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The CIA's Corp Shell Game

By John Marks

JEFFREY A. Manley has his name on the door at Burwell, Hansen & Manley, but he is not allowed to use his own firm's Xerox machine. The problem, according to Manley, is that he doesn't have a government security clearance and the copier is located in a room full of classified documents. Manley, a mustachioed young Harvard law graduate, observes that a closed-circuit television system scans the law firm's reception room in downtown Washington and that the monitor is located in a part of the office he has never entered.

These extraordinary precautions at Burwell, Hansen & Manley exist because the firm shares office space with Southern Capital & Management Corporation and Southern Capital is what is known in the intelligence trade as a "proprietary." It is, in other words, a wholly owned and operated subsidiary of the CIA.

So far as is known, Southern Capital is the CIA's largest remaining proprietary. Its work in managing the CIA's \$30 million investment portfolio is so secret that the Agency persuaded the Senate Intelligence Committee not to press for the company's actual name, instead calling it "The Insurance Complex."

For more than two decades, the CIA has made extensive use of proprietaries like Southern Capital to hide operations under the mantle of private enterprise. In order to incorporate and run this "business" empire, the Agency has relied on lawyers. Washington is a city of lawyers. Therefore, it is hardly surprising that the local bar brims with lawyers who perform secret services for the Agency's overlapping, interlocking network of front companies. The trail of lawyers leads from Southern Capital to more than 15 recently discovered proprietaries in the Washington area alone. Some have been disbanded; others, like Southern Capital, are still active.

'Insurance Complex'

SOUTHERN Capital, our starting point, takes the CIA straight to Wall Street. It is the investment arm of an assortment of proprietary financial companies, located mainly in foreign tax havens such as the Bahamas, Bermuda, the Cayman Islands and Panama. Southern Capital was created in 1962 as a front insurance company to provide coverage for agents and equipment involved in covert operations — particularly those connected to CIA-owned airlines. "The Insurance Complex" then branched out into other entrepreneurial ventures. It received money from CIA insurance premiums, from deductions taken from secret agents' pay and — at least once in the past 10 years, according to a CIA budget specialist — from funds left over from the Agency's congressional appropriation.

By the late 1960s, Southern Capital had accumulated between \$25 and \$30 million in stocks, bonds and other domestic investments. During the early 1970s, when the CIA employee, investment director (the brokerage firm of Southern Capital is not named.) But in either 1969 or 1970, the CIA concluded that the Agency's economic research board of directors chairman Lawrence Houston took over Southern Capital.

On this committee — MUTUAL group — sat the director of finance and economic research. This is important, according to a source who has enabled Southern Capital to "draw on the advice of the CIA's economic research people. Any stockbroker would like 300 trained experts giving advice. If it was not a conflict of interest, it at least should have been offered to the public."

The proprietary's best earner was Eurodollar deposits made through the Morgan Guarantee Bank's Brussels office with a return of 13 per cent at one point, a former employee recalls. After the MUTUAL committee took over, Southern Capital branched out from its normal blue chip purchases to more speculative fields, including short term buys of Swiss francs and several hundred thousand dollars in Mexican pesos. Another source reports that during the early 1970s, when the CIA was working secretly with ITT to keep Salvador Allende from power in Chile, Southern Capital owned some ITT stock. MUTUAL Chairman Houston told the Senate committee: "Well, a couple of times our investment advisor recommended a stock which I knew we had big contracts with, and I told the board no, this involves a conflict of interest. We won't touch it."

The net profit on Southern Capital's portfolio in 1974 was more than \$1.5 million, according to the Senate report. Most of that money never found its way onto Southern's balance sheets, however, because it legally belonged to proprietary insurance and financial companies in overseas tax havens. Southern Capital, as a Delaware corporation doing business in the District of Columbia, did submit U.S. tax returns but was under no obligation to list the money it made for its sister proprietaries. The company kept three or four lawyers busy fulltime, a former Southern employee recalls. "Mr. Evans was a stickler on legality," he says.

"Mr. Evans" is Marvin L. Evans, who ran Southern Capital for the CIA until his retirement in 1973. Evans extends the proprietary trail to Africa, among other