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SUMMARY

In January 1983, President Reagan issued a directive (NSDD-77) establishing a new mechanism to "strengthen the organization, planning and coordination of the various aspects of public diplomacy . . . relative to national security."

In a memorandum from National Security Advisor William B. Clark, Jr., dated January 13, 1983, Clark said:

"Our intention is to supplement our commitment of public funds with private funds as well. Some of the public funds would be allocated to private U.S. organizations which could conduct certain programs overseas more easily than the USG. We will develop a scenario for obtaining private funding. Charlie Wick has offered to take the lead."

Building on the scenario laid out in the Clark memorandum, government officials and private organizations began to coordinate their activities on behalf of the Contra cause. An elaborate system of inter-agency committees was eventually formed and charged with the task of working closely with private groups and individuals involved in fundraising, lobbying campaigns and propagandistic activities aimed at influencing public opinion and governmental action.

One of the key governmental mechanisms that played a central role in the creation and management of the private network involved in the Iran/Contra affair was the Office of Public Diplomacy for Latin America and the Caribbean (S/LPD) in the Department of State. The office was established in the State Department through the efforts of the NSC staff, despite resistance from Secretary of State George P. Shultz. [Shultz

testimony, Exhibit 67; Memorandum to William Clark from Walt Raymond, 5/18/83; Shultz testimony, Exhibit 69A, Memorandum from Shultz to President, 5/25/83].

Working out of the NSC, the former Director of the Covert Action Staff at the CIA and a specialist in propaganda and disinformation, helped to set up an elaborate system of inter-agency committees, including a working group on Central American Public Diplomacy. The NSC staff also succeeded in having Otto Reich named as the Director of the new Office of Public Diplomacy, which reported directly to the NSC. Richard R. Miller, former head of public affairs at AID, and Francis D. Gomez, former public affairs specialist at the State Department and USIA, were hired by S/LPD through sole-source, no-bid contracts to carry out a variety of activities on behalf of the Reagan Administration policies in Central America.

Supported by the State Department and White House, Miller and Gomez became the outside managers of Spitz Channell's fundraising and lobbying activities. They also served as the managers of Central American political figures, defectors, Nicaraguan opposition leaders and Sandinista atrocity victims who were made available to the press, the Congress and private groups, to tell the story of the Contra cause. They facilitated the transfer of funds raised by Channell and others to Swiss and off-shore bank accounts at the direction of Oliver North. They became the key link between the State Department and the Reagan White House with the private groups and individuals engaged in a myriad of endeavors aimed at influencing the Congress, the media and public

opinion. They also became the main funnel for private U.S. money going to the Democratic resistance in Nicaragua.

LAUNCHING THE PRIVATE NETWORK

A senior career CIA official, serving as Director of the Covert Action Staff at the CIA from 1978 to 1982, was approached by Donald Gregg, Chief of the Intelligence Directorate at the NSC, and informed that Gregg was recommending to CIA Director Casey and NSC Advisor William Clark that he be assigned to the NSC as Gregg's successor when Gregg departed to join the staff of Vice-President George Bush. The CIA official discussed the transfer with Casey and Clark and received approval for his involvement in setting up the public diplomacy program along with his intelligence responsibilities. Accordingly, he was transferred from CIA headquarters to the NSC in June of 1982. [Classified Dep. 9/3/87, at 3-9; 9/23/87, at 4-15].

In the early part of 1983, documents obtained by the Select Committees indicate that the Director of the Intelligence Staff of the NSC successfully recommended the establishment of an inter-governmental network to promote and manage a public diplomacy plan designed to create support for Reagan Administration policies at home and abroad. Their initial efforts were directed toward involving private groups and individuals in a campaign to influence American and European public opinion on Intermediate Nuclear Force (INF) deployment in Europe. [Memorandum N39016 from W. Scott Thompson to the Director, 1/25/83; Memorandum N30899 to William Clark, 3/3/83].

In the Spring of 1983, the network began to turn its

attention toward beefing up the Administration's capacity to promote American support for the Democratic resistance in Nicaragua and the fledgling democracy in El Salvador. This effort resulted in the creation of the Office of Public Diplomacy for Latin America and the Caribbean in the Department of State (S/LPD), headed by Otto Reich.

On May 25, 1983, Secretary of State George P. Shultz, in an effort to head off the creation of S/LPD, wrote a memorandum to the President asking for the establishment of "simple and straight-forward management procedures." [Shultz testimony, Exhibit 69a^{supra}]. The memorandum to the President followed a discussion between the President and Shultz earlier in the day. In the memo Shultz said:

"... Therefore, what we discussed was that you will look to me to carry out your policies. If those policies change, you will tell me. If I am not carrying them out effectively, you will hold me accountable. But we will set up a structure so that I can be your sole delegate with regard to carrying out your policies.

"... What this means is that there will be an Assistant Secretary acceptable to you (and you and I have agreed on Tony Motley) who will report to me and through me to you. We will use Dick Stone as our negotiator, who, in conjunction with Tony, will also report solely to me and through me to you. Similarly, there will be an inter-agency committee, but it will be a tool of management and not a decision-making body. I shall resolve any issues and report to you."

The President responded with a memorandum, which stated in part:

"Success in Central America will require the cooperative effort of several Departments and agencies. No single agency can do it alone nor

should it. Still, it is sensible to look to you, as I do, as the lead Cabinet officer, charged with moving aggressively to develop the options in coordination with Cap, Bill Casey and others and coming to me for decisions. I believe in Cabinet government. It works when the Cabinet officers work together. I look to you and Bill Clark to assure that that happens." [Shultz Testimony, Exhibit 69B].

Attached to the memo was a chart placing the NSC between the Secretary of State and the President for the management of Central American strategy. Shultz had not only lost the battle to prevent the establishment of the office, he also accepted the NSC-sponsored candidate to run the office, and accepted the fact that Reich would report directly to the NSC and not through the Assistant Secretary of State for Inter-American Affairs.

Almost simultaneously with the creation of S/LPD, Walter Raymond, Jr. was named to a new position as Special Assistant to the President and Director of International Communications at the NSC. From that time forward, S/LPD reported to Raymond and his working group on Central American Public Diplomacy at the NSC. The group was composed of representatives of USIA, the CIA and DOD, as well as various NSC staffers, including Oliver North. At least for several months after he assumed this position, Raymond also worked on intelligence matters at the NSC, including drafting a Presidential Finding for Covert Action in Nicaragua in mid-September. [Memorandum from Walt Raymond to William Clark, 9/12/83; Classified Dep. 9/3/87, 9/23/87, supra].

Reich relied heavily on Raymond to secure personnel transfers from other government agencies to beef up the limited resources made available to S/LPD by the Department of State. The NSC also

intervened on behalf of S/LPD with top management officials in the State Department to expand Reich's resources within the Department. Personnel made available to the new office included intelligence specialists from the U.S. Air Force and the U.S. Army. On one occasion, five intelligence experts from the Army's 4th Psychological Operations Group at Fort Bragg, North Carolina, were assigned to work with Reich's fast-growing operation.

[8/1/84 Memo from Poindexter to Dam; 3/5/85 Memo from Reich to Warren; 12/16/85 Memo from Reich to Roosevelt; 1/3/86 Memo from Jacobowitz to Reich with attachments; 8/1/86 Memo from Lester to Raymond].

White House documents also indicate that CIA Director Casey had more than a passing interest in the Central American public diplomacy campaign. In an August 9, 1983 Memorandum entitled "Private Sector Support for Central American Program," Raymond told Clark:

"A group of public relations specialists met with Bill Casey a few days ago. Faith also met them. The group included Bill Greener, the public affairs head at Philip Morris, and two or three others. They 'stated' what needed to be done to generate a nationwide campaign. Several elements were identified. The first, a fundraising effort under the direction of someone like Walter Wriston. Secondly, an effective communications system inside the Government. The overall purpose would be to sell a 'new product' -- Central America -- by generating interest across-the-spectrum."

In an August 29, 1983 memorandum from Raymond to Poindexter, Casey's continuing interest in the effort to influence public opinion was shown by the following reference:

"Bill Casey called on August 26 and would like

to follow-up on his idea to have a meeting with five or six key public relations specialists. This is referred to in my earlier memorandum. I put him off until after Labor Day.

" . . . When I philosophized a bit with Bill Casey (in an effort to get him out of the loop), he was negative about turning the ball over to State, but very positive about someone like Gil Robinson working on the problem from within State."

Casey was obviously concerned that the establishment of S/LPD in the State Department might put it beyond NSC control. Casey's involvement in the public diplomacy effort apparently continued throughout the period under investigation by the Committees.

On March 20, 1985, Oliver North sent a memorandum to National Security Advisor Robert McFarlane on the subject, "Timing and the Nicaraguan Resistance Vote." Attached to the memo was a chronological event checklist which outlined efforts "aimed at securing Congressional approval for renewed support to the Nicaraguan Resistance Forces." Responsibility for the various efforts was tasked to a number of individuals in the NSC and Department of State as well as private supporters including former Congressman Dan Kuykendall and State Department contract consultant Frank Gomez. In the cover memo seeking a decision from Don Regan that would trigger some of the private group efforts, North wrote:

"You should also be aware that Director Casey has sent a personal note to Don Regan on the timing matter. We are attempting to obtain a copy for your use."

As late as August of 1986, Walt Raymond prepared a memorandum for Poindexter's signature to Bill Casey on the subject of

Central American Public Diplomacy. The memo reported on a new structure in the State Department which moved LPD from the Secretary's Office to the Bureau of Inter-American Affairs. In the cover memo to Poindexter, Raymond indicated his desire to have Peter Dailey, who had been U.S. Ambassador to Ireland and had managed the public diplomacy initiative on INF deployment in Europe, "work closely with Bob Kagan, the Interagency Central American Public Diplomacy coordinator, and to help coordinate private sector activities such as funding that currently cannot be done by either CIA or State." [Memorandum to John Poindexter from Walt Raymond, 8/7/86, with attachments].

On August 22, 1986, Casey responded to the Poindexter memo indicating that he (Casey) had just:

"... brought Pete Dailey on board as Counselor to the Director of Central Intelligence. As a CIA employee, naturally, Pete is subject to the legal prohibitions on us relating to activities intending to influence U.S. public opinion or policy. Any advisory role that he plays on the public diplomacy front must, of course, be in accordance with these legal restrictions.

"Similarly, now that Pete has joined us, he obviously can have no role in any private fundraising effort on behalf of the Nicaraguan Resistance."

Curiously, the letter to Poindexter was apparently not sent to Poindexter but to Walt Raymond because, on August 29, 1986, Raymond forwarded the letter to Poindexter with a cover memo which said:

"Bill Casey has sent a brief note to you which puts some caveats around the activities Peter Dailey can undertake. Peter has talked to me, and I do not believe that this will cause him any difficulties in helping us along the lines of our previous exchanges

via the PROFS system."

On August 26, 1986, Raymond sent a PROF note to Poindexter on the subject of "Central America Public Diplomacy." The PROF note said, in part:

"As a follow-up, Peter Dailey invited me to breakfast. I thought the memo was excellent but he did not feel that it totally filled the bill. What he thought was missing was the immediacy of the problem from the American domestic perspective. He believes that we are operating with a relatively narrow window in which to turn around American perceptions re Contras -- and particularly Nic -- or we will be chewed up by Congress. We discussed the obvious, which is part of our strategy, including such things as: the need to convince people of the key importance of Contras to our national security; the need to glue white hats on our team, etc. The themes are those we have pressed although he believes we could change the dialogue away from Contras to democrats; emphasize the need for a free and open vote, etc. Nothing really new here. The key difference is that he thinks we should run it more like a political/presidential campaign. We need to strengthen our ability to reach out. Names like Rollins, Nofziger and co. were thrown around as the kinds of resources one needs to tap.

"Later, in talking to Ollie and Bob Kagan, we focussed on what is missing and that is a well-funded, independent outside group -- remember the Committee for the Present Danger -- that could mobilize people. Peter suggested 10 or 12 very prominent bipartisan Americans. Added to this would need to be a key action officer and a 501-c-3 tax-exempt structure. It is totally understanding that such a structure is needed and also totally understanding why, for discreet political reasons, it was not included in the memo to Bill Casey. I told Pete he was right but we need 'a horse' and money!"

As late as November 10, 1986, Raymond sent another PROF note to Poindexter on the subject of "Cent Am Private Sector Initiative," which stated:

"There have been several meetings following up on the effort to get a major, bipartisan group formed

to help promote an 'educational' program in the U.S. which would help provide understanding (and support) for our Centam policy, particularly vis-a-vis Nicaragua.

"Although Pete Dailey, Bill Casey and Clif White have all been involved in general discussion of what needs to be done, we are going to have to be sure that Pete and Bill are not involved. Pete is getting very nervous on this item. Hence, Clif is now taking the lead. The current focus is to get a bipartisan co-chairmanship, a six man (roughly) EXCOM, a staff director and a large bipartisan advisory council. Current names being tossed around for the co-chair include Jack Gavin, Bill Rogers, Dean Rusk and Mark White. Pete (and Ollie) favor going with Gavin. Clif is also talking to several key democratic activist types for their recommendations. Jim Woolsey's name has come up in that context. Clif has the list of several effective operators who have just finished the fall campaign (plus some soon-to-be ex-staffers on the Hill) who might be a good EXDIR. Dave Miller has also been helpful, particularly in terms of getting the 501-c-3 status and access to fresh faces in the political consultant field. Clif has (or will) be seeking names from Mitch Daniels too.

"The problem with all of this is that to make it work it really has to be one step removed from our office and, as a result, we have to rely on others to get the job done. Will keep you posted."

From early 1983 until November of 1986, the NSC staff, with the backing of Bill Casey and support from National Security Advisors Bill Clark, Bud McFarlane and John Poindexter, and with continuing help from Oliver North, created an inter-governmental structure the purposes and activities of which were masked from Congress and public view. The NSC and S/LPD, operating under the cover of the State Department, hired outside consultants and gave encouragement, support and direction to groups of private citizens outside the government. These groups raised money for Contra weapons, lobbied the Congress, ran sophisticated media

campaigns in targeted Congressional districts, and worked with S/LPD to influence American public opinion through manipulation of the American press.1/ In the latter half of 1986, Raymond was attempting to set up a private group with more prestige and greater clout than the Rich Miller/Spitz Channell network that had been quickly assembled and utilized to work on the 1986 Contra aid vote in the Congress. [Prof note dated 11/10/86 from Raymond to Poindexter re: CentAm Private Sector Initiative].

While donations from other countries and profits from the Iran arms sales provided most of the money for lethal assistance to the Contras after the Boland Amendment, a network of private foundations and organizations, including those associated with Carl R. "Spitz" Channell and Richard R. Miller, also played an essential role. Channell's principal organization, the tax-exempt National Endowment for the Preservation of Liberty (NEPL), used White House briefings and private meetings with the President to raise more than \$10,000,000 from private contributors, almost all for the Contra cause. Over half of this total came from two elderly widows -- Barbara Newington and Ellen Garwood -- who made the bulk of their contributions after receiving private and emotional presentations by Oliver North on the Contras' cause and military needs. One dozen contributors accounted for ninety percent of NEPL's funds in 1985 and 1986. [Channell Financial Documents].

Richard Miller's principal organization, International Business Communication (IBC), was a partnership between Miller and Frank Gomez, which began to work on behalf of the Contras

under a State Department contract that began in early 1984. From early 1984 until the summer of 1985, IBC's principal source of income was derived from a series of State Department sole-source, no-bid contracts pushed through the bureaucracy by the principal officials of S/LPD. [IBC Cash Analyses; GAO Report, B229069, 9/30/87; State I.G. Report No. 7PP-008, 7/87; Frank Gomez Dep. 9/11/87, at 177-178].

The first State Department contract for IBC began in February 1984, shortly after S/LPD had begun its work. Miller and Gomez were introduced to Oliver North in mid-1984 by State Department officials from S/LPD. From that period forward, Miller and Gomez worked closely with North as well as the Office of Public Diplomacy in carrying out a variety of assignments related to the promotion of the Contra cause.

In the Spring of 1985, White House Deputy Political Director John Roberts sent Spitz Channell and his Deputy, Dan Conrad, to meet with Miller and Gomez, who, Roberts believed, could best advise them how to utilize their fundraising services on behalf of the Contra cause. [House Select Committee Interview of John Roberts, 7/14/87]. Miller and Gomez assisted Channell in his fundraising efforts and advised Channell on the disbursement of the proceeds for various projects including lobbying, television ads, newspaper ads and grassroots activities designed to influence Congressional votes on aid to the Contras.

Of the \$10,000,000 that was raised, nearly two million dollars was spent for public relations, political advertising and lobbying. Much of the rest was retained by Miller and Channell

for salaries, fees and expenses incurred by their organizations. The NEPL money that was spent for direct and indirect assistance to the Contras was disbursed, primarily by Miller, at the direction of North. Approximately \$1.7 million was "washed" by Channell through Miller's domestic and Cayman Island entities -- International Business Communications (IBC) and I.C., Inc. -- to the Enterprise, where it was co-mingled with funds from third country contributions and the Iranian arms sale. Another one million dollars was passed at the direction of North through Miller's entities to accounts controlled by Adolfo Calero. Approximately \$500,000 was distributed at North's request to other persons and entities engaged in activities relating to the Contras, including Rob Owen, Dan Kuykendall, Thomas Dowling, the Washington UNO Office and some unidentified entities. [Canceled travelers checks, originally purchased by Calero, contain the signatures of Owen, Kuykendall and Dowling; also Robert Owen Testimony, 9/14/87, at 337-343; I.C., Inc. Accounts].

Channell and Miller made elaborate efforts to conceal the nature of their fundraising activities and North's role. Certain funds received by NEPL for Contra assistance were allocated on Channell's books to a project denominated "Toys," a euphemism for weapons. NEPL and IBC employees were instructed to refer to North by a code name, "Green." Funds were transferred to the Contras, not directly -- which would be traceable -- but through Miller's anonymous off-shore entity, I.C., Inc.

North misrepresented to several White House officials the nature of the network's fundraising activities. For instance,

the President apparently was led to believe that the funds were being raised for political advertising; the President's Chief of Staff, Donald Regan, was deliberately kept in the dark by North and Poindexter; and North misrepresented to Congress and White House personnel the nature of his involvement in the activities of NEPL and IBC. As a result, the Miller/Channell network was able to operate successfully until the latter part of 1986, when increased government aid to the Contras and public disclosure of both the Iranian arms sales and the Contra resupply network made further assistance efforts unnecessary and unwise.

By using a tax-exempt organization to funnel money to the Contras -- for arms and other purposes -- Channell and Miller provided tax deductions to donors. As a result, the United States Government effectively subsidized a portion of contributions intended for lethal aid to the Contras. In the spring of 1986, Channell and Miller pled guilty to criminal tax charges of conspiring to defraud "the United States Treasury of revenues to which it was entitled by subverting and corrupting the lawful purpose of NEPL by using NEPL . . . to solicit contributions to purchase military and other non-humanitarian aid for the Contras." At his plea hearing, Channell identified Miller and North as his co-conspirators.

I. The Background

A. Richard R. Miller and IBC

From February 1981 to February 1982, Richard Miller was chief of news and media relations for the Agency for International Development (AID). He was then promoted to public affairs director at AID, where he remained until February, 1983. [R. Miller Dep., 6/23/87, at 19-20; 3/3/87 memo to HFAC from AID].

Upon leaving AID, Miller established IBC as a sole proprietorship to engage in media relations, strategic planning for public affairs, political analysis, and executive branch liaison. In 1984, he began to work with Francis Gomez who had just retired from the United States Information Agency. Miller had first met Gomez in February 1982, when he was serving as Deputy Assistant Secretary of State for Public Affairs. [R. Miller Dep., 6/23/87, at 19-21; 8/20/87, at 93-95].

Immediately upon leaving the U.S. Information Agency in February 1984, Frank Gomez received a contract from the State Department to assist its newly-formed Office of Public Diplomacy for Latin America and the Caribbean with public relations advice and support. The original purchase order for the contract specified that Gomez was to write talking point papers on Central America; prepare speaker kits; identify and refute distortions and false allegations regarding U.S. policy; draft sample speeches; prepare Op/Ed pieces and feature articles; assist Central American refugees and exiles visiting Washington; arrange media events for them; and make them available for Congressional interviews. [Audit Report No. 7PP-008, Office of the Inspector

General, Department of State (July 1987)]].

Although the first State Department contracts were with Gomez, Gomez testified that he was acting as an agent for Richard Miller from the very beginning of their relationship with the State Department and the office of Latin American Public Diplomacy. [F. Gomez Dep., 9/11/87, at 103, 129-130] This contract was renewed with Gomez in May 1984 and then assumed by IBC in August or September 1984. By mid-1984, with the assumption of the State Department contract, IBC was functioning as an informal partnership between Miller and Gomez, even though Gomez was technically a subcontractor to IBC. At a later time, Miller and Gomez would each establish personal corporations -- Miller Communications, Inc., and Gomez International, Inc. -- and, effective January 1, 1986, would restructure IBC into a partnership of those two entities. There is not, however, any written partnership agreement.^{2/} [R. Miller Dep., 8/20/87, at 93-95, supra]. Before it terminated in September 1986 after several renewals, Gomez and IBC received contracts totaling \$441,084 from the State Department.^{3/} [Audit Report, supra].

The State Department contracts brought Miller and Gomez into contact with the leaders of the Contra movement, including Adolfo Calero, Alfonso Robelo and Arturo Cruz.^{4/} In their efforts to promote the Contra cause in the United States, Miller and Gomez served as liaison with a variety of private organizations on behalf of S/LPD. Their responsibilities under the State Department contract brought them into contact with organizations such as PRODEMCA, the Gulf and Caribbean Foundation, Freedom

House and the Institute for Religion and Democracy. [R. Miller Dep., 9/15/87, at 583-587; 8/21/87, at 306].

While under contract to the Office of Public Diplomacy, Miller and Gomez participated in activities designed to influence the media and the public to support the President's Latin American policies. In addition, Johnathan Miller, Ambassador Reich's Deputy at S/LPD, described Gomez as a "cut-out" who made a clandestine trip in Central America and promoted media interviews and background briefings with representatives of the Democratic Resistance in Nicaragua on behalf of S/LPD, without acknowledgement of the State Department role. [Johnathan Miller Dep., 9/30/87. at 128-132; GAO Report B-229069, 9/30/87].

In the course of assisting the Contras with their public relations, Miller was introduced to North, probably by Johnathan Miller (no relation) or Otto Reich, who were IBC's primary contacts at the State Department. [R. Miller Dep., 8/20/87, at 125-126]. In late 1984 and early 1985, NSC officials Walt Raymond and Oliver North assisted public relations specialist Edie Fraser in the planning of a fundraising dinner for the Nicaraguan Refugee Fund. Raymond and North engineered a White House briefing for potential donors and fundraisers who could help make the dinner a success. The White House briefing, which was designed to demonstrate the dire need of the Nicaraguan refugees in Honduras was to be followed by a reception at the Hay Adams Hotel where a pitch to help raise funds was made. [Memorandum N14857 from Walt Raymond and Oliver North to Robert McFarlane, Nicaragua Refugees, 1/8/85]. White House Counsel,

Fred Fielding, initially objected to White House involvement in the events but later reluctantly revised his opinion after pressure was generated by Walt Raymond. [Memorandum N39625 from Fred Fielding to Robert Kimmit, 1/11/85; Memorandum N39622 from Walt Raymond to Robert Kimmit, 1/16/85; Memorandum N39617 from Fred Fielding to Kimmit, 1/18/85]. Channell was invited to the briefing and reception and subsequently became deeply involved in the dinner effort. The format used in raising money for the Nicaraguan Refugee Fund -- a White House briefing followed by a function at the Hay Adams Hotel -- was adopted by Channell for his future fundraising activities.

B. Carl R. "Spitz" Channell

In 1976, Spitz Channell began to work for Terry Dolan, the founder of the National Conservative Political Action Committee (NCPAC). His initial responsibility was assisting in Congressional campaigns. After the 1978 elections, Dolan asked Channell to shift to fundraising. To Channell's own surprise, he was an instant success, and was named by Dolan as NCPAC's first national finance chairman. In that position, Channell concentrated on NCPAC's "high dollar donor program," and set up a number of briefings in Washington for potentially large contributors. [Channell Dep., 9/1/87, at 6-10, 14-16, 21; 9/2/87, at 163]. This fundraising method was to become the standard operating procedure for the Channell network.

In 1982, Channell left NCPAC and formed his own political consulting organization, the Channell Corporation, to offer fundraising advice to campaigns and candidates. By 1984, he

began to establish a network of other politically-oriented foundations. First, he founded the American Conservative Trust (ACT) as a Political Action Committee (PAC). At approximately the same time, he incorporated NEPL and sought IRS recognition of NEPL as a tax-exempt foundation under Section 501(c)(3) of the Internal Revenue Code. [Channell Dep., 9/1/87, at 30-34].

In its application for tax-exempt status, NEPL asserted that it was formed "to educate members of the general public on American political systems and societal institutions." The application further stated that this education was to be accomplished through the study of the development of American political systems and the influence of such systems on societal institutions in the United States. NEPL indicated to the IRS that it would collect information on these topics, make that information available to the general public, and eventually conduct seminars. [CH 4477-80].

On December 12, 1984, the IRS issued a determination letter stating that, based on the information contained in NEPL's application, and assuming that its operations would be consistent with the program outlined in the application, NEPL qualified as an exempt organization under Section 501(c)(3).5/ [CH 4437].

According to Channell, when he formed NEPL in late 1984, most "Washington insiders" doubted that anyone could raise money to advance foreign policy initiatives. Channell, however, believed that he could succeed because his major donors were committed to President Reagan and his philosophy toward foreign affairs. [Channell Dep., 9/2/87, at 163-164].

At first NEPL concentrated on raising funds to publicize "European issues," e.g. SALT, summits and nuclear freeze proposals. In January 1985, after NEPL ran a large newspaper advertisement congratulating President Reagan on his inauguration, Channell received a call from Edie Fraser, of the public relations firm of Miner and Fraser. According to Channell, Fraser indicated that she admired the ad and asked for NEPL's assistance in organizing and promoting a fundraising dinner for the Nicaraguan Refugee Fund (NRF). This was Channell's introduction to the Contras' cause. [Channell Dep., 9/1/87, at 40-41; 9/2/87, at 165].

To assist him in this effort, Channell recruited Daniel Conrad, a fundraising consultant from San Francisco, with whom Channell had dealt on earlier occasions. Conrad came to Washington, and together he and Channell initiated NEPL's involvement in the Nicaraguan issue. [Channell dep., 9/1/87, at 49-50].

C. Daniel L. Conrad

In the late 1960's, after short stints as a management trainee at Ford Motor Company and then as a fundraiser for Northwestern, Daniel L. Conrad, who later became Spitz Channell's key deputy, joined Harvey Fundraising Management of Milwaukee, Wisconsin, as a field director for campaigns. [Conrad Dep. at 6-8].

In the late 1970's, Conrad incorporated his business as Public Management Institute (PMI), which evolved from a training and consulting services firm to one primarily engaged in the

publishing of periodicals and reference materials on financial grants and capital campaigns. Conrad himself continued, however, to consult on fundraising matters. [Conrad Dep. at 12-16].

Conrad first met Channell in 1978 or 1979 at a seminar on fundraising being taught by Conrad in Alexandria, Virginia. After their initial meeting, Channell called Conrad periodically for informal advice on fundraising. In 1983 or 1984, Channell hired Conrad as a consultant to advise him on how to build a political consulting business, an assignment that lasted approximately one week. [Conrad Dep. at 20-22, 25-27].

Given Channell's history of looking to Conrad for advice, it was natural for Channell to ask Conrad to assist him in fundraising for the Contras -- even though Conrad had never been involved in political fundraising and had no interest in the Nicaraguan issue. [Conrad Dep. at 24, 557, 559-560]. Their financial arrangement was never formalized. According to Conrad, Channell just gave him money periodically. For his efforts on the NRF dinner, for example, Conrad recalls receiving \$10,000 or \$15,000 from Channell, \$10,000 from the NRF, and \$1,500 from Miner and Fraser. After that time, Conrad's compensation kept changing, with Channell deciding at various intervals how much to pay him. According to Conrad, he signed on with Channell's organizations more as a matter of friendship than as a matter of business. [Conrad Dep. at 28-38].

Although Conrad had no formal position or title, he served essentially as the number two person in each of Channell's organizations. Channell eventually gave him the title of

"Executive Director." [Conrad Dep. at 38-39].

When Conrad joined Channell the common offices for Channell's various entities were located in a small townhouse at 305 4th Street, N.E., in Washington, D.C. Later, in August 1986, as money from Contra donors rolled in, they moved to luxurious and spacious new quarters in National Place, 1331 Pennsylvania Avenue, N.W., in Washington, D.C., and hired additional staff and fundraisers.

Lines of authority in Channell's organization were informal. Fundraisers reported either to Conrad or Channell, who shared responsibility for training them. Channell, however, was generally in charge of preparing the script to be used for soliciting prospective donors. [Conrad Dep. at 41].

D. The NRF Dinner

According to Channell, the NRF dinner and to be postponed several times, and was an organizational disaster. When it finally took place on April 15, 1985, President Reagan attended and delivered the keynote address. The NRF dinner convinced Channell that large and expensive functions were not efficient methods of raising money for the Contras. However, the President's commitment to the Contra cause convinced Channell believe that the Nicaraguan issue was a fertile one for private fundraising. [Channell Dep., 9/2/87, at 165-167].

Thereafter, Channell and Conrad, with the assistance of Miller and Gomez, concentrated on private meetings with potential large donors, who would be given an audience with North and, in some cases, a photo opportunity with the President.

The idea of focusing on potential big givers to the Contras was not new. Edie Fraser, one of the principal organizers of the NRF dinner, testified that at the suggestion of the State Department she met with North and Walt Raymond on December 11, 1984, to seek White House "participation" in the dinner. Fraser mentioned the Sultan of Brunei to North as a possible contributor to the NRF. Fraser explained that the Sultan had come to her attention because he was a contributor to a prior program sponsored by Mrs. Reagan. On December 28, 1984, Fraser sent further biographical information on the Sultan to North, but does not know if North ever followed this lead. [Fraser Dep. at 28, 31-39; N6298].

On March 4, 1985, Fraser sent additional information to North on the planned dinner. At the bottom of the cover letter she added a handwritten note: "Ollie, Very Imp., Two people want to give major contribs i.e. 300,000 and up if they might had one 'quiet' minute with the President." [Fraser Dep., Exhibit 3].

According to Fraser, she added this note to the letter because of her conversations with Channell and Conrad, who suggested that some of their contributors might make large donations to the NRF dinner if they could meet alone with President Reagan. As far as Fraser can recall, she added the number of donors (two) and the possible amount of money (300,000) to her note to give the offer some definition. She cannot be sure that either Channell or Conrad were that specific in their conversations with her. [Fraser Dep. at 41-60]. Neither Channell nor Conrad recall discussing such an offer with Fraser.

[Channell Dep., 9/2/87, at 75-77]; Conrad Dep., at 580-581].

Fraser received no response from North regarding the offer. In fact, according to Fraser she never heard from or spoke to North again after their initial meeting on December 11, 1984. Her letters were not answered by North, and someone else at the White House ultimately assumed responsibility for liaison with the group planning the dinner. [Fraser Dep. at 28-30, 48-49].

E. NEPL and IBC Meet

In early 1985, prior to the NRF dinner, Channell called the office of Edward Rollins, then White House Political Affairs Director, to ask how NEPL could help support "the President's agenda in Central America." Rollins' office referred the call to John Roberts, then a White House aide, who agreed to have lunch with Channell and Conrad. [Channell Dep., 9/1/87, at 52-53].

At that lunch, according to Channell, Roberts responded to their interest in the Nicaraguan issue by stating that they should talk to Miller and Gomez, the principals of IBC. Roberts told Channell and Conrad that IBC was "the White House outside the White House" on this issue. Shortly thereafter, Channell and Conrad set up a meeting with Miller.⁶/ [Channell Dep., 9/1/87, at 52-54].

Roberts had called Miller prior to that meeting and alerted him to the referral, suggesting that Channell and Conrad wanted to "help the President" on Nicaragua. In particular, Roberts told Miller that Channell and Conrad wanted to do a media campaign. Roberts did not mention any possibility of direct financial assistance to the Contras. [R. Miller Dep., 8/20/87,

at 135-137].

II. The Miller/Channell Network -- The Beginnings

In late March or early April 1985, Channell, Conrad, Miller and Gomez -- with support from Oliver North -- embarked on an effort to assist the cause of the Contras. Their joint efforts continued until North was fired in November of 1986.

According to Miller, Channell initially offered to IBC a retainer of \$15,000 per month, which IBC accepted. In exchange for this retainer, IBC was to handle media relations, political analysis, research, advertising copy, film production, and other public relations functions. There was never any written agreement, however, reflecting the arrangement between NEPL and IBC. [R. Miller Dep., 8/20/87, at 137-139].

At first IBC lent support to ACT and NEPL in their efforts to educate the public on the Nicaraguan issue. In their efforts to understand the Nicaraguan issue and to assist in the Administration's efforts to win a Congressional vote on Contra aid, Miller brought Channell and Conrad together with Robert Goodman of the Goodman Agency, a Baltimore political public relations firm who specialized in television ads for political campaigns. Channell paid the Goodman Agency \$85,000 to produce and run television ads just prior to the Congressional vote on aid to the Contras in 1985. Miller and Gomez worked with the Goodman Agency to develop material used in the ads and to select the media markets in which they were to be run. [A. Goodman Dep. 7/9/87, at 26-28; Goodman Ex. 17].

According to financial records obtained by the Committee, IBC received its first payment from Channell on April 22, 1985 in the

amount of \$1,320.00. Two days later, on April 24, the first series of television ads aimed at influencing the vote in the Congress were run in selected media markets by one of Channell's organizations. In May of 1985, IBC received its first retainer payment from Channell in the amount of \$10,000. Prior to that time, Miller and Gomez had been almost entirely dependent on the money they received from the Department of State. [IBC Financial Analyses].

Because of their prior contact with the Contras' organization and leaders, Miller and Gomez believed that they could be of assistance in efforts to raise money for the Contras. One of Channell's first steps, with IBC's help, was to secure a letter from Adolfo Calero authorizing NEPL to solicit contributions on behalf of his organizations. [R. Miller Dep., 8/20/87, at 148-149]. This letter, dated April 10, 1985, opened "Dear Spitz," and read in part:

"Please help us to achieve our dream, a free and democratic Nicaragua, not tied to a hostile Soviet threat but to a peaceful democratic American tradition.

"All resources you can raise will be appreciated. We can put all of them to good purposes.

"Richard Miller and Frank Gomez can keep you informed of our progress and serve as our contact point in the United States."

[CH 32022].

A. The Initial Solicitations

In early April 1985, Channell spoke with one of his prior contributors, John Ramsey of Wichita Falls, Texas, who Channell

felt might be interested in contributing to support the Contras. Ramsey seemed receptive to the idea, but wanted to meet Calero in person to ensure that any money he contributed would, in fact, be used to support the Contras. [Channell Dep., 9/1/87, at 80-82; R. Miller Dep. 8/20/87, at 141-142].

Channell scheduled a dinner for himself, Conrad, Miller, Gomez, Ramsey and Calero in Washington, D.C., on April 10, 1985. At the last minute, however, Calero was unable to attend and the dinner went forward without him. Going into the dinner, Channell had told Miller and Gomez that Ramsey was a "tough cookie" who probably would be most interested in the Contras' need for arms and other lethal supplies. [Channell Dep., 9/1/87, at 80-83; R. Miller Dep., 8/20/87, at 142].

At the dinner, in a private room at the Hay Adams Hotel, Miller and Gomez spoke at length about the Contras' need for supplies, both lethal and non-lethal. Gomez showed Ramsey a book of pictures taken during a recent trip Gomez had made to various Contra bases in Central America. This collection included pictures of Contra fighters, mortars and machine guns. [CH 36920-35; R. Miller Dep., Exhibit 10].

Conrad openly tape-recorded the conversation during dinner, supposedly because he was learning new information about the Contras and wanted to preserve it. [Conrad Dep., 6/10/87, at 75-76; Gomez Dep. at 32-33]. The transcript of the tape, as further interpreted by Channell, Conrad and Miller during depositions, confirms that Channell, Miller and Gomez discussed the Contras military and non-military needs at length, often in

response to questions from Ramsey. At one point, Miller deflected a suggestion by Ramsey that people be solicited to send used shotguns to the Contras:

RAMSEY: "The best I can tell, a shotgun is the best thing to use in Jungle warfare."

GOMEZ(?): "Or a very rapid fire machine gun. That's why the AK-47s and the M16s are the best weapons."

MILLER: "The M16 fires a 22.5 caliber bullet."

RAMSEY: "I bet I could get 10,000 people to give their old shotguns to this."

MILLER: "Only one problem. You can't export guns without a license."

[CH 36923; R. Miller Dep., Exhibit 10].

Shortly after this exchange, the subject turned to methods of counteracting Soviet-supplied HIND helicopters:

GOMEZ OR MILLER: "Calero has said publicly, so that the Sandinistas could hear on secret radio communications in the field, saying we have red eyes [missiles]. It's a big lie."

UNKNOWN: "They're playing a psychological war against the Sandinistas."

MILLER(?): "The more sophisticated of the shoulder-held missiles, the red eyes. There's 2 different kinds. One that's a little less expensive and there's one that's \$8,000. It can take it out."

[CH 36924; R. Miller Dep., Exhibit 10].

Later, Channell itemized some of Calero's needs:

CHANNELL: "Calero wants those red eye missiles. He wants boots. He wants back packs. He wants AK 47 rounds which you can get on the international market. He wants communications equipment."

[CH 36928; R. Miller Dep., Exhibit 10].

Ramsey, however, returned again to his suggestion to provide the Contras with donated arms, which is not what Channell and Miller had in mind:

RAMSEY: "We're going to call it the Shotgun Drive. And we're going to get Remington to put up the amo [sic]. Dupont owns Remington."

"We're going to start on CBs. We're not even going to invoke the electronic media until we get support or we have about three semis going north on Tobacco Road out of North Carolina full.

"And they keep calling on another semmi.

"We got an empty semi out there? Somebody got an 18-wheeler empty can come down and help liberate Central America?"

[CH 36931; R. Miller Dep., Exhibit 10].

Near the end of the transcript, the Channell/Miller group succeeded in turning the discussion back to missiles and money:

UNKNOWN: "Between now and May 1 the red eye missiles could be the entire key.

"Because of they succeed at this point in launching an offensive including tanks and MI24 helicopters into that region and go for the cans. . . [sic]

"There's two different kinds of red eye missiles. There's one that's very unsophisticated which is just a direct shot missile. And then there's one that's able to take on the Hind [sic] because the Hind has major decoy devices, has heavy armament, and it has these flares on the fack of the exhaust from the jets -- the expulsion from the engine -- that mask the head.

"So you have to have the \$8,000 red eye to make it work."

[CH 36935; R. Miller Dep., Exhibit 10].

The transcript concludes with an observation, attributed to Miller, which sums up well the philosophy with which Channell, Conrad and Miller approached their solicitations:

MILLER: "If you provide money for ammunition, the money they've set aside for ammunition can go to boots.

"On the other hand, if you provide money for boots, what they've set aside for boots can go to ammunition."

[CH 36935; R. Miller Dep., Exhibit 10].

The solicitation was a success. The next morning Ramsey had breakfast with Calero and, at that time or shortly thereafter, donated \$20,000 directly to the Nicaraguan Development Council. NDC had previously retained IBC as a public relations consultant.7/

Later, in early June 1985, Miller received a telephone call from North, who asked him to try to raise \$30,000 for an undisclosed purpose related to the Contras. North also gave Miller the name and number of a Miami account for "Commercial Tulin" -- a Robelo-controlled account, although Miller did not know that -- into which any contribution could be deposited. [R, Miller Dep., 6/23/87, at 24-25].

At Channell's suggestion, Miller contacted Ramsey, who sent \$10,000 directly to the Robelo-controlled account. [Ramsey Dep. at 55; R. Miller Dep., 6/23/87, at 27]. North later confirmed to Miller that the contribution had been received. [R. Miller Dep., 6/23/87, at 27].

Channell then asked Miller to have North send telegrams of appreciation to both Ramsey and Channell. Miller got North's approval for these telegrams and sent them over North's name. [R. Miller Dep., 6/23/87, at 27]. In those telegrams, dated June 6, 1985, North thanked Ramsey and Channell for their support. [RM 3577; RM 3578].

The Ramsey solicitation was not, however, to become the model. It did not produce enough money for the effort, and the donation was sent directly to Robelo so that the Channell/Miller

group was not compensated. A new approach was in order.

B. North's Maiden Presentation

After the Ramsey solicitation, Channell drew on his experience with NCPAC "briefings" and the NRF dinner, and worked with Miller to sponsor a White House "event" for prior and potential NEPL contributors. This event was intended to educate contributors about the situation in Nicaragua and to solicit funds for the Contras. Through North, Miller and other IBC associates were successful in arranging a White House briefing for a group invited by NEPL. [Channell Dep., 9/1/87, at 76-78].

The briefing was held on June 27, 1985, in the Old Executive Office Building with North as the principal speaker. According to Channell, North delivered what became his standard speech about Nicaragua and the Contras. North showed slides during his presentation, some of which had been provided by IBC. [Channell Dep., 9/2/87, at 171].

North's speech was an impassioned plea. He discussed the Communist threat posed to Nicaragua's neighbors by the Soviet and Libyan military build-up in Nicaragua; political and religious repression in Nicaragua; the humanitarian and military needs of the Contras; and the importance of United States support for the Contras. North also emphasized that the United States would be flooded with millions of refugees if Nicaragua continued under its existing regime and policies.^{8/}

This briefing was the initial substantive encounter between Channell and North.^{9/} In a pre-deposition interview, Channell

described North as a "natural fundraiser," even though he did not expressly ask for contributions. That particular task was left to Channell, Miller and their associates. [Channell Dep., 9/1/87, at 87-88; 9/2/87, at 168-171. See also 5/21/87, at 20-2 (O'Boyle)].

After the briefing, the potential donor group was taken across the street for a reception and dinner at the Hay Adams Hotel. As was to become customary, NEPL arranged and paid for food and lodging at the Hay Adams for persons attending this special White House briefing. At the dinner, Channell presented Calero with a check for \$50,000, which represented all Contra-related contributions received to date by NEPL. At Miller's instruction, the check was made payable to Alpha Services, Inc., a Calero account. [Channell Dep., 9/1/87, at 78-80].

Channell testified that his understanding was that the contributed funds would be used for humanitarian supplies. This understanding was based on Channell's assertion that Calero's specific appeal was for medicine and food. [Channell Dep., 9/1/87, at 79-80].

C. The Establishment of I.C., Inc.

Meanwhile, in March or April 1985, North was contacted by Kevin Kattke -- whom North described to Miller as an "intelligence community gadfly" -- about an alleged Saudi Prince who proposed donating to the Contras \$14 million of profits derived from the sale of Saudi oil. North referred the Prince -- who used a variety of pseudonyms, the most common of which was

Ebrahim al-Masoudi -- to Miller, who was engaged to market the Prince's oil. Miller and the Prince met several times over the course of the next several months. Miller's interest was twofold: he and North wanted to raise money for the Contras, and he was to receive \$1 million of the profit that would be derived from the sale of the oil. [R. Miller Dep., 8/21/87, at 382-389].

Miller kept North fully apprised of his dealings with the Prince, which eventually also included a prospective gold transaction and assistance in freeing the hostages held in Lebanon. [R. Miller Dep., 8/21/87, at 389-390]. Indeed, Miller believed that he "was an agent working on [North's] behalf" in connection with these and other activities undertaken at North's request. [R. Miller Dep., 8/20/87, at 98-99].10/

On April 26, 1985, Miller and Gomez incorporated a Cayman Islands corporation known as I.C., Inc. [RM 1136-44]. This entity originally was intended to receive the profits from the transactions conducted with the Prince. The Cayman Islands was chosen by Miller on the recommendation of a "political friend." Miller wished to keep "off-shore" any money that he derived from his transactions with the Prince, because: (1) he did not want to incur federal income tax on these proceeds; and (2) he and North "took precautions all the time . . . not to have organizations be readily available for public view." Miller was told that it was cheaper to maintain bank accounts in the Cayman Islands than in Switzerland. He also received advice from an attorney that such an off-shore "collection point" was a lawful arrangement. [R. Miller Dep., 8/20/87, at 96-100, 102-104].

Although no proceeds were derived from the venture with the Prince,11/ I.C., Inc. became an integral part of the Channell/Miller fundraising network for the Contras. It served as a conduit, protected by Cayman Islands bank secrecy laws, through which the funds contributed to the tax exempt NEPL could be transferred to the Contras or to the Enterprise.

Miller advised North in late April or early May 1985 of the actual formation of I.C., Inc. [R. Miller Dep., 6/23/87, at 29]. Indeed, North testified that he directed Miller to establish this Cayman Islands Corporation to be used for Contra funding efforts. [7/13/87, at 77]. In May 1986, Miller changed the name of I.C., Inc., to "Intel Co-Operation, Inc.," and amended the corporate charter to specify that the company was engaged, among other things, in providing grants to "political and benevolent" organizations. [RM 1541-42]. At that time, Miller told North about this name change and charter amendment, which Miller asserts was not aimed at providing increased cover for the operation. [R. Miller, 8/20/87, at 124].

D. The Creation of the Network

Soon after the June 1985 briefing, Channell asked Miller to arrange a meeting with North. Certain contributors to NEPL were concerned about press reports suggesting that contributions for the Contras were being skimmed or spent on unnecessary or obsolete items. [Miller Dep., 6/23/87, at 28]. In addition, Channell wished to express his appreciation to North for the June 27 briefing. [Channell Dep., 9/1/87, at 91].

Miller ultimately arranged a meeting on July 9 for himself,

North, Channell and Conrad at the Grill Room in the Hay Adams Hotel. At the meeting, Channell asked North how best to ensure that funds contributed to NEPL for the benefit of the Contras actually were used for that purpose. North told Channell that henceforth "continued" contributions to NEPL for the Contras should be passed to IBC for proper dispersal. From shortly after this meeting through the fall of 1986, NEPL made all Contra assistance payments to IBC or to I.C., Inc. [R. Miller Dep., 6/23/87, at 28-30].

Miller heard, in the diplomatic community, about a possible public relations effort for another resistance movement -- Afghanistan. Sometime in 1985, probably May or early June, he went to see North in his office about obtaining work for IBC in this area. He called Bob Earl into the room and asked him to bring in a piece of paper that was on a yellow pad like a lined legal pad. Miller recalls that the chart on the piece of paper was similar to but not as complicated as a chart found in North's safe and reproduced in the Tower Commission Report at C-17. Miller also recalls that the chart at least showed NEPL, IBC and I.C., Inc. as parts of a Contra funding network. While the chart may not have been a complete depiction of the actual workings of the network, North used it with Miller to explain "how a covert operation is set up." [R. Miller Dep., 8/20/87, at 110-113].

III. The Channell/Miller Network -- The Operation

A. White House Briefings and Hay Adams Gatherings

The North briefing in June 1985 served as the blueprint for other similar briefings during the next year for NEPL contributors or potential contributors. These group briefings occurred on October 17, 1985; November 21, 1985; January 30, 1986; and March 27, 1986.

The White House briefings were meticulously planned by NEPL, IBC, North and White House personnel. Internal White House memoranda obtained by the Committees show that North was the switching point for arranging and coordinating the briefings with White House liaison, White House Counsel, and White House security.

NEPL prepared and sent invitations to persons selected by Channell and his associates. A typical invitation to a briefing stated in pertinent part:

"You are one of a small group of dedicated Americans who has stood by President Reagan . . . in support of his agenda . . . It will be a pleasure to meet you in Washington on [date] when you attend our special security briefing followed by a working dinner . . . Please be reminded that your accommodations at the Hay Adams Hotel are taken care of and there is no expense to you."

[CH 03541].

For those who attended, NEPL met them at the airport with a limousine and escorted them to the Hay Adams Hotel, where all expenses were paid by NEPL.

The group typically was taken from the Hay Adams to a reception room in the Old Executive Office Building, where they

were introduced to North and other White House personnel. Other than North, among those who participated in these briefings were Patrick Buchanan, White House Communications Director; Mitch Daniels, Political Assistant to the President; Linas Kojelis, Special Assistant to the President for Public Liaison; Linda Chavez, Deputy Assistant to the President and Director of the Office of Public Liaison; and Elliott Abrams, Assistant Secretary of State for Inter-American Affairs. For the January 30 briefing, David Fischer -- a former Special Assistant to the President who became a highly paid consultant to NEPL and IBC -- even arranged for a Presidential "drop by."

North always delivered the principal speech and slide presentation along the lines of the June 1985 briefing. While he was a spellbinding speaker, North generally was careful not to ask for money, often telling the audience that he could not solicit funds because he was a federal employee. He did, however, suggest that persons interested in contributing funds for the Contras should speak with Channell. At least one attendee at these briefings recalled North stating that there were certain matters he could not discuss with them "on this side of Pennsylvania Avenue" but that Channell would raise later "on the other side of the street," a reference to the Hay Adams Hotel. [McLaughlin Dep. at 50-52].

An account of North's presentation was provided at the public hearings by an eventual contributor in attendance at the March 1986 briefing, William O'Boyle:

"[North] described the military and political

situation in Nicaragua. He had photographs of an airport in Nicaragua that had been recently built; the purpose of the airport was ostensibly commercial, but it was in fact a disguised military airport. One of the uses for which the airport was intended was to recover the Russian Backfire bombers after they made a nuclear attack on the United States.

"Another possible use of this airport was to fly a certain kind of mission that was currently being flown out of Cuba, up and down the east coast of the United States. Apparently every day a Russian plane leaves Cuba, as I recall, and goes right up to the 12-mile limit, has some kind of large device on the outside of the plane . . . This Nicaraguan air base would allow the Russians to fly the same kind of mission up the west coast to the United States . . .

"He described the refugee problem . . . and we could look forward in the next few years to millions of refugees flooding across our borders as this happened.

"He indicated how our security services had intercepted the text of a speech which was delivered to the UN by the Nicaraguan representative to the UN, which was complaining about the United States in one respect or another, the point being it is really the Russians managing the diplomacy of the Nicaraguans before the United States.

"He showed photographs which indicated that the Nicaraguan government officials were indicted in smuggling dope . . . He also told an anecdote about some Nicaraguan agents that were recently caught with dope and money and so forth and disguised as American agents."

[5/21/87, at 20-22].

After the briefings, Channell, Miller and their associates hosted a cocktail party and dinner at the Hay Adams, often attended by Contra leaders and some U.S. government officials. During the reception and dinner, NEPL and IBC employees attempted to determine which attendees were the most likely contributors. The enticement of purchasing lethal supplies for the Contras was often used with potential contributors. Those persons who

expressed a serious interest in contributing money for the Contras were offered the opportunity to meet one-on-one with North, and, if they gave enough, a meeting with the President. [5/21/87, at 26-27].

Large contributors to NEPL uniformly received thank you letters from North (and often from the President) for their support of the President's policies in Central America, although without specific reference to any contribution. [R. Miller Dep., 9/15/87, at 511-515].

B. North's Involvement in Solicitations Intended for the Purchase of Lethal Supplies

In his public testimony, North testified emphatically that "I do not recall ever asking a single, solitary American citizen for money." [7/7/87, at 234]. He readily admitted, however, that "I showed a lot of munitions lists" to Contra contributors or potential contributors "in response to questions about the cost of lethal items." [7/7/87, at 237].

1. "Big Ticket Items" and "Ollie's New Purchase" Lists

In the late fall or early winter of 1985, Channell asked Miller to have North prepare and provide a list of "big ticket items" to be used in soliciting contributions for the Contras. At Miller's request, North recited a list that included heavy lifting of cargo by aircraft (approximately \$675,000 worth); training and outfitting of an "urban tactics unit"; the resupply of a Contra fighting unit known as the "Larry McDonald Brigade" (a Contra unit); and probably missiles of some kind. [R. Miller Dep., 6/23/87, at 32-33].

Miller typed the list onto his computer, printed a single copy, gave that copy to Channell and deleted the computer entry. Channell used this list, which totaled approximately \$1.2 million, to solicit contributions. [Miller Dep., 6/23/87, at 32-34]. An apparently different "big ticket items" list was prepared by North and used by him and Channell in a solicitation off Nelson Bunker Hunt.

Handwritten notes produced by Miller indicate other conversations with North about fundraising for lethal supplies. A note dated September 18, 1985 contains entries reading "\$415,000-Weapons, C4, M79" and "520,000 MAUL." [RM 971]. "C4" refers to an explosive, "M79" likely refers to a grenade launcher and \$520,000 MAUL" refers to the cost of eight Maule airplanes. Miller testified that North provided this information to him with the understanding that it would be used for fundraising. [R. Miller Dep., 7/3/87, at 75-76; 8/20/87, at 252-256].

Another handwritten note of Miller's contains the entry "Ollie's new purchase list." The note is dated February 5, 1986. [RM 859]. Miller does not recall the derivation of this entry. [R. Miller Dep., 8/20/87, at 266-267].

2. North's Special Appeals

As North testified publicly, he met with scores of potential contributors to convey the plight and needs of the Contras. Insofar as North's actual role, the more revealing of these meetings are those that were conducted in private. As the descriptions below indicate, North prepared potential large contributors for what Conrad termed "the call to the altar."

[Conrad Dep., 6/10/87, at 147-148].

a. Nelson Bunker Hunt

In September 1985, Channell arranged a meeting in Dallas between North and Nelson Bunker Hunt, a wealthy Texas businessman who had contributed \$10,000 to NEPL the previous July. Channell rented a private airplane for \$8,000 to \$9,000 to transport North to and from Dallas.¹²/ [Channell Dep., 9/1/87, at 123]. The trip was worth the cost.

In Dallas, there was a private dinner at the Petroleum Club attended by Hunt, Conrad, Channell and North. North gave his standard briefing, without slides, and showed Hunt a list of various Contra needs. The list was divided about evenly between lethal and non-lethal items, and included Maule aircraft and a grenade launcher possibly described as an "M-79." The total price was bout \$5 million. According to Channell, after dicussing the items on the list and their prices, North "made the statement that he could not ask for funds himself, but contributions could be made to NEPL, or words . . . to that effect." North then left the room, a maneuver that had been "pre-arranged." [Channell Dep., 9/1/87, at 113-120; 9/2/87, at 171-172].

Channell explained that the list was his idea because he wanted a "fundraising objective" to take to Hunt. He therefore had asked North to prepare a list totaling about \$5 million for use in the solicitation of Hunt. [Channell Dep., 9/1/87, at 110-111].

Despite this evidence, Hunt has told the Committees that

Channell never spoke to him about the Contras' need for weapons. According to Hunt, Channell told him that the Contras had "unpaid bills" for "[f]ood and shelter, medicine [and] general expenses" [Hunt Dep. at 32-33]. Hunt testified that he does not recall any conversation he had with North at the dinner. [Hunt Dep. at 21].

Nonetheless, as a result of this dinner, Hunt made two payments to NEPL of \$237,500 each. [Hunt Dep. at 32, 48]. One of them was a contribution and one was a loan. The loan was evidenced by an unsigned promissory note because Channell would not agree to the loan (especially after he was unable to find a contributor to guarantee the loan on NEPL's behalf). Nevertheless, he held the \$237,500 principal for four months, repaying it in January 1986 without interest. [Channell Dep., 9/1/87, at 124-125]. Hunt subsequently paid \$237,000 to NEPL in March 1986 as a contribution, making his total contributions to NEPL \$484,500. [Hunt Dep. at 52].

In the case of Hunt's initial \$10,000 contribution in 1985, he sent NEPL a personal check drawn pursuant to a "check request" and marked "contribution." He also itemized the \$10,000 contribution on his 1985 tax returns. By contrast, each step in the later transaction was conducted with Hunt's law firm -- Shank, Irwin and Conant (SI&C) of Dallas, Texas -- acting as an intermediary, and issuing its own checks, backed by Hunt's funds. [Hunt Dep. at 46-55, 79-80, 82-83].

Hunt testified that he handled these transactions in this manner in an effort to avoid publicity in the "liberal media"

over the contributions. He acknowledged that the NEPL gifts were the only ones he had ever made indirectly. Moreover, none of the check requests or check stubs for the three large checks has any entry in the section designated for "purpose." Documentation for other checks produced by Hunt consistently included this entry. Hunt indicated that he must have overlooked this omission on the three checks in question. [Hunt Dep. at 34, 56, 80-85].

Finally, Hunt did not itemize the \$237,500 contribution on his 1985 tax return or the \$237,000 contribution on his 1986 return. He explained that, because of large losses each year, he did not need the deductions. Nonetheless, numerous other contributions apparently were itemized by Hunt on those tax returns. [Hunt Dep. at 67, 82-83].

In short, it seems that Hunt took great pains to keep his large contributions to NEPL "off the books." As indicated above, a note made by Miller one day after Hunt issued the checks for the contribution and loan to NEPL contains the entries "\$415,000 -- Weapons C4, M79" and "\$520,000 MAUL," referring to munitions and airplanes. [RM 971]. This same note refers expressly to Hunt in a different context. [R, Miller Dep., 6/23/87, at 75-76; 8/20/87, at 254-255].

b. Barbara Newington

Barbara Newington, a wealthy widow from Connecticut, had been a large contributor to Channell organizations (and at least one predecessor organization) for a few years. In 1985 and 1986, Newington contributed a total of \$2,866,025 to NEPL. On June 25 or 26, 1985, she met privately with North because she was unable

to attend the Channell group meeting arranged for the next day. She also met privately with President Reagan on two occasions. [Newington Dep. at 16-17, 36, 56-58].

In early November 1985, North, Miller and Channell participated in a solicitation of significant contributions from Newington. Miller's handwritten notes leading up to the meeting indicate that Channell prepared a proposed "pitch" for "Green" -- the code name for North used by NEPL and IBC -- to use with Newington. This "pitch" included statements such as "[you are] the most secure person we know in the U.S." and "[w]e are asking you to take on a project that requires your kind of person." [RM 1042]. Although Miller does not specifically recall, he might have relayed a somewhat softened version of this solicitation to North. [R. Miller Dep., 8/20/87, at 248-250].

In further preparation for the solicitation, Miller created a file folder that contained an unclassified photograph of a Soviet HIND helicopter on one side of the folder and a picture of a shoulder-held surface-to-air missile on the other side. He also included an article from The New York Times on the capabilities of the HIND helicopter. [R. Miller Dep., 6/23/87, at 34-35].

The critical meeting took place in Newington's suite at the Hay Adams Hotel where Channell, Miller and Newington were joined by North. At the meeting, North referred to the file folder prepared by Miller, placed The New York Times article in front of Newington, and described the capability of the pictured surface-to-air missile to counteract HIND helicopters. In response to a question from Newington, North indicated that he

knew where to obtain such missiles, although Miller cannot recall whether North quoted any prices. North left the room shortly thereafter. According to Miller, North's absence was not specifically pre-arranged, "but it was his practice not to be in the presence of the donor when they were asked for money." [R. Miller Dep., 6/23/87, at 34-36].

Channell then solicited Newington for a substantial amount of money. Over the course of the next four to six weeks, Newington made stock contributions to NEPL worth approximately \$1.1 million. [R. Miller Dep., 6/23/87, at 36-37]. Like Hunt, Newington has denied that she ever made a contribution intended for the purchase of lethal supplies.¹³/ [Newington Dep. at 33, 45, 86-87, 90-93].

At some point in the spring of 1986, Channell and Newington decided to invite North and his family to Newington's house for a weekend of recreation and relaxation. Miller, North and North's family traveled to Connecticut in a private plane chartered by Channell. It is unclear whether there was any discussion of Contra assistance that weekend. [Channell Dep., 9/1/87, at 148].

c. William O'Boyle

William O'Boyle testified that he received several fundraising calls from NEPL in early 1986. O'Boyle, an independently wealthy businessman from New York City, had been referred to NEPL by a friend from Texas. [5/21/87, at 17-18].

In late March, he was invited by mailgram to a private White House briefing on Nicaragua. He flew to Washington on March 27, was met at the airport by a limousine arranged by NEPL, and

delivered to the Hay Adams Hotel, where he met Channell, Miller and others. Channell escorted the group to a meeting room in the Old Executive Office Building, where North presented the briefing described above. [5/21/87, at 18-20].

After the briefing, the participants returned to the Hay Adams for a cocktail reception and dinner attended by Channell, Miller and other NEPL and IBC personnel. During the reception, O'Boyle indicated to a NEPL employee, either Cliff Smith or Krishna Littledale, that he was interested in making a contribution to purchase weapons for the Contras. He wanted to know what weapons were needed and how much they cost. The NEPL employee with whom O'Boyle spoke told him later that a Blowpipe anti-aircraft missile could be purchased for \$20,000. [5/21/87, at 23-24].

After dinner, Channell told O'Boyle that there was a small select group of persons in the United States who contributed money for lethal supplies to carry out the President's policy in support of the Contras. Channell asked O'Boyle if he would meet with North at breakfast the next morning. O'Boyle agreed. [5/21/87, at 25].

Breakfast took place in the main dining room of the hotel. Before North arrived, the conversation between O'Boyle and Channell continued in the same vein as the evening before. Channell told O'Boyle that they had him "checked out" overnight to ensure that he (O'Boyle) was reputable enough to join the select group of Americans Channell had mentioned. [5/21/87, at 26-27].

When North arrived, Channell told him that O'Boyle was willing to contribute funds for the purchase of weapons. North immediately began to describe from a notebook the Contras' needs, including several million rounds of "NATO" ammunition, Eastern bloc ammunition, Blowpipe and Stinger anti-aircraft missiles, and Maule aircraft. North explained that Blowpipe missiles cost \$20,000 each, but that they had to be purchased in packs of ten. He also mentioned that the cost of Maule airplanes was \$65,000 each. According to O'Boyle, North stated that "he could not ask for money himself as a government employee." [5/21/87, at 27-31; O'Boyle Dep. at 42-44].

Either at this breakfast or the evening before, Channell informed O'Boyle that if he contributed \$300,000 or more, a 15-minute "off-the-record" meeting would be arranged between O'Boyle and President Reagan. Channell indicated that other people who had contributed that amount of money had met with the President. O'Boyle understood that these meetings with the President were "off-the-record" because the subject matter was so secret and sensitive. [5/21/87, at 26-27; O'Boyle Dep. at 46-47].

O'Boyle told Channell that he wanted time to consider whether to make a contribution. After returning to his home in New York for a few days, O'Boyle decided to contribute \$130,000 to NEPL for the purchase of two Maule airplanes.¹⁴ He flew to Washington to deliver his check to NEPL headquarters and was taken to the Hay Adams Hotel by a NEPL employee. Channell met O'Boyle at the hotel. O'Boyle then gave his check to Channell,

who telephoned North to join them at the hotel. [5/21/87, at 31-33; O'Boyle Dep. at 54-55].

When North arrived, Channell showed him O'Boyle's check, which North acknowledged. North spoke to O'Boyle again of the Contras' military needs and corresponding costs, but indicated that Blowpipe missiles no longer were available. In North's presence, Channell again told O'Boyle that a larger contribution would warrant a meeting with the President and asked for more money. [5/21/87, at 32-33].

Despite a visit in New York from Channell and Conrad and another meeting with North in Washington in which North disclosed a purported "secret" plan as to how the Contras would prevail in Nicaragua, O'Boyle informed Channell that he did not wish to make further contributions to NEPL.¹⁵ In any event, in response to a subsequent mailing from NEPL, O'Boyle made one more contribution for \$30,000. [5/21/87, at 35-39].

d. Ellen Clayton Garwood

Ellen Garwood also testified at the Committees' public hearings. She had been a NEPL contributor on several occasions. She is a wealthy octogenarian widow from a well-known family in Austin, Texas.

Garwood first met North in 1984 at a Council for National Policy meeting. She had been briefed privately by him on the Contras' needs at least a handful of times, including once at a small airport in Dallas when North flew there to solicit Hunt in September 1985. [5/21/87, at 7-10; Garwood Dep. at 12-15, 16-18, 20, 28-30, 32-36].

Garwood traveled to Washington in April 1986 to attend meetings of NEPL contributors. Prior to the trip, Channell told Garwood that she would be presented with an appeal for much more money than had been requested of her before. [5/21/87, at 8-9].

During the last day of the NEPL meetings, Channell asked Garwood to meet with him and North that evening in the hotel lounge. At the evening meeting, North told Garwood that the situation of the Contras was desperate. With tears in his eyes, North explained to her that the Contras were hungry, poorly clothed, and in need of lethal supplies. He emphasized that the Contra forces might not exist by the time the Congress renewed Contra aid. [5/21/87, at 9-10; Garwood Dep. at 33-34].

Either North or Channell then produced a small piece of paper with a handwritten list on it. They discussed the list in hushed tones outside of Garwood's hearing. After North left the lounge, Channell showed the paper to Garwood. The paper contained a list of weapons and ammunition, with a price opposite each category of items. She recalls that the list included hand grenades, anti-aircraft missiles, bullets, cartridge belts and other items. [5/21/87, at 10-12; Garwood Dep. at 34].

Channell told Garwood that the items were what the Contras needed to sustain their efforts and requested her to provide the amount necessary to purchase the listed lethal supplies. Channell transcribed a copy of the list for Garwood to take with her. [5/21/87, at 13; Garwood Dep. at 35-28].

To supply the items on the list, Garwood immediately contributed more than \$1.6 million to NEPL; she wired \$470,000 in

cash and transferred stock valued at \$1,163,506. For this same purpose, she contributed an additional \$350,000 the next month. All told, she contributed \$2,518,135 in 1986. Garwood stated unequivocally that the principal purpose of these April and May 1986 contributions was to purchase for the Contras the weapons and ammunition on the list provided by North and Channell. [5/21/87, at 14-16; Garwood Dep. at 58-61].

* * * * *

These descriptions of the Hunt, Newington, O'Boyle and Garwood solicitations are not exhaustive. The Committees interviewed or deposed 13 of NEPL's significant contributors during the relevant time period, nearly all of whom reported personal contact with North. The Committees have received evidence that several of these contributors -- including John Ramsey of Wichita Falls, Texas, and C. Thomas Claggett, Jr., of Washington, D.C. -- made donations intended for the purchase of lethal supplies. Channell's records reveal that 12 contributors, including Newington and Garwood, accounted for slightly more than 90 percent of NEPL's contributions in 1985 and 1986.

By giving to the tax-exempt NEPL, the contributors were able to claim tax deductions even though their contributions were intended for the purchase of lethal supplies. The Committees have received evidence that several of these contributors claimed tax deductions for their NEPL contributions. For taxpayers in the 50 percent tax bracket, this meant that the public in effect paid for half of their gifts.

C. The Role of the President

In a May 19, 1986 PROF note to Poindexter, North wrote "the President obviously knows why he has been meeting with several select people to thank them for their 'support for Democracy' in Cent[ral] Am[erica]." [N12528]. In fact, what the President knew is a matter of some doubt.

The President, in his March 19, 1987 press conference said that he believed that contributors he met had donated money for political advertising for the Contras. [New York Times, 3/20/87, at A-10, Col. 4]. The minutes of the May 16, 1986 National Security Planning Group (NSPG) meeting reveal the same understanding on the part of the President. He stated, "What about the private groups who pay for ads for the Contras? Have they been contacted? Could they do more than ads?" [N 10298]. Similarly, in preparation for the January 30 briefing, Linda Chavez wrote a memorandum to the President, stated that "ACT and NEPL spent in excess of \$3 million supporting the President's programs through public awareness using television and newspaper messages." [N 22715]. In fact, much of the \$3 million was directed toward Contra support activities, including arms.

Poindexter, however, testified at his deposition that "[t]here wasn't any question in my mind" that the President was aware that the contributors he was thanking were giving to the Contras. [Poindexter Dep., 5/2/87, at 203]. He added that "in the White House during this period of time that we were encouraging private support, we really didn't distinguish between how the money was going to be spent." [Poindexter Dep., 5/2/87,

at 202]. North testified that in writing his May 19 PROF note, he assumed that the President was aware that the contributions were for munitions, as well as other things, although he denied ever discussing this with the President. [7/7/87, at 241].

The President met with and thanked several large contributors for their support of his policies. David Fischer, former Special Assistant to the President, arranged Presidential photo opportunities or meetings with at least seven major Channell/Miller contributors in 1986. Fischer and Martin Artiano, a Washington lawyer, were paid steep fees by IBC (which charged these fees to NEPL) for arranging these meetings (among other services). Channell's statement to O'Boyle that these meetings carried a \$300,000 price tag is substantiated by Edie Fraser's cryptic note to North (mentioned above); at least five of the six contributors who donated more than \$300,000 to NEPL were invited to meet with the President.

D. The Role of David Fischer and Martin Artiano

In late November or early December 1985, Miller asked Martin Artiano, an acquaintance from the 1980 Reagan Presidential campaign, to help him find someone "who had some Washington experience at a relatively senior level" to provide "consulting" assistance to IBC on behalf of NEPL. [Artiano Dep. at 58-59]. When Artiano learned of IBC's needs, he contacted David Fischer, who had been a friend since they worked together as advance men in the 1976 Reagan campaign. [Artiano Dep. at 44-45].

After the unsuccessful 1976 Reagan effort, Fischer worked as an employee of Deaver and Hannaford, a public relations firm that

did extensive work for Mr. Reagan. Fischer was in charge of Mr. Reagan's advance operations and served on occasion as his personal aide during the years of preparation for another Presidential run in 1980. [Artiano Dep. at 45; Fischer Dep. at 6]. During the 1980 campaign, Fischer became the full-time personal aide to Mr. Reagan, traveling on the campaign plane with the candidate. After the inauguration in January 1981, Fischer was appointed Special Assistant to the President with an office adjacent to the Oval Office. [Fischer Dep. at 9; Artiano Dep. at 46-50]. For the next four years -- until April 1985 -- Fischer was in almost constant contact with the President.

As President Reagan's second term began in early 1985, Fischer and his wife decided for personal reasons to move to Utah. By the fall of 1985, however, Fischer wanted to return to Washington and asked Artiano to let him know about employment or consulting opportunities. [Fischer Dep. at 159]. When contacted by Artiano about the IBC opportunity, Fischer authorized Artiano to pursue discussions with Miller on his behalf. [Artiano Dep. at 59].

When Miller decided to retain Fischer and Artiano, he sought Channell's concurrence because NEPL ultimately was to be the recipient of, and billed by IBC for, the "consulting" services performed by Fischer and Artiano. While all the participants recall that Fischer and Artiano agreed to act as subcontractors for IBC and provide services to Channell's organizations, there is sharp dispute over the terms of that agreement. This dispute is only sharpened by the absence of a written understanding.

Channell and Conrad insist that they agreed to pay Fischer and Artiano \$50,000 for each meeting Fischer scheduled with the President for a NEPL contributor. Conrad claims to recall a meeting in December 1985 in Miller's office attended by Miller, Artiano, Fischer, Channell and himself at which Artiano broached, and Channell accepted, this proposal. [Conrad Dep., 6/10/87, at 179-180]. Channell recalls Fischer and Artiano making this proposal, but claims that he rejected it as too expensive. Instead, according to Channell, he opted for a straight retainer of \$20,000 per month. [Channell Dep., 9/1/87, at 155-159]. Gomez recalls that Fischer and Artiano were to be compensated at least in part based on the number of Presidential meetings they could arrange for NEPL contributors. [Gomez Dep. at 61-64].

Fischer and Artiano vehemently deny that any such proposal was made or accepted. Artiano, who negotiated with Miller on behalf of Fischer, testified that they initially agreed to a two-year consulting contract for a monthly retainer of \$20,000 a month. When he and Fischer realized the amount of work Channell demanded, however, Artiano testified that he requested a \$50,000 "acceleration" for their retainer. This payment was made to them on January 31, 1986, and was split with Artiano. In July 1986, Fischer and Artiano recast their arrangement with IBC entirely, replacing the two-year consulting contract with a formal joint venture between "David C. Fischer and Associates" and IBC. [Artiano Dep. at 64-72, 78-90; Fischer Dep. at 35-38, 97-104, 111-119].

According to both Fischer and Artiano, they learned in early

1986 that Channell and Conrad were operating under the assumption that there was a straight fee-for-Presidential meeting arrangement. Artiano thereupon convened a meeting of all the principals and disabused Channell and Conrad of that notion. [Fischer Dep. at 104-105].

Miller's recollection lends some credence to everyone's account. He testified that the initial agreement, struck in December 1985, was a \$20,000 a month consulting arrangement. He testified, however, that this initial agreement did not contemplate Fischer setting up meetings at the White House. Shortly after striking the original deal, according to Miller, Channell began to make increased demands upon Fischer, one aspect of which was setting up meetings between the President and major NEPL contributors. In exchange for servicing those increased demands, Fischer and Artiano demanded, through Miller, an acceleration of their retainer to \$70,000 per month (that is, \$50,000 per month more than the monthly fee of the original arrangement. When Miller relayed this demand to Channell, Channell suggested that, for such a sum, NEPL should get at least one meeting with the President each month. According to Miller, Channell ultimately did agree to this acceleration. [R. Miller Dep., 8/21/87, at 358-362].

All told, between December 1985 and February 1987, IBC paid Fischer \$397,400 and Artiano \$265,000. Artiano transferred \$60,000 of his payments to Fischer. All of the payments were reimbursed by IBC by NEPL.

When asked about allegations regarding Fischer's

compensation, the President's Chief of Staff, Donald Regan, testified that the allegations, if true, would be a "real embarrassment." According to Regan, "we thought he was doing it out of his concerns for the Contras and the goodness of his heart, a public pro bono type of thing." He continued: "To find out he was being paid for it was a real shock . . . [A]nyone getting paid for -- to get a group into the White House, we tried to block that." [7/30/87, at 152].

Fischer, however, contends that Regan knew by the first meeting between the President and Channell supporters -- in January 1986 -- that Fischer was acting as a paid consultant to the Channell organization. When he raised the subject with Regan, according to Fischer, Regan responded, "I hope you're being compensated for this." [Fischer Dep. at 48].

E. Roy Godson and the Heritage Foundation

In the summer of 1985, Oliver North asked Roy Godson, a consultant to the National Security Council, the director of the Washington Office of the National Strategy Information Center, and an Associate Professor of Government at Georgetown University, to raise money for the Catholic Church in Nicaragua. [Godson Dep., 9/10/87, at 53-57]. North informed Godson that Richard Miller would arrange for the transfer of any funds that were raised. [Godson Dep., 9/10/87, at 72]. Godson later met with Miller, who suggested two alternative routes for contributions: donations to the Institute for North-South Issues (INSI), an organization which Miller and his partner controlled; or money transfers directly to Miller's Cayman Islands bank

account. [Godson Dep., 9/10/87, at 73-75].

Godson turned for assistance to Clyde Slease of Pittsburgh, Counsel to Richard Mellon Scaife and several Mellon family foundations. At a subsequent meeting in Pittsburgh, Slease told Godson he did not want to become involved in raising money for arms to the Contras. [Godson Dep., 9/10/87, at 61; Slease Dep., 6/11/87, at 4, 20-22, 24-28].

Godson contacted Slease at a later date and asked him if he would be willing to raise funds for the Catholic Church in Nicaragua. Slease expressed an interest but said that he wanted to meet with a higher level government official to verify that the Administration supported Godson's fundraising efforts. [Slease Dep., 6/11/87, at 26-34].

At the request of Slease, Godson arranged for a meeting with North and Robert McFarlane in the Situation Room of the White House,¹⁶ where they explained to Slease the need for funds for the Catholic Church in Nicaragua. [Godson Dep., 9/10/87, at 68-70]; Slease Dep., 6/11/87, at 34-36]. Slease agreed to try to raise \$400,000 for North's project. Slease then persuaded an acquaintance in Pittsburgh, John Donahue, to donate \$100,000, and they settled on designating the Heritage Foundation as the recipient of the donation. [Slease Dep., 6/11/87, at 40, 56].

Donahue denied that his contribution was for the Catholic Church. He stated that his contribution was a straightforward gift to the Heritage Foundation and was given for no other purpose. [Donahue Interview, 6/11/87]. Slease, however, testified that he telephoned Edwin J. Feulner, President of the

Heritage Foundation, and told him that Donahue would be donating \$100,000 to Heritage and the Catholic Church in Central America. [Slease Dep., 6/11/87, at 57]. Godson then met with Feulner and explained that the funds were to be transferred indirectly to the Catholic Church via a transfer from the Heritage Foundation to INSI. [Godson Dep., 9/10/87, at 85]. In an interview with investigators from the Select Committees, Feulner, however, did not mention that anyone had ever indicated to him that the Catholic Church was the intended recipient of the grant. [Feulner Interview, 7/10/87].

The documentation of this grant disguises the objective for which it was solicited and the purpose for which the funds were used. In a letter to Feulner, dated September 12, 1985, Richard Miller, Treasurer of INSI, stated that the Heritage grant to INSI would be used for the following purposes:

1. The dissemination in Central America of materials designed to educate the public on the political and economic realities of United States policy objectives, and the collection of scholarly responses to the materials.
2. Phase one will be followed by a program of public information on the Central American view of United States foreign and economic policy and how it relates to the political and economic future of Central American countries. This element will be a feedback mechanism for a conference to be scheduled in 1986.
3. The collection and analysis of data in the first two phases will be completed prior to the conference. Then, United States scholars and policy makers will be given an opportunity to react to the analysis before the conference.
4. The Institute will provide all Conference arrangements and select the scholars to participate in this program from among U.S. and

Central American figures.

Responding to Miller's grant request, Feulner sent Miller a check for \$100,000 with a letter dated October 15, 1985, which stated:

My colleagues and I have discussed your proposal in some detail, and are pleased to respond in a positive way to it. Therefore, I am enclosing a check from the Heritage Foundation in the amount of \$100,000 as you requested in your letter.

Feulner told Committee investigators that as far as he was concerned the grant to INSI was for the purposes stated in the September 12, 1985 letter from Richard Miller to Feulner.

After Heritage transferred the \$100,000 to INSI, Miller instructed INSI to transfer \$80,000 of the grant to his Cayman Islands account from which funds were withdrawn as directed by North. INSI retained a twenty percent administrative fee for its distribution of the grant. [Richard Miller Dep., 8/20/87, at 276-281].

Bank records obtained by the Committees from INSI, I.C., Inc. and Albert Hakim, show that at least some of the money was transferred to Lake Resources. The Bank records also indicate that most of the \$80,000 simply was deposited into the general operating fund of I.C., Inc. and was used for a variety of purposes. There is no concrete evidence that the money ever went to the Catholic Church in Nicaragua. [INSI, Lake Resources bank records (Heritage)].

In addition to the \$100,000 grant from Donahue, Slease arranged for a \$5,000 contribution from another friend, Herbert

Barness. Barness made this contribution by a check payable to the Cayman Islands bank account. [Slease Dep., 6/11/87, at 44-52]. He also introduced Godson to John Hirtle, a stockbroker in Philadelphia. [Slease Dep., 6/11/87, at 53]. Godson arranged for Hirtle to meet with North in Washington. Following this meeting, Hirtle and North met again in Philadelphia with two prospective contributors. One subsequently donated \$60,000 by check dated December 13, 1985 directly to INSI. [Macaleer Interview, 7/21/87]. Shortly thereafter, this amount was then transferred by INSI to the Lake Resources account in Switzerland. [INSI, Lake Resources bank statements (Macaleer)].

F. What Happened to the Money

Just as only a small fraction of the Iranian arms profits was used for the Contras, so only a small part of the money Channell raised for the Contras reached them. Fischer and Artiano received more than \$650,000 or more than five percent of the total money raised, and Miller, Gomez and their companies retained a large percentage of the \$5 million that IBC received from NEPL. A total of \$2,740,000 was transferred by IBC to I.C., Inc. and \$430,000 directly to Lake Resources. After deducting the payments to Fischer and Artiano, the balance, approximately \$1.2 million, was retained by IBC for services and expenses on NEPL's behalf.^{17/}

This amount, however, is not all that Miller and Gomez received from the venture. Miller testified that North agreed in late 1985 that he and Gomez could begin to collect a ten percent commission on the payments funneled to the Contras through IBC

and I.C., Inc. Miller stated that North said that the ten percent was reasonable since "most of the other people in the business of providing assistance to the Contras were taking 20 to 30 percent." [R. Miller Dep., 6/23/87, at 38]. North, in his testimony, denied that he had agreed to any specific percentage, but rather stated that he had approved "fair, just and reasonable" compensation to Miller and Gomez. [7/13/87, at 77]. Nonetheless, North's notebooks contain an entry for November 19, 1985, which states "IBC - 10%."

Miller and Gomez formed another Cayman Islands corporation in early May 1986, World Affairs Counselors, Inc. (WACI), to receive the compensation approved by North. Miller instructed his Cayman Islands agent to deduct automatically for WACI ten percent of all monies transferred to I.C., Inc. [R. Miller Dep., 8/20/87, at 226-228]. A total of \$442,000 was taken by Miller and Gomez pursuant to this commission arrangement. Miller never told Channell that he and Gomez were receiving a ten percent commission approved by North. Both Miller and Gomez believed that once the Contra assistance money left NEPL, it was subject to North's total discretion and control. [R. Miller Dep., 8/20/87, at 228; Gomez Dep., at 88-89].

Including their commissions and fees, IBC, Miller and Gomez received more than \$1.7 million from the money raised by NEPL for the Contras. Channell's take was also substantial, though apparently not of the magnitude of Miller's and Gomez's total compensation. He furnished his offices extravagantly and was lavish in his expenditures. He drew compensation for 1985 and

1986 totalling \$345,000 while Conrad and his organization received more than \$270,00, extraordinary earnings for non-profit fundraisers.

Out of the money raised by NEPL, the Contras and their affiliated entities received only \$2.7 million, with approximately \$500,000 going to other persons and entities engaged in activities relating to the Contras. The money was routed to them through IBC and I.C., Inc. and disbursed at the direction of North to Lake Resources, Calero and other persons and entities. In virtually every case, Miller would tell North when money was available and North would then instruct him on what to do with it. The chart at the end of this Chapter depicts the flow of money. In addition, as described in the next section, more than \$1.2 million was spent on political advertising and lobbying for the Contras.

G. Political Advertising for the Contras

Apart from financial assistance to the Contras, the major project of the Channell and Miller organizations in 1985 and 1986 was a "public education" and lobbying program in support of United States Government aid for the Contras.

The major vehicle in the "public education" campaign was a series of television advertisements prepared by the Robert Goodman Agency in Baltimore that cost NEPL \$1,000,000. Adam Goodman of that agency, following the Senate's approval of the Contra funding bill in 1986, wrote a letter to Channell describing their achievement:

"By design, we launched the four-week national

television ad campaign in Washington, D.C., in late February. This reflected the economy of reaching all 435 Members of the House (and 100 United States Senators) in one sitting. Beginning with Week 2, and running through the first decisive House vote in late March, we also aired spot commercials in 2 additional television markets across the country. These targeted markets, covering the home districts of nearly thirty Congressmen, experts considered to be at the core of the key 'swing vote' on Contra funding, added scope and credibility to the ad campaign. In fact NEPL's national television spot series was ultimately seen by more than 33 million people, or one out of every seven Americans."

[Letter from Adam Goodman to Spitz Channell dated March 31, 1986, reproduced as part of Channell Dep., Exhibit 1].

Supplementing the television programs were press conferences and speaking tours by persons supporting the Contras. These were arranged by IBC and another public relations firm, Edelman, Inc., retained by Channell, which was paid \$92,000 by NEPL.

The Members of Congress who were targeted in 1986 prior to the vote on Contra aid were all Democrats. Although the list changed between the first and second votes on Contra aid, the main targets were Mike Barnes (Md.), J.J. Pickle (Tex.), Bill Hefner (N.C.), Charles Whitley (N.C.), Ed Jones (Tenn.), Jamie Whitten (Miss.), Bill Boner (Tenn.), Bart Gordon (Tenn.), Jim Cooper (Tenn.), Albert Bustamante (Tex.), Kika de la Garza (Tex.) and Romano Mazzoli (Ky.). [Adam Goodman Dep., Exhibit 3].

The entire effort, although paid for by Spitz Channell and his contributors, was actually managed by Rich Miller and others, including Kuykendall, Kemble, Cameron and Peter Flaherty, a representative of the Citizens of America. The highly sophisticated effort was directed at specific Congressional

districts whose members were identified as wavering or vulnerable on the issue of Contra aid.

NEPL paid \$115,000 for extensive polling by the Finkelstein Company as an aid to selecting areas where television advertisements and speaking tours would most likely have a favorable effect on a Congressional vote. He also retained two companies, Miner and Fraser and the Lichtenstein Company, to generate letters to Congressmen supporting Contra aid, and he paid two lobbyists for their services in support of this effort: Dan Kuykendall, who concentrated on undecided Republicans and conservative Democrats, and Bruce Cameron, who focused on liberal Democrats.

Another organization, PRODEMCA, which had concentrated on Central American issues, also received payments from Channell to run newspaper ads supporting aid to the Contras on the eve of Congressional votes in 1986. Its representatives apparently participated in strategy sessions about enlisting Congressional support.

Cameron had been hired by Channell on the recommendation of Richard Miller and Penn Kemble. [Miller Dep., 9/15/87, at 614-616]. Kemble was the President of an organization called Friends of the Democratic Center in Central America (PRODEMCA) and was involved in a broad array of activities related to Spitz Channell's Central American Freedom Program and the Reagan Administration's efforts on behalf of the Contras. Although Kemble initially recommended to Miller and Gomez that Bruce Cameron be hired as a lobbyist for PRODEMCA, the relationship was eventually accomplished by Kemble and Cameron taking over Rob Owens' organization, the Institute for Democracy and Education in America (IDEA), changing its name to the Center for Democracy in the Americas (CDA), and recasting the board of directors naming Kemble as Chairman and Cameron as President. [Miller Dep., 9/15/87, at 615-616].

CDA received money from both NEPL and SENTINEL. [Channell Financial Records 1986]. Kemble was also one of the principals in the Institute for Religion and Democracy, which worked with Otto Reich's S/LPD office in the State Department and received some minimal funds from IBC. [IBC Cash Analyses (sorted), supra]. At the PRODEMCA offices, Kemble hosted legislative strategy sessions, in at least one of which State Department official Robert Kagan was a participant, prior to the 1986 Congressional votes on Contra aid. [See PRODEMCA Documents. Memorandum from Penn Kemble to Angier Biddle Duke, 2/23/87; D. Kuykendall Dep., 8/12/87, at 103-104]. PRODEMCA received three sub-grants from the National Endowment for Democracy for projects

related to Nicaragua. [See Hearing before House Foreign Affairs Committee Subcommittee on International Operations, "Oversight of National Endowment for Democracy," May 14, 20 and June 11, 1986, at 43-48].

H. The Barnes Campaign

Congressman Mike Barnes, whose Congressional district adjoins Washington, D.C. and who was Chairman of the House Foreign Affairs Committee Subcommittee on Western Hemisphere Affairs, came in for special treatment. Barnes, along with Congressman Lee Hamilton, led the fight in the House of Representatives to halt military assistance to the Contras in 1986. Heavy television advertising was directed against Barnes even though the sponsors knew that there was no chance they could change his mind or his vote. They felt, however, that since these ads were scheduled to run in the Washington media market, they would be seen by all Members of Congress and serve as a warning.

[Littledale Dep., 9/8/87, at 21-23; D. Kuykendall Dep., 8/12/87, at 112-113]. The Washington television campaign was supplemented by ad campaigns in selective targeted Congressional districts.

Barnes was also a candidate for the U.S. Senate in the Democratic primary in Maryland in 1986 and was an inviting target for his opponents. The Channell fundraising operation used Barnes as the excuse for a concerted fundraising effort in the summer of 1986. Notes taken by Channell's key fundraisers from a briefing by Channell were illustrative of the message that was being used on the clients and contributors:

"Barnes - wants indict Ollie.

"Watergate babies - want to get at the President through Ollie.

"Want another Watergate.

"Put Barnes out of politics.

"If we get rid of Barnes we get rid of the ringleader and rid of the problem.

"Special PAC to do only one thing: Only to rid Congress of Congressmen that are trying to undermine President in his anti-terrorist policies.

"Barnes trying to indict Ollie - wants to get at RR - trying to use R to elevate his Senate campaign - if we can beat him he's out of Congress.

"Giddens re CIA, NIC, Embassy Security, destroy Barnes - use him as abject lesson to others.

"RR informed on his return."

{Littledale Dep., 9/8/87, at 87-91; Shultz Exhibit No. 81}.

Channell's operatives were so determined to defeat Mike Barnes in the democratic primary that they ran "independent" television ads on behalf of Linda Chavez that were supposedly designed to help Linda Chavez in the Maryland general election. They were directed against Barbara Mikulski, one of Barnes' principal opponents in the Maryland Democratic primary and the eventual winner. [Littledale Dep., 9/8/87, at 22].

Krishna Littledale, one of Channell's main fundraisers, told the Committees that these ads were primarily aimed at harming Mike Barnes' chances in the Democratic primary. [Littledale Dep., 9/8/87, at 22].

On September 9, 1986, the night of the Democratic primary in

Maryland, Spitz Channell, Kris Littledale and Cliff Smith sent a telegram to Lt. Col. Oliver North exulting in the defeat of Mike Barnes. The telegram stated:

"Dear Colonel North:

We have the honor to inform you that Congressman Michael Barnes, foe of the freedom fighter movement, adversary of President Reagan's foreign policy goals and opponent of the President's vision for American security in the future has been soundly defeated in his bid to become the Democratic candidate for the U.S. Senate from Maryland.

His defeat signals an end to much of the disinformation and unwise effort directed at crippling your foreign policy goals.

We, at the Anti-terrorism American Committee (ATAC), feel proud to have participated in a campaign to ensure Congressman Barnes' defeat."

Signed by
Spitz Channell
Cliff Smith
Kris Littledale

[Channell Document A0036004].

Nearly all of these activities -- television ads, lobbying, grassroots pressure and newspaper ads were funded by the same contributors who had been invited to the White House for Oliver North's briefings and who had met with the President.

IV. The Channell/Miller Network -- The End

A. The Beginning of the End

On October 18, 1986, the President signed legislation appropriating \$100 million for the Contras (\$30 million for humanitarian assistance and \$70 million in unrestricted aid). The anticipation of this legislation led to a downturn in the activities of the Miller/Channell fundraising and assistance network after the summer of 1986.

With the disclosure in early November of the sale of arms to Iran, however, persons involved in the network became concerned that the story of the network would unravel and become public. This prescient concern led to meetings between Miller and North on November 20 and 21.

The initial meeting was requested by Miller. They met in the hallway outside of North's office in the Old Executive Office Building. Miller told North that he was worried about the possible legal ramifications and the costs associated with a legal defense. North told Miller that he should use the money left in the Intel Co-Operation (or I.C., Inc.) account (approximately \$200,000) for any legal fees that might arise. [R. Miller Dep., 6/23/87, at 5-8].

North called Miller the next day, November 21, to arrange a meeting later that afternoon. Miller met North in the Old Executive Office Building, and North asked him for a ride to Dupont Circle. Miller told North that money was needed from a foreign source to fund public relations and congressional activities on behalf of the United Nicaraguan Opposition (UNO).

Miller suggested contacting the Sultan of Brunei or the Saudis. North's response was "I gave one to Shultz already and he f----d it up." North also stated that "if Shultz knew that the Ayatollah was bankrolling this whole thing he'd have a heart attack." Miller did not understand either reference. [R. Miller Dep., 6/23/87, at 9-14]. Either that day or the day before, North told Miller that the Attorney General had advised North to obtain legal counsel.18/

B. The Lowell Sun Allegations

On December 14, 1986, the Lowell (Mass.) Sun ran a story under the headline "Money from Iranian Arms Sales Was Used to Back Conservatives During 1986 Election." The story stated that "[a]bout \$5 million from the almost \$30 million in excess raised from arms sales to Iran was filtered to conservative political action groups" to "support candidates who backed President Reagan's pro-Contra and Star Wars policies." The only such group named in the article was NEPL.

The Committees have uncovered no evidence to substantiate the allegation that NEPL or any other of Channell's political action groups received any proceeds derived from the sale of arms to Iran. In this regard, the Committees have accounted for virtually all of the funds reportedly received by Channell's organizations during the relevant period, none of which were traceable to the Iraniam arms sales. Similarly, the Committees have found no evidence that money from the Enterprise was paid to Channell's organizations.

C. NEPL Activities in December 1986

In December 1986, NEPL's staff received an unusually lengthy holiday vacation from December 15 to January 5, 1987. The reason given for this lengthy break was that the media were making it too difficult for the organizations to conduct their work and that the most sensible response was to close operations for a couple of weeks. [McLaughlin Dep. at 122-130].

Immediately prior to the extended holiday, two NEPL accounting employees were instructed by their supervisors to delete from the accounting records any and all references to the "Toys" project. As mentioned above, contributions intended for the purchase of lethal supplies generally were designated on NEPL's books for the "Toys" project. Alterations in the accounting records and related floppy disks were made to modify prior references to "Toys" to a neutral project named "CAFP TV" (presumably Central American Freedom Project -- Television Advertising). [S. McMahon Dep. at 50-54].

In addition, NEPL's principal accountant took all NEPL accounting materials home with him during the vacation, including financial records, bank statements, checkbooks, deposit slips and the like. [S. McMahon Dep. at 23-24].

D. Dan Kuykendall

Former Congressman Dan Kuykendall, along with Rich Miller and Frank Gomez, was one of the central figures in the private network which worked with Oliver North and Walt Raymond at the NSC, and Otto Reich, Jonathan Miller and Robert Kagan at the Department of State. In the early days of IBC, until the Spitz Channell fundraising efforts flowered, Rich Miller and Frank

Gomez were paid a small retainer by Dan Kuykendall. Later, however, the funds began to flow the other way with Kuykendall being the beneficiary of funds emanating from Channell through IBC and I.C., Inc. in the Cayman Islands. He appeared to be the main legislative operator, working with the NSC and, along with Penn Kemble of PRODEMCA and Bruce Cameron, a lobbyist paid by Channell, advising Rich Miller and Spitz Channell on tactics and strategy during the efforts to influence the 1986 votes on Contra aid in the U.S. House of Representatives. [Schedule of Dan Kuykendall Payments; CH 05255; Channell Dep., 9/1/87, at 72-73; Kuykendall Dep., 8/12/87, at 35-37, 42-45, 103-110].

In both 1985 and 1986, Kuykendall presided over regular meetings at his townhouse office on Capitol Hill. These meetings were regularly attended by a group of conservative Reagan supporters including Lynn Bouchey, Sam Dickens, Jim Denton and Peter Flaherty. North, Johnathan Miller, Rich Miller and Frank Gomez also attended on a regular basis and, on at least one occasion, a strategy session was attended by Otto Reich and Walt Raymond. Kuykendall has claimed credit for the strategy of targeting Mike Barnes for the 1986 television ads as a convenient way to reach the whole Congress and hit Mike Barnes at the same time. [Kuykendall Dep., 8/12/87, 35-37, 42-45, supra].

Kuykendall was also Spitz Channell's principal legislative advisor for the 1986 Contra aid effort. In his testimony, Channell said: "In 1986, I nearly lived with Dan Kuykendall because he is such a vast resource on the history of the House of Representatives and the way it works and you just don't take a

list of uncommitted Congressmen and say here is an ad, let's go after him." [North's appointment calendar; Channell Dep., 9/1/87, at 72-73; CH 79238].

In 1985, Kuykendall was called upon by the White House to be a key player in their legislative campaign. In a memo to Robert McFarlane from North, Raymond and Donald Fortier, McFarlane was being asked to call White House legislative director, Max Friedersdorf to:

" . . . ensure that Max is aboard on the use of former Congressman Dan Kuykendall as the focal point for those who wish to contact and schedule the resistance leaders. Cruz, Calero and Robelo have all agreed to this procedure and Kuykendall is setting up an Ops Center/Secretariat to handle their schedules, calls and staff work under the Gulf and Caribbean Foundation."

[March 15, 1985 Memorandum to Robert McFarlane from Oliver North, Walter Raymond and Donald Fortier, Control No. N40603].

In the same memo, Fortier, Raymond and North asked McFarlane to call Pat Buchanan to "help to ensure that those who are operating independently will be responsive to clear cut guidance (Talking Points are attached at Tab A)."

Tab A described a coordinated legislative strategy group which was "lean, serious and sharply focussed." The group included Walt Raymond, Oliver North, Otto Reich and Jonathan Miller and five or six other White House, NSC and State Department officials.

Curiously, in December of 1986, Channell worked out an arrangement with Dan Kuykendall to increase his small retainer substantially just after the Iran/Contra scandal began to break.

Over the next seven months, Channell paid Kuykendall approximately \$110,000 for his services. The services included a strategy paper, apparently concocted by Kuykendall and Rich Miller, which was designed to guide Channell through the upcoming investigation. Included in the strategy paper was a list of assignments which related to the Congressional investigation of the Iran/Contra affair. [CH 05474; A0033137; Channell Dep., 9/2/87, at 174-176; 124-128].

In briefing Channell, Rich Miller and Dan Kuykendall emphasized that the upcoming investigation was a "political struggle" and that he should think of his strategy in terms of military tactics. [Channell Dep., 9/2/87, at 174-176 supra]. A section of the report titled "Congressional Foes and Friends, January 5-23," stated:

"The Select Committees are not even convening until late January and early February. But, during this time, staff members will be picking their targets. We should move quickly to reassure our friends and to placate our new-found antagonists.

"We will use copies of checks until the Coopers and Lybrand audit is through, and only with trusted friends. The schedule of meetings and who will attend will be handled by Dan Kuykendall in conjunction with Lyn Nofziger and IBC. The present targets are broken out in three categories: our friends who can publicly support us now; reasonable members who have not supported us but are men of fair play; and our new antagonists who should be forced to see the truth. The list includes all the contact possibilities.

FRIENDS

Broomfield	Dan Kuykendall (DK)
Trent Lott	Dan Kuykendall
Dick Cheney	Dan Kuykendall
Bob Dole	DK, Dave Fischer, Lyn Nofinger
Bob Michel	Dan Kuykendall

Orrin Hatch Dave Fischer, Dan Kuykendall

RESPONSIBLE MEMBERS

Dante Fascell	DK, Steve Schwartz, Penn Kemble
Sen. Boren	Bruce Cameron, Penn Kemble
Sen. Rudman	Dan Kuykendall
Sen. Tribble	Dan Kuykendall
Bill Richardson	Frank Gomez
Kika de la Garza	Dan Kuykendall
Claude Pepper	Penn Kemble, Denise O'Leary
Dan Mica	Penn Kemble, Denise O'Leary, DK
Sen. Graham	Denise O'Leary, Steve Schwartz
Dave McCurdy	Penn Kemble, Bruce Cameron
Ike Skelton	Penn Kemble, Bruce Cameron
Bustamante	Dan Kuykendall"

[A033137].

During the early stages of 1987, Channell also asked IBC to prepare a white paper on left wing organizations in the United States who were supporting the Sandinistas. The product was such that Miller advised Channell to consult a lawyer before making any use of it. [Miller Dep., 9/16/87, at 670-675].

Kuykendall was also involved in an effort to persuade Channell employee Kris Littledale to meet with a journalist to discredit former Channell employee Jane McLaughlin's public stories about the Channell operation by discussing "certain knowledge that we had regarding Ms. McLaughlin's private life." [Littledale Dep., 9/8/87, at 32-34]. Littledale declined to do so on the advice of his lawyer.

Sometime in the spring of 1987, shortly after Littledale had refused the independent counsel's offer of immunity in return for his testimony against Spitz Channell, Dan Conrad and Cliff Smith, he had lunch with Mr. and Mrs. Kuykendall, Spitz Channell and some others at which Spitz Channell said to him, after learning

that he had rejected the prosecutor's offer, "I understand we have something to thank you for." [Littledale Dep., 9/8/87, at 32-34 supra].

In his testimony, Littledale told Committee lawyers that after discussions "with my attorney and my family at some length" he "came to the conclusion that we should tell Mr. Walsh's office to sit on a hot rod and rotate and we did so." [Littledale Dep., 9/8/87, at 32].

E. February 1987 Report from IBC to NEPL

On February 16, 1987, IBC issued a report to NEPL that reconstructed the disposition of the Contra assistance payments made by NEPL to IBC and I.C., Inc. during the period from July 1985 through the end of 1986. The report contained supporting documentation for many of the relevant transactions. [RM 1-88].

In a summary at the beginning of the report, IBC acknowledged that most of the disbursements of these funds were made "at the request of Lt. Col. Oliver L. North." Moreover, the summary states that "we were assured by [North] at the time that the funds were to be applied solely for humanitarian assistance." [RM 3]. Miller has told the Committees that he would write these statements differently if he were writing them today.¹⁹ [R. Miller Dep., 8/20/87, at 236-237].

F. Guilty Pleas of Channell and Miller

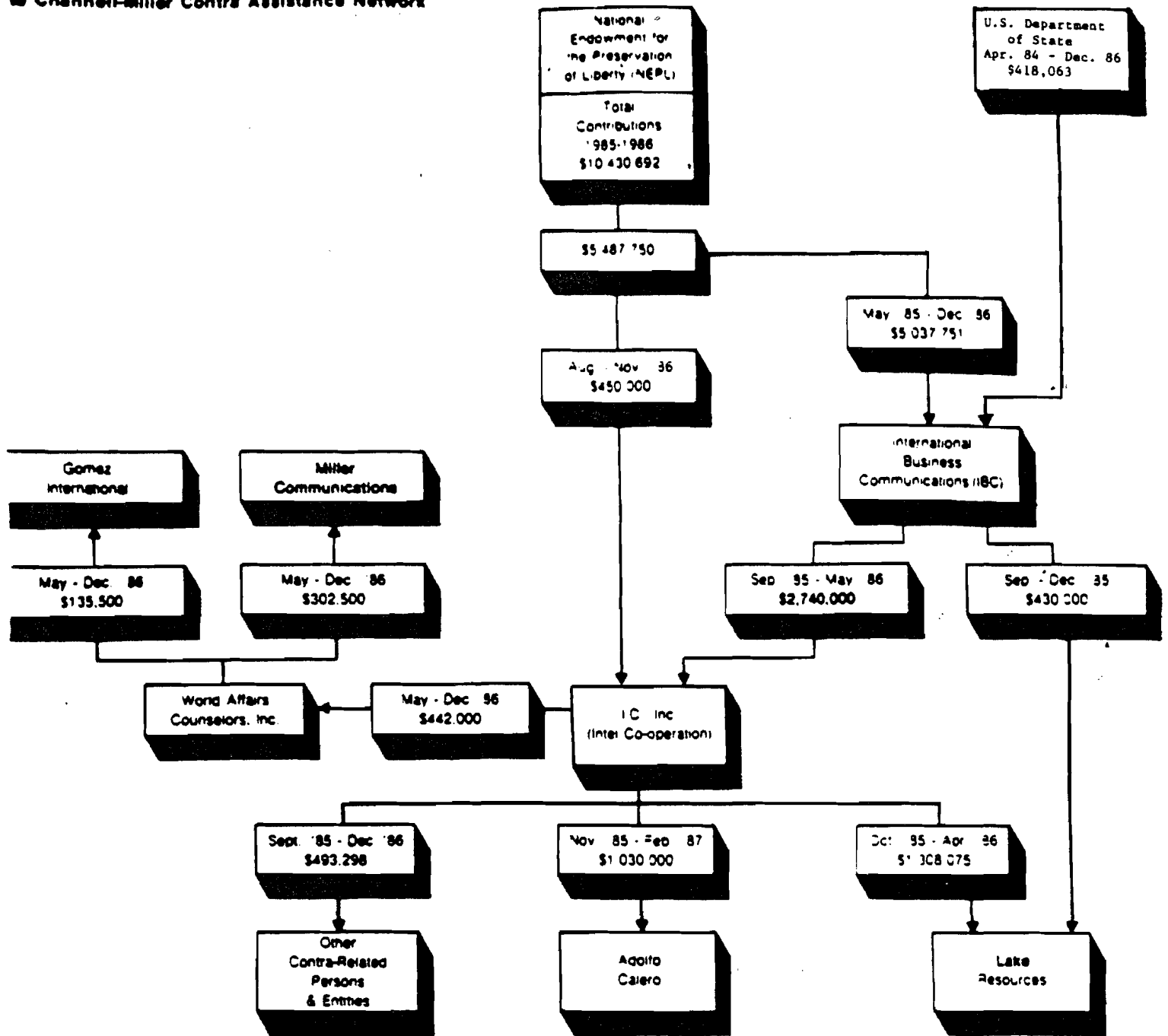
On April 29, 1987, Channell pled guilty to a one-count criminal information filed the same day by the Independent Counsel. As noted above, the information charged that Channell, Miller "and others known and unknown to the Independent Counsel"

conspired "to defraud the IRS and deprive the Treasury of the United States of revenue to which it was entitled by subverting and corrupting the lawful purposes of NEPL by using NEPL . . . to solicit contributions to purchase military and other types of non-humanitarian aid for the Contras," in violation of 18 U.S.C. Section 371. The acts identified by the information as part of the conspiracy include the Ramsey, Hunt, Newington, O'Boyle, Garwood and Claggett solicitations. At the hearing in which Channell's guilty plea was accepted by the federal district court, Channell named Miller and North as his co-conspirators.

Miller pled guilty to a substantively identical criminal information on May 6, 1987. Both Channell and Miller are awaiting sentencing.

[Money Flow Chart]

Channel-Miller Contra Assistance Network



SECRET

CONCLUSION

The private fundraising endeavors of Spitz Channell and Rich Miller, and even those of minor figures like Roy Godson, all grew out of the desire of the Reagan Administration, particularly CIA Director Bill Casey, to circumvent the strictures of the Boland Amendment and to create a political climate conducive to the resumption of U.S. assistance to the Contras.

The success of the private fundraising effort turned on a number of important factors. First, the fuel that powered the engine of the operation was the sizeable contributions of a small though very wealthy group of private U.S. citizens. Of NEPL's \$10 million in contributions in 1985 and 1986, over half came from two individuals and ninety percent from twelve. In fashioning his private briefings at the White House and dinners at the Hay Adams, Channell, with North's assistance, was able to create an atmosphere of national danger that appealed to the tax-deductible patriotism of his wealthy and carefully cultivated few. From the funds contributed, the key operatives other than North -- including Miller, Gomez, Channell, Fischer and Artiano -- pocketed hundreds of thousands of dollars.

Second, Colonel North's presence pervaded the operation, whether it was in presenting slide shows in the White House to prospective donors, providing weapons lists to Channell, directing funds to and from Cayman Islands and Swiss bank accounts, meeting with donors at the Hay Adams or taking a private plane to Dallas to confer with a large contributor.

Third, although President Reagan's role in the private

funding operation is not entirely clear, it is apparent that the use of the White House and the President's name in the fundraising schemes of Channell and Miller provided a sizeable amount of sustenance and a sense of legitimacy to the whole operation.

Fourth, the operation exhibited a healthy contempt for the spirit of Congressional limitations. In effect, the Boland Amendment was merely a technicality to be avoided by a carefully choreographed lethal aid soliciation pas de deux.

Fifth, the State Department was used to run a prohibited, domestic, covert propaganda operation. Established despite resistance from the Secretary of State, and reporting directly to the NSC, the Office of Public Diplomacy for Latin America and the Caribbean attempted to mask many of its activities from the Congress and the American people.

Finally, one of the CIA's most senior covert action operators, was sent to the NSC in 1983 by CIA Director Casey where he participated in the creation of an inter-agency public diplomacy mechanism that included the use of seasoned intelligence specialists. The operation spawned Rich Miller and Frank Gomez, who were sustained with sole-source, no-bid State Department contracts and co-opted Spitz Channell and his cohorts in the private sector. This public/private network set out to accomplish what a covert CIA operation in a foreign country might attempt -- to sway the media, the Congress, and American public opinion in the direction of the Reagan Administration's policies.

FOOTNOTES

1 The CRS study on "Public Diplomacy, Project Democracy and Contra Aid" (attached to this Chapter as an Appendix), describes, from completely public source documents, how the Reagan Administration structured a public diplomacy operation to include domestic as well as overseas efforts to build support and raise private funds for Administration policies, especially those dealing with Central America.

2 In July 1986, IBC itself entered into a joint venture with David C. Fischer and Associates, a consulting firm founded by a former aide to President Reagan. [R. Miller Dep., 8/20/87, at 93-95].

3 In Audit Report No. 7PP-008, July 1987, the State Department's Office of Inspector General filed its conclusions reached after a special inquiry into the awarding and supervision of these contracts with Gomez and IBC. That report concluded, in summary, that, while the original contract was justifiable, its utility became questionable during its later stages. The Inspector General also criticized the process for awarding and administering the contracts, especially the classification of one version of the contracts as "SECRET," indicating that the classification was unjustified and improper. [Audit Report at 32-33].

4 In September 1984, IBC would also begin to represent separately one of Calero's own organizations, the Nicaraguan Development Council (NDC). Initially, IBC charged NDC \$3,000 per month for public relations services, a fee that was later raised to \$5,000 per month when IBC hired a full-time employee to do work for NDC. This financial relationship with NDC began at about the same time that Miller and Gomez were introduced to Oliver North by officials of the Office of Latin American Public Diplomacy. [R. Miller Dep. 8/20/87, at 285-286].

5 Channell formed additional entities between 1983 and 1986. The American Conservative Trust State Election Fund (ACT-SEF) was formed as a state PAC to take advantage of state laws allowing corporate contributions to such entities. "Sentinel" was formed in 1983 as a lobbying organization under Section 501(c)(4) of the tax code. Channell also formed another federal PAC called the Anti-terrorism America Committee (ATAC). All of these organizations were involved in Channell's efforts to influence the Congress on Contra aid. "Grow Washington" and "Grow Potomac" were corporations established to pursue specific initiatives that, according to Channell, never materialized. Those entities have therefore remained inactive and unfunded. In 1986, Channell assumed control of another conservative organization, Western Goals, which had been established by the late Congressman Larry McDonald. [Channell Dep., 9/1/87, at 62-66].

6 With respect to this conversation, Roberts told the

Committees in an interview that he possibly described Miller as "fronting for the State Department" or as "in the family." [7/17/87 Memorandum of John Roberts interview].

7 When Ramsey was shown a copy of the transcript, he indicated that, while portions of the dialogue seemed familiar, "[t]here is very much on there I have never heard of before." [Ramsey Dep. at 70]. Ramsey suggested that Channell, Conrad, Miller and Gomez "might not have ask[ed] for the money [for lethal supplies] directly." Instead, "[t]hey were just saying that if the [Contras] had the money they could buy them." [Ramsey Dep. at 87].

8 North presented a version of his slide presentation during the public hearings. [7/14/87, at 41-52].

9 Some donors who contributed money to Calero through NEPL had received expressions of appreciation from North prior to the June 27 briefing. [e.g. RM 3577]. These communications were apparently arranged by Miller at Channell's request. [R. Miller Dep., 6/23/87, at 27].

10 For a more detailed account of the Prince's activities in connection with operations and persons under investigation by the Committees, see Chapters ____ and ____.

11 According to Miller, he spent approximately \$370,000 on activities involving the Prince. North was aware of and approved these expenditures. Miller did not incur monetary loss, however, because North authorized Miller to reimburse himself for these expenditures from Contra assistance funds transferred to IBC from NEPL. [R. Miller Dep., 8/21/87, at 404-407]. The Prince eventually was determined to be a fraud, and now is imprisoned for a separate swindle involving a Philadelphia bank.

12 This was the first time North used an airplane supplied by NEPL; on one other occasion, NEPL chartered a plane to fly North and his family for a weekend visit to a NEPL contributor's house in Connecticut. [Channell Dep., 9/1/87, at 148]. (See Part ____, below).

13 Miller later heard from Calero that no missiles had been received by the Contras. North told Miller that the Newington money had been used to purchase "secure radios." [R. Miller Dep., 8/20/87, at 237].

14 The Committees' accountants have concluded from Enterprise records that O'Boyle's contribution was used for general Contra support, not for the purchase of two Maule aircraft.

15 At the meeting in New York, O'Boyle expressed to Channell some concerns about the legality of using tax deductible contributions for weapons. According to O'Boyle, Channell told him that a lawyer had advised favorably on the question of

legality, but that in any event the money could not be traced because contributions were being passed through a for-profit corporation and overseas. [O'Boyle Dep. at 91].

16 McFarlane testified in his second appearance before the Committees that he did not recall any such meeting. [McFarlane Dep., 7/14/87, at 129].

17 During the relevant time periods IBC received \$356,472 under its contract with the State Department, \$39,000 from Calero for services, \$180,000 from affiliated entities, and \$407,304 from other individuals or organizations. In other words, the amount retained by IBC from NEPL accounted for nearly 60 percent of IBC's income in 1985 and 1986.

18 The Attorney General denied that he offered such advice to North. [Meese Dep. at 103]. See Chapter _____ for a more complete description of the events in November 1986.

19 According to Miller, he told North in late 1986 that he "hoped to hell the account had been used for humanitarian assistance." North responded "Oh Hell, yes." [R. Miller Dep., 8/21/87, at 331].

CRS DRAFT REPORT

"PUBLIC DIPLOMACY," "PROJECT DEMOCRACY," AND CONTRA AID

I. BACKGROUND

A. "Public Diplomacy"

The Reagan Administration has always emphasized the policy role of what it calls "public diplomacy." Previous Administrations since the mid-1960s had adopted the term as a more palatable alternative to "propaganda" to characterize the overseas information and cultural exchange programs of the United States Information Agency (USIA). Such programs can be traced back to the Truman Administration, when the remnants of wartime propaganda operations were folded into the Department of State.

The actual term, "public diplomacy," was coined by Dean Edmund Gullion of the Fletcher School of Law and Diplomacy at Tufts University in connection with the founding of Fletcher's Edward R. Murrow Center of Public Diplomacy in 1965.¹ Since USIA's role overseas was that of a Government agency communicating openly or publicly with foreign peoples, it was contrasted with more traditional government-to-government "private" diplomacy. However, the term took on a new and broader connotation under the Reagan Administration. It was seen as including domestic as well as overseas efforts to build support for Administration policies, especially those dealing with the Central American initiative.

¹Letter to Joel Woldman from Katherine Wyman, Secretary to Dean Gullion, dated Sept. 13, 1974.

This significant reinterpretation of the concept is clear from the Administration's definition of the term in the 1983 National Security Decision Directive 77 outlining a new organization and planning structure for U.S. public diplomacy efforts: "public diplomacy is comprised of those actions of the U.S. Government designed to generate support for our national security objectives."² Carnes Lord, a former member of the NSC staff intimately involved with the Reagan Administration's public diplomacy effort, has described the transformation of the concept:

As it has come to be used in the Reagan administration, public diplomacy encompasses not only informational and cultural activities, but all public or (in a broad sense) political aspects of foreign policy--speeches, trips, and other public appearances by the President and other senior officials, and the support and cultivation of political groups and forces abroad that may serve the long-term interests of the United States and the West generally. And because it has involved the doings and words of high officials, public diplomacy has inevitably tended to extend itself into the domestic arena as well [emphasis added].³

It might be noted at this point that there may be some connection between the Administration's redefinition of the term "public diplomacy"--especially its use in "educating" the American public--and the longstanding statutory prohibition on the domestic dissemination by the U.S. Information Agency (USIA) of its materials to the American people. Under the terms of section 501 of the Smith-Mundt Act (the United States Information and Educational Exchange act of 1948, as amended--P.L. 80-402), USIA and its predecessor agencies have been enjoined from propagandizing the American people.

²National Security Decision Directive 77 on Management of Public Diplomacy Relative to National Security, as quoted in U.S. Congress. House. Committee on Foreign Affairs and Subcommittee on International Operations. Hearings [Mar. 3, 1983] and Markup on H.R. 2915, Foreign Relations Authorization for Fiscal Years 1984-85. 98th Cong. 1st Sess. Washington, U.S. Govt. Print. Off., 1984: 131-132.

³Lord, Carnes. In Defense of Public Diplomacy. Commentary. April 1984: 42.

B. The Democracy Initiative

Early in the Reagan Administration, the view developed in the National Security Council (NSC) and the Department of State that the U.S. Government was not doing enough to encourage democratic forces and institutions in other countries. President Reagan delivered a speech on the subject to members of the British Parliament in London on June 8, 1982. His major emphasis was that the United States should work to build "the infrastructure of democracy . . . which allows a people to choose their own way, to develop their own culture, to reconcile their own differences through peaceful means."⁴

The London speech was the first step in a U.S. Government effort to publicize and implement the President's "democracy initiative," as it came to be called. A cabinet-level meeting took place August 3, 1982, to discuss a Government organizational structure for a public diplomacy program to achieve these goals. Although the meeting reportedly considered Central Intelligence Agency (CIA) involvement and unspecified covert activities, the New York Times reported on February 3, 1983,⁵ that then Deputy Nation Security Adviser Robert C. McFarlane subsequently announced that such plans would not be implemented because of the predictably negative impact they might have on the success of the total program.

Four years later, however, on February 15, 1987, the New York Times published a different version of the 1983 McFarlane interview, stating that the Administration had decided at the August 3, 1982, cabinet-level meeting that the democracy initiative (part of which would later be called "Project Democracy") would indeed have a covert side operated from the National Security

⁴U.S. President (Reagan). Speech before British Parliament, June 8, 1982.

⁵Gerth, Jeff. Problems in Promoting Democracy. New York Times. Feb. 4, 1983.

Council.⁶ The participants in the meeting allegedly discussed CIA involvement and some means of "liberalizing" law and executive order to permit covert action on a broader scale by the CIA and the NSC-level National Security Planning Group (NSPG). However, McFarlane allegedly commented that Project Democracy's covert side would be run from the NSC because CIA involvement would "destroy" the entire program.

C. National Security Decision Directive 77

One of the results of these deliberations was the issuing in January 1983 of National Security Decision Document (NSDD) 77, an NSC policy paper on the management of public diplomacy "relative to national security". Although NSDD-77 is classified, an unclassified version, released in March 1983, described the following basic organizational structure:⁷

1. A Special Planning Group (SPG) responsible for overall planning, direction, coordination, and monitoring of public diplomacy activities;
2. Four interagency standing committees reporting regularly to the SPG:
 - a. The Public Affairs/Nuclear Committee, to plan and coordinate on a regular basis U.S. Government domestic public affairs activities relating to foreign policy and national security issues (including countering the U.S. nuclear freeze movement);
 - b. The International Information Committee, to plan, coordinate, and implement international information activities in support of U.S.

⁶Brinkley, Joel. Iran Sales Linked to Wide Program of Covert Policies. New York Times, Feb. 15, 1987: 20.

⁷As quoted in U.S. Congress. House. Committee on Foreign Affairs and Subcommittee on International Operations. Hearings [Mar. 3, 1983] and Markup on H.R. 2915, Foreign Relations Authorization for Fiscal Years 1984-85. 98th Cong. 1st Sess. Washington, U.S. Govt. Print. Off., 1984. p. 131-132.

policies and interests, and coordinate and monitor implementation of strategies on specific functional and geographic areas;

c. The International Political Committee, to plan, coordinate, and implement international activities in support of U.S. policies and interests, including the interagency effort to support the growth of democracy abroad. It provides the nexus for the policymaking and information functions and formulates broad public diplomacy strategies for key issues and interests. It was empowered to make recommendations and, as appropriate, to direct the concerned departments and agencies to implement political action strategies in support of key policy objectives; and

d. The International Broadcasting Committee, to plan and coordinate U.S. international broadcasting activities.

NSDD-77 also noted that "public diplomacy activities involving the President or the White House will continue to be coordinated with the Office of the White House Chief of Staff."⁸ It observed that the NSC staff, in consultation with the regular members of the SPC, would provide staff support to the SPC and facilitate effective planning, coordination, and implementation of plans and programs of the four committee chairmen or their designees to insure inter-committee coordination.

In terms of subsequent developments relating to activities by NSC staffers, especially those of Lieutenant Colonel Oliver North, to aid the Nicaraguan resistance ("contras"), it might be relevant to note that this early 1983 document charges the International Political Committee (IPC) with responsibilities for "aid, training and organizational support for foreign governments and private groups [emphasis added] to encourage the growth of

⁸Ibid., p. 131.

democratic political institutions and practices."⁹ Further, NSDD-77 observed that the political activities in which the IPC might engage included:

close collaboration with other [U.S.] foreign policy efforts-- diplomatic, economic, military--as well as a close relationship with those sectors of American society--labor, business, universities, philanthropy [emphasis added], political parties, press--that are or could be more engaged in parallel efforts overseas [emphasis added].¹⁰

It is unclear whether or not there was any organic connection between this early blueprint for public diplomacy efforts and subsequent controversial developments, especially those "privatized" or "parallel" operations uncovered by the Tower Board and the joint House-Senate Iran/contra investigations and hearings. Yet Oliver North was reportedly named head of Project Democracy's covert arm in October 1983, after McFarlane was appointed National Security Adviser.¹¹

II. THE PLAN IN ACTION

Among the concrete results of the issuing of NSDD-77 were the establishment outside Government of the National Endowment for Democracy and the creation within the Department of State of two new offices charged with "public diplomacy" responsibilities.

A. Project Democracy and The National Endowment for Democracy

The executive branch originally responded to the President's democracy initiative by proposing a new \$65 million USIA program for Fiscal Year 1984 to

⁹Ibid., p. 132.

¹⁰Ibid.

¹¹Brinkley, Joel. Iran Sales Linked to Wide Program of Covert Policies. New York Times, Feb. 15, 1987: 20.

be called "Project Democracy." Congress disagreed with this plan and authorized instead the establishment of a bipartisan, private (although largely Government-funded), non-profit corporation called the National Endowment for Democracy (NED). The NED was intended to help build the "infrastructure of democracy" in countries with weak or poorly functioning democratic political systems.

The President subsequently supported this move. Although opinion in Congress was divided on the usefulness of such an entity, it had powerful backers in both parties and both chambers and was successfully, if somewhat tentatively launched in 1983.¹² It has survived repeated efforts by critics in both Houses, both parties, and from both liberals and conservatives, to halt continued Federal funding of its operations.

The NED organized four "institutes" defining its major areas of operations--the AFL-CIO Free Trade Union Institute (FTUI), the National Democratic Institute for International Affairs (NDIIA), the National Republican Institute for International Affairs (NRIIA), and the Center for International Private Enterprise (CIPE). The Endowment makes grants to the institutes, which are known as the "core grantees." They, in turn, make grants to individual recipients. In addition, NED also makes some grants to other groups engaged in the broad panoply of activities subsumed under building democracy abroad.

The trade union institute receives the largest share of NED funds, but the party institutes have been the most controversial. Some critics feared that the parties would use the institutes' budgets as "slush funds" and numerous safeguards have been written into law during the years since 1983 to prevent this. NED budgets have ranged from \$18 million in FY 1984 to \$15 million in FY

¹²For a more detailed discussion of the development of the NED, including its legislative history, see Joel M. Woldman, The National Endowment for Democracy, CRS Issue Brief 83107, (archived 1/20/87, updated 4/2/87).

1987.

NED grants have drawn congressional fire more than once since the Endowment began functioning. In 1986, NED made three grants totalling \$351,500 to the group PRODEMCA, which states that it supports "democracy, human rights, and social justice in Central America."¹³ The grants were subsequently criticized because PRODEMCA also inserted newspaper advertisements supporting military aid to the contras in the New York Times, the Washington Post, and the Washington Times costing \$63,748.¹⁴

USIA, the agency whose budget includes NED funds and which passes through appropriated funds to NED, audited PRODEMCA's bank accounts for the period and concluded that the funds for the advertisements were drawn from separate funds derived from private contributions. Yet some critics claimed that the funds of an organization were essentially fungible and that the distinction between private source and NED-source funds was an artificial one. They concluded that it was somehow improper for PRODEMCA to be receiving appropriated funds for a particular purpose and pursue support of the contras in the U.S. press at the same time. Some of them later questioned whether there might be any kind of covert connection between these PRODEMCA activities and Administration efforts to build public support for the contras as part of the "public diplomacy" initiative.¹⁵

¹³Audit Report on the Use of Funds Granted by the National Endowment for Democracy to Friends of the Democratic Center in Central America [PRODEMCA], as quoted in U.S. Congress. Committee on Foreign Affairs. Subcommittee on International Operations. Oversight of the National Endowment for Democracy. Hearings. May 14 and 20, June 11, 1986. Washington, U.S. Govt. Print. Off., 1986. p. 279.

¹⁴Ibid.

¹⁵NED also has been criticized in the past because its funds found their way in 1984-1985 to right-wing French groups dedicated to the overthrow of the Mitterand government and for alleged interference in elections in Panama in (continued...)

B. Public Diplomacy at the State Department

"Public diplomacy" offices were established at the Department of State in July 1983, reportedly because of White House dissatisfaction with State's Public Affairs Bureau, which normally would carry out such a function. These included the Office of the Special Adviser to the Secretary on Public Diplomacy (S/PA) and the Office of Public Diplomacy for Central America and the Caribbean (S/LPD). S/PA was given the mandate to act as the principal coordinating element within the Department under the structure set forth in NSDD-77 for all geographic areas except Latin America and the Caribbean.¹⁶ Responsibility for that area lay with the Special Coordinator for Latin America and the Caribbean, later renamed the Office of Public Diplomacy for Latin America and the Caribbean.¹⁷

Of the two offices, S/LPD had the larger and more sustained role.¹⁸ It was established on White House orders; the Department of State Inspector General's audit report on the Department's special inquiry into contracts with International Business Communications, Inc. (IBC) quotes a White House "Memorandum for [NSC] Special Planning Group Principals" of July 1, 1983, describing how the Latin America Public Diplomacy Office was to be created

¹⁵(...continued)
1984. In both cases, the grants were made by NED's trade union institute (FTUI).

¹⁶U.S. Department of State. Office of the Special Adviser to the Secretary of State for Public Diplomacy (S/PA) [multilithed handout], c. early 1984.

¹⁷Hereafter this office will be referred to as the Latin American Public Diplomacy Office.

¹⁸The other public diplomacy office was disbanded when its director resigned and returned to private business.

within the Department.¹⁹ Gerald Helman, a deputy to the Under Secretary of State for Political Affairs, told the House Foreign Affairs Subcommittee on International Operations on July 23, 1986, that the public diplomacy offices at the State Department were established "pursuant to a directive from the NSC and from the President."²⁰

The first director of S/LPD later wrote that:

one of the reasons why S/LPD was created at such a high level (the National Security Council) was because, in the opinion of the highest policy makers of the USG, the State Department was simply not performing satisfactorily in communicating to the American people the Administration's policy objectives in Central America. . . . I was informed when the office was created that the President, the Vice President, and others were, to say the least, very upset with the inability of the Executive Branch to publicly communicate with the American people what the USG was doing in Central America.²¹

Similarly, the present director of S/LPD has written that:

the office was founded because public opinion polls showed that the [American] public did not understand Central American issues and events nor did they understand U.S. interests and policies in the region. The major focus of LPD has been to inform the public in the belief that a public which is well-informed and follows the issues will support the policy.²²

A 1985 article in the Washington Post noted that the office was not subject to the law barring USIA from disseminating information to the American public.²³

¹⁹U.S. Department of State. Office of Inspector General. Audit Report No. 7PP-008. Special Inquiry into the Department's Contracts with International Business Communications and its Principals. July 1987. p. 7. Hereinafter referred to as Audit Report 7PP-008.

²⁰U.S. Congress. House. Committee on Foreign Affairs. Subcommittee on International Operations. Oversight of Public Diplomacy. Hearing. July 16, 23; Aug. 6, and Sept. 24, 1986. 99th Cong., 2nd sess. Washington, U. S. Govt. Print. Off., 1987. p. 106.

²¹Audit Report 7PP-008. p. 13.

²²Ibid. Exhibit C. Memorandum from Coordinator of ARA/LPD dated June 25, 1987. p. 2.

²³Ibid.

The Latin America Public Diplomacy Office was headed by political appointee Otto Juan Reich, a Cuban-born one-time Miami city official who had previously served with the Reagan Administration in the U.S. Agency for International Development. Although technically part of the State Department, one observer has written that S/LPD was controlled by the Outreach Working Group on Central America of the White House Office of Public Liaison and was overseen for the White House by Lieutenant Colonel Oliver North.²⁴

It was set up in mid-1983 with a staff of two. By fiscal year 1986, the staff had grown to 19--9 State Department personnel and 10 non-reimbursable detailees from other U.S. Government agencies, such as the Department of Defense and USIA--and had an annual budget of over \$1 million.²⁵ Its professional staff produced numerous press releases and other publications and traveled widely making speeches in support of the Administration's Central America policy. In addition, S/LPD brought Central American defectors to the United States to participate in media events.

A recent critical appraisal of the operations of S/LPD observes that it was:

charged with a task that appeared in practice to consist largely of disseminating classified and sometimes "unevaluated" information ("unevaluated" information was that which had not been and in some cases could not be corroborated) tending to support administration contentions about Nicaragua and El Salvador.²⁶

Otto Reich wrote in 1987 that S/LPD "broke new ground" in accelerating the declassification of information on developments in Central America and "by obtaining unclassified information which corroborated classified information

²⁴Didion, Joan. Washington in Miami. N.Y. Review of Books. July 16, 1987: 25.

²⁵Oman, Joanne. The People Who Sell Foreign Policies. Washington Post. Oct. 15, 1985: A21.

²⁶Didion, Washington in Miami: 25.

which could not be declassified because of the source or method of acquisition."²⁷

It is clear from additional comments written by Reich after he had relinquished charge of S/LPD to become U.S. Ambassador to Venezuela in 1987 that his understanding of "public diplomacy" and its use by the U.S. Government was--and remains to this day--different from more familiar definitions of the term:

It should also be pointed out that S/LPD was an experimental program. It was the first and for almost two years after its inception the only Office of Public Diplomacy in the State Department (or Executive Branch) [emphasis added]. As a result much of what the office did was brand new and did not have precedent.²⁸

If this was an accurate observation, what had USIA been doing since 1951?

Some Members of Congress were uneasy with the "public diplomacy" role played by new offices created on a more or less ad hoc basis to "educate" the American public even before the Iran/contra affair. This is clear from questions raised about possible efforts to circumvent the prohibition on propagandizing the American people and from comments made during a series of hearings on the oversight of public diplomacy in 1986. More than one member of the House Foreign Affairs Committee cautioned the Administration on such operations with a "friendly warning that some people could find it questionable."²⁹

²⁷Audit Rept. 7PP-008. p. 15.

²⁸Audit Rept. 7PP-008. p. 14-15.

²⁹U.S. House. Committee on Foreign Affairs. Subcommittee on International Operations. Hearings on Oversight of Public Diplomacy. July 23, 1986. p. 115.

1. Controversial Classified Contract with IBC

The Office for Latin American Public Diplomacy became controversial in early 1987 when it was revealed in the press that in 1986 it had awarded a secret contract for \$276,186 to International Business Communications, Inc., a public relations firm that had worked with Oliver North to rally public support for the Nicaraguan contras. The contract came under review because it was signed September 2, 1986, eleven months after its effective date of October 1, 1985, and because it was classified SECRET.

The audit by the State Department Inspector General revealed that S/LPD had let some seven contracts and purchase orders totalling \$441,084 between February 14, 1984, and September 30, 1986, with IBC, Frank Gomez (one of IBC's principals), or the Institute for North-South Issues (INSI), another Gomez company. In addition, funds belonging to IBC were at various times transferred directly or through another Miller/Gomez corporation called Intel-Cooperation to Richard Secord's Swiss bank account in the name of Lake Resources, Inc. INSI also received grants totalling nearly \$500,000 from the National Endowment for Democracy, but NED cancelled the grants when INSI's possible connections to the Iran/contra affair were publicized.

Both IBC and INSI were controlled by Gomez and Richard R. Miller; the two men were linked with Carl R. "Spitz" Channell in his efforts to solicit funds to support the contras. Channell named Miller as an alleged co-conspirator when he (Channell) pleaded guilty on April 29, 1987, to conspiring to defraud the U.S. Government in raising funds for his tax-exempt charitable foundation, the National Endowment for the Preservation of Liberty--not to be confused with NED.³⁰ Miller worked together with Channell in a group of nine companies that

³⁰It is not implausible, however, that someone on the NSC staff familiar with the NED might have had some input into the choice of this name.

were involved in the covert effort to supply arms to the contras. Oliver North referred to the nine as the "Project Democracy companies."

No organic connection has yet been made between North's "Project Democracy" and the Administration's FY 1984 USIA Project Democracy proposal, nor, for that matter between North's efforts and the National Endowment for Democracy. Both the White House and NED President Carl Gershman have strongly disavowed any NED links with North's Iran/contra operations.³¹ The only tie thus far uncovered between North and NED was its grant--later cancelled--to the Institute for North-South Issues described above. In addition, the Tower Board, in its Report of February 26, 1987, stated that it had "no information linking the activities described herein as 'Project Democracy' with the National Endowment for Democracy."³² Nevertheless, it is possible to trace the origins of all these operations to a common policy initiative--the original public diplomacy/democracy structure and program discussed at the August 1982 Cabinet meeting and laid out in NSDD-77.

The contract with IBC was judged by the Department of State Inspector General to have been improperly classified SECRET, not because there was anything of a national security nature in it, but "to avoid publication in the CBD [Commerce Business Daily] and possible challenges to the sole source contractual relationship with IBC."³³ S/LPD Coordinator Otto Reich claimed subsequently that the contract had to be classified because IBC was dealing

³¹Endowment denies ties to Col. North. Washington Times. Feb. 17, 1987: 2A.

³²U.S. President's Special Review ["Tower Commission"] Board. Report. Feb. 26, 1987. p. III-22 and C-11.

³³Audit Report 7PP-008. p. 30.

with Nicaraguan defectors on behalf of S/LPD, "and keeping that relationship secret seemed to be a prudent thing to do."³⁴

The Inspector General pointed out that the "same activity had been conducted by IBC under the previous unclassified contract" and that S/LPD "had previously contracted with the U.S. Marshals Service to provide protective services for a Central American defector."³⁵ It also may be of interest to note that Otto Reich's successor, Robert W. Kagan--who took charge of the office in May 1986 after it had been transferred to the Bureau of Inter-American Affairs (ARA) and given the new office symbol ARA/LPD³⁶--has stated that he did not think the contract should have ever been classified.³⁷

Moreover, the State Department's Office of Operations/Supply, Transportation, and Procurement (A/OPR/STP) claims that S/LPD:

exploited the situation by entering into unauthorized commitments, selecting the source, deciding upon dollar amounts and relying upon the Contracting Officer to correct the situation on an urgent and compelling basis to facilitate payment. By [S/LPD's] using the Office of the Secretary as a justification, the contracting office was placed in a position of extreme duress, especially when national security issues were cited as a basis for immediate action.³⁸

During his testimony before the combined House and Senate Iran/contra investigating committees on July 13, 1987, under questioning by Representative Dante Fascell, Oliver North admitted that he had "inquired into" expediting

³⁴Ibid. p. 10.

³⁵Ibid., p. 31.

³⁶According to Joanne Omang of the Washington Post, the Latin American Public Diplomacy Office was transferred to the ARA Bureau because Assistant Secretary Elliot Abrams wished to bring it more under his own control. Possible Illegal Lobbying Probed by State Dept. Washington Post. Feb. 14, 1987: A32.

³⁷Ibid., Exhibit C, Memorandum from Coordinator of ARA/LPD dated June 25, 1987. p. 4.

³⁸Ibid., p. 2.

signing of and payment for the IBC contracts with S/LPD.³⁹ It also appears that S/LPD threw its bureaucratic weight around--the Inspector General's Audit Report used the term "steamrolled"⁴⁰--the Department in order to pursue its dealings with IBC and Frank Gomez, disregarding appropriate regulations.

The Inspector General's Audit Report found a number of questionable actions taken with regard to the letting of contracts and purchase orders by S/LPD to IBC and S/LPD's acceptance of IBC's performance under these contracts. The report also noted that some of the information on the contract provided by the Department to Congress and its own Public Affairs Bureau press briefer was "inaccurate, incomplete, and misleading."⁴¹ Nevertheless, it would appear that in general, the audit report was drafted in a somewhat diplomatic manner, perhaps so as to minimize the apparently unorthodox and often highhanded behavior of the Office of Latin American Public Diplomacy in fulfilling its objectives. The office appears to have assumed a relatively lower profile since the departure of Reich.

2. Alleged Borderline Lobbying Activities

The Inspector General's audit report also looked into widespread allegations of unlawful lobbying by S/LPD staff or spending of contract funds for lobbying activities in support of the Administration's Central America policies. The Inspector General questioned a number of S/LPD's activities which might raise questions as to whether or not lobbying had been conducted,

³⁹U.S. Congress. Joint Hearings on the Iran-Contra Investigation. Continued Testimony of Oliver L. North. [unedited transcript] July 13, 1987. p. 77.

⁴⁰Audit Report 7PP-008. p. 19.

⁴¹Ibid., p. 2.

especially one cited in an internal State Department memorandum dated June 25, 1985, from the Administrative Officer of S/LPD to the relevant Budget Officer providing information in support of S/LPD's budget request: "During the recent congressional hearings on financial assistance to the freedom fighters in Nicaragua, S/LPD furnished floor speeches and talking papers to Congressional supporters of the President's program."⁴²

The report noted that "public diplomacy is separated from lobbying by a thin and complex line."⁴³ The Inspector General concluded that despite opportunities to conduct prohibited lobbying, "there is no evidence that these officials violated the anti-lobbying statute."⁴⁴ Nevertheless, the report includes the comment that "while S/LPD did not violate the lobbying statute, there is considerable evidence, however, that activities were carried out which are very close to the line between authorized informing and unauthorized attempting to influence."⁴⁵

The conclusion that lobbying had not occurred was based on the current interpretation of the statute (18 USC 1913) by the Department of Justice, which holds that violations occur only when appropriated funds are used "to effectuate a grass roots type of campaign directed at influencing a member(s) of Congress."⁴⁶

The Inspector General also found no evidence that IBC had performed lobbying activities for the Department under contract, although it stated that

⁴²Ibid.

⁴³Ibid., p. 23.

⁴⁴Audit Report 7PP-008. p. 22.

⁴⁵Ibid. Exhibit B. Memorandum from Former Coordinator of S/LPD dated July 17, 1987. p. 12.

⁴⁶Ibid., p. 23.

its work did not include activities performed by IBC or Frank Gomez for other clients. Evidence was found, however, indicating that S/LPD participated in a group with other organizations and private citizens that performed functions from which it was prohibited.⁴⁷ In other words, it took part in an orchestrated campaign in which public relations functions were distributed on the basis of who could and who could not, under law, perform them.

Otto Reich denied that his office had engaged in lobbying and informed the Inspector General that he had been alert from the beginning "that his official public diplomacy functions would put him close to the prohibitions against lobbying contained in the State Department appropriations acts and the anti-lobbying statute."⁴⁸ He also requested guidance from the State Department Legal Adviser's office and circulated instructions to his staff in that regard.

C. Concluding Remarks

S/LPD principals apparently shared some of the views and priorities expressed by John Poindexter and Oliver North during their testimony before the joint Iran/contra committee hearings: the end justified the means and attention to legal and bureaucratic requirements was less important than getting the job done. In addition, they appeared to have been motivated to pursue what they came to call "public diplomacy" efforts because the Administration's Central American policy was not capturing the imagination and support of the American people. They believed that this was so simply because the public was not sufficiently familiar with that policy to understand its basic rectitude. Convinced that their interpretation of "public diplomacy" was the solution to

⁴⁷Ibid., p. 24.

⁴⁸Ibid., p. 23.

this problem, they could not accept the possibility that the policy was unpopular because the public might consider it misguided.