



# BETRAYAL

*How the  
Clinton Administration  
Undermined  
American Security*

**Bill Gertz**



Since 1947

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For Debra

“We, too, shall encounter follies; but if great, they will be short,  
if long, they will be light; and the vigor of our country  
will get the better of them.”

—Thomas Jefferson, 1806

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# PART I

## *Betrayal*





## CHAPTER ONE

# *The Clinton Method: Foreign Policy Cover-up*

**I**n August 1998 President Bill Clinton went on national television and told the American people he had “misled” them by covering up his sordid sexual affair with a young White House intern. It was a shocking admission of guilt from a man holding the most powerful office in the world.

But the president has yet to admit, possibly even to himself, that he is guilty of a far more devastating cover-up: his administration’s willful failure to “provide for the common defence,” as the Constitution demands. His wrongheaded policies affecting our nation’s security, and his cavalier cover-up of this misconduct, amount to betrayal—a betrayal that has left the United States weaker militarily as its enemies grow stronger and the world becomes more dangerous. He has squandered the Cold War victory that he inherited from his predecessors, presidents who understood the realities of global power politics that are apparently beyond Clinton’s grasp, or that he has no interest in learning.

By making the economy his top priority, Clinton has shortchanged vital military and intelligence programs, diverting some \$80 billion a year from defense and spending it on domestic programs that reward corporations and political supporters. His use of military force has been haphazard and ineffective, calculated more to divert public attention from his personal problems than to advance any strategic national security goals.

A deep suspicion of the military and its crucial role in the nation’s survival has permeated the Clinton administration, leading to repeated misuse of the armed forces for peacekeeping and humanitarian functions for which they are ill suited. This in turn has led to

confusion and low morale among the men and women in uniform on whom the nation's safety depends. The best and the brightest are finding it difficult to justify their choice of a military career in the face of such hostility and maladministration, and many are leaving the ranks. Recruitment is down, and as a result standards have been lowered to fill enlistment quotas.

President Clinton has turned upside down President Dwight D. Eisenhower's warning about a too-powerful military-industrial complex. Using the end of the Cold War as cover, and to please corporate bigshots targeted for campaign contributions, Clinton has loosened export controls on several high-technology sectors, including U.S. high-speed computer manufacturers, software makers, and communications satellite makers who want to sell to China.

Two such companies are Loral Space & Communications, Ltd., and Hughes Electronics, both the subject of a federal investigation to determine how they passed embargoed militarily-useful rocket technology to Beijing without licenses. At the time of the weapons technology transfers, Loral was headed by Bernard Schwartz, who has given hundreds of thousands of dollars to Clinton and the Democratic Party. Hughes was headed by C. Michael Armstrong, who was named head of the influential President's Export Council after lobbying vigorously—and successfully—for the easing of U.S. national security export controls. Shortly after the “decontrols” took place, American supercomputers began showing up in both Chinese and Russian nuclear weapons development centers—helping to build nuclear arms that might one day be turned against the United States.

The president, at the urging of Armstrong and other export-hungry businessmen, has consistently opposed the imposition of sanctions on nations that engage in the sale of dangerous weapons of mass destruction technology and equipment. In a rare moment of candor, during a White House meeting in April 1998, Clinton explained, “What happens if you have automatic sanctions legislation is it puts enormous pressure on whoever is in the executive branch to fudge an evaluation of the facts of what is going on.” This frank admission of deceit captured the essence of the administration's foreign and

defense policies. Bill Clinton and his administration have relied heavily on this “fudge factor”—deliberately ignoring, playing down, or covering up dangerous developments abroad that affect vital U.S. interests.

While Clinton has shown flexibility on virtually every political issue he has faced, he has stood firm on one: long-range missile defense. There will be none on his watch.

Appeasement diplomacy and White House spin-control are the Clinton substitutes for missile defenses. A case study is the radical communist regime in North Korea. When North Korea began developing nuclear weapons in the early 1990s, the Clinton administration “solved” the threat with a deceptive agreement. The hardline communists in Pyongyang promised to halt the nuclear arms program in exchange for two replacement nuclear reactors that would, so Clinton asserted, be less useful in developing weapons. But within four years of the agreement, U.S. intelligence agencies revealed that North Korea was engaged in a sec-

**The Clinton administration has covered up its mistakes, and, when facts leaked out, simply brushed them off as trivial, or lied outright.**

ond, covert nuclear weapons program that circumvented the agreement. Pyongyang then shocked the world by test-firing its first intercontinental-range missile, capable of hitting U.S. territory with nuclear, chemical, or biological warheads.

The list of administration failures is a long one; this book will deal with the most egregious. Central to all of them, however, is the inescapable conclusion that President Clinton and his top advisers have covered up the seriousness of their mistakes, and, when facts leaked out, simply brushed them off as trivial, or lied outright.

This betrayal of American national security so angered some intelligence, defense, and foreign policy officials that they responded in the only way they knew how: by disclosing to the press some of the nation’s most secret intelligence. The disclosures ranged from secret Chinese arms sales and intelligence operations against the United States to highly detailed reports linking Russian officials with secret arms sales to Iran, from sensitive internal negotiations with Moscow

to dangerous foreign weapons developments that have sharply contrasted with Clinton's misguided belief that the world is growing more peaceful. Many of these officials, whose anonymity is their only protection from political retaliation, have been criticized by administration political appointees for risking national security by disclosing this information.

But the fact that these unsung heroes have jeopardized their careers to expose wrongdoing only underlines the great danger to our country brought about by the Clinton administration. I have worked with many of these people in my fourteen years covering defense and national security affairs, and I regard them as both dissidents and patriots. To a great extent, this book is their story as well as my own.

## CHAPTER TWO

# The Kapitan Man

*"A year from now everybody is going to deny this ever happened, and you and I are going to be two poor shmucks with bad eyes for the rest of our lives."*

—Canadian Air Force Captain Pat Barnes to U.S. Navy Lieutenant Jack Daly

**O**n April 4, 1997, a Russian merchant ship suspected of spying on U.S. nuclear missile submarines was photographed by a Canadian military surveillance helicopter that had been tracking the ship in U.S. territorial waters north of Puget Sound. During the encounter, someone on the Russian vessel fired a laser at the helicopter, permanently damaging the eyes of the Canadian helicopter pilot and a U.S. Navy intelligence officer working with the Canadians. The incident was kept secret by the Clinton administration for weeks. The president and his advisers did not want to publicize a hostile action that would upset its conciliatory policy toward Russia. This is the inside story of the incident.

The phone rang in the middle of the night at the Canadian home of U.S. Navy Lieutenant Jack Daly. It was the intelligence center at Canada's military base near Esquimalt on Vancouver Island. A suspected Russian spy ship that for years had been masquerading as a merchant vessel was at the mouth of the Strait of Juan de Fuca and heading into Washington State's Puget Sound. Daly was ordered to secretly photograph the ship. It was a mission that would change Lieutenant Daly's life—and his opinion of the U.S. government and the U.S. Navy he loved so much.

Daly was a foreign intelligence liaison officer with the Maritime Forces Pacific, a joint command staffed by about 1,500 Canadian

Navy, Air Force, and Army personnel whose job is to defend Canada's West Coast. These Canadian forces work closely with the U.S. Navy.

Once airborne, the aerial surveillance seemed routine. Daly was tethered securely to a harness that allowed him to move around inside the Canadian Forces CH-123 helicopter. He was holding one of the newest pieces of equipment used by the Office of Naval Intelligence (ONI) to spy on foreign ships: a Kodak DCS-460 single-lens reflex digital camera. The converted Nikon takes crisp photographs that can be downloaded directly into a computer.

The target was the *Kapitan Man*, one of two Russian merchant ships that had been spying on the nine U.S. nuclear missile submarines based nearby with Submarine Group Nine in Bangor, Washington.

"When I first got up to Esquimault I knew I would be working in the Canadian Joint Intelligence Center as a liaison officer," Daly recalled. "But when I arrived, the J-2, Canadian Lieutenant Commander Ted Parkinson, informed me that their plans were to utilize me as operations officer within their intelligence organization." The job involved him in the production, collection, and dissemination of intelligence to the command. The Canadians had specifically asked the Navy to provide someone with a background in merchant shipping.

Traditionally, Soviet Navy spy ships had been disguised as fishing vessels and were known as AGIs, for Auxiliary, General Intelligence. Since the collapse of the Soviet Union in 1991, however, merchant ships owned ostensibly by Russia's Far East Shipping Company (FESCO) became Russia's primary spy vehicles. For decades during the Cold War, Russian ships were barred from visiting key ports in the United States. Then in 1992 the ports were opened to merchant vessels as part of a policy of wooing Moscow. Seattle was a particularly sensitive port because it was home to one of the United States' most important strategic weapons: the ballistic missile submarine. The other elements of America's nuclear deterrent—land-based intercontinental ballistic missiles (ICBMs), the U.S. Minuteman I and II, and giant ten-warhead MX systems—were based in fixed silos and thus were easy targets for foreign missiles. U.S. strategic bombers were also vulnera-

ble to foreign air defense systems and fighter aircraft. Only the submarine force provided true stealth and near invulnerability in strategic warfare.

Tracking these submarines was a job assigned to Russia's "merchant ships." However, intelligence reports indicated that these ships were also involved in transporting illegal contraband for the growing Russian Mafia.

## TRACKING THE "MERCHANT SHIPS"

By April 4, 1997, when Daly was ordered to photograph the Russian ship, the *Kapitan Man* had been under international surveillance for days, as it made its way across the North Pacific and down the coast from Alaska, where it spent a few days suspiciously loitering around the U.S. Air Force listening posts in the region. Like Russia's "fishing vessel" spy ships, the *Kapitan Man* sported an unusual array of antennae, far more than were needed for communications and navigation.

Back in 1993 a search of the *Kapitan Man* had produced this tantalizing piece of intelligence: Deep inside the ship in a remote forward compartment lay a dozen electronic buoys. The T7 buoys could be used for collecting underwater sounds. A data sheet on the device states that it can be used "at

**Russia's "merchant ships" were tracking U.S. submarines and transporting illegal contraband for the growing Russian Mafia.**

increased depth for improved sonar prediction in ASW [Anti-Submarine Warfare] and other military applications." The compartment also contained about fifteen black canister devices that were XBTs—probes used for ASW monitoring. The ship also had a photo-processing lab, unusual for a "merchant vessel." The secret forward compartment also appeared to one investigator to have been booby-trapped and sprayed with dog repellent in an apparent attempt to prevent the use of police dogs to discover smuggled drugs or aliens.

The search of the *Kapitan Man* not only created deep suspicions that the ship was spying, but worse, the devices appeared to be part

of a plan for deploying “permanent sensing devices” on the floor of Puget Sound to track U.S. nuclear missile submarines. A report on the search said that Customs Service investigators considered boarding the vessel a second time, but “it was decided that such a boarding would not be a good idea as it could reflect negatively and be a distraction to the meetings between President Clinton and President Yeltsin, which were occurring nearby on the following two days, at Vancouver, B.C.”

About the same time, a fisherman had called the Coast Guard to report seeing the Russian ship throw a metal cylinder overboard in Puget Sound just before one of the U.S. nuclear submarines headed outbound. The cylinder was never recovered, but it was part of the Russian effort to set up a system of listening devices to record the unique sound “signature” a submarine makes when it passes through the water. With this knowledge, Russian hunter submarines could track the target submarines and kill them with high-tech wake-homing torpedoes in time of war.

Daly first warned ONI headquarters in December 1996 that the Russians were spying on U.S. submarines. His classified cable laid out the facts that made the *Kapitan Man* and its sister ship, *Anatole Koleshnichenko*, more than just merchant vessels: They were not following the navigational routes of merchants. They had spent an unusual amount of time around key installations in the Aleutians, up to forty hours at a time and far more than could be claimed for legitimate efforts to avoid bad weather. They seemed particularly interested in naval facilities on Adak Island, Alaska, near Attu Island, where the Air Force operates Cobra Ball reconnaissance aircraft and Cobra Dane intelligence radar posts, as well as the U.S.-Canadian eavesdropping center located on Canada’s Queen Charlotte Islands. And finally, the two ships made regular trips every four to six weeks to the West Coast of the United States. The visits were often made without bringing or picking up any cargo.

Daly’s report received no comment from ONI headquarters. “Maybe it was the holidays and it just fell through the cracks,” Daly



said. “I made a number of phone calls [asking] have you read this? Does this mean anything to anybody?”

The Central Intelligence Agency (CIA) and National Security Agency, however, received copies of the cable and were interested in the two ships. In the past, both agencies had received intelligence reports linking the *Kapitan Man* and *Anatole Koleshnichenko* to illegal drug smuggling. A Russian seaman who worked for FESCO, owners of the ships, told the Navy in 1994 that Russian organized crime groups were using FESCO ships to smuggle contraband, including narcotics, weapons, furs, gems, and illegal aliens. At the end of the Cold War, the National Security Agency had disbanded its analysis center for tracking the communications of international merchant vessels. The job now fell to the ONI, which set up a special cell to monitor those ships’ movements. And so Daly and the intelligence unit in Esquimaux continued to note incidents of suspected spying. The ships had a couple of encounters with the U.S. Ohio-class missile submarines, called “boomers” in Navy parlance. “These FESCO vessels,” Daly reported, “were either delaying their arrivals or departures and one of them stopped in the Strait of Juan de Fuca claiming to have an engineering problem or weather avoidance.”

The ships had been built in the 1970s by the Soviet Navy as troop and equipment ships. They were similar to U.S. “Ro-Ro” freighters—roll-on, roll-off—used by the Navy to bring equipment near potential hot spots overseas, such as the Persian Gulf and Northeast Asia. After the dissolution of the Soviet Union, the ships were overhauled by the Russian government, which controls some 20 percent of FESCO.

In January 1997 Daly and U.S. Navy Chief Petty Officer Scott Tabor were invited to a meeting of a secret intelligence group in Seattle. The group was called Project 139, a number derived from the U.S. Coast Guard’s Thirteenth District and the Navy’s Submarine Group Nine. It also included agents of the civilian-run Naval Criminal Investigative Service, which had counterintelligence duties within the Navy. Daly and Tabor went to their first and only meeting of Project 139 in Seattle that month and were told they would be allowed to take part in future meetings if they were “deemed worthy.” The meeting ended