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INFORMATION REPORT

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CENTRAL INTELLIGENCE AGENCY

COUNTRY
Hongkong 25X1

SUBJECT
Smuggling of Kerosene and Diesel Oil to Communist China
San-lan

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SUPPLEMENT TO REPORT # 25X1

THIS IS UNEVALUATED INFORMATION

1. The following is a translation of an article appearing in *Wah Sun*, a Chinese Language newspaper on 21 Apr 55:

Communists Stop Buying Liquid Fuel
End of Smuggling Activities

Recently Chinese Communists have been eagerly searching for stocks of liquid fuel in Hong Kong. Failing to absorb in stocks openly from oil companies, they had to scrap small quantities of supplies from oil merchants causing the prices of kerosene and light diesel oil to soar which seriously affected Hong Kong's normal market transactions in general and supplies for outskirt areas in particular.

It is learned that Communists intensive activities on oil purchasing reached its peak about a month ago when all smugglers reaped high profits. Such activities calmed down considerably during the first part of this month. Any transactions in small quantities during this period were just for the sake of fulfilling the alleged "contracts". Up to the middle of the month, all activities of this nature were reported to be almost ceased. All smugglers were said to have packed up.

Concurrently, the three leading petroleum oil companies in Hong Kong, Caltex, SVOC and Shell announced their joint reduction in price of oil products on 19 April, 1955 (kerosene by \$0.05 per gallon and diesel oil by \$5.00 per ton including all grades). It is speculated that the up and down in official prices of oil products has much to do with the Communists oil purchasing activities.

Regarding the reason that Communists ceased buying oil in Hong Kong, it is learned from a well known source that this was only a temporary measure. There were huge supplies of petroleum oils arriving in the mainland through overland from USSR. Stocks smuggling into South China ports by big oil tankers were also said to be in good quantities. Consequently, Communists oil purchasing activities in Hong Kong are now brought to a standstill.

2. This newspaper is pro-Nationalist. Our own information from watching the market does not support this story that the pressure is no longer being exerted for illegal exports. We believe that exports are still going on but that they are not significant either in a military or economic sense. When the persons concerned are obliged to move around through the city in order to pick up a gallon here or five gallons there and when they must move very carefully and surreptitiously, it is obvious that no substantial quantities could be moved across the border.

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3. The reduction in posted prices mentioned in this article, of course, has no connection at all with the efforts to purchase for illegal exports. The price reduction was initiated by Shell apparently because of lower c i f costs and was met by ourselves subsequently.
4. There are increasing reports that substantial quantities of fuel are moving into South China through the Communist transshipping base at Lap Lap Mei Island, which is located half way between Hong Kong and Macao in Communist China territory.

(29 Apr 55)

5. The following is a free translation of an article which appeared in Sing Tao Jih Pao of 24 Apr 55:

Huge Stock of Jet Fuel Transported Into China
Six Big Vessels Assemble At Lap Sai Mei

A large stock of jet-plane fuel is now approaching the Communist entreport island, Lap Sap Mei, 25 miles distant from Hong Kong, passing through Bocca Tigris to enter Whampao, a South China port. About a month ago, tens of thousand tons of jet-plane fuel were sneaked into the Bamboo Curtain through this loophole in the United Nations' Embargo policy. Six oil tankers and freighters of different nationalities at various times helped transport the essential strategic products into the Chinese Mainland from Europe. Certain vessels even hoisted flags of the nations who play an important role under the United Nations Embargo policy.

A most reliable source disclosed that six big vessels ranging from five thousand to eight thousand tons arrived at Lap Sap Mei from Europe since 1 April, and up to yesterday, there were still two vessels discharging part of the jet fuel in order to lighten the draft to enable the vessels to enter Whampao via Pearl River. The flags hoisted by these six vessels indicate their nationalities: Polish (2) Czechoslovakian (1) Russian (2) and one from an unidentified Western country.

One of the two Polish vessels was Carpaty which had once slipped through the vigilance of the US Pacific fleet and secretly arrived at Whampao. In February this year, this vessel loaded over ten thousand tons of jet fuel from Europe. Part of its cargo was discharged at Lap Sap Mei before she was able to reach Whampao for complete clearance of the load.

Within the period of only two months, Carpaty called at the Far East again with a full load of jet fuel. At the latest report, this vessel is still discharging considerable quantity of fuel off Lap Sap Mei and it is predicted that her next port will be Whampao.

What surprises others is that of these six vessels undertaking transportation of strategic products one flies the flag of the Western countries. The trade position of Hong Kong is now being seriously affected on account of its rigid compliance with the Embargo policy of the United Nations; whereas, vessels flying flags of Western countries are helping the Communist alliance to transport war strategic materials to the Chinese Mainland from Europe.

Communist gun boats have recently extended their surveillance off Lap Sap Mei sea. Any craft sailing into the Communist surveillance area will be bombarded or strafed. Fishing vessels both from Hong Kong and Macao are now particularly careful in their sailing routes.

6. Effective measures are being taken by the Preventive Service of the Hong Kong government in connection with attempts to smuggle kerosene and other commodities out of the Colony to Communist China.

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