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Focus on contra funding

Saudi link to rebels studied on eve of hearings

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WASHINGTON—In May of 1984, President Reagan invoked his emergency powers and approved the sale of 400 Stinger anti-aircraft missiles to Saudi Arabia despite strong congressional opposition.

Within 30 days, according to Robert McFarlane, the President's national security adviser at the time, \$1 million a month began flowing from the Saudis into a secret bank account set up for the benefit of the Nicaraguan contras, the rebels Reagan has called the "moral equal of the Founding Fathers."

In early 1985, King Fahd of Saudi Arabia had a private "working" breakfast with Reagan at the White House. As Fahd's plane left the U.S. for home that Feb. 15, the administration announced plans to improve Saudi Arabia's air defenses through

the sale of a \$250 million weapons system.

One week later, according to McFarlane, the Saudis' monthly contributions to the contras doubled.

Congress will open hearings Tuesday on the roles the President, many other administration officials and the Saudis played in the secret efforts to fund the contras' war against Nicaragua's leftist Sandinista government.

Congressional investigators believe the Saudis contributed \$30 million to \$40 million to the contra cause before the administration's clandestine efforts collapsed under the weight of disclosures of a plot to divert profits from the sale of U.S. arms to Iran to the contras.

White House officials said nothing has been found to link the Saudi contributions to the contras with the extraordinary sale of the Stingers, whose legality has been questioned in Con-

Council staff last November. Reagan, they said, was unaware that North's operation had veered out of control and the President did not know about the diversion of arms sales profits to the contras.

But by emphasizing the President's ignorance of the diversion, administration officials obscured an important point: The diversion was only one element in a wide-scale drive to keep the contras alive. There also were secret bank accounts and dummy corporations set up on three continents; there were coordinated resupply missions and dangerous low-flying weapons drops; and there were public fundraising efforts, television commercials and solicitations of foreign governments such as the Saudis.

Indeed, a growing body of evidence that will be examined by the congressional committees over the next several months suggests that the Stinger sale was just one example of the President's drive to make the contra operation the centerpiece of his worldwide fight against communism. He started stumping for the contras from the day he took office, and some aides, following Reagan's lead, adopted the contra cause as a personal obsession.

Each new detail about the operation seems to add a chapter to a political thriller that has riveted the nation's capital.

McFarlane, anguished over his failure to tell investigators all he knew, attempted suicide. CIA Director William Casey, disabled by a brain tumor, has been unable to elaborate on his role, but congressional committees wanted to send a doc-

tor to conduct an independent examination of his condition.

McFarlane's successor as Reagan's national security adviser, Rear Adm. John Poindexter, and North have been driven from their jobs by the scandal, and both have taken the 5th Amendment rather than discuss their actions.

North's secretary, Fawn Hall, a willowy part-time fashion model who dated the son of a contra leader, said she jammed a White House paper shredder while destroying, on North's orders, a mound of sensitive documents.

Like the President, key Cabinet officers such as Defense Secretary Caspar Weinberger and Secretary of State George Shultz have adamantly denied any knowledge of the diversion of funds. But none has been questioned thoroughly about his overall knowledge of the secret war effort.

Over the next few months, that could change. Although the Iran arms sales sparked the congressional investigations, sources on the House and Senate select committees said the hearings will lead to a sweeping inquiry into the administration's orchestrated attempts to skirt the will of Congress, possibly breaking the law in the process.

Lawrence Walsh, the special prosecutor whom Reagan appointed to investigate the White House involvement in the affair, also has expanded his mandate to include the entire contra aid program. He is investigating whether administration officials violated conspiracy laws that make it a crime for "two or more people to commit any offense against the United States or any agency thereof, in any manner or for any purpose."

On Wednesday, Carl "Spitz" Channell, a private fundraiser for the contras, pleaded guilty to conspiring to defraud the government, the first prosecution in the Iran-contra affair.

Channell named North as a government official with whom he conspired, but he named no other government officials.

President Reagan has said that he thought Channell was raising money for television ads to promote the contras and knew no other details. Sen. Daniel Inouye (D., Hawaii), chairman of the Senate select committee on Iran and Nicaragua, seemed to contradict the President, saying that Reagan was quite knowledgeable about efforts to raise funds for the contras.

From late 1982 to October, 1986, Congress passed a variety of legal restrictions on military aid to the rebels, including a ban on spending U.S. funds for "direct or indirect aid to military, or paramilitary aid to Nicaragua."

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Administration critics say it is hard to believe that a program of such scope, intensity and coordination operated like a symphony without a conductor.

"Lieutenant colonels don't run foreign policy. The commander in chief does," said Rep. Ronald Coleman (D., Tex.), who tried unsuccessfully in June, 1986, to force the White House to inform Congress about North's activities.

"I'm totally convinced that Col. North was following orders and following what he thought was the policy of the United States," he said.

There is considerable evidence that Casey, Reagan's longtime confidant, was instrumental in running the contra war from the CIA's suburban Virginia headquarters, said a Republican select committee member.

For its part, the State Department presided over a dramatic increase in requests for foreign aid to Central American nations. Some requests soared more than 1,400 percent from 1981 to 1986. In Honduras, where the U.S. constructed military bases and airstrips, U.S. aid rose 358 percent, to \$165.4 million in 1986 from \$37 million in 1981.

The Defense Department participated in a military build-up that included the stationing of American troops in Honduras and frequent military exercises, often close to the Honduras-Nicaragua border. At times, the exercises were coordinated with other diplomatic moves against Nicaragua, a nation with which the U.S. is formally at peace.

Congress will share some responsibility as well. Vacillating between enactment of explicit aid cutoffs and loosely drafted contra aid legislation, the legislators gave the administration plenty of loopholes.

The effort to learn the truth about the key elements in the controversy is in its sixth month, and a general picture has emerged about the Iran arms sale and the contras' war. But the hearings are likely to provide the critical details that have been lacking in reports from a presidential review board, congressional committees and the media.

Investigators continue to struggle to answer these questions:

- Was North really a renegade or was he acting on the authority of superiors, even the President?
- Did any administration officials brief the President on the plan to divert money to the contras?
- How much did administration officials know about the efforts to privatize U.S. foreign policy in Central America?
- What really happened to the millions of dollars raised through contributions for the contras?

On the money trail, investigators have gone to extraordinary lengths to penetrate a maze of secret Swiss bank accounts and sham corporations.

But major breaks in the investigation came only after some key people were granted limited immunity from criminal prosecution in exchange for their testimony.

Just two weeks ago, for example, the lawmakers filled some of the major gaps in their knowledge by using immunity to compel testimony from Albert Hakim, an Iranian-born U.S. citizen and businessman who helped move funds through the Swiss accounts.

Poindexter, considered by many to be the most crucial witness because of his close working relationship with the President, also has been granted immunity. North probably will be granted immunity soon.

In a breakthrough for the congressional committees, retired Air Force Maj. Gen. Richard Secord, who also helped coordinate the program and is a business partner of Hakim, agreed to testify and will be the leadoff witness for the hearings. Committee members said he knows as much about the contra resupply operation and the Iran arms sales as any private citizen.

Suspicions linger that millions of dollars in private contributions for the contras and U.S. arms sales profits were pilfered by arms traders and fundraisers drawn to the secret White House operation by the lure of profits.

The hearings and reports on U.S. funding of the war against Nicaragua have made headlines in recent months, but the origins of the controversy really date to 1979.

At the time, Nicaragua was ruled by Anastasio Somoza, a corrupt and brutal dictator who once allegedly sent his mother to the U.S. with \$1 million for the re-election campaign of President Richard Nixon.

Over the years, the U.S. had poured millions of dollars in foreign assistance into Somoza's treasury. Yet when a popular rebellion led by the Sandinistas drove Somoza from office in 1979, Nicaraguans had a per capita annual income of only \$897, and 60 to 70 percent of the population was illiterate.

At first the U.S., which had backed Somoza until it was clear to everyone that he was finished, supported the new regime.

Congress voted to send the new leaders of Nicaragua more financial aid than any other nation in the world, only to learn that the Sandinistas were supplying weapons to guerrillas trying to topple the U.S.-backed government in neighboring El Salvador. President Jimmy Carter then cut off financial aid.

In January, 1981, President Reagan increased pressure on Nicaragua. Administration officials fired Carter's remaining assistant secretary of state and transferred his principal deputy for Central America to Katmandu, Nepal.

In March, Reagan issued an intelligence finding calling for intensified covert actions in Central America. Alexander Haig, then Reagan's secretary of state, publicly linked the revolution in Nicaragua to the guerrilla war in El Salvador. Both nations, he said, were Central American pawns of communism exported by Cuba and the Soviet Union.

U.S. policy toward a fledgling revolution in a disorganized and poor nation in Central America suddenly was elevated to an integral part of the administration's global war against communism.

By the end of 1982, Congress had secretly approved \$19 million for paramilitary operations in Central America.

In secret testimony before congressional intelligence committees, later made public, CIA Director Casey said the \$19

million was needed to organize a 500-member paramilitary force that would help "interdict" the flow of arms from Nicaragua to the guerrillas in El Salvador. Actually, said one source involved in the program, the idea was to harass the Sandinistas with military attacks and keep Nicaragua's new leaders so busy fighting that they would have little time for anything else.

But the administration could not openly admit to such a goal because of the so-called "Boland Amendment," a measure attached to a funding bill that said U.S. financial aid could be used only to help interdict the flow of arms into El Salvador. None of the money was to be used in attempts to "overthrow" the Sandinista government.

Casey did not have to create a force of counterrevolutionary soldiers. A group of former members of Somoza's despised National Guard already had been organized by the military rulers of Argentina. The U.S. merely supplied the money and tactical intelligence information.

At first the war went well for the rebels. The contras moved from training camps in Argentina to Honduras, and weapons flowed to them. They launched a few attacks across the Honduras-Nicaragua border to blow up bridges. In response the Sandinistas declared a national emergency, stepped up their military forces and censored the press.

But something that Casey and the others had not foreseen occurred in April, just a few weeks after the contras started their offensive. Argentina attacked the Falkland Islands and went to war with Britain. Britain won with U.S. help, and Argentine support of the contras vanished.

Lacking direction, the contra movement fell into disarray.

In mid-1983, the CIA, frustrated with the contras' lack of progress, stepped in to exert more control. The CIA financed

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a growing rebel force dependent on the hospitality of Honduras, one of America's closest allies in Central America. Yet Honduran officials were uneasy at the prospect of a disorganized, unhappy group of Nicaraguan outcasts camping out on their border.

Within weeks, the CIA ordered the contras to launch an offensive into Nicaragua, according to Edgar Chamorro, a former contra official. Reagan approved a plan calling for increased U.S. involvement in Central America, including a possible quarantine of Nicaragua. In a July speech on Central America, he said: "More Cuban and Soviet supplies have arrived in Nicaragua, and this cannot be allowed to continue."

The next month, Gen. John Vessey, chairman of the Joint Chiefs of Staff, flew to Venezuela, Panama and Honduras for talks with senior officials of those countries, and U.S. aircraft carriers began exercises in the Caribbean and off Central America's Pacific Coast.

Concerned about deepening U.S. involvement in Nicaragua, Congress capped contra funding at \$24 million in late 1983 and tacked another restrictive provision to the Boland Amendment, prohibiting any agency from exceeding that ceiling for "direct or indirect aid to military or paramilitary operations in Nicaragua."

But the CIA already had taken some steps in Nicaragua that would lead to severe problems on Capitol Hill.

By early 1984, according to contra spokesman Chamorro, Duane Clarridge, a CIA operations officer, was giving the rebels detailed military instructions, in contrast with the CIA's public statements about simply stopping the flow of weapons to El Salvador.

In early April the news broke that the CIA had directed the 1983 mining of harbors in Nicaragua. Later in the year it was learned that the agency had helped write and publish a manual instructing the contras in political assassination.

Congressmen charged that these actions violated the Boland Amendment, and they portrayed as "hypocritical" Reagan administration claims that it was not trying to overthrow the Sandinista government.

Undaunted, Reagan stepped up his requests for financial aid for the contras, asking Congress to approve an additional \$21 million for fiscal 1984 and \$28 million more for fiscal 1985.

Reagan soon went on the offensive with a nationally televised speech in which he portrayed the Sandinista government as a threat to the entire Western Hemisphere. He said the U.S. had a

"moral duty" to support the contras, whom he referred to as "freedom fighters."

Behind the scenes, McFarlane had appointed North, then an obscure lower-level National Security Council staff member, to direct the administration's contra aid effort.

The administration devised several techniques to bypass the \$24 million lid

that Congress placed on funding for the rebels, according to congressional investigators.

The Defense Department, for example, began supplying the CIA with ships, planes and funds at nominal rates for use in the covert war. U.S. troops on "training maneuvers" built radar installations in Honduras that the contras could use after the exercises ended. Honduran airstrips were improved, and reports surfaced suggesting that the CIA was approaching Israel and Saudi Arabia for financial help.

The administration and Casey denied that they had sought outside financial help from allies such as Israel and the Saudis. But by this time, it had become clear to the administration that Congress would balk at further funding.

In May, 1984, the House voted to cut off further contra aid.

After the vote, White House spokesman Larry Speakes said the administration would not accept any legislation that would terminate the U.S. program in Nicaragua.

Just two days before the vote, Richard Murphy, the U.S. assistant secretary of state for the Middle East, had been dispatched to Saudi Arabia with a letter to King Fahd from Reagan expressing U.S. support for the Saudis. The State Department, in what was described as an "echo of the Reagan letter," stepped up U.S. criticism of Iran, a move that had been sought by the Saudis.

One week later, the President exercised his emergency powers and supplied the Saudis with 400 Stinger missiles, twice the number they had requested. Overall, the sale involved about \$40 million worth of equipment.

A State Department spokesman said there was "absolutely" no discussion of the contras by Murphy.

The President said he used his "emergency" powers because of Iranian air attacks on oil tankers in the Persian Gulf. But Rep. Lee Hamilton (D., Ind.), the chairman of a House subcommittee on the Middle East, questioned whether the President properly used his emergency powers.

About one month later, secret contributions of \$1 million a month "from a foreign official" began flowing into a Cayman Islands bank account for the administration-backed contras, McFarlane told a presidential investigative panel early this year.

According to several accounts, McFarlane told congressional investigators the Saudis were the source of the money.

Between May, 1984, and February, 1985, the Saudis allegedly paid \$8 million into the secret account, and the administration publicly announced that it would seek congressional approval to deliver a total of 1,200 Stingers to the Saudis.

Although White House officials deny there was any direct connection between the arms sales and the contributions, a former diplomat said such a transaction would have involved a great deal of subtlety. "No one would have to say if you do this, I will do that. That is not

the way it is done. They would use people and messages in a way that both sides would understand what needed to be done."

In early February, 1985, about two weeks before Fahd was to visit the White House, Murphy, the same diplomat who had carried Reagan's message of support to Saudi Arabia the previous May, announced that the administration had temporarily suspended proposed weapons sales to all Middle Eastern countries, including the Saudis.

The announcement came at a time when Reagan, concerned about congressional threats to cut all funding to the contras, was publicly stumping for his contra aid package with major speeches and appearances before pro-contra groups.

Two weeks after Murphy announced the arms sale suspension, Fahd met with Reagan twice during a U.S. visit from Feb. 10-13, including a private breakfast. There were several Middle Eastern issues that could have been discussed. About two weeks after the meeting, though, the Saudis doubled their contributions to the contras, according to testimony McFarlane gave early this year to the Reagan-appointed Tower Board reviewing the administration's arms sales to Iran.

The administration also announced that it would resume its drive for the sales of missiles and F-15 airplanes to the Saudis.

By that time, Congress had voted to end all aid to the contras and to place strict limits on the CIA's role in the operation. Determined to keep the pressure on the Sandinistas, the administration decided that the National Security Council, an advisory body, was not covered by the funding restrictions.

Last Thursday, the Senate Select Committee on Intelligence was given a report that indicated North proposed a contribution to the contras by an Iranian posing as a Saudi prince that was "discussed personally with President Ronald Reagan and National Security Adviser Robert McFarlane as recently as June, 1985."

The report, supplied by FBI Director William Webster, was based on an interview an FBI agent conducted with North on July 18, 1985, at the White House. The report suggests that North spoke directly with the President about private donations to the contras from specific people during the congressional ban.

Plugging into an established network of arms dealers, soldiers of fortune, financiers and pilots, the National Security Council became the operational arm of the government's effort, and Lt. Col. Oliver North was its untitled commander.