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- Date Correspondence Received (YY/MM/DD) 1/1

Name of Correspondent: Henry Plaster

MI Mail Report User Codes: (A) _____ (B) _____ (C) _____

Subject: Forward copy of letter from Congressman Gonzalez to the President re the House Banking Committee's investigation of the Atlanta branch of the Banca Nazionale del lavoro

ROUTE TO: ACTION DISPOSITION

Office/Agency	(Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
	<u>Cude</u>	<u>ORIGINATOR</u>	<u>91.05.09</u>		<u>C</u>	<u>91.05.24</u>
	<u>Cuat 26</u>	<u>A</u>	<u>91.05.09</u>	<u>SR</u>		<u>91.05.24</u>
	<u>Cuat 29</u>	<u>I</u>	<u>91.05.10</u>	<u>See Comments</u>		<u>91.05.10</u>
	<u>Cuat 02</u>	<u>I</u>	<u>91.05.10</u>			<u>91.05.10</u>
	<u>Cugray</u>	<u>I</u>	<u>91.05.10</u>			<u>91.05.10</u>

ACTION CODES:

- A - Appropriate Action
- C - Comment/Recommendation
- D - Draft Response
- F - Furnish Fact Sheet to be used as Enclosure
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- R - Direct Reply w/Copy
- S - For Signature
- X - Interim Reply

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- 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 responses
AK 5/24/91

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THE WHITE HOUSE
WASHINGTON

Date: 5/9/91

TO: John Schmitz

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

The attached is for:

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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

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May 2, 1991

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(202) 225-4247

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

THE WHITE HOUSE

WASHINGTON

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Comments:

Defense Exporters' Secret Weapons

How Top Administration Officials Help Boost Foreign Arms Sales: Did Eagleburger Cross the Line?

BY PETER H. STONE

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 at their behest, several months after a January 1990 meeting with defense executives. And these leaders say that Eagleburger's directive is starting to provide an extra fillip for foreign sales.

The memo is just one result of the Bush administration's decision to put the government firmly in the business of promoting de-

fense exports. Ambassadors now open doors, weapons makers may soon qualify for government-backed loans, and the State Department helps push sales.

But the change of policy is controversial—and ironically timed, as the war in Iraq raises new worries about the proliferation of weapons.

A key proponent of the pro-export policy has been Eagleburger. But he is dogged by ethical concerns about his dealings with former business associates.

One industry representative at the January meeting with Eagleburger was chief executive of a defense subsidiary of the ITT Corp. Eagleburger was a director of the ITT Corp. before taking office in 1989 and will eventually receive benefits from the corporation's pension plan. He pledged to recuse himself from



Lawrence Eagleburger pushes weapons exports.

government matters in which the giant conglomerate is a formal party.

In addition, as president of the consulting firm Kissinger Asso-

SEE DEFENSE, PAGE 20

✓ BNL
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DEFENSE FROM PAGE 1

ciates Inc., Eagleburger did work for ITT.

At least one critic believes that Eagleburger erred by participating in the meeting with the ITT official and by writing the directive promoting defense exporters. But a State Department legal expert says that Eagleburger, who declines comment, did not violate his recusal pledges.

Administration Aid

Eagleburger's memo is just one of several administration moves to provide help overseas for weapons makers.

President George Bush's budget proposal, for instance, authorizes the Export-Import Bank of the United States to provide in the next fiscal year up to \$1 billion in loan guarantees for defense products. Several companies have pushed hard for such guarantees, in a bid to make their deals more competitive with foreign rivals.

In addition, the State Department last year jettisoned its Office of Munitions Control, long a target of criticism from the defense industry because of delays in processing license applications. The office was replaced with a larger operation that for the first time has an export-promotion component. Industry leaders say the new Center for Defense Trade has already made a clear difference in speeding up the licensing process.

"The difference between 1980 and 1990 is pretty close to a quantum leap," says Fred Haynes, a vice president for planning at the LTV Corp. "The most significant change is that defense exporters are receiving cooperative support from U.S. agencies and are no longer viewed as anomalies."

"I think we've found that a number of ambassadors are more supportive," agrees

George Perlman, president of Martin Marietta International Inc. "It has been helpful for the people that I have overseas."

The backing for weapons exports 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 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 by 1989 had slipped to \$11.7 billion.

Defense executives have used the shrinking defense budget as a key element in their campaign to increase foreign sales. With the Pentagon budget going down, they argue, exports are critical to individual companies and to the well-being of the defense industrial base. The war against Iraq notwithstanding, annual defense spending is projected to decrease by some \$15 billion, in constant dollars, over the next five years.

"International opportunities are a must do for the defense industry," says Gordon Adams, the director of the Defense Budget Project, an independent research group on defense issues.

"You can't just drive over there," Adams adds. "If you want to get into the foreign government, you've got to get into the American government."

That's just what the industry has been busy doing. And it has had a strong and well-placed ally in Eagleburger, who, along with National Security Adviser Brent Scowcroft, has been instrumental in forging closer ties between U.S. agencies and industry export programs.

Reversing the Leprosy Letter

For years, exporters smarted over one legacy of President Jimmy Carter. Dubbed the leprosy letter, the directive instructed U.S. embassies to steer clear of defense firms because of concerns about regional arms races and high-tech weapons proliferation. Companies complained that many foreign governments took the opposite approach, providing their defense industries with strong encouragement for exports.

Now that's all changing. And Lawrence Eagleburger has been getting a lot of the credit.

"Larry has made a substantial difference. He's probably the most sympathetic guy who's been up there in years," says

Legal Times
2-20-91
D-11

Joel Johnson, vice president for international operations, at the Aerospace Industries Association (AIA), a trade group made up of 56 of the nation's leading aerospace firms.

Defense officials have been direct in their approaches to Eagleburger.

At the January 1990 dinner meeting with defense executives, he was urged to send a clear signal to U.S. embassies in favor of defense exporters.

"We encouraged Eagleburger to do that, and he said he would be glad to do that," says Don Fuqua, a former Democratic congressman from Florida who is president of AIA.

Adds Perlman of Martin Marietta, who wasn't at the meeting, but has worked on export issues: "We were happy when Eagleburger, under pressure from the industry, put out his directive."

According to a State Department release in August, Eagleburger's July 10 cable advised embassies to be "well informed about, and responsive to, U.S. defense industry sales in host countries. Posts may provide pertinent country information to industry representatives," including help in setting up appointments for U.S. executives.

Fuqua says the January meeting was attended by a few members of the AIA's executive committee, including D. Travis Engen, the chief executive officer of ITT Defense, which makes radar-jamming systems for fighter planes and night-vision equipment. The meeting, Fuqua adds, also focused on the need to expedite licensing procedures.

Engen confirms that he attended the meeting, but says he cannot remember whether the need for a letter to U.S. embassies was discussed. He did recall jok-



United Technologies' William Paul works for defense exports.

ing briefly with Eagleburger about how they should be on good behavior at this gathering, considering their past corporate ties.

Eagleburger was on the board of the ITT Corp. from June 1984 to March 1989. The annual director's fee varied; in his last full year, he received \$84,759, according to his financial disclosure form. As a former director, he has a vested pension plan from ITT that will kick in when the 60-year-old Eagleburger turns 65.

Through Kissinger Associates, Eagleburger also had ties to ITT, which was one of his clients. Eagleburger was president of Kissinger Associates from 1984 to 1989.

Eagleburger terminated his director's role with ITT and other companies when he joined the Bush administration in 1989. But his nomination prompted questions from reporters about how Eagleburger, as a

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 for his whole term 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 effect on my interest in the ITT pension plan for outside directors."

Eagleburger also agreed to recuse himself for one year from matters specifically involving his former 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 Defense's Engen.

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

"We 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 says.

The ITT Corp. was not a formal party because the memo promoting exports 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 standards. *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 for 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 from the inside. Defense lobbyists also tout the help they've re-

ceived from National Security Adviser Scowcroft, who for a time headed Kissinger Associates' Washington office. Scowcroft, who could not be reached for comment, also served as a consultant to the Lockheed Corp.

William Paul, a senior vice president for the United Technologies Corp. in Washington, says he and three other 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 paying off. In relationships 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]. When there's a sale pending, we're putting these sales on the agenda," says Charles Duelfer, the director of the Center for Defense Trade, the year-old State Department agency that replaced the Office of Munitions Control.

Duelfer also notes that since the Eagleburger memo—which his office helped draft—went out last July, several ambassadors have been especially helpful. In fact, Duelfer says, when the State Department evaluates U.S. embassies, support for defense companies "is one of the things they'll be graded on."

Duelfer adds that the revamping of the Office of Munitions Control grew out of extensive conversations with Eagleburger and Secretary of State James Baker on the need for streamlining the licensing process and promoting exports.

Banking Guarantees

The Export-Import Bank is also likely to be part of the new effort to promote weapons exports. Under a new administration proposal, the Export-Import Bank programs—now almost entirely for commercial trade—would be expanded to include loan guarantees for military sales 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 consider-

able dissension 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 senior staffer 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 in all likelihood will not be repaid, 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 is upbeat about its export prospects—and about the ability of its lobbyists to continue to win backing from the Bush administration.

"We pay these guys a good sum of dollars each year to lobby, and thank God they're doing something," says Thomas Peterson, the head of Raytheon's Patriot International unit.

Hot Place for Arms: Istanbul

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., says defense companies have found an increasingly receptive audience in Turkey, where a 10-year, \$10 billion defense modernization program is under way.

The Lexington, Mass.-based Raytheon Co., for instance, approached the Turkish government last March about a sale to Turkey of 10 of the company's Patriot missile firing units to expedite the sale. Thomas Peterson, the manager of the company's Patriot International unit, says he met with Morton Abramowitz, the U.S. ambassador to Turkey, and since then has been in touch with the embassy regularly.

The embassy is talking to the Turkish government about "just about everything we've asked them to do."

Peterson notes that the State Department's Office of Defense Trade is "working alongside us and supporting us" in trying to put together a deal soon.

As part of that effort, Peterson says, the State Department and 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 in

the German configuration—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 Abramowitz both in Turkey and in the United States, trying to get his help in convincing Turkey to produce jointly 200 helicopters with United Technologies' Sikorsky unit.

Among those working the issue for United Technologies is Alexander Haig, the former secretary of state and ex-pledgee of United Technologies who now runs Worldwide Associates Inc., a Washington consulting firm.

"He has a lot of credibility with the people there and the people here," says Paul. Although neither Paul nor Haig would comment on what Haig was doing for the company, Raytheon's Peterson attests to Haig's diligence. Peterson reports that he bumped into Haig leaving Abramowitz's office in Istanbul.

To make its deal financially attractive to the Turks, United Technologies turned to its home-state senator, Christopher Dodd (D-Conn.). Dodd spearheaded successful legislation in 1989 that enabled the Export-Import Bank of the United States to provide loan guarantees for military sales to Turkey or Greece—guarantees that United Technologies is using in its Turkish deal.

—Peter H. Stone

Name	Date
Bill Otis x2607	7/24/92 Counsel
Larry Neubauer	8/24/92 Counsel 113 0603

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