

Report Faults CIA, Justice Dept. in BNL Probe

Senate Panel Says Officials Failed to Exchange Classified Information on Loans to Iraq

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The CIA and the Justice Department mishandled a probe of illicit loans to Iraq during the past three years by failing to pursue intelligence leads or exchange and disseminate classified information bearing on the case, the Senate Select Committee on Intelligence said in a report released yesterday.

Serious errors in judgment by CIA and Justice Department officials and poor administrative practices kept prosecutors from learning of information that bore on the central question of who was responsible for \$4 billion in fraudulent loans made to Iraq from 1985 to 1989 by the Atlanta branch of an Italian government-owned bank, Banca Nazionale del Lavoro (BNL), the Senate report said.

The issue of who was responsible was a focus of considerable political speculation during last year's presidential campaign, amid allegations from some Democratic legislators that the Bush administration had attempted to cover up evidence of complicity by U.S. or Italian officials in the affair.

The Senate report said that some CIA officials, who claimed to be acting on the advice of officials at the

FBI, decided to block distribution to the Justice Department of some classified documents about the case. The documents were considered politically embarrassing to the government or potentially damaging to the government's prosecution of the director of BNL's Atlanta branch, Christopher Drogoul.

One of these documents was a December 1990 intelligence report, partially disclosed in the Senate report for the first time. The intelligence report, from an unidentified agency, contained an unverified allegation that "U.S., Italian and Iraqi officials had engaged in unlawful conduct in connection with the BNL-Atlanta loan case."

The Senate inquiry did not substantiate this claim, but criticized the executive branch's failure to provide this report to federal prosecutors investigating this case in Atlanta.

The report attributed the failure to what a CIA official said was an FBI concern that "every paragraph contains damaging information which is clearly discoverable" in court if released to the Justice Department.

A September 1989 Defense In-

telligence Agency report, which also never reached the prosecutors, contained an unverified allegation that the illicit bank loans were "part of a larger NATO strategy to ensure an Iraqi victory in its war with Iran," the Senate report disclosed.

At least seven other classified intelligence reports, which also never reached the prosecutors, suggested or contained allegations that the loans were authorized by officials at the BNL bank's headquarters in Rome, according to the Senate report. That claim conflicted with the prosecutors' long-standing contention that the loans were orchestrated by Drogoul without any knowledge by BNL officials in Rome.

Attributing these foul-ups to errors in judgment by CIA and Justice Department officials, the Senate report said a four-month study of classified government information had not turned up any evidence of criminal wrongdoing by career officials or political appointees in the Bush administration, which supervised the federal probe.

The report also said the committee's inquiry had turned up no evidence that the U.S. government had secretly authorized or partic-

ipated in the loans, which were used by Iraq to buy food and arms before the Persian Gulf War. Some Democratic lawmakers had speculated that the Bush administration ordered prosecutors to make Drogoul the scapegoat to hide evidence of U.S. government involvement.

Two committee members, Sen. Howard M. Metzenbaum (D-Ohio) and Sen. Alfonse M. D'Amato (R-N.Y.), took issue with the report, voting against its release because they felt the staff's inquiry was not sufficient to reach the conclusions in the report. "This report is too narrow to make sense of this incredible botch by the U.S. government," Metzenbaum said in a statement released by his office. "I still believe that we need an independent prosecutor to get to the bottom of this entire fiasco"—a proposal rejected in December by Bush administration attorney general William P. Barr.

Committee Chairman Dennis DeConcini (D-Ariz.) said in an interview yesterday that he too was not fully satisfied by the report, which was prepared by the committee's bipartisan staff. "There are some unanswered questions," said DeConcini, who became chairman early this month as the inquiry was drawing to a close. "Overall, yeah, I

think an independent prosecutor might be appropriate."

The Senate report is one of four major independent reviews of the Bush administration's conduct in the BNL affair.

CIA Inspector General Frederick P. Hitz, in a report also released yesterday, declared he found no evidence that CIA officials had deliberately withheld information from the Justice Department to obstruct the prosecution or keep the agency from becoming implicated in the BNL affair.

But Hitz added that "mistakes clearly were made by agency officers in their handling of events related to the BNL matter, and there was carelessness and a number of instances of poor judgment." He recommended disciplinary action against four individuals. But in a written reply released yesterday, former CIA director Robert M. Gates rejected Hitz's recommendation before leaving office last month.

Neither the Senate nor internal CIA studies support the allegations in a separate report last October by U.S. District Judge Marvin H. Shoob, who was then presiding over the BNL case, that the Bush admin-

istration failed "to investigate seriously" whether Rome officials knew of the loans because it wanted to "contain criticism of a failed foreign policy" toward Iraq before the Persian Gulf War.

That claim was also rebuffed by a special investigator appointed by the Justice Department who concluded last December that political considerations had not tainted the government's handling of the probe, but called the handling of classified information in the case "a fiasco."

Senate sources said the intelligence committee staff had based its conclusions about the lack of U.S. government complicity in the loans on assurances it received from officials of the CIA, the Defense Intelligence Agency and the National Security Agency, as well as on classified documents it reviewed—none of which, the report said, supported charges of a government-wide conspiracy.

The sources acknowledged that the staff did not conduct an independent inquiry into leads provided by the classified documents, which prevented it from reaching a conclusion about whether Drogoul was solely responsible for the loans.