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U.S. Intelligence Knew of BNL-Iraq Transfers

Bank Activities Were Monitored Before Criminal Probe of Atlanta Branch, Memo Shows

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The U.S. intelligence community had information about financial dealings between Iraq and the Atlanta branch of an Italian bank before those dealings became the target of a criminal probe in 1989, according to U.S. officials and an internal Justice Department document.

The information included details of some electronic funds transfers by the Atlanta branch of Banca Nazionale del Lavoro (BNL), the officials said. The transfers were intended to help finance Iraq's military buildup in the late 1980s, the officials added.

The document, written in September by a lawyer in the Justice Department's criminal division, provides the first official corroboration that U.S. intelligence agencies were monitoring at least some BNL transactions involving Iraq.

The document, a copy of which was obtained by The Washington Post, does not indicate whether the intelligence community was aware at the time of the important role BNL was playing in Iraq's military purchasing network. Nor is it known whether the intelligence community issued any warnings about these dealings to policymakers in the Bush or Reagan administrations.

The Bush administration has strongly defended as well-intentioned its efforts to bolster U.S.-Iraq ties through expanded commercial trade before Iraq's 1990 invasion of Kuwait, while conceding the policy failed to moderate the behavior of Iraqi President Saddam Hussein and contributed to his arms buildup.

Congressional investigators, accusing the administration of trying to cover up aspects of the formerly lenient Bush and Reagan policies toward Iraq, have speculated that the U.S. intelligence community may have been at least aware

throughout the 1980s of BNL's link to Iraqi military purchases or, more conspiratorially, may have been a party to some of the bank's dealings.

In recent weeks, the intelligence community's handling of BNL-related information has become the focus of separate probes by the Senate Select Committee on Intelligence, the CIA's inspector general and a special investigator appointed by Attorney General William P. Barr. But none of the probes has yet made substantial headway in establishing what the community did or what it knew, according to various officials.

The CIA has not answered a Sept. 8 request by the Senate committee for information about its knowledge of BNL activities, according to congressional sources. The special investigator, Frederick B. Lacey, is currently traveling overseas on business unrelated to his probe. And CIA Director Robert M. Gates, expressing in a written statement his embarrassment over congressional charges of wrongdoing by the agency, last week ordered employees not to make any further public comment on the matter.

BNL's assistance to Iraq's military program was exposed after two employees at the bank's Atlanta branch tipped off federal officials about suspicious transactions, and FBI officers raided the branch in

August 1989. Atlanta branch manager Christopher H. Drogoul, two other branch employees and four Iraqis were indicted by the government in February 1991 in connection with the scheme.

The bank financed roughly \$2 billion in exports from the United States and Europe to Iraq of machine tools and other military-related equipment between 1985 and 1989. It also financed roughly \$2 billion worth of U.S. food shipments with loans backed by the Agriculture Department.

After first pleading guilty to fraud and other charges, then asking to withdraw his plea, Drogoul alleged in September at a sentencing hearing in Atlanta that his activities had been at least tacitly accepted by Washington because U.S. intelligence agencies had ample opportunity to know what he was doing. But Drogoul offered no proof that U.S. intelligence had known of his

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transactions with Iraq, and his attorneys were unable to extract much information from the government about the issue before federal prosecutors moved to revoke the plea agreement and the judge in the case ordered a trial, expected to begin next year.

The internal Justice Department document that provides new evidence of intelligence community awareness of BNL-Iraq transactions was dated Sept. 8 and written by Peter Clark, a deputy chief of the fraud section who was monitoring the prosecution of Drogoul in Atlanta.

The memo was written to advise Gerrilyn Brill, the acting U.S. attorney in the case, how to respond to a request from Drogoul's attorneys for assurance that no intelligence agency "was aware of the wrongdoing at BNL-Atlanta" before the 1989 tip-off by bank employees.

Clark advised Brill to state that the government had no evidence before the tip-off "of the illegality of BNL-Atlanta's activities." But in a note depicted in the memo as a private caution to her, Clark said "if 'activities' is intended to include knowledge that a wire transfer was made on a particular date, there are instances in which such transactions were 'known' [to the U.S. intelligence community]."

The memo added that Brill should not assume "an intelligence agency knew why the transaction was being effected, or [knew] that it was

pursuant to a scheme to defraud" BNL officials in Rome at the time it occurred. But the memo did not answer these questions or say which transactions were known by intelligence agencies.

U.S. officials who declined to be identified said the transactions involved sales to Iraq made under four loan agreements with BNL and meant to contribute to Iraq's military buildup.

Brill's written reply to Drogoul's attorneys on Sept. 10, shortly before Drogoul's sentencing hearing began, adopted Clark's suggested language but contained no hint of intelligence community knowledge about some BNL-related wire transfers.

Asked to comment yesterday, Drogoul attorney Bobby Lee Cook said from his home in Summerville, Ga., that Brill's response "might be considered an artful evasion in Washington or Atlanta. Here in north Georgia, we consider that a lie."

Brill declined comment.

The CIA, in a Sept. 17 letter to the Justice Department that has been made public, said it had no knowledge of "unauthorized" or "illegal" activities by BNL on behalf of Iraq at the time they occurred. But that reply left unanswered whether the agency believed at the time such loans were in some way authorized—either by Washington officials or officers at the bank's headquarters in Rome—or had simply failed to evaluate whether they were legal.

In late September, according to other Justice Department documents obtained by The Washington Post, Brill wrote to CIA acting general counsel David P. Holmes asking: "Was the CIA involved in any manner in the utilization of BNL-Atlanta for funding for Iraq? . . . Did the CIA have contemporaneous knowledge that . . . Drogoul and other BNL-Atlanta employees were involved in making loans and extensions of credit to Iraq?"

Brill said she was making these inquiries on behalf of the federal judge presiding over Drogoul's sentencing hearing, Marvin H. Shoob, who had said in court that he suspected some U.S. government link to the scandal. But Holmes's written reply to Brill on Sept. 30 was not informative.

"We think the best approach is to respond to Judge Shoob directly, and we are making arrangements to travel to Atlanta" for a session in the judge's chambers under federal rules restricting public disclosure of classified matters in court, Holmes wrote, according to a copy of the letter. "It is essential . . . [that these procedures] be invoked so that CIA's information is not jeopardized."

The CIA session with Shoob was never held, because Brill moved the next day to halt the sentencing proceedings, and several days later Shoob agreed to another prosecution request that he withdraw from the case.

House Banking, Finance and Urban Affairs Committee Chairman Henry B. Gonzalez (D-Tex.), who has been investigating the BNL case, said in a Sept. 14 speech that he was aware the U.S. intelligence community has "a number of intercepted communications between the BNL-Atlanta and its Rome headquarters" but added that details had been withheld from him at the insistence of administration policymakers.