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## **EXECUTIVE CHANGES**

Date 15 OCT 87

• **Mitre Corp.**, Bedford, Mass., a systems engineering company, named as chairman James R. Schlesinger, former Secretary of Defense and of Energy as well as Director of Central Intelligence.

# Growing Tension Between Iran, Saudis Could Lead to a Reduction in Oil Prices

By MICHAEL SICONOLFI

Staff Reporter of THE WALL STREET JOURNAL

The growing political rift between OPEC's two largest producers threatens the cartel's fragile stability and could lead to lower oil prices in the coming months, some oil specialists say.

Nobody is talking about another free-fall in prices to below \$10 a barrel, as happened last year. But the current price of about \$19.30 a barrel on U.S. spot and futures markets probably will fall gradually, perhaps to about \$16, some analysts say.

A supply disruption stemming from the conflict in the Persian Gulf would, of course, throw a wrench into any price decline. But analysts say the likelihood of this happening lessened Friday with the news that Iran had agreed to negotiate a United Nations peace plan to end the seven-year-old Iran-Iraq war.

This week's cartel committee meetings probably will have a major near-term influence on the oil market. But oil specialists say the effect of the rift between Saudi Arabia and Iran is likely to intensify later in the year, as the Organization of Petroleum Exporting Countries' full conference in December draws near.

Indeed, the vulnerabilities of the cartel could be "somewhat exacerbated by the confrontation" between Saudi Arabia and Iran, said James Schlesinger, senior adviser to Shearson Lehman Brothers Inc. and former secretary of defense and of energy, who also served as director of the Central Intelligence Agency.

## Ministerial Meeting

"In the absence of harmony, they may find it harder to come together in a positive agreement" at OPEC's next full ministerial meeting, Mr. Schlesinger said.

A period of relative Saudi-Iranian cooperation ended abruptly in July, when hundreds of Iranian pilgrims were killed in a clash with police in the Moslem holy city of Mecca in Saudi Arabia.

Iran responded last week by vowing to overthrow the Saudi royal family and seize its oil wealth. The Saudis, in turn, have taken an uncharacteristically harsh line, denouncing Iran for its role in the riots.

Philip Verleger, a visiting fellow at the Institute for International Economics in Washington, D.C., said, "It's going to make it much harder for OPEC to hold to their current agreement, let alone form a new one, which will drive down prices."

## 'Erosion of Prices'

The rift "will take away any confidence in the market about new cooperation within OPEC, and lead to an erosion of prices in the months ahead," said Rick Donovan, head of the international energy department at E.F. Hutton & Co., New York. Mr. Donovan and some other ana-

lysts said prices could drop to as low as \$16 a barrel later this year.

Still, some oil specialists say the Saudi-Iran strains aren't that significant. The two countries "can be hostile as possible and still want to maintain OPEC's price structure," said John Lichtblau, president of Petroleum Industry Research Foundation Inc., New York. Verbal warfare, he said, probably won't lead to economic warfare. "It would be like shooting themselves in the foot."

Several oil analysts note that Saudi King Fahd has hooked his political prestige on sustaining an official \$18-a-barrel oil price, making the chance of a large price decline less likely.

In any case, the fractiousness apparently ends a year of cooperation between the two sides and signals the end of an improving relationship that had developed steadily since before last October's ouster of Ahmed Zaki Yamani as Saudi oil minister, industry analysts say.

## Fixed Pricing

That relationship was particularly significant because of its effect on OPEC unity in the last year. OPEC's decision last December to cut production and return to fixed pricing, for instance, was cemented by Saudi-Iranian solidarity, which effectively forged an alliance between OPEC radicals and moderates. And June's OPEC conference was the shortest and most harmonious in years, primarily because of the compromise between the two on the cartel's output.

Any compromise now, however, would be unlikely, some specialists say. For one thing, the Saudis now are less inclined to agree to raise OPEC's official price in December to \$20 a barrel from the current \$18, a move that would be favored by Iran.

In addition, Saudi Arabia won't likely revert to its swing producer role by lowering its output to offset cheating by other OPEC members who are producing over their quotas, oil specialists say.

"The Saudis aren't in the mood to be beat about the head with a club anymore," said Steve H. Hanke, chief economist for Friedberg Commodity Management Inc., Toronto. "With the new tension, they won't be willing to shore the costs of propping prices."

The Washington Post

The New York Times

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The Wall Street Journal

The Christian Science Monitor

New York Daily News

USA Today

The Chicago Tribune

Date 8 SEP 87

# Soviets may be spying from new embassy site

By Susan Bennett  
*Inquirer Washington Bureau*

WASHINGTON — Congressional investigators are checking reports that the Soviets may be using the top floors of buildings at their controversial hilltop embassy compound in Washington for intelligence-gathering purposes, a House Foreign Affairs subcommittee chairman said yesterday.

"There have been reports, which are unconfirmed at this point, that they are indeed using the top floors," Rep. Daniel A. Mica (D., Fla.), chairman of the International Operations subcommittee, said in an interview. "If that is so, it's wrong."

President Reagan and State Department officials repeatedly have said that the Soviets will not be allowed to use their new chancery, built atop Mount Alto, until the still-unoccupied U.S. Embassy in Moscow is clear of electronic listening devices implanted in its walls.

But at a hearing of the subcommittee yesterday, State Department officials confirmed that most of the buildings within the 12.5-acre Mount Alto site — a school, a club and 175 apartments — are occupied by the Soviets. Some of the apartments have been in use since 1979.

Under an agreement between the two countries, the Soviets cannot move into their Mount Alto chancery — the office building of an ambassador — until U.S. diplomats move into their new Moscow chancery.

In response to a question from Rep. Benjamin A. Gilman (R., N.Y.) about the possibility that the Soviets were using the Mount Alto buildings to gather electronic intelligence, Undersecretary of State Ronald I. Spiers said he could give no assurances that they were not, but "would rather discuss it in closed session."

The subcommittee went into closed session with State Department officials and representatives of various intelligence agencies, but there was no confirmation of the reports of Soviet intelligence-gathering, a congressional aide said.

However, administration officials were quoted by the Associated Press as saying that the Soviets are using a nine-story apartment building at the complex for electronic surveillance.

The examination of Soviet activity at the embassy site, 350 feet above sea level, intensified late last year when it was revealed that the new U.S. chancery in Moscow is riddled with electronic bugs.

Reagan has threatened to destroy the never-used \$23 million building in Moscow. But members of the House subcommittee and State Department officials have said they will make no recommendation on tearing it down until after completion of a report by James Schlesinger, former secretary of defense and former head of the CIA.

That report should be completed in June, Spiers said.

Spiers and other State Department officials insisted that their records show no opposition from any government agency to the Soviets' 85-year rent-free lease on Mount Alto — a 1969 concession likened by some to the sale of Manhattan by the Indians.

But Mica and Rep. Olympia J. Snowe (R., Maine) quoted memos from unidentified U.S. intelligence agencies, some dating to 1966, that expressed concerns about allowing the Soviets to occupy one of the highest vantage points in Washington. The memos also questioned permitting the Soviets to prefabricate sections of the new U.S. Embassy in Moscow, Mica said.

Mica said the subcommittee would like to tour the Soviet compound at Mount Alto, a request that Spiers said would have to be handled by the Soviets.

In a related matter yesterday, pre-trial proceedings resumed at the Marine base in Quantico, Va., for Cpl. Arnold Bracy, a Marine accused of espionage while working at the U.S. Embassy in Moscow in 1985 and 1986.

# Model Security Pledged as Spy Inquiry Opens

By NORMAN KEMPSTER,  
*Times Staff Writer*

WASHINGTON—Former Defense Secretary Melvin R. Laird, presiding over the first meeting of a presidential panel to evaluate security at the U.S. Embassy in Moscow, said Wednesday the mistakes that opened the way for Soviet espionage go far beyond Marine guards charged with bartering secrets for sex.

"This is not just a Marine problem . . . it is a national problem and one that we are dealing with in the deliberations of this panel," Laird said. "Our responsibility is to find out what went wrong and how to improve security in the Soviet Union."

## Wants 'Model' System

The commission, appointed last month by President Reagan, opened its first meeting to the public to comply with a law requiring presidential panels to hold open meetings unless the members decide there is reason to close them. After about a half hour, the four-member commission voted to go into closed session because of national security concerns and Laird indicated it will not meet again in public until it completes its work in 90 days or less.

Laird said the panel hopes to devise plans for building and staffing a "model" embassy system that would be as impervious as possible

## *Hollings to Delay Action on Webster*

WASHINGTON (AP)—Sen. Ernest F. Hollings (D-S.C.) said Wednesday that he would hold up the nomination of FBI Director William H. Webster to be CIA director until Webster assures him that there will be a full investigation of security problems at the U.S. Embassy in Moscow.

Hollings accused the FBI of not vigorously investigating the State Department in connection with the Marine espionage scandal at the embassy.

"It is apparent that the FBI has no idea of doing anything," Hollings said. "It is apparent that I'm being given the runaround." He said he wanted a full investigation of how the security problems developed.

to penetration by the spies of the host country.

Joining Laird, the first Pentagon chief in the Richard M. Nixon Administration, on the commission were former CIA Director Richard Helms; Gen. John W. Vessey Jr., former chairman of the Joint Chiefs of Staff; and Diego Asencio, a former ambassador to Brazil and Colombia.

Reagan told the panel to report in three months on whether security systems and procedures at the embassy in Moscow were adequate, whether the procedures were properly implemented, and whether information was available that could have warned the staff about security problems.

The panel is only one of a long list of Administration and congressional committees investigating the situation in Moscow following charges that two Marine guards were seduced by women working for the KGB and allowed Soviet spies to roam around the embassy at night.

A State Department commission headed by James R. Schlesinger

another defense secretary and CIA director in the Nixon Administration, is scheduled to report soon on Soviet efforts to plant electronic listening devices in the \$192-million U.S. Embassy building under construction in Moscow.

The Senate Intelligence Committee and the Senate Appropriations Committee have rendered their decision on the new embassy—they have said it should be torn down because the listening devices are so pervasive that the building never will be secure.

## Other Inquiries

Congressional inquiries are also being conducted by the Senate Foreign Relations Committee and a subcommittee of the House Foreign Affairs Committee.

The President's Foreign Intelligence Advisory Board also is investigating the situation. The National Bureau of Standards recently told Congress that the new embassy building needs at least \$1.5-million worth of repairs before it would be safe for occupancy.

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# NEW U.S. EMBASSY GOING UP IN SOVIET REPORTED BUGGED

## CONGRESS IS CONCERNED

### Some Call for Scrapping the \$190 Million Project Over Issue of Security

**J** By **STEPHEN ENGELBERG**  
Special to The New York Times

WASHINGTON, April 4 — Some members of Congress and intelligence officials say they believe that a new United States Embassy building under construction in Moscow is contaminated with Soviet eavesdropping devices and that the entire \$190 million project should be scrapped.

According to Government officials, the security problems in the new embassy building stem from a decision in 1972 to have much of the building assembled from prefabricated modules manufactured at a Soviet site not open to American inspection. Listening devices were placed in the steel beams, the officials said.

#### Debate on Finding Devices

Embassy security has become a big issue in connection with the arrest of three Marine guards, two of them charged with spying, and has touched off a debate among American intelligence analysts on whether experts can find all the devices reportedly planted in the new building, under construction since the early 1970's.

Congressional and Administration critics of the State Department's security practices view the construction project as a symbol of the attitudes that culminated in the recent security breaches in the present building.

While officials are weighing whether to move the embassy into the new building, a dispute has erupted over Secretary of State George P. Shultz's scheduled trip to Moscow next week, when he will have to use a house trailer outside the embassy for sensitive conversations.

Some officials wanted the trip to be deferred, but Mr. Shultz prevailed, arguing that the timing was opportune

for gains in arms control, Administration officials said.

On the new building, a report by two staff members from the Senate Foreign Relations Committee disclosed that the American architectural company designing the embassy had hired a Soviet engineer who returned home after completing his work. The Senate staff members tried to find him for interviews, the report said, but the State Department had been told by Soviet officials that he had died of a heart attack.

Senator Patrick J. Leahy, a Vermont Democrat and former vice chairman of the Intelligence Committee, contended that the security of the new embassy building had been compromised. "The only honest approach," he said, "is to tear it down and start all over again. There is no way possible to make that embassy secure."

That view is not universally held. Administration and Congressional officials said that although there were still dissenters, the consensus before the case of the Marine guards was that the new building could be salvaged. Those officials contend that it would be more damaging for the embassy to remain in its present quarters.

Last year, Secretary Shultz asked James R. Schlesinger, a former Director of Central Intelligence, to study the security of the new building, which was to be occupied in 1989. The study, which is expected to consider Soviet means of penetration and American countermeasures, is likely to touch off further adverse reaction in Congress.

Representative Daniel A. Mica, a Florida Democrat who heads the House Foreign Affairs subcommittee that monitors embassy security, said: "What you have is a brand new facility that you cannot move into and an embassy you cannot whisper in. It is really a nasty situation."

He said technical experts who believed the security flaws in the new building could be remedied estimated the cost at \$20 million to \$40 million in addition to the \$190 million already spent on the project. The new building was originally scheduled to be completed in 1983 at a cost of \$90 million.

Because of the delay and the security problems, Representative Mica said, the United States will have to spend tens of millions of dollars to replace much of the equipment in the existing building.

The dispute over the new building centers on whether it is reasonable to assume that all the listening devices can be disconnected or neutralized.

"The problem is, we think we have found a great deal of what they put in and therefore we think we can disable them," Representative Mica said. "But

some of the specialists think that we have found only what they want us to find and maybe that was only three-fourths or one-half of what there was."

Mr. Mica is scheduled to leave this weekend for Moscow to inspect both the building under construction and the existing embassy building.

Several experts said the State Department could deal with the problem by installing special secure rooms insulated with copper and lead. An intelligence official said buildings recently completed at the National Security Agency, which seeks to penetrate foreign communications and to protect American ones, are clad with copper to frustrate attempts by outsiders to pick

up emanations from computer and communications equipment.

Officials credited the Soviet Union with remarkable expertise in designing listening devices. This expertise helps explain why officials are pessimistic about the damage caused when the two Marine guards purportedly allowed Soviet agents to enter the embassy.

Intelligence officials said the agents might have left behind equipment that would allow them to re-enter secure areas at will and leave listening devices that could pick up signals from typewriters or coding machines.

Such signals, which are emitted each time a key is struck or from the electronic field around cables, can be used to intercept communications. The Moscow embassy has secure rooms specially sealed to prevent emanations from escaping, but intelligence officials say that if a listening device were placed inside, the protection provided by the walls would be defeated.

The National Security Agency became suspicious in the late 1970's, when other Western embassies in Moscow uncovered typewriter bugs. The agency dispatched a team to check for bugs, but officials believe the Russians were alerted when the trip was mentioned in embassy cables, and the technicians found nothing.

#### Bugs Were Found in 1984

In 1984, technicians were dispatched again, this time without notification to the State Department, and they found devices planted in several embassy typewriters, Government officials said. One was reportedly used by the secretary of the deputy chief of mission, the second-ranking embassy diplomat.

The signals were sent out through the power cord at a frequency calibrated to television band width. That was done because Soviet agents knew that American detection equipment was then not able to pick up emanations in that range, Government officials said.

The 15-year history of construction,

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at the new embassy building has involved a series of security lapses and miscalculations, some officials say. One former official recalled that the Nixon Administration agreed in 1972, over State Department objections, to allow the prefabrication of construction modules. In contrast, the Soviet Union insisted that its embassy in Washington be built with components made on site and under its observation.

#### Soviet Embassy on a High Site

According to the Senate staff report, the Soviet Union's new building here was built high on a hill suited for electronic interception.

"Common sense would tell the average American citizen, without benefit of security or diplomatic training, that it would be foolish to allow a United States Embassy to be designed and constructed by Soviets," the Senate report said.

In August 1985, the Soviet contractor was removed from the building, which had also been plagued by shoddy construction unrelated to security issues. Marine guards began to watch the construction site.

Lawrence S. Eagleburger, a former high State Department official, said: "I don't want to debate it. We in effect got snookered, and that is the responsibility of every Administration from Nixon on up."

He conceded that there were severe problems of trying to construct an embassy in Moscow and that it would have been difficult to use American workers. He said the Soviet Union should not be allowed to occupy its new embassy building here until the problems in Moscow were solved.



The New York Times

The new United States Embassy compound under construction in Moscow. The buildings in foreground are a housing area.

WASHINGTON POST  
9 March 1987

## *Talking Points*

### **Chiles Play . . .**

Sen. Lawton Chiles (D-Fla.), chairman of the Senate Budget Committee, plans to hold hearings on what he calls the "fiasco" of the U.S. Embassy chancery in Moscow—and to add a new twist by looking at the implications of the much-delayed, far-over-budget building for the planned construction of five other embassies in Eastern Europe.

Chiles, who sponsored an amendment last year seeking a probe by the National Bureau of Standards into the Moscow construction problems, will hold his hearings after the bureau's report date of April 15.

*A* The senator welcomed the State Department's appointment of James R. Schlesinger, former defense secretary and CIA director, to conduct a comprehensive review of the security and construction problems at the Moscow embassy, and said he would like to see him expand his investigation to those planned in East Europe.

"Given the history of the fiasco at the Moscow embassy, is that something we're going to have to repeat?" he wondered.

# Mondale Seeking to Exploit Issue of War

## Focuses on Public Anxiety With Help of Broad Range of Advisers

By ROBERT C. TOTH,  
*Times Staff Writer*

WASHINGTON—Fear of war, according to most opinion polls, is second only to unemployment as a voter concern this year. And Walter F. Mondale has sought to capitalize on public anxiety—to exploit the “war and peace” issue, as he calls it—with the help of a broad variety of foreign and defense advisers drawn largely from the Administration of former President Jimmy Carter.

Thanks in part to the efforts of some of those advisers, he met with Soviet Foreign Minister Andrei A. Gromyko a day before President Reagan saw the Kremlin's top diplomat. Thanks in part to those same advisers, he has been emphasizing his own commitment to a strong U.S. defense.

Mondale's closest foreign policy expert is David L. Aaron, who was Carter's deputy national security adviser while Mondale served as Carter's vice president. Aaron in turn draws on the views of many part-time advisers chosen from among a group of political figures and specialists who make up Mondale's national security “brain-trust.”

These advisers not only offer counsel on campaign strategy. They sometimes bolster the campaign effort by attacking Reagan directly. And, if Mondale is elected, they could take over the top national security jobs in his Administration.

They include former Defense Secretary Harold Brown; former Deputy Secretary of State Warren Christopher; former Pentagon and Central Intelligence Agency chief James R. Schlesinger; Rep. Michael D. Barnes (D-Md.), chairman of the House Foreign Affairs subcommittee on Western Hemisphere affairs, and more than a score of others.

Notably absent from the list is Zbigniew Brzezinski, Carter's chief national security adviser, who was the most hawkish member of the Carter team and who disparaged

Mondale in his memoirs. And, at the other end of the ideological spectrum, former Secretary of State Cyrus R. Vance, who has been called the leading dove of the Carter Administration, is rarely consulted.

Aaron, who was on Mondale's Senate staff in the mid-1970s, served as an intermediary in setting up Mondale's session with Gromyko. He said that, on Sept. 12, the same day that Reagan announced his forthcoming meeting with the Soviet foreign minister, he got word from a “Soviet academician” that Gromyko would also be willing to talk with Mondale.

Aaron said Mondale discussed the matter with his immediate staff and spoke by phone with several of his advisers, including Christopher, now a Los Angeles lawyer, before authorizing Aaron to determine if the overture was real.

Aaron quickly made contact with the top Soviet diplomat then in Washington, who confirmed within a day or two that “they were willing if we were willing, a kind of dance of the cranes,” Aaron said.

The resulting Mondale-Gromyko session partly diluted the political value to Reagan of his first session with a top Soviet official and gave more credibility to Mondale's complaint that the Reagan-Gromyko meeting produced no tangible easing of tension.

Aaron himself told a university audience last week that Reagan's session with the Soviet diplomat was “a zero.” Although Aaron maintained that he was not speaking for the Mondale campaign, he said that “nothing really bold was put on the table,” implying that a Mondale Administration would have better seized upon the Gromyko visit to advance peace.

Although Mondale is clearly less hawkish than Reagan on Soviet relations, he has also sought to broaden his appeal to independents and conservative Democrats. For example:

—He is calling for an annual increase of 3% to 4% in defense spending, after inflation—a goal that would leave defense spending not far short of Reagan's projected growth of 7.5%.

—He belatedly endorsed last year's Grenada invasion after initially criticizing it; he and Aaron credited Barnes with this new position.

—He acknowledged that “American security interests” are involved in conflicts in El Salvador and Nicaragua and said he would be prepared to “quarantine” Nicaragua if necessary to stop that nation from aiding leftist rebels in El Salvador.

—He accepted the principle of retaliation against terrorist acts by saying he would support any “appropriate countermeasures” that Reagan might take against the latest U.S. Embassy bombing in Lebanon.

—He invited and then publicized the attendance of Schlesinger, a moderate Republican, and Max Kampelman, a conservative Democrat, at a secret national security briefing for Mondale by Reagan national security adviser Robert C. McFarlane.

Kampelman, a Washington lawyer active in Jewish community affairs, led the U.S. delegation in both the Carter and Reagan administrations to the last international conference to follow up on the Helsinki agreements of 1975. He, like Christopher, has been mentioned as a possible secretary of state if Mondale wins in November.

Schlesinger held Cabinet posts in the Administrations of Richard M. Nixon and Gerald R. Ford as well as Carter and, Aaron said, is the man Mondale looks to most for advice on intelligence matters.

But, however much he may call on these advisers, Mondale, a veteran of 12 years in the Senate and four as vice president, is well-versed on most of today's major national security issues and established a lengthy public record that follows him into the campaign.



Schlesinger may be his main intelligence adviser, for example, but Mondale was a key member of the Senate Intelligence Committee—and Aaron was his top staff member for intelligence affairs—

during its exposure of CIA and other intelligence excesses.

As a result, Aaron said, Mondale calls on his counselors largely for their reaction to new developments in their field and for comment on his planned new overtures. Aaron himself is almost always at hand for immediate help and advice.

Mondale's running mate, Geraldine A. Ferraro, receives the same kind of full-time advice from Barry Carter, a Washington lawyer who worked with Aaron both on the national security council staff under Henry A. Kissinger and later on the Senate Intelligence Committee.

Earlier this month, for example, Carter was called on to help Ferraro after she confused two arcane concepts of nuclear war: "first strike," or surprise attack; and "first use," or a nuclear response to a Soviet conventional attack on Europe.

In addition to former Pentagon chief Brown, Aaron said, Mondale counts among his defense advisers William Perry, a California investment banker and engineer and former undersecretary of defense for research and engineering; and Robert W. Komer, Russell Murray II and R. James Woolsey, also former high Defense Department officials in the Carter Administration.

On military affairs, he calls on David Jones, retired chairman of the Joint Chiefs of Staff, and retired Air Force Gen. Benjamin O. Davis, former chief of the Strategic Air Command.

Not all of these men agree with all of Mondale's positions. For example, Brown and others support the MX missile, which the Carter Administration proposed but which Mondale wants to kill.

In arms control, key advisers are Walter B. Slocombe, a Washington

lawyer who was director of the Pentagon's SALT II task force in the Carter Administration, and McGeorge Bundy, the top national security official in the Kennedy and Johnson administrations, who has advocated no "first use" of nuclear weapons in Europe.

On Soviet affairs, Mondale values the views of Arnold Horelick, director of the RAND/UCLA Center for the Study of Soviet International Behavior and former CIA national intelligence officer for the Soviet Union in the Carter Administration.