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Memo Faulted U.S. Action In Probe of Loans to Iraq

Complaint at Odds With Statements by Officials

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The chief federal prosecutor probing illicit bank loans to Iraq complained in an internal memo last spring that the Bush administration ignored damning information when it gave Baghdad \$500 million in agricultural loan guarantees in October 1989.

The memo from the prosecutor, Gale McKenzie, appears to be at odds with previous statements by officials at the White House and elsewhere in Washington that McKenzie assured them at that time that there was no reason to withhold the credits.

McKenzie's complaint represents one of several indications in newly released government documents that she and Washington frequently squabbled over her handling of the politically sensitive case, which prosecutors have called the largest bank fraud in U.S. history.

The disputes between McKenzie, who works for the U.S. attorney in Atlanta, and the Justice Department included such matters as whether and when to interview powerful Italian and Iraqi officials thought to be implicated, and when to hand up an indictment.

The documents indicate that senior officials of the Department of Justice closely monitored the case and opposed investigators' strenuous efforts to pursue certain leads and complete their work in spring 1990. Several of the officials have previously said in interviews that Washington did not intervene.

Partly as a result of Justice Department intervention, the documents indicate, a federal indictment of three officers of the Atlanta branch of the Italian Banca Nazionale del Lavoro (BNL) and four Iraqis was not brought until February 1991, at the end of the war

over Iraq's occupation of Kuwait. When prosecutors first sought to bring the indictment, the Bush administration was seeking to improve U.S.-Iraqi relations by expanding commercial ties.

House Banking Committee Chairman Henry B. Gonzalez (D-Tex.), who with aides has been investigating the scandal for several years, charged in releasing the internal memos yesterday that they showed

the administration's policy "was to hear no evil, see no evil" in Iraqi behavior on the bank loans.

The senior U.S. attorney in the case, Gerrilyn Brill, said yesterday she could not respond until she reviews the memos and discusses them with McKenzie. She said that while "there were disagreements between Washington and Atlanta," the prosecution team never felt any pressure to limit its investigation of the bank.

Gonzalez previously revealed that an aide to White House counsel C. Boyden Gray telephoned McKenzie in November 1989 to ask whether the investigation would create "potential embarrassment to the White House" in light of the administration's plan to approve the new Iraqi loan guarantees.

Gray's aide, Jay Bybee, has said McKenzie told him there was no reason to withhold the Commodity Credit Corporation (CCC) loan guarantees based on information her team had turned up—a statement he depicted as helping to justify the administration's decision to go ahead. But McKenzie, in a private memo to Brill last April, complained that information she provided was "discounted" by officials in Washington when the approval was given.

Brill and Justice Department officials have declined to allow media interviews with McKenzie. But McKenzie felt enough progress had been made to report to the U.S. attorney in an internal memo the same month as Bybee's call that "there will be at least one CCC count in the initial indictment," meaning that there was evidence of wrongdoing in connection with the agricultural loans.

A memo to Brill by Ray Rukstale, who was the U.S. attorney overseeing the case in spring 1990, reports the view of Lawrence Urgenson, chief of the fraud section at the Justice Department, that there was no "merit" in interviewing Iraqi government officials. Other memos make clear that his view was directly at odds with that of McKenzie and other prosecutors in Atlanta.

Urgenson, who previously said in an interview with The Washington Post that the Justice Department had not interfered in the case, could not be reached for comment last night. Brill said the government's decision not to interview any Iraqis was made in Atlanta.