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PP0254-8-1

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Rev. 4

2/20/87

DECLASSIFIED UNDER AUTHORITY OF THE
INTERAGENCY SECURITY CLASSIFICATION APPEALS PANEL,
E.O. 13526, SECTION 5.3(b)(3)
ISCAP APPEAL NO. 2011-064, document no. 17
DECLASSIFICATION DATE: December 19, 2013

Section B: Contra Diversion

Sizable sums of money generated by the arms sales to Iran remain unaccounted for. Determining whether these funds from the sale of arms to Iran were diverted to support the Contras proved to be extremely difficult. VADM Poindexter, Lt. Col. North, Israeli participants, and other key witnesses refused to appear before the Board, and records for relevant bank accounts maintained in Switzerland and elsewhere could not be obtained by the Board. Notwithstanding, there was ~~strong~~ ^{considerable} circumstantial evidence before the Board of a diversion to the support of Contras. But the Board ~~made~~ ^{had} no hard proof.

Early in 1986, the need to find funds for the support of the Contras was desperate. At the same time, the idea of diverting funds from the arms sales to Iran surfaced. ~~Finally~~, Attorney General Meese told the Board that VADM Poindexter and Lt. Col. North both told him that a diversion had occurred.

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Money Was Available. Israel made three arms deliveries to Iran in 1985. One of these was the November shipment of HAWK missiles. After the November deal collapsed, 17 of the 18 HAWK missiles were returned to Israel and available evidence suggests that all of the money for that shipment was returned or credited to Iran. In the case of the TOW shipments in August and September 1985, the price charged to Iran by Israel was far in excess of what Israel paid the U.S. Department of Defense to replenish the arms it delivered. This excess amount was roughly \$3 million for the August/September TOW shipments. Nothing is known by the Board about the disposition of those funds.

The United States directly managed four arms deliveries in 1986. In each case, the purchase money was deposited in Swiss bank accounts held in the name of Lake Resources and under the control of Richard Secord. Again, the price charged to Iran was far in excess of what was paid to the Department of Defense for the arms. The excess amounts totaled almost \$20 million for the four deliveries: \$6.3 million for the February shipment of TOWs, \$8.5 million for the May and July shipments of HAWK parts, and \$5 million for the October shipment of TOWs.*

*Charts describing the various arms sales transactions involved in the initiative are annexed to Appendix B.

Most of these monies remain unaccounted for. Mr. Khashoggi and other investors claim they are still owed \$10 million from these transactions.

The Contras Desperately Needed Funds. In January, 1986, the President requested \$100 million in military aid to the Contras. The request revived the often bitter Congressional debate over whether the United States should support the Contras. The obligational authority for the \$27 million in humanitarian aid to the Contras approved by the Congress in 1985 was scheduled to expire on March 31, 1986. Lt. Col. North, who had primary NSC staff responsibility for matters relating to the Contras, became increasingly concerned. While anticipating Congressional approval of the President's January 1 request, Lt. Col. North feared the Contras would run out of funds before then. On April 22, 1986, he wrote Donald Fortier: "[T]he picture is dismal unless a new source of 'bridge' funding can be identified * * *. We need to explore this problem urgently or there won't be a force to help when the Congress finally acts."

A Diversion Was Suggested. It is unclear who first suggested the idea of diverting funds from the arms sales to Iran to support the Contras. The evidence suggests that the idea surfaced early in 1986.

Attorney General Meese told the Board that during his interview with Lt. Col. North on November 23, 1986, North indicated that the idea surfaced during a discussion with Mr. Nir in January, 1986, about ways Israel could help the Contras. Lt. Col. North recalled the official suggesting that the "residuals" from the Iran arms sales be transferred to the Contras. Contemporaneous Justice Department notes of the November interview indicate that Lt. Col. North said the diversion was an Israeli idea; that the Israelis wanted to be helpful.

Mr. Ghorbanifar told the Board that he had a conversation with Lt. Col. North and Mr. Secord sometime in February of 1986 concerning arrangements for the upcoming delivery of 1000 TOW missiles to Iran. He said that Lt. Col. North and Mr. Secord were extremely worried about a shortfall in funding for the Contras. Mr. Ghorbanifar said that Lt. Col. North asked him if the Iranians

would pay \$10,000 per TOW missile, instead of \$6,500. When told that Iran would pay that price, Mr. Ghorbanifar said Lt. Col. North was greatly relieved -- "he was a changed man."

In a memorandum of a meeting with Mr. Ghorbanifar in Paris on March 7-8, George Cave reported that Mr. Ghorbanifar, in an aside, "proposed that we use profits from these deals and others to fund support to the rebels in Afghanistan. We could do the same with Nicaragua." It is unclear from this text whether Mr. Cave or Mr. Ghorbanifar suggested diverting funds to the Contras. Mr. Cave told the Board that neither he nor Mr. Ghorbanifar made any mention of diversion.

North and Poindexter Said Diversion Occurred. Attorney General Meese told the Board that during his interview with Lt. Col. North on November 23, 1986, North said that \$3 to \$4 million was diverted to the support of the Contras after the February shipment of TOW missiles and that more (though how much Lt. Col. North was not sure) was diverted after the May shipment of HAWK parts. Contemporaneous Justice Department staff notes of that interview indicate that Lt. Col. North said that the Israelis handled the money and that he gave them the numbers of three

accounts opened in Switzerland by Adolpho Calero, a Contra leader. The notes also indicate that Lt. Col. North said there was no money for the Contras as a result of the shipment in October, 1986. By then Congressional funding had resumed.

Mr. McFarlane testified that while standing on the tarmac at a Tel Aviv airport after the trip to Tehran in May of 1986, Lt. Col. North told him not to be too downhearted because "this government is availing itself of part of the money [from the Iran initiative] for application to Central America." Assistant Secretary of Defense Richard Armitage told the Board that North told him sometime in November of 1986 that: "it's going to be just fine . . . as soon as everyone knows that . . . the Ayatollah is helping us with the Contras."

Authorization. It is unclear whether Lt. Col. North ever sought or received prior approval of any diversion of funds to the support of the Contras. Lt. Col. North prepared in early April an unsigned memorandum which sought Presidential approval for what became Mr. McFarlane's May trip to Tehran. In that memo, Lt. Col. North stated that \$12 million in "residual" funds from the transaction would "be used to purchase critically needed supplies for the Nicaraguan Democratic Resistance Forces." No evidence has emerged to suggest that this memorandum was ever placed before VADM Poindexter, the President, or any other U.S. official.

As a general matter, Lt. Col. North kept VADM Poindexter exhaustively informed about his activities with respect to the Iran initiative. Although the Board did not find a specific communication from Lt. Col North to VADM Poindexter on the diversion question, VADM Poindexter said that he knew that a diversion had occurred. Mr. Regan told the Board that he asked VADM Poindexter on November 24, 1986, if he knew of Lt. Col. North's role in a diversion of funds to support the Contras. VADM Poindexter replied that, "I had a feeling that something bad was going on, but I didn't investigate it and I didn't do a thing about it. * * * I really didn't want to know. I was so damned mad at Tip O'Neill for the way he was dragging the Contras around I didn't want to know what, if anything, was going on. I should have, but I didn't." Attorney General Meese told the Board that after talking to Lt. Col. North, he asked VADM Poindexter what he knew about the diversion. "He said that he did know about it * * * Ollie North had given him enough hints that he knew what was going on, but he didn't want to look further into it. But that he in fact did generally know that money had gone to the Contras as a result of the Iran shipment."

The President said he had no knowledge of the diversion prior to his conversation with Attorney General Meese on November 25, 1986. No evidence has come to light to suggest otherwise. Contemporaneous Justice Department staff notes of Lt. Col. North's interview with Attorney General Meese on November 23, 1986, show North telling the Attorney General that only he, Mr. McFarlane, and VADM Poindexter were aware of the diversion.