
NOMINATION OF ROBERT M. GATES TO BE DIRECTOR OF
CENTRAL INTELLIGENCE

OCTOBER 24 (legislative day, SEPTEMBER 19), 1991.—Ordered to be printed

Mr. BOREN, for the Select Committee on Intelligence, submitted
the following

REPORT

together with

ADDITIONAL VIEWS

The Select Committee on Intelligence, to which was referred the nomination of Robert M. Gates, of Virginia, to be the Director of Central Intelligence, having considered the same, reports favorably thereon and recommends that the nomination be confirmed by the Senate.

BACKGROUND OF THE COMMITTEE'S CONSIDERATION

The nomination of Robert M. Gates to be Director of Central Intelligence was received by the Senate on June 24, 1991, and referred to the Select Committee on Intelligence the same day.

The Committee requested that the nominee provide answers to its standard questionnaire, and these were provided. The Committee also received the nominee's financial disclosure statement from the Director of the Office of Government Ethics, who advised the Committee that the nominee appeared to be in compliance with applicable laws and regulations governing conflicts of interest.

In addition to these inquiries, the Committee requested that the nominee provide sworn answers to a series of questions related to his involvement in, and knowledge of, the so-called Iran-contra affair. These were provided by the nominee on June 28, 1991.

Hearings on the nomination, which had been tentatively scheduled for mid-July, were delayed due to new information which emerged in July as a result of a former CIA official, Alan D. Fiers, Jr., pleading guilty to two misdemeanors involving the withholding of information from Congress. At the same time he acknowledged

greater knowledge in CIA of the Iran-contra affair than had previously been known. In order to determine whether the nominee had knowledge of the information disclosed by Mr. Fiers in his plea agreement, the Committee voted on July 16, 1991, to seek an immunity order for Mr. Fiers from the U.S. District Court for the District of Columbia. This order was issued by the court on August 2, 1991.

The Committee began hearings on the nomination on September 16, 1991, with the nominee appearing as the sole witness. Questioning of the nominee continued through the day of September 17, 1991.

On September 19, 1991, the Committee heard testimony from three private witnesses largely relating to the nominee's role in, and knowledge of, the Iran-contra affair. These witnesses included Mr. Fiers (see above); John McMahon, Deputy DCI from 1982 until 1986; and Tom Polgar, a former CIA official who also was on the staff of the Senate Iran-contra investigating committee.

The Committee recessed the hearings until September 24, 1991, when it heard testimony from Charles E. Allen, a senior CIA analyst, and Richard J. Kerr, currently the Acting DCI who was Deputy Director for Intelligence during most of the period at issue. This was followed by two closed sessions on September 25, the first involving allegations of improprieties with respect to the sharing of intelligence with Iraq during the mid-1980's; the second involving allegations that the nominee had engaged in actions to shape or distort intelligence estimates. At the conclusion of this latter session, the Committee decided that the testimony on this issue should be held in public session.

Accordingly, on October 1, the Committee resumed public hearings to consider allegations that the nominee had "politicized" the intelligence process while serving as Deputy Director for Intelligence. The Committee heard testimony from former CIA analysts Mel Goodman, Graham Fuller, and Harold Ford, and from CIA analyst Lawrence Gershwin.

On October 2, 1991, the Committee resumed its consideration of this issue, hearing testimony from former CIA analyst Jennifer Gaudemans and CIA analyst Douglas MacEachin. At the conclusion of their statements, a panel, consisting of all the analysts who had testified, was convened to respond to the questions of the Committee.

On October 3, 1991, the nominee returned to testify in public session. His public testimony continued during the morning of October 4, and closed hearings with the nominee were held in the afternoon. With this, the hearing on the nomination concluded.

On October 18, 1991, the Committee reconvened in open session to vote on the nomination. By an 11-4 vote, the Committee voted to recommend the nomination be favorably reported to the Senate.

By any standard, the consideration of this nomination was the most thorough and comprehensive of any nomination ever received by the Committee. Thousands of documents were reviewed; hundreds of witnesses were interviewed. The nominee testified for four full days in open and closed session, responding to almost 900 questions. Written responses were submitted to almost 100 additional questions.

The Committee also attempted to carry out its inquiry in a fair, bipartisan manner. Decisions on witnesses, hearing plans, document requests, and other matters, were arrived at jointly by the majority and minority. Efforts were made to elicit testimony and documents which fairly portrayed both sides of particular issues.

BACKGROUND OF THE NOMINEE

The nominee, Robert Michael Gates, is 48, a native of Kansas, and now lives in Virginia. He is married with two children.

He graduated with honors from the College of William and Mary in 1965, received a Masters degree from Indiana University in 1966; and a PH.D. from Georgetown University in 1974.

He joined CIA in 1966 as an analyst. From 1971 to 1973, he served as a staff member and intelligence advisor to the U.S. SALT Delegation. From 1974 until 1976, he was detailed to the National Security Council (NSC) staff. In 1977, he was reassigned to the NSC staff where he was Special Assistant to the National Security Advisor, Dr. Brzezinski. In 1979, he returned to CIA where he was made Executive Assistant to the DCI in February, 1980, and was given additional senior level assignments. In 1982, he was named Deputy Director for Intelligence, responsible for CIA analysis and production. He held this position until April, 1986, when he was nominated and confirmed as Deputy Director of Central Intelligence. He remained in this position until January, 1989 when he was named Deputy Assistant to the President for National Security Affairs, where he has served until the present time.

ISSUES CONSIDERED BY THE COMMITTEE

To assess the fitness of the nominee to serve as Director of Central Intelligence, the Committee considered a number of issues.

(1) The first was Mr. Gates' involvement in, and knowledge of, the so-called Iran-contra affair. Mr. Gates was Deputy Director for Intelligence when the arms sales to Iran began, and became DDCI in April, 1986, serving in this capacity until the Iran-contra affair was disclosed to the public.

In considering this area, the Committee reviewed the entire record of the congressional Iran-contra investigation, as well as the criminal trials growing out of the Iran-contra affair. This included a review of all of the nominee's previous testimony on this subject (five previous occasions), as well as a review of all of the testimony by other witnesses who had mentioned the nominee. This record was supplemented by obtaining interviews and, in some cases, sworn statements from such witnesses in order to fill gaps or clarify ambiguities in their previous testimony.

When the Fiers plea agreement was announced in July, 1991, the Committee made a further intensive effort to obtain documentation and interview witnesses to ascertain whether the nominee may have had knowledge of the events alleged by Mr. Fiers. Approximately 20 witnesses were interviewed, and several thousand pages of documents were examined in this process.

The principal issues posed for the Committee in this area were:

- a. when did the nominee first learn of the "diversion" and what actions, if any, did he take as a result?"

b. what was his role in the initiation and execution of the Iran arms sales, and what did he do to stop them or ensure that Congress was informed?"

c. was the nominee aware of the alleged efforts of some CIA officials to limit congressional testimony after the Hasenfus flight to protect the White House?

d. did the nominee participate in a deliberate effort to withhold or mislead the Committee in the preparation of Director Casey's testimony for November 21, 1986, when he first testified to Congress on the Iran arms sales?

e. was the nominee aware in 1986 of the NSC's staff's control of a private lethal resupply operation for the Nicaraguan Resistance at a time when the legality of such assistance was questionable, and such assistance clearly violated the intent of the Congress?

(2) The second area considered by the Committee was whether the nominee, either as Deputy Director for Intelligence or as Deputy DCI, had participated in efforts to slant or distort intelligence analysis to conform to some preconceived political agenda or position.

The Committee received allegations in this regard from several former CIA analysts. Interviews with these analysts led to additional interviews with other present and former CIA analysts, as well as a review of the documentation involved with each of the estimates or analyses where "slanting" or distortion had been alleged. Interviews were done with approximately 80 analysts in this segment of the Committee's inquiry, and several hundred documents were reviewed.

The Committee also received testimony and sworn statements from a number of current and former analysts regarding these allegations.

The issues for the Committee were:

a. Did the nominee direct that estimates or analyses be altered to support a political point of view not supported by the available intelligence?

b. Did the nominee withhold or manipulate the dissemination of estimates or analysis so as to reduce their impact on the policy process?

c. Did the nominee, through managerial intimidation, stifle the presentation of analytical views that did not conform to his own political positions?

(3) Grouped into a third area examined by the Committee were a variety of allegations that were made in the media, or which were made directly to this Committee or to other congressional committees, involving the nominee's knowledge or participation in activities that would have been illegal or improper if true. These included:

the nominee's role in the provision of intelligence to Iraq during the Iran-Iraq war in the mid-1980s;

the nominee's knowledge of and involvement in the use of intelligence reporting concerning contacts between Members of Congress and the Sandinista regime in Nicaragua;

whether CIA may have slanted or withheld information from Congress pertaining to U.S. knowledge of the Pakistan nuclear program;

allegations that the nominee was involved in the so-called "October 1980 surprise";

an allegation that the nominee was involved in illegal arms sales to Iraq; and

an allegation that the nominee was involved in withholding intelligence on BCCI from pertinent law enforcement agencies.

The Committee looked into these and every other allegation which came to its attention. In some cases, where the ability to conduct an investigation of the allegation exceeded the capability of the Committee, the Committee requested that the allegations be pursued by the Federal Bureau of Investigation as part of the nominee's background investigation. The Committee received reports from the FBI on each of the allegations for which its assistance was requested. In some cases, the Committee also requested assistance from the Office of the Inspector General at CIA to ascertain whether the nominee had been involved in allegedly illegal or improper acts. Reports were received by the Inspector General in each of the areas where assistance was sought.

In each case, the issue for the Committee was whether there was any evidence that the nominee may have been involved in acts which were illegal or improper (i.e. violating Executive branch or CIA policy.)

(4) The fourth area examined by the Committee focused upon the nominee's views with respect to the proper role of the DCI, and his vision of the future. In this regard, the Committee reviewed all of the articles and public statements of the nominee since 1980. The Committee also focused attention upon this area at the public hearings. Of particular concern were:

a. the relationship of the DCI to the President and the policy process;

b. the relationship of the DCI to the Congress and the congressional oversight process;

c. the public role of the DCI;

d. the nominee's views on reordering the priorities of the Intelligence Community to cope with a rapidly changing world; and

e. the nominee's view with regard to improving performance of the Intelligence Community in the future.

The results of the Committee's inquiry into each of these four areas are discussed in detail in the remainder of the report.

Part 1: The Nominee's Involvement in, and Knowledge of, the Iran-Contra Affair

Part I is divided into four separate subdivisions:

The first deals with the nominee's knowledge of the "diversion," i.e. the use of proceeds from the sale of arms to Iran to support the Nicaraguan Resistance in 1986, and the actions he took when he learned of such a diversion.

The second deals with the nominee's knowledge of, and involvement in, the Iran arms sales operation prior to October 1, 1986.

The third section deals with the nominee's preparation of the initial testimony of Director Casey regarding the Iran arms sales on November 21, 1986.

The fourth section deals with the nominee's knowledge of the activities of the NSC staff in providing assistance to the Nicaraguan Resistance that may have been illegal.

Each of these sections summarizes what the Committee has learned based upon its review of the record of Iran-contra, its inquiry into the allegations of Alan D. Fiers, Jr., and the confirmation hearings themselves.

I. CHARLES ALLEN AND THE DIVERSION

(a) *Allen Briefing for Gates on 1 October 1986*

(1) *Allen-Cave Background*

Charles Allen, the National Intelligence Officer for Counterterrorism, became involved with the Iran initiative when LTC Oliver North asked him in September 1985 to task and monitor U.S. intelligence collection on the parties engaged in the negotiations and arms transfers. By mid-1986, Allen and a retired CIA operations officer on contract to the Agency, George Cave, had become the principal CIA personnel assigned to support the NSC staff operation under the Presidential Finding of 17 January. Allen and Cave maintained contacts with North, the intermediaries, and the Iranians. In addition to monitoring intelligence reports, Allen had personal meetings and telephone conversations with the intermediary Ghorbanifar and the Israeli officials, Aviram Nir, who played key roles in the operations. George Cave, who used Allen's office to work on the Iran initiative, kept in telephone contact with the Iranians whom he had met when he accompanied North and Robert McFarlane to Tehran in May 1986.

Ghorbanifar mentioned the diversion idea to Allen and Cave in the early part of 1986. Allen's notes record that Ghorbanifar told him money could be generated from the arms sales to support the contras and other activities. An undated memo, which Cave recalls writing in March 1986, reported a meeting where Ghorbanifar writing in March 1986, reported a meeting where Ghorbanifar "proposed that we use profits from these deals and others to fund [deleted] We could do the same with Nicaragua." (Allen IC Exhibit 40) Allen says he saw Cave's memo, but Allen and Cave testify that they had forgotten Ghorbanifar's remarks by the summer of 1986. (Allen IC Dep, p. 643) Gates says he did not learn of this memorandum or Ghorbanifar's proposal in his meetings with Allen or at any other time before 25 November 1986. (6/28/91 Response)

During the summer of 1986, Allen and Cave became concerned about financial aspects of the Iran initiative and about North's desire to shift from Ghorbanifar's negotiating channel to a new, untested channel into Iran offered by Richard Secord and Albert Hakim. Allen already knew in late June and early July, from highly compartmented intelligence reports, that the Iranians believed

they were being grossly overcharged. The Iranians in the first channel complained to Cave about the high prices they were asked to pay for the U.S. arms, which were listed in an Iranian copy of a DoD price list at much lower cost. North told Cave to defend the high prices as legitimate and later proposed manufacturing a false price list that would inflate the cost. Allen testified that when North made this proposal, Allen "knew something was amiss" and was "bothered . . . very deeply." (Allen IC Dep, p. 675) Allen also said he concluded "that the NSC was charging an exorbitant price for these weapons and spare parts." (Allen, 9/24/91, morning, p.)

By this point, Allen had concluded "the National Security Council staff had sort of lost its perspective on this initiative . . . it had lost its strategic direction. It was reacting in a very tactical way . . . trying to stay ahead of the looming avalanche." (Allen, 9/24/91, morning, p. 124)

In this same period, Allen received a "frantic" phone call from Ghorbanifar who complained about the exorbitant prices the NSC was charging. Allen says he learned for the first time in this call that Ghorbanifar was claiming to have been charged \$15 million dollars for arms which CIA obtained from DoD for no more than \$6.7 million. (Allen IC Dep, pp. 689-691)

In a recent response to Committee questions, Allen recalls his views on the veracity of Ghorbanifar's claims:

At the time I believed that Mr. Ghorbanifar was generally telling the truth about the cost of the Hawk missile spare parts. Even though he was not noted for his veracity, Mr. Ghorbanifar was being charged for the parts by American intermediaries; he was equally precise in providing data on the commission that he was charging the Iranian Government. The data he provided was generally consistent with intelligence information that I was seeing on the financial arrangements involving the shipment of Hawk spare parts. [The first channel], moreover, in the Iranian Prime Minister's Office had made it clear to Mr. Ghorbanifar that he had a reasonably good understanding of the cost of these spare parts. After years of buying weapon systems abroad, the Iranians knew how to procure arms and what to pay for them. Moreover, [the first channel] claimed that he had a microfiche containing the specific costs of the individual missile parts, a factor that I found rather convincing. (To prove his point, [the first channel] later sent the microfiche to Mr. Ghorbanifar, who in turn transmitted it to the U.S. parties involved; it was genuine.)

Mr. Nir, in telephone calls in August 1986, strongly reinforced Mr. Ghorbanifar's statements on the pricing. He stated that he could not understand why the costs were so extraordinarily high. Lt. Col. North's instructions to convey to Mr. Ghorbanifar and Mr. Nir stories that the costs were high because production lines had to be restarted, that spare parts had to be repurchased from countries which had acquired the Hawk air defense system, etc., seemed implausible; these obviously fabricated stories further raised suspicions in my mind that the pricing prob-

lem might rest with the U.S. parties involved rather than the Iranian middleman or Iranians in Tehran. (Allen response to SSCI questions, 7/8/91)

(2) Allen-Kerr Meeting

Allen recalls discussing his concern "about the third week in August" with Richard Kerr, then CIA Deputy Director for Intelligence (DDI):

I met with Mr. Kerr at my initiative about mid-August 1986 to brief him on the NSC-directed initiative, to express to him my alarm over the project's lack of operational security, and to inform him of my belief that profits obtained from the arms sales to Iran were being diverted to support Contra forces in Nicaragua. Mr. John Helgeron, the Associate Deputy Director of Intelligence, was the only other individual present: he attended at the invitation of Mr. Kerr.

I stressed to Mr. Kerr the project's lack of operational security and pointed out that no arrangements were being made to shut down effectively the first channel—the Ghorbanifar link to the Iranian Prime Minister's Office. I described in some detail the pricing impasse that intelligence showed had existed for over a month. The intelligence showed that the Iranians in Tehran believed they were being grossly overcharged by agents of the U.S. Government. I further described why I believed the NSC was mixing the Iranian project with White House initiatives in Central America. I cited a number of indicators of this, including the fact that Mr. Albert Hakim and Major General Secord were totally managing the newly established second channel and that they were also key individuals in the so-called private efforts to support the Contras in Central America. After I had detailed my concerns, Mr. Kerr asked me to keep him closely informed on these developments. I ran into Mr. Kerr later in the day in CIA's Operations Center, and he again returned to our earlier conversation. He expressed the view that it was not a question of "whether the initiative would be leaked, but when."

I was not personally aware at the time of what Mr. Kerr had done with the information, if anything. After 25 November 1986, however, Mr. Kerr told me that he had raised the matter with Mr. Gates, including the possible diversion of funds. He added that Mr. Gates could not recall this conversation. (Allen response to SSCI questions, 7/3/91)

According to Kerr, Allen told him that the United States had overcharged Iran in the sale of HAWK parts and that the excess money had possibly been diverted to assist the Contras. Kerr could not recall why Allen believed that funds might have been diverted, but Kerr does recall telling Allen to monitor the situation and keep him apprised of further developments. Kerr says he recounted Allen's statement to Gates, who told Kerr that he also wanted to be kept informed about the matter. (Kerr IC Interview)

In response to Committee questions, Kerr provides the following additional statement about these conversations:

In late summer of 1986 Charles Allen came to me and said U.S. arms were being sold to Iran. He described this activity in general terms and indicated that there was reason to believe that these weapons were being sold at inflated prices. At the end of the discussion, Mr. Allen speculated that the extra money might be going to the Contras. He offered no evidence for this, merely giving it as personal speculation.

Although we had seen no evidence to support Allen's speculation that money from the Iran arms sales was being used to support the Contras, I thought the issue should be mentioned to the DDCI (Robert Gates). I subsequently went to the DDCI and mentioned Mr. Allen's speculation about the use of money from the arms sales to fund the Contras. I believe that my conversation with Mr. Gates was either the same day as my conversation with Mr. Allen or the following day. It is also useful to note that I regularly had conversations with the DDCI and that I believe other subjects were discussed with the DDCI at this same session. Also, this was not a formal appointment with a formal subject specified; I merely walked into his office and mentioned this to him together with some other items. I have no information on what Mr. Gates "did with this information." I believe I talked to Mr. Allen again regarding Ghorbanifar and the arms, but the subject of overcharging and the use of "extra" funds was not further discussed. (7/5/91 Statement)

At the confirmation hearings, Kerr explained that he had failed to assimilate many of the details Allen had given him, and that his conversation with Gates had involved only the salient points he had gotten out of the conversation:

I got a fairly big dump of information from Charlie that really did not have a lot of, that I could tie a lot to or put in any context. What I got out of that conversation was essentially . . . that there was evidence—indication—that the Iranians were being overcharged, and also speculation on the part of Charlie that it is possible that money gained from being overcharged was being diverted . . .

After talking with Charlie, I concluded that exactly those two points . . . were worth at least calling to Bob Gates' attention . . . I considered it speculative and to be rumors, but I nevertheless thought it was sufficiently important to make sure, at least, that he heard just that much . . . It could have been 60 seconds or two minutes in terms of that conversation. (Kerr, 9/24/91, pp. 50-52)

Kerr went on to confirm that he had told Gates that "Ollie was involved." Citing notes he had made on November 25, 1986, Kerr said they reflect that he "told him what Charlie Allen had conveyed to me, and asked him if he had heard about the Contra connection. He [Gates] indicated he had heard rumors, but knew noth-

ing about the rumors. Ollie's involvement probably would generate any number of rumors no matter where he was. Some connection, real or otherwise, would have been made to Contra support . . . He said keep him informed." (Kerr, 9/24/91, afternoon, p. 55) Notes of an interview with Mr. Kerr in December 1986 record his recollection that, when he gave Gates the information, Gates responded, "God only knows what Ollie is up to." (9/24/91, afternoon, p. 53)

Kerr said he did not interpret Gates' reference to "rumors" as a reference to the diversion per se. He is uncertain precisely what Gates was referring to, although he conceded it may have been a reference to donors, or money being raised for the Contras. Kerr said he never discussed the matter with Gates again because he "never got any more information on it." (Kerr, 9/24/91, afternoon, p. 60, 63-64, 103-104)

Kerr's account is corroborated in part by another CIA official, John L. Helgeson, who was Kerr's Deputy at the time:

I was present on one occasion in Mr. Kerr's office when Mr. Allen discussed Iran with Mr. Kerr. I cannot confirm the date of the meeting. I remember Mr. Allen saying that he had reason to suspect funds from Iran may have been diverted to the contras. My recollection is that Mr. Allen indicated that the NSC staff was somehow involved in the suspected diversion.

After Mr. Allen departed, I told Mr. Kerr something to the effect that this diversion, if in fact it was taking place, was the dumbest thing I had ever heard of. I said that we should be sure Mr. Casey was aware of this. Mr. Kerr agreed on both counts.

Several days after the meeting with Mr. Kerr and Mr. Allen, I asked Mr. Kerr if he had raised the subject of the possible diversion with Mr. Casey. Mr. Kerr said that he had not, but that he mentioned it to Mr. Gates. (7/5/91 Statement)

At his confirmation hearings, Gates stated that he had no recollection of Kerr's having discussed Allen's speculation with him prior to October 1, 1986:

I think that in fact Mr. Allen has testified that when he briefed me on the first of October that I seemed to be surprised and even startled by the information that had been brought to me . . . I think it is important in placing this in context [to consider] the kind of relationship that Mr. Kerr and I had had at that time. He had served as my deputy when I was DDI, Deputy Director for Intelligence . . . Mr. Kerr and I talked many times virtually every day. We would have had many conversations, we would have many informal conversations. And I believe Mr. Kerr has testified that on this occasion when he talked to me, that he had briefed me on several items, and that he did not dwell on this item in particular. He briefly went over it. He indicated, I gather from his testimony, that he did so very quickly. And he did indicate that I told him to keep me informed, and he also acknowledges that he never came back

to me. So, as I say, I have no recollection of that conversation, and frankly, given the circumstances in which he describes that it took place, that does not surprise me.

I have never denied that Mr. Kerr may well have broached this subject with me. I have simply said that I had no recollection of it myself. I would regard Mr. Helgeron's recollection as adding weight to the fact that Mr. Kerr did, in fact, come to me. (Gates, 9/16/91, afternoon, pp. 16-17)

Asked about Mr. Kerr's recollection that he had replied that he had heard "rumors" of a possible diversion, Gates said:

The only context that I can add, Mr. Chairman, is that I have testified several times that throughout the preceding year or so, we had heard rumors about funding—where the contras were getting their funding. We had heard rumors about contributions or donations from foreign countries, from private benefactors or so on . . . (Gates, 9/16/91, afternoon, p. 18)

According to the daily calendars of Gates' meetings in this period, Allen met with Gates on August 28 and September 5. Allen could not recall, however, having discussed his concerns about the diversion with Gates at either of these meetings. (Allen, 9/24/91, morning, p. 38)

Finally, there is some uncertainty as to whether Allen brought his concerns to Mr. Kerr as early as May 1986. This issue was explored with at the confirmation hearings with Mr. Kerr, who recalled the possibility of the earlier date:

Senator BOREN. . . . Now, since your deposition last week, the committee has obtained a note or notes of two interviews in December 1986 that raise some questions concerning the time of Mr. Allen's report to you. . . . The notes of the first December 1986 interview with you say, 'Charlie told me on 12 or 13 May that he suspected some of the money from the sales was going to the Contras.'

The notes of a follow-up interview with you on the 7th December of 1986 . . . reflect that you were asked by the interviewer if you could narrow the time between May and late summer when you were informed.

You say that you were confident that the visit was before September and most likely was in the June to July period. It may have been as early as May or as late as August. And the note says, referring to you: "he is convinced that in his own mind that it was closer to the beginning of the time span than the end."

The other interview done during the same period suggests the possibility that the diversion issue might have been raised in conjunction with the briefings Mr. Allen gave in preparation for the May 25, 1986, trip by Bud McFarlane to Tehran.

Of course, we know that Mr. Allen was reading certain highly compartmented intelligence reports that as early as March, and certainly by June, indicated that the Iranians

had been seriously overcharged for the weapons they were buying. . . .

Were there two separate meetings with Charlie Allen on the subject diversion, or was there only one meeting with Charlie Allen on this subject?

Mr. KERR. There was only one meeting. And if I can, let me tell you about the timing.

I was . . . very uncertain about the timing, and I still . . . cannot pin it down to a precise time . . . I've looked back at my own notes and my records, and . . . the only timing that I can get—give you is that it was sometime between—I thought between that period of the end of May and early September. I really don't have much more precision except to look at my notes and find that Charlie Allen did come to see me several times during August. (9/24/91, afternoon, pp. 44-46)

(3) Allen-North Meeting

On 9 September 1986 Allen met with North to discuss the financial problems of Ghorbanifar and his creditors. In a memo on the meeting to Director Casey dated 10 September, Allen reported that Admiral Poindexter had given North the go-ahead for the second channel. Allen's memo stated:

Ghorbanifar will be cut out as the intermediary in future shipments of cargo to Iran, if at all possible. To cut Ghorbanifar out, Ollie will have to raise a minimum of \$4 million. (Allen IC Exhibit 68)

According to Allen's testimony, this memo went to Gates. Allen also recalls that, when he asked North where he would get the money, North said "maybe we will have to take it out of the reserve." Allen states that when North "said 'reserve' little wheels clicked in my mind, that all my fears were probably true." In addition to the memo, Allen said he talked to Director Casey on secure telephone about his meeting with North, but he recalls discussing only the move to the second channel and not his "own private musings." (Allen IC Dep, pp. 802-803)

Gates says he has no recollection of receiving or reading Allen's memorandum at the time. (6/28/91 Response)

(4) Other Pre-October Documents

Documents suggest that Gates may have been aware of some aspects of development in the Iran operation during this period. A North notebook entry for 8 September 1986 reflects a call at 1500 from "Charlie" with the following references: "Casey to call JWP," "Gates supportive," "[Initial to the first channel] calls to Geo—4 times Sat, 2 times today." ("Charlie" may be Allen, "Geo" may be Cave.) Another North notebook entry for 30 September 1986 refers to a "1300 mtg w/Mike L." followed by "Call Charlie Re letter to Gates." The testimonial record contains no explanation for these entries. Gates says he does not know their meaning. (6/28/91 Response)

After becoming Deputy DCI in April 1986, Gates was also an authorized recipient of the intelligence on the Iran initiative that

Allen had tasked and monitored since September 1985. Allen says that, when he met with Gates on 1 October, Gates appeared already to have "some general awareness" that there was "a pricing impasse." (Allen IC Dep, p. 823) Gates recalls:

My understanding of the meaning of this reporting was based on Mr. Allen's description of the intelligence that he received. I therefore relied on Mr. Allen, as an analyst, to describe and synthesize the raw data. While I received a number of sensitive intelligence reports on the Iran affair, they came irregularly over a period of months, and I did not keep them to review or examine in a body. I scanned them very quickly and often did not look at them at all. The individual reports were often confusing and, as Allen has testified, 'unless you understand the codes you couldn't understand what was occurring.' In sum, what I knew and understood of the reporting was due solely to Allen's description. (6/28/91 Response)

(5) Allen-Gates Meeting

Allen testified at the confirmation hearings that by the first of October there had been a "continuing accumulation of indications that this initiative was really badly off the tracks . . . we had reached a 'break point' and I felt it was now the time to issue a warning. (Allen, 9/24/91, morning, pp. 38-39)

Allen testified that he was concerned at the time that the diversion, if it became public, "would have angered the Iranians, and that was my deep concern that the Iranians would take retribution and execute one of the hostages." (Allen, 9/24/91, morning, p. 115). (This concern was not, however, according to the testimony, conveyed to Gates at the October 1st meeting, nor is it reflected in later memoranda.)

Allen met with Gates and, according to their testimony, discussed the problems with the switch to the second channel, the financial difficulties with private investors who wanted their money, the risk that the investors might go public, the involvement of Secord and Hakim in both the Iran initiative and Nicaraguan contra support activities, and the possibility of diversion of Iran arms sale profits to the contras. (Allen IC Dep, pp. 822-824; Gates IC Dep, pp. 969-974)

Allen's account of the 1 October meeting with Gates is as follows:

I recall discussing the Iranian initiative with Mr. Gates on 1 October 1986 and expressing deep concern over this White House-directed effort. I had been deeply troubled since mid-August 1986 over a number of aspects of the initiative and conveyed these concerns in some detail to Mr. Gates during the 1 October meeting. Specifically, I recall in the context of that meeting:

a. Describing the impasse over the pricing and [the first channel's] refusal to pay to Mr. Ghorbanifar the price asked for the Hawk spare parts because the price asked for the Hawk spare parts was "five or six times" the actual cost of the parts.

b. Noting the desperate financial straits of Manucher Ghorbanifar and his 'frantic' call to me in August 1986 in which he provided details on specific costs of certain hawk missile spare parts, and in which he claimed that his markup on the price of the spare parts averaged only about 40 percent.

c. Mentioning Lt. Col. North's reference to 'the reserve' in his conversation with me on 9 September 1986 in which he stated that Vice Admiral Poindexter had formally approved the second channel and that the Ghorbanifar channel would be shut down.

d. Informing Mr. Gates of Mr. Aviram Nir's statements in support of Mr. Ghorbanifar assertions that the latter as the middleman in the transaction was substantially overcharged.

e. Detailing Mr. Nir's fears that the operational security of the initiative was rapidly eroding and that immediate action was needed to shore up its security.

These facts among others were repeated in a meeting with Mr. Casey on 7 October 1986 in which Mr. Gates was present. I do not recall informing Mr. Gates specifically about Lt. Col. North's admonitions to me and to Mr. Cave to defend the pricing of the arms or North's proposal to manufacture a false price list. Further, I do not recall speaking to Mr. Gates directly on these specific issues between 7 October 1986 and 25 November 1986, although we talked in general terms about the problems of the initiative on 15 October 1986 following Mr. Casey's and Mr. Gates' meeting with Vice Admiral Poindexter at the White House. In the meeting with Mr. Casey on 7 October 1986, I recounted why I had come to believe that proceeds from the Iranian arms sales had been diverted to the Contras. (Allen response to SSCI questions, 7/3/91)

Allen was asked about disparities between his initial statements about what he told Gates on October 1 regarding the diversion and his more detailed later testimony about that meeting. Allen explained that, when first questioned, he "had not had time to reflect and think clearly about my meetings with Mr. Gates or even with Mr. Kerr." Allen added, "Later when I was able to think more reflectively, it was clear that I had ticked off to Mr. Gates three or four indicators of why I believed I had reached this analytic judgment." (9/24/91, morning, p. 54)

Gates does not recall these details being passed on by Allen, to include being informed of Ghorbanifar's "frantic" call to Allen and North's reference to the need to raise \$4 million for Ghorbanifar from the "reserve." (6/28/91 Response). At the confirmation hearings, Gates testified that he did not remember Allen talking about a reserve, "but assuming he did say it, mention of the word reserve would have suggested to me that North was somehow suggesting that the CIA reserve be used, and I just considered that sort of outlandish talk, and dismissed it—or would have dismissed it. The idea that there was some other kind of account would not have occurred to me at all." (9/17/91, morning, p. 39)

Gates testifies that he "was startled" by what Allen told him and that he "was disturbed by the threat to the security of the operation, as well as the speculation;" but Gates also says "there was relatively little sense of urgency about it." (Gates Prelim Inq, p. 106; 1987 DCI Hrg, p. 47) In his 1987 DCI confirmation testimony about the 1 October meeting, Gates stresses the "flimsiness" of the basis for Allen's speculation about the diversion. Gates summarizes what he was told by Allen as follows: "Again, we had on the one hand reports of cheating and overcharging that we had been seeing for months, and that are not abnormal in the international arms market, and on the other hand he simply called attention to the circumstantial fact that some of the same people were involved in the Iran affair and the contra thing." (1987 DCI Hrg, p. 88)

At the 1991 confirmation hearings, Allen also "distinctly recalls" Gates saying to him "that in the past he had admired Colonel North because of his work in crisis management and things of this nature, but that this was going too far, and asked that I see the Director." Allen stated "he [Gates] said this with deep concern that Colonel North, whatever qualities he may have had in the past in performing services to the United States, that this was a very questionable activity at best." Allen went on to say Gates had reiterated this statement at the later October 7th meeting with Director Casey (see below). (Allen, 9/24/91, morning, pp. 57-58)

Reminded of Allen's recollections in the Committee interrogatories, Gates says he has "no recollection" of making these statements. (6/28/91 Response)

To the contrary, Gates testified to the Tower Board that Allen gave him no indication that the NSC or anybody "from the U.S. Government" was involved. (Gates Tower Tr.) His written response to questions for the 1987 DCI confirmation hearing states that Allen "had no evidence of any diversion of funds or that CIA, NSC, the White House or the U.S. Government might be involved." (1987 DCI Hrg, p. 13) According to Gates, his concern based on what Allen told him was primarily for the security of the operation. Gates says that Allen "acknowledged" he had "no indication that there was any involvement by . . . U.S. Government persons." (Gates IC Dep, p. 969) Gates also states that Allen "didn't have any indication of any U.S. Government role or anything. I think it was just the mere fact of Secord's presence in both of these activities that, I think is just the best way to put it, raised his concern." (Gates IC Dep, p. 973) In his testimony about a luncheon meeting on 9 October with North and Director Casey, Gates states that he did not ask North about the diversion at this lunch "because there was no suspicion at that point even by Allen that he or anybody else at the NSC was in any way associated with that speculation" about a possible diversion. (Gates IC Dep, p. 995)

Gates says he realized "that the arrangements that the NSC might have might be not improper, necessarily, but not very smart in terms of appearances, and that maybe that ought to be brought to the attention of the Director and ultimately to the NSC itself." (1987 DCI Hrg, p. 75)

According to Allen's testimony at the confirmation hearings, "whether he remembers all of the particulars or not . . . Mr. Gates captured the central message that I had brought to him [on Octo-

ber 1], that there was possibly a diversion occurring and this was a matter of serious concern." (Allen, 9/24/91, morning, p. 54)

Allen also testified that, in his opinion, Gates seemed to be hearing about the diversion for the first time:

[It was] the surprise on his face. The way he reacted. Sort of stunned by the fact that the White House would commingle two separate activities in such a way . . . I have known Mr. Gates for 25 years. Mr. Gates is no actor. Mr. Gates was telling the truth. I think that's the first time he had heard of this matter of a possible diversion. (Allen, 9/24/91, morning, p. 129)

(6) Subsequent NSC Contacts

One document disclosed in the Iran-Contra investigations suggests the possibility that North was alerted on 1 October that allegations about a diversion were being made. A North notebook entry for 1 October 1986 refers to a "1230 Call from Clarridge" with a subsequent apparent reference "Gorba: Divert onto other enterprise." There is no evidence in the record of any connection between this entry and Allen's meeting with Gates on 1 October where Allen discussed a possible diversion. Gates says he does not know the meaning of North's diary entry. (6/28/91 Response) Neither Gates nor Allen recalls discussing this matter on 1 October with Dewey Clarridge, who had close ties to North and Director Casey. According to his calendar, Gates' met with Allen at 5:00 p.m. on 1 October, several hours after the Clarridge call to North. Clarridge and North have not testified about this call.

One possible explanation, suggested by Allen, is that North and Clarridge may have discussed diverting Ghorbanifar from the Iran initiative to another operation so as to resolve his financial problems:

In regard to the cryptic reference in Lt. Col. North's notebook entry of 1 October, I believe this was a reference to get Mr. Ghorbanifar engaged in other activities apart from the NSC-sponsored initiative. Mr. Clarridge, Mr. Cave, and I had repeatedly pointed out to Lt. Col. North that Mr. Ghorbanifar was embittered as a consequence of being shoved aside when the second channel was established. I believe this was finally recognized by Lt. Col. North, and I heard him and others, such as Mr. Twetten, indicate that the plan was to get Mr. Ghorbanifar into supporting the U.S. in its counterterrorist activities. It was believed that this might placate Mr. Ghorbanifar and preclude him from exposing the operation. At the time, there was optimism at the White House that the second channel would result in a speedy resolution of the hostage crisis. (Allen response to SSCI questions, 7/3/91)

Another document that remains unexplained is a CIA Memorandum for the Record dated 3 October 1986 and initialed by Gates reflecting that he met with Admiral Poindexter on Thursday, 2 October 1986. It states: "There was discussion of a special Iranian project. Have Tom Twetten and Charlie Allen call me." In his

letter to the Committee of 2 March 1987, Gates states that he has "no recollection of the specifics of this discussion, but I do not believe I raised the concerns Allen expressed to me the previous day because the DCI had not yet been briefed by Allen as I had directed him to do." The record does not indicate why Gates wanted Twetten (then George Cave's superior as Chief/Near East Division) and Allen to call him or what he subsequently conveyed to them. Nor does the record indicate whether on this occasion Gates discussed with Twetten any of the matters that Allen raised with Gates on 1 October. Gates indicates that his request to Twetten and Allen to call him "may have been related to LTC North's trip to Frankfurt, which was made in connection with the Iranian initiative." Gates and Twetten do not recall any discussion between them at this time of the matters Allen discussed with Gates on 1 October. (Gates 6/28/91 Response, Twetten 7/5/91 Response) Allen is also unable to recollect these events.

(b) 7 October Meetings

Gates and Allen met with Director Casey on 7 October to discuss Allen's concerns. Allen recalls that the purpose of the meeting was to inform Casey "of the operational security aspects of this initiative and the fact that this program was spinning out of control and to tell him of the potential—just sheer speculation at that point; we had no evidence—that money might have been diverted to the contras in Central America." (Allen IC Dep, p. 827)

In his recent statement, Allen says he also explained to Director Casey and Mr. Gates the discrepancy between what the HAWK spare parts cost the U.S. Government and what Mr. Ghorbanifar was charged:

I also described to Mr. Casey the pricing impasse, the discrepancy between what the Iranians and Mr. Ghorbanifar thought was a reasonable price and what U.S. intermediaries evidently were charging for the parts. I told Mr. Casey that this was one of several factors that had lead me to conclude that profits obtained from the arms sales were going to the Contras, although I lacked direct proof. At this meeting, Mr. Gates shared my concern about a possible diversion and indicated that the issue needed to be pursued. I then agreed—at Mr. Casey's request—to put my concerns in writing. . . . I recall mentioning orally to both Mr. Casey and Mr. Gates the comment of Lt. Col. North that he might have to use 'the reserve' in order to placate Mr. Ghorbanifar. I believe I mentioned Lt. Col. North's statement at both the 1 October and 7 October meetings. (Allen response to SSCI questions, 7/8/91)

Gates says Allen described the same concerns at the meeting with Casey that he had described to Gates on 1 October. Gates does not recall Casey inquiring about the basis for Allen's suspicions of a diversion to the contras. Allen recalls, "I didn't belabor the point, but I said that I believed that there had been perhaps overcharging of the Iranians in order to secure money to support the contras in Central America." (Allen IC Dep, p. 830)

According to Gates, Casey "was as startled as I was, and directed Mr. Allen to put down all of these views in writing, and Mr. Allen agreed to do that." (Gates Prelim Inq, p. 106) Allen confirms that Casey "seemed very surprised" and recalls "Mr. Gates chiming in behind me, saying yes, that Charlie had raised this issue with him and that this was an issue of real concern if there was any truth in it." (Allen IC Dep, p. 591)

As with the 1 October meeting, the accounts by Gates and Allen of their 7 October meeting with Casey differ as to discussion of the specific events in August and September that contributed to Allen's suspicion of a possible diversion. As noted above, Allen recalls specifically discussing North's reference to "the reserve." Allen also recalls that Gates commented to Casey on "the seriousness of the issue" and that Gates again "talked about his admiration for Colonel North as a man that gets things done, but that this was going too far, if this was true." Allen goes on to say that he "didn't have any evidence of this fact." (Allen IC Dep, p. 830) Gates has testified he recalls no reference to the statements about North. (6/28/91 Response)

Both Gates and Allen recall Casey telling them at this meeting that he had talked earlier that day with Roy Furmark, a New York businessman whom Casey had known for some years. Casey's daily calendar for October 7 reflects a meeting with Roy Furmark at 3:10 p.m. and a meeting with Allen at 5:30 p.m. which was apparently attended by Gates. (Even though Gates' presence is not listed on his or Casey's calendar, no conflicting meeting appears on Gates' calendar.) Furmark represented Adnan Kashoggi and other investors who had loaned money to Ghorbanifar to assist the Iran arms transactions. (CIA could not provide arms from DoD stocks without advance payment, and the Iranians refused to pay before delivery, so the middleman needed money to pay CIA as a "bridge" until the Iranians paid the middleman). Gates recalls Casey telling them that Furmark "raised with the Director the unhappiness of some of the financiers and the possibility that the entire arrangement with the Iranians might be exposed by one of the participants." (Gates Prelim Inq, p. 114)

When Gates first testified about this meeting, he was unsure whether or not Casey had said Furmark mentioned the diversion. Gates had the impression that Furmark "may have mentioned that there was the possibility that some of the money may have gone to the contras." (Gates Prelim Inq, p. 109) In subsequent testimony, however, Gates states that Furmark "made no mention of any diversion" when he talked to Casey on 7 October. (1987 DCI Hrg, p. 38) Allen also says Casey did not indicate at their meeting that he had heard from Furmark about a possible diversion. (Allen IC Dep, p. 83) Allen testifies that Casey told Gates and Allen at their 7 October meeting that he had talked to Poindexter after talking to Furmark and had told Poindexter the financial concern of the creditors "was a very serious issue." (Allen IC Dep, p. 830-831)

Allen's recent statement also says he was directed to obtain more facts: "Mr. Gates on 1 October asked that I brief the Director immediately; he also directed that I try to obtain more facts. Mr. Casey on 7 October asked that I continue to pursue the matter and keep them informed." (Allen response, 7/8/91, p. 5)

*(c) 9 October Gates/Casey Lunch with North**(1) Gates' Account*

Gates says he had lunch in Casey's office with Casey and North on 9 October. According to Gates, the lunch was set up between Casey and North, and Gates had the impression its purpose was for Casey to hear North report on recent meetings with the Iranians. Gates recalls inviting himself to the lunch partly because Eugene Hasenfus, whose plane had been shot down several days earlier, had announced in Managua that he was working with the CIA. (See Section IV for background on the Hasenfus flight in the context of the issue of Gates' knowledge of North's involvement with contra support activities.) Gates says that he anticipated meeting the Chairmen and Vice Chairmen of the Intelligence Committees and that "because of the impression that Colonel North at least was a contact or a go-between between the private benefactors and the contras I wanted the opportunity to ask him directly if he knew of any involvement, direct or indirect, by CIA individuals or proprietaries." (IC Dep p. 984) Gates recalls North saying that "CIA is completely clean." (1987 DCI Hrg, p. 39) In a memorandum for the record after the lunch Gates recorded North's assurance. (Gates IC Exhibit 2)

Regarding the Iran initiative, Gates says that North reported on recent meetings with the Iranians in the second channel and that "Casey described the unhappy investors and the operational security problems raised by Mr. Allen." Gates recalls "considerable discussion about the change of Iranian channels and the unhappiness of private investors associated with the first channel." (1987 DCI Hrg. p. 39) Gates does not recall any particular reaction by North and says "Casey did most of the talking on that question." Gates testifies that Allen's concern that money from the arms sales was being diverted to other programs was not raised at the meeting. (Gates IC Dep, p. 987)

Gates also recalls North making "a vague reference that I have not been able to reconstruct of something to do with Swiss bank accounts and the contras." Gates says that immediately after lunch he went back into Casey's office and asked him about this reference. According to Gates, it appeared "that Casey hadn't even picked up on what he had said." Gates says he made no connection between North's remark and Allen's concern about a diversion of Iran arms sale profits to the contras. (Gates IC Dep, p. 993-994)

In his 4 December 1986 testimony to the SSCI preliminary inquiry, Gates says North made his cryptic reference to a Swiss account and money for the contras after "a discussion of Ghorbani-far's financial disarray and the problems he was having." (Gates Prelim Inq, p. 106) In subsequent testimony, however, Gates says North's reference to a Swiss account was not linked to the discussion of the Iran initiative, but "was in the context in which I was asking whether CIA was completely clean, and that had to do with a discussion stemming from the downing of the plane that Mr. Hasenfus was on." (1987 DCI Hrg. p. 76)

Gates offers several explanations for his failure to ask North about the reference to Swiss bank accounts or about a possible di-

version. In his written response to questions for his 1987 DCI confirmation hearings, Gates states:

Now, a word of explanation is in order as to why I did not pursue Lt. Col. North's passing and cryptic remark at the end of lunch. First, I did not really understand what he was talking about. Second, I did not want to pursue the question of private funding for the Contras, not because I suspected a problem, but because of our overall concern not to cross the legal limits on us vis-a-vis the Contras and their private benefactors. During the period in question, CIA was authorized to provide very limited support to the Nicaraguan resistance. We knew, obviously, that private groups were providing support to the resistance and CIA probably could have learned about these activities and who was involved. However, we did not want to get as close to the private benefactors as would have been required to collect such information because we did not want to do anything that could be misinterpreted as a CIA violation of the statutory prohibitions. It was out of caution to avoid crossing the bounds of the permissible that CIA officers at all levels were urged to avoid involvement with matters concerning the private efforts to support the Contras. (1987 DCI Hrg, p. 14)

At his deposition for the Iran-Contra Committees, when questioned why he did not ask North whether money was being diverted from the arms sales to the contras, Gates responded as follows:

Well, again I think it has to be seen in the context of October 9 and not the end of July 1987. The principal concern that Allen had surfaced was one of operational security. There was no reference in any of his discussions or in his paper to anybody in the United States Government being involved. There was no reason to ask North, because there was no suspicion at that point even by Allen that he or anybody else was in any way associated with that speculation.

The question really was focused more on, in the initial conversation on the possibility of perhaps General Secord being involved in something inappropriate. So there was really no reason to ask North, because there was no suspicion at that point even by Allen that he or anybody else at the NSC was in any way associated with that speculation. (Gates IC Dep, p. 995)

When asked about his awareness of North's operational directions to CIA personnel in the conduct of the Iran initiative, Gates says he knew that North "was directly involved with our people and was conveying instructions" and he assumed that North was "acting on instructions from his superiors." (Prelim Inq, p. 121) As noted earlier, Gates says he had no knowledge of North's statements to Allen which aroused Allen's suspicions about the diversion.

In his confirmation testimony, Gates cited the lunch with Casey and North as one of three instances where he would have done

things differently if he had the opportunity again. Gates said that when he discussed North's comment about a Swiss bank account with Director Casey, he "would have pressed him [Casey] harder and said, well, now, no, let's think about this. Maybe there's a real problem here." (9/16/91, afternoon, p. 11)

(2) North Account of the Lunch

In testimony at his criminal trial, North states that he began destroying documents "as early as the point in October where Director Casey appraised me of the fact that [Furmark] had approached him with information that the Iranian connection to the Nicaraguan resistance might well be revealed." North testified further:

NORTH. . . . When I got back Director Casey, if I remember correctly, called me out to lunch at the CIA and at that luncheon we discussed the Hasenfus aircraft shoot-down and after—as I remember, afterwards he told me that—Mr. Furmark, was the man's name, who was describing these, he's an old friend of Director Casey, had told Director Casey that he or his friend knew that there was a connection between the Iranian initiative and aid to the Nicaraguan Resistance and my recollection is that he told me at that point to start cleaning things up, to get rid of things that weren't necessary because he and I both realized that the revelation which eventually occurred in November would mean all of these operations would become in doubt.

Q. Did anybody besides the late Director Casey and you attend that lunch?

NORTH. My recollection is that Mr. Gates was there for at least part of it. I don't recall whether he actually sat there for lunch or not but I do recall Mr. Gates being at least in and out . . .

Q. Do you recall Deputy Director of the CIA Gates being present when Mr. Casey told you to clean up the operation?

NORTH. I don't recall whether he was there or not. I truly don't. I just—I know that he was there for at least part of, maybe all of, the lunch and and may well have come and gone. I don't—I really don't recall that . . .

Q. . . . What did Director Casey tell you he meant by "clean things up"?

NORTH. Well, he specifically told me to get the airplanes out of the countries where they were prepositioned in Central America that we had been using for the resupply effort for those many months and got the pilots out, get all of that cleaned up specifically because I believe this is right on the next day or two after the shutdown of the resupply aircraft.

Q. . . . Did he say anything else that you should do in order to clean up this operation?

NORTH. . . . There were a lot of things we talked about but the two things that stick in my mind were the business about the aircraft and the operation which we had

been running in Central America and the business about Mr. Furmark having told him that there was a connection between the Iranian operation and the aid to the resistance that was about to be revealed.

Q. Was Mr. Gates present when Mr. Casey told you about Mr. Furmark's conversation with him?

NORTH. I do not recall whether he was there or not.

Q. [Referring to an earlier statement by the witness] . . . When you say Director Casey was of course aware of that, you mean the use of Iranian arms sales money for the contras?

NORTH. Yes, sir.

Q. Is that something you had told him?

NORTH. . . . It would have been back in probably January or very early February of 1986 before the first transaction of that kind actually occurred.

Q. Had you told that same thing to Deputy Director of the Central Intelligence Agency Gates, that Iranian arms sales money was being used for the contras?

NORTH. I do not specifically recall telling Mr. Gates that at any point, at any time in the whole process up through the end of the operation.

Q. Did Gates—was Gates—Deputy Director Gates present when Director Casey said that his friend Furmark had said something about a connection between the Iranian operation and the contras?

NORTH. I truly don't recall whether he was there for that . . . I don't remember. (transcript, testimony of Oliver L. North, April 12, 1989, Docket No. CR 88-80, United States District Court for the District of Columbia, pp. 7553-7556.

In Gates' Iran-Contra deposition, when asked whether there was any reference at the 9 October lunch to destroying documents, Gates replies, "Absolutely not. I think the most that Casey probably said in that session was something to the effect, on the unhappy investors and so on, was probably something to the effect of you ought to get this straightened out or something like that. There was no indication, I mean nothing that I recall, that you could read between the lines, as I've thought back, in terms of destroying documents or anything like that." (Gates IC Dep, p. 988)

In response to Committee interrogatories, Gates disputes much of North's account:

I would like to point out that LTC North's trial testimony as reported here regarding the substance of Mr. Casey's October 7 telephone (sic) discussion with Mr. Furmark is fundamentally different from what Mr. Casey told me and stated in his memorandum for the record about this conversation. Mr. Casey did not tell me that Mr. Furmark 'knew that there was a connection between the Iranian initiative and aid to the Nicaraguan resistance.' In fact, Mr. Casey did not mention anything about a diversion when he told me about his conversation with Mr. Furmark. Mr. Casey's memorandum regarding his meeting

with Mr. Furmark makes no mention of a diversion of funds. Further, to the best of my recollection, LTC North never told me that the Iranian arms sales money was being used for the Contras.

Gates also denies that Casey said, "in my presence, anything about getting airplanes out of countries where they were prepositioned in Central America." Gates observes, "I left Mr. Casey's office before LTC North, and do not know what may have been discussed after my departure." (6/28/91 Response)

(d) 14 October Allen Memo

Allen completed his memorandum on the problems with the Iran initiative on 14 October. Among other things, the memo says Ghorbanifar was asserting that he had "a 10-11 million shortfall that he cannot meet" and the creditors were "becoming angry" and demanding "additional interest because the principal is overdue." Allen's memo describes Ghorbanifar's financial situation as "murky" and stresses the security risk to the operation "[r]egardless of who is cheating whom". The key section of Allen's 14 October memo states:

Ghorbanifar is depressed and claims his financial situation has been damaged. On several occasions, he has said he would not sit idly by and permit himself to be made the "fall guy" in this matter. He claims to have given written accounts of all that has transpired to several persons in America and Europe. He has directed these individuals to make this material available to the press in the event that "something bad" befalls him. We believe this account would include statements to the effect that:

the Government of the United States sold military materiel to the Government of Iran in order to gain the release of American hostages in Lebanon;

a high-ranking U.S. delegation met in Tehran with representatives of the Iranian government in order to discuss the future relations between the two countries, with various cooperative ventures discussed;

the U.S. Government made several promises to him (Ghorbanifar) that it failed to keep; and

the Government of the United States, along with the Government of Israel, acquired a substantial profit from these transactions, some of which profit was re-distributed to other projects of the U.S. and of Israel.

There is also likely to be material alleging poor judgment and shabby conduct by individuals of the U.S. and Israeli government. (Allen memorandum, 10/14/86)

Allen's memo did not specifically state his speculation that profits were being diverted to the Nicaraguan contras, as he had stated to Gates on October 1 and to Casey and Gates on October 7. Allen's recent statement provides the following explanation for the way he wrote the 14 October memo:

I concur that the memorandum that I prepared on 14 October 1986 was oblique in referring to possible illegal-

ities involving U.S. parties involved in the Iranian initiative. I did this deliberately. Even though I told Mr. Gates on 1 October and 7 October 1986 I believed that profits accrued as a consequence of the arms sales to the Iranian Government had been diverted to support Contra forces in Central America, I was hesitant to allege in writing that White House officials directing the project, including the National Security Advisor, were engaged in highly questionable, if not illegal activities. I had reached an analytic judgment—based on a number of indicators—that a diversion was occurring but I lacked hard, documentary evidence. To put this in writing at this juncture did not seem prudent.

I was particularly concerned with what Mr. Casey might do with the memorandum, once it was written. Therefore, I put my concerns over possible 'illegalities' in the context that Ghorbanifar might allege that funds had been diverted from the Iranian arms sales to support other projects of Israel and the United States. Mr. Casey, in fact, did what I thought he might do. He along with Mr. Gates took the memorandum to Vice Admiral Poindexter, went over it with him in detail, and left it with him. He also told Admiral Poindexter that "Charlie Allen had prepared it." Respectively, I believe the approach I took at the time was the appropriate one, given evidence available to me. I had conveyed my concerns orally to both the DCI and DDCI and had raised major concerns about the entire project in writing. The memorandum, moreover, had been shown to other senior officials, included Mr. Cave, Mr. Clarridge, and Mr. Twetten. To have made allegations of possible illegalities in a formal memorandum—with the evidence at hand—on an initiative that involved the President caused me real concern. At the time, I firmly believed that I had provided the necessary warning to the most senior officials in the Agency. (Allen response to SSCI questions, 7/3/91)

Allen gave similar testimony at the confirmation hearings, saying that in writing the memorandum, he was getting "close to the bone at the White House," and feared that the operation might have involved the President himself. (Allen, 9/24/91, morning, pp. 42, 51) Allen testified, however, that he never expressed this fear to Casey or Gates. (Allen, 9/24/91, morning, p. 113)

Gates does not recall the details that Allen says were the basis for his October 14 memorandum. Gates recalls that Allen was "surmising what Ghorbanifar might be able to testify to." (Gates Prelim Inq, p. 115) Gates also states, "[m]y impression was that it was primarily from Allen's reading of the intelligence and him seeking the involvement, putting together through intelligence the involvement of Secord in the Iranian venture, and knowing that Secord probably also was involved in the Contra activity, that it was putting of these two things together analytically and reading between the lines in intelligence. That was my impression of what prompted Allen to write the memo." (Gates Prelim Inq, p.128)