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CIA did not pass on BCCI information to Feds
 By TERESA SIMONS ROBINSON
 UPI Business Writer

WASHINGTON (UPI) — Acting CIA Director Richard ~~Walt~~ admits that the intelligence agency did not tell the Federal Reserve that the scandal-plagued Bank of Credit and Commerce International secretly owned a U.S. bank holding company.

But Kerr, testifying on Capitol Hill Friday, denied his agency had an improper relationship with the rogue Pakistani-run bank and said the CIA used the bank only on "an extremely limited basis."

Kerr was responding to allegations the CIA may have co-opted the bank to turn it into a financier of covert intelligence activity such as arms sales to Iran, the profits of which went to aid the Nicaraguan Contra rebels.

Meanwhile, President Bush declined to answer questions about the propriety of a former White House aide who has been retained on a \$600,000, two-year contract — as a lawyer for a Saudi sheik involved in the scandal.

Ed Rogers, who resigned as a top aide to White House chief of staff John Sununu, is representing Sheik Kamal Adham, a former Saudi intelligence chief identified as a principal owner of BCCI.

Bush said Rogers is "a free citizen to do anything he wants once he leaves the White House. My concern is about the White House itself, that it be beyond any perception of impropriety."

Sen. John Kerry, D-Mass., on the other hand, suggested that Rogers may have been hired for his political connections.

Noting that Rogers has no criminal law experience, the senator said, "You are inevitably left asking what services can he provide that are worth \$600,000."

Kerry conducted hearings this week on BCCI, a global enterprise that regulators in seven countries seized last July after the Bank of England uncovered evidence of fraud, drug trafficking and money laundering at British branches.

The victims potentially include as many as 1.2 million depositors in the 70 countries where BCCI operated. Deposits were frozen when the bank was seized.

At Friday's hearing, Kerr said the CIA knew in 1985 that BCCI had secretly acquired illegal ownership of the Washington area's largest bank holding company, First American Bankshares, but did not give the evidence to the bank's regulator, the Federal Reserve.

But he said the CIA did inform the Treasury Department, which oversees regulators of other banks. Federal Reserve officials have said no one at Treasury passed on the information.

Under questioning by Kerry's panel, Kerr said he did not know which CIA officer failed to tell the Federal Reserve, but he also said he did not plan to find out or to discipline the person.

He said a number of documents on BCCI's suspected money laundering, drug trafficking and involvement in terrorism and weapons sales had been disseminated to various governmental agencies, including the Commerce and State departments and the FBI.

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"The CIA did its job and did it well," Kerr told the Senate Subcommittee on Terrorism, Narcotics and International Operations.

Sen. Hank Brown, R-Colo., later maintained the CIA dropped the ball. "If you know about a fire you don't call the city manager's office; you call the fire department. They called the city manager's office," he said.

Treasury spokeswoman Claire Buchan described the CIA's early evidence on BCCI as "interesting background material" but said it would not have added to what the Fed already knew. Treasury obtained more useful information on its own in 1988 and did pass it along to the Fed, she said.

Kerr, meanwhile, also emphatically denied allegations that the CIA had an improper relationship with BCCI. He characterized as "baseless" suggestions that BCCI founder Agha Hassan Abedig had been put on the agency's "watch list" in an effort to persuade him to fund covert operations.

"We used BCCI on an extremely limited basis for legal banking transactions," Kerr said.

The CIA has said it used the bank as a "transfer point" for routine movements of funds.

For national security reasons, Kerr declined to discuss the allegations in depth during the public hearing but he agreed to meet with the Senate panel next week in a private session.

Earlier in the week, Georgia banker Bert Lance, director of the budget under President Jimmy Carter, claimed the CIA played a major role in the affairs of BCCI.

Although Lance offered little evidence, he is not alone in his assertions. In Abedi's home country of Pakistan, several officials claim BCCI routinely did the CIA's bidding.

Testimony in hearings on the Iran-Contra arms-for-hostages scandal also indicated that BCCI was to earn a profit for funding a \$10 million weapons sale to Iran, arranged by arms dealer Adnan Khashoggi, believed to be a Reagan administration operative.

CIA 'Mistake' Cited in Case Of 1st American

By Mark Potts
Washington Post Staff Writer

The CIA's acting director yesterday said the agency made an "honest mistake" when it failed to send the Federal Reserve Board a 1985 report that revealed that the Bank of Credit and Commerce International secretly owned Washington's First American Bankshares Inc.—something the Fed did not discover until late last year.

Richard Kerr, the acting CIA chief, said the agency sent the report to the Treasury Department, assuming that it would be passed along to appropriate officials in other departments. The Federal Reserve is an independent agency that oversees bank holding companies such as First American Bankshares.

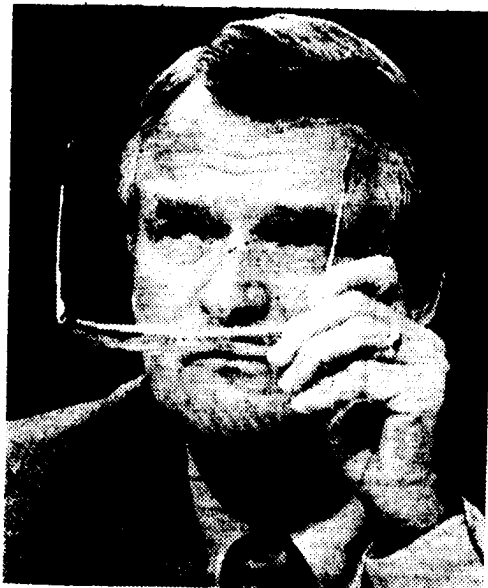
But two members of the Senate subcommittee on terrorism, narcotics and international operations sharply criticized the agency's handling of its intelligence on BCCI's activities and the way the information was disseminated to other federal agencies.

At a news conference after the hearing, Sen. John Kerry (D-Mass.), the subcommittee's chairman, said it was a "mistake of judgment" for the CIA not to tell the Federal Reserve what it knew about BCCI's alleged ownership of First American. "There's a major breakdown of communications, of follow-through."

Sen. Hank Brown (R-Colo.) suggested that authorities might have been able to act earlier had the CIA been more forceful about raising alarms about the bank's activities. "They

know there's a fire, you don't call, the city manager's office, you call the fire department," Brown said. "They called the city manager's office."

During the hearing, however, Kerr bristled at the suggestion that the CIA fell down on the job. Pointing out that the agency had disseminated many reports on BCCI to agencies throughout the government, Kerr noted repeatedly the difference between the CIA's intelligence-gathering mission and that of a law enforcement agency.



RICHARD KERR
... CIA assumed report would be passed along

"We were focusing on a set of activities that really went beyond BCCI," he said, referring to BCCI's money-laundering activities and the bank's alleged role as the banker for terrorist organizations and the financing of arms deals.

Kerr also rejected several news stories that characterized BCCI as a "CIA bank," and said the agency did nothing more than maintain a few ordinary bank accounts that he said were lawful and proper.

Kerry and Brown did not restrict their criticism to the CIA, lashing out at the agencies that got reports from the CIA and failed to act. Noting Kerr's testimony that the CIA first distributed raw intelligence reports about BCCI's alleged involvement in money laundering in 1984, Kerry said: "An awful lot of information was being given to people. . . . It just seems that nobody wanted to respond. . . ."

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"Somewhere in this process you would have thought somebody would have leaped up and said there's a major problem in this bank," Kerry said.

Kerr said the agency had "disseminated" several hundred reports, many of them in the form of raw intelligence, over the past seven years. He said an internal investigation into the CIA's handling of the case had suggested that the agency needed to improve the way it disseminates intelligence information to other agencies.

Kerr declined to elaborate, and he also declined to answer several questions from the senators about various personalities in the BCCI saga, citing intelligence sensitivities. The subcommittee plans to hold a closed session with Kerr next week to deal with those questions.

The subcommittee also heard testimony from Laurence Pope, a counterterrorism official at the State Department.

Pope said the State Department learned in 1986 that BCCI branches in Europe had helped the Abu Nidal terrorist organization trade in weapons and other business enterprises through front companies, and said BCCI was involved in providing banking services for other terrorist groups.

C.I.A. Admits It Failed to Tell Fed About B.C.C.I.

By MARTIN TOLCHIN

Special to The New York Times

WASHINGTON, Oct. 25 — The Central Intelligence Agency admitted today that it had failed to tell a regulatory agency what it knew about the Bank of Credit and Commerce International, including B.C.C.I.'s secret control of an American bank.

Richard Kerr, the Acting Director of Central Intelligence, told a Senate subcommittee that although the agency knew in the mid-1980's that B.C.C.I. was involved in illicit activities, including money laundering and terrorism, it had failed to report that information to the Federal Reserve Board. And the C.I.A. did not tell the Fed that B.C.C.I. had gained control of First American Bankshares in 1981, he said, after the agency learned of the secret takeover in 1985.

Nor did the agency report B.C.C.I.'s secret control of First American to the Justice Department, which is now investigating whether First American officials lied in denying that B.C.C.I. controlled the bank.

'A Major Failure'

Senator John F. Kerry, the Massachusetts Democrat who is chairman of the Foreign Relations Committee's Subcommittee on Terrorism, Narcotics and International Operations, which conducted the hearing, said the agency was guilty of "a major failure of communication and follow-through." Senator Hank Brown, a Colorado Republican, said, "If they had shared their information, there's every reason to believe that this could have been stopped five years ago."

Mark Mansfield, a spokesman for the agency, said tonight, "It is the C.I.A.'s policy to report possible violations of the law to the appropriate law-enforcement authorities." But he said the agency went beyond its formal obligations in informing the Treasury and other law-enforcement agencies of potential illegalities at B.C.C.I.

Under a 1981 Presidential order on intelligence activities, the C.I.A. is required to report to the Attorney General violations of "specified Federal criminal laws" that it uncovers while collecting intelligence. Among the crimes that must be reported are foreign espionage, murder and other violent offenses, violations of export control laws and bribery of public officials.

"Bank fraud is not on the specified crimes list," Mr. Mansfield said, "but we reported it anyway, without any legal obligation to do so, because it was and continues to be our policy."

Mr. Kerr offered the most detailed account yet of the C.I.A.'s involvement with B.C.C.I., including the agency's use of the bank, which was seized in July by financial regulators in seven countries. Published reports in July told of evidence that the agency had used B.C.C.I. to make payoffs abroad, and that the bank had been used as part of the C.I.A.'s secret program to support anti-Communist guerrillas in Afghanistan.

The agency has also been accused of using the bank as a conduit in the sale of arms to Iran and the diversion of funds to the Nicaraguan contras, and of thwarting Government investigations of B.C.C.I.

Mr. Kerr told the subcommittee, "We used it as a normal bank, with accounts associated with lawful, authorized activities."

He said that in the Iran-contra scandal "the C.I.A. was not involved, nor did it have knowledge of any use of B.C.C.I." Senator Kerry then asked Mr. Kerr about "significant evidence" that Oliver North, the White House national security aide who directed the Iran-contra operation, had consulted with William Casey, then the Director of Central Intelligence.

"I wouldn't want to get into a debate or an argument on that," Mr. Kerr said, "but I think that evidence is primarily hearsay and not evidence."

Addressing what he called "allegations in the media of C.I.A. illegal or improper relationships with B.C.C.I., let me go down those directly," Mr. Kerr said. "The C.I.A. did not assist or encourage, either by action or implication, any wrongdoing on the part of B.C.C.I. or its employees. C.I.A. took no action, including withholding information, to influence or impede any existing or potential civil or criminal investigation or prosecution of B.C.C.I."

Mr. Kerr told the subcommittee that there were many questions he could not answer in a public session. Mr. Kerry announced that he would hold a closed session next week.

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Richard Kerr, Acting Director of Central Intelligence, testifying yesterday before a Senate subcommittee. State Department officials also testifying were, from left, Laurence Pope, Alan J. Kreczko and Grant Smith.

CIA Says It May Have Made a Mistake on BCCI

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■ **Banking:** It should have notified proper agencies about possible wrongdoing, official says.

By ROBERT L. JACKSON
TIMES STAFF WRITER

WASHINGTON—The acting director of the CIA acknowledged Friday that his agency may have erred in failing to notify proper authorities about early evidence of wrongdoing by the scandal-plagued Bank of Credit & Commerce International.

Richard Kerr told a Senate subcommittee that the CIA learned in 1985 that BCCI had secretly gained control of Washington's largest bank holding company four years earlier. He said the agency did not alert the Justice Department or the Federal Reserve Board, the agencies that could have acted to end BCCI's control.

Kerr said the CIA's report on the matter went only to the Commerce Department and the Treasury. Failure to notify the other agencies was "an honest mistake," he told the Senate Foreign Relations subcommittee on terrorism, narcotics and international operations, which has been holding hearings on the worldwide BCCI scandal.

Sen. Hank Brown (R-Colo.), a subcommittee member, said the CIA "should look with greater care in the future" to the issue of which agencies should receive its reports and assessments. "When there's a fire, you don't call the city manager's office, you call the fire department."

Kerr said the CIA is constantly reviewing the list of agencies to which it issues reports, and "we believe there is room to improve."

The handling of the information linking BCCI to the Washington bank contrasts with the CIA's actions on another matter involving the international banking enterprise, which was shut down in July by regulators representing several countries.

Kerr said that in 1983 and 1984, the CIA discovered evidence that BCCI was laundering drug money and handling bank accounts of terrorists. He said the agency promptly reported the findings to the FBI, the State Department and Treasury.

Washington attorneys Clark M. Clifford and Robert A. Altman, formerly the top officers of First American Bankshares Inc., the firm that BCCI secretly acquired in 1981, have repeatedly denied knowledge of the acquisition.

Kerr acknowledged last summer that the CIA used BCCI's far-flung banking system in the 1980s to move money around the world for its intelligence-gathering activities. He reiterated Friday that "these were perfectly legitimate and legal operations." He told the subcommittee that the CIA simultaneously was filing reports

on the bank's activities and did not "assist or encourage" wrongdoing.

The bank was unaware that it handled any CIA money, Kerr added.

John Kerry (D-Mass.), the panel's chairman, asked Kerr if he knew that Mideast arms broker Adnan Khashoggi had been involved in a BCCI-financed deal to ship \$10 million worth of missiles to Iran through a Canadian business group, and that the transaction had fallen through.

"The CIA had no knowledge of any BCCI involvement in the sale of arms to Iran," Kerr replied.

Separately, investor Ghaith Pharaon has flatly denied that he acted as BCCI's front man in the United States, according to papers from a New York federal court obtained Friday by the Associated Press.

In his first formal defense of Federal Reserve charges that he played a central role in BCCI's infiltration of the U.S. banking system, Pharaon denied that he helped BCCI and a subsidiary acquire 85% of the small Independence Bank of Encino.

Pharaon acquired Independence in 1985 for \$23 million. He also disputed allegations that BCCI founder and chairman, Agha Hasan Abedi, appointed a BCCI executive, Kemal Shoab, as chairman of Independence Bank.

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CIA WROTE HUNDREDS OF REPORTS ON BCCI, BUT DID NOT TELL FED OF U.S. LINK

By MIKE CHRISTENSEN=
 c. 1991 Cox News Service=

WASHINGTON The Central Intelligence Agency distributed hundreds of reports on the outlaw Bank of Credit and Commerce International, but failed to tell the Federal Reserve or Justice Department that BCCI secretly owned a U.S. bank, acting CIA director Richard Kerr told a Senate subcommittee Friday.

A 1985 report that BCCI had gained control of Financial General Bankshares, predecessor of First American Bankshares, was sent only to the Treasury Department, Kerr said, on the assumption that any vital information would be forwarded to the appropriate agency.

It was, he said, "a legitimate decision based on our understanding of who ... had responsibility for it," though "with hindsight, we might have done it differently." The CIA is reviewing its distribution rules.

"I think it's a mistake of judgement," said Sen. John Kerry, D-Mass., chairman of the Foreign Relations subcommittee on terrorism. He promised to hold further hearings on the subject and summon Treasury officials to testify.

The ranking Republican on the panel, Hank Brown of Colorado, called it a "major breakdown" that raised serious questions about CIA management.

"If you know about a fire, you don't call the city manager's office, you call the fire department," Brown said. "They called the city manager."

Kerr, testifying for the first time on the BCCI scandal, acknowledged that the CIA had maintained bank accounts with BCCI branches, using that access to gather intelligence. But he firmly denied that the agency had any worked with or controlled BCCI operations for its own ends.

Former federal budget director Bert Lance testified earlier in the week that he thought BCCI and its founder, Aga Hassan Abedi, had been "co-opted" by the CIA in 1984.

"The CIA did not assist or encourage, either by action or implication, any wrongdoing on the part of BCCI or its employees," Kerr said. "CIA took no action, including withholding information, to influence or impede any existing or potential civil or criminal investigation or prosecution of BCCI."

Kerr said the CIA first became interested in the Luxembourg-based bank in the late 1970s, primarily in connection with money laundering for the drug trade, the transfer of arms and the financing of terrorists.

The CIA produced several hundred reports either about BCCI activities or mentioning the bank, Kerr testified, and distributed them to a variety of federal agencies, depending on the subject matter involved. These "intelligence consumers" included the FBI, Drug Enforcement Agency, National Security Agency, the Customs Service, Commerce Department, the Federal Reserve Board, Department

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of Energy, State Department and even the U.S. trade representative. The CIA was more interested in what BCCI was doing rather than who controlled the bank, Kerr testified. "We were focused on larger strategic problems and issues, not on the bank itself or the individuals involved," he said. "We were focused on a set of activities that really went beyond BCCI, but were using BCCI as a mechanism."

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CIA Didn't Give Justice, Fed Data About BCCI, Official Says

By MARCY GORDON
Associated Press Writer

WASHINGTON (AP) - The acting director of the CIA told Congress Friday that the agency wrote hundreds of reports about the outlaw Bank of Credit and Commerce International but failed to inform the Justice Department of BCCI's illegal ownership of a big U.S. bank.

A Republican senator said the statement raised "major questions" about how the CIA operates.

The CIA had accounts at foreign-owned BCCI but later found out about its illicit dealings and used the bank to monitor drug traffickers and terrorists, Richard Kerr testified at a Senate subcommittee hearing.

When the CIA discovered in 1987 that BCCI had secretly acquired First American Bankshares Inc. five years earlier, the agency told the Treasury and Commerce departments but not Justice or the Federal Reserve, Kerr said. He said the CIA believed at the time that Treasury would pass the information on.

The Federal Reserve, which regulates bank holding companies, alleged this summer that BCCI used Middle Eastern front men to illegally buy First American, a bank holding company based in Washington.

"With hindsight, we might have done it differently," Kerr told the Senate Foreign Relations Subcommittee on Terrorism, Narcotics and International Operations. The panel, which held public hearings this week on the BCCI scandal, plans to hear additional testimony from Kerr next week in a closed session.

"An awful lot of information was being given to people," said Sen. John Kerry, D-Mass., the subcommittee's chairman. "I'm not assigning any conspiracy to it ... but the information you were generating was not being responded to."

Kerry told reporters after the hearing that he considered the CIA's action "a mistake of judgment."

The panel's ranking Republican, Sen. Hank Brown of Colorado, said, "If you know about a fire, you don't call the city manager's office, you call the Fire Department."

"I think it raises major questions about the way the CIA is managed," Brown said.

Treasury spokeswoman Claire Buchan said the department received a report from the CIA in 1985 on an unnamed Washington bank holding company said to have links to BCCI.

"While (the report) might have been useful background information, it wasn't overly significant to the people who received it," Buchan said.

A Commerce Department official, speaking on condition of anonymity, said the department's Office of Intelligence Liaison had received information about BCCI from the CIA. "It was deemed

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unnecessary by that office to circulate the memo to senior officials and they shredded it," the official said.

BCCI and First American do not fall within the Commerce Department's jurisdiction, the official said.

BCCI, which had branches in the United States and many foreign countries, has been accused of running an international network of drug smuggling, arms peddling, money laundering and bribing of public officials.

Financial regulators around the world shut down BCCI's operations in July. A New York grand jury indicted the bank, its Pakistani founder and its former chief executive officer for alleged fraud and theft of depositors' funds.

Sen. Kerry disclosed this summer that the CIA had done reports on BCCI in the mid-1980s, but Kerr's testimony was the first indication the agency had generated a large number of documents.

Kerr also defended the CIA's own dealings with BCCI, dismissing as "outrageous" a published report this summer that the agency participated in an alleged BCCI "black network" of illicit activities around the world.

"CIA did not assist or encourage ... any wrongdoing on the part of BCCI or its employees," Kerr said.

He also said the CIA did not impede any criminal investigations or prosecutions of BCCI, and did not use the bank in the sale of weapons to Iran in the Iran-Contra arms-for-hostages transactions.

Kerr also rejected testimony by former federal budget director Bert Lance, who told the subcommittee Wednesday that he's convinced the CIA recruited BCCI's founder in 1984 in order to use the bank for CIA purposes.

Lance's statements buttressed testimony Tuesday by Abdur Sakhia, a former top BCCI official who said that BCCI head Agha Hasan Abedi apparently had been taken off the intelligence agency's "watchlist" around 1984.

But Kerr called the idea that the CIA recruited Abedi "baseless."

BCCI "was used on an extremely limited basis for legal banking transactions," he told the subcommittee.

The CIA used BCCI both to support its activities abroad, such as paying agents, and to funnel money to guerrilla groups supported by the United States in Nicaragua and Afghanistan, officials have said.

One of the things the CIA discovered, according to State Department officials, is that the radical Palestinian terrorist organization of Abu Nidal was banking at BCCI in Europe and using the money to support front companies in Poland and East Germany.

"We did work with other governments ... to dismantle that network," Larry Pope, associate coordinator for counter-terrorism at the State Department, testified at Friday's hearing.

"Our concern was with the terrorists and their activity, not with the bank," he said.

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CIA chief denies improper association with BCCI
 By TERESA SIMONS ROBINSON
 UPI Business Writer

WASHINGTON (UPI) — Acting CIA Director Richard ~~Kerr~~ denied Friday that the intelligence agency had an improper relationship with the scandal-plagued Bank of Credit and Commerce International and said the agency used the bank only on "an extremely limited basis."

Kerr was responding to allegations that the CIA may have co-opted the rogue Pakistani-run bank to turn it into a funder of covert intelligence activity such as arms sales to Iran, the profits of which went to aid the Nicaraguan Contra rebels.

But Kerr told a Senate panel the allegations are "outrageous and unfounded." And he characterized as "baseless" suggestions that BCCI founder Agha Hassan Abedig had been put on the agency's "watch list" in an effort to persuade him to cooperate.

"We used BCCI on an extremely limited basis for legal banking transactions," Kerr said in a statement before the Senate subcommittee on Terrorism, Narcotics and International Operations.

He did not say why the CIA elected to use the rogue bank on an even limited basis, but in the past he has said the agency used it as a "transfer point" for routine movements of funds.

Kerr also reiterated Thursday that BCCI was a "target" of the CIA and that the agency collected information on how the bank was being used to launder money and finance drug trafficking, terrorism and weapons sales.

"The CIA did its job and did it well," he said.

He said much of the information the agency collected was disseminated to various governmental agencies, including the Treasury, Commerce and State departments, the Federal Reserve and the FBI.

Already in 1985, Kerr said, the CIA reported that BCCI had secretly acquired illegal ownership of the Washington area's largest bank holding company, First American Bankshares, which until recently was headed by Clark Clifford, a longtime presidential adviser and a secretary of defense under President Lyndon Johnson.

Kerr was called before the Senate panel at the end of a week of testimony that included allegations the CIA may have used BCCI to fund its covert activities.

Bert Lance, director of the budget under President Jimmy Carter, claimed the CIA played a major role in the affairs of the bank.

Although he offered little evidence, he is not alone in his assertions. In Abedi's home country of Pakistan, several officials claim that BCCI routinely did the CIA's bidding.

A former BCCI official, Abdur Sakhia, testified that Abedi told him he had been hesitant to travel to the United States because he was on the CIA's watchlist and was being harrassed. Suddenly, Abedi no longer was reluctant to travel, Sakhia said, adding he assumed that was because a deal had been struck.

Testimony in hearings on the Iran-Contra arms-for-hostages scandal also indicated that BCCI was to earn a profit for funding a \$10 million weapons sale to Iran, arranged by arms dealer Adnan Khashoggi, believed to be a Reagan administration operative.

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Meanwhile, The Wall Street Journal reported Friday a sudden flurry of legal activity in Egypt, where a Saudi sheik involved in the scandal lives.

The newspaper said a plea arrangement might be in the works with Sheik Kamal Adham, the former Saudi intelligence chief identified as a principal owner of BCCI. Such a development could be useful to prosecutors investigating BCCI's secret activities in the United States.

The office of David Eisenberg, an assistant U.S. attorney in the BCCI case, confirmed that he has been in Cairo this week. Also, Ed Rogers, who was retained as a \$300,000-a-year attorney for Adham after resigning as a top aide to White House chief of staff John Sununu, is also in Egypt, an aide said.

President Bush, asked about Rogers at a news conference Friday, said: "He's a free citizen to do anything he wants once he leaves the White House. My concern is about the White House itself, that it be beyond any perception of impropriety."

Asked why he thought Rogers went to the Saudi sheik, Bush said: "Ask him. I don't know what he's selling. I don't know anything about this man except I've read bad stuff about him and I don't like what I read about it."

C.I.A.'s Track Record Stands Up to Scrutiny

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To the Editor:

"The Once and Future C.I.A." (editorial, Oct. 18) asserts the Central Intelligence Agency "has, at least to public perception, flunked." To support this assertion, you suggest the agency failed to anticipate the fall of the Berlin Wall, Saddam Hussein's aggression and the implosion of the Soviet Union. This portrayal of the agency's performance is inaccurate, and does a disservice by furthering a perception that is flat-out wrong.

With respect to the Berlin Wall, the C.I.A. did draw policy makers' attention in advance of its collapse to the possibility the embattled East German regime might have to dismantle it. But the wall was merely the most conspicuous symbol of a broader phenomenon — the collapse of Communism in Eastern Europe — on which our analytic record is very good. Even before Mikhail S. Gorbachev came to power in 1985, we had pointed to the likelihood of political crisis in one or more East European states before the decade was out.

And about two years after Mr. Gorbachev's emergence as Soviet leader — and almost two years before the advent of democratic change in Poland — we foresaw in our assessments that Mr. Gorbachev's policies were likely to destabilize Eastern Europe and lead to a dramatic turn of events there. On specific countries, we warned months in advance that the orthodox party leadership in Hungary would be swept aside, and that the Czechoslovak regime was increasingly vulnerable. We predicted Solidarity's election victory in Poland and that full German unity would come much faster than most observers thought possible.

Concerning Saddam Hussein, the C.I.A. clearly warned of his potential for aggression. Longer-range estimates judged that the apparent restraint in Iraqi foreign policy following the war with Iran reflected the realities facing postwar Iraq rather than a fundamental shift in Saddam Hussein's policies or regional ambitions. During the spring of 1990 we tracked Saddam Hussein's increasingly threatening tone and behavior; in the days leading up to the

invasion of Kuwait we reported the buildup of Iraqi forces on the border, and we gave explicit warning of the possibility of attack more than a week before it occurred.

As for the "implosion of the Soviet Union," the C.I.A. has been saying with increasing insistence since the late 1980's that Mr. Gorbachev's policies of half-way reform would not work. In examining the likely result of this failure, we posited scenarios ranging from reactionary retrenchment to a breakthrough by the democrats led by Boris N. Yeltsin. Even if there were a reactionary centralizing retrenchment, we said it would not be tenable as its leaders would lack a coherent program.

For a specific example, in April of this year — four months before the abortive coup in the Soviet Union — the C.I.A., in a detailed, nine-page assessment entitled "The Soviet Cauldron," explicitly said the Soviet empire and system of governance was breaking down, that "the centrally planned economy had broken down irretrievably" and that there was a "situation of growing chaos" in which "explosive events have become increasingly possible." The C.I.A. assessment spelled out the possibilities in no uncertain terms: "reactionary leaders, with or without Gorbachev, could judge that the last chance to act had come and move under the banner of law and order." We specifically called attention to "a premeditated, organized attempt to restore a full-fledged dictatorship," and noted that military, Ministry of Internal Affairs and K.G.B. leaders were "making preparations for a broad use of force in the political process."

In this April assessment we characterized the long-term prospects of a reactionary coup in the Soviet Union as poor, and even short-term success as far from assured. In the longer term we said that "with or without Gorbachev, with or without a putsch, the most likely prospect for the end of this decade, if not earlier, is a Soviet Union transformed into some independent states and a confederation of the remaining republics, including Russia."

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The facts are there. The evidence is abundant. What is dismaying and disappointing is that too many people who ought to know better are popularizing the notion that C.I.A. has never got it right.

Any attempt to assess the C.I.A.'s performance based on the simplistic criteria of "success or failure" trivializes the contribution of intelligence to the understanding of issues. No one can predict the future precisely, and no organization is perfect, but C.I.A.'s track record stands up to scrutiny — and our Congressional oversight committees provide it. I welcome that scrutiny and stand by our record. I commend it to those who, out of ignorance or malice, are so quick to disparage and dismiss the work this agency has done and is doing on the most complex and challenging issues of our time.

RICHARD J. KERR
Acting Dir. of Central Intelligence
Langley, Va., Oct. 18, 1981

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The Washington Post _____
 The New York Times A 30
 The Washington Times _____
 The Wall Street Journal _____
 The Christian Science Monitor _____
 New York Daily News _____
 USA Today _____
 The Chicago Tribune _____

Date 18 Oct 1991

The Once and Future C.I.A.

These have not been stellar years for the Central Intelligence Agency. Even with the distinguished outsider Judge William Webster in charge, the once-proud agency has, at least to public perception, flunked. Who there anticipated the fall of the Berlin wall, the aggression of Saddam Hussein, the implosion of the Soviet Union?

Nevertheless, President Bush contends he needs an experienced insider and has nominated Robert Gates to be Director of Central Intelligence, a choice the Senate Intelligence Committee votes on today. There are strong reasons to vote no.

Mr. Gates has done his best to dispel the doubts that forced him to withdraw when he was first nominated in 1987. He has seemed contrite and open-minded and cites his broad experience and future vision. But senators would do well to consider at least three criteria:

Whether his past performance shows him to warrant their trust . . . whether he has earned the confidence of agency employees . . . and above all, whether he, an insider, is the right person to lead the agency into uncertain times. On each count, Mr. Gates falls short.

David Boren, the committee chairman, commends Mr. Gates for forthrightness. Yet he overlooks occasions when Mr. Gates helped skew intelligence assessments and was demonstrably blind to illegality. The illegality concerned the Iran-contra scandal. Mr. Gates contends he was "out of the loop" on decisions about what to tell Congress. And he defends his professed ignorance on grounds of deniability — that he was shielding the C.I.A. from involvement. These contentions defy belief.

The testimony of others puts Mr. Gates, on at least two occasions, very much in the loop. He supervised preparation of Director William Casey's deceitful testimony to Congress about the scandal. And one C.I.A. analyst, Charles Allen, says he informed Mr. Gates, before it came to light, of three unforgettable details: Oliver North's involvement, the markup of prices of arms sold surreptitiously to

Iran, and diversion of the proceeds into a fund for covert operations. In a telling lapse of his reputedly formidable memory, Mr. Gates could not recall the details when Congress asked two months later.

The second criterion concerns intelligence estimates. Incorrect forecasting should not be disqualifying; estimates can be wrong for the right reasons. But when they're wrong for reasons of political expediency, that's "cooking the books."

The hearings have documented at least three cases of such slanting: a May 1985 estimate on Iran, estimates of Soviet influence in the third world, and assessments of Soviet complicity in the assassination attempt on Pope John Paul II. Mr. Gates has responded to their testimony but not refuted it. He evidently went to great lengths to manipulate the process, because highly reticent career officials testified against him in public. That electrifying development demonstrates how little confidence Mr. Gates enjoys in the agency.

It can be argued that his experience makes him well suited to lead the C.I.A. into the future. As a former Deputy Director and deputy national security adviser, he knows how intelligence assessments are put together and what policy makers need. And he knows the U.S. will not keep spending \$30 billion a year on intelligence.

But it is more reasonable to think the agency would be better off with a director unbound by William Casey's dark legacy — the conviction that the agency knows best, a barely concealed contempt for Congress and a belief that anything goes, including evading the law. Reshaping the agency wisely depends on casting off that legacy.

Thomas Polgar, a C.I.A. veteran, urged the committee to consider the message that confirmation would send. Would officials wonder whether it was wise for outspoken witnesses to risk their careers by testifying? Would they say to themselves, "Serve faithfully the boss of the moment; never mind integrity? Feel free to mislead the Senate — senators forget easily?"

By voting no, senators will vote to remember.

CIA's Acting Chief Says U.S. Is Ready To Cooperate With Soviet Spy Agency

By GERALD F. SEIB

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The acting head of the Central Intelligence Agency said the U.S. is ready to open an era of cooperation with the revamped Soviet intelligence service.

Richard Kerr, who is running the intelligence community while the Senate debates the nomination of Robert Gates as director of central intelligence, said the CIA is "quite willing to talk and discuss with the KGB those areas where we have a common interest, whether they are terrorism or narcotics or issues of [weapons] proliferation."

Mr. Kerr, in an interview, was responding to a Soviet government suggestion this week that the two intelligence services, Cold War foes for four decades, begin working together in some areas. The idea was offered by Yevgeny Primakov, who has just been named head of the independent intelligence agency the Kremlin is creating to take over intelligence functions long handled by the KGB.

Creation of the service apparently will change the Soviet system radically by separating intelligence activities from internal security work.

The CIA's willingness to begin working with the Soviet intelligence service in some areas represents a sharp change in attitude here as well. "I've been particularly reluctant—and I think the agency as a whole has been reluctant, to date at least—to engage the KGB in a direct and in an equal-to-equal discussion," Mr. Kerr said. "Quite simply, we didn't want to bring them up to our level."

But now, Mr. Kerr said, "we have a new KGB. And I think we have to be willing to look at this KGB with new eyes, just as we're looking at the Soviet Union."

In recent years, there has been some tentative U.S.-Soviet cooperation on such matters as battling narcotics and terrorism. But contacts have been conducted largely through the State Department, and haven't directly involved intelligence agencies.

Now, Mr. Kerr said, "we will clearly begin something that's more direct than it has been."

The move toward more cooperation began last month, when Secretary of State James Baker met with KGB Chairman Vadim Bakatin during a visit to Moscow. Mr. Bakatin had taken over the spy agency and begun cleaning out its ranks after the failed August coup by Communist hardliners, which was led in part by the KGB.

It isn't clear what relationship Mr. Bakatin and the traditional KGB bureaucracy will have with Mr. Primakov and the new Soviet intelligence service.

But U.S. officials said Mr. Bakatin indicated in his meetings with Mr. Baker that the KGB would like to get CIA help in drawing up legal guidelines governing the operations of an intelligence service in a democratic society.

Mr. Kerr said the CIA would "certainly" be willing to provide help in that area. "We have had more experience and are more directly involved in the issues of legality, and with issues of oversight and the role of an intelligence organization in democracy," he said.

But it's also clear there will be limits on CIA cooperation with the Soviet Union. Mr. Kerr said he isn't prepared to declare an end to the intelligence rivalry between the CIA and the KGB. "I don't believe we've reached that point," he said. The U.S. still will have to "wait and see where they are willing to cooperate" and whether the KGB is dropping some of its more unsavory activities, he added.

The Washington Post _____
 The New York Times _____
 The Washington Times _____
 The Wall Street Journal A4
 The Christian Science Monitor _____
 New York Daily News _____
 USA Today _____
 The Chicago Tribune _____

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