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Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

18 August 1986

Libyan Abuse of Commercial Ventures Since 7 January 1986



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Summary

Tripoli continues to use overseas offices of the Libyan Arab Airlines, Libyan Arab Foreign Investment Company affiliates, and a variety of ostensibly independent front companies to carry out acts of subversion or to procure denied goods. The closure of Libyan Peoples Bureaus in many countries increases the likelihood that Tripoli will place even greater emphasis on using semi-private channels to strike at Libyan exiles or possibly US targets. Moreover, Libya's international network of interbank relationships and equity ownership in foreign financial institutions has given the regime great flexibility to manage international financial transactions including the support of terrorist activity.



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Available information does not indicate that Tripoli has used its small equity share in UBAF Arab American Bank in New York to channel funds to terrorists or to circumvent US economic sanctions. We believe, however, that the regime probably will make even greater efforts in the future to obtain denied goods--especially civilian aircraft, computer equipment, and Western military goods--through corporate cut-outs. Greater cooperation between Washington and our West European allies probably will be necessary to detect and prevent Libyan use of front

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This memorandum was prepared by [redacted] the Office of Near Eastern and South Asian Analysis. Information as of 15 August 1986 was used in its preparation. Questions and comments should be directed to Chief, Arab-Israeli Division, [redacted].

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companies to obtain restricted goods or to support subversion. [redacted]

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Libya continues to use overseas offices of the Libyan Arab Airline (LAA) as well as affiliates of the Libyan Arab Foreign Investment Company (LAFICO) as cover for Tripoli's support of subversion and terrorist activity. Money, personnel, and even some arms may have been passed through these entities since 7 January. The closure or curtailment of Libyan Peoples Bureau operations has almost certainly encouraged the use of Libya's commercial enterprises to support subversion. [redacted]

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Moreover, Tripoli has used select front companies to circumvent US economic sanctions. These corporate cut-outs have been instrumental in helping Libya procure spare parts, two commercial aircraft, and a variety of services since 7 January. Libya's extensive international network of interbank relationships and equity ownership have helped to ease the impact of US financial sanctions against the regime. [redacted]

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Libyan Arab Airlines

Libya in the past has often used its civil air operations to support subversive activities. Since airline operations have commercial cover and easy access to European and Asian cities, LAA offices provide attractive bases for expediting Tripoli's politically motivated operations against Libyan exiles and other target groups. While LAA carries on considerable legitimate trade, [redacted] Tripoli's use of LAA offices overseas for non-legitimate purposes has continued. [redacted]

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Since 7 January, Libyan intelligence operatives working under airline cover probably have been involved in at least several terrorist related activities:

- A LAA operative probably was a key contact in a failed attempt to bomb the US officers club in Ankara on 18 April. Grenades to be used in the attack may have been provided through the local LAA office.
- A LAA representative was to provide instructions, payment, and airline tickets for terrorists planning a rocket attack against the US Embassy in Nicosia in April.

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[redacted]

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[redacted]

[redacted]

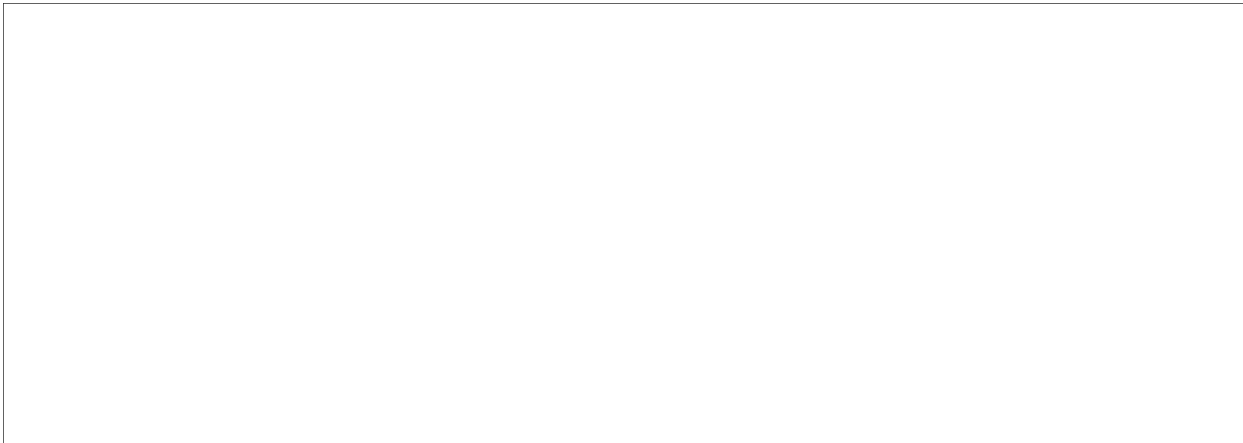
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Use of LAFICO Affiliates and Front Companies



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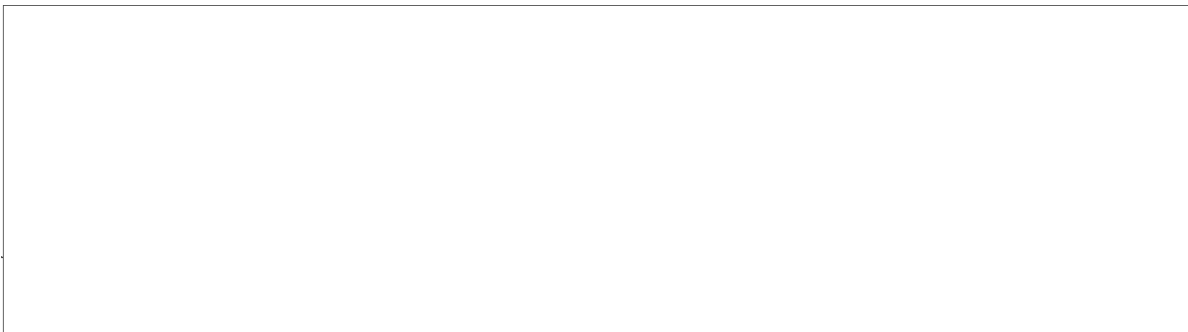
The establishment or use of existing independent companies to support Libyan terrorist activity continues:

[redacted] believed to be involved in a plot to assassinate the US Ambassador in Rome returned to Italy late last year under LAFICO cover. The Italian Government arrested him in April, but he has subsequently been released.

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-- In April an official [redacted] in Karachi was arrested and questioned for his suspected role in the fire bombing of the Pak-Libyan office ostensibly to destroy incriminating financial records. The officer also was suspected of heading and funding a network of anti-government dissidents in Pakistan. The officer was eventually released after the visit of a high level Libyan deligation to Pakistan.

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Several of LAFICO's largest affiliates such as Fiat--the Italian auto maker--and possibly the Carl Kaelble Gmeinder Company--a West German manufacturer of heavy equipment--have had ongoing commercial relations with US firms since 7 January. Moreover, LAFICO's extensive international business connections give Libya considerable flexibility and ample cover to trade with US firms. Many LAFICO affiliates, however, are small regional ventures. Most of these money losing concerns probably have had little or no contact with US companies since January.

[Redacted]

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Of greater concern is Libya's ability to use seemingly unrelated front companies to circumvent US trade restrictions. These companies often give no indication of Libyan complicity, yet are established by Libyans or work in conjunction with Libya to obtain denied goods or services. Since 7 January a number of front companies have been used:

-- A new Libyan company called "Nitron" was established in Belgium, Switzerland, and Luxembourg to handle orders for automobiles which are in short supply in Libya.

[Redacted]

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-- Two front companies, Service Airlines, Ltd., and Cobra AW, Ltd., of Hong Kong and the United Kingdom respectively, were used by Tripoli to obtain two A310-200 aircraft with US manufactured engines from British Caledonian airlines. Both of the aircraft have been shipped to Libya. Moreover, Contrust Benin SARL, another Libyan front company operating out of West Germany and Benin obtained two US C-130 aircraft for Libya last year.

-- Another company called Air Spares, Ltd., may be a key supplier of Boeing parts for Libya's largely US origin civil air fleet, according to the US Embassy in Paris.

[Redacted]

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Tripoli's growing ability to disguise its affiliation with front companies and the large number of companies which still deal with Libya makes the task of detecting Libyan corporate cut-outs difficult. Moreover, legitimate companies could be unwitting of Libya's affiliation with a front company, as probably was the case in the sale of two A310-200 aircraft to Service Airlines, Ltd., in June. Libya's ability to pay several times the price for denied goods or services also provides a great incentive for some firms to look the other way in dealing with suspected Libyan cut-outs.

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[Redacted]

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The UBAF Arab American Bank

The freeze on Libyan financial activity and assets in the US has not prevented Tripoli from maintaining a small equity stake in the UBAF Arab American Bank, Inc., located in New York. Tripoli holds a 7.73 percent equity share in the bank and is one of twenty--primarily Arab--owners of the bank. Total deposits of \$900 million were recorded for the bank at the end of 1985. The UBAF is a member of the Federal Reserve System and the Federal Deposit Insurance Corporation. [redacted]

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Despite Libya's equity share, Tripoli does not appear to exercise any control over the UBAF's activities and does not have a representative among senior bank management. Moreover, we have no information that Libya has attempted to move funds through this bank since 8 January. Libyan profits from its investment in the UBAF probably are deposited in a European bank on Libyan account. [redacted]

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Libya's worldwide network of interbank relationships and equity ownership in foreign banks gives Tripoli considerable flexibility to handle its international finances. A number of foreign banks have even offered to assist Libya in handling US dollar transactions. In some cases these banks are partly owned by Libya. Several banks in Italy and Austria have been particularly helpful in assisting Libya on US dollar transactions. [redacted]

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Outlook

Tripoli's movement toward using commercial companies to support subversion or circumvent US trade restrictions is likely to continue, in our judgement. The closure of Libyan diplomatic offices abroad, and the closer scrutiny of Libyan personnel and corporate offices weighs in favor of the use of corporate cut-outs in support of Libyan subversion or terrorist activity. Greater reliance on front companies, however, will make the task of monitoring and preventing Libyan acts of subversion or terrorism more difficult. Under such conditions, greater support from allied governments probably will be necessary to establish Libyan affiliation and abuse of corporate or financial enterprises. [redacted]

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Tripoli probably will increasingly emphasize acquiring goods denied by US and allied trade sanctions. Civilian aircraft, computer equipment, and select oil technology have been items most frequently obtained through front companies. We believe that Libya also may use front companies to a larger degree to obtain Western military goods and technology, since many West European states have curtailed such sales to Tripoli. The international sale of such goods or related services will require even closer scrutiny in the future to prevent denied goods from reaching Libya. [redacted]

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SUBJECT: Libyan Abuse of Commercial Ventures Since 7 January 1986. [redacted]

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