

CIA Reports in Conflict With Justice

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CIA intelligence reports on Iraq's financial situation, written in the late 1980s, are "in direct conflict" with the Justice Department's position that officers in an Atlanta branch of an Italian-owned bank authorized billions of dollars in illicit loans to Baghdad without the knowledge of officials in Rome, Rep. Henry B. Gonzalez (D-Tex.) disclosed yesterday.

The reports, Gonzalez said, stated that senior officials of the Banca Nazionale del Lavoro (BNL) authorized some large loans to Baghdad from the Atlanta branch.

Gonzalez, chairman of the House Banking Committee, made his remarks in a floor speech, one of a series he has delivered on the BNL scandal. He assailed the Justice Department's "rogue operation" theory about the BNL loans as part of what he alleged has been an attempted coverup of the Bush administration's pre-war courtship of Iraq.

The congressman's statement coincided with the opening of sentencing hearings in Atlanta for the former branch manager of the bank, Christopher Drogoul, who pleaded guilty in June to 60 counts of fraud

and conspiracy in connection with more than \$5 billion worth of loans to Iraq, far in excess of the amounts reported to the Federal Reserve.

Drogoul's attorney tried yesterday to convince the judge in the case that U.S. prosecutors have wrongly pinned a major international bank scandal on his client "to hide the blunders" of U.S. policy toward Iraq. Bobby Lee Cook said Drogoul has evidence that his BNL superiors knew about the loans he funneled to Iraq. But Cook claimed federal prosecutors, engaged in "the mother of all coverups," have refused to see it.

Cook's allegations were vehemently denied by the prosecution. But U.S. District Judge Marvin H. Shoob's interest in the coverup question promises to turn what is normally a quick, routine sentencing session into an extraordinary, potentially week-long proceeding, further spotlighting U.S. support of Iraq before President Saddam Hussein invaded Kuwait.

Shoob, who has been openly skeptical of the government's contention that senior BNL officials and U.S. officials did not know Drogoul was fraudulently loaning Iraq billions of dollars to arm itself, yesterday told Assistant U.S. Attorney Gale McKenzie: "Your theory is this

man orchestrated the whole thing. I find that difficult to believe."

BNL's Atlanta branch was Iraq's principal source of credit in the United States between 1984 and 1989, a period in which Iraq's long war with Iran had turned Saddam's regime into a cash-starved and unreliable debtor.

Ever since FBI agents, acting on a tip, raided BNL-Atlanta in August 1989, Gonzalez said, the Justice Department has been pursuing the theory that the scheme was a rogue operation that "defrauded BNL-Rome." The congressman called this "a very convenient theory" politically "since all sides—Iraq, Rome and Washington—had embarrassing secrets they wanted to keep."

Gonzalez said he had received a CIA report last November providing a rundown of the agency's "raw reporting concerning Iraq's financial situation in the late 1980s and the Banca Nazionale del Lavoro." It was one of a number of documents made available to Gonzalez in response to a committee request for intelligence information on the subject.

Gonzalez said the report remains classified despite a request he made last July for a declassified version. He said the "analysis section" of the report "confirms that 'more senior BNL officials in Rome' approved of the loans and knew that some of them were helping to finance Iraq's Condor II missile project," a planned long-range missile.

Gonzalez said the CIA document "reveals that the Iraqis originally had accepted loans signed only by an Atlanta BNL official, but that later during the relationship as the

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loans increased in value, the Iraqis wanted authorization from higher-level BNL officials in Rome rather than from Atlanta branch officials."

Quoting from the report, Gonzalez said it stated: "BNL agreed to this request, and the loans were then signed by bank officers in Rome."

Top BNL officials in Rome, according to other documents obtained by Gonzalez, visited the U.S. ambassador in Rome in October 1989, shortly after the FBI raid, seeking "some kind of damage control" and continued to express their concerns in subsequent months.

According to a State department cable dated March 19, 1990, a BNL executive vice president named DeVito called the U.S. Embassy in Rome "to register concern that BNL might be soon indicted" and that this "would add insult to injury."

Gonzalez said "it was about this time [spring of 1990] that the Justice Department found a lack of culpability by BNL-Rome."

The U.S. ambassador to Rome, Peter Secchia, has said he told BNL officials in Rome he could not interfere with a criminal investigation, but according to a July 25, 1990, cable to Washington, BNL chairman Giampiero Cantoni continued to express concern and "made a pitch for the U.S. government to go slowly before making indictments."

The indictment of Drogoul and others, depicting BNL-Rome as a victim of the scandal, was not returned until Feb. 28, 1991, the day after President Bush ordered a cease-fire in the Persian Gulf War.

Officials at the CIA and the Departments of Justice and State de-

clined to comment yesterday on Gonzalez's statements.

Gonzalez said he could not tell how much was known by high-level BNL officials "because vital evidence has been denied to me," including "a number of intercepted communications between BNL-Atlanta and its Rome headquarters."

Gonzalez said a Banking Committee investigator had an appointment to see those documents in May, but the visit was canceled at the behest of Attorney General William P. Barr and Nicholas Rostow, legal adviser to the National Security Council.

In the court case in Atlanta, Drogoul is seeking a lesser sentence on the theory that the government has refused to pursue leads he gave them. The prosecution contends Drogoul's cooperation has been useless and Drogoul deserves no break on a prison term for bank fraud and conspiracy. Drogoul could be sentenced to up to 390 years in prison and fined \$17.5 million.

Cook, Drogoul's attorney, yesterday outlined a number of incidents that he said showed the U.S. government and senior BNL officials had known of, and quietly acquiesced to, the illicit loans to Iraq and have been attempting to cover up their involvement.

The attorney said a senior BNL official told Drogoul to extend Iraq financing for a \$100 million steel plant, "even though Drogoul pointed out he didn't have enough money" for the transaction. He said BNL's regional manager also told Drogoul to hide the Iraqi loans—although in a memo cited by prosecutors, Drogoul denied the manager knew of the "off the books" loans.

After the FBI raided BNL's of-

fices in August 1989, Cook said, a BNL attorney told a lawyer for Drogoul: "It is highly improbable that the people in Rome didn't know what was going on." Cook said a BNL official also told Drogoul: "I knew about all that all of the time."

Cook alleged BNL subsequently expressed its gratitude to U.S. officials for limiting the inquiry. He cited the October 1989 cable from the U.S. ambassador in Rome who said BNL wanted "to achieve some sort of damage control," and a November 1989 CIA memo that said "Rome . . . appreciates the low-key manner in which Washington has reacted."

Gerrilyn Brill, a plain-spoken first assistant U.S. attorney, countered with a key question: She asked why, if top BNL officials knew of his actions, Drogoul pleaded guilty to 60 counts of defrauding the bank, and why he doesn't now seek to withdraw his plea?

In fact, Brill said, Drogoul went to "extreme" lengths to deceive not only his BNL superiors, but numerous regulators and auditors.

In six weeks of painstaking discussions with investigators and prosecutors, Brill said, "the most he has done is speculate that someone may have or should have known. . . . The allegations in this case have been long on suspicion and not short on facts and evidence, but void of facts and evidence."

Arthur Wade, the lead investigator on the BNL case, testified that Drogoul's pattern of "off the books" transactions extended to loans that had nothing to do with Iraq.

Lardner reported from Washington. LaFraniere from Atlanta.