

Baker Intervened for Iraq, Documents Show

Extended U.S. Loan Guarantees Were Sought for Baghdad Despite Warnings of Corruption

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Then-Secretary of State James A. Baker III personally intervened to extend U.S. loan guarantees to Iraq three years ago, contravening explicit, detailed warnings from a federal prosecutor that Iraqi officials were implicated in criminal wrongdoing on past loan guarantees, according to government documents.

Baker, who now is White House chief of staff, took the action at a time the State Department was anxious to obtain Iraqi support for a U.S. plan, worked out with Egypt, for a new dialogue between Israelis and Palestinians on peace in the Middle East, the documents indicate.

The prosecutor's warnings included details of "criminal complicity" in the Banca Nazionale del Lavoro (BNL) scandal by Iraqi officials who participated in negotiations with the Bush administration for \$1 billion in loan guarantees, which were granted in November 1989.

The prosecutor, however, did not secure indictment of the Iraqis until the end of the Persian Gulf War in February 1991. By then, the United States had released \$500 million of the loan guarantees, which Iraqi is now considered unlikely to repay.

The documents, released yesterday by the Senate Agriculture Committee, shed new light on events

surrounding the 1989 loan guarantee decision, the most generous of the Bush administration's myriad efforts to curry favor with Iraqi President Saddam Hussein before the gulf war.

They raise new questions whether Baker's insistence on the loan guarantee program prompted other government officials, including senior officials at the Agriculture Department, to ignore or deliberately misrepresent the prosecutor's warnings of Iraqi wrongdoing.

"This is just another example of how the Bush administration ignored the warning signs in its blind pursuit of closer ties with Saddam Hussein," Senate Agriculture Committee Chairman Patrick J. Leahy (D-Vt.) said.

The documents reveal that Baker responded angrily when the Agriculture Department cited the reports of Iraqi wrongdoing in briefly suspending negotiations on new loan guarantees in October 1989.

At an Oct. 13 meeting, Baker told staff members that was "a step in the wrong direction" and ordered them to "get it back onto the table," according to notes taken at the meeting.

State Department legal adviser Abraham D. Sofaer subsequently dispatched one of his deputies, Mi-

chael K. Young, to lobby the Agriculture Department for a reversal of its decision, while then-Deputy Secretary of State Lawrence S. Eagleburger lobbied senior Treasury Department officials who also opposed granting new guarantees.

Undersecretary of State Robert M. Kimmitt also lobbied various officials at Baker's request, according to the documents. On Nov. 9, after an interagency decision to approve the \$1 billion in loan guarantees, Kimmitt told Baker he could "break the good news to Foreign Minister Tariq Aziz, since he raised the issue with you, and you promised to take a personal interest in it."

"This decision by the administration reflects the importance we attach to our relationship with Iraq," Baker told Aziz in a confidential tel-

"I am looking into the CCC guarantees on an urgent basis and will give you a final response ASAP."

—Baker message to Iraqi foreign minister

ex the same day. Baker added that "it would be useful if you could weigh in with [the Palestinians] and . . . urge them to give a positive response to Egypt's suggestions" about Middle East peace.

The memos make clear how unsettling the revelations from the BNL probe were to the officials charged with keeping the loan guarantee program on track. The investigation of the Italian-owned bank began in late July 1989, when two employees from BNL's Atlanta branch told authorities of a massive, unreported effort to help Iraq finance billions of dollars' worth of food and arms purchases.

Within two weeks, federal agents raided the Atlanta branch and learned that more than \$1 billion of BNL's illegal loans to Iraq had been guaranteed by the Agriculture Department's Commodity Credit Corporation (CCC). They also discovered that senior Iraqi officials were deeply involved in kickbacks, bribes and other illicit BNL loans that did not involve the CCC.

Gale McKenzie, the chief prosecutor in the BNL case, warned Bush administration officials about these activities. In an April 1992 memo to an assistant U.S. attorney in Atlanta, disclosed previously in *The Washington Post*, McKenzie complained that her warnings had

been "discounted," but she did not then spell out the precise nature of her 1989 warnings.

That information was provided in another memo McKenzie wrote for her files four months ago, which the Agriculture Committee obtained from the Justice Department. It states that two senior Agriculture Department officials, Kevin Brosch and Larry McElvain, were informed on Oct. 11, 1989, of:

- "Criminal complicity of certain Iraqi government officials, BNL-Atlanta officers and employees . . . in a multibillion-dollar scheme to defraud BNL;

- "Use by Iraqi government officials of non-CCC guaranteed, unsecured . . . proceeds to purchase products useful for military purposes, including machines that could, among other things, remove burrs from nose cones of missiles and compress nuclear fuel;

- "Iraqi purchases of more CCC guaranteed commodities than could be reasonably consumed in Iraq, which strongly indicated . . . diversion;

- "[A] requirement of Iraqi government officials that exporters receiving unsecured BNL-Atlanta scheme proceeds make kickbacks to Iraq labeled as 'consulting fees';

- "Criminal complicity of certain Iraqi government officials then involved [in negotiations on new U.S. loan guarantees] . . . with the intent to use such scheme proceeds for what may be military purposes."

McKenzie said in her memo that this evidence was "accurately reflected" in an Oct. 13, 1989, note to Baker by a State Department economic officer, Frank LeMay. Baker did not get the memo until after he had ordered subordinates to get the loan guarantee program "back onto the table . . . asap [as soon as possible]."

McKenzie also said Thomas V. Conway, an associate general counsel of the Agriculture Department, was "advised of many of these issues by phone on Oct. 5, 1989." The Agriculture Department's reaction was to suspend the negotiations then underway in Washing-

ton on new loan guarantees "pending further notification" of the BNL probe conclusions, according to the documents.

Within five days, however, an official at the Treasury Department—which also opposed new guarantees for Iraq—made the following note after hearing from a State Department economic officer: "Baker putting pressure . . . Baker is insisting on being kept informed."

In a message to the Iraqi foreign minister on Oct. 23, Baker assured Aziz that "I am looking into the CCC guarantees on an urgent basis and will give you a final response ASAP."

On Oct. 26, senior State Department officials outlined the rationale for approval additional loan guarantees in a memo to Baker that cited President Bush's directive to pursue improved economic and political ties with Iraq as a means to promoting stability in the Middle East.

On Oct. 31, Baker telephoned Agriculture Secretary Clayton Yeutter to suggest new safeguards against Iraqi wrongdoing and urged Yeutter to support the new guarantees.

On Nov. 7, a report on the BNL probe prepared by the Agriculture Department for an interagency meeting the following day inexplicably concluded that "no [Iraqi] wrongdoing is indicated at this time." This conclusion was cited by various officials in the interagency meeting on Nov. 8 that approved the \$1 billion in loan guarantees for Iraq.

According to minutes of the Nov. 8 meeting, a State Department representative who was present did not explicitly cite Baker's desire to obtain Iraq's support for a new Israeli-Palestinian dialogue in pushing for approval of the guarantees, but stated more generally that halting the program would "create difficulties" on a number of matters of importance to the United States. The official mentioned the Middle East peace process, human rights, proliferation of missile and chemical weaponry and "our objectives in the . . . gulf and Lebanon."