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U.S. Loan Guarantees Overlooked Iraqi Record

Agriculture Department Certified It Was Unaware of Illegal Actions Despite Contrary Report

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Shortly before the Bush administration approved \$1 billion in loan guarantees to Iraq three years ago, the Agriculture Department falsely certified that it had no evidence of illegal actions by Iraq in obtaining previous loans, according to a federal investigator.

The evidence of Iraqi wrongdoing was uncovered during a 1989 probe of illicit loans to Iraq by the Atlanta branch of Italy's Banca Nazionale del Lavoro (BNL). It was disclosed to two Agriculture Department officials by Gale McKenzie, the senior prosecutor in the BNL case, on Oct. 11 of that year.

But a summary of McKenzie's findings, prepared four weeks later by the department, inexplicably reported an opposite conclusion that "no [Iraqi] wrongdoing is indicated at this time." The incorrect summary played a key role in persuading senior administration officials to approve the new loan guarantees on Nov. 8, 1989.

Arthur J. Wade, the chief investigator under McKenzie, has called the Agriculture Department's summary wrong and said it was crafted "artificially" and for a "definite purpose," according to a transcript released yesterday of testimony he gave in July to staff members of the Senate Agriculture Committee.

The disclosure of Wade's statement is expected to heighten controversy over the administration's decision to extend the additional guarantees to Iraq at a time of growing suspicions that past loans were riddled with corruption, including kickbacks and bribes demanded by Iraqi government agencies and questionable consulting fees for Iraqi front companies in the United States.

The decision to go forward was part of a broad U.S. effort to pull Iraq toward the West in the aftermath of the eight-year Iran-Iraq war, a plan strongly promoted within the administration by Secretary of State James A. Baker III. It was initially resisted by the Treasury Department, the Federal Reserve Bank and OMB, whose representatives warned pro-

phetically that allegations of Iraqi wrongdoing could eventually embarrass the administration in the loan matter.

BNL, as the principal financier of U.S. exports to Iraq, was the chief recipient of the loan guarantees that the Agriculture Department gave to Iraq before 1988. BNL's Atlanta branch was raided in 1989 after two of its employees told the government the branch had made billions of dollars worth of unreported loans to Iraq, including some that were not guaranteed by the government.

Controversy over the U.S. loan guarantees first erupted last summer, when congressional investigators disclosed that a State Department official responsible for monitoring the loan program, Frank LeMay, informed his superiors weeks before the loan guarantees were approved that the BNL probe had produced substantial evidence of Iraqi wrongdoing, including the potential diversion of U.S.-guaranteed funds to purchases of nuclear-related equipment. LeMay's memo was partly about his discussions of the BNL case with

Kevin Brosch, an Agriculture Department attorney, and Larry McElvain, an official of the department's loan guarantee program. Brosch later told the House banking committee that LeMay's memo was a misleading and exaggerated account of his briefing.

But Wade bolstered LeMay's claim by telling Senate investigators that McKenzie and Ken Goloc, another investigator on the case in Atlanta, had informed Brosch about the evidence of Iraqi wrongdoing, prior to Brosch's meeting with LeMay.

"I viewed what I had as evidence," Wade said, according to the Senate transcript of an interview conducted with Goloc present. "I cannot imagine saying I had no evidence." Goloc added that although he did not then have enough information to indict specific Iraqi officials, "we were definitely beyond the speculation point." Brosch could not be reached yesterday. But Thomas V. Conway, an associate general counsel at the Agriculture Department, said "in our view, Wade made a number of allegations, but did not have evidence" of Iraqi wrongdoing.