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December 16, 1986 Closed Session Testimony - SSCI CFOA 1130

Date: 12/29/99
Glasser/F98-055-1

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. Paper	Summary of Documentary Record of Secretary of State George P. Shultz Concerning Iran Arms Sales, 25 p. <i>Part. 4/05/03 F98-055/1 #42</i>	12/16/86	P1/F1 , <i>B3</i>

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P-1 National security classified information [(a)(1) of the PRA].
 - P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
 - P-3 Release would violate a Federal statute [(a)(3) of the PRA].
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- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

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FE8-055/1 #42

NARA, Date 4/25/03

SUMMARY OF DOCUMENTARY RECORD

FOIA(b) (1)

OF SECRETARY OF STATE

FOIA(b) (3)

GEORGE P. SHULTZ

CONCERNING IRAN ARMS SALES

The President has authorized all officials in his Administration to tell Congress everything they know about U.S. arms sales to Iran during 1985 and 1986, and any diversion of funds from such sales. In closed session, I am able lawfully to tell you what I learned about these subjects at the time the events in question occurred. Much of the evidence is classified or privileged; some deals with intelligence sources or methods, and with secret military operations. My public disclosure of such evidence would raise serious legal and ethical questions.

I propose to proceed chronologically. My purpose here is to pass on the information in my possession. I strongly agree with the President that the sooner all available information is made available to Congress, to appropriate investigative bodies, and to the public, the sooner we will put all this behind us. I am making no effort here to evaluate these facts, or to justify what I did or did not do.

I rely heavily in this review on documentary materials.

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My recollection of these events is far from perfect, especially because, as I have said, my information and participation was sporadic and fragmentary. Nor have I consulted with any other participant in these events, so as to avoid any appearance of impropriety. As the evidence unfolds in public, my recollection of certain events has from time to time been refreshed. This will certainly continue to happen. So, I cannot claim to be presenting a totally complete and accurate recitation. On the other hand, I can and do promise as full and accurate a recitation as my present recollection permits. Moreover, by sticking to the written materials that reflect what information was available to me when the relevant events occurred, I feel reasonably confident that the facts you receive from me are accurately reported.

My sources are:

- ## a few documents: a draft NSDD and my official response to it; and some materials preparing me for meetings;
- ## cable traffic between me and Mr. McFarlane in mid-1985;
- ## and notes made contemporaneously with some events such as meetings with the President and other advisors.

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Finally, nothing whatsoever in what I am about to recount contains any information about a link between sales of arms to Iran and the democratic resistance in Nicaragua. I had no knowledge or even suspicion of any such link until it was revealed by the Attorney General on November 25 of this year.

The following chronology would fail to give the full picture as I saw it, if I did not note at the outset that this year and a half long episode involving contacts with Iran seems to me in retrospect to have taken place in three different phases:

- ## An initial period, from June until November 1985, when arms transfers were periodically debated as part of an effort to improve relations with Iran and secure the release of our hostages. During this period I learned of two proposed arms transfers, but was not informed that either was consummated.

- ## A middle period, from December 1985 to May 1986, during which I had strong evidence that we were trying to open a dialogue with Iran but were unwilling to sell arms.

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And a third phase, from May 4, 1986 when I heard of a discussion in London about arms transfers and protested to the White House, until the revelations in the media beginning November 3, 1986. During this period I received no information indicating that an arms transfer to Iran had occurred.

The first information I received on this subject was on May 30, 1985. A member of my staff informed me that Ambassador Samuel W. Lewis in Tel Aviv had reported by telephone that a Mr. Michael Ledeen was then in Israel, supposedly on a "secret mission for the White House." Ambassador Lewis said that he did not know what was going on -- did we? The answer was no. Ambassador Lewis said he had asked at the Israeli Ministry of Defense about Mr. Ledeen and had been told it was "too hot" to talk about, but that Defense Minister Rabin would tell me about it when he visited Washington.

On May 31, 1985 a member of my staff was told by a member of the NSC staff that Mr. Ledeen had asked Mr. McFarlane to authorize him to go to Israel to look into the possibility that the U.S. might obtain intelligence on Iran from Israel, via Israel's contacts with Iranians.

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Mr. McFarlane was ambivalent, refused to give Mr. Ledeen a letter to Prime Minister Peres, but reportedly agreed to allow Mr. Ledeen to pursue the matter. We were told that Mr. Ledeen went to Israel and received a positive response to this proposition.

On June 1, 1985, I met with Defense Minister Rabin at the Department of State. He did not mention Mr. Ledeen or this matter.

On June 3, 1985 Mr. McFarlane telephoned me in Portugal to report on his meeting with Mr. Rabin. Mr. McFarlane did not refer to Mr. Ledeen or this matter.

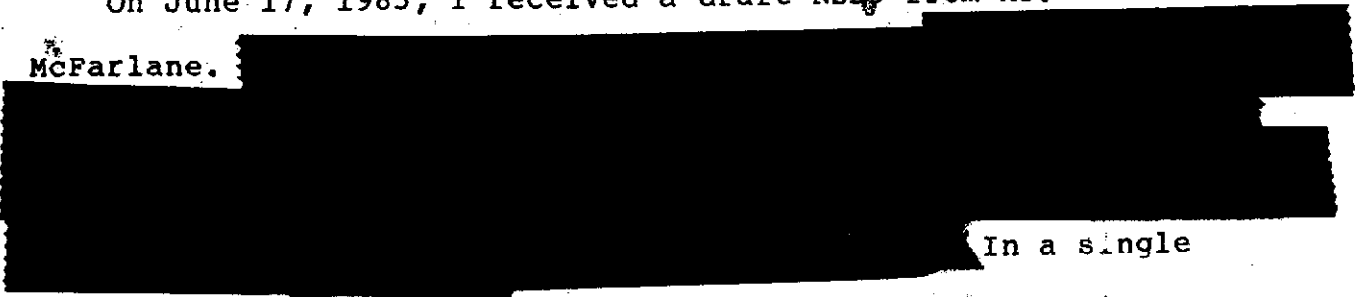
On June 5, 1985, from Lisbon, I sent a message to Mr. McFarlane complaining about Mr. Ledeen's contact with the Israelis, which had by-passed both Ambassador Lewis and myself. I said that Israel's record of dealings with Iran indicates that Israel's agenda is not the same as ours, and an intelligence relationship with Israel concerning Iran might not be one upon which we could fully rely. I felt that "it could seriously skew our own perception and analysis of the Iranian scene".

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I said in my message to Mr. McFarlane, "I am mystified about the way this situation has been handled and am concerned that it contains the seeds of further embarrassment and serious error unless straightened out quickly."

On June 7, 1985, in Portugal, I received a message from Mr. McFarlane saying that he was "a little disappointed in my prejudgments", and that he had intended to tell me about the matter but had not had time to do so. He said "I am turning it off entirely..." Mr. McFarlane said that it had been an Israeli initiative and that Mr. Ledeen was acting, "on his own hook."

On June 17, 1985, I received a draft NSDD from Mr. McFarlane.

 In a single sentence the draft stated that one component of U.S. policy should be the "provision of selected military equipment as determined on a case*by*case basis." I responded officially, in writing, saying that the draft NSDD's proposal that

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"we reverse our present policy and permit or encourage a flow of Western arms to Iran is contrary to our interest both in containing Khomeinism and in ending the excesses of this regime. It would seem particularly perverse to alter this aspect of our policy at a time when groups with ties to Iran are holding U.S. hostages in Lebanon. I, therefore, disagree with the suggestion that our efforts to reduce arms flows to Iran should be ended. I cannot agree that the NSDD as drafted should be signed by the President."

Instead, I proposed in my written reply another course of action: a two-track policy that would on the one hand continue to try to restrain arms flows and to support a mediated end to the war and, on the other, encourage the Europeans and the Japanese to broaden their commercial contacts as a means to end Iran's isolation and offer to Iran an alternative to the Soviets.

Subsequently, the Department of State heard no more about this NSDD and I concluded that the idea had been abandoned. Almost a month passed before I heard anything more on the subject.

On July 14, 1985, while in the air between Perth and Canberra, Australia, I received a message from Mr. McFarlane.

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He said that Mr. David Kimche, then the Director General of the Israeli Foreign Ministry, had met secretly with him the week before, and had asked him to confirm that the U.S. was in fact uninterested in pursuing the cooperation earlier proposed to Mr. Ledeen. Mr. McFarlane wrote that he had so confirmed. He then stated that an unnamed emissary had "today" reopened the issue on behalf of the Prime Minister. The emissary said that, in a recent meeting between Israelis and some Iranians, including Mr. Kimche, a Mr. Al Schwimmer, Ayatollah Karubi, and Mr. Ghorbanifar, the Iranians had painted a pessimistic view of Iran. They allegedly said "their hope and that of what they portrayed as a significant cadre of the hierarchy was to develop a dialogue with the West," and emphatically with the United States. The Israelis had allegedly pressed "for some tangible show" of the Iranians' ability to deliver, and were purportedly told "that they could in the short term achieve the release of the seven Americans held in Lebanon." But, Mr. McFarlane repeated, in exchange the Iranians had said they would need to show "some gain" and sought specifically the delivery from Israel of 100 TOW missiles. "But they stated," Mr. McFarlane continued, "that the larger purpose would be the opening of the private dialogue with a high level American official and a sustained discussion of U.S.-Iranian relations."

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Mr. McFarlane reviewed the "imponderable questions" raised by this proposal, including "our terrorism policy against negotiating with terrorists (notwithstanding the thin veil provided by Israel as the cut out on this specific matter)." He noted that our long term interest was in maintaining the possibility of renewed ties, and the importance of doing something soon about the seven hostages. He said: "We could make a tentative show of interest without commitment and see what happened or we could walk away. On balance I tend to favor going ahead." He said the emissary was leaving soon, asked for a prompt signal, and that he would "await and abide fully by your decisions."

I replied by a message to Mr. McFarlane that same day that "I agree with you that we should make a tentative show of interest without commitment. I do not think we could justify turning our backs on the prospect of gaining the release of the other seven hostages and perhaps developing an ability to renew ties with Iran under a more sensible regime * especially when presented to us through the Prime Minister of Israel."

This position - indicating a willingness to talk but no commitment to pay -- was consistent with Administration policy of maintaining contact with people who might eventually provide information or help in freeing hostages. I pointed out, however, "the fraud that seems to accompany so many deals involving arms and Iran, and the complications arising from our 'blessing' an Israel-Iran relationship where Israel's interests and ours are not necessarily the same." I suggested that Mr. McFarlane should give the emissary "a positive but passive reply." That is, tell him that the U.S. "is receptive to the idea of a private dialogue involving a sustained discussion of U.S.-Iranian relations. In other words, we are willing to listen and seriously consider any statement on this topic that they might wish to initiate." I said I thought Mr. McFarlane should manage this probe personally, but that the two of us should discuss its sensitivity and the likelihood of disclosure after my return. I told him to tell the emissary "that you and I are in close contact and full agreement every step of the way; this is all the more important in view of the present lack of unity and full coordination on the Israeli side."

On July 16, 1985, I saw an intelligence report in which it was stated that one of Israel's Iranian contacts mentioned by Mr. McFarlane (Ghorbanifar) was well known as "a talented fabricator."

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On August 6, 1985 during one of my regular meetings with the President, at which Mr. McFarlane was also present, Mr. McFarlane said that he had again met with Mr. Kimche who reported that the Iranians and Israelis had held three meetings, during which the Iranians said Iran was in a shambles and a new government was inevitable. The military and the people, the Iranians reportedly said, were "still pro-American," and "want a dialogue with America." They also wanted arms from us, and wanted 100 TOW missiles from Israel. All would be totally deniable. The Iranians said they could produce four or more hostages and wanted a meeting somewhere. I stated my negative opinion fully. I do not recall the President having decided at that meeting to approve the Iranian offer. I noted then that Mr. McFarlane was pursuing the matter. I assumed this was on the basis we had discussed, with no commitments. Mr. McFarlane said that Foreign Minister Shamir had told Mr. Kimche that he wanted to know explicitly whether I was informed. At this point I felt that I was fully informed. As far as arms sales were concerned, I said in the meeting that it's a mistake. I said it had to be stopped.

I have no record or recollection of any relevant information on this subject for about one month thereafter.

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On September 4, 1985 a member of my staff was told by our Ambassador to Lebanon, Reginald Bartholomew, that Lt. Colonel Oliver North was handling an operation that would lead to the release of all seven hostages. General Stiner and a JSOC team had been deployed to Beirut, we were told. Ambassador Bartholomew had been alerted directly by the NSC and would assist. On the same day our records indicate that Lt. Colonel North was to provide military liaison if the seven hostages were released. He wanted a passport in another name. The seven were to be delivered into American hands at a beach north of Tripoli, Lebanon in a few days.

On September 16, 1985 the media reported that Mr. Benjamin Weir had been released.

On September 17, 1985 Ambassador Bartholomew informed a member of my staff that Mr. McFarlane had said the other hostages would be released in three batches, without publicity. But Weir had no information about the others, and in fact said he had been released only to bring pressure for the release of the Da'Wa prisoners. Bartholomew was pessimistic. He said four other hostages were reportedly in the Beirut area, possibly in the same place as Weir. JSOC was deployed close by, but they did not appear to him prepared for action.

North was not in the area, but in Washington, D.C. Bartholomew said he knew "precious little about origins of this or who is involved. Bud has told me nothing of who else was involved." He was pessimistic about getting any more hostages.

Two months then passed during which, to my knowledge, the Department of State heard nothing more about any aspect of an operation involving arms for Iran.

On November 18, in Geneva, Mr. McFarlane told me that four hostages would be released on Thursday (November 21). He said Israel would fly a plane with 100 Hawk missiles to Lisbon, and transfer them to another aircraft. If the hostages were released, the airplane would fly to Iran; if not, it would fly to Israel. Israel would buy replacements for these missiles from the U.S., and would be paid by Iran. I complained to Mr. McFarlane that I had been informed so late that it was impossible to stop this operation. I nonetheless expressed my hope that the hostages would in fact be released.

November 21 ~~is~~ the supposed release date ~~is~~ passed with no release.

On November 22, I was told by my staff that the release had slipped again, allegedly to get airspace clearance from Portugal.

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Also on that day, however, Ambassador Oakley reported to us that he had heard from various sources that the hostages would be released that afternoon, in exchange for 120 Hawks at \$250,000 each ** worth \$30 million in all. At a discussion in my presence on that day, Mr. Arnold Raphel of our Near East bureau stated: "I don't like it. It's terrible." I indicated my own apprehension. Deputy Secretary Whitehead noted: "We all feel uncomfortable." I replied: "Bud says he's cleared with the President." I regarded it as a \$30 million weapons payoff. On November 23 we heard again that no hostages were out, that the project had collapsed. I said "It's over."

On December 5, 1985 VADM Poindexter, who had just succeeded Mr. McFarlane, told me that the operation was at a decision point, and that he had set up a meeting for Saturday, December 7. I said the operation should be stopped; that I had been informed that Iran was playing a big role in Lebanon which even Syria could not influence. I told him: "We are signaling to Iran that they can kidnap people for profit." I raised the problem of notifying Congress, and asked about the nature of TOWs.

He gave me more information than I had ever received before. I told him I had been skeptical about the operation from the start, that I favored improving relations with Iran, but that was different from breaching our principles by making a deal for hostages.

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I warned that if, and when, this operation leaked, the fact that we have broken our principles will be clear and our effort to block arms from others to Iran will be seen to be perfidious. I recognized that we had gone so far that perhaps there was no way but to go on, but I was very uncomfortable. I found no comfort in the fact that Israel was handling the sales. I told him "this thing has got to be stopped." I also told him I was basically uninformed, and that State had been cut out of the cable traffic.

[REDACTED]

He also told me that 3300 TOWs and 60 HAWKs were being discussed.

[REDACTED]

I also learned that the meeting on December 7 was to discuss the possible sale by Israel of HAWKs and perhaps some Phoenix out of Israeli stock, to be compensated for by the U.S. with TOWs. I expressed to my staff my opposition to both the project and the people who had proposed it.

On December 7, 1985, the President convened a meeting in his residence on this issue. My views were carefully prepared and spelled out in detail.

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VADM Poindexter suggested that Mr. McFarlane could contact the Iranians in London to ask them to release the hostages without getting equipment. If they would do so, we then would be prepared for a better relationship with them. I fully supported this proposal. VADM Poindexter suggested that Mr. McFarlane should be authorized to ask the British to sell arms to Israel if the Iranians rejected his first proposal. I opposed this idea. I said it was still U.S. arms, that it was a more complicated deal that would make us even more vulnerable. Other views were expressed. No decision was made, however, at that meeting.

On December 7, VADM Poindexter told me privately that the project had fallen apart during Thanksgiving week. He said he had recommended to the President that we disengage, but that the President did not want to.

On December 10, 1985, when I was in London, I was informed by my staff that Mr. McFarlane had gone to London with the proposal I had supported ~~as~~ one that did not include arms ~~as~~ and that it had been flatly rejected by the Iranians. A meeting had been held in the White House that day, and my staff believed the operation was completely turned off. Lt. Colonel North, I was told, had prepared a paper stating that this development meant that the hostages would die.

I heard nothing more about the issue of contacts with Iran for almost a month. On January 7, 1986 a meeting was held in the Oval Office. I again stated my views in full. I recall no discussion about a finding then, or at any time thereafter, until it was revealed by VADM Poindexter in a meeting at the White House on November 10, 1986. I recall no specific decision being made in my presence, though I was well aware of the President's preferred course, and his strong desire to establish better relations with Iran and to save the hostages.

On January 22, my staff noted reports received about Lt. Colonel North. They speculated that perhaps the operation was alive again. But the reports seemed implausible, namely a proposal by LTC North to seek the help of the Pope and Cardinal O'Connor, and to trade some Shia prisoners held by General Lahad in South Lebanon.

I heard nothing more until February 28, 1986. VADM Poindexter told me that the hostages would be released the following week. He reported nothing about arms. Rather, he said that the Iranians wanted a high-level dialogue, covering issues other than the hostages. He said the White House had chosen Mr. McFarlane for the mission, and that he would go to Frankfurt, West Germany to meet with a deputy of Rafsanjani.

I said fine, but asked that Mr. McFarlane be given instructions to govern his negotiations. I was shown these instructions and I was satisfied with them. He asked for help on intelligence issues, to use with the Iranians. He saw a path to reemerging relations. VADM Poindexter said that hostages would be released at the time Mr. McFarlane was meeting with the Iranians in Frankfurt.

On March 11, 1986 VADM Poindexter told me that this arrangement had fallen through, apparently because Mr. McFarlane objected to the idea.

On March 18, 1986 Ambassador Bartholomew informed me, via my staff, that JSOC and CIA elements were deployed in Beirut and had targetted "a known Hezbollah prison" where they believed four hostages were held. Thereafter, the Department of State heard nothing more of this effort.

On May 4, 1986, in Tokyo, I received a cable stating that Ambassador Charles Price in London had telephoned Under Secretary Armacost to report that an Embassy officer in London had learned from Tiny Rowlands, a British entrepreneur with interests in Africa, of a deal involving arms and grain for Iran from various countries.

The source stated that Adnan Khashoggi had suggested that Rowlands meet with Aviram Nir, Prime Minister Peres' adviser on terrorism, and Ghorbanifar. Rowlands did so, and reportedly learned from Nir of various arrangements that were underway to get arms to Iran, with the use of Swiss banks. "The scheme...was okay with the Americans. It had been cleared with the White House. Poindexter allegedly is the point man. Only four people in the U.S. government are knowledgeable about the plan. The State Department has been cut out." Members of my staff suspected that the operation might be underway again, and expressed strong opposition on legal and moral grounds, as well as concern for the President.

That same day, I sought out VADM Poindexter with the President's party, but found Mr. Regan. I told Mr. Regan that he should go to the President and get him to end this matter once and for all. I opposed dealing with people such as those identified in the message, and said it would harm the President if the activity continued. Mr. Regan shared my concern, said he was alarmed and would talk to the President.

I later learned that VADM Poindexter reportedly told Ambassador Price that there was no more than a "smidgen" of reality to the story. I told VADM Poindexter my feelings, but he did not share my concerns.

He claimed we were not dealing with these people. I told him the President was very exposed. Soon thereafter, I recall being told by both VADM Poindexter and Mr. Casey that the operation had ended and that the people involved had been told to "stand down."


On July 2, 1986, Mr. Armacost wrote me a memo informing me "that there is renewed 'conjecture' that the NSC-sponsored search for a U.S.-Iran deal for hostages will produce an early result. The story is that one hostage may be released tomorrow in Lebanon." Arms were not mentioned. I do not recall having seen this memo, but this reported "conjecture" would have added nothing to my knowledge of the matter.

On September 16, a member of my staff received a call from Mr. Ledeen asking for an appointment to tell me what he and others were doing with Iran. He said "I am the only person who knows everything" about U.S. secret activities with Iran. On October 21, Mr. Ledeen again contacted my staff to ask for an appointment to brief me. He stated that his project to develop relations with Iran had been subverted by becoming enmeshed with the hostage issue. My staff informed Mr. Ledeen on October 26 that I was not interested in his briefing.

I heard nothing more about this matter until October 31. On that day, in San Francisco, I was telephoned by VDM Poindexter and told that the release of Mr. Jacobsen was imminent. That was a Friday; the disclosures in the Lebanese press came the following Monday, November 3, 1986.

The next day, November 4, 1986, when on an aircraft on the way to Vienna, I sent a message to VADM Poindexter stating that the facts should be given to the public right away. I said that it seemed to me that "this is the right way to get all this behind us as rapidly as possible and to be able to continue building on the impressive achievements which the President's anti-terrorist policies have made possible."

On November 5, 1986 VADM Poindexter responded by cable saying that "at some point we will have to lay out all the facts. I am convinced when we do lay out the facts that it will be well-received since it is a good story. Having said that, I do not believe that now is the time to give the facts to the public." As reasons for this position VADM Poindexter cited the need to get the other hostages out, the need to brief the intelligence committees,



After this point my knowledge about this episode came from the briefing VADM Poindexter provided to members of my staff and of the Congress, and from material reported in the press.

On Saturday, December 6, 1986, I learned, by a cable (responding to an all-posts directive to search for, preserve, and transmit to Washington any information in their possession on this Iran matter) from our Ambassador to Lebanon, Mr. John Kelly, the following, and I am quoting from Ambassador Kelly's message:


"I met in Washington in July or August, 1986 with Robert McFarlane who briefed me on the hostage negotiations involving arms to Iran as an inducement. Between the dates of October 30 and November 4, 1986, I had numerous conversations with LTC Oliver North and Richard V. Secord relating to the hostage negotiations with Iran. During that period I received and sent numerous 'back channel' messages to and from the White House, Admiral Poindexter, concerning the hostage negotiations. Those messages were transmitted and received in what is referred to as the 'privacy channel', using CIA communications facilities. In accordance with our standard practice at Embassy Beirut, all of that message traffic was destroyed thereafter at my direction. I would assume that copies may be available at CIA headquarters and/or the White House Situation Room."

This message was the first information I received on any such activities in late October or early November, and the first I learned of Ambassador Kelly's contacts with Mr. McFarlane and the others named. I immediately instructed Ambassador Kelly to return to Washington and bring with him all records of such activities as he possesses, and to make himself available to the FBI and other appropriate investigative bodies. I met with Ambassador Kelly on Saturday, December 13, 1986 and reviewed his activities with him.

On Saturday, I was also informed of the results of a meeting held between Americans and an Iranian in Europe. The President, as you know, has ordered me to assume control over all dealings with Iran. Pursuant to that instruction, I agreed last week to permit the meeting to which I referred to proceed as scheduled by the CIA, but a State Department officer was sent along to observe, and to make clear that U.S. policy precluded sending arms to Iran while "Iran refuses to negotiate an end to the Iran-Iraq war and while Iran continues to support terrorism and subversion," and that our hostages must be released unconditionally. This message was duly conveyed as you would have expected. During the meeting, however, certain facts came to our attention of which I feel obliged to inform you in light of the issues which you are examining.

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The Iranian representative at the meeting referred to a "nine-point agenda" which he indicated had earlier been agreed to by both sides. Mr. George Cave, of the CIA, later confirmed to my representative that a formal but unsigned nine-point agenda did in fact exist, that he believed Col. North had a copy, that the CIA still has a copy, but that the sides may disagree as to what it contains. Based on other discussion during the meeting my representative got the impression that the U.S. had, either independently of or pursuant to the agenda, done the following:

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- * discussed with Iran, and with others, including the Foreign Minister of Kuwait, the problem of the Dawa prisoners, with a view toward convincing the Kuwaitis to release those 8110 prisoners who are neither scheduled for parole in 1987, nor scheduled for execution;
 - * apparently agreed to ship other military equipment, including 1000 TOWs;
 - * obtained a commitment that all U.S. hostages in Lebanon are to be free by the end of the agenda.

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I brought these to the President's attention this weekend. He knew nothing about them. He authorized me unequivocally to proceed on the basis of our established principles, and to disregard any unauthorized understandings that may have been reached. We have informed the FBI of these facts, in case they are relevant to any investigation being conducted.

Mr. Chairman, I must reiterate that this presentation is undoubtedly incomplete. It represents what I recall today, based on the materials I have available to me now. Other materials may emerge, which clarify, jog my memory, or give a different twist to what I learned. This is likely, in fact, because I was not one of the central players in this affair.

Nonetheless, I believe that, by revealing my own knowledge of this matter now, I am fulfilling the President's wishes, and also my duty to you and the American people.

Finally, nothing in this story has shaken my faith in the President as a great and effective leader of this nation. I firmly believe we should put this matter in the hands of the proper investigative bodies and return to the serious work at hand, in the leadership of which the President has shown he is superbly equipped.

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