

CIA Helped Quash Major,

By Jim Drinkhall

Reprinted by permission of
The Wall Street Journal
© 1980 Dow Jones & Co., Inc.

NASSAU, Bahamas—One of the more titillating business stories that somehow managed to reach the public prints in the last decade was the great Castle Bank caper.

Remember? It was the escapade in which two Internal Revenue Service agents outdid themselves as sleuths only to have their chief throw out their hard-gained evidence of possible massive tax evasion as inadmissible.

For years IRS agents had been trying, without much success, to obtain documentary proof that Americans were using offshore banks in the Caribbean to hide income and evade taxes. One of the suspect banks was the privately owned, Nassau-based Castle Bank & Trust (Bahamas) Ltd. So one night in 1973, while an official

of the Castle Bank was having dinner at a posh Key Biscayne, Fla., restaurant with a woman an IRS informant had hired as a decoy, the informant let himself into her apartment, took the banker's briefcase and gave it to two IRS agents. After photographing the briefcase's contents, the agents had the briefcase returned to the woman's apartment and, for the time being at least, the banker was none the wiser.

The photographed documents were a revelation. One of them was a computer printout of the bank's account holders—some 308 names, including not only nationally known U.S. businessmen and entertainers but quite a few well-known organized crime figures as well. The account holders controlled about a quarter of a billion dollars in assets. To the jubilant agents the list presented the possi-

bility of the single biggest tax-evasion strike in IRS history.

Their elation eventually faded, however, after Donald Alexander, then the IRS commissioner, announced that Project Haven, as the Caribbean investigation was called, was being suspended because the surreptitious acquisition of the list was an illegal search. The Justice Department, which launched a grand jury investigation after the IRS dropped out of the picture, said in 1977 that it, too, was bowing out because a federal district court judge had ruled that the list had been obtained illegally.

It now appears that pressure from the Central Intelligence Agency, rather than any legal problem, was what caused the Justice Department to drop what could have been the biggest tax evasion case of all time. Moreover, the supposed legal obstacle to using the Castle Bank depositors'

THE WASHINGTON POST

Thursday, April 24, 1980

A 21

Star-Studded Tax Evasion Case

list was questionable at best—the government already had in its possession the same list, legally obtained.

What caused the Justice Department to back off seems to have been the CIA's argument that pursuit of the Castle Bank would endanger "national security." This was invoked because the bank, besides its possible use as a haven for tax evaders, was the conduit for millions of dollars earmarked by the CIA for the funding of clandestine operations against Cuba and for other covert intelligence operations directed at countries in Latin America and the Far East. A major tax evasion investigation of the bank probably would have endangered these CIA operations.

Castle Bank was set up and principally controlled by the late Paul Lionel Edward Helliwell, a Miami lawyer, who had longstanding ties to the

U.S. intelligence community, was instrumental in helping to direct a network of CIA undercover operations and "proprietaries." (A proprietary is a concern secretly set up and controlled by the CIA, ostensibly as a legitimate business.)

Despite repeated requests for comment, officials at the CIA, Justice Department and the Helliwell law firm refuse to discuss the case. Castle Bank, which closed its operations in the Bahamas and Cayman Islands in 1977, currently is based in Panama, but apparently has no offices there. Although the government has never released the names of Castle Bank's 1973 account holders, a copy of the list was reviewed by The Wall Street Journal.

On the list, either in their own names or under the names of trusts or companies they controlled, were

such people as Chicago's Pritzker family, Detroit land developer Arnold Arnoff, Playboy magazine publisher Hugh Hefner, Penthouse magazine owner Robert Guccione, actor Tony Curtis, the former rock group Creedence Clearwater, and three men—Morris Dalitz, Morris Kleinman and Samuel A. Tucker—who have been described in Justice Department documents as organized crime figures.

Of course, having money on deposit in a foreign bank, by itself, is no evidence of wrongdoing. None of the above individuals, with the exception of Hefner, returned phone calls inquiring about the accounts. A spokesman for the Playboy publisher says Hefner "doesn't remember" having an account at Castle, though he does recall investing in a movie company that dealt with the bank.

See CASTLE, A22, Col. 1

CIA Tie to Nassau Bank Led to End of Tax Case

CASTLE, From A21

The bulk of the Castle accounts are in the names of foreign entities, mostly Bahamian or Panamanian, according to the list. Other documents in Nassau show that the common thread of these companies is that they were mostly formed or controlled by Paul Helliwell and his associates.

The gruff Helliwell, 62 when he died on Christmas Eve 1976 from emphysema complications, was no stranger to the murky world of spying. During World War II he was chief of special intelligence in China for the Office of Strategic Services, the forerunner of the CIA.

In 1951, Helliwell helped set up and run Sea Supply Corp., a concern controlled by the CIA as a front. For almost 10 years, Sea Supply was used to supply huge amounts of weapons and equipment to 10,000 Nationalist Chinese troops in Burma as well as to Thailand's police.

One former federal official who helped scrutinize Castle says, "Castle was one of the CIA's finance channels for operations against Cuba." Helliwell reportedly was one of the paymasters for the ill-fated Bay of Pigs invasion in 1961, as well as for other CIA operations throughout Latin America. In particular, the former federal official said, Helliwell was "deeply involved" in financing a series of covert forays between 1964 and 1975 against Cuba by CIA operatives working from Andros Island, the largest of the Bahamas.

A former member of Helliwell's law firm says it was general knowledge among the firm's members "that Castle was a CIA account," but that only Helliwell and two other lawyers had access to any information on the bank.

Shutting off Project Haven by the IRS caused tremendous turmoil within the tax-collecting agency. One IRS memo says that when the investigation was shut down there were 488 pending cases involving tax deficiencies of "hundreds of millions" of dollars. Many veteran IRS agents resigned. To this day the drain of taxable money through Bahamas banks is continuing, largely because that

country's strict disclosure laws prevent outsiders from obtaining banking records. A 1979 study of offshore banking, prepared for the Ford Foundation, concludes that the "flow of criminal and tax evasion money" into the Bahamas alone is "up to \$20 billion annually."

The incident that apparently finished off the investigation occurred in 1977. A federal judge in Cleveland ruled that the accountholder list had been obtained illegally and couldn't be used as evidence in criminal cases. The ruling came in the case of Jack Payner, an Ohio businessman who had been charged with failing to report that he had a trust account at Castle. The Payner case is pending before the U.S. Department and IRS used the trial judge's ruling as the basis for ending the investigation in 1977, documents show.

A government official close to the Castle investigation says, "There was nothing sinister about why it [the investigation] didn't go anywhere. The CIA convinced Justice that exposure of Castle and, of necessity, other Helliwell dealings, would compromise very sensitive and very significant intelligence operations. It's as simple as that."

It was the CIA's Office of General Counsel that apparently repeatedly requested the Justice Department to back away from Castle. A federal attorney says he first learned of the CIA's involvement when John J. Greaney, a CIA attorney, asked Justice, "to keep out of certain accounts a Castle because they were run by the agency." Greaney, now retired, says he is prohibited from discussing any work he did for the CIA.

Other U.S. agencies were involved in Castle Bank's mysterious maneuverings. An affidavit by a State Department official on one occasion warned a federal court against "the anticipated revelation of illegal payoffs" in the Bahamas. The official further counseled against the disclosure of one U.S. diplomatic cable concerning Castle because the contents "would have a bombshell effect" on U.S.-Bahamas relations.