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FOREIGN AFFAIRS

Scope of Our Review of
Palestine Liberation
Organization Finances

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064639/155229

Mr. Chairman and Members of the Committee:

I am here today to discuss the audit work that supports our recently issued classified report on the Palestine Liberation Organization's (PLO) finances. I will also discuss the principal cooperation issues we dealt with on this assignment. Finally, I will discuss our efforts to have this report declassified in response to requests from the Chairman and several other Members of Congress. Before turning to these topics, let me briefly provide some background information on why we did this job and what the audit objectives on this assignment were.

AUDIT OBJECTIVES

In a letter dated May 31, 1994, you requested that we review the PLO's finances in connection with the decision by the United States to help fund long-term development projects in the West Bank and Gaza Strip. These funds were pledged after the government of Israel and the PLO signed the Declaration of Principles on September 13, 1993.

Based on discussions with Committee staff members, we agreed to (1) assess the PLO's ability to help finance the operations of the Palestinian Authority (the organization established to implement self-rule), (2) ascertain whether the international donors effectively analyzed the need to help fund the Palestinian Authority's operating and start-up expenses, and (3) determine whether appropriate controls have been implemented to ensure that donor funds will be adequately accounted for.

AUDIT WORK PERFORMED

The starting point for our review was an attempt to obtain financial information directly from the PLO. The PLO told us to provide written questions on the information we required and then declined to respond to them. The PLO also chose not to respond to our written request for meetings with PLO and Palestinian Authority officials in the self-rule territories. However, in the Gaza Strip, we were able to meet with a senior Palestinian Authority official.

In Washington, D.C., we interviewed Palestinian affairs experts and program officials from the State Department, U.S. Agency for International Development, Overseas Private Investment Corporation, the Department of Treasury (Office of Foreign Assets Control and the Financial Crimes Enforcement Network), Drug Enforcement Administration, and the World Bank. We also conducted fieldwork in London, Tel Aviv, and Jerusalem and interviewed officials from the State Department, U.S. Agency for International Development, Drug Enforcement Administration, World Bank, United Nations Relief and Works Agency, nongovernmental organizations, and private industry in these locations. We also met with a number of private researchers who have studied and written about the PLO's finances.

We reviewed relevant State Department cable traffic from January 1990 through February 1995. We also conducted a detailed search of public articles and books on the PLO. We developed a list of potential PLO agents and operatives using a number of sources. We gave this list to Treasury's Financial Crimes Enforcement Network, which searched its databases to identify the personal or corporate assets of these individuals. In collaboration with Treasury's Financial Crimes Enforcement Network, we attempted to verify media reports of specific assets alleged to be held or controlled by the PLO.

We developed a data collection instrument to collect a wide variety of financial and operational data on the PLO. We analyzed responses to this data collection instrument from U.S. embassies in 13 Middle Eastern States and 5 European countries. We also received information from U.S. embassies in one Latin American country and three African countries addressing public allegations that the PLO owned duty-free shops in these locations.

We met with U.S. intelligence experts from (1) State's Intelligence and Research Bureau, (2) the Central Intelligence Agency (CIA), (3) the Defense Intelligence Agency, and (4) the National Security Agency. British intelligence officials declined our request for meetings on the basis that they had no useful information to share. However, we were able to interview a senior official from Britain's National Criminal Intelligence Service to discuss a February 1994 estimate that the PLO had \$8 billion to \$10 billion in assets and an annual income of \$1.5 billion to \$2 billion. Citing the confidential nature of his sources, the author of this statement declined to provide us with any data or documentation to support this claim.

COOPERATION ISSUES

As detailed above, we met with or attempted to meet with officials from a wide range of federal agencies. In general, we received good cooperation from these agencies. We did encounter some limited access to records and cooperation problems at the State Department, CIA, and the Federal Bureau of Investigation (FBI). With regards to the State Department and CIA, the problems we experienced did not materially affect our final report message or conclusions. We do not know whether the FBI had any valuable information to share with GAO since the Bureau informed us that its review of our questions determined that either the information was not available or could not be discussed due to its sensitive nature.

At the State Department, we encountered a few problems gaining access to pertinent records or getting State's cooperation with our review. Most of these issues were resolved by working with members of your staff and the State Department. We encountered the following difficulties:

- State initially withheld several cables we requested, saying that they were "deliberative in nature" because they represented personal opinions, options analyses, and pre-

policy dialogue. A number of these cables were later released to us after your staff intervened with State officials.

- State was unwilling to contact host government officials on our behalf to administer a data collection instrument we developed to obtain a wide variety of information on the PLO's finances. State cited (1) the sensitive nature of such contacts and (2) the possibility that host officials might misinterpret State's involvement in our study as a weakening in U.S. resolve to fully support the peace accord between the PLO and Israel. As an alternative, State agreed that embassy staff could review pertinent files to see whether any of the data we requested could be obtained from internal records.
- Officials from State's Intelligence and Research Bureau told us that one of their analysts had prepared a critique of an intelligence estimate of the PLO's assets, but could not confirm whether the critique was in writing or not. According to the analyst who prepared the critique, a written memorandum about the critique had been prepared and forwarded to the Special Middle East Coordinator. The Coordinator said he "vaguely" remembered reading the memorandum and referred us to his staff to obtain a copy. His staff, however, was unable to locate a copy of the memorandum or confirm its existence.

Initially, CIA officials were unwilling to cooperate with us or share available intelligence data about the PLO. As you know, Agency officials provided us with two background briefings on the PLO only after you asked the CIA to cooperate fully with us on our review. CIA declined to facilitate contacts with foreign governments.

The State Department in April 1995 agreed to relay questions we had on PLO finances to the Israeli government through the U.S. embassy in Tel Aviv. A State Department official confirmed that the embassy had passed our questions to the Israelis, but that a response had not yet been received.

EFFORTS TO DECLASSIFY THE REPORT

In a letter dated July 17, 1995, Chairman Gilman requested that we take the necessary steps to have our classified report on the PLO's finances declassified to facilitate increasing public discussion of the topic. This request was followed by a letter on July 19, 1995, from Representative Jim Saxton, who also called for our report to be declassified. On July 25, 1995, we received a third letter signed by Representative Saxton and five other Members of Congress calling for our report to be declassified.

I should point out that GAO generates classified information derivatively--that is, the information we use in GAO-produced documents carries the classification of the originating source. GAO does not have the authority to declassify or downgrade classified information; this authority is vested solely with authorized executive branch

officials. When there is a perceived need to downgrade or declassify information, the originating agency's concurrence must be obtained.

In letters dated July 25 and July 28, 1995, we informed the CIA and State Department, respectively, that the Chairman had asked that our report on the PLO's finances be declassified for the reasons cited in the Chairman's letter. We asked both the CIA and State to consider the Chairman's request with respect to the classified data they provided to us.

In a letter to GAO dated September 5, 1995, the CIA responded that with certain minor exceptions, none of the CIA material used in our report could be declassified. The State Department has not yet responded to our declassification request.

Mr. Chairman, this concludes my testimony.

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