

CIA Found Rome Tie to BNL Case

Analyst Concluded
Loan Involvement
Went Beyond Atlanta

1/31/90
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A CIA analyst concluded by January 1990 that an illicit scheme to finance Iraqi purchases of food and military equipment was not limited to bank officials in Atlanta but also involved officials at the bank's headquarters in Rome, according to a letter the analyst wrote to the Department of Agriculture.

The classified letter, dated Jan. 31, 1990, and disclosed in part yesterday by Rep. Henry B. Gonzalez (D-Tex.), represents the most explicit evidence to emerge so far that an intelligence official had reached such a finding about the scheme, which funneled more than \$4 billion to Iraq between 1985 and 1989.

The finding contradicted the ba-

sic premise of an indictment brought 13 months later by the Justice Department, which pinned responsibility for the scheme on the manager of the Atlanta branch of Italy's Banca Nazionale del Lavoro (BNL). With the case due for trial early next year, the Justice Department is now reassessing its conclusions as new information comes to light suggesting higher-level BNL officials were involved.

The analyst informed the Agriculture Department of the finding nearly three years ago when he passed along a copy of a lengthy CIA memorandum about the BNL case written in November 1989.

In a cover letter, the analyst, Jack Duggan, said some "new information" had "come to light" in the two months since the report was issued. "Managers at BNL headquarters in Rome were involved in the scandal," he wrote. The earlier CIA report had noted that "press reports" pointed toward involvement by BNL officials in Rome but had drawn no conclusions.

Duggan worked in the Persian Gulf division of the CIA's Office of Near East and South Asian Analysis. His letter was addressed to David Kunkel, who worked in a division of the Agriculture Department responsible for implementing U.S.

See BANK, A6, Col. 1

CIA Analyst Found Rome Link to BNL Case

BANK, From A1

loan guarantees for food purchases by countries such as Iraq.

The disclosure of the letter is expected to fuel congressional criticism of the Bush administration's handling of the BNL case, which is considered politically sensitive because the bank is owned by the Italian government and because some of the illicit BNL loans were guaranteed by the Agriculture Department.

Gonzalez, who as chairman of the House Banking Committee has taken a lead role in investigating U.S. policy toward Iraq, charged in a letter to Agriculture Secretary Edward R. Madigan released yesterday that the CIA letter "raises serious questions about the . . . [Agriculture Department's] review of the BNL matter and why it failed to investigate" the potential involvement of Rome officials. Gonzalez quoted a part of Duggan's letter in his letter to Madigan. The full text of Duggan's letter was obtained by The Washington Post.

Gonzalez and other Democrats on Capitol Hill have alleged that the Bush administration sought to cover up Rome's involvement as a favor to Italy and a means of deflecting public inquiry into the administration's effort to bolster U.S.-Iraqi ties through expanded commercial trade in 1989 and 1990.

The CIA letter adds to a growing body of evidence that some CIA analysts believed bank officials in Rome were culpable in BNL's scheme to finance Iraqi purchases, during a period when federal prosecutors in Atlanta and senior Justice Department officials were still investigating the scandal and deciding whether to indict the bank or its senior executives.

Last September, Gonzalez quoted from a CIA report he received about a year earlier analyzing some of the raw intelli-

gence the agency had gathered about the involvement of BNL-Rome officials. The report said the intelligence had provided "confirmation of press allegations that more senior BNL officials in Rome had been witting of BNL-Atlanta's activities," according to Gonzalez's reading of the report on the floor of the House.

Some Justice Department officials have said they suspected early in the investigation of the bank, which began in the summer of 1989, that Rome must have been involved given the magnitude of the loans. But while this suspicion continued to be discussed in the department through 1990, it is not clear how vigorously it was pursued.

As late as November 1990, Laurence Urgenson, the chief of the department's fraud section, complained in a memo about "the virtual absence of any hard probing of BNL [officials in] New York or Rome . . . an unfortunate concomitant of relying so heavily on BNL for assistance" in investigating the case.

Urgenson and other department officials have said their concerns were allayed by further government investigation, and by early 1991 the department closed ranks with the Atlanta prosecutors in alleging that the scheme was perpetrated solely by the manager of BNL's branch in Atlanta, Christopher P. Drogoul, and other employees in the branch.

In a court hearing in Atlanta in September, Drogoul alleged that BNL officials were aware of his loans to Iraq. The federal judge presiding over the case said he found reasonable grounds for questioning the government's contention that BNL-Rome had been ignorant of the scheme.

The Senate intelligence committee last month began a formal probe into what the CIA knew about the BNL case and so far has obtained nearly a dozen classified CIA documents, mostly written in late 1989

and early 1990, that suggest involvement by BNL officials in Rome.

Several of the documents are based on statements by informants the CIA considers highly reliable, although none provides proof of BNL-Rome's involvement, according to knowledgeable sources.

In his letter, Duggan did not reveal the basis for the conclusion that BNL-Rome officials were involved or say whether other CIA officials shared the finding. CIA officials yesterday declined to comment on the letter.

A senior Agriculture Department official, who asked not to be identified, said the CIA analyst's letter was passed along to the Justice Department last September, more than 19 months after the government's February 1991 indictment of Drogoul for masterminding the illicit scheme.

"To the best of our knowledge, we did not receive this document until very recently," said Justice Department spokesman Paul McNulty. He said that the document falls within the scope of a special investigation into the department's handling of the BNL case ordered last month by Attorney General William P. Barr.

More than \$1 billion of the loans to Iraq by BNL's Atlanta branch were guaranteed by the Agriculture Department before 1988. Since the 1991 Persian Gulf War, Iraq has defaulted on payments still owed, prompting BNL officials in Rome to petition Washington for an estimated \$360 million in compensation.

Gonzalez said yesterday that Duggan's letter, asserting BNL-Rome's involvement in the scandal, raises questions about whether the bank should be paid. He also accused Agriculture Department officials of seeking to mislead his committee staff by claiming last June that the department had no intelligence documents in its possession.