

Resurrection of Scandal Haunts

New Investigations of BNL Atlanta Branch's Loans to Iraq in 1980s

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ROME, Oct. 30—Just across the street from the palatial American Embassy here, at one of the poshest addresses along the fashionable Via Veneto, a climate of fear and suspicion weighs heavily over the imposing headquarters of Italy's Banca Nazionale del Lavoro.

Barely three years after its Atlanta branch was implicated in a multibillion-dollar loan scam that helped Iraq bolster its arsenal ahead of the Kuwait invasion, the largely government-owned bank believed—for a short while—that it was winning a difficult struggle to salvage its reputation and international business interests.

Giampiero Cantoni, the BNL chairman who was appointed a month after the scandal broke in August 1989 to clean up the mess left by his disgraced predecessor, had revamped the bank's organization and strengthened its audit process in a bid to restore public confidence in the country's second largest bank.

"When I arrived, morale was terrible and the big concern was whether my 26,000 employees would get paid by the end of the month," Cantoni said in an interview. "A lot of people were frightened that we might not survive that phase, yet we did."

But the ghost of the BNL scandal, once buried after a few harrowing months, has been resurrected here as new investigations loom in the United States and Italy to explore the possibility that an international political conspiracy may lay behind the scale and haste of Western efforts to rebuild Iraq in the late 1980s.

The revived interest in the case has been fueled by populist rebellion against the Christian Democrats and Socialists, who ruled in tandem for decades to keep the Communists in opposition. Besides Italy's steep economic crisis, voters have become incensed over proliferating corruption scandals.

The Christian Democrats, including their long-time prime minister, Giulio Andreotti, have been linked by

investigating magistrates with Mafia activities; the Socialists stand accused of taking cash kickbacks for public work contracts, and some investigators want to see whether BNL's close association with the Socialists over the years has involved paybacks on international deals.

The spreading disenchantment with Italy's political establishment has provided fertile ground for new suspicions to grow about the real motives behind the BNL case, as political pressure grows to root out the deeper truths.

Locked behind the bank's fortress mentality, BNL executives have kept a low profile, hoping the crisis will fade. But only they may provide the necessary insights to resolve several puzzling questions to the case: How could the Rome hierarchy not be aware of the huge loans being doled out in its name? How much political orchestration was involved, given the bank's close ties to the ruling Socialists and its extensive links with Iraq? Why was the U.S.-Italian partnership considered to be at stake in the prosecution of the case?

Following its own internal investigation, BNL headquarters claimed to have been duped and defrauded by the Atlanta branch manager, Christopher Drogoul, who purportedly funneled more than \$4 billion in loans and loan guarantees to Iraq hidden on "gray books" that eluded detection by the bank's lax supervisors. Drogoul was convicted of fraud, but is now appealing the verdict on grounds that his superiors were aware of his activities.

Bank officials acknowledge that oversight, at the time, was extremely lax because Giacomo Pedde, the bank's powerful general manager, had ordered a reorganization of the bank and issued a directive to trim costs by scaling back audits. The weakened internal controls, they say, allowed Drogoul to pursue his fraud-

ulent scheme without getting caught by his bosses in Rome.

A September 1988 inquiry by BNL's New York regional office, however, condemned several irregularities committed by the Atlanta branch, such as repeatedly exceeding its lines of credit. But the report was buried, and a translated copy had not reached Rome before the FBI raided the branch on Aug. 4, 1989.

Bank officials claim Drogoul exploited BNL's Triple A rating and covered up his shadowy deals by juggling the massive loans on his "gray books." Yet a 14-month investigation by the Italian Senate concluded the enormous loans to Iraq could not have gone undetected unless aided and abetted by higher-ups.

Moreover, Italian Senate investigators contended that a political decision may lay at the root of the case. Investigators were precluded from pursuing this avenue when Parliament was dissolved before national elections last April, but they want a new inquiry to look into possible connections between BNL executives, the Socialist Party that has close vested interests in the bank, and an extensive array of arms, oil and construction contracts between Italy and Iraq that stretch back more than three decades.

Of particular interest, investigators say, is a visit to Washington in March 1985 by Socialist prime minister Bettino Craxi, when he discussed what to do about Iraq and the Middle East with President Reagan, Secretary of State George Shultz and other top U.S. officials. During the week Craxi was in Washington, the sources said, directors of Iraq's state-owned Rafidain bank were holding financial discussions in Rome with BNL executives.

Cantoni, Craxi's close friend and personal banker, refused in the interview to discuss any possible connection between the two events.

The notion of a political conspir-

Italian Bank

Loom in U.S., Rome

acy behind the BNL scandal has gained ground following revelations that the CIA and Justice Department were less than candid with U.S. congressional investigators and failed to release documents, until pressed by an Atlanta judge, that suggested Rome headquarters knew about the loan scam.

In the interview, Cantoni said it was his "duty and right" to warn U.S. Ambassador Peter Secchia in 1989 about the risks to BNL and the U.S.-Italian partnership posed by U.S. prosecution of the bank. But Cantoni insisted he was not exerting pressure for the American government to abort a criminal investigation.

Following a subsequent encounter in July 1990, Secchia sent a cable to Washington saying Cantoni "expressed once more his concern over the ongoing investigation of BNL's Atlanta branch's Iraq loans. . . . Cantoni did not ask for any intervention, perhaps discouraged by the embassy's previous refusals to become involved in an ongoing investigation of possible criminal activity. Yet, he made a pitch for the U.S. government to go slowly before making any indictments."

The cable goes on to say Cantoni noted that Adm. Fulvio Martini, head of Italy's military intelligence service, told him the loan problems were exposed "because it was beneficial for the Israelis to make it public. . . . He also commented that the assistant U.S. attorney in Atlanta is a 'mean and vindictive woman' who is being led by Israeli sources who have pointed her toward Turkey as the basis of where all this began. He [Cantoni] is positive that Mossad [Israel's intelligence service] wanted to publicize the BNL involvement."

In the interview, Cantoni refused to discuss many details about the case, citing the ongoing investigations. But he angrily denied making any assertion about an Israeli plot.