DATE 920724

PLEASE NOTE

A copy of the attached document has been certified as true, accurate and identical to this document as of this date. The copy may be used as evidence in a court case.

Therefore, please do not alter, modify, or add any papers or writings to it.
**Name of Correspondent:** Henry Plaster

**Subject:** Towards copy of letter from Congressman Gonzalez to the President re. the House Banking Committee's investigation of the Banco Nazionale del Nord.

**ROUTE TO:**

<table>
<thead>
<tr>
<th>Office/Agency</th>
<th>Staff Name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cuad</td>
</tr>
<tr>
<td></td>
<td>Cuat 26</td>
</tr>
<tr>
<td></td>
<td>Cuat 29</td>
</tr>
<tr>
<td></td>
<td>Cuat 02</td>
</tr>
<tr>
<td></td>
<td>Cuaguy</td>
</tr>
</tbody>
</table>

**ACTION**

<table>
<thead>
<tr>
<th>Action Code</th>
<th>Tracking Date YY/MM/DD</th>
<th>Type of Response Code</th>
<th>Completion Date YY/MM/DD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>91 05 09</td>
<td></td>
<td>C 91 05 24</td>
</tr>
<tr>
<td></td>
<td>91 05 10</td>
<td></td>
<td>C 91 05 10</td>
</tr>
<tr>
<td></td>
<td>91 05 10</td>
<td></td>
<td>C 91 05 10</td>
</tr>
<tr>
<td></td>
<td>91 05 10</td>
<td></td>
<td>C 91 05 10</td>
</tr>
<tr>
<td></td>
<td>91 05 10</td>
<td></td>
<td>C 91 05 10</td>
</tr>
</tbody>
</table>

**DISPOSITION CODES:**

- A - Answered
- B - Non-Special Referral
- C - Completed
- S - Suspended

**FOR OUTGOING CORRESPONDENCE:**
- Type of Response = Initials of Signer
- Code = "A"
- Completion Date = Date of Outgoing

**COMMENTS:**

Janet - per JPS please work with Greg in preparing appropriate response.

Keep this worksheet attached to the original incoming letter. Send all routing updates to Central Reference (Room 75, OBOB). Always return completed correspondence record to Central Files. Refer questions about the correspondence tracking system to Central Reference, ext. 2590.
TO: John Schmitz

FROM: HENRY PLASTER
Office of Legislative Affairs
102 East Wing, Ext. 7500

The attached is for:

☐ Per our conversation
☐ Information
☒ Direct Response
☐ Draft Reply
☐ File
☐ Please Return by ____________________________

COMMENTS:

The original is on its way to you but Steve Hart requested that I send you a copy of this immediately.
May 9, 1991

Dear Congressman Gonzalez:

This is to acknowledge your recent letter to the President regarding the House Banking Committee’s investigation of the Atlanta branch of the Banca Nazionale del Lavoro (BNL). I have shared your comments with the appropriate advisors to the President.

With best regards,

Sincerely,

Frederick D. McClure
Assistant to the President for Legislative Affairs

The Honorable Henry B. Gonzalez
House of Representatives
Washington, D.C. 20515

FDM:HGP:

bcc: w/ copy of inc to Counsel's Office (John Schmitz) - for Direct Response
bcc: w/ copy of inc to NSC - FYI
bcc: w/ copy of inc to Dept. of State - FYI
bcc: w/ copy of inc to Dept. of Defense - FYI
The Honorable George Bush  
President of the United States  
Washington, D.C. 20500

Dear Mr. President:

The House Banking Committee is conducting an investigation into over $4 billion in unreported loans the former employees of the Atlanta branch of Banca Nazionale del Lavoro (BNL) provided to the government of Iraq between 1985 and 1990. The Committee’s investigation has uncovered the fact that Henry Kissinger was on the International Advisory Board of BNL during that same time period and that BNL was a client of Kissinger Associates.

As you are aware, Mr. Brent Scowcroft and Mr. Lawrence Eagleburger were high ranking officials of Kissinger Associates -- Mr. Scowcroft as Vice Chairman and Mr. Eagleburger as President. Kissinger Associates represents many large multinational companies involved in various aspects of international trade, including the arms business. Since these firms sell their wares worldwide, they often are the beneficiaries of U.S. policy towards foreign countries. I am deeply concerned over the potential influence Mr. Kissinger may exert over the decisions and actions of Mr. Scowcroft and Mr. Eagleburger, and am especially troubled by a potential conflict of interest involving Mr. Scowcroft.

The National Security Advisor is in a position to strongly influence our national security and foreign policies, including the U.S. export licensing process. These policies often have a direct influence on individual corporations doing business abroad. Until October 4, 1990, Mr. Scowcroft owned stock in approximately 40 U.S. corporations, many of which were doing business in Iraq. Those companies received more than one out of every eight U.S. export licenses for exports to Iraq. Several of the companies were also clients of Kissinger Associates while Mr. Scowcroft was Vice Chairman of that firm.
Mr. Scowcroft’s stock holdings, particularly in corporations that are clients of Kissinger Associates, present the potential for serious conflicts of interest and cause one to question whether or not his decisions as National Security Advisor are completely disassociated from the interests of his former boss and longtime colleague.

Mr. Eagleburger, the current Deputy Secretary of State, as well as Mr. Scowcroft, may also be involved in a conflict of interest related to their role in promoting military sales abroad. The Legal Times recently reported that Mr. Eagleburger and Mr. Scowcroft (a lifelong Air Force Officer) are strong advocates of using $1 billion in Export-Import Bank resources to finance the sale of U.S. military articles overseas. The Legal Times also reported that Mr. Eagleburger actually sent a classified memorandum to all U.S. Embassies urging that U.S. defense firms be given more help selling weapons abroad. Many corporations, including Mr. Eagleburger’s past employer, the ITT Corporation, stand to benefit if the U.S. foreign service is forced to take a greater role in selling U.S. military articles abroad. For your information, I have attached a copy of the Legal Times article referring to Mr. Eagleburger’s and Mr. Scowcroft’s roles in expanding military sales abroad. I am concerned that their attempts to use the foreign service and the Export-Import Bank to assist corporations in financing military sales abroad may have been prejudiced by their past associations.

Mr. Scowcroft’s and Mr. Eagleburger’s actions seem out of step at a time when the U.S. should be leading a worldwide effort to limit arms proliferation. The positions held by these men are of the utmost importance to the national security of the United States. Persons filling such important positions must be independent from past associations which could cloud their judgement.

I trust you will consider the issues I have raised in this letter and, if necessary, take appropriate action to ensure that potential conflicts are eliminated.

Thank you for your time and consideration. With best wishes.

Sincerely,

Henry B. Gonzalez
Chairman

HBG:dk
Enclosure
Hardcopy pages are in poor condition (too light or too dark).

Remainder of case not scanned.

Oversize attachment not scanned.

Report not scanned.

Enclosure(s) not scanned.

Proclamation not scanned.

Incoming letters(s) not scanned.

Proposal not scanned.

Statement not scanned.

Duplicate letters attached - not scanned.

Only table of contents scanned.

No incoming letter attached.

Only tracking sheet scanned.

Photo(s) not scanned.

Bill not scanned.

Comments:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
For embattled weapons exporters, it was a salvo heard round the world.

Last July, Deputy Secretary of State Lawrence Eagleburger fired off a classified memo to all U.S. embassies urging that U.S. defense firms be given more help marketing weapons abroad.

Some industry leaders boast that the Eagleburger memo was written less than three months after a January 1990 meeting with defense executives. And these leaders say that Eagleburger's directive is starting to pay off with an increase in foreign sales.

The memo is just one result of the Bush administration's decision to put the government firmly in the business of promoting defense exports. Ambassador follows high-powered lobbying by leading defense trade groups, including the Aerospace Industries Association and the American League for Exports and Security Assistance.

In addition, several defense contractors have served as effective advocates for their cause. They include some CEOs and other top officials from the Lockheed Corp., the United Technologies Corp., the Martin Marietta Corp., the LTV Corp., the Raytheon Co., the Grumman Corp., and ITT Defense Inc.

A Shot in the Arm

State Department officials and defense executives stress that defense exports are different from commercial trade since they must be deemed in the national interest before sales are allowed. Nevertheless, the new thrust of the recent lobbying campaign and the government's campaign to promote export has been to spur defense business abroad, which has been in the doldrums for years. Worldwide export deliveries of U.S. arms totaled $16.5 billion in 1987, but $8.9 billion in 1988, and $11.7 billion in 1989.

Defense executives have used the shrinking defense budget as a key element in their campaigns to increase foreign sales. With the Pentagon budget going down, they argue, exports are crucial for defense companies and to the well-being of the defense industrial base.

The war against Iraq notwithstanding, annual defense spending is projected to decrease, according to a new report in the Wall Street Journal.
DEFENSE FROM PAGE 20
government official, would deal with his former private clients.

To avoid any appearance of conflict, Eagleburger said that, among other steps, he would recuse himself from any matter in which the ITT Corp. was a "formal party or in respect of which it is known to me to have a direct and predictable interest for my employment and the ITT pension plan for outside directors.

Eagleburger also agreed to recuse himself for one year from matters specifically involving his current clients at Kissinger Associates. That year expired on March 20, 1990, weeks after the Jan. 8, 1990, meeting with defense officials that was attended by ITT's Defense Engagement.

While Eagleburger said that he would recuse himself, a State Department lawyer, speaking on the condition of anonymity, says that Eagleburger—through his meeting with the ITT executive and through his subsequent embassy cable—did not violate his pledge to recuse himself from matters relating to ITT.

"As you don't think the general promotion of exports, even industry specific exports, is a matter in which the ITT Corp. is a formal party," this official said.

The ITT Corp. was not a formal party because the meeting involving its representatives was a general policy initiative that affected all American defense companies, not just ITT, according to this official.

Another federal ethics officer concurs that Eagleburger's actions did not violate any ethics standard. Formal party, this official says, is generally understood to mean a company or individual with a petition or other official proceeding pending at the department.

In the one-year recusal from matters relating to his former Kissinger clients, Eagleburger did not specify that only situations where the clients were formal parties were covered. Nevertheless, the State Department official says that the "formal party" standard applies.

At least one liberal public interest activist, David Cohen, co-founder of the Advocacy Institute, is not convinced by the State Department's explanation.

"It doesn't matter that the whole industry benefits," says Cohen, whose organization trains public-interest advocates. "In this instance, there's a clear and direct benefit to the ITT subsidiary.

As the notion that ITT individually would have had to petition Eagleburger for help in order for the recusal pledge to come into play, Cohen calls it "a distinction without a difference."

Cohen adds that Eagleburger's presence at the meeting and his writing of the cable are issues that the State Department and the Office of Government Ethics ought to address.

Eagleburger is not the only high-ranking official who has passed through the revolving door and is now pushing defense exports. Other inside Washington lobbyists also tout the help they've received from National Security Adviser Scowcroft, who for a time headed Kissinger Associates' Washington office. Scowcroft, who could not be reached for comment, also represents clients at the Lockheed Corp.

William Paul, a senior vice president for the United Technologies Corp. in Washington, says that three defense industry officials met with Scowcroft last year on the issue of developing a cohesive administration policy on defense exports. Nobody from Lockheed attended that meeting, participants say.

"We talked about how the U.S. should have an affirmative policy for defense exports," Paul says. "We've gotten very good responses from Brent Scowcroft.

"Our role has been to stay with it and keep the pressure up," Paul adds. "This administration has been absolutely superb."

The AIA's Johnson says that both Scowcroft's and Eagleburger's offices had significant roles in developing the administration's proposal to provide loan guarantees for weapons exports from the Export-Import Bank.

Without question, the defense industry's spadework is pay off. In relations with other countries, the sale of defense weapons is now on the table with other issues.

"We're now putting on the bilateral agenda issues like [defense exports] where traditionally, we've not been putting these sales on the agenda," says Charles Duelfer, director of the Center for Defense Trade, the year-old State Department agency that replaced the Office of International Monetary Affairs.

Duelfer also notes that since the Eagleburger memo—which his office had drafted—went out last July, several major U.S. arms manufacturers have been especially helpful. In fact, Duelfer says, when the State Department, unfortunately, deniedohan's loans to China, the firm put its resources into selling U.S.- built military hardware to Japan, Israel, Australia, New Zealand and the nations of the North Atlantic Treaty Organization. Sen. Christopher Dodd (D-Conn.) recently introduced a bill along these lines.

Although the military guarantees would be limited to about $1 billion of the bank's $9.5 billion in direct loans and loan guarantees for fiscal 1992, there is considerable dissent in Congress about whether the bank should be getting into the defense-export game.

"I think there are limited credits available," says Rep. Lee Hamilton (D-Ind.), "and they should not be used to promote arms sales, especially in the post-gulf war period, when we should be seeking to limit arms sales rather than increase them.

Hamilton is a senior member of the House Foreign Affairs Committee. Albert Hamilton, a former staff aide to a senator at the bank from 1964 through 1987, is another prominent critic.

"My sense is that to take these limited resources and squander them on military sales, which is a totally sound policy, is to repair, just doesn't make sense from an economic point of view," says Hamilton, now a senior associate at First Washington Associates Ltd., which consults for the foreign counterparts of the Export-Import Bank.

Critics notwithstanding, the defense industry says that the new administration is moving in the right direction—and about the ability of its lobbyists to continue to win backing from the Bush administration.

"We pay these guys a good sum of $15,000 each year to lobby, and thank God they're doing something," says Thomas Peterson, the head of Raytheon's Patriotic Internahtal unit.
A good example of how defense companies are benefiting from administration backing is the burgeoning arms trade focused on Turkey, one of the United States’ key allies in the coalition against Iraq.

Fred Haynes, a vice president of the Dallas-based LTV Corp., a defense contractor that has landed on the list of international arms suppliers, is pushing LTV’s Turkish division. The company’s Turkish subsidiary, LTV Defence Systems Turkey, recently signed a $100 million agreement with the Turkish government to deliver 318 Hinds, a version of the AH-1Z helicopter, and $40 million worth of parts and equipment.

David Block, deputy director of its office of sales to foreign military buyers, said Turkey is the company’s largest customer in Europe. "They are some of our best clients," he said. "The Turkish government is very interested in our capability and our technology." Block said the Hinds would be used to train Turkish pilots and would be delivered by the end of the year.

According to the State Department, the Defense Trade Control Office, working alongside it and supporting the sales, is trying to put together a deal soon.

As part of that effort, Petersen says, the State Department’s David Raytheon—along with its German partner, Siemens—have been prodding the German government to get its export-import bank to provide loan guarantees for a sale of Patriots to the German government—a sale worth more than $1 billion.

Another defense giant, the Hartford, Conn.-based United Technologies Corp., is also eyeing the Turkish market.

William Paul, head of United Technologies’ D.C. office, boasts that he met with Turkish officials both in Turkey and the United States to discuss the joint venture in Turkey that would produce jointly 200 Hollis, a new United States-Italian fighter.

Among those working the issue for United Technologies is Alexander H. Arne, the former executive chairman of the Ex-Officio Group of United Technologies, who now runs Worldwide Associates Inc., a Washington consulting firm.

"There’s a lot of credibility with the people there and a lot of interest," says Paul. Although neither Paul nor Arne would comment on what their companies are telling United Technologies, they said the company has been successful in getting the Turkish government to pay 80 percent of the cost of the damage.

Treasury to deal financially assist United Technologies, to provide loan guarantees for military sales to Turkey and Greece—guarantees that United Technologies is touting in its Turkish deal.

—Peter H. Stone