

'CIA' Ship Poses Tax Problems

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Despite claims of government ownership, sworn papers required under federal law state that billionaire Howard Hughes's Summa Corp. is the sole owner of the Glomar Explorer, reportedly financed by the Central Intelligence Agency.

The tax assessor of Los Angeles County said he agreed to forget about a potential \$9 million tax bill for the vessel when CIA representatives secretly assured him it was government property.

But the ship's license, filed under oath with the U.S. Coast Guard, says it belongs to the Hughes empire.

The conflicting reports could pose a dilemma for the Hughes organization. If the Summa Corp. owns the ship, it may have to pay substantial federal, state and local taxes.

If the government owns the vessel, its license to ply the waters when it recovered part of a sunken Soviet submarine last summer would seem to have been invalid. Under U.S. shipping laws, "no marine document shall be considered to be in force longer than the vessel to which it is granted is owned as stated in the document."

The 618-foot ship, the Hughes Glomar Explorer, salvaged portions of a nuclear-armed Soviet submarine from the Pacific Ocean floor at a depth of 16,000 feet. Normally, it would have been almost impossible to find, but the sub happened to have gone down seven years ago within the range of the government's Missile Impact Location Sys-

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n (MILS). Its devices are much more accurate than the sub-detection system, which amounts to microphones planted on the ocean floor.

Built at the CIA's behest and reportedly financed by the government after the sub had been located, the Glomar Explorer was publicly proclaimed as a deep-sea mining ship with a generally acknowledged capability for harvesting metal nodules from the ocean floor.

MILS enabled search parties to confine their efforts to a much smaller area than the sub-detection system could have targeted. The sub was finally pinpointed with the help of a specially equipped underwater sled.

After a maiden voyage from

the Sun Shipyards at Chester, Pa., it arrived in Long Beach, Calif., in the fall of 1973. On Oct. 2, 11th District Coast Guard officials there gave the ship's captain, James M. Miles, a temporary, one-year "certificate of enrollment and license" for the vessel.

Miles, in turn, surrendered an earlier certificate obtained in Delaware and said the Glomar Explorer would be devoted to "miscellaneous" service in domestic commerce.

After "having taken and subscribed the oath required by law," he also affirmed that the Summa Corp. was the sole owner of the ship and that it would not be used "in any trade or business whereby the revenue of the United States may be defrauded."

Miles is now working for Esso off the Ivory Coast and could not be reached for comment. But his daughter indicated that his service as master of the Glomar Explorer didn't last much past the day he had it registered and licensed in California.

"He brought it from Philadelphia to Long Beach and that was it," she said.

The new captain who replaced him was a long-time employe of Global Marine, Inc., the marine exploration and drilling firm that designed and operated the ship for Summa Corp. Under federal law, the owner of a vessel of that size must report a change in masters on the Coast Guard certificate "or such vessel shall not be deemed" an enrolled and licensed vessel.

The Glomar Explorer's certificate shows no other captain but Miles. The man who replaced him could not be reached for comment, but his wife said she was as surprised as anyone else when she read about the sub-raising expedition.

"It was a shock to me," she said. "All he told me was that it was a mining ship."

The Los Angeles County tax assessor, Philip E. Watson, said his office has been keeping notes on the Glomar Explorer since November, 1973, and has been pressing Summa officials about it for more than a year.

He said he agreed not to put it on the tax rolls in 1974 because some construction work was still under way on the March 1, 1974, lien date. But he says he made clear to Summa officials that he planned to come back at them the next year, both about the Glomar Explorer and the HMB-1, a submersible barge, or submarine tractor, that was built to go with it.

Finally, on Jan. 31, 1975, Watson said, an FBI agent escorted four men to his office and told him they were "from the CIA." The assessor said the CIA delegation wanted to keep the vessel's real mission secret and asked that he keep it off the tax rolls, the grounds that the government really owned it.

Watson said he understands that the Glomar Explorer's real value might be as much as \$300 million. At one point, he said, the CIA representatives asked him to assess the ship at only 1 per cent of market value instead of the standard 25 per cent. The 1 per cent assessment is allowed for ships used exclusively for fishing or oceanographic research, but not for commercial mining ships.

As a result, Watson said, the ship should be taxed on a 25 per cent assessment level if it belongs to Summa but not at all if it belongs to the government. He said he asked for a letter, which he promised to keep secret, attesting to U.S. ownership, but the CIA representatives refused to give him one. He said they simply reassured him verbally that Hughes "had no investment in either the boat or the barge."

The assessor said he finally agreed to "assume it [the Glomar Explorer] was the property of the United States" and keep it off the tax rolls where its real value would have to be

publicly recorded, no matter what the assessment rate.

Watson said he changed his mind after the sub-raising expedition, about 750 miles northwest of the Hawaiian island of Oahu, became public last month.

Whatever the ship's other uses, he said, "I'm satisfied this boat was built as a mining vessel. It's not beyond the realm of possibility that Hughes is a joint venturer in this thing." The assessor said he will put the ship on the tax rolls unless Summa can document government ownership when it files its annual property declaration next month.

The CIA's concern over the Los Angeles tax rolls is somewhat puzzling in light of the fact that the submersible HMB-1, which is currently based on the coast at Redwood City has been on the San Mateo County tax rolls—as private property—for the past two years.

There, the Lockheed Missiles and Space Co., the designer and ostensible owner of the barge, has been paying

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taxes on both the HMB-1 and related equipment, machinery and other fixtures—for a total of \$376,439 in 1973 and 1974.

San Mateo tax assessor Jack Estes said his records indicate the barge is worth \$7.5 million, but he assessed it at only 1 per cent of that amount in the name of oceanographic research. He said a Lockheed official told him by affidavit that this was its exclusive function. But this year, Estes said, he's inclined to agree with Watson and raise the rate to 25 per cent.

"I don't think it's in oceanographic research now," he said. He said the equipment, unlike the barge, has always carried a 25 per cent assessment, since Lockheed never made an issue about that.

Oscar A. Shick, Lockheed's project manager, refused to say whether the Summa Corp. or anyone else reimburses Lockheed for the taxes it is paying. The HMB-1's Coast Guard certificate states that Lockheed is "the sole owner" of that vessel, but Shick declined comment when asked if Lockheed was the barge's real owner.

Similarly, when asked about the Glomar Explorer, a spokesman for the Summa Corp. would say only that "it was built for Summa and operated by Global Marine. Who owns it? We decline comment."

A Coast Guard spokesman also had no comment about the certificates for either the Glomar Explorer or the HMB-1.

In addition to the barge, Lockheed had related equipment worth \$20.6 million at the Redwood City site in 1973. The next year, the barge was still there, but the equipment had dropped down to \$1.5 million.

"We have no way of knowing where the machinery went," said assessor Estes. "But it wasn't here on the (March 1, 1974) lien date, and the barge was." "That's a hell of a depreciation, isn't it?" Schick said of the disappearing equipment. He again had no comment when asked if it went to the Glomar Explorer. And he refused to say when asked what else Lockheed does in Redwood City.

The California assessments are not the only tax issue involved. According to a report in the Los Angeles Times, a Summa Corp. security guard, Mike Davis, said he saw a secret memo about the CIA's sub-raising plan last year, apparently left behind by burglars who overpowered him at the Hughes company's communication center in Hollywood.

Davis was quoted as saying that the memo stated that "President Nixon knew about it and that the IRS would look the other way on how the money was being put in."

According to the Los Angeles Times, Davis, who refused to take a lie detector test after the burglary, said he held onto the memo, then tore it up and flushed it down a toilet about a month ago "when all the publicity began to break on the submarine business."

In Washington, IRS officials denied any agreement "to look the other way" on the financing for the Glomar Explorer. Burke W. Willsey, a top assistant to IRS Commissioner Donald C. Alexander, said their only agreement with the CIA involves the assignment of IRS agents with top-secret clearances to any tax audit that seems likely to uncover a CIA undertaking.

The way it works, Willsey said, is that when IRS agents, in Los Angeles for example, are examining the books of a company that works with the CIA, company officials "will call the CIA and say, 'the IRS is getting close. Do something.'"

"Then the CIA calls the assistant IRS commissioner in charge of compliance and says, 'Your people in Los Angeles are about to uncover a covert operation.' We have experienced people here with the necessary clearances. They go out to look at the transactions involved and make the appropriate tax determinations."

Willsey estimated that this happens "10 to 15 times a year at most." He declined to comment on the Glomar Explorer question, but indicated that in the normal course of activities, IRS agents will be poring over Summa's books sometime this year.

CIA payments to any company, Willsey added, "must be reported as ordinary income. It's fully taxable. Of course, if the government just reimbursed a company for its expenses, there wouldn't be any taxation. But if a company made a profit on the transaction, they'd have to pay taxes."