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Arms Sold to Iran Said to Be Overpriced Deliberately to Raise Funds for Contras

By JOHN WALCOTT

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — Reagan administration officials deliberately paid the Pentagon bargain prices for weapons they withdrew from U.S. military stocks and then overcharged the Iranians for them in an effort to establish a fresh source of military aid for hard-pressed Nicaraguan rebels, administration sources said.

Although the full story of the Iran-Contra policy still isn't known, this suggests that U.S. arms sales to Iran and aid to the Contras were linked from the start, at least in some officials' minds. It also suggests that while the Reagan administration decided to sell arms to Iran mostly to win the release of U.S. hostages and to influence events in Iran, officials set the prices of the arms and managed the secret operation so some of the profits from the sales could be diverted to the Contras.

The sources said President Reagan, Central Intelligence Agency Director William Casey and White House Chief of Staff Donald Regan never explicitly approved funneling Iranian arms money to the Nicaraguans. Other administration and congressional officials said they have uncovered no written record linking the Iran arms sales and Contra aid.

But it isn't known whether the president or his top aides were aware that the Iran arms sales could generate profits that might be diverted to other causes. Nor is it clear why Mr. Casey, by his own account, didn't learn of the diversions before Attorney General Edwin Meese revealed them publicly last month.

Mr. Meese testified yesterday at a closed hearing of the Senate Intelligence Committee. The panel, which turned down an administration proposal that it grant limited immunity to witnesses involved in the Iran-Contra affair to elicit testimony, expects to hear today from former National Security Adviser Robert McFarlane for a second time.

Also yesterday, Nicaragua pardoned Eugene Hasenfus, a crew member of a private plane downed by Nicaraguan government forces Oct. 5 while the craft ferried arms to the insurgents. Mr. Hasenfus was turned over to Sen. Christopher Dodd (D., Conn.), a liberal critic of the administration's Central America policy, who said Mr. Hasenfus could prove to be a valuable witness in the coming investigation by special House and Senate committees appointed this week.

Last January, when the administration decided to begin selling U.S. arms to Iran, President Reagan and his advisers were

worried that the Contra movement might collapse unless it obtained fresh sources of military aid. The president had begun a campaign to win \$100 million in U.S. military assistance, but his aides weren't certain they could win in Congress, and they were worried that even if they did, private aid to the insurgents might evaporate before new U.S. government aid could be delivered.

According to administration sources, Lt. Col. Oliver North, the former National Security Council aide who was fired for allegedly masterminding the Iran-Contra scheme, concluded late last year that arms sales to Iran could generate huge profits, which then could be funneled through middlemen to the Nicaraguan insurgents.

The sources said Lt. Col. North suggested to his boss, then National Security Adviser John Poindexter, that U.S. arms sales to Iran might be used to help the Contras. It isn't known whether Vice Adm. Poindexter approved the idea, or whether he discussed it with White House Chief of Staff Donald Regan, Mr. Casey, or other top officials.

Messrs. Regan and Casey have denied under oath that they knew before last month that profits from the arms sales were diverted to the Contras. Last night, after his intelligence committee testimony, Mr. Meese was quoted by the Associated Press as standing by his Nov. 25 assertion that Lt. Col. North was the only U.S. official who knew all the details of the diversion of the arms-sales proceeds to the Nicaraguan insurgents. AP also reported that Mr. Meese said he didn't know if the Contras actually received money from the arms sales.

Separately, in Costa Rica, Contra leader Alfonso Robelo said the insurgents received no more than 25% of the arms-sales profits, with the remainder going to "large, perhaps illegal commissions" to people he said he couldn't identify, according to the AP.

President Reagan signed an intelligence "finding" authorizing direct sales of U.S. arms to Iran on Jan. 17, after emotional meetings with families of U.S. hostages, apparently in hopes of winning their release, an administration official said.

Within two weeks of the presidential directive, Lt. Col. North presented Amiran Nir, a terrorism adviser to Shimon Peres, then prime minister of Israel, with a list of inflated prices for the arms the Iranians wanted. Lt. Col. North also gave the Israeli intermediary the number of a secret Swiss bank account in which the Iranian payments were to be deposited. U.S. and Israeli sources said.

At the same time, the administration bypassed its standard procedures for running covert operations and put Lt. Col. North in charge of the operation with logistical help from a newly created CIA counterterrorism center. The elaborate plan kept the administration's top officials in the dark, permitting the president, Mr. Casey and other top aides to deny that they knew about any diversion of profits from the Iranian arms sales, U.S. intelligence sources said.

This was designed from the start to be a deniable operation," said one highly placed intelligence source.

But other top U.S. officials attended the meeting at which Lt. Col. North presented Mr. Nir with inflated prices for U.S. arms. According to an account in Time magazine, Mr. Nir later told his superiors that "no one asked questions" about the prices, although they were three to four times the book value of the weapons. Other sources said the Iranians were charged as much as six times the book value for some U.S. weapons.

Although the value of the weapons shipments to Iran remains unclear, there has been testimony that Iran paid about \$30 million. The CIA, which collected the arms from military stocks, reimbursed the Pentagon only \$12.2 million.

Sen. William Cohen (R., Maine) said the \$12.2 million was too low by a "substantial" margin. He said the difference between the figure and the amount actually paid possibly represented profits that could have been used as secret aid to Nicaraguan guerrillas. The price paid to the Pentagon "was at least wholesale," he said after a closed-door hearing yesterday with Defense Secretary Caspar Weinberger. He refused to disclose whether Mr. Weinberger had told the committee who fixed the prices of the Iranian arms.

Sen. Cohen said that the weapons—primarily TOW anti-tank missiles and parts for Hawk missiles—were mostly older models no longer in production and that there could be some latitude in pricing such items.

The administration first sanctioned selling arms to Iran through Israel. But last January, it decided to push out two Israeli middlemen and to sell arms to Tehran directly, even though Mr. Weinberger, Secretary of State George Shultz, and former National Security Adviser Robert McFarlane all opposed the move.

At the time, administration officials also knew their main conduit to Iran, arms dealer Manucher Ghorbanifar, had failed a CIA lie-detector test and that Mr. McFar-

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lane had reported he "was not a person of integrity." Officials also knew the Iranians hadn't kept their promises to release all the Americans held hostage in Lebanon in return for Israeli sales of U.S.-made arms.

But Mr. Poindexter, Lt. Col. North, and other senior officials also had concluded at the same time that the Contras weren't raising enough money from private sources to sustain their war against the well-equipped Sandinista army, senior officials said. CIA, Pentagon and State Department officials all agreed that unless new, more reliable sources of aid were found, the anti-Sandinista movement could collapse.

Congress had approved \$27 million in nonlethal aid to the insurgents, but that was due to run out March 31, and administration officials weren't sure they could win a fight on Capitol Hill for military aid. Moreover, officials worried that even if the administration persuaded Congress to vote military aid to the Contras, contributions from third countries and private donors might dry up before it could be delivered.

"It was clear by then that the private financing network Ollie (Lt. Col. North) has set up just wasn't up to the job," said one administration official.

Moreover, Sandinista forces, using Soviet helicopter gunships, had driven most of the Contra forces out of Nicaragua and into Honduras, where Contra morale was sinking. Contra leaders told Mr. Poindexter that donations to their cause were falling off. Complicating matters, Honduran officials had been blocking deliveries of aid to the insurgents for two months.

"At that time, we were concerned that a major Sandinista offensive might dismantle the freedom fighters before we could get more help to them," said one administration official.

Mr. Poindexter, just days after he succeeded Mr. McFarlane as national security adviser and the Reagan administration decided to stop backing Israeli arms sales to Iran, made a secret trip to Central America. Sources say he assured Contra leaders and Honduran officials that the U.S. was looking for ways to provide additional aid to the insurgents.

Sources said that when Lt. Col. North hit upon the idea of using Iranian arms sales to produce funds that could be used to support the Contras, he turned to retired Air Force Maj. Gen. Richard Secord and other former military and intelligence officials to help carry it out without direct U.S. government involvement. That way, he apparently hoped to avoid violating a congressional ban on "direct or indirect" military aid to the Nicaragua insurgents.

Gen. Secord has refused to testify before Congress on his role in the affair, citing his Fifth Amendment right against self-incrimination, but he recently told friends that he had done nothing illegal.

Some administration officials have questioned Lt. Col. North's judgment, however. They say it was a mistake for him to share control of a Swiss bank account used to divert money to the Contras. Moreover, they said that under stress, Lt. Col. North sometimes told bizarre tales.

For example, officials said that on the day a Beirut, Lebanon, magazine revealed the secret U.S. dealings with Iran, Lt. Col. North burst into the office next door to his own and told a colleague: "I've got people in cages all over Europe."

Lt. Col. North is said to have told the stunned colleague, counterintelligence specialist David Major, that reports of the secret Iran dealings were "disinformation." The real story, Lt. Col. North claimed, was that "our friends"—a reference Mr. Major and others took to mean the Israeli intelligence service, Mossad—had kidnapped relatives of top Iranian officials, who could be exchanged for U.S. hostages in Lebanon.

Administration officials said they have checked Lt. Col. North's story and believe it is false.