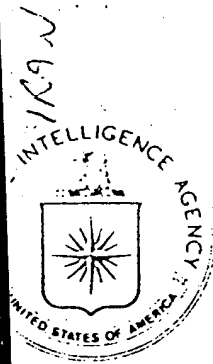


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# EMPLOYEE BULLETIN

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## CIA'S ROLE IN THE IRANIAN INITIATIVE

AN ADDRESS TO CIA EMPLOYEES BY  
ACTING DIRECTOR OF CENTRAL INTELLIGENCE  
ROBERT M. GATES  
8 January 1987

Following is the text of the address entitled "CIA's Role in the Iranian Initiative" given by the Acting Director of Central Intelligence in the Headquarters Auditorium on 8 January 1987.

"I want to speak to you today on two developments of intense interest and concern to all of us at CIA -- the Agency's role in the Iran affair and the illness of Director Casey. Both of these involve the Agency family and you deserve a detailed report."

THE DCI

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"CIA obtained quotes for the costs of the TOW missiles and HAWK equipment through the Department of Defense. We then added estimates for other associated expenses. To date, we have only paid CIA's costs for preparing and transporting the equipment and acquiring the medical supplies (which total around \$50,000) and a single billing from Department of Defense for \$5.6 million. All other billing from Department of Defense is still pending. If our estimates are accurate, some \$350,000 of the Iranian funds will be left over after all bills associated with the operation are paid.

"Now let me turn to our money-handling role. We were not -- I repeat not -- involved in middle-man financing or any of the financial arrangements between the Iranian side and the intermediaries, or between intermediaries and the NSC. My understanding, based on what we have learned over the last several weeks through our own investigation and from other information surfacing in the media, is that money raised by private investors would flow through intermediaries to an Israeli-controlled account. From there, money would flow to Swiss accounts apparently controlled by one of the intermediaries. It was from these latter accounts that our CIA account would receive electronic transfers in an amount equal to what we needed to cover Department of Defense costs. We never knew, and still do not know, how much money flowed through the accounts controlled by the intermediaries.

"The total of \$12.2 million connected with the Iranian operation deposited into our accounts in Switzerland has been fully accounted for.

"In addition to the logistics and finance activities described above, CIA also provided other support to the NSC effort. Through the NIO for Counterterrorism, we continued to task collection assets for coverage of Iran and Lebanon. Moreover, elements in the Directorate of Intelligence were asked to provide tactical support and prepare materials to help implement the NSC initiatives; the Office of Communications provided secure communications and two commo officers for the McFarlane mission in May; and our Office of Technical Service prepared documentation for the mission members and provided recording equipment. Finally, a handful of our personnel were involved in a total of 12 meetings between the U.S. representatives on the one hand and the intermediaries and the Iranians on the other. A Farsi-speaking CIA annuitant was made available to assist in the NSC project. In providing the support described above, we expended a total of \$87,478 in appropriated CIA funds.

"I believe our activities under the Finding were carried out properly and competently. We can account for every penny that came into our hands and for all equipment that was used."

### PHASE III: ALLEGED DIVERSIONS

"We now come to the third phase: the speculation that some of the Iranian money provided to intermediaries may have been used for other purposes.

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"We learned in late June and July 1986 that officials in Tehran were complaining to (Ghorbanifar) the Iranian expatriate intermediary, about the price charged for the HAWK spare parts. Tehran was complaining that it had been charged six times the going rate. The details of this running argument were well known to the key CIA officials involved, but they assumed that the problem resulted either from middle-man fees or were part of other arms deals Ghorbanifar had arranged on the side.

"By late August-early September 1986, our NIO was becoming worried about the operational security of the NSC project and was beginning to wonder also about a possible diversion of funds. These reservations were shared by the CIA annuitant involved. They knew about the running argument over the price Ghorbanifar charged Tehran for the HAWK spare parts, as well as the fact that some of those private citizens involved in the Iran project were also active in efforts to get private benefactors to aid the Contras.

"On 1 October, the NIO met with me to report on the "new channel" being opened to Tehran (which would cut out Ghorbanifar); he also expressed deep concern about the operational security of the project. In reviewing the situation, he pointed out that the investors involved with Ghorbanifar had not been repaid for putting up the front money for the HAWK spare parts deal and that there were many confusing reports relating to claims by Tehran that it was overcharged for the spare parts.

"The NIO also speculated that some of the funds from the Iranian arms sales may have gone to support the Contras. He told me that he had no evidence to support this speculation. I was nonetheless disturbed by this development and directed the NIO to brief the DCI.

"The NIO met with the DCI on 7 October 1986, repeated his suspicions about the diversion of funds as well as his worries about the Iran project's operational security. The DCI told him to draft a memorandum outlining his concerns.

"The same day, 7 October, the DCI received a telephone call from a New York businessman. In 1976-79, Mr. Casey had done some legal work for the company the businessman worked for and the Director had not seen him since then. The businessman said on the phone that he had something important that he wanted to inform the DCI about and came down to Washington the same day. As the DCI has testified, it quickly emerged that the businessman knew more about the financial aspects of the NSC project with Iran than CIA or the DCI did. His role was that of an advisor to Adnan Khashoggi. He had worked with Ghorbanifar, the Iranian intermediary, almost from the inception of his effort to develop an American-Iranian relationship. He told the DCI that, during 1986, he and Khashoggi had gotten a group of Canadian investors to put up something on the order of \$15 million to finance arms sales by the U.S. to Iran. He told the DCI that the Canadian investors were still owed something like \$10 million and were aroused by their inability to collect the money.

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they had advanced. He said they intended to bring formal legal action to recover their money. He was concerned that this would destroy prospects of getting additional hostages out, as well as ruin what he saw and sought as an emerging if embryonic relationship between the United States and Iran. It was not until two weeks later that the businessman first mentioned speculation about funds going to the Contras.

"That same afternoon of 7 October, the DCI called Admiral Poindexter and reported this information to him. He seemed surprised and clearly concerned. It was obvious that this information represented a major risk to the operational security of the Iranian initiative. The DCI advised Poindexter to prepare a comprehensive statement for possible release fully covering all aspects of the Iranian initiative and to consult with the White House Counsel.

"On 9 October, the DCI and I met with North to receive a briefing on his recent meeting in Europe with Iranians representing a new channel to senior officials in Tehran (i.e., a channel separate from the one involving Ghorbanifar). The DCI expressed worries about the loose ends from the earlier channel and his concerns about operational security.

"The conversation then turned to Central America and the downing of a Contra supply plane and capture of Eugene Hasenfus. I directly asked North if there was any CIA involvement, direct or indirect, in the private funding effort on behalf of the Contras. We accepted fully DO assurances that our officers had kept their distance, but regarded this as an opportunity to reassure ourselves that there had been no slip ups unknown to our own managers. North told the DCI and me that, based on his knowledge of the private funding efforts on behalf of the Contras, 'CIA is completely clean' of any contact with those organizing and funding the operation. Because of questions and publicity that week surrounding the downing of the supply plane and the arrest of Hasenfus, I made a record of North's response. It was in the context of this discussion I recall North making a cryptic reference to Swiss accounts and the Contras. I assumed at the time it had to do only with the private effort on behalf of the Contras and therefore neither I nor the DCI pursued it.

"The DCI and I further pursued problems in the Iranian operation with Poindexter on 15 October. At this meeting, we gave him the memorandum the DCI had asked the NIO to prepare, laying out all his concerns and we sat with him while he read it. We reiterated our concern that the NSC project was about to spin out of control. The DCI suggested again that he consult White House Counsel.

"In subsequent conversations with the New York businessman, on 16 and 22 October, the NIO obtained further details on the unhappiness of the investors. On 22 October, the NIO was told that the Iranian middleman Ghorbanifar had said he believed that a significant share of the \$15 million

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raised by the investors was 'earmarked for Central America.' This latter information from the businessman was passed to Colonel North by the NIO.

"In deciding what action to take on the serious threats to the security of the operation and speculation reaching us in October, we had to balance a number of factors. First of all, the information, while deeply disturbing, was extremely difficult for CIA to interpret and weigh -- especially since we had little knowledge of the financial mechanics of the NSC operation.

"Throughout the late spring and summer of 1986, our officers familiar with the operation had seen fragmentary references to "overcharging" and had picked up other reflections of dissatisfaction with the financial arrangements on the part of both the Iranians and the intermediaries. But again, this was very difficult for our people to interpret since it was never clear if these references related to the NSC deal or to other deals the intermediaries were involved in. For that matter, such allusions did not seem all that unusual given the nature of haggling that goes on in the black arms market and in the context of the tens of billions of dollars in arms being sold to Iran by others.

"A great deal of attention has been devoted to the NIO's memorandum of 14 October and its one reference to Ghorbanifar possibly alleging diversion of some Iranian funds to other U.S. Government projects. Even more attention has been given to the businessman's remarks later to the effect that Ghorbanifar believed some of the money may have been used for Central America. It is essential that you appreciate that in none of this were there any allegations of CIA involvement, or NSC or White House involvement. What's more, the central figure in the speculation was Ghorbanifar, about whose reliability there were serious misgivings inside the Agency from the outset. We simply did not -- could not -- put much weight on speculation from Ghorbanifar.

"We believed in October, and continue to believe, that based on the vague information and speculation we had at the time, we leaned forward with respect to concern for propriety. Taking all together the NIO's speculation on 1 October, North's abbreviated and cryptic remark on 9 October, and subsequent comments from the businessman in late October and early November, we had no evidence or any indication that CIA, NSC, or any other U.S. Government institution was involved in a diversion of funds; that any funds had in fact been diverted; or that any laws had been broken. In fact, we received no additional information along these lines until the Attorney General's statement on 25 November 1986.

"We concluded that none of the operational security aspects or the speculation concerning the funding related to the part of the transaction in which CIA was involved. Security concerns posed by unhappy investors, and the vague speculation sourced to Ghorbanifar about the funding involved financial aspects of the Iranian initiative arranged by the NSC and about