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**DOCUMENTS CHARGE
IRAQIS MADE SWAP:
U.S. FOOD FOR ARMS**

BANK FRAUD AND BRIBERY

**Shipments Diverted to Turks,
Jordanians and the Soviet
Bloc, Investigators Say**

By DEAN BAQUET

For more than two years the United States Government has had evidence that Iraq, in the months before it invaded Kuwait in August 1990, diverted food purchased under a \$5 billion American aid program and exchanged it for money and arms in the Soviet bloc and in other countries.

Iraq may have used some of the money, one high-level American Government official wrote in an Oct. 13, 1989, confidential document, to acquire "sensitive nuclear technologies."

A team of Department of Agriculture investigators confronted high-ranking members of Saddam Hussein's Government with some of these accusations that same month.

The team also complained that Iraqi officials were repeatedly demanding bribes from many big American agricultural businesses selling food to Iraq, which was using money lent through the American aid program to buy it. In some instances the Americans paid those bribes, the investigators said.

Accusations of Bank Fraud

Finally, the team charged that all these undertakings were part of a multibillion-dollar bank fraud in the United States that Iraq was engaged in to help finance the rebuilding of Saddam Hussein's military power.

The Iraqis indignantly denied the accusations, and to the astonishment of American law-enforcement officials who were investigating the case, the Bush Administration expanded the aid program with another half a billion dollars in guaranteed loans. Direct losses from those loans, which were backed by the Commodity Credit Corporation of the Agriculture Department, ultimately cost American taxpayers at least \$400 million.

Documents made available to The

New York Times and interviews with law-enforcement officials provide many specific details of the charges that Iraq manipulated the agricultural aid program. Since the Persian Gulf war began, the story of the Bush Administration's prewar courtship and assistance of Iraq has been emerging through news reports and Congressional committees. The Los Angeles Times reported last month, for example, that food intended for Iraq may have been traded for weapons and that Iraq was

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demanding bribes from American exporters.

Newly obtained documents and interviews suggest that Soviet bloc nations, as well as Jordanians and Turks participated in the subversion of the aid program. The documents also suggest that nuclear technology reached Iraq through the aid program.

None of these accounts makes clear how much food may have been converted to cash or arms.

Officials in charge of the Commodity Credit Corporation declined to be interviewed because they say the suspected Iraqi corruption is still under investigation. In 1991, some high-ranking Iraqi officials, along with executives of the Atlanta branch of the Bank Lavoro, Iraq's principal lender under the aid program, were indicted on charges that they participated in a multibillion-dollar bank fraud.

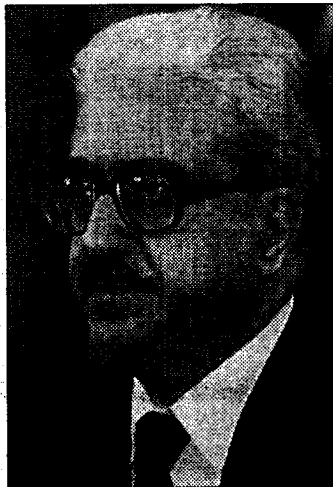
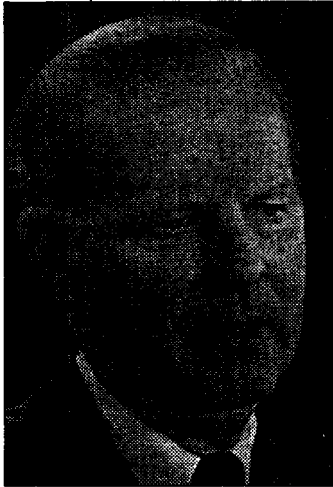
The State Department also declined to comment, but it has repeatedly said that aid was provided to Iraq to counterbalance Iran, as a way to stabilize the Middle East. While not commenting on any of these specific accusations directly, President Bush has said the United States originally tried to help Iraq because of its war with Iran. After the war ended in 1988, he said, his Administration tried to bring Iraq into "the family of nations." These attempts failed, Mr. Bush said, and the United States then helped organize the military force that halted Iraqi aggression.

**Accusations Set Out
In Meeting's Minutes**

The accusations that Iraq used American aid to build its military force were discussed in an Oct. 13, 1989, meeting in the Agriculture Department. The participants included lawyers and other officials of the Commodity Credit Corporation, under which the Government cosigns bank loans for poor countries that want to buy millions of dollars worth of grain, corn and other farm products. The Government agrees that if the country defaults, it will repay the bank up to 98 percent of the loan amount, as well as a portion of the interest.

The minutes of the meeting quote the participants as saying, "Although additional research needs to be done, it appears more and more likely that C.C.C. guaranteed funds and/or commodities may have been diverted from Iraq to third parties in exchange for military hardware."

According to the minutes, the Department of Agriculture's Inspector



Associated Press

According to Government documents, Foreign Minister Tariq Aziz of Iraq, right, met with Secretary of State James A. Baker 3d on Oct. 6, 1989, and made it clear to Mr. Baker that Baghdad was upset about being brought into an American bank scandal.

General was "concerned that commodities were bartered in Jordan and Turkey for military hardware." Additionally, the minutes quote another participant as saying that law-enforcement officials had "some indication that diverted funds (and possibly direct bank-lent funds) were used to procure nuclear-related equipment."

"Noted in particular," the minutes continued, "were a 'nuclear fuel compounder' and a 'nose cone burr.'"

The participants, who included some top legal officials of the Agriculture Department, also said illegal "payments required by Iraq of exporters wishing to participate in the Iraqi market may have been diverted into acquiring sensitive nuclear technologies." American businessmen, they said, had complained that the Iraqis would not let them sell their products in Iraq unless they provided cash, trucks, spare parts and other equipment. Some companies did so, and those that would not go along, the minutes asserted, "were apparently kept on a black list and not allowed to participate in the Iraqi market."

The documents did not identify the American companies, and investigators declined to.

Law-enforcement agents and other Government officials spoke in interviews of additional evidence, based on information obtained from intelligence operatives and others, that some food was diverted to Soviet-bloc nations and traded there for weapons. They did not, however, identify these nations. This charge was not contained in the minutes of the Oct. 13 meeting.

Bank in Atlanta Financed Iraqis

Iraq's participation in the aid program began in 1983, and by 1989 it was receiving \$1.1 billion in annual loan guarantees, making it by far the biggest participant in the program.

At the heart of most of the Iraqi financial operations in the United States was Bank Lavoro, which is largely owned by the Government of Italy. The Italian Government has insisted that it did not know of these illegalities.

Bank Lavoro's Atlanta branch was headed by an ambitious banker named Christopher Drogoul and was actually more of a broker than a bank. It used its high credit rating to borrow money from other banks, then turned around and lent it to Iraq at a higher interest rate.

The Rome headquarters office approved the initial loans to Iraq, law-enforcement officials said. But, fearing too much exposure to a country whose economy was still reeling from an eight-year war with Iran, it declined to let the branch make others, the Italian officials said.

Initially, American law-enforcement officials and defense lawyers in the Bank Lavoro case say, Mr. Drogoul sought business by courting Iraqi bureaucrats in expensive restaurants in Atlanta, Washington and New York. On one occasion, he is said to have spent \$4,000 taking an Iraqi official and his wife on a one-day shopping spree in Washington.

Before long the tables turned. Investigators say Mr. Drogoul managed to get American and multinational business people to court him, and he began receiving bribes from them, in return for the promise of doing business with Iraq.

A 347-count indictment returned last year asserts that Mr. Drogoul continued borrowing money from American and other international banks and lending it to Iraq. According to the indictment, Mr. Drogoul kept track of his unauthorized loans in a separate log known at the Atlanta branch-bank office as the "gray book."

The indictment charges that he was induced in part by hundreds of thousands of dollars in cash and gifts he received from the Iraqis and multinational companies that wanted to sell them food. Entrade International Ltd., a New York subsidiary of a giant Turkish company, the Enka Holding Investment Company, is named in the indictment as one such company and investigators said other companies are still under investigation.

Both Mr. Drogoul and Entrade have denied the accusations.

Among the major recipients of Mr. Drogoul's loans was Matrix Churchill, a Cleveland computer and machinery company that the Federal Government says was, in fact, secretly owned by Iraq. Customs officials in Cleveland, who shut Matrix Churchill shortly before the start of the Iraqi war, are investigating whether the machinery Matrix Churchill shipped to Iraq was designed or used for weapons.

Jordan Businessman A Principal Figure

Court records identify Mr. Drogoul's ally in the dealings as Wafai Dajani, an American-educated Jordanian businessman with intelligence and business connections throughout the Middle East and the United States.

Mr. Dajani's brother is a former intelligence chief and interior minister in Jordan. Mr. Dajani himself often boasted of his contacts in the State Department and the Central Intelligence Agency. Indeed, Government officials say Mr. Dajani was important in persuading some people in the Bush Administration to continue making loans to Iraq, even as the evidence of corruption mounted.

Mr. Dajani was the principal shipper of the food bought with American aid. The Iraqi Government gave him the right to ship virtually all the produce sold by the American food companies from the Port of Houston. Mr. Dajani said he used trucks to

Alarm Bells Ring At High Levels

In the summer of 1989, the Bank Lavoro fraud came to a crashing end. Two American employees of the branch, fearful that they might get caught, walked into the offices of the United States Attorney in Atlanta and offered to cut a deal. On Aug. 4, a team of F.B.I. agents and examiners from the Federal Reserve Bank swarmed through the branch and carted away boxes of documents, including Mr. Drogoul's "gray book."

Law-enforcement officials in Atlanta thought they had solid evidence in a case that would be easy to prosecute.

In Washington, Baghdad and Rome, however, the raid set off a series of policy meetings at the highest levels. Intelligence and diplomatic officials who insisted on anonymity said cables shot back and forth, and the C.I.A. and the State Department began fretting about the impact a prosecution would have on U.S.-Iraqi relations.

"We were trying to make friends with the Iraqis, and indicting somebody is not a way to make friends with them," said one Federal agent who said he became frustrated by the involvement of Washington.

According to Government documents made public by Representative Gonzalez, Foreign Minister Tariq Aziz of Iraq met with Secretary of State James A. Baker 3d on Oct. 6, 1989, and made it clear that his Government was upset about being brought into an American bank scandal.

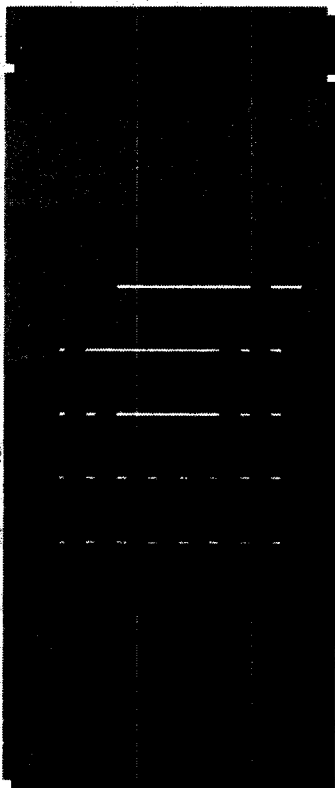
The State Department's notes of that meetings quote Mr. Aziz as saying: "This was not a sign that the U.S. wanted improvement in relations. It is in fact a setback and the Government of Iraq is very unhappy."

Shortly afterward, Mr. Baker paid a call on Agricultural Secretary Clayton K. Yeutter and asked him to give additional aid to Iraq, according to a documents made public by Mr. Gonzalez.

Iraq had asked for another \$1 billion in loan guarantees for 1990. Over the objections of law-enforcement officials investigating the case, the Administration decided to provide half that amount, with the agreement that the second installment would come if the investigators concluded high-ranking Iraqis were not involved in the fraud.

At the time, according to law-enforcement officials, defense lawyers, and others involved in the investigation, it was clear from the very beginning that high-level Iraqis were involved.

The negotiations ended when Mr. Hussein invaded Kuwait.



The New York Times

take the food through Jordan to Iraq.

Representative Henry B. Gonzalez, the Texas Democrat who is chairman of the House Committee on Banking, Finance and Urban Affairs, which is investigating the Bank Lavoro scandal, has accused Mr. Dajani of helping Iraq acquire arms. Mr. Dajani denies the charge.

Gail McKenzie, the assistant United States Attorney in Atlanta, who is conducting the Bank Lavoro inquiry, said Mr. Dajani was a target of the investigation.

In a telephone interview from his home in London, Mr. Dajani denied arms dealing and said his name came up in the Bank Lavoro investigation only because of overzealous prosecutors. He also said the inquiry was fueled by anti-Arab sentiments.

Last month, The New York Times reported that some officials wanted to include Mr. Dajani in the original indictment. After the State Department pointed out that charging Mr. Dajani would infuriate King Hussein of Jordan, he was not charged. The King and Mr. Dajani are friends. Ms. McKenzie said the decision not to indict Mr. Dajani was made by prosecutors.