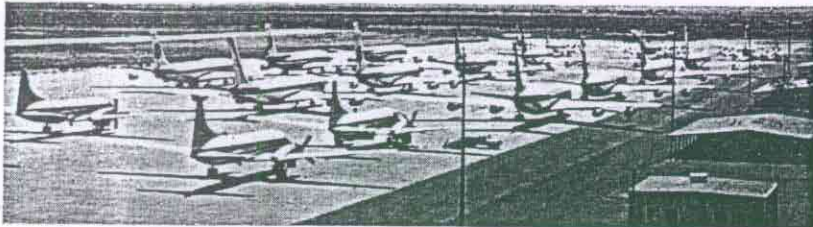




On the job: An Air America cargo plane unloading at an airstrip in Laos, 1969



Mothballs: Reserve planes at the Intermountain Aviation field in Arizona

NATIONAL AFFAIRS

INSTITUTE INC.	303-B
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Wally McNamee—Newsweek

What's in a name? CIA proprietaries . . .



Bob East

. . . helped the agency cover its tracks . . .



Susan T. McElhinney

. . . under the guise of private enterprise

## How the CIA Does 'Business'

It began as a blend of patriotism and old school spirit. Back in 1961, in Arlington, Va., lawyer named **L. Lee Bean** was contacted by a former classmate at the University of Virginia. The old chum had an intriguing proposition: would Bean help the U.S. Government set up several companies to do special work in the interest of national security?

With the approval of his partners, Bean agreed. Next he was directed to a prominent Boston lawyer, **Paul Hellmuth** at the firm of Hale and Dorr, who provided the actual instructions on incorporation and operation. In short order, Bean's firm was a mailing address for two newly minted concerns: **Anderson Security Consultants** and **Zenith Technical Enterprises**. Anderson provided security services for various other U.S. firms (destroying classified documents, investigating employees) while Zenith, headquartered in a deserted blimp base on the campus of the University of Miami, conducted a variety of anti-Castro propaganda and paramilitary operations. What both companies had in common—besides Bean—was that they were wholly owned domestic subsidiaries of the U.S. Central Intelligence Agency.

Bean's case is just one example of how the CIA over the years built a multimillion-dollar commercial empire of diverse and deftly disguised "proprietary" companies—owned by the agency itself—to help carry out and cover up many of its most clandestine operations. In recent years, as embarrassing publicity about the proprietaries has spread and scientific intelligence techniques

have become more effective, there has been a drastic cutback in the proprietary network; significantly, **NEWSWEEK** has learned that the CIA's biggest single company, the Washington-based **Pacific Corp.**, has trimmed 90 per cent of its staff since 1970. But given the CIA's power and proclivities, there is no reason why the network couldn't expand again if it seemed useful. And in any case, the proprietaries are a fertile field for the multiple investigations of the agency's activities now gaining momentum on Capitol Hill.

### DESCENDANTS OF TIGERS

In their heyday, the agency's proprietaries helped bomb villages in the Congo, fly mercenaries and supplies into Laos and train Tibetan guerrillas for sneak attacks on China. They also published books, broadcast propaganda and provided "cover" for CIA agents in their own news agencies and free-wheeling public-relations firms in the U.S. and around the world. Even with the current cutbacks, a hard core of proprietaries remains—including, **NEWSWEEK** has learned, a small news service in Europe, a company supplying technical services in the Middle East, and **Fairways Corp.**, a small Washington airline. And agency veterans suggest that the phasing out is a sign that the CIA is shifting to tactics that avoid the long-term costs of large proprietaries. One example of the new style may be the recently revealed sub-raising efforts by the mystery ship **Glomar Explorer**—operated for the CIA by **Howard Hughes**.

The history of CIA proprietaries goes back almost as far as the agency's original division into intelligence-gathering and "special operations" branches. It was in the summer of 1948 that National Security Council Order 10/2 created an **Office of Policy Coordination** to conduct small and "plausibly deniable" spying, subversion and secret propaganda activities. That office quickly attached itself to the recently created Central Intelligence Agency, where it was known officially as the Plans Division and unofficially as the "Department of Dirty Tricks."

Over the next two years, the agency took increasing control of an unusual Far East airline—**Civil Air Transport**—which had been formed by seasoned veterans of Air Force Gen. **Claire Chennault's** daredevil **Flying Tigers**. CAT's risky missions to harass mainland Communists were financed at first by the Chinese Nationalists, then by the **American Airdale Corp.** Airdale soon metamorphosed—in the corporate records of Delaware—into the **Pacific Corp.**, subsequently revealed as a linchpin of CIA proprietaries.

Soon other proprietaries came under the umbrella of **Pacific Corp.**, including a number of ostensibly independent firms whose role as CIA covers was later blown by a series of journalistic exposés and books such as former agent **Philip Agee's** "CIA Diary" and "The CIA and the Cult of Intelligence" by **John Marks** and CIA alumnus **Victor Marchetti**. Among the first proprietaries:

■ **Air America**, which grew from CAT's Asian operations, became a major airline



with 165 planes and about 5,000 employees. Its CIA missions included parachuting Meo tribesmen as guerrillas into Laos, dropping rice to refugees in the Vietnamese highlands, carrying payrolls for CIA mercenaries and transporting prisoners for the Saigon government. In the course of all this, the airline has also been accused of playing a role in the massive Southeast Asian narcotics trade. But most of its activities are open commercial contracts to transport U.S. servicemen and government personnel; it even played a major part in the recent evacuation of Saigon. The airline formerly ran a large maintenance base at Udorn, Thailand, providing the airfield with weather and communications systems, tactical air control and even fire-protection services.

■ Air Asia Co., Ltd., based on Taiwan, until recently ran the largest aircraft maintenance-and-repair facility in southeast Asia. Operated as an Air America subsidiary with nearly 6,000 workers and pilots at its peak payroll, Air Asia serviced craft not only for Air America but for the U.S. military as well. According to one former intelligence officer, it could actually build entire aircraft from prototypes (to the sputtering dismay of some U.S. manufacturers).

■ Pacific Engineering Co., an operating division of Air America, provided supervising engineers for local work teams assigned to build airstrips for Vietnam and the "secret war" in Laos. Hugh L. Grundy, the division's president, says these were mainly "up-country, mountaintop strips . . . in primitive areas."

#### 'TO HAVE A HANDLE'

Outside the Pacific Corp. framework, the CIA set up dozens of other proprietary companies around the world. These ranged from tiny one- or two-man offices ("singletons" and "doubletons," in agency parlance) to larger operations such as Anderson Security, Zenith Technical Enterprises and the major international broadcasting stations Radio Liberty and Radio Free Europe.

Originally created to provide logistical support for CIA undercover operations, many of the proprietaries themselves soon became involved in intelligence gathering and moved on to more active operations. A CIA-owned print shop in Latin America, for example, might first have been set up merely to provide cover for a CIA agent in the area. But it would soon seek to gain influence with a local political party or labor group by printing their propaganda, providing jobs for movement leaders or offering office space for political meetings. "When the agency was deeply involved in political activities, proprietaries made a lot of sense," says one former CIA employee. "To have a handle on a foreign labor union was important."

As with lawyer Bean, many prominent Americans were recruited to give the proprietaries credibility. "Anybody who looked closely would know that most of

the people actually running the company were having a hard time meeting their own mortgages," says one close observer of the process. The big names were signed up to suggest solid sources of private capital. When the CIA acquired the Miami-based Southern Air Transport in the early 1960s, it apparently persuaded former U.S. budget director Percival Brundage, a consultant to the prestigious Price, Waterhouse & Company, and former Assistant Defense Secretary Perkins McGuire, a board member in various corporations, to hold most of the airline's stock in name only.

In practice, the proprietaries were used as needed to cover CIA operations. A fleet of twelve to fifteen B-26 bombers from the Korean War, for example, passed back and forth among the agency and its companies in the course of being

1971, NEWSWEEK has learned. Rather than collect dust, says one former CIA employee, much of that money was reinvested in choice stocks and securities chosen by economists in CIA headquarters at Langley, Va.—partly on the basis of classified information not available to ordinary investors.

#### A COVER IS BLOWN

A clandestine service with independent income? The potential for mischief is clear, and Wisconsin Sen. William Proxmire recently introduced legislation that would require stricter audits of CIA investments and other finances. "Do profits go into the CIA budget?" Proxmire asked. "Does the director of the CIA have a special 'Director's Fund' which can be used without justification to any other person?" The CIA, for its



Miami Herald

#### Zenith Technical Enterprises: Harassing Castro from an empty blimp base

used in the Indonesian war, the Congo rebellion, the Bay of Pigs invasion and Vietnam. Sometimes the planes required no cover at all, but at other times they were flown by pilots working for such CIA proprietaries as the Double-Chek Corp. and Caramar—the Caribbean Aero Marine Corp. Between assignments, the planes were frequently ferried back to the U.S. by Air America pilots and then stored by Intermountain Aviation, another proprietary that has recently been spun off to a private buyer.

The operations of the proprietaries have raised larger questions about the CIA's barely glimpsed finances. At best estimates, the agency receives about \$750 million from Congress each year; it also has large amounts of cash available on short notice for covert projects (\$8 million was channeled to anti-Allende forces in Chile from 1970 to 1973) and sizable sums were set aside in contingency funds for the insurance and fringe-benefit needs of its proprietaries, particularly the airlines. The insurance funds totaled more than \$26 million by

part, has declined to answer a series of similar questions from NEWSWEEK, replying to a written request: "Please excuse us from answering . . . We are in full compliance with the law."

Most CIA proprietaries, of course, have been too small to make much profit on their own; indeed, agency policy is generally to avoid doing too well in the world of private enterprise. But the charade still requires two or three sets of records to keep track of private and government funds, as well as complicated intercessions with other arms of government such as the Federal Aviation Agency and the Internal Revenue Service. One temptation is to slip several agents into the same proprietary, but while that might save on bookkeeping, it makes all the agents vulnerable if the cover of any one of them is blown.

This was the undoing of the Washington-based Robert R. Mullen & Co., a public-relations firm which, while not owned by the CIA, had agreed to provide slots for several of its overseas operatives. When the CIA learned that a



## NATIONAL AFFAIRS

forthcoming book would disclose that Mullen had provided cover for an agent in Mexico City, Mullen fronts in Amsterdam and Singapore had to be closed—and the cover man in Singapore disappeared. Mullen itself expired of embarrassment in 1974, though its former president, Robert R. Bennett, is still in the PR trade.

The policy of not doing *too* well in business also takes a psychic toll. "You look like a horse's ass," one former agent now complains to friends. "Even your kids think you're a loser." Some operatives even begin straining to supercharge their little firms, often at the expense of their cloak-and-daggering. "They'd start trying to make the goddamn airline run better," grumbles an agency veteran. "That's not the purpose of the drill. Pretty soon they'd become more businessman than an intelligence officer."

### DROPOUTS AND OLD BOYS

A few agents actually quit "the company"—as the CIA is known—to join real companies for which their work in the proprietaries had provided on-the-job training. Other agents are not quite so well prepared, however. In fact, NEWSWEEK reporters found surprisingly widespread complaints that CIA case officers and contract workers whose commercial covers were blown often found themselves abruptly dropped by the agency—and unable to parlay their past experience into straight-world jobs. "Say you're working for the X-Corp. or some such, and you make a mistake or someone else does and you are out on your ear," explains one veteran of commercial-cover assignments. "When you try to find another job they ask, 'What does X-Corp. do?' Well, you stutter around—a man 40 or 45 is supposed to have a reputation for *something*, but there's not much for them to go on. You can't say, 'I worked for the CIA.'"

More and more agents may be experiencing such hardships as the CIA trims back its proprietary program. The Pacific Corp., for example, has shrunk from 11,200 employees in 1970 (compared with 16,500 for the CIA itself) to little more than 1,100 today. Other firms have been sold off or shut down. But one former CIA employee suggests that the agency may be trying to sell the proprietaries "in such a way that they might be recalled someday"—and such suspicions have been bolstered by some recent transactions. Southern Air Transport, a \$5 million operation at its peak, was sold not long ago—at a bargain rate—to the man who managed it for the CIA for more than a decade. The sale of Air Asia to E-Systems Inc., puts the firm in the hands of a company whose board of directors includes retired Adm. William F. Raborn, a former CIA director.

The same sort of "old boy" network of former CIA agents, officials and cooperative businessmen has grown to include influential corporate leaders, lawyers and foundation executives. Through them, NEWSWEEK has traced connections of one sort or another with at least sixteen banks and investment houses (Manufacturers Hanover, Chemical Bank, Fiduciary Trust), several major law firms (including Boston's Hale and Dorr and the equally prestigious Ropes & Gray), more than two dozen large corporations (ITT, United Aircraft, E-Systems, W.R. Grace & Co.) and several dozen associations and foundations, including the highly respected Council on Foreign Relations.

Evidence that the old boys do errands

years, NEWSWEEK learned, some companies have served as conduits for CIA funds, including money used as bribes and campaign contributions to foreign officials.

Were the favors repaid? When a conduit company had its taxes audited, says a former U.S. official, the Internal Revenue Service would sometimes "get a call from the CIA saying, 'Get your people off their backs.'" A former agency case officer recalled one company with investments in pre-Castro Cuba that was "extremely appreciative" of information that then CIA director Allen Dulles provided just before the revolution. "It saved them a lot of money," said the former case officer. And John McCone, the record shows, was quite willing to trade on his old agency connections in behalf of ITT when he offered the CIA \$1 million to help prevent the election of Marxist President Salvador Allende in Chile—where ITT had holdings worth nearly \$150 million.

### THE NEW LOOK

Such corporate connections are harder to make these days; after the recent publicity, many companies are refusing to provide cover slots for CIA agents. "In fact," says a Congressional investigator, "you can almost hear them bouncing on the steps after they've been thrown out." But he adds, "I doubt they're getting totally out. Don't forget, the best cover is for everyone to believe that they can't get any cover." Thus there is still pressure in Congress for a law that would prohibit what Idaho Sen. Frank Church calls "this incestuous relationship between government and private corporations."

Are the CIA's proprietaries a dying breed? There are those who think that authority for almost all of the CIA's covert operations should be shifted to the Defense Department, leaving the CIA to concentrate on its original mission: the collection of intelligence. Others believe the reformers may be content with better Congressional control and review of the agency's current activities; one step in that direction is the new legislation that requires the Administration to brief both the House and Senate Foreign Relations Committees on CIA cover operations overseas.

But as long as there is a CIA, it will surely resist the idea of forswearing any tactics at the risk of letting other countries gain advantage. The idea that there are "rigid rules" in the intelligence business is nonsense, says a veteran of the U.S. intelligence establishment. "If I don't need a man in a white suit poking around somewhere today, I won't put him there. But I'm not saying I won't put him there tomorrow."

—DAVID M. ALPERN with ANTHONY MARRO, EVERT CLARK and HENRY MCGEE in Washington



Chennault (in overcoat): The first proprietor?

for the CIA is intriguing but largely circumstantial. Boston lawyer Hellmuth, who concedes that he helped set up Anderson Security as a CIA proprietary, is also head of two charitable organizations (the Independence Foundation and the J. Frederick Brown Foundation) which, he admits, have been used to channel CIA funds. Former CIA director Raborn is a consultant to Aerojet-General Corp., while another former boss of the agency, John McCone, serves as a board member of ITT, Standard Oil of California, Pacific Mutual Life Insurance Co., United California Bank and Western Bancorporation.

Whether through the network or not, multinational companies have often done favors for the CIA. The agency said last year it had 200 agents abroad posing as corporate employees. For