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# Insight

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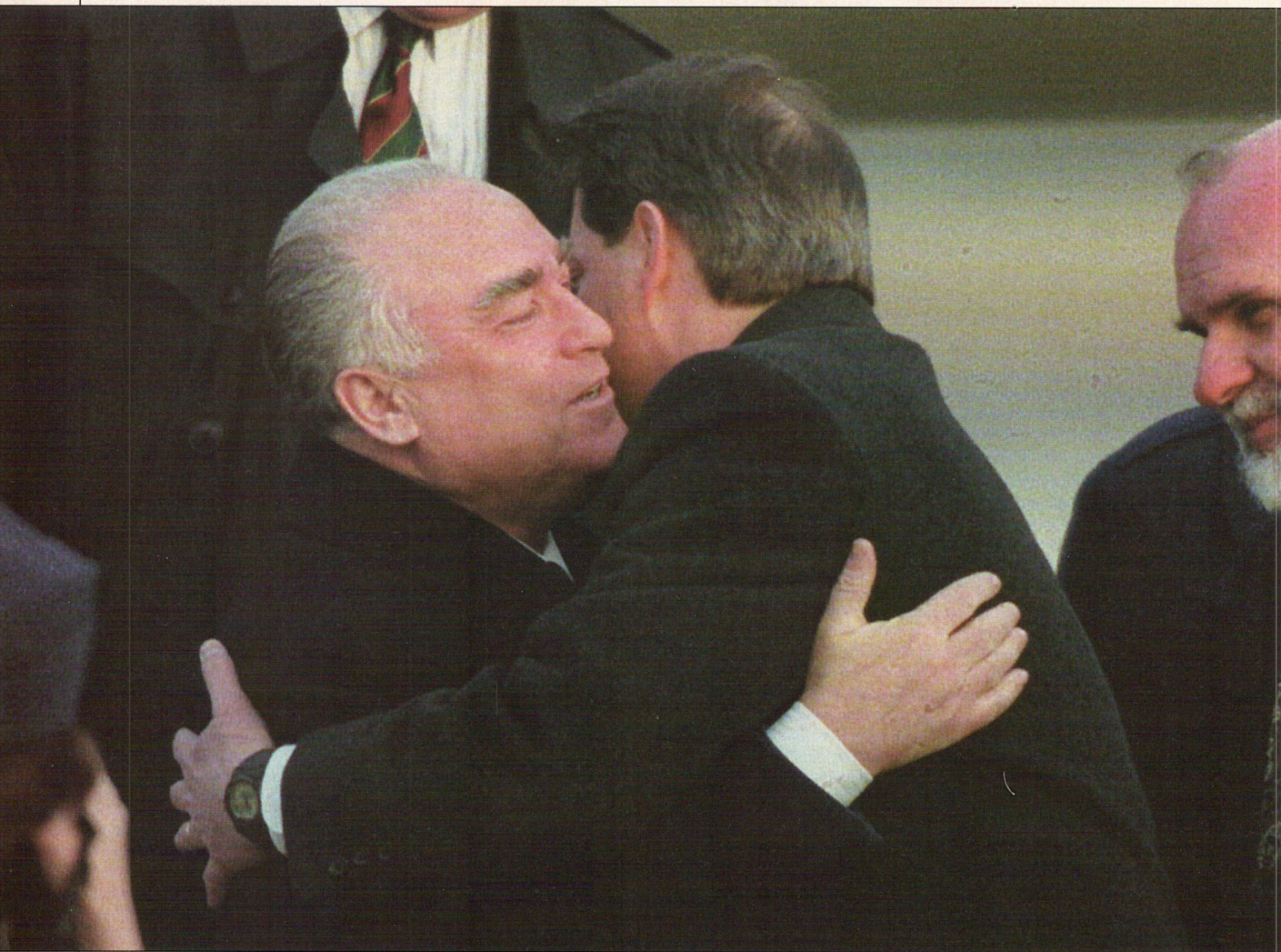




# Gore's Embrace

Money-laundering charges have raised questions about the vice president's warm relationship with Russian President Boris Yeltsin's corrupt, inept administration.

By J. Michael Waller



AP/WIDE WORLD

**V**ice President Al Gore is in the doghouse over his no-holds-barred support for Russian President Boris Yeltsin, and it isn't just his Republican critics who are pointing the fingers. One of the Democrats' shining stars, former New Jersey senator Bill

Bradley, who is challenging Gore for the presidential nomination, blasted the administration's Russia policy after reports that Russian gangsters, possibly in league with top Russian officials, laundered billions of dollars of U.S.-backed loans through New York banks.

"Our assistance and lending poli-

**Good friends?** Gore greets Russian Prime Minister Chernomyrdin.

cies," said Bradley, "have done very little to further our strategic goal, the needs of the Russian people or the cause of Russian reform. Billions of dollars have been promised to Rus-



sians, but far too much money has been siphoned off by untrustworthy Russian 'capitalists.'" It was an implicit swipe at Gore, who was one of the main champions of the taxpayer-subsidized loans to the Russian Central Bank believed to have been laundered through the Bank of New York, which happens to be in the state that first lady Hillary Rodham Clinton wants to represent in the Senate.

No one is rushing to Gore's defense. With most of official Washington out of town for the Labor Day holiday, few were available for comment. But a spokesman for retiring New York Democratic Sen. Daniel Patrick Moynihan, the influential foreign-policy voice whose seat Hillary Clinton hopes to take next year, tells *Insight*, "He's following the issue but we have not made any statement." The Democratic Leadership Council, which President Clinton headed when he was governor of Arkansas, said it had no one qualified to comment. And a spokeswoman for Mrs. Clinton, when asked for comment, said, "Ugh. I don't know about that one."

Painting Gore further into the corner are revelations from the U.S. intelligence community that while the vice president was pushing for more cash to Russia, he was rejecting CIA reports that his Russian interlocutors were crooked or involved with organized crime.

"Though no one has charged that Gore knew of the financial diversions," reported the *Washington Post*, "the still emerging money-laundering scandal has tendrils that could run close to the vice president." *Newsweek* opined, "It may be Al Gore who pays for the sins of the Russian elite." In a *Washington Post* op-ed, David Ignatius asked, "What did the vice president know about the looting of Russia by organized crime, and why didn't he do more to stop it?"

Gore finds himself in the hot seat because of his unique relationship with certain Russian leaders alleged to have participated in some of the looting. Unlike any vice president in U.S. history, he has taken a lead strategic foreign-policy role. The first Clinton administration was just three months old in April 1993 when, in partnership with then-Prime Minister Viktor Chernomyrdin, Gore headed the U.S.-Russian Commission on Economic and Technological Cooperation, popularly known as the Gore-Chernomyrdin commission.

The commission was designed to work on a range of energy, industrial, technological and economic issues and



**Fund-raiser:** Gore with (from left) Golden ADA officials Jack Immendorf, David and Ashot Shagirian and Andrei Kozlenok; 1994 California gubernatorial candidate Kathleen Brown, second from right.

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to cut through bureaucracy. Supporters say that in the course of the often rocky U.S.-Russian relationship, the commission provided an even keel for conducting bilateral relations on a daily basis. Critics argue that it was a funnel for U.S. cash and technology into Russia's corrupt bureaucracy and banking sectors.

Gore won bipartisan accolades for his commission work, gaining himself statesmanlike status. But Chernomyrdin, ousted last year, lost his luster amid reports he had privatized a nine-figure portion of Gazprom, the Russian natural-gas monopoly he once headed, to himself. With the latest reports that the U.S.-backed International Monetary Fund, or IMF, loans

which Gore helped engineer to prop up Yeltsin may have been diverted and laundered through the Bank of New York, Gore's relationship with Chernomyrdin suddenly threatened his undoing as a world statesman.

Surveying the ruins of the administration's Russia policy that in the end failed to foster permanent pro-Western, free-market reforms, the *New York Times Magazine* reported, "When this checkered record is eventually held up to the light during a presidential campaign, Gore will have much to answer for."

The Gore-Chernomyrdin commission, whose informal name has changed with each new Russian premier, has operated as part of the Russia policy developed by senior administration officials, including Deputy Secretary of State Strobe Talbott. Gore's national-security adviser, Leon Fuerth, is regarded as the commission's de-facto executive secretary and operates as a peer to the national-security adviser, secretary of state and secretary of defense. The commission helped muster bipartisan domestic support for continued bailouts of Moscow, in part by enlisting the political clout of the various U.S. banks and corporations that benefit from its taxpayer-funded programs. The U.S.-Russia Business Council, a private organization promoting bilateral trade, has boasted in its literature of setting the agendas of several of the commis-



sion's semiannual meetings.

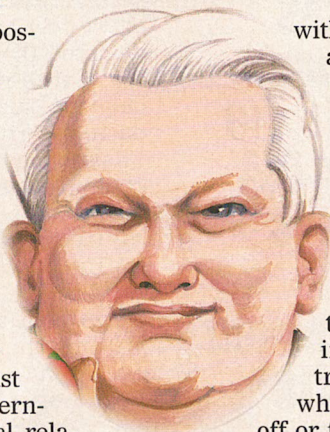
The commission, observers say, also fostered an atmosphere of cronyism and corruption among U.S.-based recipients. "If you look at the composition of the working groups of the Gore-Chernomyrdin commission, it has a very unhealthy overlap between people either implicated or directly the subjects of a criminal investigation of maldistribution of aid," says Peter J. Stavrakis, a professor at the University of Vermont who five years ago

authored one of the first academic studies of cronyism within Washington's Russian aid program. "The internal infrastructure of Gore-Chernomyrdin contains people who became major players in the [Russian] stock market, buyers and sellers of assets of the former Communist Party. The conclusion is inescapable: Some Gore-Chernomyrdin people were deeply involved in activities that were suspect and possibly criminal."

They include Harvard University economist Andrei Schleifer, special coordinator of the commission's Capital Markets Forum Working Group. The U.S. Agency for International Development, or USAID, fired Schleifer in 1997 for "having abused the trust of the United States government by using personal relationships, on occasion, for private gain," according to an agency statement. Schleifer was Moscow project director of the Harvard Institute for International Development's, or HIID's, \$57 million USAID contract to promote economic reform in Russia. After House International Relations Committee Chairman Benjamin Gilman, a New York Republican, initiated a General Accounting Office probe of HIID's activities in Moscow, the USAID inspector general conducted its own investigation. USAID also alleged that Schleifer's HIID colleague, Jonathan Hay, misused federal resources to help private financial work of Schleifer's wife, Nancy Zimmerman. A USAID termination letter to Hay alleged that his taxpayer-funded staff was improperly involved in "buying and selling

Russian bonds, tracking deposits and withdrawals from the investments' Russian bank accounts, consulting about tax aspects of the investments and possible additional investment opportunities." Hay's girlfriend, Beth Hebert, who headed the Pallada Mutual Fund in Moscow, also may have benefited from inside information while she was a member of the Gore-Chernomyrdin commission's working group headed by Schleifer. A lawyer for Hay and Schleifer rejects the allegations.

## The hook in the controversy is whether Gore's Russian interlocutors ordered the laundering of IMF money.



Despite his office's daily work with Russian officials and its vigorous promotion of Russia as a bonanza for U.S. companies, Gore never sought to protect U.S. investments there. "U.S. investors still don't have an investment treaty with Russia," says Richard Palmer, a former CIA officer with experience in the former Soviet Union who is now

with a firm helping recover assets and performing due diligence on Russian companies. That failure, in his view, has only encouraged corrupt Russian officials and "biznismen" to defraud U.S. companies. "The European Union has such a treaty. What does that mean? The EU has an immensely easier time trying to recover assets when they've been ripped off or fraudulently deprived of

funds. Because of the way the treaty is written, Europeans can try their cases in Europe, not Russia. By taking it so easy on the Russians, Gore was endangering U.S. investors whom he was encouraging to invest there."

The greatest symbol of abuse was Chernomyrdin himself, who has become a caricature of the kleptocracy Russia has become. Other Gore-Chernomyrdin commission members from the Russian side include top agriculture, energy and space-agency officials cited by Washington for diversion of U.S. humanitarian aid and for the illegal sale of ballistic-missile and nuclear-weapons technology to Iran. Gore's personal relationship with Chernomyrdin, Stavrakis argues, put the U.S. leadership in league "with the very forces who

robbed Russia's chance of becoming a free society."

The hook in the new controversy is the question of whether Gore's Russian interlocutors ordered or condoned the laundering of money from IMF loans through New York banks. Gore, more than most administration officials, has been a consistently strong advocate of multibillion-dollar cash infusions into the Russian Central Bank and, according to Senate sources, turned the screws on the IMF to relax its standards and increase its cash outlays to Moscow.

Senate aides are looking at a possible paper trail that might lead from the vice president through the IMF and into the very money allegedly laundered through the Bank of New York. In early 1996, as Yeltsin was purging his government of the young economic "reformers" on the eve of his reelection campaign, the IMF became reluctant to lend any more cash to the Russian Central Bank. "Gore was personally the one who arm-twisted [IMF Managing Director Michel] Camdessus to force through the \$10 billion tranche just prior to the Russian presidential elections" that year, according to a senior Senate aide. "If you want to trace the pool of money that was most stolen, there it is right there. The 1996 deal was the biggest, worth \$10.2 billion. That's what funded the war in Chechnya, Yeltsin's political campaign, and left plenty as a slush fund."

House Banking Committee Chairman Jim Leach, an Iowa Republican, already has announced several days of hearings into the matter, winning praise from Bradley. Leach's findings could drive a stake into the heart of more Kremlin cash bailouts.

"I think the general problem of corruption in Russia, and now the fact that IMF money may have gotten caught up in that, is a real serious problem for U.S.-Russian relations," says Condoleezza Rice, who served as senior director for Soviet affairs on President Bush's National Security Council. "It makes what has been at best tenuous support for economic assistance of any kind to Russia—it probably breaks that consensus." Now a leader of the national-security team for Republican Texas Gov. George W. Bush's presidential campaign, Rice tells *Insight*, "I'm very much of the mind of those who say that, until we have a good sense of what's happening to this money, it makes no sense" to send more.

Gore spokesmen insist they knew about Russian corruption all along and point to the vice president's appetite for

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## GORE'S EMBRACE

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reading intelligence reports. However, the administration applied intense pressure on the intelligence community not to produce reports linking top Russian officials to corruption and organized crime. According to Fritz Ermarth, a recently retired CIA officer who served twice on the National Security Council and chaired the National Intelligence Council, the Clinton-Gore administration in particular insisted on intelligence analysis that did not undermine its policy of unflinching support for Yeltsin, Chernomyrdin and successive prime ministers. Through a combination of post-Cold War downsizing and management changes at the CIA, a sharply increased demand for reports and briefings and the administration's ambitious Russia agenda, intelligence reports deteriorated from "deep analysis" to ones with an "agenda" that he describes as "supportive of daily business," Ermarth says. "Our policymakers did not want, and our intelligence analysts had little incentive to provide, a big-picture, long-term assessment of Russian realities. They mainly wanted to get through the next Gore-Chernomyrdin meeting, or the next quarrel about Russian missile dealings with Iran."

Career diplomats at the U.S. Embassy in Moscow agree with Ermarth's view. E. Wayne Merry, head of the internal political section from 1991 to 1994, and his successor, Thomas E. Graham, Jr., recently have spoken out. According to former *Washington Post* Moscow correspondent Robert Kaiser, Merry "said the embassy was under constant pressure to find evidence that American policy was producing tangible successes, especially after the creation of the Gore-Chernomyrdin working group.... This organization absorbed the energies of many American diplomats in Moscow, Merry said, and it soon became 'a Soviet-style bureaucracy in which success was mandatory, and any information that would contradict success simply was filed forever.'"

A top secret 1995 CIA report on Chernomyrdin and other Russian leaders, which reportedly contained information on their corrupt activity and ties to organized criminal figures, enraged Gore and his senior staff, who angrily returned it to the CIA with the now-famous "barnyard epithet" scribbled across the cover.

**Insight** has learned that in the months following the report on Chernomyrdin, a debate raged in the intel-

ligence community about whether it should be de-tasked from reporting on the corruption of the administration's Russian partners. Some intelligence officers tell **Insight** they believe the de-tasking order came from Gore's office. "It got worse in 1997," says a former CIA official. "They reorganized everything [in the CIA] to remove everyone with experience. They took the Russian organized-crime [duty] from the old Russia and KGB hands" and reassigned it to the anticrime unit — "a stockpile for deadwood," in the words of the former official. The CIA anticrime office, according to the source, had little experience in Russia or on the Russian intelligence services involved with organized crime, yet "put their own spin on everything" in analyses to decisionmakers.

Gore long has taken a see-no-evil approach to shady businessmen, criminals and gangsters. Indeed, former congressional investigator Ed

**The White House is pressuring the intelligence organizations again.... There can be no mention in any Putin assessments that he has ties to organized crime.**

Timperlake says this attitude has blinded the vice president toward high-level corruption in Russia. In 1995, Gore and Clinton posed for photos at a Miami campaign fund-raiser with Ukrainian tycoon Vadim Rabinovitch — whose visa the State Department had revoked a month earlier on the grounds that he is tied to organized crime. Rabinovitch vigorously denies the State Department allegations. Congressional investigators found that the Clinton-Gore reelection campaign accepted more than \$1 million in illegal donations from Macao prostitution racketeer Ng Lapseng and individuals connected with the Chinese Triad organized-crime group and that Gore had John Huang, the Democratic National Committee fund-raiser and alleged Chinese spy, accompany him on his 1996

fund-raising event at a Buddhist temple in California where Chinese money was laundered into the Clinton-Gore campaign. At a 1994 fund-raiser, Gore posed with Andrei Kozlenok and Soviet-born David and Ashot Shagirian of a San Francisco company called Golden ADA, then under FBI and IRS investigation for selling tons of diamonds, gold and antique jewelry looted from the Russian national treasury. The Feds ultimately shut it down. Ashot Shagirian pleaded guilty to tax evasion in early 1998; his brother David is believed to be in hiding in Europe.

Some want to make Gore's Russia debacle a presidential-campaign issue. Bradley, however, has been criticizing the administration's Russia policy for years. Four years ago, in a speech ghostwritten by scholar Greg Guroff, Bradley warned, "Not only do we fail to influence the course of Russian reform, we actually create an anti-American backlash based on disappointed expectations." His current criticism is little-changed.

Bush's presidential campaign also is critical of the administration's Russian policies. "We need to step back from Russian domestic politics," argues Bush security adviser Rice. "We've made ourselves an actor or actual player in Russian politics, and that's not good. We have a very large agenda with the Russians on things that should be of direct interest to both of us." But she's withholding judgment on how the Clinton administration, and Gore in particular, handled the Russian government's corruption problem: "I hope everybody goes after this very aggressively."

Now, with former secret-police chief Vladimir Putin as prime minister, the administration is faced with a new set of embarrassing issues. KGB veteran Putin is considered an experienced operational hand at moving money and the strongest protector of "the Family" of oligarchs surrounding Yeltsin (see "Yeltsin Keeps It All in 'the Family,'" Sept. 6).

So will the administration be more objective in working with the Gore-Putin commission? An intelligence official gives **Insight** little reason for optimism: "The White House is pressuring the intelligence organizations again. Right now there are tremendous fights within the government that there can be no mention in any Putin biographies or assessments that he has ties to organized crime or corruption. That's gone on all along with each Russian leader, and it's still going on today. They don't want to hear it." ●