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Are U.S. Taxpayers Still Aiding Iraq?

The Iraqgate scandal has washed across Washington in waves. First came the revelations that the Agriculture Department extended billions of U.S. taxpayer-guaranteed credits to Baghdad as part of a pre-Persian Gulf War effort to seduce Iraqi President Saddam Hussein into moderation.

Then taxpayers learned that they were saddled with Saddam's bad debts after Iraq invaded Kuwait and defaulted on \$1.9 billion of Commodity Credit Corp. loans.

Congressional critics now are taking aim at the administration's decision to pay back claims on these bad loans to banks that participated in the CCC program. Three of the nine banks receiving U.S. payments are (or were until recently) owned in part by outlaw governments, including Iraq and Libya.

These three banks have collected more than \$800 million from the United States since Iraq's invasion of Kuwait, and they continue to receive money.

The Treasury Department's Office of Foreign Assets Control (OFAC), which is charged with enforcing Iraq embargo statutes, and the Agriculture Department maintain that the payments are legal because Iraq does not have a controlling interest in the banks.

OFAC Director R. Richard Newcomb told our associate Dean Boyd: "Each and every institution underwent thorough examination to determine ownership as well as existing managerial influence and control. . . . To have ruled otherwise would have been contrary to years of practice in implementing embargo statutes."

But in a recent letter to Newcomb, Senate Agriculture Committee Chairman Patrick J. Leahy (D-Vt.) cited other provisions under the Iraq sanctions that he says challenge the legality of the payments. Congressional critics wonder why, at the least, the Bush administration failed to mount any opposition.

There was opposition in some corners of the government. In April 1992, Gale McKenzie, the federal prosecutor in charge of the Banca Nazionale del Lavoro (BNL) case in Atlanta, wrote Justice Department superiors a memo after hearing about Leahy's complaints. BNL was the prime bank through which the United States originally funneled backdoor aid to Iraq and is now the focus of an intensive federal criminal investigation.

The McKenzie memo reads: "These payments to banks both owned and administered in part by Iraq occurred long after we warned CCC of the Iraqi ownership. . . . We raised the issue of how CCC could possibly consider, in effect, paying Iraq again for the very U.S. debt on which Iraq had defaulted."

McKenzie said concerns about Iraqi interests in the banks were conveyed to the CCC's assistant treasurer, who "assured us that she had written up our concerns, added her concurrence with our position and referred the matter to those responsible for such payment decisions." Nevertheless, McKenzie wrote, the information "was apparently discounted in reaching this policy decision."

Agriculture officials acknowledge the McKenzie memo but maintain there was absolutely no debate over the decision to pay back the banks since Treasury flashed the green light. "Unless there was some legal basis for not making the payments, we were under contract to do so," a spokesman told us.

The Bahrain-based Gulf International Bank has received \$460.8 million of the \$800 million. Most of this was paid out while Iraq maintained a 10 percent equity ownership in the institution. Gulf International insists that Iraq has never profited from U.S. payments to the bank. Although Gulf International eliminated Iraq's stake by April 1992, Leahy has criticized the payments as violations of the administration's own ban on aiding Iraq.

It is unclear whether the Iraqi or Libyan governments have benefited from the payments, but Leahy has asked OFAC to investigate allegations that loans from Gulf International to Jordanian trading companies today may be financing small arms shipments to Iraq. Leahy also cited a shipyard partly owned by Libya and Iraq that he says has received a loan from Gulf International.

The bottom line, according to Leahy, is "if United States taxpayer payments to Gulf International Bank helped the bank make the loans to the Jordanian-based companies, then it would appear that American money is helping to break the U.N. embargo against Iraq."

In the final stretch of the presidential campaign, these and other aspects of Iraqgate are snowballing. With the Clinton-Gore team picking up on the revelations, President Bush has been thrown on the defensive on foreign policy, once considered his strong suit.