
New Evidence on 'October Surprise'

How President Carter's hostage negotiations were sabotaged

by Edward Spannaus

The following is adapted from an EIR Special Report on the "October Surprise" to be published in February.

Another piece of the "October Surprise" puzzle, the allegations that the Reagan-Bush 1980 campaign conspired to delay the release of Americans held hostage in Iran until after the election, has fallen into place.

In late November, the FBI released portions of its files on Iranian banker and gun-runner Cyrus Hashemi, who has been identified as a key figure in the October Surprise events which contributed to the defeat of Jimmy Carter in the 1980 elections.

The FBI files document the FBI's surveillance of Hashemi and its investigation which led to efforts to prosecute Hashemi and former Republican Justice Department official Stanley Pottinger. The files provide powerful new evidence that Hashemi and Pottinger—a close friend of George Bush—did undermine the Carter administration's efforts to obtain a release of the American hostages before the November 1980 elections.

Financial negotiations sabotaged

But, contrary to what has been known heretofore, it appears that Hashemi's and Pottinger's sabotage occurred not primarily in their illegal shipments of arms and spare parts to Iran, but in their undercutting the *financial* negotiations between the Carter administration and Iranian leaders. The financial negotiations revolved around two critical issues: the \$12 billion in Iranian government assets in U.S. banks which Carter had ordered frozen in November 1979, and Iran's hopes to recover the property and wealth of the late Shah—which Iran apparently estimated to be worth about \$10 billion—in the United States.

While former National Security Council staffer Gary Sick and other writers investigating the October Surprise story have focused on Hashemi's role with respect to arms and spare parts, it is likely that that was secondary, at least up through the elections. In the period before the 1980 elections, Hashemi and Pottinger were apparently able to shape the thinking of the Iranians on this issue—to the detriment of the

Carter administration. There are sufficient indications, in the skimpy FBI records released to date, of Hashemi and Pottinger's duplicitous role with respect to the assets, that congressional investigators should make this a top priority.

Shortly after the hostages were first seized in November 1979, Pottinger contacted the State Department, which arranged for Hashemi to come to the U.S. from London for discussions about the hostage crisis. Hal Saunders, former Assistant Secretary of State for Near Eastern Affairs, has described his early meetings with Hashemi and Pottinger as follows:

"I had traveled secretly to New York twice in November and December, for instance, to meet with a serious senior Iranian who had been brought to Warren Christopher's attention by a high-minded American lawyer who gave hours to keeping this relationship alive for the next year. The Iranian proposed a scenario revolving around searching out the Shah's assets and proposed a meeting with a member of the Khomeini family."

Desire for the Shah's wealth

After a second meeting with State Department officials in New York on Jan. 2, 1980, Saunders sent a memorandum to Secretary of State Cyrus Vance, reporting that: "Hashemi stated his view that Khomeini does not care about the person of the Shah. He is more interested in a judgment about the Shah's regime which could lead to return of the Shah's assets to Iran. He spoke of using the money for housing or some other use for the Iranian people. M. [Mohammed a.k.a. Jamshid] Hashemi, representing Admiral Madani, also expressed strong interest in availability of spare parts for the Iranian military and a lifting of the general assets freeze so industrial spare parts could begin to flow again to Iran."

The outbreak of the Iran-Iraq war on Sept. 22, 1980 brought both the arms issue and the assets issue to the fore. The two were obviously closely related. There were enough sources willing to sell Iran arms on the international market—especially the Israelis, probably with the encouragement of William Casey, Henry Kissinger, et al.—that the arms and spare parts issue receded in importance as the elections

neared. The assets issue became central, as Iran's foreign exchange dwindled, due to its inability to sell oil on the international market, other impairments of trade due to the war and sanctions, and of course the freezing of about \$12 billion in liquid Iranian government assets held in U.S. banks.

Negotiations between the United States and Iran had tentatively resumed shortly before the war broke out. Up to that point, a big part of the problem had been the internal political chaos inside Iran, so that there was virtually no government with which to negotiate. Over the summer, the Majlis (parliament) was elected, with the radical Islamic Revolutionary Party (IRP) winning a majority of seats. The "students" holding the hostages were demanding that the Majlis decide the hostage issue, and that as part of any resolution, the Shah's wealth must be returned to Iran. On Sept. 9, the Majlis Foreign Affairs Committee announced that the debate on the hostages would begin Sept. 13. On Sept. 12, Ayatollah Khomeini presented four proposed conditions for the release of the hostages. These were: 1) return of the Shah's wealth; 2) cancellation of all foreign claims against Iran; 3) that the U.S. guarantee no political or military intervention against Iran; and 4) that the U.S. end the freeze on Iranian assets.

Khomeini did not mention a number of other demands which had been prominent up to this time: a U.S. apology, reparations for U.S. "crimes" in the past against Iran, cessation of economic sanctions, or delivery of military spare parts. Carter administration officials took hope from the announcement of Khomeini's four conditions. The meetings in Bonn, Germany on Sept. 15 and 17 between Christopher and Iranian representative Sadegh Tabatabai gave the administration further reason to believe that the crisis could be settled before the elections.

Iran-Iraq war breaks out

Three days after the outbreak of the Iran-Iraq war, Hashemi received a telephone call requesting that he immediately come to London for meetings concerning the Majlis commission. In a later conversation on the same day, apparently with someone from the Carter administration, Hashemi said that he expected to be a senior level adviser to the commission. His particular role was to be to assist on the issue of the recovery of the Shah's wealth.

Hashemi then recommended that the administration should say that it could help Iran with the recovery of the assets. If the person he is talking to has a chance to bring it up with "the Secretary or the President," Hashemi said, "You can safely say that there are areas that you feel that you can help as far as the recovery. That has never been said. I think that's gonna be a tremendous gesture. You're not committing yourself to anything, you can, you know, within the legal system of this country. . . . I'll tell you from a professional point of view, as a banker, as I have went over it with [deleted] has made his investigation, there is some chances of

us pinpointing certain things in this country and discovering certain things, and even though they might be taken . . . compared to the total picture but they can be very helpful to the United States and Iran's relationship showing that, in fact, you're doing that. Now, I don't know where this would come in . . . in the Secretary's remark or the President's remark but something like that could be safely said."

The evidence in the FBI files suggests that Hashemi, with Pottinger's guidance, had maneuvered himself into a situation where he could play an important role in influencing and shaping the Iranian negotiating position up to the November elections and thereafter. A few weeks after the elections, Hashemi said that he believed that the Iranian government was "basing everything" on the report that Hashemi and [deleted] had made on the Shah's assets.

In a later conversation reported by the FBI, Hashemi said that he had provided four reports for the Majlis, which dealt with the hostage situation and economic conditions in Iran. "One of the reports, dealing with the Shah's assets, was filed a couple of days before the so-called committee made its recommendations concerning the conditions under which the hostages would be released. Hashemi stated that one of the reports dealt specifically with the relationship between the resolving of the hostage situation and Iran improving its economic condition and/or crisis. Hashemi stated that his reports were instrumental in enlightening the Iranian leaders as to the economic plight."

The FBI files show that Hashemi did in fact go to London for meetings over the weekend of Sept. 28-29. On Monday, Sept. 30, the Majlis announced that a seven-man commission would be formed to study the hostage issue, and on Oct. 2 the seven members were named; the commission was headed by Bezhad Navabi, and was sometimes referred to as the "Navabi Commission."

During October, rumors that a settlement was imminent abounded. The issue of the spare parts (for which Iran had already paid) disappeared almost totally from the discussion, while the issue of the assets became increasingly prominent. (In fact, the issue of the spare parts was never raised again, and was not even part of the final settlement.)

During the second week of October, Iran sent a message to Washington requesting an inventory of all Iranian assets being held by the United States. Gary Sick says that this request was interpreted "as a veiled request for an accounting of the military equipment and spare parts" that had been seized by the United States. (Sick says that the request was interpreted as referring to military parts, because the U.S. government had already informed Iran of the status of its financial assets, but in fact, such an inventory was not provided until mid-January.) Therefore, on Oct. 11, a response was sent to Tabatabai, listing \$150 million of Iranian-purchased military equipment being held by the United States.

It seems likely this was a misinterpretation of the Iranian request. Many Carter administration officials (at least Gary



President Jimmy Carter campaigning for reelection in 1980 in New York. Cyrus Hashemi and his attorney Stanley Pottinger—a friend of George Bush—undercut Carter's ability to reach a hostage settlement before the elections.

Sick) were probably focusing on an issue—the spare parts—which was no longer an issue. It was no longer an issue because Iran was getting military parts and arms from other sources, particularly the Israelis and other sources arranged by operatives working for the Reagan-Bush campaign. What was at issue was something the Reagan-Bush campaign couldn't deliver: the \$12 billion in frozen assets, plus whatever portion of the Shah's wealth the Iranians could hope to recover. If Iran had the money, it could buy the arms. Compared to the billions of assets at stake, the \$300 million or so of spare parts seized by the U.S. becomes rather insignificant.

Hashemi's double game

On Oct. 21, 1980, Hashemi had a series of conversations in which he was clearly giving contradictory advice to the Iranian and U.S. governments. A former high-ranking State Department official, who examined the FBI reports at the invitation of *EIR*, concluded that from the evidence in the FBI files, it appears that Hashemi was giving "wildly inconsistent" advice to the Iranians and the Americans, respectively.

The date is particularly important, because it was right at that time that the Iranians announced quite clearly that they

were not in need of spare parts from the U.S., and that they would not negotiate a deal prior to the elections. It was also about this time that Hashemi and Pottinger began arranging clandestine shipments of small amounts of military equipment to Iran.

An FBI teletype reports that on Oct. 21, Hashemi "placed a telephone call to Iran to converse with Hashemi Rafsanjani" (sic), and continues:

"Hashemi introduced himself as the chief of the Islamic Gulf Bank in New York before and after the revolution. Hashemi stated that he is working with the revolution and that he has conducted an investigation of the money and property of the Shah in the United States. Hashemi said that he had made contact with many banks in the United States and that he knew a lot of things about the money of the Shah. Hashemi said that because he had heard that maybe a decision was to be made on the release of the hostages, he wanted to tell Hashemi Rafsanjani that if the President of the United States wanted he could order the freeze be discontinued on the assets of the Shah in the United States. Hashemi stated he had checked and this was in accord with the civil law of the United States." According to the FBI summary, Hashemi then made arrangements to send all his documentation on this to Rafsanjani via diplomatic pouch.

The Rafsanjani conversation was reported immediately to FBI headquarters from New York, but the later conversations of Oct. 21 were not transmitted until a few days later. An Oct. 24 teletype summarized a later conversation, in which Hashemi reported that a few days earlier, Khomeini had gotten very angry about the possibility that he would be re-electing Carter if Iran came to an agreement with the U.S. on the hostages. However, Rafsanjani said this was a good time to do it. Rafsanjani then got hold of Beheshti and they postponed the Majlis meeting until the next Sunday. Then, reports Hashemi, there was another meeting on Oct. 21 at which "there was a tremendous softening on the part of Khomeini." But, Hashemi reported, release of the hostages is unlikely before the elections: "Khomeini may delay it 10 days so it does not appear publically [sic] that he had helped one or the other."

Then, Hashemi goes on to give advice to the Carter administration: "Hashemi says that thinks [sic] he (assumed the President) should not make comments like he can unfreeze this or that and it worries him because he is diminishing his negotiating powers, because they think he can do all these things. Hashemi does not believe all legal claims against Iran can be dropped because of the attachments of corporations such as USPER number 4 [Exxon Corp.]."

Here we have Hashemi telling Rafsanjani that the President has it in his power to unfreeze the assets, and then telling the Carter administration that the President *shouldn't* say he can unfreeze the assets and that "they think he can do all these things." Well, of course they think he can do all these things: this is what Hashemi has been telling them!

The stall

On Oct. 22, Rafsanjani did in fact announce that the parliamentary debate would begin on Sunday, Oct. 26. On Oct. 23, Rafsanjani told *Le Monde* that the Majlis Special Committee would submit its report that day and then the debate would begin on Sunday. Rafsanjani also said that some of the conditions, such as the release of the frozen assets, can be fulfilled “on the spot.”

At this same time, arrangements were being made to send one of the reports that Hashemi and (deleted—probably Pottinger) had prepared to Iran. However, by Oct. 23, Hashemi indicates he is not concerned about rushing the report to Teheran—which is what would be expected if he were trying to help the Carter administration. Instead, according to an FBI teletype reporting the Oct. 23 conversation:

“Hashemi thinks the report need not be expedited. He had several calls today which reflect a conflict with various information and a release on Monday does not look good.”

The period from Oct. 21 up to the elections was the absolutely critical time period for the Carter administration if it were to obtain the release of the hostages in time to help Carter’s re-election. We have seen, from the little bits of evidence in those FBI files which are disclosed, that Hashemi’s actions were more consistent with someone who is trying to sabotage the Carter administration’s negotiations, than with someone who is trying to help.

On the Iranian side, the stall was definitely on. On Oct. 25, Ayatollah Khoini, the deputy speaker of the Majlis, said that “we are not in a hurry to release the hostages. We have no intention of helping Jimmy Carter in his re-election campaign.”

The Nov. 2 conditions

On Sunday, Oct. 26, the Majlis met for two hours and then adjourned until the next day. On Oct. 27, because of the boycott, the Majlis could not muster a quorum. Likewise on Oct. 30. The boycott continued until Sunday, Nov. 2—only two days before the U.S. elections. On that day, the Majlis approved the four conditions as set by the Special Commission. These conditions were simply an elaboration of the four conditions announced by Khomeini in September; no new demands were added:

- 1) The U.S. must promise not to interfere politically or militarily into the affairs of Iran.
- 2) The U.S. must unfreeze all the Iranian assets and transfer them to Iran. The President must declare the Nov. 14, 1979 freeze order null and void, and must cancel all court decrees blocking the assets.
- 3) Cancel all economic and financial measures (i.e., sanctions) and all claims against Iran, including all private claims.
- 4) Return all property of the Shah. The U.S. President must identify these assets, freeze them, and transfer them to Iran. (A transcript of the commission report was printed in the *New York Times*, Nov. 3, 1980, p. A16.)

Upon learning of the Majlis conditions, President Carter responded that the conditions “appear to offer a positive basis for a resolution.” But, Carter said: “There are several things in the list of conditions we cannot do. They’ve got some words like ‘confiscate the Shah’s property’ and they demand that the U.S. government remove all private claims against Iranian assets. These are things we cannot do under our law, and they’re not right anyway.”

Needless to say, it was too late for the Carter administration to make any concrete response to the demands. Between the delays in Teheran, and the Iranians’ unrealistic demands with respect to the powers of the President, Carter’s hopes of re-election evaporated.

The ‘persistent misunderstanding’

After the Majlis pronouncement of Nov. 2, it still took two and one-half months to work out a final deal. Everyone involved in the negotiations agrees that a major problem was the perception from the Iranian side of what the U.S. President could do—both with respect to nullifying court orders and claims against the frozen Iranian assets, and his ability to confiscate the Shah’s property.

The major obstacle to simply returning the frozen assets was that numerous private claimants had obtained court orders of attachment to compensate for debts owed or property seized by the Iranian revolution. (Under the Shah’s modernization program, U.S. corporations had invested heavily in infrastructural and industrial projects in Iran. These properties were all seized after the fall of the Shah.) Ultimately, this issue was handed over to an international claims tribunal for case-by-case resolution.

John E. Hoffman, the New York lawyer from Shearman and Sterling who led the “bankers channel” negotiating team, described the problem as follows:

“There was a persistent misunderstanding in Teheran regarding the ability of the President to nullify private U.S. claims and U.S. court orders of attachment. . . . I concluded that the Iranians were being informed, by at least some of their advisers, that the U.S. court attachments could be readily expunged through executive action. The Iranian misunderstanding of limits on U.S. executive power led them to misjudge the speed with which assets could be freed, even assuming a U.S. government commitment to take such a course.”

Unbeknownst to Hoffman and his team, Hashemi and Pottinger were two of the advisers who were deliberately fostering this “persistent misunderstanding.” It may not be irrelevant to this, that Pottinger had apparently told Hashemi that he might be appointed U.S. Attorney General in a Reagan-Bush administration, and in fact he was being considered for a high Justice Department post. And later on, despite the fact that the FBI wanted to indict Pottinger for illegal arms shipments, he was protected from indictment by the Reagan-Bush administration.