

# Democratic National Committee

Steve Grossman, *National Chair* \* Governor Roy Romer, *General Chair*

May 13, 1997

Lawrence M. Noble, Esq.  
General Counsel  
Federal Election Commission  
999 E Street, N.W.  
Washington, D.C. 20463

Re: MUR 4250

Dear Mr. Noble:

The Democratic National Committee is supplementing the complaint it filed in the above-captioned MUR with the attached information from press reports, indicating that the Republican National Committee received up to \$2.2 million in illegal contributions from a Hong Kong company, and deliberately and knowingly concealed those contributions by funneling them through the National Policy Forum--the RNC arm that is the subject of this MUR.

As explained in detail in our complaint, the National Policy Forum, a nonprofit corporation claiming exemption from taxation under section 501(c)(4) of the Internal Revenue Code, was set up by the RNC and was entirely maintained, financed and controlled by the RNC. Its activities have been indistinguishable from those conducted by the RNC itself: development and promotion of the Party's official message, providing benefits to RNC donors and showcasing Republican candidates for federal and other offices. As detailed in the complaint, RNC Chairman Haley Barbour, who also chairs NPF, has the power to appoint all the organization's directors, NPF's president was on the RNC payroll and the RNC provided more than \$2.5 million of financing for NPF. Barbour himself once called NPF a mere "subsidiary" of the RNC.

Now, according to an Associated Press report on May 12, 1997 (attached hereto as Exhibit 1), the Internal Revenue Service denied NPF's application for 501(c)(4) status on the grounds that its activities were primarily partisan in nature, clearly indicating that this organization should have been operating as a political committee. And since this political committee was entirely maintained, financed and controlled by the RNC, as demonstrated in our original complaint, the NPF must be considered to be part of the same political committee as the RNC. See 11 C.F.R. § 110.3(b)(1)(i).

Because the NPF is merely a part of the RNC, its general expenses must be paid by the RNC with a combination of federal and non-federal funds--60% federal in a non-presidential election year, and 65% federal in a presidential year. 11 C.F.R. § 106.5(b)(2). Further, the RNC was obligated to

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pay all of the expenses of NPF in the first instance from a federal account, and transfer funds from a non-federal account to a federal account solely to cover the non-federal share of the allocable expenses of NPF. Id. § 106.5(i)(1).

The complaint we filed shows that, in violation of these rules, NPF has been financed entirely through "soft money" donations from corporations and wealthy individuals that are illegal under federal law. And by claiming to be a separate "social welfare" group, the RNC has evaded the requirements of federal election law that such contributions and expenses be publicly disclosed.

Now, the attached press reports also reveal that the RNC deliberately engaged in a program of soliciting foreign contributions to the National Policy Forum as a means to hide those foreign contributions to the RNC. According to an Associated Press report dated May 9, 1997 (Exhibit 2 hereto), a June 3, 1993 memo from then RNC executive director Scott Reed to RNC Chairman Haley Barbour refers to a plan for fundraising from "foreign" sources and an associate of Barbour's has confirmed to reporters that a deliberate effort was made to solicit money from foreign companies for NPF.

Pursuant to this plan, in the fall of 1994, RNC Chairman Barbour arranged for a foreign-owned U.S. firm, Young Bros. Development--USA, to put up \$2.2 million in certificates of deposit for a bank loan to NPF--certificates of deposit purchased with funds from the U.S. firm's Hong Kong parent company. (See Time Magazine articles dated May 5 and 12, 1997, and Congressional Quarterly article dated May 3, 1997, attached as Exhibit 3 hereto). The U.S. subsidiary has essentially no assets or operations of its own, these press accounts show. The NPF then used at least \$1.6 million almost immediately to repay the funds NPF had borrowed from the RNC, and the RNC then used these proceeds for 1994 U.S. election activity.

In 1996, the bank then called in NPF's loan, with a balance of \$1 million due. The NPF refused to pay \$500,000 of the balance, and Young Bros.'s collateral for this amount was forfeited, resulting in a direct, unreimbursed contribution by the Hong Kong firm to the RNC/NPF of that amount (\$500,000). By defaulting on the loan, the RNC/NPF saved an equivalent amount of funds for use in the 1996 elections. See articles attached as Exhibit 3.

Under the Commission's regulations, a "contribution" includes a "loan," 11 C.F.R. § 110.7(a)(1), and a "loan" includes "a guarantee, endorsement, and any other form of security." Id. § 100.7(a)(1)(i). A loan from any person or entity other than a bank is a contribution by that person or entity. Id. § 100.7(b)(11). In this case, Young Brothers' putting up of collateral of \$2.2 million for a bank loan to NPF constitutes a contribution in that amount to the NPF.

This loan and debt payment was a contribution to the RNC for two reasons. First, because the NPF is an arm of the RNC the expenses of which should have been allocated, the Young Bros.-secured loan and payment must be treated as a contribution to a federal account of the RNC. Second,

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most of the proceeds of the loan to NPF were passed through to the RNC. As Exhibit 5 of our original complaint showed, just before the Young Bros.-secured loan was arranged, the NPF "owed" the RNC \$2.155 million dollars--almost exactly the amount of collateral put up by Young Bros. for the loan to NPF. In October 1994, following the Young Bros.-secured loan to NPF, NPF transferred \$1.6 million to the RNC. The RNC was then able to, and did, use these funds for the 1994 elections, according to the articles attached hereto as Exhibit 3.

By accepting this contribution, the RNC violated the law in at least five ways:

(1) This corporate contribution was used to cover NPF expenses which should have been paid mostly with federally permissible funds, in violation of 2 U.S.C. § 441b and the Commission's allocation regulations, 11 C.F.R. § 106.5(b).

(2) The contribution was excessive in amount, since no person may contribute in excess of \$20,000 per calendar year to a national party committee's federal account, and this contribution amounted to \$2.2 million. 2 U.S.C. §§ 431(11) & 441a(a)(1)(B).

(3) The contribution was illegal because it was made by a foreign national. A foreign national is prohibited from making any contribution, whether in connection with federal, state or local elections. 2 U.S.C. § 441e; 11 C.F.R. § 110.4(a). Thus, a guarantee of or security for a loan provided by a foreign national to a political committee for use for federally-allocable expenses, or for use in particular elections, is clearly illegal. In this case, the RNC used the foreign contribution for NPF expenses which should have been paid for mostly with federal funds and, according to the article, the RNC used the contribution directly for support of candidates.

The Young Bros. contribution was an illegal foreign contribution. Under the Commission's rulings, a contribution by a U.S. subsidiary is unlawful if the source of the funds is the foreign parent company. FEC Advisory Opinions 1992-16; 1989-29; 1989-20; 1985-3; 1982-10. With regard to this rule, the Commission has stated that:

The subsidiary must be able to demonstrate through a reasonable accounting method that it has sufficient funds in its account, other than funds given or loaned by its foreign national parent, from which the contribution is made. . . .

Advisory Opinion 1992-16, *supra*, 2 CCH Fed. Elec. Camp. Fin. Guide ¶ 6059 at p. 11,813(emphasis added).

In this case, the Hong Kong parent company provided funds to Young Bros. USA, which the U.S. subsidiary then used to make a contribution to the NPF/RNC in the amount of \$2.2 million. The U.S. company, with essentially no U.S. assets or revenue, then paid off \$500,000 of the debt to the NPF. Under the Commission's rulings, this \$2.2 million contribution clearly violated federal law, 2

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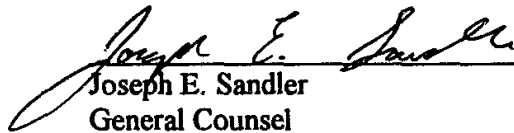
U.S.C. § 441e.

(4) Not only were these foreign contributions to the RNC clearly illegal, they were also illegally concealed. As we pointed out in our complaint, the NPF was set up by the RNC precisely to evade the disclosure requirements of the Federal Election Campaign Act of 1971, as amended, and the Commission's regulations. Now it is clear that one purpose of this mechanism was to conceal illegal foreign contributions to the RNC. By failing to report the contribution from Young. Bros., the RNC has violated 2 U.S.C. § 434, and the Commission's regulations, 11 C.F.R. § 104.3.

(5) By failing to report the loan from Young. Bros., which was a loan to the RNC, the RNC has also violated the Commission's rules specifically requiring the reporting of loans made to a political committee, 11 C.F.R. 104.3(d)

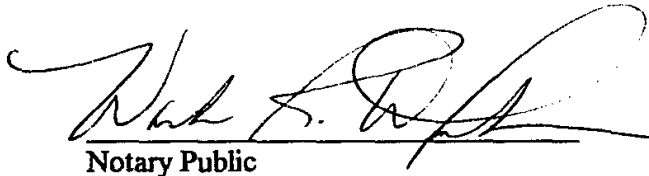
.For the reasons set forth above, we respectfully request that the Commission expand its investigation in this MUR to include the receipt of illegal and concealed foreign contributions by the RNC in the amount of at least \$2.2 million.

Respectfully submitted,

  
\_\_\_\_\_  
Joseph E. Sandler  
General Counsel

Washington )  
                  ) ss:  
District of Columbia )

Subscribed and sworn to before me this 13<sup>th</sup> day of May, 1997.

  
\_\_\_\_\_  
Notary Public

My Commission Expires October 31, 2000

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# EXHIBIT 1



# IRS: Barbour Group Not Tax-Exempt

By JOHN SOLOMON  
Associated Press Writer

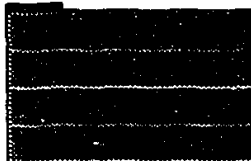
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The Republican Party is returning about \$100,000 in campaign contributions it now deems questionable.

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WASHINGTON (AP) In a decision with both political and legal ramifications, the IRS recently informed a group started by former GOP chairman Haley Barbour that it wasn't entitled to its tax-exempt status because its activities were too partisan.

Internal documents obtained by The Associated Press show the National Policy Forum, started in 1993 by Barbour, hoped to help candidates craft an "effective campaign message" and promised big Republican National Committee donors a role in policy development.

The group, which recently drew the GOP into the political fund-raising controversy, was supposed to be legally separate from the Republican Party and designed "exclusively for social welfare."

But the IRS informed the NPF earlier this year that it wasn't entitled to a tax-exemption because its activities were "too Republican," according to an individual close to Barbour.

The person, who spoke only on condition of anonymity, said the initial ruling came after the forum had already closed its doors and the group is appealing before the tax agency renders a final decision.

The IRS retroactively can seek taxes from nonprofits it concludes did not follow the law. And the Federal Election Commission could take action against the Republican National Committee if it concludes the party misused the tax-exempt group as Democrats allege in a 1995 complaint.

The disclosure comes as both Congress and the Justice Department are stepping up their fund-raising investigations to review whether groups like NPF abused their tax-exempt status for political gain.

Democrats have seized the issue of misuse of tax-exempt



groups, in part to expand the Senate's investigation beyond their party's own substantial fund-raising woes. Last week, the Democrats gained subpoenas for NPF's documents.

While publicly maintaining NPF was a separate educational entity, Barbour told the GOP donors in a private memo that the Republican National Committee was behind the group.

"The RNC is creating the National Policy Forum to help develop and articulate a positive Republican agenda for America and provide a proactive forum for Republican participation at the grass-roots level," Barbour wrote the party's \$100,000 donors on June 10, 1993.

In an earlier version of the same memo, Barbour called the policy forum "an issue development subsidiary" of the RNC, according to a pending complaint at the Federal Election Commission filed by Democrats.

Other internal documents reviewed by the AP show NPF early on expected to provide its policy reports to candidates to help "in crafting individual candidate's strategy, message and tactics."

"The final report will be an effective campaign message for the 1994 midterm election," an early draft of the group's plans stated.

The document is laced with political strategy, from discussion of trying to "complement the work of Republican leaders in the Congress" to engaging "in refining and in articulating the policies of our party."

The party's major donors were promised a role in the NPF's policy development councils as a reward for their contributions.

"Team 100 members will be asked to serve within their areas of expertise" on the NPF, read the Republican National Committee's 1993 list of "membership benefits" for its \$100,000-plus donors.

"This year, the Eagles have been and continue to be active in the policy councils of the National Policy Forum," a similar 1994 letter told the GOP's \$15,000-plus donors.

On one occasion, a worker in the RNC's finance office the party's fund-raising office wrote the forum to advise that a major GOP donor was about to deliver a \$40,000 donation

to the group.

Then-AT&T executive "Alex Mandl is coming in to give you a check for the National Policy Forum. AT&T has committed to \$80,000 over the next two years and will be presenting you with the first half of that commitment," the worker wrote Barbour.

"Attached is the contribution history for AT&T showing their status as corporate Eagles with the RNC," the memo added.

The individual familiar with the forum said its lawyers subsequently told the group it could not make a direct connection with RNC donor rewards, and they abandoned such plans. Nonetheless, many big party donors were among the hundreds to serve on NPF policy development councils, documents show.

The official said the planning memos that mentioned politics had "not been vetted" by lawyers. While the group sought to advocate Republican ideas, there were no ads advocating the election or defeat of candidates, he said.

He said while the group prominently featured Republicans, it offered its materials and assistance and participation to anyone who wanted them, including journalists and Democrats.

Republican National Committee spokeswoman Mary Crawford said the language in the memos suggesting the RNC controlled the NPF or used it to reward donors was "clearly inaccurate."

"The RNC and the policy forum were separate entities," she said.

When the forum was formed four years ago, there was little outcry about its obvious connections to the RNC. After all Barbour was its founder, and many of the group's participants came straight from the GOP's upper echelon.

Barbour's group first emerged in controversy last month over reports that more than \$4 million of the forum's money came in transfers from the party.

The tax-exempt group paid back about \$2 million of that money in late 1994 after getting a loan from the Florida subsidiary of a Hong Kong company. That same company's



donations to the RNC were returned last week after revelations the money came from prohibited foreign sources.

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(CO:AT&TCorp;TS:T;IG:CMT;)  
(CAT:Business;)  
(CAT:HiTech;)  
(CAT:Utilities;)  
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(12 May 1997 16:45 EDT)

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**Barbour's tax-exempt group eyed foreign money**

By CONNIE CASS  
Associated Press Writer

**WASHINGTON (AP) - As Republican Party chairman, Haley Barbour was a harsh critic of foreign donations to Democrats. But the tax-exempt group he created in 1993 to rejuvenate the GOP targeted overseas corporations for donations, according to documents and interviews.**

An associate close to Barbour confirmed an effort was made to solicit money from foreign companies for the National Policy Forum, but said it was not successful.

"Many think-tanks and similarly constituted organizations legally accept contributions from non-U.S. corporations," the associate said, speaking only on condition of anonymity.

"At its inception, it was anticipated that NPF would receive such contributions and an effort was made to solicit them. However, this effort did not succeed," the individual said.

The forum's plan to seek foreign money is referred to in a June 2, 1993, memo to Barbour from Scott Reed, who at that time was Republican Party executive director. The memo outlined steps to help get the tax-exempt group started.

Under a section titled "fund raising," Reed cryptically listed seven items, including one simply listed as "foreign." A copy of the memo was obtained by The Associated Press.

The associate declined to identify which companies may have been solicited. Barbour recently acknowledged that NPF received a \$2.2 million loan guarantee from the Florida office of a Hong Kong company, Young Brothers Development.

But Barbour said in a written statement that the forum's fund-raisers believed at the time the money came from the company's U.S. operations.

The Republican National Committee and its congressional fund-raising arms on Thursday returned a total of \$122,400 donated by Young Brothers after determining that the company's RNC contributions in fact came from overseas.

It was the Republicans Party's first admission of a significant amount of money donated illegally from abroad. Allegations of improper overseas fund-raising have plagued the Democratic Party this year, and are subject of congressional and Justice Department investigations.

Barbour has maintained that the policy forum was distinct from the party. It held issues forums across the country, issued papers and published a magazine.

On Thursday, he declined comment through a spokesman, citing a recent inquiry into NPF by a Senate committee. Reed, now a private business consultant, did not respond to requests for comment. His office said he was traveling in Taipei.

In March, Barbour was asked whether any of the National Policy Forum's money came from abroad. "None of the money came from overseas," he said. "Period."

Unlike political campaigns and parties that are prohibited from accepting foreign donations, tax-exempt groups like the NPF are allowed to take money from inside and outside the United States. They also do not have to publicly disclose those donations.

Although the policy forum applied for tax-exempt status with the IRS, it never officially received it. Many groups go ahead and operate under the assumption that their status will be approved.

Barbour, who stepped down as Republican National Committee chairman in January after four years, has been one of the most vocal critics in the controversy over \$3 million in suspect donations raised by the Democratic Party in the last election.

**Barbour assailed Democrats for "actively, aggressively soliciting foreign contributions. Something that's unheard of in American politics." He also insisted the Republican Party never accepted any foreign donations.**

**The NPF has ceased operation, but it has not closed the door on controversy. Still pending before the Federal Election Commission is a Democratic complaint that the group was wrongly used as an extension of the Republican Party.**

The lead Senate committee investigating fund-raising abuses has subpoenaed some of NPF's records. On Thursday, Democrats in the House called on Attorney General Janet Reno to add NPF to the Justice Department's investigation of fund-raising abuses.

Mary Mead Crawford, an RNC spokeswoman, said the policy group was a "separately incorporated, non-profit organization," not a political wing of the GOP.

**The forum never released a list of its contributors, its spending or other financial records. The effort appears to have been financed largely by the Republican Party, which transferred \$4.4 million to the forum from mid-1993 through the end of last year.**

**The forum repaid only \$1.9 million of that money to the party, using the loan guaranteed by Young Brothers.**

(PROFILE  
(CAT:Business;)  
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(CAT:Political;)  
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TIGER AND RACE  
THE G.O.P.'S CHINA CONNECTION  
ARMY RECRUITERS AND SEXUAL HARASSMENT

SEX  
DRUGS  
DRINKING  
SMOKING

Scientists are  
discovering  
the chemical  
secret to

# HOW WE GET ADDICTED

... and how we might get cured



# THE G.O.P.'S OWN CHINA CONNE

A Hong Kong mogul rescued Republicans during two campaigns

By MICHAEL WEISSKOPF and  
MICHAEL DUFFY WASHINGTON

**T**HE EIGHT-PAGE SUBPOENA OPENED with the word Greeting, but there was nothing friendly about it. Coming from the Senate committee investigating the campaign fund-raising scandal, it directed what's left of the Dole campaign to hand over all documents connected to a familiar cast of 46 political donors and suitors. As the subpoena was faxed around Washington last week, it set off a minor panic among lobbyists and fund raisers worried about who might be called to testify. But their fretting was misplaced: the name of the G.O.P.'s most generous foreign benefactor wasn't even on the list.

For months snapshots of a Democratic White House desperately grubbing for campaign dollars have focused on Asian Americans with strong business ties to their native lands. Now Republicans tell TIME the G.O.P. has profited from an Asian money connection as well. Twice in two years Hong Kong businessman Ambrous Tung Young bailed out the party at crucial mo-

ments: first freeing up as much as \$2 million in the final days before the G.O.P.'s 1994 sweep of Congress; then eating \$500,000 in bad debts, rescuing Republicans in the last weeks of the 1996 contest. The conduit for the money was a U.S. firm with little income and few assets, but quietly backed by an aviation-services and real estate-investment company controlled by Hong Kong and Taiwanese businessmen. The money passed through a Republican think tank that granted big donors more influence over party policy in return for more money. For Young, the arrangement also opened diplomatic doors. In Washington, Young met face to face with the lions of the G.O.P. just as they were taking over Congress. In Beijing a year later, he escorted G.O.P. chairman Haley Barbour in a meeting with Qian Qichen, Foreign Minister for the People's Republic of China.

The discovery of a financial channel running from Taiwan to Hong Kong to Republican national headquarters may well change the terms of Washington's latest

**PARTY ESCORT:** Ex-R.N.C. chair Barbour introduced his Asian patron to the powerful

money mess. Until now Democrats have taken the hit for fund-raising excesses, providing grist for investigations by the Justice Department and 11 congressional committees and prompting calls for an independent counsel. But as Young's secret role shows, the lure of easy foreign money is bipartisan. Young's business depends in large part on Western access to Chinese markets and a secure Taiwan, objectives pushed by Republicans and the think tank he backed. That agenda, the Young case shows, has been successfully promoted by Asian interests who contributed big money to both major parties.

How a Chinese businessman came to prop up the G.O.P. is a story that began in 1993, right after Bill Clinton's election. Barbour had just taken over as G.O.P. chairman and created a think tank to generate new ideas. He called his group the National Policy Forum, and although its operations were two blocks and a few legal documents



removed from Republican headquarters. It was just an extension of the party. Barbour was chairman of the forum: G.O.P. officials set its \$4 million annual budget and coordinated fund raising. The forum circulated 600,000 questionnaires to identify the hot-button issues that were later assembled into the Contract with America.

**T**HE FORUM HAD A HIDDEN PURPOSE: to tap into a new stream of cash from corporations. G.O.P. fund raisers discovered in 1992 that there was only so much soft money available; most donors had given all the money they could to campaigns. But because corporations set aside other tax-deductible money for research, Barbour's idea was to create a nonprofit think tank that could attract that cash.

Instead the think tank started to cost the party money. Corporate America turned out not to be very interested in the forum, so by the summer of 1994 it was heavily in debt, largely to the R.N.C., which had loaned the forum several million dollars to get started. With the pivotal midterm elections bearing down, the party needed money to attract voters to the polls with a burst of TV ads.

Enter Ambrous Tung Young. In the early fall of 1994 his U.S.-based arm, Young Bros. Development-USA, offered to guarantee a loan to the forum. Exactly who first thought of this arrangement remains a mystery. A top R.N.C. official said a Houston businessman named Fred Volcansek, who worked on trade issues under former President Bush, knew Young and informed the forum's president of Young's interest in helping. Young lived in Hong Kong, but his sons had become U.S. citizens and dabbled in G.O.P. politics.

Even then Barbour knew the political risks of the proposed loan arrangement. Although Young was willing and legally able, the R.N.C. chief wanted to avoid any criticism of using overseas cash to pay for political activity—even policy research. Barbour received general assurances that Young Bros. Development-USA was a domestic firm. On that basis he had the company put up \$2.2 million in certificates of deposit—funds transferred earlier from the parent company in Hong Kong—as collateral for a loan from Signet Bank.

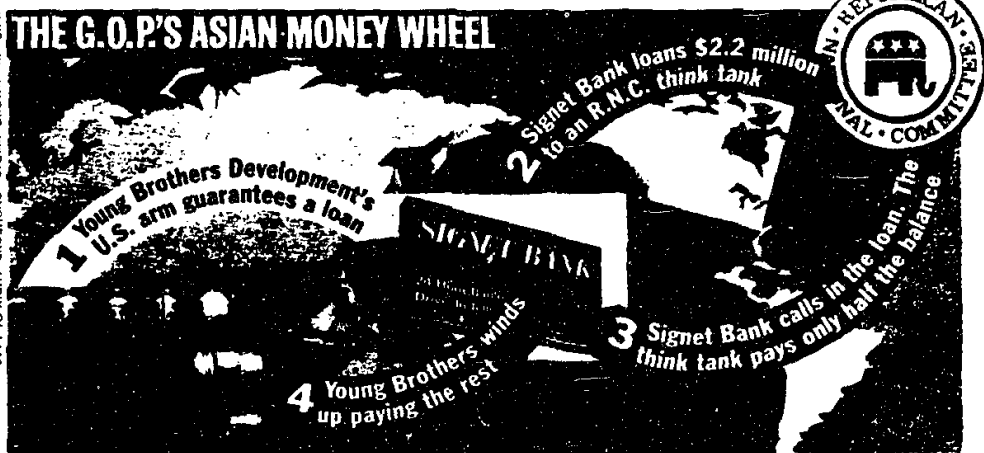
But if Barbour was looking to be bailed out by an American business, it's not clear that Young Bros. Development-USA was either American or a business. It turns out that the company's only U.S. asset is a

Georgetown apartment, and its only revenue is its rental income from that property, officials said. As for its pedigree, incorporation records in Florida list only two officers: onetime G.O.P. chairman Richard Richards and Benton Becker, who was President Ford's counsel. And the firm's actual owner? According to Becker, the principal stockholder is Young Bros. Development of Hong Kong. Records in the British colony list Young as managing director and several others from Taiwan and Hong Kong as investors.

Whatever the country of origin, the loan guarantee was a political godsend. With much of its proceeds sent immediately to the R.N.C., the loan provided last-minute cash for tight House races. In November, Republicans took control of Congress for the first time in 40 years. Not long after, Barbour personally escorted Young around

charitable when describing the Democrats' foreign fund raising last fall. Two weeks before the election, Barbour criticized the Clinton White House for trying to "cover up this well-organized scheme of foreign contributions and influence peddling."

Yet with everyone scrounging for money in those last frantic weeks, no one was asking a lot of questions. Which is why the beneficiaries don't know much about their donor's background. Raised in Taiwan, Young joined the Taiwan navy as a supply officer, studied engineering in England and returned to Taipei, where he started an aerospace consulting firm. He later moved to Hong Kong, where he keeps a picture of himself with Ronald Reagan hanging on his office wall. Young served as the Asian agent for several aviation companies, including Pratt & Whitney and, more informally, British Aerospace.



Washington, introducing him to Bob Dole and House Speaker Newt Gingrich. Young returned the hospitality in August 1995, as host at a dinner for a visiting Barbour on his posh yacht, the *Ambrosia*.

But by mid-1996 the forum was strapped again. The last thing the party wanted that summer was to bail out a think tank just when the campaigns for Congress were heating up. So Barbour decided that the forum would simply stop repaying the Signet loan. He tried instead to get Young Bros. to foot the bill. Through its lawyers, the company refused.

And then Signet called in the loan. At first Barbour refused to pay the \$1 million balance due. When the Youngs' lawyers threatened a lawsuit, the forum paid up \$500,000, but that still left an angry Young with a \$500,000 loss—sparing the R.N.C. from having to dip into campaign funds to pay off the rest of the debt.

Barbour told *TIME* last week that the guarantee and settlement were "perfectly legal and totally appropriate." He was less

Over the years he has had a financial interest in preserving American trade links to China, the world's largest customer of commercial aircraft, and in maintaining a militarily strong Taiwan. In 1992 Taiwan bought 150 F-16s, all powered by Pratt & Whitney engines.

Young, who is said to be in his 60s, is extremely private by the standards of Hong Kong tycoons. He has an office in Taipei and sits on the board of an aerospace company close to the ruling Nationalist government. He is known as "the man to see" if you want to get a hearing in Asian aerospace circles. Little else about him is publicly available—at least not yet. Last Friday, Haley Barbour received a new subpoena, this one asking for all records relating to the National Policy Forum. With Washington's investigations widening to include Republican backers, the well-guarded anonymity of Ambrous Tung Young may be coming to an end. —With reporting by Sandra Burton/Hong Kong and Donald Shapiro/Taipei



# Manna from Hong Kong

More evidence emerges to show that the Republicans also took Asian campaign money

By MICHAEL WEISSKOPF WASHINGTON

**B**ILL CLINTON'S DEMOCRATS ARE GIVING new meaning to the term political payback by promising to return \$2.5 million in foreign-tinged contributions by June 30. It turns out they may not be the only ones to need a refund policy. The Republican Party, quick to condemn Democrats for their foreign connections, now appears to have taken campaign cash from thinly veiled Asian interests in the early 1990s.

At least \$122,000 in questionable contributions came from Young Brothers Development—USA, the Florida-based subsidiary of a Hong Kong real estate and aircraft brokerage. According to documents examined by TIME, the Florida company gave \$75,000 in soft money to the Republican National Committee in late 1991 and an additional \$47,000 sprinkled over the next three years. While foreign subsidiaries are allowed to contribute money generated in this country, the sole income earned by Young Brothers Development—USA is the rent from its only U.S. asset: a modest condominium in Washington's Georgetown section. Sources in the company told TIME that the campaign funds were transferred directly from Hong Kong headquarters.

The man who calls the shots there is Ambrous Tung Young, a low-profile tycoon who, friends say, grew up in Taiwan, acquired U.S. citizenship, then renounced it. Exactly when he gave up his U.S. passport is unclear but relevant: foreign nationals are not allowed to participate in decisions by their U.S. subsidiaries about campaign contributions.

Young Brothers Development—USA is the company TIME previously identified as the C.O.P.'s secret China connection. The firm has rescued Republicans in the past two elections with a \$2.2 million loan guarantee, \$500,000 of which the firm eventually swallowed. Though the funds originated with the company's Hong Kong parent, that transaction appears to have

been embarrassing but legal, since it was funneled through an R.N.C. think tank, the National Policy Forum, rather than the party.

Not so the \$122,000 in soft money given to the R.N.C. Former party chairman Haley Barbour, who engineered the loan guarantee, has insisted that the C.O.P.'s white knight is all-American. Last week, however, R.N.C. spokeswoman Mary Crawford backed off that assertion. While the party has "nothing in our records" to indi-

Young, who represents European and U.S. aircraftmakers in Asia, has refused to be interviewed. Friends say he is a self-made man who worked his way to the top of Asia's competitive aerospace market by selling used aircraft parts across the region in the 1960s and '70s, sleeping in bus stations and bathing in airport rest rooms to save money. He rose to a position of power in the C.O.P. organization Republicans Abroad, and served as regional coordinator for George Bush in 1988 before giving up his U.S. citizenship.

Two of Young's associates came forward last week to clarify how the loan guarantee evolved. An overture for the guarantee came in mid-1994 at a dinner with Barbour as host for Young at Sam & Harry's, a Washington haunt popular with politicians. Barbour said the C.O.P. think tank would use the loan to pay back it



**SHIFTING:** Barbour had insisted the party took no foreign money, but the official line has changed a bit

**“We have never had an orchestrated program to solicit funds from foreigners.”**

MARY CRAWFORD  
Republican spokeswoman

cate that Young Brothers Development—USA is foreign-owned, she said, R.N.C. lawyers will investigate the issue, and money will be returned if it was generated overseas. She hastened to draw whatever party distinctions were left: “We have never had an orchestrated program to solicit funds from foreigners.”

Disclosure of Young's role in the 1994 loan guarantee has turned the political tables in Washington for the first time since the election. Democrats on the Senate and House committees investigating 1996 campaign irregularities seized the moment to demand subpoenas of Young, his employees and company records. “There are possibilities here of... illegal foreign contributions,” said Senator Carl Levin of Michigan.

start-up money to the R.N.C., which was then gearing up for the midterm election. Indeed, the think tank transferred \$1.1 million to the R.N.C. three weeks before the triumphant C.O.P. takeover of Congress. Young received a taste of the victory in a meeting with Newt Gingrich a few days before the Speaker took the House gavel. The event was arranged as a “personal favor” to Barbour, according to record kept by the Speaker. And that was not the last favor. A year later, when Barbour was invited to meet Chinese Foreign Minister Qian Qichen in Beijing, he took along Young, giving an aviation salesman rare access to the world's fastest-growing aircraft customer.

—With reporting  
Michael Duffy/Washington

## CAMPAIGN FINANCE

# GOP Linked to Foreign Funds In Recent Campaigns

*Allegation that former national chairman misused tax-exempt group puts his party on defensive along with Democrats*

**S**ince a spate of news stories last autumn, Democrats have been on the defensive for allegedly accepting illegal contributions from foreign sources.

Until now.

The Republicans were drawn into the maelstrom when Time magazine reported in its May 5 editions that the GOP also may have benefited from foreign money. The story suggested that Haley Barbour, during his tenure as chairman of the Republican National Committee (RNC), used a tax-exempt foundation to funnel as much as \$2.2 million from a Hong Kong businessman into GOP campaigns — particularly the crucial last-minute push that helped Republicans take over the Congress in 1994.

Further investigation shows that Barbour's foundation, the National Policy Forum, may never have been tax-exempt at all, and that its U.S. subsidiary that officially gave the money may have been an empty shell.

Congressional Democrats pounced on the story, clamoring for Barbour to be targeted with subpoenas from the House investigation headed by Dan Burton, R-Ind., and the Senate investigation chaired by Fred Thompson, R-Tenn.

"This presents a real test for Chairman Thompson and for the fundamental integrity of the committee's investigation," said Sen. Robert G. Torricelli, D-N.J. "There are indications here of a broad, systematic, extremely clever effort to evade campaign finance laws. This is a conspiracy, in essence, to launder money through nonprofits."

Barbour, who on numerous occasions had boasted that his party had not taken illegal foreign money, said there was nothing improper about the funding.

"The liberal media have been dying to say that Republicans did something wrong, even if it's legal," Barbour wrote



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Former GOP chairman Haley Barbour maintained there was nothing improper about the funding.

in a three-page letter to board members of the National Policy Forum. "This helps the Democrats' main defense in their campaign corruption scandal, which is, 'Everybody does it.' In fact, everybody does not do it. The accusations against the [Democratic National Committee] and the White House involve violations of law and even criminal acts."

The situation illustrates how the ongoing investigations into campaign finance practices could prove embarrassing to both parties, indicating that the escalating race for campaign money may have driven many fundraisers to look overseas.

#### How It Worked

The Time story focused on a Hong Kong businessman named Ambrous

Tung Young, who allegedly used a U.S. subsidiary of Young's Hong Kong operations to guarantee a \$2.2 million loan to the National Policy Forum at a time when it desperately needed money.

The loan worked like this: Young Brothers Development-USA guaranteed a bank loan for the National Policy Forum with certificates of deposit from the aviation and real estate Hong Kong concern. The National Policy Forum, which had sent out 600,000 questionnaires that became the basis for House Republicans' "Contract With America," immediately gave large amounts to the RNC. A \$1.6 million transfer on Oct. 20, 1994, accounts for about 67 percent of the Republican National Committee's soft money transfers to state party committees in the three weeks before Election Day, according to Federal Election Commission (FEC) records.

In the 1996 campaign, Young was forced to pay off \$500,000 of a \$1 million bank loan.

Tax-exempt status for the National Policy Forum meant that its fundraising and spending would not be disclosed in FEC records. The National Policy Forum considered itself a 501(c)(4) organization, which meant that it did not have to pay taxes and its contributions could be kept from public inspection.

In fact, the National Policy Forum never received the tax-exempt status that Barbour said it had during its three and a half years of existence, according to the Internal Revenue Service.

Tax experts said that could mean it had an application pending the whole while, although that is an unusual length of time without getting the status. It could also reflect an aggressive practice in which it called itself tax-exempt and then disbanded before the IRS could catch up to it — an increasingly common practice that Lee Shep-

By Rebecca Carr

pard, a tax attorney who has written extensively about tax-exempt organizations, called "an abuse of tax exemptions." As Sheppard sees it, those who abuse the system "run the thing as a tax-exempt and then disband before anyone catches up with you."

Indeed, there is no statutory requirement to obtain exempt status before declaring it, but if an organization does not apply, it can expect to be hauled before an IRS hearing. To ignore the application process, in the words of Marcus S. Owens, director of the agency's exempt organizations division, is to heed "very aggressive tax advice."

The National Policy Forum failed to file an annual report listing its officers with the District of Columbia's Consumer Affairs Division two years in a row. As a result, the District revoked its charter on Sept. 9, 1996.

Barbour closed the National Policy Forum, located in the shadow of the Capitol, in December 1996. At the time, the group owed the RNC nearly \$2.5 million, records show. A spokesperson said the party has decided to "write it off as an expense" rather than pursue collecting the debt in court.

Faced with a money crunch during the 1996 elections, the National Policy Forum reneged on a loan from Signet Bank, which has a branch five doors away on the Hill. The bank called in the remaining \$1 million due on the loan, forcing Young to pay \$500,000 of it, according to Time.

Time suggested that Young was given access to top GOP leaders through Barbour. It is not clear what Young's interests were, although he did write articles for a magazine published by Barbour's group called Commonsense. In those articles, he urged a "one-China policy," in an effort to persuade Republicans to support reunification between China and Taiwan.

#### Barbour's Side

Barbour responded that there was nothing wrong with the loan, that it was perfectly legal. It was, he said, guaranteed not by Young directly but by Young Brothers Development-USA, Inc., a Florida corporation run by Young's three sons, who Barbour said have been U.S. citizens since birth.

Responding to the allegation that the National Policy Forum was a conduit for cash to flow into the RNC from foreign sources, Barbour wrote, "The RNC had no need for such a bailout. The RNC's non-federal accounts had sufficient funds to pay for all activities to be paid for with non-federal funds. Fur-

ther, the RNC had ample credit facility in place if it needed more funds for operations, as it did in 1996."

The incorporation records for the company, opened in Florida in 1991, list former RNC Chairman Richard Richards as an officer as well as Benton L. Becker, who was counsel to former President Gerald R. Ford. The company does not have any significant U.S. assets and lists the same telephone number as Richards' company in the District of Columbia.

The only property tied to the company is a condominium and parking space at 3222 M Street in Georgetown. Property records, however, show that property is owned by Young Brothers Development-Hong Kong, not the U.S. affiliate. Young Brothers Development-Hong Kong purchased the condominium in 1989 for \$300,000.

Barbour did not return phone calls. A spokesperson said he would not consent to an interview because he is the subject of a subpoena in the Senate investigation into campaign finance violations.

#### Congressional Reaction

Barbour may have to explain his operation to congressional investigators examining questionable campaign fundraising practices. Sen. John Glenn of Ohio, the ranking Democrat on the investigating Governmental Affairs Committee, said he will ask for subpoenas on the matter. Republican aides said the issue could become significant.

The National Policy Forum already has a subpoena from the Senate committee, but committee sources say it likely will be widened to include Young as well as Young Brothers Development-USA.

Glenn's last subpoena request for 11 Republican organizations was put on hold by Thompson the week of April 21 in large part because they did not focus on foreign contributions.

On the House side, Henry A. Waxman of California, the ranking Democrat on the investigating Government Reform and Oversight Committee, prepared a batch of nine subpoenas on the matter. Chairman Dan Burton, R-Ind., who has said that foreign contributions should be the investigation's top priority, has not responded.

Expecting that Burton will ignore the request, Waxman has sent every Republican on the committee a letter urging them to support the subpoenas in the name of bipartisanship.

"It's an egregious abuse of the law and it should be aggressively investigated," Waxman said. "Young Brothers is a sham operation."

To date, Burton has issued more

than 100 subpoenas, all targeting Democratic groups and individuals, causing Democrats to complain that the investigation is unfair.

So far, a number of Democratic-oriented targets of subpoenas have resisted complying, complaining that the investigation is blatantly partisan and that the committee lacks proper procedures for protecting privacy. House Republicans are openly talking about pursuing citations against the White House for failing to turn over documents requested in those subpoenas. (*Subpoenas, Weekly Report, p. 888*)

White House Counsel Charles F.C. Ruff sent Burton a letter last week informing him that he wanted to limit committee access to certain documents out of concern that the documents could fall prey to political operatives and be leaked to the media.

To seek a contempt citation, the committee will have to vote, which would require Burton to call a meeting, at which the Democrats would almost certainly bring up the lack of a bipartisan investigation. Then it would have to go to the floor, where it could ignite even more acrimonious debate. ■

## COMMITTEES

### Funding Approved For House Panels

The House approved the remainder of funding for its committees May 1, sidestepping the controversy that a previous funding measure generated six weeks earlier.

The resolution (H Res 129) authorizes \$150 million for committee expenses for the 105th Congress, about 5 percent more than the panels received in the 104th Congress. The Appropriations Committee gets its funds automatically, and the Government Reform and Oversight Committee got its funds March 21, a day after GOP fiscal conservatives helped to derail the original overall bill. (*Weekly Report, p. 679*)

The House approved the measure 262-157. The only one of the 11 previous GOP dissidents who voted against the new funding was Mark W. Neumann of Wisconsin. The others were mollified by a \$550,000 cut approved April 24, and by assurances from the leadership that this year's legislative appropriations bill will keep a lid on actual spending. (*Vote 98, p. 1034; Weekly Report, p. 944*) ■