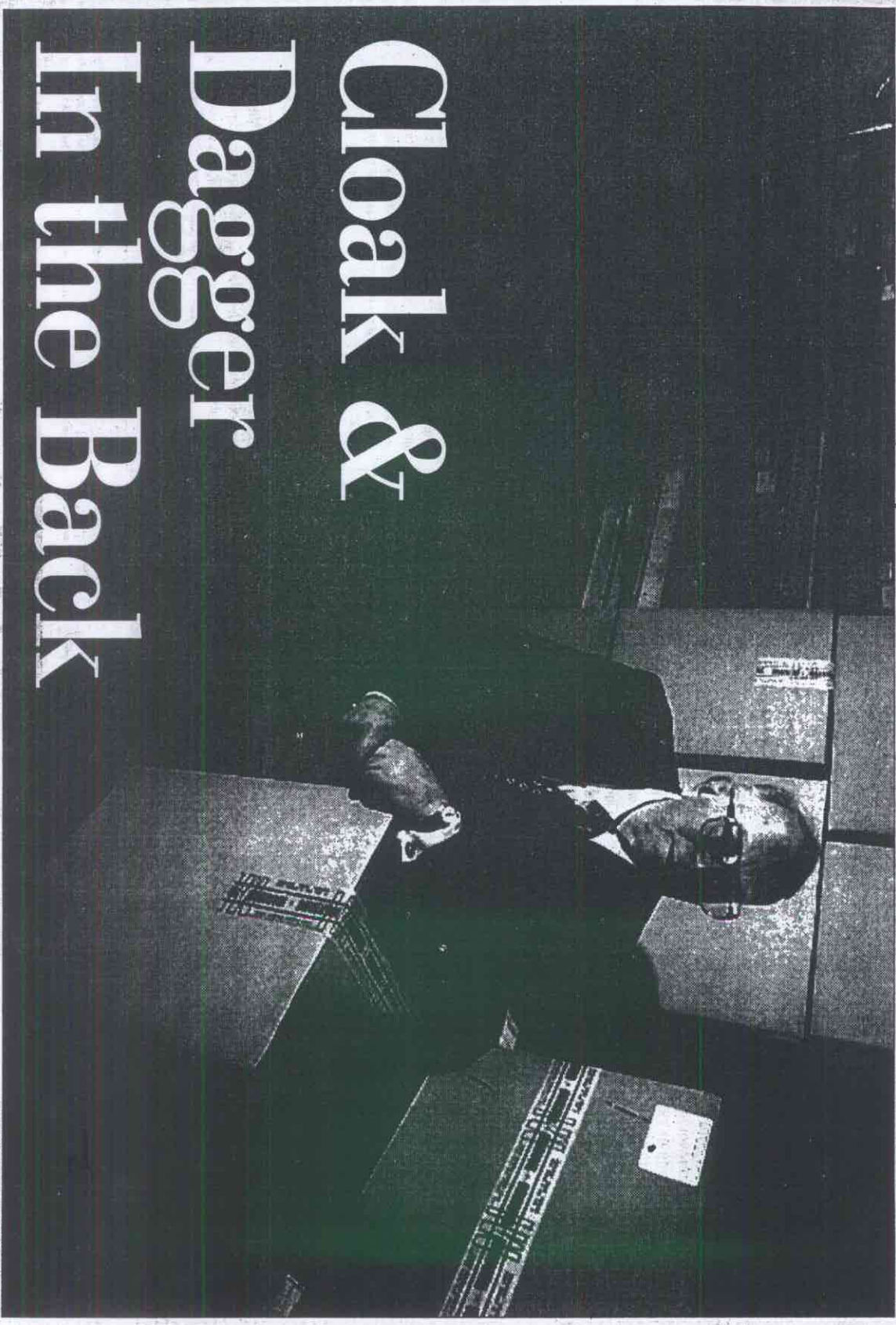


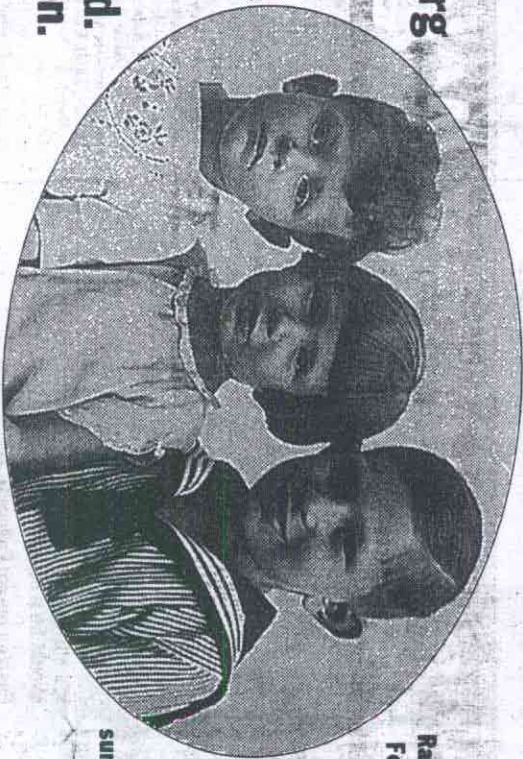
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Cloak & Dagger In the Back



BY BRIAN VANDER BRUG FOR THE WASHINGTON POST

**Businessman
Erwin Rautenberg
secretly worked
for the CIA,
until it
dumped him.
He said he
was betrayed.
First he got mad.
Then he got even.**



Rautenberg at his Air-Sea Forwarders warehouse in Los Angeles. Near left, Rautenberg at about 8, with younger brother Manfred and sister Ruth. They did not survive the Holocaust. What survived was Rautenberg's sense of outrage.

By John Mintz
Washington Post Staff Writer

LOS ANGELES

It was early November a few years ago when Erwin Rautenberg, 64, a small, round businessman with watery eyes, got a phone call from his lawyers.

There are some men here, the lawyers said stiffly. They are with the government. They want you to sign some papers.

If you don't, they are going to arrest you. And, um, one of them has a gun.

When Rautenberg arrived, a man who said he was from the Central Intelligence Agency locked the door to the windowless conference room at the offices of Manatt, Phelps, Rothenberg & Tunney. Seated at a large table, the man grimly laid out his ultimatum: If Rautenberg didn't sign the five-page court order that was placed before him, he would be prosecuted for endangering national security.

Rautenberg scanned the papers quickly. It was an agreement never to discuss what he knew about certain business matters. Signing it meant he would

have to abandon a lawsuit he had filed against a top CIA contractor for breach of contract, seeking millions of dollars in damages. It also meant he could never discuss publicly the singular fact of his life: that for almost three decades, he had been working secretly for the CIA. A CIA front, he called himself. If he ever told anyone about the document's existence, he was told, he would be prosecuted.

No, he couldn't keep a copy.

No, he couldn't think it over.

Sign it, now.

Rautenberg looked for help to his lawyer, Mickey Kantor, who is now President Clinton's trade representative. Kantor said he had already signed the paper, and advised Rautenberg to do so too. Another of Rautenberg's lawyers, John Emerson, now a top White House aide, elbowed his client in the ribs. "Erwin," he said indignantly, "you must sign."

Rautenberg declined.

The man with the bulge in his armpit told Rautenberg he couldn't leave until he signed. After an hour of brief, sputtering argument and tense silences, Rautenberg reluctantly wrote his name.

The date was Nov. 7. The year was, appropriate-

ly, 1984. Erwin Rautenberg had shuffled into an Orwellian nightmare.

Stepping outside into the sunshine, he heard for the first time a high-pitched ringing in his ears. He shook his head. He cutted his ears. It wouldn't stop. Tinnitus is a medical malady of uncertain origin but mind-splitting persistence. To Rautenberg, a European Jew with memories of Nazi Germany, it sounded like an approaching siren, or a police whistle, or smashing glass. A bad sound. A totalitarian sound. And it just would not stop. For years and years afterward, it would not stop.

Nowadays, when Erwin Rautenberg discusses his legal battle against the CIA, it is his custom to look away from the person he's addressing and to speak in a flat monotone with rolling R's, ending many thoughts with the European "yes," as in "So you see how the agency thought I would curl up and die, yes?"

Rautenberg is now 74. He is in the offices of the Los Angeles air freight company he owns, Air-Sea Forwarders. See RAUTENBERG, F4, Col. 1

RAUTENBERG, From F1

warders Inc., housed in a characterless two-story building near Los Angeles International Airport.

He is nervous, as his case is approaching yet another significant court date. He paces on the balls of his feet in front of a bank of large tables, searching for "evidence" in the colossal piles of court documents, letters and receipts from the 1950s that bear on his case, covered by a thatch of government reports, books and newspaper clippings about the CIA. His replies to those who he thinks betrayed him are thousands of pages long, and fill a shelf at the federal courthouse in Los Angeles.

For 14 years, Rautenberg has engaged in a quixotic, arguably daft legal struggle against the CIA and one of the agency's top contractors, E-Systems Inc. He claims he was working for them for years under a secret contract that they terminated without just cause.

Officials from the government, and the CIA contractor, have responded in court that Rautenberg is a liar, and imply that he might be a madman too. He did some work for them, they say, but it was far more limited than he claims. He was never, they say, a front operation.

Rautenberg's is an arcane battle whose main issues hark back to the dawn of the Cold War, 45 years ago. Rautenberg calls it his "disease," and long ago stopped trying to keep it from engulfing his life. His preoccupation helped end his childless marriage years ago.

There are two enduring mysteries in the story of Erwin Rautenberg. The first is what has kept him going for years on an obsessive campaign over a dubious claim that many people advised him to abandon. To this, there is an answer. It is buried a half-century in his past.

Then there is the lawsuit itself, in which one small businessman without much of what is commonly considered "proof" has taken on the American national security establishment over what he says was a handshake agreement made 50 years ago with people who are now dead. That is the second mystery.

What are we to make of the fact that Erwin Rautenberg, against all odds, is winning?

The Facts

Because this is about an ongoing lawsuit, some of the facts are in dis-

pute. But many are not. The basic elements of the meeting 10 years ago in the Los Angeles law office have not been disputed by Rautenberg's legal adversaries. The CIA and E-Systems declined to comment for this article; their positions, when given, are as stated in affidavits given by their representatives, and in other court papers.

But over the last few years, Rautenberg is slowly being vindicated. Two juries and one appeals court have sided with him, accepting his version of events and implicitly chiding agents of the government for duplicity and harassment.

He has already received \$5.8 million in damages. But the money is of negligible importance, he says. The important thing he has won, he says, is his good name.

The Beginning

It was 1946, in Los Angeles. Rautenberg, a young refugee from Nazi Germany newly arrived from South America, was looking for work. At a downtown unemployment office, a clerk told him about a small firm in filthy offices nearby that arranged shipments of goods overseas. All the work-

ers who tried out there got fired, the clerk told Rautenberg, and described an air of secrecy about the place.

Rautenberg landed the job. A tireless worker, he swept floors, loaded trucks and typed letters, making himself invaluable to his boss, Paul Williams. Rautenberg was puzzled to see men in Air Force uniforms visiting Williams at all hours, closing his office door to talk in low voices. In 1949, when the Communists seized control in China, Rautenberg and Williams worked day and night on paperwork to allow a fleet of 70 U.S. planes to be flown quickly out of China to Taiwan.

"More and more it dawned on me," he said. "I was working for a government agency."

His suspicions were soon confirmed. It came, he says, on a plane trip in 1951, when Rautenberg and Williams were in South America on business. Over the jungle in Colombia, one of the DC-3's engines sputtered and died, and the plane's right wing dropped precipitously. The pilots couldn't steady the plane.

That they were in dire straits became plain when one of the pilots, a man built like Oliver Hardy, changed seats with a slender colleague in a desperate effort to right the aircraft. Passengers began praying for their lives.

Sensing death was near, Williams

began what amounted to part confession and part self-eulogy. For years, Williams told Rautenberg proudly, he had worked for the Office of Strategic Services (OSS), the CIA's precursor. And now, if he died and Rautenberg survived, he wanted it remembered that he was a patriot.

The confession continued once they were on the ground in Panama City. Williams explained that his firms had shipped goods for U.S. intelligence agencies for years, and had worked with a man whose name Rautenberg had heard: Retired Gen. Claire L. Chennault.

As commander of the famed Flying Tigers air brigade, Chennault had helped Chiang Kai-shek fight the Japanese in World War II. After the war Chennault, a foul-tempered anti-communist, had helped Chiang's Nationalist troops fight Mao Zedong's forces by airdropping them supplies.

Back in L.A., Williams soon was keeping young Rautenberg abreast of all his firms' secret work, and on some of this country's most classified secrets.

After the war, the CIA had purchased Chennault's operation, changing the name of the fleet to Air America and its repair facility to Air Asia. Their pilots were fighters in the CIA's covert war against communism. Flying without U.S. military uniforms, they rescued refugees from North Vietnam and dropped supplies to anti-communist guerrillas in Burma, Indonesia and Tibet. In 1954 they braved anti-aircraft fire to deliver goods to besieged French forces at Dien Bien Phu.

The CIA needed employees here to pack gear that would be sent to Air Asia's repair facility in Taiwan. But under the CIA's charter, the agency couldn't operate in the United States. So, in search of legal cover—and for complex tax reasons—the CIA got independent firms like Williams's to act as fronts.

Rautenberg said he and Williams set up front firms together, including one called Air-Sea Forwarders. Williams let Rautenberg run it.

When Williams retired, Rautenberg says, the CIA relied more and more on him to be its California front man. Finally caving in to its pressure, in November 1956 he met with a roomful of CIA and Air Force officials at the downtown L.A. offices of a law firm, Rautenberg said. The meeting was in the office of lawyer George Elmendorf

of O'Melveny & Myers, who represented the CIA and Air Asia for years.

Precisely what went on at that meeting—and even whether such a meeting occurred—became a matter of legal contention, but Rautenberg's version has been backed in two jury verdicts and an appeals court decision. As he tells it, the men entered into a formal but unwritten agreement: Rautenberg's firm, Air-Sea Forwarders—which was a legitimate freight shipping company—would win the lucrative franchise to ship Air Asia's goods to its aircraft maintenance complex in Taiwan. In exchange, he said, the CIA could use the name Air-Sea Forwarders in running a secret warehouse in Los Angeles that packed the aircraft equipment—which was then sent, by Rautenberg, to Air Asia's site in Taiwan.

"In a nutshell," Rautenberg said, "I entrusted my good name to the CIA, since the sign on the front of the warehouse was to have the name of my firm. And Air Asia would use a bank account in the name of my firm to pay Air Asia's warehouse workers."

Both sides said the deal could end only if Rautenberg committed some impropriety, Rautenberg said. He promised never to breathe a word of it to anybody. He hadn't been allowed to bring a lawyer of his own, and couldn't get copies of the notes the government men took.

Rautenberg's memory is flawed, retired CIA officials, and Air Asia officials, said later in court. Rautenberg merely ran a firm the CIA paid to ship goods, and there was no secret deal, and no front operation, they asserted. There was no subterfuge at all in payroll records, they said: The employees were Rautenberg's.

In any case, after the meeting in El-

mendorf's office, there were broad smiles and handshakes, he said. It seemed a good deal. The CIA got a front, Rautenberg said, and he got a sense of security—and not just the security of a guaranteed client.

"I figured Uncle Sam can't do wrong," he said.

There were many more meetings over the years in Elmendorf's offices, and Rautenberg always raised the same concern.

"I wanted protection if this goes haywire," he said, in case Congress or the press or a foreign government accused him of something illegal. "They assured me, saying, 'You have the protection of the U.S. government.'"

Rautenberg said his CIA handler, George Doole Jr., made him that promise many times. Doole was the secretive impresario of the agency's network of air "proprietary" companies, a 20,000-employee empire bigger than the CIA itself.

When Rautenberg visited Washington, Doole would take him for lunches at the Hay-Adams Hotel, around the corner from Doole's Connecticut Avenue office. In long conversations there about their work, Rautenberg says, Doole flattered him with talk of a secret CIA medal for his service to his adoptive country. But no medal ever materialized.

Business was booming. At the height of the Vietnam War, up to 20 trucks a day rumbled out of the Air-Sea Forwarders warehouse, filled with supplies for the CIA air base in Taiwan.

Thanks in part to Rautenberg, the agency's Air America pilots performed years of covert service to the United States. They dropped rice and guns to the CIA's army of Hmong tribesmen in

Laos and parachuted tribesmen behind North Vietnamese lines.

Rautenberg's cover role was bizarre. While he often shooed passersby from the secret CIA warehouse—people from municipal inspectors to kids on bikes—Rautenberg says he never had a key to the place. But it had a telephone listed in his company's name, and the name of his firm was on the sign outside. When he visited the warehouse, CIA warehouse workers would yell jokingly, "Hi, boss."

As to what was in the crates, Rautenberg says, he knew better than to ask.

Changing Hands

When the last American helicopter took off from the U.S. Embassy in Saigon in April 1975, it was the end of the line for the generation of CIA Asia hands and covert operators, mostly Ivy Leaguers, with whom Erwin Rautenberg had worked well for decades.

The agency had little use left for its air proprietaries, and with reporters sniffing around the story, it decided to pull the plug. In 1975 the CIA sold Air Asia for \$1.9 million to E-Systems, a Dallas-based firm that had long done secret government work.

At the time of the sale, Rautenberg says, he expressed fears to his CIA handlers that the new E-Systems crew wouldn't respect the deal he'd had with the agency for a generation. But the CIA's Doole calmed Rautenberg, he says. Doole explained that E-Systems is such a favored CIA contractor, in designing electronic surveillance gear and the like, that it's almost indistinguishable from the agency.

Doole, who died in 1985, persuaded Rautenberg to stay on with the E-Systems team, and to keep doing for E-Systems what Rautenberg had done

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for the agency, Rautenberg said. E-Systems denies that Air Asia retained any tie to the CIA after E-Systems bought it. The firm won't comment substantively on the matter, but has said in court that Rautenberg's firm was doing for E-Systems what it had done for the CIA—packing and shipping goods, legally and openly.

Perhaps. But the name of Rautenberg's firm remained on the sign on the Air Asia warehouse. Rautenberg was always puzzled by this: Why was E-Systems, a private firm running a warehouse in Los Angeles, using another man's company name on its signs and on its paperwork? Rautenberg never inquired.

"My job was not to ask questions but to do my job," Rautenberg said.

The End

Then it was over.

In July 1981 he got a call from an E-Systems executive terminating the arrangement. E-Systems hired a Taiwanese firm to ship the crates and run the warehouse.

Looking back, Rautenberg thinks William Casey's new CIA team wanted him gone—an agency ally from a by-gone era, he was now perhaps in a position to witness secrets of a new CIA.

Most businessmen might have concluded it had been a great 25-year run, and moved on. But Rautenberg, a man

of Germanic formality, says he expected that his original deal with the CIA of 1956 still held—that the transaction could be ended only in the event of his misconduct. In a series of tense conversations with E-Systems and Air Asia officials, Rautenberg threatened to sue them for breaching the deal.

Secrecy and military bearing define

See RAUTENBERG, F5, Col. 1

RAUTENBERG, From F4

E-Systems' corporate culture. Company whistleblowers and lawyers who've tangled with the company in court say it sends a tough message: Challenge us at your own risk.

In any case, Rautenberg said, E-Systems and Air Asia officials threatened him back. If he didn't drop the matter, he recalls the executives saying in a meeting in his office, they would stick him with up to \$1 million in unpaid Air Asia bills and taxes. But worse, he said, the E-Systems and Air Asia officials asserted that if he made his complaints public, they would file fraud charges against him, saying he stole cargo, and would ensure he'd never work again for any defense firms. (E-Systems denies making any threats.)

"What should I do?" Rautenberg says he asked his old friend Doole.

"Erwin, it's shocking what's happened," Doole replied, according to Rautenberg. "But don't you think it's best you dropped this?"

It was reasonable advice, on any level. Rautenberg was a successful man with a thriving business apart from government work. He didn't need the money. He didn't need powerful enemies.

But Rautenberg could not drop it.

He could not drop it because on an emotional level so profound it churned his guts and literally rang in his ears, Erwin Rautenberg could not countenance what he saw as a total betrayal by his government. Not another one.

The Ghosts

Rautenberg had survived the Holocaust, but not without ghosts. They have lived with him ever since.

He remembered distinctly the song the Nazi storm troopers sang marching by his parents' house in Bückeberg, Germany, the day of his bar mitzvah in October 1933: "When the Jewish blood drips from our knives, life will be so good."

Over the next few years, the burghers of Bückeberg renamed a main thoroughfare Adolf Hitler Street for the new chancellor. The newspapers said Jews were plotting revolution and sodomizing Christian girls. Longtime

customers boycotted the tablecloth store owned by Erwin's father, Leo Rautenberg, a German patriot who had won the Iron Cross in World War I.

It was then that Leo, like many Jewish parents, sent his son away to save him. He was the oldest and could live on his own. He was sent to South America, where his family planned to join him once "the trouble" subsided. At the wharf in Hamburg, his father said to 17-year-old Erwin, "I hope we can see each other again."

The Nazis had brutalized Jews for years with words, and often cuffed men in yarmulkes on the street when the spirit moved them. But on Nov. 9, 1938, *Kristallnacht*, the night of broken glass, they could contain themselves no more. All over Germany, from Berlin to the smallest borough, storm troopers dragged Jews from their homes and shops and synagogues, breaking windows and setting fires. Leo Rautenberg was pulled from his house to a Nazi office nearby. There he was beaten for days on end. He was finally allowed to stagger home to die.

It was only the start, of course. Rautenberg's sister, Ruth, was to be killed by the SS in medical experiments. His brother, Manfred, was to die at Auschwitz.

Forty years later, the thought rang loud in his head—what a fool he'd been to place faith in a government.

"My father trusted, and I knew what happened to him," he said. "I had volunteered out of patriotism. . . . Now it was my turn to be stabbed in the back by a government I trusted.

"I was seeing again the storm troopers," Rautenberg said. "They wanted to silence me. I said no. . . . I was not going to allow that a second time, ever."

Striking Back

At one point Rautenberg considered fleeing the United States, to escape again. Instead, he decided to act like an American—he filed a federal lawsuit. The lawsuit alleged wrongful termination by E-Systems, but was vague, leaving out all references to the CIA and Air Asia.

What happened next was peculiar. U.S. District Judge Richard A. Gadbois met privately with government officials, without Rautenberg or his lawyers present—an extremely unusual action. Then Gadbois issued a secret five-page court order, saying Rautenberg and his attorneys would be prosecuted if they disclosed the CIA's ties to Air Asia and E-Systems. That was the



A 1914 photo of Erwin Rautenberg's father, Leo—standing center—as a German army officer in World War I. Later, when Erwin was 17, Leo sent him to South America to escape "the trouble." Erwin never saw his family again.

document that CIA and Justice Department officials brought to Mickey Kantor's office, the one Rautenberg was browbeaten into signing.

(Attorneys Kantor and Emerson refused to comment on the record about that meeting, saying they don't want to violate the court order, which is still partially in effect.)

Rautenberg appeared defeated.

"I understood I could be severely punished even for unintended violations of the order, and I cannot recall it precisely," Rautenberg said in a court statement. "I have lived in constant fear that I might violate it without knowing. . . . This constant anxiety has affected almost all aspects of my life."

Rautenberg fired Kantor for signing the gag order without his approval. But now Rautenberg faced what he calls "a ridiculous Catch-22" because the order barred him from telling anybody else about the order's existence.

"I'd look for a new lawyer, and he'd say, 'Tell me about your case,'" Rau-

tenberg said. "I'd say, 'I can't.' He'd say, 'I can't take your case.'"

His marriage was collapsing, friends were telling him to move on, and he couldn't escape the ringing in his ears.

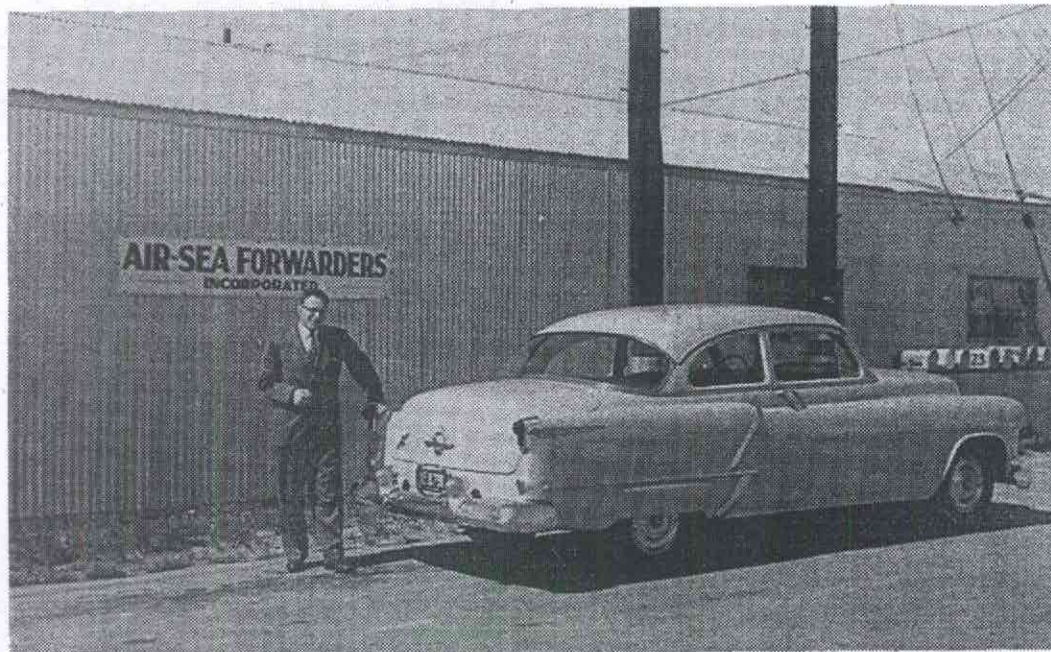
Finally Rautenberg found a lawyer who had recently left Kantor's firm and knew a little about Rautenberg's case. Eventually his new lawyers won court concessions that chipped away at the judge's secrecy order, letting Rautenberg reveal more information in court.

But his case looked hopeless. He had to prove that in 1956 he'd struck a secret deal with the CIA on a handshake, and that E-Systems, which inherited the agency's obligations, improperly breached the deal.

The case went to jury trial in 1986.

Rautenberg had few allies. Doole had been deposed before his death and basically described Rautenberg as a functionary, not a front.

One of Rautenberg's strongest pieces of evidence was the deposition testimony of a former Air Asia executive who was too sick to come to court



Rautenberg at the North Hollywood warehouse, circa 1955. Right, Paul and Marion Williams. In a desperate moment, Paul confessed to Rautenberg that his firms shipped goods for the CIA.

and whose sworn statement was read to the jury. Roy Herold, who had worked closely with Rautenberg for years, broke with his CIA colleagues, saying Rautenberg was telling the truth and that the agency men were covering up.

Although the government wasn't a defendant in the case, Rautenberg said, "it was obvious the government was my opponent."

CIA lawyers, often glaring at Rautenberg, sat at the defense table with E-Systems counsel.

The stance of James Jurecka, E-Systems' lawyer, was that for all those years those warehouse workers had been Rautenberg's employees, not the CIA's. Jurecka said in court that Rautenberg's claimed oral agreement with the CIA did not exist, that it was "a figment of Mr. Rautenberg's vivid imagination."

"E-Systems' song was 'Government? Never heard of it,'" Rautenberg said. "But the government goons were sitting at the defense table with them."

Judge Gadbois made it clear he believed E-Systems and the CIA. After his bizarre in-chambers conversations with CIA officials, Gadbois said from the bench, but out of earshot of the jury, that Rautenberg "never took an oath for the CIA, and I know that, and I know it independently of this trial."

"It was a lonely time," Rautenberg said.

And then Rautenberg's life took another strange turn. He won.

After hearing six weeks of testimony, the jury sided with Rautenberg and ordered E-Systems to pay him \$6.2 million plus legal fees.

But Judge Gadbois overturned the verdict, saying Rautenberg had blown "cloak-and-dagger smoke" at the jurors. In a series of hearings after the trial, the judge described Rautenberg's story as "simply ridiculous." An appeals court overturned the judge, and a new trial is set for next month.

In 1992 Rautenberg met E-Systems in court again, in a separate state court suit covering related issues. E-System had filed and then withdrawn a countersuit against Rautenberg, alleging he had defrauded the firm; in this new case, Rautenberg called that aborted E-Systems suit "malicious prosecution." Rautenberg's position was that E-Systems had improperly used the courts to carry out its old threats to ruin him.

A highlight of this trial came when E-Systems' two main lawyers on the case were forced to testify, and said that the CIA had required them to sign secrecy oaths before the trial start-

ed—an irony, since their position was that there was little that was secret in the whole affair.

The jury agreed with Rautenberg. It concluded that E-Systems' suit amounted to malicious prosecution, and it ordered the firm to pay Rautenberg \$4.8 million plus interest. E-Systems appealed. Last February a three-judge California appeals court found for Rautenberg and excoriated the firm, using strong language.

E-Systems' accusations against Rautenberg in court, the appeals court said, had been "bogus" and "had no basis in reality." E-Systems knew its claims that Rautenberg had no secret dealings with the CIA were "falsities" because the firm had had Rautenberg front for E-Systems in exactly the same way he had fronted for the CIA, the judges wrote.

The case showed that E-Systems, acting out of "ill will and bigotry," launched a "scheme to harass" him by inventing false allegations of impropriety against him, the appeals panel said.

Last May the company wrote Rautenberg the check for \$5.8 million that the jury had said it owed him.

"It was a sweet moment," he said.

And Now

The ringing in ears continues. No respite yet.

Rautenberg spends much of his time preparing for next month's legal showdown, the retrial of the case he won once before.

"I'm also putting in for that medal the CIA promised me, plus a letter of apology," he said.

There's an odd postscript to this story.

During the decades he worked for the CIA, Rautenberg says the agency gave him funds to pay the salaries of the warehouse workers, and Rautenberg issued paychecks in his firm's name. But 20 years ago, when his deal with the CIA ended, there was \$11,910.73 left in that bank account. He still gets the monthly account statements.

If it took the money, the government could be admitting complicity in a clandestine arrangement with Rautenberg.

So the money sits there. As far as the bank is concerned, it's Rautenberg's. He could take it any time he wants.

He hasn't touched it.

"The money's not mine, but theirs," he said. "It's property of the United States."