agreement be reached. [redacted]

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[REDACTED]

SPAIN: Military Comments on Political Reform

[REDACTED] In an unusually forthright interview last week, Spain's first deputy premier for defense, General Gutierrez Mellado, spoke out in favor of the government's reform program and against military involvement in politics. The interview was clearly aimed among other things at discouraging efforts by right-wingers in the military to undermine the program.

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[REDACTED] Gutierrez Mellado had messages for most of the politically important elements in Spain:

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--To the rightist-dominated parliament, he served notice that the government will not tolerate any efforts to gut the reform program. He also said that the military will not oppose the King and the government if they decide to bypass parliament and submit the reforms to a referendum.

--To the left, he said that although the government makes no apologies for the results of the Spanish civil war, what is required now is a new framework "which allows ideological discrepancies."

--To the military, he made clear his belief that military men should remain apart from politics, should follow orders, and should concentrate on professional pursuits.

[REDACTED] Gutierrez Mellado clearly was reacting to discontent that has surfaced in the military over the reform program and over the government's attempt last month to force the retirement of Gutierrez Mellado's rightist predecessor and another right-wing general.

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[REDACTED] The initial reaction to the interview, from both inside and outside the military, has been positive, except among ultra-rightists. Although many rightist generals are undoubtedly unhappy, one of them admitted to the US embassy that the reaction in the army has been heavily favorable.

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[REDACTED] In the past few weeks the government has moved carefully on the question of retiring the two rightist generals, but following the Gutierrez Mellado interview it may press ahead more vigorously. There are also reports that several

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[redacted]

rightists in key posts in Madrid will be transferred to less important jobs. The position of army chief of staff, vacant since Gutierrez Mellado's promotion, was filled last week by a general who stresses professionalism and has shown no interest in involving the military in politics. [redacted]

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ITALY: Italian Socialists

[redacted] The Italian Socialist Party--the only party with enough votes in parliament to give the ruling Christian Democrats a non-Communist majority--continues to suffer from internal discord and an inability to agree on a distinctive party program. The Socialists' problems, coupled with the growing tendency of the Christian Democrats to depend upon informal Communist cooperation, appear to preclude a government role for the Socialists any time soon.

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[redacted] Following the Socialists' failure to score any gains in the parliamentary election in June--an election which they precipitated--the party tapped 42-year-old Bettino Craxi to rejuvenate the party. The new party secretary was given the tasks of establishing a Socialist identity distinct from that of the Communists and raising the party's international prestige. Craxi was not given a mandate to seek an accord with the Christian Democrats, but that reportedly is his long-range plan.

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[redacted] Although the efforts of the bright and energetic Craxi have met with some success--the party's ties with other European social democratic parties have improved and a Socialist has been installed as head of Italy's third largest labor confederation--he remains far short of achieving the breakthrough necessary to return the Socialists to the government. In fact, Craxi recently described the party as "a total mess" and said it may take him two or three years to achieve his objective.//

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[redacted] Craxi's need to establish distinct Socialist positions on the issues is frustrated by the better-organized Communists, who are solidly entrenched as the leading party on the left. Craxi and his associates may see little alternative but to try to take more radical positions than the Communists, even though this could make an eventual rapprochement with the Christian Democrats more difficult. Craxi will

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[redacted]

have trouble on this front in any case; his left-wing rivals inside the party want to work for a "left alternative" government with the Communists rather than return to a coalition with the Christian Democrats.//

[redacted] Craxi's dilemma is that the Socialists at present are unprepared to enter the government that perhaps only they can save from Communist encroachment. The Socialists want to keep the present Christian Democratic minority government in power long enough to restore their own party unity, but the Communists appear to be edging closer to their goal of sharing power with the Christian Democrats.

[redacted] By including the Socialists in a meaningful way in parliamentary consultation, Prime Minister Andreotti might be able to help lay the basis for an eventual Socialist return to the government. There is no evidence at present, however, that Andreotti is moving in that direction.

[redacted] Communist Party chief Berlinguer's recent proposal to include all abstaining parties, including the Socialists, in such consultations may provide a face-saving device, but under such an arrangement the views of the Socialists are not likely to carry much weight compared with those of the Christian Democrats and the Communists.

[redacted]

TURKEY: Possible Campus Disorders

[redacted] The academic year begins at most major Turkish universities this week, raising again the possibility of nationwide campus disorders.

[redacted] Two new factors make it likely that there will be widespread problems this fall as there have been the last two years. First, unrest simmered through the summer because most institutions remained open to make up for school closures resulting from violence last year, and second, the Revolutionary Youth Federation, popularly known as *Dev Genç*, has reappeared.

[redacted] The latter group may not succeed in its efforts to form a broad front of leftist youth organizations, but it

[redacted]

evokes the memory of a group of the same name that was proscribed in 1971 for revolutionary activity, and its mere existence will add to the tension on the campuses.

[redacted] The Demirel government's ambivalence toward the unrest has been a reason the student problem still festers. Prime Minister Demirel has verbally taken a hard line but he has stopped short of ordering stern, comprehensive measures.

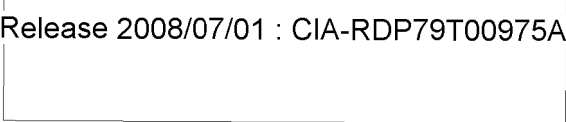
[redacted] Demirel's reluctance to respond firmly probably reflects divisions within his coalition government. The rightist National Action Party--backed by thousands of youthful supporters who have frequently been in the thick of the campus fighting--has been Demirel's main problem. The party's three votes in parliament are sufficiently important to Demirel's shaky government that he has been unwilling to confront party leader Turkes on the issue.

[redacted] If campus violence assumes major proportions in the months ahead and Demirel either fails to deal effectively with it or overreacts, opposition leader Ecevit is sure to make it a major issue as campaigning gets under way for parliamentary elections scheduled for next fall. [redacted]

CHINA: More Flexible Cultural Policy

[redacted] The removal of the leading Chinese leftists, especially of Chiang Ching, may lead to some loosening of the rigid restrictions placed on cultural work over the past decade. Chiang Ching regarded culture as her private preserve, and many intellectuals were afraid to create new cultural works for fear of running afoul of her standards of political correctness.

[redacted] A shakeup appears to have taken place in the Ministry of Culture that could result in a new, more flexible cultural policy which would encourage the creation of a wider range of work than has been allowed until now. The minister--a protege of Chiang Ching--and some of his subordinates have apparently been arrested. The two most prominent officials remaining in the ministry, one a journalist and the other a poet, were reportedly attacked by the leftists ten years ago.

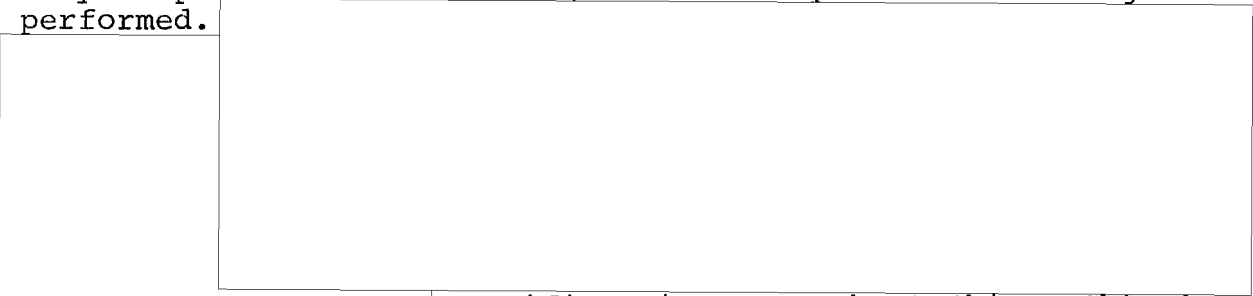


[redacted] Using the anniversary of the death of Lu Hsun, a writer of the 1930s held in high esteem by the communists, the media are now suggesting that Chiang Ching's almost xenophobic ideas about culture may give way to a more international approach. The media are claiming that nearly half of Lu Hsun's work are translations from abroad and that he used foreign works to stimulate the creation of cultural material in China. Under Chiang Ching's auspices, cultural work depicted the lives of Chinese workers, peasants, and soldiers in highly propagandistic terms and went back into Chinese history only as far as the civil war.

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[redacted] With Chiang Ching's political demise, the small number of "model" works produced at her instigation will probably be pushed into the background and may in fact no longer be performed.

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[redacted] specific grievances about Chiang Ching's repressive control over culture may become a more prominent feature of the charges against the leftists. [redacted]

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GREECE-TURKEY: Sismik I

[redacted] The Turkish research ship Sismik I will reportedly resume its exploration activities this week, but its voyage is unlikely to affect Greek-Turkish talks on Aegean problems that are scheduled to begin today in Bern and Paris.

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[redacted] Press accounts yesterday quoted Turkish Energy Minister Kilic as saying that the ship would operate in the Sea of Marmara this week and eventually move to parts of the Black and Mediterranean seas, areas well away from the disputed Aegean waters where the Sismik operated last summer.

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[Redacted]

[Redacted] Kilic's assertions about the itinerary, if not the timing, of the Sismik's next mission largely coincide with other reports. A high Turkish Foreign Ministry official assured the US embassy in Ankara last month that the government did not intend to take any action that would disrupt the Greek-Turkish discussions and that it had no plans at that point to return the Sismik to the Aegean. [Redacted]

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[Redacted]

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