

SECRET

17 February 1981

MEMORANDUM FOR THE RECORD

Staff Meeting Minutes of 17 February 1981

Clarke was in the chair. The Director was out of the city and the DDCI was delayed due to a traffic accident.

25X1

25X1

McMahon reported that a private Rome television station produced a story on CIA wrongdoings around the world.

25X1

25X1

Hugel initiated a general discussion of the hiring freeze and ceilings, and Fitzwater noted that the DDCI instructed him to hire only those people whose skills were on the critical skills list. In response to Hugel's question about the skills on the list, Fitzwater said they included among others communicators, engineers, analysts, lawyers, and clericals.

25X1

Hitz noted that Senator Glenn is in the building to receive a briefing on NATO and the space shuttle.

25X1

Hitz commented that the HPSCI will choose its Members this afternoon.

25X1

25X1

SECRET

In response to Hitz' question about the article in today's New York Times (attached) which reports the release of two Americans by the Yemenis, McMahon said that neither worked for the Agency [redacted]

25X1
25X1

Hetu noted two articles in the 17 February Wall Street Journal. One deals with the failure of a bank in The Bahamas and a possible CIA connection (attached); the other is an editorial about Seymour Hersh and his relationship with former U.S. Ambassador of Chile Edward Korry (attached). [redacted]

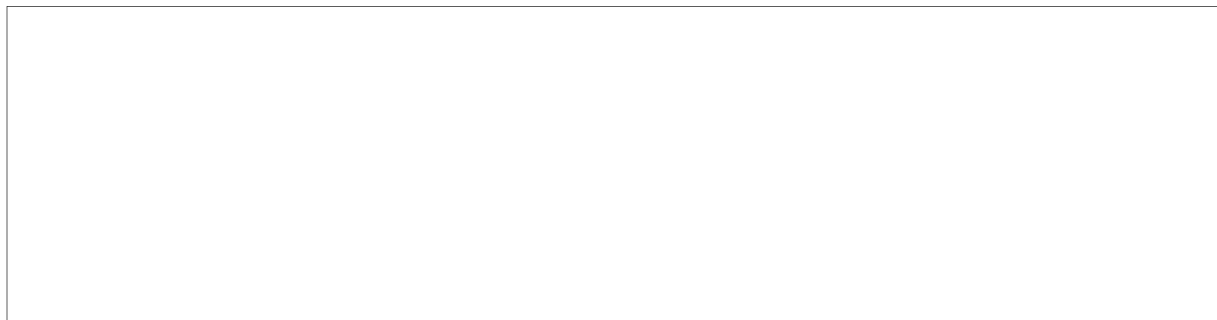
25X1

[redacted] said the draft of the travel exemption paper for the Director will be completed on 19 February. [redacted]

25X1
25X1

[redacted] reported that the Comptroller is sending the DDCI a statement for his use at the 26 February HPSCI hearing. [redacted] added that the DDCI would like the four Deputies to accompany him to the hearings. [redacted]

25X1
25X1
25X1



25X1

Attachments:
As stated

SECRET

Office of Current Operations
The Operations Center

Date. 17 Feb 81
Item No. 2
Ref. No.

News Service

Distribution II

Item from NEW YORK TIMES, Page 1, 17 Feb 81.

Yemen Frees U.S. Pair Held as Spies

By A. O. SULZBERGER

Special to The New York Times

WASHINGTON, Feb. 16 — Two American citizens were held by Yemen for a year on charges of being spies in a case never disclosed by the State Department.

The two men were finally released on Feb. 8, after months of behind-the-scenes efforts by the State Department, which had never revealed that the two men were imprisoned.

Both of the Americans, William Thomas Jr., whose home is in Madrid, and DuWayne Terrell of Colorado Springs, Colo., said they had been tortured by Yemeni authorities in an effort to extract confessions from them.

Mr. Terrell, 24 years old, said that after a month of beatings he had confessed that he was an Israeli spy. In his confession, which he says was fraudulent, he said that Mr. Thomas, 60, whom he knew, was an agent working for the Central Intelligence Agency. Mr. Thomas was then arrested and also tortured. He says that he was never a spy and that he did not confess to being one.

Seven Yemenis, three of them Jews, were also arrested and charged with being part of the spy plot. Three of the Yemenis were released on Jan. 14, but as far as the two Americans know the four others are still imprisoned.

A State Department official said that the Yemeni Government had not given a reason for releasing the two Americans. But both men said they believed that the Government had finally decided the evidence against them was not sufficient for holding them any longer.

The United States has had cordial relations with Yemen, which is strategically situated at the southwestern corner of the Arabian Peninsula, though not as intimate as those with neighboring Saudi Arabia.

The Yemen Arab Republic produces no oil but it is sandwiched between the conservative kingdom of Saudi Arabia and the pro-Soviet nation of Southern Yemen and is just across the narrow strait of Bab el Mandeb from Marxist-ruled Ethiopia.

American officials have been concerned over periodic reports of merger discussions between the two Yemens. Generally, the United States has deferred

to Saudi Arabia on matters relating to Yemen and, because of Saudi concerns, the Government sent large shipments of military equipment to Yemen during the Carter Administration.

Mr. Thomas, reached by telephone at his home in Madrid, said that he and Mr. Terrell were "tried by a National Security Court" in Yemen in September.

"We were never given the verdict," he said, "but later we learned that the court had found us all not guilty."

Mr. Thomas, who was held for 10 months, said that the State Department did everything in its power to gain an early release, but that its power was "insufficient."

"There's very little you can do against a sovereign nation," he said.

Mr. Terrell said he was arrested by the Yemenis while visiting the burial site of Salaam Shabazzi, a Yemeni Jew who became a well-known folklorist and poet in Israel. Mr. Terrell had lived in Israel for the previous four years while working there for the Southern Baptist Church. While in Israel he established close ties to the Yemeni Jewish community, which spurred his interest in visiting the country.

For about a month after his arrival in Yemen, Mr. Terrell worked for Mr. Thomas, who had lived in Sana, the Yemeni capital, since December 1977 and was employed by Aeromaritime Inc., a Washington-based marketing concern.

Visit Made by U.S. Consul

Nine months after Mr. Terrell was arrested on Feb. 4, 1980, he received his first visit from an American official, John Vessey, the American Consul in Sana. He said that George M. Lane, the United States Ambassador to Yemen, had made three visits to Ali Abdullah Saleh, the Yemeni President, and on the third visit was told that the Americans would be released.

The quiet diplomacy involved is in sharp contrast to the public handling of the case of the 52 American hostages held in Iran. President Saleh apparently ordered the two Americans released on Jan. 20, the day that the Iranians released their hostages, but it took some time before his orders were carried out.

Mr. Terrell, who is now at his parents' home in Colorado Springs, said he had been told by Ambassador Lane after his release that the negotiations had reached a point at which the State Department was faced with the question whether to sacrifice relations with the strategic country for the sake of the two Americans.

Letters Written in Hebrew

"They suspected I was a spy," Mr. Terrell said. "I had letters for Israel on me written in Hebrew. They were nothing incriminating, but it made them think I was with Israeli intelligence."

He was taken to the city of Taiz, where he was interrogated for two months and subjected to torture.

He was hung upside down by his leg irons for hours at a time, he said. One night his guards beat the soles of his feet. He passed out five times and lost four toenails, he said.

He was compelled, he went on, to write a totally fabricated statement saying that he was a spy. In it he named Mr. Thomas as being part of the American spy community, and the older man was detained on April 6.

'No Idea Why I Was Arrested'

"Initially I had no idea why I was arrested," Mr. Thomas said. He was then told he was accused of being an American spy. "I denied it all and was then confronted with this kid who had been tortured into accusing me falsely," he said.

Mr. Thomas said he had been tortured four or five times while being kept in solitary confinement in the headquarters of the Yemeni secret police. He, too, was suspended upside down by leg irons for hours and was beaten.

Following a secret trial before a military court, the two men were transferred to Sana's general prison, where they were held until their release eight days ago.

Suit Prompted by Failure of Bahamas Bank Puts Accounting Industry Practice on Trial

By JIM DRINKHALL

Staff Reporter of THE WALL STREET JOURNAL

If the law firm of Williams & Connolly has its way, there could be significant changes in how the accounting profession conducts its business.

In a suit filed in federal district court in Washington that attempts to fix the blame for a Bahamian bank collapse, Williams & Connolly argues that Price Waterhouse & Co., the nation's largest accounting firm, should be held liable for the acts of a Bahamian affiliate.

In response, lawyers for Price Waterhouse maintain that each of the organization's affiliate offices is independent. But Williams & Connolly already has started chipping away at that defense. A federal judge has ruled that secret audit standard reviews of Price Waterhouse's internal audits of its affiliates must be turned over to Williams & Connolly.

The CIA Connection?

Attorneys for five of the Big Eight accounting concerns argued unsuccessfully that disclosure of the reports would practically destroy the effectiveness of the accounting profession. They say they haven't decided whether to appeal.

Meanwhile, there are indications that an accountant for Price Waterhouse's Bahamian affiliate may have had connections with the Central Intelligence Agency. Price Waterhouse denies any involvement.

In the court battle, Williams & Connolly represents the liquidators of Mercantile Bank & Trust Co., Freeport, the Bahamas.

In 1973, a two-thirds interest in Mercantile was purchased by International Bank of Washington, a diversified holding company. International bought its stake from Mercantile's largest shareholder, a Panamanian concern controlled by L. Gordon Mosvold, a member of a Norwegian shipping family.

"Largely Worthless" Loans

According to documents filed in the suit, auditors for International discovered in 1976 that practically all of Mercantile's assets (mostly outstanding loans) were "largely worthless."

Price Waterhouse's Freeport office had been Mercantile's outside auditor since the bank was formed in 1962. Shortly after the discovery by International's auditors, Price Waterhouse withdrew its unqualified opinion of Mercantile's financial statements, according to Price Waterhouse documents. In 1977, court records in the Bahamas show the Bahamian government suspended Mercantile's license and put the bank into liquidation.

As a result of Mercantile's insolvency, International says it sustained about \$9 million in damages, \$5.7 million of which was charged against previous years' earnings. International sued Price Waterhouse and Mercantile's previous owners and directors, accusing them of fraud.

Later, Mercantile's liquidators in the Bahamas filed a similar suit in federal court in Washington. The liquidators, Dennis Cross and David Hamilton (who are accountants for the Nassau office of Peat, Marwick, Mitchell & Co.), also allege that International was part of the conspiracy. International denies the charge.

According to the liquidators' suit, Mercantile's problems began when Mr. Mosvold and others caused the bank to lend several million dollars to unidentified "American investors" for stock-market purchases. When Mercantile called the loans due after the stock market took a precipitous plunge, the suit says, the borrowers refused to pay. Mr. Mosvold has denied the allegations.

To hide the bad loans, the suit says, Mercantile officials created shell companies to "buy" the loans. The practice allegedly continued until International's auditors uncovered it. A liquidators' report in August 1977 said Mercantile's liabilities were \$27.5 million and its assets were \$25.1 million, of which \$20.7 million consisted of alleged sham loans.

The suit also contends that Price Waterhouse's Freeport office declared Mercantile to be "sound" after its usual audit and after a "special" audit in 1977 in connection with the sale to International. The accounting office's actions were "clearly reckless, wanton and willful" misconduct, the suit charges.

In response, Price Waterhouse's New York headquarters says all Price Waterhouse affiliates are independent partners and the accounting firm "has no responsibility for any of the acts" of its Bahamian affiliate. Lawyers for the liquidators hope to show, however, that Price Waterhouse is "a single international business entity." They cite a Price Waterhouse recruiting brochure that describes the firm as "a global organization."

The liquidators also are pressing to obtain Price Waterhouse's "audit standard reviews" of the Bahamian affiliate prepared in 1971, 1974 and 1976. Price Waterhouse officials in New York describe the reviews as internal audits conducted periodically to insure compliance with policies and standards.

Trying to prevent disclosure of the reports, Price Waterhouse marshalled the support of four other Big Eight accounting firms and some former Securities and Exchange Commission officials. Release of the

confidential reports, according to affidavits filed in court, would be "mischief" at best and, at worst, "would break down" the accounting process "around the world," thus becoming detrimental to "the public interest."

Among those supporting this argument were Peat, Marwick, Mitchell & Co., Touche, Ross & Co., Arthur Young & Co., Ernst & Whinney, and John C. Burton, former chief accountant for the SEC.

A federal judge in Washington who studied the affidavits and listened to the arguments recently decided they were "self-serving." He ordered Price Waterhouse to turn over the contested reports to Williams & Connolly, lawyers for the liquidators.

In its defense, Price Waterhouse argued strenuously that the reviews don't "mention Mercantile in any way" and don't "contain any evaluation of the Mercantile audits."

Why? Price Waterhouse won't elaborate. But a former CIA official says "certain persons" were "under orders" to make sure "outsiders" didn't get access to Mercantile's books. If they poked around, he says, they "could unravel a trail to the intelligence community."

The official says Mercantile "has performed some functions" for the CIA before International purchased control of the bank. He declines to say what those functions were.

The official also says E. R. Finland, the senior managing partner of Price Waterhouse's Freeport office until 1970, was the person the CIA dealt with. "Mercantile's books were specially handled," the former official says.

After leaving Price Waterhouse, Mr. Finland became a director of Mercantile. The liquidators' lawsuit alleges that, during that time, Mr. Finland "actively" participated in the accounting firm's business. In court filings, Mr. Finland and Price Waterhouse have denied any wrongdoing.

According to several intelligence community sources, Mercantile was a frequent conduit for CIA money, mostly in the 1960s but also until several months before International's purchase. From its inception in 1952 until its collapse in 1977, Mercantile shared most common directors and shareholders and had transactions with Castle Bank & Trust Co., a Nassau bank that is defunct. As reported earlier in this newspaper, Castle was controlled by the CIA. The same group of directors and shareholders operated three other Caribbean banks, which the CIA reportedly used to launder money.

A CIA spokesman says his agency never comments on such allegations.

Lawyers for the liquidators say they plan a suit against the CIA because the agency hasn't released documents about Mercantile requested under the Freedom of Information Act.

ARTICLE APPEARED
ON PAGE 30.

WALL STREET JOURNAL

17 February 1981

The Hersh Story: Better Late Than Never?

By THOMAS J. BRAY

"I can't believe it," sighs Seymour Hersh, former New York Times reporter and Pulitzer Prize winner, as he juggles one telephone inquiry after another in his Washington office. "I thought I was doing a good deed. Now everybody is after me."

Edward Korry, ambassador to Chile at the time of Marxist Salvador Allende's election to the presidency in 1970, can't believe it either. A long free-lance article by Mr. Hersh has just appeared in the Times, headlined "New Evidence Backs Ex-Envoy on His Role in Chile." It appears to be a *mea culpa* by Mr. Hersh, who in 1974 had written several Times articles linking Mr. Korry to an alleged coup to prevent Mr. Allende from taking office. Mr. Hersh views it as exonerating Mr. Korry.

The story apparently arose out of a series of conversations in which Mr. Hersh was seeking Mr. Korry's help with a new book taking a negative view of former Secretary of State Henry Kissinger, and Mr. Korry was trying to get a New York Times story setting out his view of the Chilean episode. Mr. Hersh is being bombarded with questions about his motives for the story. Mr. Korry feels he got only minimal satisfaction out of his end of things.

"I didn't need Hersh to tell the world I was innocent," he fairly shouts to an interviewer seeking his reaction to the article. "That's old news. The Church committee made it clear five years ago. I wanted Hersh to tell what really happened down there. It wasn't the CIA that got Allende—it was 500% inflation and Soviet double-dealing and the Allende government's own

corruption. But Hersh doesn't want to hear that.

What the article was intended to accomplish is a little murky. It began on the front page and continued inside, filling much of six columns. "Evidence has come to light," Mr. Hersh announced in the second paragraph, "suggesting that Korry, despite his strong opposition to the Allende candidacy, was frozen out of the planning for a proposed military coup and warned the White House that it would be risking another 'Bay of Pigs' if it got involved in military plots to stop Dr. Allende's election."

The article goes on to note Mr. Korry's "particular bitterness toward The New York Times," but then things begin to get a little fuzzy. The much-touted "new evidence" never quite seems to surface, despite references to classified documents,

unnamed CIA sources and interviews with "White House officials." And in any case, the central fact of the case—that Mr. Korry knew nothing about a coup—wasn't exactly new. The Senate Select Committee on Intelligence—the so-called Church committee—had concluded as much years earlier in a public report on the Chile affair.

Mr. Hersh also asserts that his new materials "raise new questions about the extent of CIA operations in Chile in 1970 and the efficacy of" later congressional investigations of that affair. Again, however, hard facts seem scarce, except for the apparently new—and brief—revelation that two CIA agents had entered Chile and were posing as, respectively, a Mafioso and a

foundation official. Hardly the stuff of 3,000-word articles in the Times.

So the questions remain: Why did Mr. Hersh write the story, and why did the Times print it?

Contacted by the Journal, Mr. Korry recounts events from his perspective. In mid-November he was contacted by Mr. Hersh seeking help on his book about Mr. Kissinger. Mr. Hersh told Mr. Korry that he had changed his mind about the latter's role in Chile. "I can't undo what went before," Mr. Korry recalls Mr. Hersh as saying. "but I can make it clear that you did not know" of the coup plotting. How he could make it clear wasn't stated, though Mr. Hersh, who accepts Mr. Korry's version up to this point, denies that he was offering any sort of *quid pro quo*.

"That wouldn't be ethical, and I wouldn't do it," says Mr. Hersh. Besides, he adds, Mr. Korry's help on his book wasn't that vital. "I already had stuff he didn't even know about—a CIA agent pistol-whipping a Chilean general, more money than anybody realizes, Mafioso, black-marketing."

And Mr. Korry agrees that it was he, not Mr. Hersh, who actually suggested calling the Times. Mr. Hersh says he talked with A.M. Rosenthal, the executive editor, who commissioned a story. "He felt that if we had screwed Korry on page one, we should correct it on page one," recalls Mr. Hersh. (Mr. Rosenthal also adds that he had no knowledge of any "deal" between

the two and stands by the news value of the article.)

"Deal" or not, Mr. Korry seized on the opportunity to clear his name in the Times. "Until Hersh decided he needed help on his book, I was in permanent purgatory," he says.

Mr. Hersh wrote his article and submitted it to the Times in December. Between then and Feb. 9 when it ran—held up, Mr. Hersh says, for rewriting and the Iran hostage story—Mr. Korry says Mr. Hersh called him numerous times seeking more information for his book. "He was sucking it out of me," Mr. Korry claims. Not so, says Mr. Hersh, who repeats that he didn't really need information from Mr. Korry and claims Mr. Korry was over-suspicious about the delay on the story.

Mr. Korry now teaches a course in international relations at Connecticut College but has spent much of the last decade in embittered semi-retirement—angry at the press for their treatment of him, furious at what he feels was Nixon administration duplicity in going behind his back in Chile. Most of all he resents what he believes is a deliberate effort, starting with the Church committee and continuing with Mr. Hersh, to distort what actually happened in Chile. Mr. Hersh's long "correction" will only serve to cover up the real truth, he feels.

Mr. Hersh seems surprised that anybody would question his intentions. His Times article was motivated by access to new information and a desire to right a wrong, he says. "Ed Korry can't believe that some things happen just because they happen," says the hard-bitten investigative reporter, who calls himself a "skeptic" when it comes to the motives of others.

Only one thing is really clear: It is news fit to print that Seymour Hersh now believes what even the Church committee conceded years ago about Mr. Korry.

Mr. Bray is an associate editor of the Journal's editorial page.