

Probe of Criminality In BNL Case Ordered

Appointment of Counsel Considered Likely

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A special investigator appointed by Attorney General William P. Barr concluded a week before the presidential election that there were credible allegations of criminal wrongdoing in the government's handling of a bank fraud case involving loans to Iraq, U.S. officials said yesterday.

Barr responded by ordering the investigator, Frederick B. Lacey, to intensify his probe of potential wrongdoing by government officials in the Banca Nazionale del Lavoro (BNL) scandal. But neither Lacey nor Barr chose to make any public announcement at that time.

Word of Barr's unpublicized Oct. 27 decision to order a "preliminary investigation" of possible criminal actions by administration officials in the case was received with surprise and approval yesterday by Democrats on Capitol Hill, who depicted it as an important step toward the likely appointment of an independent counsel.

Democratic legislators, along with a federal judge who has heard the case, have challenged the administration's ability to conduct a proper investigation of the BNL scandal, amid allegations that officials at the Justice Department, CIA and elsewhere may be implicated in obstructing past probes.

In August, Barr rejected a congressional demand for an independent counsel, but Democratic members of the House Judiciary Committee again demanded such an appointment last month. Barr has until Monday to reply to the committee and, according to Justice Department officials, had planned then to disclose that he had ordered a preliminary investigation.

Sen. David L. Boren (D-Okla.), chairman of the Select Committee on Intelligence who was unaware of

the decision, told reporters at a briefing that his committee's separate, month-long inquiry had turned up plentiful evidence to warrant appointment of an independent counsel.

Expressing "a sense of great unease" about the Bush administration's actions in the case, Boren said the committee was still trying to determine whether the administration had deliberately suppressed intelligence information bearing on the BNL case or held back its prosecution of alleged cul-

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prits in the bank's scheme to funnel more than \$4 billion in illicit loans to Iraq between 1985 and 1989.

Boren said the committee's inquiry has recently been delayed by demands from four Justice Department officials that they be allowed to hire attorneys before giving sworn depositions to members of the committee staff. "I'm frustrated by the fact that we've not been able to proceed," while the attorneys are hired and cleared to receive sensitive intelligence information regarding the case, Boren said.

The central issue in both the Lacey probe and the Senate inquiry is whether Bush administration officials wrongly tried to pin the blame for the illicit loans on the manager of BNL's Atlanta branch, Christopher P. Drogoul, when information in U.S. intelligence files suggested that officials at the bank's headquarters in Rome were also involved in the loans.

The issue of who masterminded the scheme within BNL is considered politically sensitive because some of the BNL

loans financed Iraqi purchases of weapons technology from the United States and Europe before the 1991 Persian Gulf War. Because the bank is owned by the Italian government, any involvement by BNL officials in Rome raises the possibility that the loans reflected deliberate Italian—and perhaps U.S.—policy.

Boren said his committee, which initially set out to examine contacts between the CIA and the Justice Department regarding a single disputed public statement about the BNL case in mid-September, has now expanded its sights to include a variety of related matters that might explain the government's decision to restrict its prosecution to Drogoul.

Among the possibilities being examined, Boren said, are:

- that U.S. intelligence agencies had contemporaneous information on, or a "relationship" with, any of the estimated 30 individuals or 12 corporations that did business with BNL's Atlanta branch before the branch was raided by federal prosecutors in August 1989;

- that policymakers were informed of BNL's financing of Iraqi weapons-related

projects before the gulf war, but decided not to shut down the banking operation because they feared shutting off their access to valuable information on what the Iraqis were doing.

- that the CIA withheld information from the Justice Department about BNL's activities, and Justice Department officials withheld information from government prosecutors probing the bank scandal because of "a decision by someone in our government."

Boren said his committee's inquiry had already documented a disturbing "pattern of haphazard sharing of information" about the bank among government agencies and "a lack of curiosity to follow up the information that was provided."

One central question, Boren said, is whether "a decision was made at some level of the government" to respond so sloppily.

The committee has already taken sworn testimony from 17 CIA officials and two Justice Department officials and also reviewed hundreds of documents, Boren said. While declining to disclose any tentative conclusions, Boren said

"the more I look at this, the more it strains credibility to believe we had very little information" before the gulf war about links between BNL and the covert Iraqi arms procurement network.

Lacey, who disclosed his recommendation to Barr and Barr's response in a telephone interview yesterday, declined to say exactly what information had prompted him to suggest the "preliminary investigation" on Oct. 26. He said, however, that the recommendation was based on information that he regarded as "sufficiently specific and credible" to warrant the probe.

Lacey said further that he has so far interviewed officials in Washington at the Justice Department, the CIA and the FBI, government prosecutors in Atlanta and officials at the Central Bank of Italy and BNL headquarters in Rome.

Lacey said Barr asked him to make a recommendation by Dec. 8 on whether to seek appointment of an independent counsel by a panel of judges. Barr would then have one week—before the statute authorizing an independent counsel expires—to accept or reject Lacey's advice.