
Gonzalez Says CIA Warned of Iraq Arms Net

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Senior Bush administration officials were told by the CIA of a secret Iraqi effort to buy U.S. and European equipment for weapons of mass destruction two days before an interagency group in November 1989 approved \$1 billion in credits for Iraqi agricultural purchases, a leading House Democrat said yesterday.

A previously undisclosed CIA report had provided senior officials at the time with details of Iraq's clandestine procurement network for missile, nuclear, poison gas and germ weapon technology. The report said the Iraqi arms effort was financed in part by loans from an Atlanta-based branch of Italy's Banca Nazionale del Lavoro (BNL), which also had provided loans to Iraq guaranteed by the U.S. Commodity Credit Corp.

House Banking Committee Chairman Henry B. Gonzalez (D-Tex.), who unearthed the report as part of a wide-ranging inquiry into U.S. policy toward Iraq before the Persian Gulf War, said it was sent to the State Department and the National Security Council shortly before an interagency committee of senior officials—including State and NSC representatives—approved the additional Commodity Credit Corp. guarantees.

Gonzalez also disclosed that he had found evidence suggesting an unnamed White House official intervened in an investigation of BNL started in 1989 by the U.S. Attorney's Office in Atlanta. The official, Gonzalez said, held a tele-

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phone conversation in 1989 with Gail McKenzie, the senior U.S. attorney handling the BNL probe in Atlanta, and expressed concern about the possible political fallout of the case.

A description of the phone call appeared in notes taken by a Treasury Department lawyer who spoke with McKenzie one day before the credit guarantees were approved. "She has been called by the White House—got the impression (they are) concerned about embarrassment level," the notes said.

"It is clearly improper for the White House to be calling an assistant U.S. attorney to talk about an open criminal case—especially a case as sensitive as the BNL case," Gonzalez said in a speech on the House floor, the latest of a series in which he has disclosed information from government documents. "A call from the White House could certainly be perceived as threatening."

McKenzie could not be reached for comment yesterday. A White House spokesman declined comment on any part of Gonzalez's statement.

The administration's decision in 1989 to grant Iraq an additional \$1 billion in credits to buy U.S. farm goods was made, officials have said, as part of a broad effort to draw

Iraq toward the West. The CIA report itself warned of potential damage to U.S.-Iraqi relations from any cutoff of agricultural credits.

But already at the time, some government officials were arguing against providing new credits, saying Iraq was not creditworthy and was suspected of diverting past credits to pay for weapons and nuclear equipment.

Only half the \$1 billion in credits approved in November 1989 was eventually provided to Baghdad, which subsequently defaulted on millions of dollars in U.S. loans after its August 1990 invasion of Kuwait.

"Providing Iraq with a billion dollars in additional credits while knowing of Iraq's sinister intentions is inexplicable. How can the administration explain that?" Gonzalez asked yesterday.

The CIA report, which was prepared by the agency's Persian Gulf Division, did not tie the agricultural credits to Iraq's clandestine weapons purchasing effort, according to a source who has read the document. But Gonzalez said the report's existence raises questions about the candor of President Bush's statement last week that his administration "didn't know" of diversions of U.S. assistance for the development of Iraqi arms.

"Given the contents of the CIA report, the president's statement seems rather disingenuous," Gonzalez said. "The White House and

State Department were keenly aware that BNL loans were tied to Iraq's highest priority weapons programs. The CIA also has plenty of information in its files showing the Iraqis involved in the BNL scandal represented the highest levels of the Iraqi government.

The report said, for example, that Iraqi President Saddam Hussein's son-in-law, Hussein Kamil Hassan, was involved in dealings with the BNL at a time the CIA considered him the second most powerful Iraqi official. Safa Habibi, who Gonzalez said directed how much of the BNL money was spent and was later indicted for his role in the BNL scandal, was listed in the CIA report as an Iraqi intelligence agent and the head of Iraq's military technology buying network.

But Deputy Treasury Secretary John E. Robson told Gonzalez's committee in May that the decision to go forward with the new credits was based partly on a judgment that "Iraqi officialdom" was unlikely to be involved in the BNL scandal. Other factors influencing the decision, Robson said, included "U.S. trade and export interests," foreign policy concerns and a judgment that Iraq would repay the loans.

CIA spokesman Mark Mansfield declined to comment on Gonzalez's description of the 1989 report, citing the agency's policy of not discussing intelligence reports.