

# CIA Stalled In BNL Probe, U.S. Aides Say

## Agency Role in Loans To Iraq Is Questioned

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The CIA responded slowly and incompletely to repeated Justice Department inquiries over a two-year period for information about Italy's Banca Nazionale del Lavoro (BNL), according to Justice Department officials and internal government documents.

Justice officials, investigating BNL's Atlanta branch for fraudulently funneling billions of dollars to Iraq, wanted to know not only what intelligence the CIA might have gathered about BNL's banking activities but also whether the CIA itself has had any dealings with BNL or those who did business with the bank.

Federal prosecutors began wondering about such possible CIA ties as early as mid-1990, fearing that some U.S. government link to the bank's financing of Iraqi weapons purchases would undermine planned indictments of BNL employees in Atlanta and senior Iraqi officials.

But as recently as five weeks ago, the documents show, the Atlanta-based prosecutors were still seeking a full account of what the CIA knew about BNL, when it knew it and what role the agency might have played in loans and loan guarantees for Iraq totaling more than \$4 billion between 1985 and 1989.

Questions about what the CIA knew and what it told or withheld

See BANK, A4, Col. 1

### BANK, From A1

from the Justice Department are a central focus of separate probes begun last month by the Senate Select Committee on Intelligence, the CIA's inspector general and a special investigator appointed by Attorney General William P. Barr.

The CIA has acknowledged it was slow to provide the Justice Department with intelligence on BNL, including several classified cables the agency provided in recent weeks indicating possible complicity by BNL officials in Rome. If the involvement of BNL-Rome can be confirmed, it would undermine a central contention of the government's case that the loan scheme was the work solely of BNL-Atlanta.

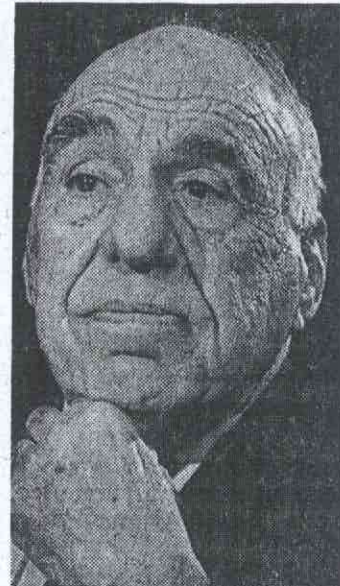
"They really fixed our wagon on this," said one high-ranking Justice Department official about the CIA's reticence on BNL. CIA officials, on the other hand, have accused Justice Department attorneys of ignoring or turning aside some of the BNL-related information they did pass along.

The CIA has tentatively blamed its tardy response to some requests on filing glitches, but the agency's sluggishness has fanned congressional allegations that the Bush administration has mishandled the BNL case, one of history's largest bank frauds.

Some CIA officials have acknowledged the agency's handling of information on the scandal fell far short of the agency's legal requirement to provide law enforcement agencies with evidence of criminal activity obtained in the pursuit of foreign intelligence. Some congressional investigators are wondering if the agency has some darker motive for not revealing all it knows and speculated the agency may be trying to hide a covert link to the bank.

Between July 1989, when U.S. prosecutors began their probe of BNL's loans, and September of this year, prosecutors asked the CIA at least seven times about any links to BNL, according to copies of the correspondence between the two agencies obtained by The Washington Post.

The CIA tried on Sept. 4 to make a definitive statement about what it knew of BNL's lending to Iraq, writing a letter to the Justice Department that was later declassified and made public. But the CIA subse-



REP. HENRY B. GONZALEZ  
... read part of analysis into Record

quently acknowledged the letter was misleading and incomplete.

In the letter, CIA deputy general counsel David P. Holmes wrote that the agency had been unaware of any BNL activities that were "unauthorized" or "illegal" before the scandal broke in July 1989. Holmes's letter also said the agency "was not involved in any manner in the utilization of BNL-Atlanta for unauthorized funding to Iraq." But his carefully worded statement left room for potential CIA knowledge of or participation in funding to Iraq that was in some way "authorized."

In a July 1990 letter to deputy assistant attorney general Mark M. Richard, the U.S. attorney in Atlanta, Rimantas A. Rukstele, expressed concerns that intelligence community links to the BNL scandal could become a "stumbling block" to prosecution of key suspects.

The following month, Justice Department deputy fraud division chief Ted Greenberg wrote CIA assistant general counsel Steve Hermes to ask if the CIA "has or has had any relationship" or information about Iraqis and BNL-Atlanta officials who may be indicted in the case. Greenberg also sought CIA advice on whether "there is any reason why an indictment of some

or all of the referenced individuals should not be sought or would compromise intelligence equities."

CIA associate general counsel W. George Jameson responded on Aug. 24, 1990, sending Justice a half page of secret data about links between BNL loans and an Iraqi program to build ballistic missiles. On Oct. 2, he sent another page of secret data on BNL's "activities with respect to Iraq."

Neither reply addressed the Justice Department's concern about possible CIA links to BNL, however, as Greenberg pointed out in a letter to Jameson six days later. Nor is it clear that this matter was addressed in Jameson's next reply, sent in December 1990, which incorporated a page of secret intelligence data on what the CIA called "individuals and companies involved in the referenced investigation."

The next written communication between the agencies on this issue was in February 1991, when the CIA was asked to review the latest version of the Justice Department's draft indictment. In a two-page, hedged response, the CIA's Jameson said that "the absence of any relationships with the individuals or entities on which we have been queried, and the lack of any apparent involvement by CIA in the actions being investigated, leads to the preliminary assessment that there should be no problems . . . that cannot be addressed" under procedures created for intelligence-related court cases.

But one month later, CIA assistant general counsel Cindy A. Ellis passed along unspecified, additional information to the Justice Department, including an "intelligence report on BNL" that was "not found during our previous traces because the office that produced it inadvertently failed to reference it in the indices maintained by the Directorate of Intelligence."

At some point between mid-1990 and last summer, the CIA also passed along to the Justice Department three raw intelligence cables reporting complicity by BNL officials in Rome, but Justice Department officials said they discounted the reports.

Still wondering what else the CIA knew, Gerald F. McDowell, chief of the Justice Department's fraud section, wrote the agency on July 31 this year requesting a renewed "search for intelligence material

relating to the entities and individuals listed" in the indictment.

By September, the prosecutors were especially anxious to get reassurance from the CIA that it knew nothing about possible involvement by BNL-Rome officials. As part of his defense, the manager of BNL-Atlanta's office, Christo-

pher P. Drogoul, and his attorneys had alleged that senior bank officials at BNL's headquarters in Rome knew of the illegal loans to Iraq and various people associated with the bank's activities had relationships with the U.S. intelligence community.

Noting that "similar charges have also been recently made in the media," McDowell asked in a Sept. 1 letter to the CIA whether the CIA had information that BNL-Rome was involved in the illegal loan scheme and whether the individuals named by Drogoul had provided information about the bank to the CIA. Similar letters were sent to the Defense Intelligence Agency and the National Security Agency.

In the classified Sept. 4 letter, the CIA erroneously indicated it had no classified reports to back up publicly available information that BNL-Rome had known of Drogoul's actions. A half-page of the letter dealt with the question of whether the agency had dealings with individuals named by Drogoul as having a relationship with the intelligence community, but the specifics could not be learned by The Post.

Ten days later, on the first day of Drogoul's sentencing hearing, Rep. Henry B. Gonzalez (D-Tex.) read into the Congressional Record part of a classified CIA analysis he had obtained suggesting BNL-Rome knew of Drogoul's actions. Although the analysis was 14 months old, Justice Department officials "had not even known that that report had been generated," said Laurence A. Urgenson, a criminal division supervisor, in a recent interview.

Caught by surprise, and worried that the judge in the case would think they had been withholding information, Justice Department officials pressed the CIA to declassify the Sept. 4 letter, according to Ira Raphaelson, a senior aide to the attorney general. They wanted to show the judge that they had been relying on written CIA assurances

of no classified intelligence pointing to the involvement of higher-level BNL officials. After much deliberation, the agency sent Justice on Sept. 17 an unclassified version of the Sept. 4 letter, leaving out the portion on the agency's alleged links to the individuals identified by Drogoul.

On Sept. 25 and Sept. 29, the chief U.S. attorney in the BNL case, Gerrilyn Brill, wrote letters again asking the CIA about any possible agency links to BNL and the agency's knowledge of the bank's activities. Holmes, the CIA's deputy general counsel, replied to Brill on Sept. 30 that the agency preferred to discuss the matter directly with the federal judge then presiding over the sentencing hearing for Drogoul—a discussion that was never held because Drogoul's plea agreement was rescinded and the judge withdrew from the case at the government's request.

In early October, the CIA provided Justice and congressional investigators with five or six more cables about BNL that, agency officials said, had not been discovered in previous searches for information about the bank.

Earlier this week, Gonzalez disclosed that a CIA analyst told the Agriculture Department in a January 1990 letter that BNL officials in Rome "were involved in the scandal." Justice Department officials said they received a copy of the analyst's letter only last September—and then not from the CIA, which never told them about it, but from attorneys at the Agriculture Department.

*Staff writer Sharon LaFraniere contributed to this report.*