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NSC Papers Show Deep Network to Contras in '85

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WASHINGTON — National Security Council documents demonstrate that an intricate corporate network already was actively supplying arms to Nicaraguan insurgents when President Reagan decided last year to begin direct U.S. weapon sales to Iran.

The documents show that the network—overseen by Marine Lt. Col. Oliver North, the former NSC staff member—was larger and more complex than previously known. At least as early as November 1985, it was involved in shipping arms to the Nicaraguan Contra forces. And, as a continuing operation, it clearly was receiving significant sums of money and had a use for any profits that could be skimmed from the secret arms sales that President Reagan approved for Iran less than two months later.

"It was a going concern, a whole mechanism in place," said one intelligence source. Lake Resources Inc., a Panamanian-registered corporation that later figured in the diversion of funds from the Iranian arms purchases, remains the most prominent player in the network. But a new set of names has begun to emerge, reflecting that the network overlapped with the Reagan administration's Iranian arms sales.

Among these is a corporation identified by intelligence sources as Democracy International, or Democracy Inc. It reportedly served as an account to fund the network's operation, and to pay for travel by key figures. A memo written by Col. North links the company to his associate, retired Air Force Maj. Gen. Richard Secord. Intelligence sources say Democracy Inc. provided transportation last summer for Iranians with whom the U.S. was dealing in the arms sales.

Linked to Perot Ransom Effort

According to intelligence sources, funds from the same Democracy Inc. account were used in obtaining a ship used last May in a vain attempt to exchange American hostages off Cyprus for a \$2 million ransom put up by Texas billionaire H. Ross Perot.

Thomas Clines, a former Central Intelligence Agency official and close associate of Gen. Secord, was instrumental in acquiring the ship. The ransom effort came days before a secret trip to Iran on May 28 by Col. North and former National Security Adviser Robert McFarlane.

The NSC documents, which include memos written by Col. North, have a dual importance to continuing efforts to unravel the Iran-Contra affair. Since Col. North has refused to testify, his memos provide the closest thing available to a first-hand account of his approach to the secret operation. Also, in casting new light on the cor-

porate network, the documents may help investigators track the diversion of funds from the Iran arms sales to the Contras. That diversion remains the least understood aspect of the entire affair.

"They put together an incredibly complicated operation, which they used to pass money back and forth to launder it, to pay for their expenses, and to buy supplies for the Contras," said one intelligence source. "I'm not sure anybody will ever be able to unravel it all."

Link to Portugal in Memo

A November 1985 memo by Col. North directly links Lake Resources to a plane carrying arms for the Contras from Portugal, according to sources. The document is the earliest evidence yet of the existence of the network's supply line for the Contras.

Intelligence sources said Central Intelligence Agency Director William Casey and other top administration officials began seeking aid for the Contras in Saudi Arabia, Israel and other countries in 1984. Saudi Arabia and Israel both have denied giving any aid to the insurgents, but the intelligence sources said donations from both nations were made through private individuals with at least tacit approval from both governments.

Under a 1985 law, it was illegal for the U.S. to provide aid to foreign countries with the understanding that the countries would then give the money to the Contras. At the time, direct U.S. military aid to the insurgents was barred. But Reagan administration officials insist that the law didn't prohibit them from soliciting help for the Nicaraguans rebels if it wasn't used for arms. Officials have confirmed that they obtained a \$10 million donation from the Sultan of Brunei, a small southeast Asian nation.

Details on Pricing of Arms

A preliminary report by the U.S. Army Inspector General provides more details on how the U.S. may have generated money for the Contras from Iranian arms sales. The report said that the \$12.2 million the CIA paid the Pentagon for TOW anti-tank missiles, which the U.S. then sold to Iran last year, was \$2 million to \$5 million less than the weapons were worth, according to a senior Pentagon official.

The report, which was presented yesterday to Defense Secretary Caspar Weinberger, suggests the underpricing probably was an error, but it doesn't rule out the possibility it was part of a larger plan to finance the Contras, Pentagon sources said.

Col. North's memos are among NSC

documents turned over by the White House to congressional committees investigating the Iran-Contra affair. At about the time of the November 1985 memo mentioning Lake Resources, another Panamanian-registered concern, Amalgamated Commercial Enterprises, surfaced in the Contra-supply network.

All of ACE's officers appear to be employees of a Panamanian firm with past ties to Steven Samos, a Panamanian businessman who has testified in a U.S. court to laundering millions of dollars for the head of a drug-smuggling ring in the late 1970s. But in a statement issued this week through his Miami attorney, Mr. Samos denied any knowledge of ACE.

Sources say that ACE, a shell company incorporated in November 1984, was purchased a year later by Southern Air Transport, a Miami-based freight carrier linked to the arms shipments from Portugal to Central America.

Maintenance for Supply Planes

Southern Air also provided maintenance through ACE for planes used to ferry supplies into Nicaragua for the Contras. According to one source, funds from Swiss accounts were paid to ACE for this work.

Defex-Portugal, a Lisbon trading firm, facilitated many of the Contra arms shipments from Europe. Expresso, the influential Portuguese weekly, has estimated that Portuguese arms makers supplied more than \$8 million in weapons and ammunition to the Contras in 1984 and 1985. Mr. Clines, the former CIA official, is a familiar figure at Defex's Lisbon offices.

Defex-Portugal's founders are identified by European sources as including Jose Garnel and Marcelino Brito. A U.S. intelligence source confirmed that Mr. Brito played an important role in facilitating shipments through Portugal. But when contacted yesterday in Lisbon, the businessman refused to discuss his dealings with Defex, or those on behalf of Gen. Secord.

Describing himself as a director and part-owner of Defex, Mr. Brito said all of the shipments had been given legal export licences and denied any improprieties—including false end-user certificates used to indicate the arms were going to Guatemala, which have been mentioned in news reports.

Mr. Garnel couldn't be reached for comment.

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