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COMMISSIONE PARLAMENTARE D'INCHIESTA SUL CASO DELLA FILIALE DI ATLANTA DELLA BANCA NAZIONALE DEL LAVORO E SUE CONNESSIONI

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BANCA NAZIONALE DEL LAVORO
(BNL)

304 a

HEARING
BEFORE THE
COMMITTEE ON BANKING, FINANCE AND
URBAN AFFAIRS
HOUSE OF REPRESENTATIVES
ONE HUNDRED SECOND CONGRESS
FIRST SESSION

APRIL 9, 1991

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BANCA NAZIONALE DEL LAVORO (BNL)

TUESDAY, APRIL 9, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman] presiding.

Present: Chairman Gonzalez, Representatives Annunzio, Oaker, Vento, Barnard, Hoagland, Waters, Moran, Cox, Slattery, Leach, and Bereuter.

The CHAIRMAN. The committee will please come to order.

I think I should announce that the advent of some very tragic occurrences that you have read about in the newspaper will mitigate against having a large presence, not only in this committee, but throughout the House.

The proceedings that were scheduled for the House have as much as been cancelled, or there won't really be any legislative business today or tomorrow, and then even on Thursday, it will be very light, probably a non-voting schedule.

So against this backdrop, though, we are proceeding with the hearings because of the simple fact that the real preventive factors won't really occur until tomorrow, fortunately.

But I want to announce for the members that are here and others that tomorrow's announced hearing and markup will be postponed until Thursday, preceding the appearance of Chairman Seidman at 10 a.m. But you will get a regular notice.

Today's hearing is the second in a series of hearings aimed at getting to the bottom of the Banca Nazionale del Lavoro scandal. Since we held our first hearings last October on the Atlanta branch of BNL, which loaned, as you know, billions of dollars in credit and whatnot to what we now know as our now enemy—not then—Iraq, much has taken place.

The Justice Department in February charged ten defendants, including two former officers and an employee of the BNL-Atlanta for mail and wire fraud. In March, three former employees of BNL-Atlanta pled guilty to conspiracy to commit fraud and other charges, and the Federal Reserve Board has issued a cease and desist order against BNL and ordered the bank to halt its violations of civil banking laws.

Of course, I might say by way of parenthesis, always this is after the fact, and I think if Justice were to really be committed, we would put as codefendants our regulatory authorities in our country.

The documentation and information of the links between BNL funding and Iraq's procurement of military goods continue to grow, as does the knowledge that maybe someone did know that BNL was illegally funding Iraq and that Iraq was using the monies for its war machine.

On February 21, I said on the House floor that I had obtained a memo indicating that a top-ranking administration official from a Cabinet-level department had knowledge that BNL money was used to purchase military goods.

Because of the importance of the BNL case, I believe it essential to find out how BNL could lend \$4 billion to Iraq without any of the banking regulators, the Federal Reserve, or five of the State banking regulatory agencies even noticing. There is a suggestion that someone in the administration did know and chose not to share this information with the Congress, which means the people, or the press.

The BNL case is the largest individual banking fraud case in history. As an oversight committee, we are required to make sure that the banking regulators do their job. Yet it was apparent at our October 16 BNL hearing that the regulators had come well armed with excuses, but apparently were unprepared to issue an apology for their lax supervision.

How can anyone not be angered by this regulatory fiasco, when we know the human toll involved? This is not just another oversight hearing where we criticize the regulators for wasting tax dollars. The lax work of our commercial bank regulators in not spotting the real situation at BNL and BCCI, the Luxembourg bank recently discovered to have secretly controlled First American Bank shares, the largest bank holding company in the nation's capital, leaves massive public policy questions that we must confront.

It is time to take a serious look at the idea of a consolidation that will provide coherent and effective supervision for our banking and financial entities in this country. The foundation of our financial system must be a strict, take-charge regulatory body that is not a captive of the banks it regulates.

The theme of today's BNL hearing is to place the \$4 billion in loans to Iraq in perspective. After all, during the time that BNL was lending these monies in a regulatory-deficient environment, it was the administration's policy to feed the Iraqi people, to bend over backwards to help the Iraqi regime upgrade its military capacity.

How could roughly \$2 billion in BNL loans go for these purchases and knowingly for the Ministry of Industry and Military Production?

Ours is the only country without safeguards to the national interest in such transactions. I am placing in the record datasheets that provide details on BNL loans to Iraq. BNL loans were the grease that permitted the Iraqi procurement machine to function. BNL loans went directly to several Iraqi front companies. For the most part, BNL loans were used to pay hundreds of companies in the United States and abroad that were recruited by the Iraqi network to export goods to Iraq. And, of course, at that time—and it is difficult to evoke that environment—it was the policy of the administration at that time to foster and stimulate those activities.

So I ask unanimous consent at this point in the record to present a background on BNL loans to Iraq and the documentation I have just referred to.

[The information referred to can be found in the appendix.]

The CHAIRMAN. Mr. Annunzio, do you have any statement?

Mr. ANNUNZIO. I have no statement, Mr. Chairman.

The CHAIRMAN. Ms. Oakar.

Ms. OKAR. Mr. Chairman, I ask unanimous consent to put my statement in the record.

I just want to quickly say that I want to thank you for having this hearing, and I think it's very unfortunate that the very economic system that makes the United States such a great marketplace and conduit for international trade and banking can open the door for potential abuse, and I think that's why your monitoring what the regulatory system does in conjunction with this type of deception is very important.

But the BNL affair does raise questions regarding how our government conducts its foreign policy. The previous administration's decision to take Iraq off the list of countries that supported terrorism, thus making them eligible for trade within the United States, led to these events.

Credit that we eventually extended to Iraq would permit them to amass armaments, armaments we ironically had to destroy in Operation Desert Storm. The short-term gains of the policy we engaged in with Iraq have exacted a heavy price over the long haul, and I hope this administration and others in the future and Congress will pay careful attention to the lessons of the past.

So thank you again, Mr. Chairman, for your fine work and the work of your staff.

[The information referred to can be found in the appendix.]

The CHAIRMAN. Thank you. Mr. Bereuter, do you have any statement?

Mr. BEREUTER. No statement, Mr. Chairman. Thank you.

The CHAIRMAN. Thank you very much. Mr. Barnard.

Mr. BARNARD. Thank you, Mr. Chairman. Mr. Chairman, I also want to say that I think it's certainly appropriate that these hearings be conducted now that the war is over and for us to get a better understanding as to how conditions did develop that permitted Iraq to arm themselves as they did.

As you possibly know, we have in my Subcommittee of Government Ops we've conducted hearings all of last Fall on export licensing and how that policy was somewhat confused, to put it politely and it likewise permitted some very sensitive sales of materials that could have been used for chemical as well as biological warfare.

I guess what I am saying is that I think these hearings are timely by this committee and the Foreign Affairs Committee and other committees at this time to look into how much understanding we really have of the Middle East and the countries that make up the Middle East, because I think that sometimes we have developed policies both within the State Department, the Defense Department and the Commerce Department that unfortunately now indicate that we probably have less understanding of the govern-

ments and the peoples of the Middle East than we should have in order to carry out the proper negotiations with those countries.

I think that these hearings can serve a very useful purpose at least in permitting Congress to understand how these policies were made and what corrections could have been—what corrections should have been made and how we might address them in the future.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Barnard.

Well, Mr. Cox, I want to thank you for your presence. Do you have anything—

Mr. Cox. Thank you, Mr. Chairman. I do have a very brief statement I would like to make and I thank you for calling this hearing today to continue the committee's investigation of the BNL scandal.

I am glad to have the opportunity to hear from today's witnesses in connection with the unauthorized lending of nearly \$3 billion to Iraq by the Atlantic agency of Italian-owned BNL and I appreciate their willingness to come here today to shed light on this matter.

The case of the BNL has caused us to question the competence of the administration, supervision and regulation of foreign bank branches within our boundaries. As members of the Banking Committee we have a particular responsibility to thoroughly review the BNL scandal. It is only through an understanding of this regulatory failure that we can hope to correct insufficiencies in the oversight of these entities which command over \$500 billion in U.S. assets.

The last several months in the Persian Gulf have demonstrated the far-reaching implications of a failure to properly monitor the operations of financial institutions like BNL. The Atlanta bank's unchecked financing of over \$850 million in U.S. agriculture products to Iraq along with the financing of a complex Iraqi technology procurement network contributed to the strength of Saddam Hussein and his regime.

The consequences of this empowerment have become all too clear.

As we continue this investigation it is my hope that we will receive cooperation from State and Federal agencies. We must make every effort to ensure that cracks in the regulatory system are repaired. Only then can future fraud and all its repercussions be avoided.

Thank you again, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Cox.

I'm going to ask unanimous consent that all members have the opportunity to place in writing their opening statement if they wish to prepare one, and Mr. Hoagland has indicated he doesn't, so if you do later on you can put it in the record.

[The information referred to can be found in the appendix.]

The CHAIRMAN. With that, we'll proceed and recognize our first witness. It's the Honorable Richard Newcomb, from the Treasury Department, the Office of Foreign Asset Control, and in an effort will detail the secret network of individuals and companies in the United States and Europe responsible for obtaining sophisticated Western technology for Iraq. On April 1, OFAC, this office, re-

leased a list of the individuals and companies acting as Iraq agents and there will be more details and what-not proceeding as we go into this hearing.

Let me just say that by no means has the environment changed any. The only and single purpose and intent that we have as a congressional body is to pursue a legislative end, and that is to do all that is possible as soon as possible to provide the absolutely necessary regulatory environment to protect the national interest.

There is nothing at this point that would prevent a repetition of identical or similar occurrences. We have in this country over \$635 billion of this kind of credit that I know no Federal agency from the Federal Reserve Board to any of the State—much less the State regulatory commissions really know what it's about, so we have no assurances, I think, and that's the only reason that we've called these hearings, that it is imperative that the policy-making body, the Congress, initiate and first obtain all the necessary and pertinent knowledge and documentation, the statutory structure for an improved and perfected regulatory environment.

Mr. Newcomb, thank you very much once again. You have cooperated with us all along and you may proceed.

We want to thank you for having given us your prepared text. We have about seven witnesses following you. If you wish to summarize your prepared text, your entire statement will be printed in the record as you gave it to us.

STATEMENT OF RICHARD NEWCOMB, OFFICE OF FOREIGN ASSET CONTROL (OFAC), TREASURY DEPARTMENT

Mr. Newcomb. Thank you. Mr. Chairman, members of the committee, I am pleased to be here this morning to discuss the Treasury Department's role in economic sanctions against Iraq and Kuwait. As you know, we have primary responsibility within the executive branch for implementing the financial and trade sanctions against Iraq and measures to protect assets of the government of Kuwait.

This morning I will address the topics and concerns in which you have expressed an interest, which relate principally to the blocking of these assets in the United States and our Specially Designated National program.

Following the Iraqi invasion of Kuwait on August 2, the President, acting under authority of the International Emergency Economic Powers Act, declared a national emergency and issued two Executive orders, which froze all Iraq and Kuwait government-controlled assets within the United States and imposed an immediate and comprehensive trade embargo. On August 6, the U.N. Security Council decided all U.N. member States should impose sweeping economic sanctions against Iraq and occupy Kuwait. On August 9, the President issued two more Executive orders, this time under IEEPA and the U.N. Participation Act, broadening the U.S. sanctions to include complete prohibition on trade with any person located within the territories of Iraq or Kuwait.

The Executive orders developed on August 2 and 9 were done in conjunction with the State and Justice Departments, the White House staff, the National Security Council, and so forth. These Ex-

ective orders essentially prohibited exports and imports of goods, any dealing with property of Iraqi origin, travel, transportation, performance of contracts, commitment or transfer of funds to any economic resource in Iraq, and blocked all property of the Government of Iraq located in the United States or in the possession or control of a U.S. person.

The August 9 Executive order with regard to Kuwait imposed essentially the same regimen on Kuwait, then under occupation. Since the liberation, the prohibitions on most trade and financial transactions have been removed, except for seven Kuwaiti banks, which, while remaining blocked, are licensed to utilize their assets to settle pre-August 2 obligations.

The objectives of these orders was to deprive Iraq of any economic or financial benefits which might result from its illegal occupation and to preserve and protect the assets of the Government of Kuwait for the benefit of their rightful owner. Iraqi assets blocked in the United States and in all U.N. members States may be used as a source of funds to pay claimants and creditors of Iraq if such a course of action is determined appropriate and enabling legislation is enacted. These orders immediately froze all property and interests in property of Iraq and Kuwait that were in the jurisdiction and control of the United States or U.S. persons.

On the morning of August 2, we began contacting the major money-center banks and requested the Fed to notify its members banks of the blocking. We cooperated closely with our allies, both bilaterally and multilaterally, through such organizations as the EC, the BIS, the OECD, and the U.N. Additionally, an ongoing program with foreign governments and their embassies enables us to act in concert with all governments worldwide to ensure uniform application.

On August 3, we immediately began announcing the first of a series of general licenses relating to many of the most immediate and pressing problems, such as what to do about oil on the high seas from Iraq or Kuwait, unwinding financial or securities transactions entered into prior to the freeze, what types of transactions or investments by blocked companies or investment portfolios owned by Kuwait should continue unimpeded, payments due under letters of credit involving U.S. banks for goods and services exported prior to August 2. These decisions were crafted to ensure that the transactions permitted thereunder are consistent with the objectives of the sanctions and do not confer any rightful benefit on Iraq.

Very early we began meeting regularly with Kuwait officials to begin the lengthy process of identifying and clarifying the status of Kuwait-owned entities around the world and licensing limited operations.

Our efforts regarding Kuwait focused heavily on identifying and clarifying the banks and financial institutions and communicating this information through the Federal Reserve System. In identifying and blocking Iraqi assets, we have relied on the cooperation of allied governments, other Federal agencies, the business community, and the investigation efforts of our own staff.

The frozen Kuwaiti investments have totalled billions of dollars and consisted primarily of bank deposits, debt and equity securities

involving both direct and portfolio investment, and real estate. Most of these assets were owned by licensed Kuwaiti entities, such as the Kuwait Investment Office or the Kuwait Investment Authority.

Blocked Iraqi assets will total more than \$1 billion, which are primarily in bank deposits and oil revenue.

We have recently undertaken an initiative to identify front companies and agents used to acquire technology, equipment, and resources for Iraq. This is called the Specially Designated National Program. We have the authority to specially designate—that is, to identify publicly and to block—any person, whether an individual or a business, directly or indirectly owned or controlled by the Government of Iraq, or who to purports to act for or on behalf of it. In practice, a Specially Designated National is an Iraqi government body, representative, agent, intermediary, or front, whether overt or covert, that is located outside of Iraq and functions as an extension of the government. It may be a firm created by the Iraqi Government, or it may be a third-country company that otherwise becomes owned or controlled by the Iraqi government or that operates for or on its behalf.

On April 1, we formally identified 89 businesses and individuals worldwide as front companies and agents. The list is not a static document, but will be continuously augmented as additional front companies and agents are identified.

For U.S. persons, dealing with an Iraqi SDN is equivalent to doing business with the Government of Iraq, an activity that is prohibited by Executive order. Violators are subject to severe penalties, pursuant to the Iraq Sanctions Act.

Thank you, Mr. Chairman. It's a pleasure to be here, once again. I will be delighted to answer any questions that you or the committee members may have.

[The prepared statement of Mr. Newcomb can be found in the appendix.]

The CHAIRMAN. Thank you very much, again, for having submitted your statement in ample time for us to review it, and also for sort of succinctly summing up.

Now that you have a restoration of a Kuwaiti Government, as I understand it, reading the newspapers, what is the net effect of the Executive order of August 9? Has that been lifted with respect to Kuwait and its restrictions or a freeze on assets?

Mr. NEWCOMB. As required by the Iraq Sanctions Act, the President has notified the Congress that we would begin the process of lifting sanctions against Kuwait. Accordingly, we have done so on the trade, travel, transportation, and brokering provisions. Those were lifted in mid-February. On February 25 we lifted the asset freeze, with the exception of seven Kuwaiti banks, which are in the process of, in an orderly process, paying off their obligations.

I would point out that this was done at the request of the Government of Kuwait and the central bank, who offered to guarantee and be the lender of last resort in the event that there were any shortfalls in these financial institutions in meeting their obligations.

So, in essence, what we have is a work-out going on. We anticipate that should last for maybe another 4 to 6 weeks.

We have licensed those banks to issue letters of credit and to enter into foreign-exchange transactions. I expect them to be fully up and operational soon.

The CHAIRMAN. The other question that concerned me, from our standpoint: The Federal Reserve Board, for instance, tells us that central bank accounts of other countries are not to be accessible, except that we know that this particular kind of bank account, the Central Bank of Iraq, for instance, and the private bank accounts at some of our large U.S. banks, were not supervised by the Federal Reserve like they do other central bank accounts that apparently are maintained and that they apparently do supervise. The Federal Reserve Board did tell us that it is not in the best interest of the United States to collect information on the private bank accounts maintained by central banks. I do not know how to distinguish that fine point there. Would it be easier to enforce sanctions if the Federal Reserve was required to gather information on all central bank accounts?

Mr. NEWCOMB. I believe, on that fairly technical question, I would defer to the Fed, but let me just add that the embargo was put in place on August 2. From that date until the present, we have had extraordinary cooperation from all money-center banks, all banks where there have been correspondent relationships between both Iraqi and Kuwaiti Government institutions, and, for that matter, all of our other sanctions programs. I cannot think of an instance where we have not had the kind of cooperation and information we have needed since August 2, so I think your question goes to really a larger matter that is out of my province to really comment on.

The CHAIRMAN. In some business circles in our country, we have reports from them that the Emirate, for instance—the family of the Kuwait Emirate regime—had in their individual family name placed billions of dollars—in their name, not in the central bank's name or the government's name. Do you have any knowledge about that?

The greater portion—a good, substantial amount of that—in fact, the report I had was that it was way over \$160 billion in the United States, and more than that in European and Swiss banks—do you know if there is anything to that, and does the order cover that private family account?

Mr. NEWCOMB. Let me answer your last question first, and I think it will dispose of your earlier one.

The CHAIRMAN. OK.

Mr. NEWCOMB. No, the order does not cover private holdings of Kuwaiti citizens—nor, for that matter, private holdings of Iraqi persons, unless they are acting for or on behalf of the government. So we would not, in the Kuwaiti institutions, have collected the kind of information going to private individuals, whether they be royal family members or private citizens, or anyone else.

The CHAIRMAN. So that this family and its accounts—and the estimate was very, very faithfully reported, not only American sources but European sources, to me—in that substantial amount then would not be covered by the Executive order.

Mr. NEWCOMB. That is correct.

The CHAIRMAN. It's amazing.

Mr. ANNUNZIO, I think my 5 minutes, even though I have not received a note.

Mr. ANNUNZIO. Go ahead.

The CHAIRMAN. No, no. Go on ahead. I think we have to keep a tight control.

Mr. ANNUNZIO. I have just one question at this time, Mr. Newcomb.

There were recent reports in the *Wall Street Journal* that the United States had approved an Iraq oil shipment purchased by the Coastal Corporation after the oil embargo, only to have the Saudi Arabian government prohibit the shipment of the oil. Why would the U.S. Government OK this shipment despite the trade embargo?

Mr. NEWCOMB. This shipment, let me say, never did leave Saudi Arabia, did not enter the United States. On August 2, we issued a policy which authorized oil on the high seas to enter the United States, and under that decision something in the neighborhood of 30 oil tankers, containing perhaps as much as 40 million barrels of oil, did enter the United States under specific license by the Treasury Department. In order to get this oil entered, payments had to go into a blocked account, either in the United States or subject to U.S. jurisdiction. In essence, what we got was Iraq's oil and Iraq's money.

This revenue has accounted for perhaps \$500 million of the blocked Iraqi deposits currently subject to U.S. jurisdiction and will be utilized for the purposes of paying claims that U.S. claimants might have against Iraq. The only distinction that would be made with that particular shipment—as I pointed out, events evolved so that it did not ultimately enter—was that it would have entered the United States after our predetermined arrival date of, I believe, September 30. It was in mid-October, but we would have achieved the same goals: It would have been oil entered into the United States; payments would be made into a blocked account. Plus, I was also told at the time—we were told that it was a particular grade of oil that could be utilized for jet fuel.

Mr. ANNUNZIO. I have another question. Iraq had attacked Iran in 1980, gassed its own Kurdish people in 1985, and hung a British journalist in early 1990. It invaded Kuwait in August 1990. Finally, 8 months after the invasion, after the U.S.-led coalition had won the war to free Kuwait, did your office release a list of Iraqi front individuals and corporations? Why was this information not being compiled through intelligence sources before the invasion of Kuwait, especially given the Iraqi track record of the 1980's?

Mr. NEWCOMB. With regard to the Treasury Department, we did not become officially involved—we did not have the authority; we did not have the mandate—until August 2. Immediately following the imposition of the Executive order, we had certain high-priority items which needed to be resolved immediately. We also immediately began compiling the information necessary to put out the Iraqi front-company list. We continue to work on that initiative and will continue to update it.

Mr. ANNUNZIO. To your knowledge, did the FBI or the CIA or any other agency work to compile this information for our government?

Mr. NEWCOMB. Let me say that, in compiling this information, we used our own sources available to us; we worked very closely with the Government of Kuwait, bilaterally with foreign governments; and we worked very carefully with the entire Federal law-enforcement community. They were all available to us, and they have all provided assistance.

Mr. ANNUNZIO. In other words, the FBI and the CIA were available to you to provide information.

Mr. NEWCOMB. Yes. They are routinely available to us, yes, sir. Mr. ANNUNZIO. Did they provide any information, to your knowledge?

Mr. NEWCOMB. Well, if we need to go into executive session, I can brief you more fully on this, but let me just say, classified information has to be protected for methods and sources, and we just cannot take a classified source and use it. However, I can say that both agencies have been very cooperative in working with us, for the record.

Mr. ANNUNZIO. Thank you very much.

Mr. NEWCOMB. Thank you.

The CHAIRMAN. Mr. Leach.

Mr. LEACH. Mr. Chairman, I think Mr. Bereuter was here first.

The CHAIRMAN. Mr. Bereuter.

Mr. BEREUTER. No questions, Mr. Chairman.

The CHAIRMAN. OK. Mr. Leach.

Mr. LEACH. Mr. Chairman, I had a query of the chairman, if that would be appropriate. You noted in your opening statement that you had a memo relating to a high-ranking administration official having knowledge about some information. Are you prepared to make that memo available to the minority?

The CHAIRMAN. Oh, yes. It should have been.

Mr. LEACH. OK.

The CHAIRMAN. I am pretty sure it has been, but we will make sure that you do have it.

Mr. LEACH. I would appreciate that very much.

The CHAIRMAN. Absolutely.

Mr. LEACH. I have just one question for the witness, if I could. The CCC is apparently potentially liable for a rather large sum of money with regard to these transactions. What is the U.S. Government doing in terms of holding the Government of Iraq liable, and is the CCC likely to be fully compensated—the CCC being the U.S. taxpayer, in this instance?

Mr. NEWCOMB. The CCC currently, as you know, has a claim against Iraq. I believe in the neighborhood of \$2 billion. We have blocked Iraqi deposits in the United States in the neighborhood of \$1.2 to \$1.3 billion. There are a variety of other claimants that are currently responding to a census we are conducting on other claims against Iraq.

There are several alternatives. Iraq could volunteer to utilize this money to pay off its Iraq claims in the United States. Barring that, the Congress could enact enabling legislation to vest and set up a claims settlement program, which, following earlier claims settlement programs, could be adjudicated before a commission, which could hear the validity of all claims.

Mr. LEACH. Are you recommending that approach?

Mr. NEWCOMB. I am not today, because I think we are still at a very early stage in working out U.N. resolution 687. As you know, there is a fund created pursuant to that resolution. I think working out those details is something that as we speak is being worked on, and we will continue to work. I do not think it is today's question, but I think it is an important question for the near future.

Mr. LEACH. Now, Iraq, as I understand it, has a rather extraordinary foreign debt.

Mr. NEWCOMB. Yes, they do.

Mr. LEACH. Most people that have assessed it have come to the conclusion that it is inconceivable that they can pay it back in the near future. Is that the judgement of the administration?

Mr. NEWCOMB. I do not believe I am prepared to speak as to how Iraq is going to be able to meet its obligations, but I can certainly concur with you. The debt is considerable.

Mr. LEACH. There are several issues at stake. One is the role of regulation. A government, with which we have less than friendly relations, was able to utilize credit from the United States to make both agricultural and possibly military purchases. And a government, whether it was friendly or not, probably lacked the financial wherewithal to pay it back, because its debts were escalating rather dramatically.

The second question is, from our perspective, not only does some of this credit appear to have been inappropriate, but it looks as if it was poor credit. I think that is of signal significance. In addition to the concern that there was illegal channeling of credit to make the kinds of purchases that we now find particularly unseemly, from a credit-risk perspective, these were not good credits. Second, if it wasn't good credit, who is going to pick up the tab? Quite clearly, this is not a circumstance simply where a bank made a mistake. This is a circumstance where the U.S. taxpayer is picking up a rather substantial amount.

If we did not have this S&L scandal, if we did not have the whole money-center bank problem, the sums of money involved would be of towering dimension. I mean, it used to be a million-dollar scandal was big time. A hundred million dollars was big time. This looks like a billion-plus-dollar credit scandal—forgetting that the purchases could have included military equipment. When this committee suggests that there may be regulatory accountability, it is very serious in that. I just wonder how the Treasury looks at this, simply from a credit perspective.

I mean, do you really think we are going to retrieve 5 percent, 10 percent, 100 percent of what is on the table?

Mr. NEWCOMB. Well, let me say that what you had outlined is an international issue, not just a U.S. issue. The exposure internationally is much greater than the exposure here.

Mr. LEACH. Would you explain that?

Mr. NEWCOMB. Well, I think the debt to Iraq—

Mr. LEACH. Oh, the debt to Iraq from other sources, that is true, but we are dealing with a government agency that extended credit. We are dealing with U.S. regulation of our banking system, and it is our banking system that provided part of that credit. I mean, recognizing that others are going to lose more than we, this is still a billion-dollar scandal, and that is not peanuts.

Mr. NEWCOMB. Well, I certainly concur in your characterization of the magnitude of the issue and concur that we are talking about very large sums. Our trade policy prior to August 2 was such that a financial institution could make those loans.

Mr. LEACH. There is a distinction between trade policy and prudent regulation of the banking system. Our committee's jurisdiction is the banking system. So, when the chairman suggests that there is something perhaps askew in regulation, I think he has got a de facto point. I mean, this is more than simply a foreign policy scandal.

The CHAIRMAN. Yes. Will you yield to me, Mr. Leach?

Mr. LEACH. Yes.

The CHAIRMAN. You are absolutely correct. We may ultimately have some aspects of this that we will refer to other committees. I think the restoration of some of the credit allocations, not only by the Agricultural—we hope to have a session, perhaps on the 17th, in which we will have the Export-Import Bank, which also had an exposure, but which was the first one to indicate that the Iraqi Central Government was not exactly creditworthy. But the State Department then said, you do it; that's their policy.

The big thing that I say, and the urgency—of course, there is no real perception right now—is that, for instance, it is very possible—the reason why these avenues are used is that it is amazing how much money, how much capital, can be raised through these stratagems, using this tremendous reservoir of money that is in our country. As I said earlier, it is much more than \$635 billion, and nobody knows, so you can raise this capital even now, and for God only knows what purpose.

For instance, Panama: We installed a regime, actually, and we imprisoned the leader as a drug-peddler, but actually the laundering and the drug traffic has not diminished one bit out of Panama; in fact, it has increased. In one sense, what we have got is an immediate oversight from our standpoint; that is, the safety and soundness of our system with respect to the regulatory oversight of foreign banking entities doing business in the United States.

There is also, even among our own banking fraternity, very little awareness of the vast differences in cultural, societal, and traditional ways of doing things. Most of the banking entities in these other countries are really government-owned, principally. There is an entirely different background. But those banking entities—say in Germany, for instance, where you have four or five what they call universal banks—but the bankers do not look upon themselves just as our private bankers do in the United States; they also look upon themselves as agents and officials of the government that are going to be in tune with official government policy. Of course, we have not had coherent government policy, but we also have an entirely different background and tradition, so that, in my opinion, this is an urgent need. It may not await a total restructuring of our regulatory system. We have got to do something about the fact that no regulatory agency from the Federal Reserve Board, as I said in my opening statement, to the State regulatory agencies, where they can charter the agencies and branches, have the ability nor the knowledge to oversee properly.

So, as we are meeting here today, transactions like this can be happening in another area.

Mr. BEREUTER, I think you were seeking recognition.

Mr. BEREUTER. Mr. Chairman, I would ask unanimous consent that the gentleman have another minute.

The CHAIRMAN. Without objection, so ordered.

Mr. BEREUTER. Would the gentleman yield?

Mr. LEACH. Of course.

Mr. BEREUTER. I thank the gentleman and the chairman for pursuing this line of questioning, and I do not take exception to what they have said or the conclusions they draw, but I think there is another matter that probably should be put on the table at this point.

Just before the Iraqi invasion of Kuwait, on August 2, there was legislation on the floor which would have imposed a selective export embargo on American agricultural products. This gentleman opposed that as a selective embargo and suggested, if we were going to have an embargo, it should be across the board. At that time the administration told this Member—and I still believe it to be true—that the Iraqi government was repaying always appropriately and on time, any CCC export credits extended by the United States to Iraq to facilitate the purchase of American grain and food products. So at that time, at least, if that continues to be correct—if it was correct at the time—while the Iraqis may have a huge foreign debt, the track record on the sale of American products using CCC credits was just fine: they were paying rapidly; they were paying in cash; and they were paying in order.

That was the situation on which this gentleman made comments on the floor in the latter part of July.

I thank the gentleman from Iowa for yielding.

Mr. LEACH. Thank you.

Mr. Chairman, my time has expired, but I would make just one comment, if I could. I think this whole discussion underscores the need to go ahead with a re-look of the regulatory system. The administration has a very profound approach that I think we ought to consider. The chairman has a somewhat different one that is very respected.

I do think it does underscore the need for this Congress to act in a progressive way despite some of the views that we won't do anything this year. I think the administration at least does have a timely proposal that ought to be considered in that context.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Leach. You are one of the most important factors on this committee, so it is gratifying to hear that, because we should have a sense of urgency about the need to reform.

Ms. OAKAR.

Ms. OAKAR. Thank you, Mr. Chairman.

Mr. Secretary, on page 13 of the staff report—which you do not have in front of you, I don't believe—a February report related to the role of Banca Nazionale del Lavoro in financing Iraq and the failure of the various Fed agencies, it indicates that to date the CCC—that is, the commodity credit program—has not suspended BNL from participating in the GSM-102-103 program.

Since Treasury has a vote on the NAC advisory council, why haven't you suspended this bank's opportunity to have taxpayer's money used to extend credit to questionable situations? Isn't performance one of the ratings you give some of these institutions?

Mr. NEWCOMB. Let me say, Congresswoman, that that is an area that I am just not in a position to answer. It is not within my area of supervision. I can get an answer for you and, certainly, respond for the record.

Ms. OAKAR. Well, would you submit that for the record?

Mr. NEWCOMB. I certainly will.

I also think that that's something that the Agriculture Department, too—

Ms. OAKAR. Well, I know they are, but Treasury does play a role in the Department of Agricultural commodity credit.

I think it is important for our businesses to have incentives for export opportunities, and that is why I have already supported the Commodity Credit Corporation and the program, as well as the Export-Import Bank. I think sometimes we fail to have the proper incentives for our businesses to export. On the other hand, we expect the proper agencies to be monitoring situations and deals that are made abroad, so that the kind of scrutiny that should take place does take place.

Now, if you take a look at the background on the BNL loans to Iraq, the \$2.2 billion in BNL loans to two Iraqi commercial banks and the \$2.155 billion in BNL loans to the Central Bank of Iraq, in one case over \$1 billion of credit was U.S. taxpayers' credit that financed these exports, and another \$900 million in the other deal was financed by our people, our credit corporation.

You just released a list of companies, some of which are from my own State of Ohio. What kind of checking does Treasury do as one of the NAC advisory council members with respect to whether or not these companies are really exporting agricultural products or whether or not—as in the case of the company in Solon, OH, they are really exporting military technology?

Mr. NEWCOMB. Did your question relate to what kind of checking?

Ms. OAKAR. Yes. What do you do? I mean, do you just take the company's word that they are going to export, or that the company that gets the guaranteed loans? Our taxpayers—Mr. Leach, I think, alluded to this—are the ones that are going to eat the \$2 billion, right?—guaranteed loans, if we don't retrieve that, which God knows when that will happen, right?

Mr. NEWCOMB. Well, on that point, let me say I think at some point, following earlier programs, there will be some kind of a settlement of claims program. The full extent of recovery is not clear at this point.

Ms. OAKAR. Settlement claims with whom?

Mr. NEWCOMB. Well, we have a pool of blocked Iraqi assets that creditors of Iraq in the United States presumably have a claim against if there is sufficient authority to vest that property and set up some kind of a program. We are not clear totally on the full extent of the claims. We have done a survey, and we are aggregating that data right now. We are trying to verify it from potential U.S. creditors of Iraq.

But on your earlier question, as to decisions made prior to August 2, again, that is something that neither I nor anyone under my supervision was involved in. I would be delighted—

Ms. OAKAR. Well, who knows from the Treasury Department?

Mr. NEWCOMB. It would be someone else within the Treasury Department, and the Agriculture Department.

Ms. OAKAR. Well, could you get the information for the record that would indicate what type of scrutiny this NAC advisory council—right?—and Treasury has one vote, correct? There are three agencies; am I right about that?

Mr. NEWCOMB. That is my understanding, but I am not—

Ms. OAKAR. Right. Well, could you get the information for the record that would indicate what type of scrutiny, in terms of these exports, was done by Treasury?

Mr. NEWCOMB. I can certainly go back and get the appropriate people to develop that information.

[The information referred to can be found in the appendix.]

Ms. OAKAR. Last—and my time has expired—and you may not know the answer to this, either—could you tell me whether or not—or could Treasury respond: Should Treasury have more of a monitoring opportunity and oversight over this credit corporation, even though it is under the auspices of the word "agriculture"?

Mr. NEWCOMB. Once again, I will get it for you for the record.

Ms. OAKAR. OK. I think it would be interesting to know that.

The CHAIRMAN. Mr. Barnard.

Mr. BARNARD. Thank you, Mr. Chairman.

Mr. Newcomb, attached to your testimony is a copy of the Federal Register of Wednesday, April 3, 1991. There is a list of companies—you have included a list of companies—would you identify for the record what is that list of companies?

Mr. NEWCOMB. As explained in the preamble to the Federal Register notice and in my testimony, those are companies identified as specially designated nationals of Iraq. These are individuals and companies—usually in third countries—that are acting for or on behalf of Iraq, either through an agency relationship, through direct ownership or control, acting for or on behalf of Iraq either overtly or covertly.

Mr. BARNARD. What agency of government is responsible for maintaining this list?

Mr. NEWCOMB. The Treasury Department.

Mr. BARNARD. The Treasury Department.

Do you maintain similar lists for other countries that would be designated as terrorist countries?

Mr. NEWCOMB. We maintain similar lists for countries where there is an economic embargo under one of two statutes: either the Trading with the Enemy Act or the International Emergency Economic Powers Act. In most cases, they are similar, but not all terrorist countries are embargoed.

But let me say we maintain such lists for Vietnam, North Korea, Cuba—we did with Panama—Iraq—

Mr. BARNARD. Libya?

Mr. NEWCOMB. Yes.

Well, let me just correct that. That is something we are currently working on and will have imminently.

Mr. BARNARD. How long have we had this particular list on Iraq? Mr. NEWCOMB. Well, we began developing the information in August—at least the Treasury Department did.

Mr. BARNARD. We did not have it before August?

Mr. NEWCOMB. Well, we began compiling it. Certainly the information was under various stages of investigation, various stages of inquiry. Before going forward, we had to have sufficient reason to believe that, in our best good-faith judgement, these individual companies qualified. It required a lot of interagency coordination and bilateral coordination with foreign governments.

Mr. BARNARD. So, in other words, Iraq was an exception. We did not keep the records on Iraq before August 3, but we do keep records today on other countries designated as terrorist countries.

Mr. NEWCOMB. Not necessarily terrorist countries—embargoed countries.

Mr. BARNARD. But, now, what is an embargoed country?

Mr. NEWCOMB. An embargoed country is a country where the President declares a national emergency, uses extraordinary authority under several statutes, and invokes economic sanctions or embargoes for foreign policy or national security reasons.

Countries currently embargoed are Vietnam, North Korea, Cambodia, Cuba, Iraq, Kuwait—which was just lifted, Iran, South Africa and Libya. We have recently lifted sanctions, as you know, on Panama and Nicaragua. Those would be the countries.

There are other terrorist-supporting countries designated that are not embargoed; thus, we would not have such a list for them, because we do not have jurisdiction.

Mr. BARNARD. Do we secure the cooperation of allied countries—those, for example, that are determined countries? How do we get their cooperation in this particular effort?

Mr. NEWCOMB. Through routine enforcement-coordinating mechanisms. For example, in Iraq, we have been to the Bank of International Settlement, the EC Commission, and the OECD. Bilaterally we have coordinated with over 100 governments here in Washington, through the embassy. In every instance, we have raised this issue, and it is through routine sources, through counterpart agencies.

Mr. BARNARD. Are these lists made available to other agencies of government, such as the Federal Reserve?

Mr. NEWCOMB. Oh, yes. In fact, immediately upon publication of the list—let me point that, in total, we have over 500 such designations, and we anticipate many more. We have over 500 such designations, and they are communicated to the entire Federal law-enforcement community as well as to the Federal Reserve system, who immediately go to the branch Federal Reserve banks and then to all member banks. There is very wide dissemination of these names.

Mr. BARNARD. In other words—well, let me ask you this question. You may not see fit to answer it. In your opinion—let's say that a bank regulatory agency, such as the Federal Reserve, more likely the Comptroller of the Currency. If he had a list such as this as it applied to, say, Libya, would it be reasonable for them to suspicion loans to these companies as being financed by the Libyan government?

Mr. NEWCOMB. I understand your question. Does this provide notice that these entities are under our program—

Mr. BARNARD. Yes.

Mr. NEWCOMB. Blocked entities where transactions are prohibited. If there were an embargo in place against the country, such as Libya, then, if there is clear notice that U.S. persons may not conduct transactions—extending it to your bank question—the answer is yes, if I understand you correctly.

Mr. BARNARD. Yes. The point I am getting, of course, is that, during the time that BNL was making these loans to these various companies, if their bank records showed that they were making these loans—now, of course, we understand that there were two sets of records, one that they kept in a separate file in an automobile trunk, I understand, and then the other, official records.

Now, if they are official bank records, those that were available to the banking agencies to examine—if this list had been available, they would have been able to become suspicious of these loans; is that correct?

Mr. NEWCOMB. If it had been available, it would have identified what, in the best good-faith opinion of the Treasury Department, are entities acting before or on behalf of Iraq. That, under the hypothetical you have given, would be impossible, because, since there was no embargo in place prior to August 2, such a list could not be developed, as it would. All it could do is be advisory; there would be no force and effect of law, as there is now.

Mr. BARNARD. Thank you very much.

Mr. NEWCOMB. Thank you.

The CHAIRMAN. Thank you, sir.

Mr. Cox.

Mr. Cox. Thank you, Mr. Chairman.

Mr. NEWCOMB. I would just like to ask you a couple of questions in a couple of areas. In your statement you talk about the American people having every reason to be proud of the work done by Treasury in implementing its share of the responsibility with regard to sanctions against Iraq. Is it your opinion that those sanctions from the area of jurisdiction of Treasury were in fact working—are still working?

Mr. NEWCOMB. Yes, sir.

Mr. Cox. Second, in the letter of invitation that you received, there was a request of you to provide some information as to whether or not central banks and other foreign government-owned or -controlled banks operating in the U.S. were properly monitored, or are being properly monitored. Are you an appropriate person to ask that question?

Mr. NEWCOMB. I am the appropriate person with regard to those countries I have mentioned. With regard to those countries, I will give you an unequivocal yes. The reason they are properly monitored is because all transactions are blocked. Our relationships with the money-center banks, the Federal bank regulatory agencies, the Fed, the Federal law enforcement community, has worked very well in ensuring there is very close oversight.

As far as countries not subject to the jurisdiction of one of the statutes I have mentioned, I cannot comment.

Mr. Cox. I assume what you are saying is, as of the issuance of the Executive order of August 2; is that right?

Mr. NEWCOMB. That is correct. To be more clear on it, all transactions are prohibited, so there is no judgement call at all. You just can't do it.

Mr. Cox. What about before August 2?

Mr. NEWCOMB. Well, clearly there was not an embargo. There was not an Executive order. We did not have the authority. To answer your earlier question, I am not the right person.

Mr. Cox. All right. That was the concern that I had, because there is a clear lack of information in your statement, both in the written statement and the summary that you provided, with regard to the overall issue of regulation that I understand Congressman Leach's questions to be directed toward. The reason that is not there is because we were asking the wrong person; is that right?

Mr. NEWCOMB. That is correct.

Mr. Cox. OK. Thank you.

The CHAIRMAN. You're through?

Mr. Cox. Yes. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

The Chair will observe that it is about 5 minutes past 11. We have seven witnesses remaining, and I would recognize the remaining members for 3 minutes.

Mr. Hoagland, I believe you came in next.

Mr. HOAGLAND. I just have a question, Mr. Newcomb, about any remaining contractual obligations there might be to extend credit. As I understand it, there may be as much as \$500 million or more of credit obligations that have not yet been issued to Iraq. Are those still binding? Surely we are not continuing to provide credit under these documents.

Mr. NEWCOMB. These are credit obligations under CCC, GSM programs?

Mr. HOAGLAND. Yes.

Mr. NEWCOMB. Again, I think you will need to consult with the Agriculture Department on that. When our program goes into place, there is a blocking, so whatever existed beforehand becomes irrelevant, because any such transaction is prohibited; that is where it is; that is where it has been; and that is where it will be until U.N. resolution 687 goes into place and starts working out whatever phased lifting of sanctions on Iraq might take place.

Mr. HOAGLAND. I was hoping and expecting that you would say that. In other words, if there is a remaining, outstanding contractual obligation of as much as \$900 million—as some of the documents we have indicate—we have more than enough legal authority to block that, so it will not be extended to Iraq at this point.

Mr. NEWCOMB. At this time, that is correct.

Mr. HOAGLAND. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Slattery.

Mr. SLATTERY. Thank you, Mr. Chairman.

First of all, I just wanted to make a very brief comment and just observe that, when we look back to relations with Iraq prior to August 2, there was clearly a great deal of confusion within this administration as to what our policy with Iraq with respect to

trade should in fact be. I think we need to be candid and honest about that. There was great division even within the Congress as to whether we should, for example, terminate the export enhancement program to Iraq. We had a vote on the floor of the House just several weeks prior to the invasion, and the administration at that time had taken the position that the export enhancement program should not be terminated; in other words, we should continue to use taxpayers' money in this country to subsidize the sale of farm products, some of which were grown in my State, to Iraq. That was the administration policy.

If we recall correctly, the fact is that Secretary Mosbacher over at the Commerce Department was haggling with the Department of Defense over what was really a security-sensitive item and what was not, and there was a great deal of disagreement. I think we should keep that in mind so that, as we look forward in dealing with this sort of problem, I would like to know from you—and I apologize for being late; I had another hearing I had to be at earlier, but, just in hearing your comments and looking quickly over your testimony and studying it, there do not appear to be any suggestions on your part as to what can be done with respect to the Treasury Department to improve this situation in the future.

Mr. NEWCOMB. Well, let me say—

Mr. SLATTERY. Is that your testimony? In other words, the status quo with respect to the Treasury Department is fine. There may have been a problem with the Commerce Department, and there may have been a dispute with the Department of Defense and the Commerce Department, and there may have been a dispute in the Department of Agriculture with respect to the export enhancement program; but, in terms of your responsibility over at the Treasury Department, all is well. Is that what you are telling us?

Mr. NEWCOMB. No. I am not saying that. Let me say, I think right now we are in the process of coming out of Desert Storm. The U.N. has recently passed U.N. resolution 687. As you know, Kuwait was devastated. A lot is taking place. I think, in the context of the U.N. resolution, a lot of discussion will be had about where we go from here—

Mr. SLATTERY. Do you have any specific things that the Congress should do to improve the operation of the Treasury Department with respect to this problem that we are talking about?

Mr. NEWCOMB. No. I have no specific congressional recommendations.

Mr. SLATTERY. So the status quo and the authority you have to do your job is adequate; that is what you are telling me.

Mr. NEWCOMB. Yes.

Mr. SLATTERY. Do you have any observations that you might like to share with us in terms of how we might deal with these problems of the export enhancement program and some of the outstanding loan guarantees that the taxpayers in this country are going to be left holding the bag for?

Mr. NEWCOMB. Congressman, I do not think I would have much to add to that debate, other than what is, certainly, within the province of this committee at this time.

The CHAIRMAN. The time of the gentleman has expired.

Mr. SLATTERY. Thank you.

The CHAIRMAN. Ms. Waters.

Ms. WATERS. Mr. Chairman, I do not have any extensive list of questions here. I, too, would like to apologize for being late to the committee. I had other obligations that I had to attend to.

Let me just raise something so that I am clear. Your testimony here suggests that you really want to talk about what you do in relationship to the U.N. resolution that will dictate the terms of the peace settlement with Iraq. You are not here today really to talk about what happened in the past—is that correct?—the so-called secret Iraq technology procurement network, are you?

Mr. NEWCOMB. I am not here to discuss any particular case that might have been ongoing by any other Federal agency. As far as the Iraq procurement network, we have recently identified a number of Specially Designated Nationals which qualify as having participated in a network, but it is not case-specific to anything—

Ms. WATERS. Are you or anyone attempting to suggest that it was a secret and nobody knew about it?

Mr. NEWCOMB. Yes. I think a great deal of it was covert. I think they were not saying, "We're from Iraq, and this is where you come" if you want to deal with Iraq.

Ms. WATERS. And of course we are not sophisticated enough, nor do we have the resources, to do the kind of monitoring and investigation that would have led us to come to a conclusion?

Mr. NEWCOMB. Well, let me say it was a secret to the world, not just to the United States. They were acting in a way that it would not have been readily apparent that they were acting as agents for Iraq.

Ms. WATERS. So I am to conclude, then, that it was a secret and that we do not know how to prevent these kinds of networks, but we are going to try. Is that what we hear today?

Mr. NEWCOMB. Well, certainly what we are doing is exposing the one that exists, as far as—

Ms. WATERS. After the fact.

Mr. NEWCOMB. Well, I guess you could call it that.

Ms. WATERS. Well, then, if that is really what the testimony is all about, I suppose, Mr. Chairman, we should just get on with talking about what is to be done for the future, even though I would not have a lot of confidence in it if I am being told at this point that, with all of our knowledge and talent and sophistication, countries such as Iraq could elude all of our networks and be involved in this kind of secret technology procurement, then I will listen, but I just do not know what to think.

Mr. NEWCOMB. Just for the record, let me say that, prior to August 2, we had no authority to begin collecting this information. We had no charge from the President; the emergency statutes had not been invoked. This may have existed; indeed, many of these companies have been in existence for a while—not all covert; certainly some covert. Many were acting openly. But it was certainly not within the authority of the Treasury Department to begin acting in this manner prior to August 2.

Ms. WATERS. Well, let me just ask this, then: Did we know about it when Iraq was involved with the war with Iran? Did we know about these networks and support them?

The CHAIRMAN. The time of the gentlelady has expired.

You may answer for the record if such is required, unless you can briefly answer it now.

Mr. NEWCOMB. This information had not been compiled as it recently was.

Ms. WATERS. Thank you.

Mr. NEWCOMB. Thank you.

The CHAIRMAN. Mr. Newcomb, thank you again very much. You have been cooperative; you appeared here before. We are grateful to you.

Some of the members will be submitting questions in writing, some of those that could not attend the hearing. They will be submitted to you by the time you receive the transcript of this hearing. If they are timely, you, I am sure, will address those questions.

Mr. NEWCOMB. Certainly.

The CHAIRMAN. But thank you again very much.

Mr. NEWCOMB. Thank you, Mr. Chairman. It is my pleasure, as always.

The CHAIRMAN. Thank you, sir.

The Chair will also remind members we have seven witnesses. If we proceed as listed on panels, I am afraid we will be here until 5 p.m., so, in an effort to expedite and also give consideration to those that, through no fault of their own, are listed last as witnesses, we are going to invite all our friends—I want to thank in advance for having so cooperatively replied to our requests—to step forth and take your place. The little lady will have your name tags in front of the chairs.

We will proceed, one at a time, and each one will testify. As you noticed, the question period has taken the time, so we will then address the questions to the members of the group as a collective group.

First, Dr. Stephen D. Bryen, president of DeltaTech, Arlington, Virginia, and a former deputy under secretary of defense for trade security place, and an expert on U.S. export control process, and an authority on Iraqi efforts to obtain U.S. technology through the export licensing process; Mr. W. Seth Carus, a fellow of the Washington Institute for Near East Policy, an expert on Iraqi efforts to procure missile, nuclear, chemical, and biological weapon technology; Mr. Ken Moore, engineering consultant, expert in dual-use technology as it applies to munitions plan construction.

We have Mr. Jerry Kowalsky, president of CSI Technologies, San Marcos, California. Mr. Kowalsky indeed is an American hero. He received several awards for thwarting Iraqi efforts to obtain nuclear warhead detonators, alerting and working with the U.S. and U.K. customs services and the FBI on an undercover sting operation to stop this traffic; Dr. Beurt R. SerVaas, president of SerVaas Engineering of Indianapolis, Indiana. Dr. SerVaas will tell the story of how his firm was contacted by the main arm of the BNL-financed Iraqi procurement network operating in the U.S. Matrix-Churchill, Incorporated, of Solon, Ohio—Dr. SerVaas's firm was the beneficiary of \$40 million in BNL money that was used to start building a U.S. government-approved brass recycling plant near Baghdad. And Mr. A. Robert Abboud, chairman, U.S.-Iraq Business Forum and the director of the First City Bancorporation in Houston, Texas, an authority on U.S.-Iraq commercial and finan-

cial relations; and Mr. Marshall Wiley, president of the U.S.-Iraq Business Forum, founder of the U.S.-Iraq Business Forum, former U.S. diplomat and chief of the U.S. interests section at the Belgian embassy in Baghdad, prior to the normalization of U.S.-Iraq relations in 1984.

With that, let me advise that by no means is this to be interpreted that your remarks are to be considered in a less consequential or a more brief or abbreviated form. It is just a means of reducing the time-consuming aspects, which, as you were sitting here, you saw the question-and-answer period. If there is no objection, why don't we introduce you in the manner in which I read your names, and that would be Dr. Bryen first.

STATEMENT OF STEPHEN D. BRYEN, FORMER DEPUTY UNDER SECRETARY OF DEFENSE FOR TRADE SECURITY POLICY

Mr. BRYEN. Thank you, Mr. Chairman. I provided the committee with a statement, which you have.

The CHAIRMAN. Yes. Will you yield to me?

Mr. BRYEN. Yes.

The CHAIRMAN. I wanted to thank each and every one of you, because you did submit your statements in ample time for us to review them. Those will be printed intact in the record at this point, as you submitted them to us. Then the transcript will cover your verbal presentation.

Mr. BRYEN. Thank you, Mr. Chairman. Since the statement has been submitted, I am not going to read it. I would rather just try to summarize it briefly for you. I understand your concern about time.

You asked me to comment on U.S. export controls as they affected Iraq during the time I served in the Reagan administration, which was 1981 until 1988, as deputy under secretary of defense for trade security policy. I would like to do that.

You also asked me to comment about where we are now: what kind of system do we have now, and is it an adequate system? The answer to the second question is quite straightforward. We do not have a competent export control system today. It is a shambles, and it is getting worse, not better. The consequence is that extraordinarily sensitive exports of weapons technology can go from the United States, in many instances without export licenses at all. The entire regulatory operation in terms of export controls is hazardous. The rules are unclear and conflicting, and the system simply cannot function in an effective way. It is a candidate either for burial or reform, but, clearly, keeping the system the way it is will serve no goal other than to harass American companies.

As far as what happened in the 1980's, I have to take some exception to the previous witness. There was a lot of knowledge about what Iraq was up to, and there were efforts made. Certainly, my department made strong efforts internally to try and turn around what we considered to be a highly dangerous export to Iraq of materials and technology that we believed were going into Iraq's unconventional weapons programs.

An unconventional weapon is a weapon of mass destruction, such as a chemical weapon, a biological weapon, a nuclear weapon, or

the delivery systems for those weapons. That is where our primary focus was.

On numerous occasions—many, many cases—my staff and I personally raised objections to export licenses with the Commerce Department; we also raised those objections at the level of the National Security Council. The fact of the matter is that, in most instances, the exports went ahead. In one case, in 1987, the National Security Council advised us in its own inimitable way that we should be "more forthcoming" and that we should approve some of the cases that we opposed. We opposed them because they were going into these weapons programs.

The real truth is that what was going on was, the United States was in a big hurry to open up positive and good relations with Iraq. The keystone of that, I think, was trade. Therefore, any negative message from the likes of us that a certain transfer might be harmful was regarded as a setback to this thrust. The State Department, and particularly the Commerce Department, which was arranging trade fairs, including aerospace and other sensitive topics, did not want to be in the position of having to tell the Iraqi authorities, or Saddam Hussein himself, that a particular license had been turned down. Consequently, there was a lot of scheming; in many cases the Defense Department was cut out of the action altogether. Countless licenses were given, including licenses directly to the Iraqi military; as the list of Congressman Barnard's committee shows, the end use in many cases was the Iraqi army, the Iraqi air force. Some of the equipment that went was pretty obnoxious—even equipment to repair rockets was licensed by the Commerce Department and concealed from the Defense Department.

I think the whole essence of the situation is that, during the 1980's, we had a pro-Iraqi policy that we were following, that the regulatory effort failed and it failed for a lot of reasons, not the least of which is that it is pretty weak in the first place. It is failing as we speak today. It will continue to fail because of the way the system is set up, the way it operates. It is ready-made to be inoperative.

As far as nuclear nonproliferation, or proliferation of any kind of weapon of mass destruction, we are in grave risk, and we are at grave risk because the system simply cannot regulate these kinds of transactions. There is a story today, in the *Los Angeles Times*, about another case where a Commerce Department official, who turns out to be the same one who approved the CONSARC case, for high-temperature furnaces for Iraq's nuclear program—the same official gave permission to a company in New Jersey to provide devices for missile separation to the Iraqis and told the company in New Jersey, "You do not even need a license for that"—a gross violation, in my opinion, of the export laws, but so what? I mean, the fact is that the system that we have is the wrong system and it needs to be reformed.

I think that is the essence of what I have to say, and I will be glad to answer questions further on. Thank you, Mr. Chairman.

[The prepared statement of Mr. Bryen can be found in the appendix.]

The CHAIRMAN. Thank you very much, Dr. Bryen.

Mr. Ken Moore—Well, actually, I beg your pardon. Mr. Carus. I don't know why I jumped over that far.

STATEMENT OF W. SETH CARUS

Mr. CARUS. Thank you, Mr. Chairman.
The CHAIRMAN. We had three on this panel, so I beg your pardon.

Mr. CARUS. That's quite all right.

I guess those of us who have been following Iraqi proliferation are not used to getting attention, so we are used to being passed over, at least until recently.

With your permission, I will do as the previous panelist did and just summarize some of the key points in my testimony.

The CHAIRMAN. Very good.

Mr. CARUS. What I will try to do is talk about three specific issues: First, Iraqi proliferation, to provide some context for what happened with the BNL affair; second, some observations on the U.S. policy towards Iraq having to do with unconventional weapons; finally, some observations about the character of controlling such activities.

It is important to realize that, while there are a lot of countries involved in proliferation, Iraq was unique in several important respects. I do not think there was a single Third World country that tried so hard to develop such a wide range of unconventional weapons capability so quickly. In some areas, it had one of the largest programs in the Third World. In other areas, it was just getting under way but clearly working toward similar capabilities.

A second point is that, unlike many Third World countries, Iraq was trying to develop autonomous production capabilities. That means that, not only were they trying to make a finished product, but they were trying to make the components that went into the finished products, and in some cases were trying to go all the way back to manufacture the raw materials. This meant that it posed particular problems, different from those of some other kinds of countries.

Finally, Iraq is ready and willing to use its unconventional weapons. There are very few Third World countries about which I would be as unambiguous as this, but we have ample evidence, both from the use of chemical weapons against the Kurds and also from the policies of the regime, that this is a country that could not be expected to use responsibly, quote-unquote, such weapons.

Now, in looking at the range of capabilities, I am just going to talk about the unconventional weapons programs, but it must be remembered, especially in the context of the BNL affair, that Iraq was also trying to develop advanced conventional weaponry. I suspect a tremendous amount of the money that was being used to buy military-related production hardware was in fact going into production of advanced conventional weaponry.

However, in the nuclear area, what we find is, they had a nuclear program. This dates back to the 1970's; it went somewhat inactive after the Israelis destroyed the Iraqi reactor in 1981, but in the late 1980's it was resumed, using West German technology. There were efforts to produce centrifuges for making highly enriched ura-

nium, which would be used in bombs. This was primarily West German technology. There were efforts to get certain components from the United States—we will hear a little bit more about that, I understand, later on—but it was primarily a European focus for the Iraqis.

A second area where the Iraqis were active was in chemical weapons technology. Iraq had the largest chemical weapons program in the Third World and in fact, because of the shutdown of production in the United States and the Soviet Union, they were the largest producer of chemical weapons in the world by the time Iraq invaded Kuwait. Again, this is production technology that came primarily from Europe. The Iraqis had production plants provided with the assistance of West German companies. They used precursor chemicals, the chemicals to make the chemical weapons, but acquired from all over the world, including the United States, but also Japan and European countries. However, because of export controls, the Iraqis were trying to make those precursors themselves, and in fact were trying to go all the way back to the oil well, in terms of having an autonomous capability.

Much the same could be said about biological and missile capabilities. The missile program, however, was somewhat more complicated, because of Iraq's involvement in the so-called Condor program, which involved West German and Italian technology in conjunction with Argentina and Egypt. In addition, the Iraqis had a follow-on program, known as project 395, which was essentially going to develop similar types of missiles indigenously in Iraq, with technology from overseas.

Associated with the missile program was the so-called Saad-16 research and development complex, which was the recipient of much of the high-technology equipment provided from the United States.

Now, in terms of looking at this activity in the context of U.S. policy, my own feeling is that it is a somewhat mixed picture. The United States was in fact probably the most active country in trying to control exports of supplies for unconventional weapons programs to Iraq. In the nuclear area, the United States appears to have taken an active lead in trying to develop cases to put a stop to acquisition efforts. In the chemical area, the United States was a founding member of the so-called Australia Group, which tried to prevent Iraq from getting precursors. In the missile area, the United States, through the Missile Technology Control Regime, took an active role against the Condor program.

The complexity, however, of the U.S. position I think becomes more evident if you look at one of these areas, which was the Iraq's chemical program. The United States did work actively against Australia Group. We had domestic controls; there were several vigorous prosecutions of American companies that supplied precursor chemicals to Iraq. And we had bilateral talks with friendly countries that were providing support to the Iraqi program. Nevertheless, as I said, it was a mixed picture. The United States never vigorously protested use of chemical weapons the way we should have. We ignored the obligations that Iraq had under the Geneva protocol not to use these weapons. Perhaps more to the point is that,

while we protested the activity of countries like West Germany in supporting these programs, we never really pushed the point extensively.

Now, that gets me to my conclusions, and I will try to wrap up quickly. I think that several points can be made that are somewhat important. First, unconventional weapons programs cannot proceed without financial resources. It is expensive to develop such weapons. They are called poor man's atomic bombs, but even a poor man's atomic bomb is a lot of money. This is, I think, the real significance of the BNL affair. If Iraq had not been able to get financial resources to support its activities, it probably would not have been able to do many of these things.

Second, I do not think the main problem was a lack of laws; it was a lack of policy guidance. Whenever the United States did decide to proceed, we were able to do it very vigorously. The problem was policies that were not consistently vigorous.

Third, we have got to make sure that other countries are as vigorous as we are. Typical is the problem of West Germany, which was a major figure in the Iraqi and which did not take enough steps to deal with, and which could be a problem again in the future.

Finally, there are limits to what you can accomplish through export controls, simply because, as countries get more sophisticated in what they do, the range of products that they need becomes greater and greater, until they are basically acquiring the full accoutrements of an industrial society. It becomes difficult to separate what is a legitimate commercial activity from what will eventually go into a nefarious production capability.

With that, I will close my comments. Thank you, Mr. Chairman. [The prepared statement of Mr. Carus can be found in the appendix.]

The CHAIRMAN. Thank you very much, Mr. Carus. I am going to recognize Mr. Annunzio for a unanimous consent request.

Mr. ANNUNZIO. I ask unanimous consent that I be given permission to submit for the record four questions.

The CHAIRMAN. Without objection, it is so ordered.

Mr. ANNUNZIO. Thank you.

The CHAIRMAN. Mr. Annunzio has other responsibilities heading other subcommittees, so he will be excused for that purpose. Mr. Moore.

STATEMENT OF KEN MOORE

Mr. MOORE. In line with the previous witnesses, I submitted a statement. I think, rather than go over it all, I will concentrate on the thing I was asked to focus on.

The CHAIRMAN. All right, sir. Very well.

Mr. MOORE. Most of the equipment in use for production of ammunition and armaments around the world is not manufactured originally, specifically for that purpose. It is adapted from commercial equipment. We forge shells, make airplane parts, and produce a lot of auxiliary pieces of equipment on the same machines that

are used for making bumpers for cars, plastic bottles for the pharmaceutical industry, and many other examples.

One example of this: Just last week I was in a plant where every piece of equipment used in the plant was dedicated to the manufacture of military goods, and every individual piece of equipment there could have been purchased from the manufacturer's catalogs. It is difficult to control the machinery, per se, even though in the International Traffic in Arms Regulations (the I.T.A.R.) there is a specific mention that machinery for the manufacture of ammunition is covered by the export regulations. Very few people go out and buy, say, a forging press to make artillery projectiles. They will buy the press and normally design their own tooling, and it is the tooling that goes with these presses, which is the critical part. It is also the part that the country would normally either farm out to someone else or do themselves, if they were anticipating—or attempting—to cover up their ultimate objectives.

I have given some examples in my testimony. Just to mention one—well, let me mention two. The centrifugal casting: There was a machine which we saw in the press, which was supposedly used to cast ductile iron sewer pipe. During World War II we made over 100,000 artillery gun barrels on that same type of machine. Well over 100,000. There was also a machine, called a rotary forge, and, until this thing came up, I must admit that my only experience with rotary forging was in the use of manufacturing gun barrels. But these machines by themselves are sort of like automobiles; you use them for whatever end purpose you want.

If I might go to the control aspect of this, it has been difficult, I think, to control the export of machinery when the mechanical engineering industry has been one of the mainstays of American industry, and in fact fuels the West German economy with the sale of machinery for the production of metal parts and for chemical plants. I think our controls in the past have focused a great deal on three areas. One is keeping high technology out of Soviet hands, keeping munitions in general out of unfriendly hands, and a more recent focus on guided missile technology. We see, I think, a trade-off there of national trade interests and the health of the American machine industry versus foreign policy considerations and international competition—things I am not really qualified to address.

The difficulty in controlling the equipment itself is that it is available from so many sources. Anything you can buy in the United States you can buy somewhere else. If someone is attempting to export that equipment from the United States, if you're an above-board nation like Pakistan, you come out with a tender saying, "We want to buy a press to forge projectiles", and then the manufacturer or the export agent goes to the State Department and says, "We have a tender to export a forging press, and it is going to Pakistan", and it may or may not be approved.

But if you are engaged in a more complex build-up, the one we have seen so much in the press with BNL, you are going to farm that operation out to two, three, five, twenty different companies. The only way that is going to come to light is either through the monitoring of the letters of credit as they flow through the banks or of the—well, the licensing application process or the customs

declarations at the time of export. This becomes a monumental task, and I am not sure just how one goes about that.

If I might, I would like to mention two other things. On the subject of the chemical weapons, I had a situation last year where I was approached by a company in the United States which operates one of America's own ammunition plants. They wanted a certain precursor chemical—is that the word?

Mr. CARUS. Yes.

Mr. MOORE. Required for the manufacture of one of our critical weapons systems. This was from the manufacturer who made the chemical itself and who loaded it into the weapons. At the bottom of their purchase order, in bold letters, it was stated this was not to be used for chemical weapons. I had to advise those people that we could not participate in a sale like that, because bringing in things like that would get our supplier in Europe in trouble, even though that particular chemical has many, many industrial uses, that particular plant has only one use.

I think that would conclude my summary, sir.

[The prepared statement of Mr. Moore can be found in the appendix.]

The CHAIRMAN. Thank you very much, Mr. Moore.

I wanted to emphasize to the colleagues that Mr. Moore appended to his testimony very excellent documentation that I would encourage the members to study carefully. It stresses his statement today.

Mr. Kowalsky.

STATEMENT OF JERRY KOWALSKY

Mr. KOWALSKY. Yes. CSI is a manufacturer of custom-designed, high-voltage pulse capacitors, a highly specialized form of a capacitor and a critical component in the triggering system for a nuclear device.

On September 6, 1988, I received a fax from our London agent transmitting an inquiry from a company called Euromac, acting for an Iraqi delegation. The technical specifications supplied exactly matched what I knew from prior experience to be that of a capacitor for a nuclear warhead trigger circuit. I immediately notified contacts at the CIA and Customs Service. As it was primarily an issue of export control, the CIA from then on was primarily passive, as far as their participation.

Special Agent Daniel Supnick of the Exodus program visited with me a day or two after I called him, and he requested that I quote a very good price, make an attractive proposal, and do everything possible to get a contract from Euromac. Thus, the sting was born, which became known as Operation Quarry.

A few months later, in November 1988, I met with Michael Hand, then the director of export sales for Euromac, in the offices of our representative in London. Hand went into great detail to impress us with the importance of Euromac. He indicated that, during—and he also said that the Iraqi government was Euromac's one and only customer. He claimed that Euromac, during the height of the Iranian-Iraqi war, had processed up to \$1 billion per month of merchandise for the war effort, and even now—the war

had ended earlier in 1988—he claimed that Euromac was still processing up to \$1 billion per year of material for Iraq.

He went on to say that Euromac had offices in not only the U.K., but also in Italy and in New Jersey. To the best of my knowledge, our authorities have not uncovered the New Jersey operation.

He explained that, while there was in his mind an official Iraqi procurement organization in the U.K. called TDG, whenever Iraq had a significant requirement, they went to Euromac rather than TDG. Much later, of course, it became public that TDG was a very major player in Iraq's clandestine war procurement network.

He went on to comment that Euromac had procured large quantities of explosion-proof switches from a California company called Custom Control Sensors. When I asked Hand who his customer in Iraq was for the capacitors, he replied, SORG. Actually, this is an Iraqi contractor for State Organization of . . . He also implied that Euromac's managing director, Ali Dagher, was involved in many activities that Hand was not privy to and was in fact close to the highest levels of the Iraqi Government.

Hand was not technically qualified, so, even though there were some residual technical questions, they were not answered at the meeting. In fact, all through this period of 18 months, there was technical discussion going back and forth between myself, Euromac, and in some cases the Iraqi Government.

In April 1989, shortly after an article appeared in the *Washington Post* speculating on the resurgence of Iraq's nuclear weapons program, we received notification that Mike Hand had left Euromac and that the project was terminated. I called Hand at his home and learned that his replacement at Euromac was one Jeanine Speckman, a French national, and that he, Hand, was now joining another export-import company. I called Speckman, and she told me she would be visiting Baghdad and would try to find out what was going on in regards to the capacitor program.

Shortly after that, an independent effort by Iraq to obtain these capacitors from another San Diego company, Maxwell Laboratories, was stopped when Maxwell became suspicious and notified Customs that the shipment was upcoming. This order was from the Ministry of Higher Education.

In July 1989, I received a fax from Speckman saying that, even though the program had been dead, she now had a contract from the Iraqis. She mentioned the name Al Qaqaa as her customer. She suggested that, since there were still loose ends, we visit Baghdad. We said that was not practical, but we did arrange a meeting in London in September of that year.

At the time, Al Qaqaa meant nothing to me. Later it was revealed to be the site of a large, secret military research facility and the location of a huge explosion on August 17, 1989, that killed as many as 700 people, including Egyptian and perhaps North Korean technicians. It was also there that Farzad Bazoft, a reporter for the British newspaper, *The Observer*, and his driver, Daphne Parish, were arrested for alleged spying. Of course, as you know, Bazoft was later hung for that alleged spying.

In September 1989, I flew to London and met with Agent Supnick, and we went to the hotel in London where the meeting had been arranged. At the hotel, we met first with Ali Dagher, the

managing director of Euromac, and Jeanine Speckman, then his sales manager. Shortly after that, we met with two Iraqi engineers, Karim Omran and Wallid Ahmad from Al Qaqaa.

Incidentally, when I asked them what Al Qaqaa meant, they said it was named after a famous Iraqi and it was the location of their research facility.

The meeting was held in the hotel's restaurant and took about 2 hours. Whenever a probing question was asked regarding the application, the Iraqis would lapse into Arabic and discuss between them before they would answer my question. A translation later had Ali Dagher saying, "You see, Americans are naive, stupid."

All capacitors had to meet military specifications for humidity, shock, and vibration. One had tighter specifications and was the one which we believed was intended for the nuclear detonator requirement. Regarding delivery, the Iraqis said the parts were urgently needed. My impression from their attitude was that Iraq's nuclear program was more advanced than many Western experts had at that time speculated. A contract was signed calling for 15 of the less critical parts and 40 of the detonator capacitor. A total of \$10,500 was involved, with delivery to be in 6 to 8 weeks. We were told the money was at that point resident in the Iraqi embassy in London. There was no mention of BNL.

A long discussion regarding end use was finished when Ali Dagher said the parts would be used for air conditioners. He alluded during the discussions to having used this cover in prior transactions. Further, Dagher, an Iraqi national, said, "We don't want to include a single dollar for us. I am an English company, but I am an Iraqi national. If I profit my country, it is for me a profit."

As the meeting adjourned, I was asked by Dagher if CSI would be willing to supply a turnkey capacitor plant in Iraq, substantiating rumors regarding Iraq's goal of independence from Western suppliers.

By coincidence, while I was in London, I received a totally different inquiry from a different front, a company called TMI. The inquiry was for the exact same capacitor that we had been approached for earlier by Euromac. As it turned out, nothing developed from this inquiry because the manager-director of TMI shortly afterwards was involved in a serious automobile accident.

In September, right after I got back from London, I received a fax saying the Iraqis wanted to come to the United States to witness the testing of the capacitors. We also believe they wanted to get a tour through the plant in order to gain background for developing their own plant. The manufacture of the parts was completed on January 3, and on January 11 we received a telex from Al Qaqaa, saying the engineers would not visit us and again asking whether we could come to Baghdad to discuss several different projects they had in mind.

An end user certificate arrived February 6 from the School of Applied Sciences, University of Baghdad, saying the parts were for the sole use of a CO-2 laser system. So we had now gone through the air conditioning cover, and we were now on a CO-2 laser cover. We had gone from the Ministry of Industry now to the Ministry of Higher Education.

On March 13, we were authorized to ship the parts to Euromac in London. A few days earlier, a duplicate set of disabled parts had been shipped to British customs. On March 19, the operational parts left L.A., arriving at Heathrow on the March 20. After clearing British customs, a Euromac employee picked them up and then delivered them to Iraqi Airlines on March 28. An attempt was made to load the parts aboard the Baghdad flight. The shipment was confiscated, and Euromac conspirators were arrested. Their trial is now scheduled for April 22 in London. Omar Latif, the Iraqi airlines station agent, who was believed to be in charge of the Iraqi spy network in England, was immediately expelled.

"Invisible Superpower" is the title of an article published in the June, 1990, issue of *Seapower*. The article continues, "The cold war may indeed be over, but another war has already started. It is a war waged in the shadows, by enemies already unseen and often unknown." "The proliferation of nuclear, chemical, and biological weapons, and of sophisticated guidance systems for these weapons, is creating a number of incipient Third World superpowers capable of conducting military operations on a scale previously reserved for the United States, the Soviet Union, and their closest industrial allies. By the end of this decade, a major conflict involving Brazil, Iraq, Pakistan, South Africa, Taiwan, or Turkey would risk significant, and possibly nuclear, proliferation."

Scientific American, August, 1990, "Third World Ballistic Missiles": "The spread of strategic weapons to unstable regions greatly increases the likelihood that they will be used. We cannot reverse the process, and so must learn to manage its consequences." In chilling detail, the article describes the missile programs of 13 Third World countries, including Iraq, Syria, Libya, and Iran. Clearly, the genie is out of the bottle, and the best that can be hoped for is a slowing down of further proliferation of weapons of mass destruction. As the United States is still the world leader in many areas of military high technology, U.S. export control procedures are a vital element in maintaining world peace.

I will make a brief comment on what Dr. Bryen said earlier regarding another incident. In November 1990, while in Germany, I was approached by an American engineer, and he told me how he had actively sought and obtained an order from Iraq after a British company turned down the order for precision electronic parts that could have improved the accuracy of Iraq's ballistic missiles. He had advised representatives of the Department of Commerce and State of the contract. He didn't mention the fact that these devices were going to be used at 350,000 feet, something which is clearly inappropriate for a device for an electric utility. However, he did not point blank hit them on the head and say, "Hey, these are going to be in the ballistic missiles, and you guys are not very bright if you approve their sale. This points out the problem with the whole enforcement arrangement. The laws and regulations controlling exports are reasonable; unfortunately, the fine line between stopping illegal exports while promoting legitimate exports makes enforcement very difficult."

I do want to add that, through my involvement with the sting, performance of all U.S. Customs agents and British agents whom I contacted was exemplary. In particular, the determination and

skill of Special Agent Daniel Supnick was vital to the successful conclusion of the sting.

Frequently, businessmen will not ask questions whose answers might block a sale. The division of responsibility among the Customs Service, Commerce, State, and Defense highly complicates the process. At the same time, dual uses of a given product makes it difficult for export control authorities to exercise independent judgement. In many cases, the government cannot afford to have a staff of technical experts qualified to make these judgements. Perhaps a group of retired professionals would be useful, along the lines of the SBA's Score group, who are there to help small businesses. There is also a problem in keeping all U.S. businesses actively exporting informed with U.S. export regulations. While they are thorough, they do not make easy reading. Virtually all industries have trade organizations, such as the EIA and American Electronics Association, who would gladly assist the government by keeping their members informed of current policy, if the government worked with him.

I believe recent events have given the United States an unusual opportunity to promote worldwide arms reduction, which we should not let pass. To be successful, we need a multi-faceted approach aimed at cutting off both the supply and demand for weapons of mass destruction. The basic elements should be completion of our ongoing disarmament negotiations with Russia, promotion of regional agreements to reduce the perceived need by Third World nations for offensive armaments, the development of incentives to reduce the attractiveness of armaments as a vehicle for earning hard currency.

Clearly, as the United States, U.S.S.R., Great Britain, France, and China are the major suppliers of armaments, any meaningful disarmament must have their agreement on a coordinated plan of action. While many Third World countries can barely feed their population, their limited resources are wasted on non-needed armaments. Ballistic missiles are looked upon as status symbols of national manhood in many nations. Others consider their weapons factories to be primary sources of exports to gain hard currencies. A coordinated effort amongst the major powers is necessary to change this unfortunate pattern. The use of foreign aid preferential trade arrangements by major powers could be used as incentives to wean Third World countries from weapons production.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Kowalsky can be found in the appendix.]

The CHAIRMAN. Thank you very much, Mr. Kowalsky.

I will remind that your statements are going to be printed in the record, and as in the case of Mr. Moore, that includes all of your supporting documentation.

Dr. SerVaas.

STATEMENT OF DR. BEURT R. SERVAAS

Mr. SERVAAS. Mr. Chairman, it's a pleasure to be before this body this morning.

I have a letter from the chairman which asked me if I would answer today, if possible, eight questions, and those questions concerned the building of a refinery in Iraq to refine scrap glass and copper, questions about the Matrix-Churchill Company, the Banca Nazionale del Lavoro, whether or not we detected any criminal activity in that institution.

He asked me also—because I was, during World War II and for sometime thereafter, a member of the intelligence communities of the United States, you asked me for my opinion on Iraqi intelligence, on why I thought Saddam invaded Kuwait, and what I thought future U.S.-Iraqi relations should be.

I was early taught by the British, beginning in World War II, that in the intelligence business, you first have to determine the reliability of your source; then, of course, follows the analysis and then the evaluation, which this committee is doing.

So, I will just try to put myself in some context for my appearance today.

I am a native of Indianapolis. I have lived there all my life. I am trained as a medical scientist. In my adult life, I have been an industrialist, a publisher, for 30 years a member of the Indianapolis City Council and President since 1975.

Among my various manufacturing entities is a company called Bridgeport Brass. It's called Bridgeport Brass because it was originally started in Bridgeport, Connecticut, but a plant was built, a very large plant, a million square feet, in Indianapolis, and that is the Bridgeport to which I refer in our original contacts with the Iraqis.

This plant is entirely in civilian production, has no military production or capabilities. We employ about 1,000 people there.

In the late winter of 1987 and the early part of 1988, we were contacted at Bridgeport, our plant manager was, by a company called the Matrix-Churchill Company of Cleveland, and they wanted to know if they could come over and visit our plant. They said they had a client who was interested in building a facility in their country.

As many industrialists are prone to do, we wanted to understand better who this client was, the Matrix-Churchill Company, so we got a Dunn and Bradstreet report on that company, and I did include with my written remarks, Mr. Chairman, a copy of that Dunn and Bradstreet report.

That Dunn and Bradstreet report showed that the American subsidiary of Matrix-Churchill was established in 1967, did about \$7 million in business a year, had British subjects as listed officers of the company, and listed as their parent company a company in England, in Birmingham, which was called the TI Group, PLC, established in 1919 with 100 subsidiaries.

It seemed to us to be a responsible English firm. There were no others listed except British subjects. It seemed to us to be a responsible English firm.

They did say—they did come to the plant for a visit, and they said that their client was Iraq, and they said Iraq was interested in building a brass plant in Iraq, didn't give us the exact location.

The war was still on with Iran, and we were not quite sure exactly what this client really wanted, and so, after another visit by

Matrix-Churchill, we agreed to send our chief engineer and a consultant to Iraq to see exactly what it was that the Iraqi client wanted.

You can imagine our surprise when we got there and found that the Iraqis had been building for about 4 years a brass plant, a complete brass plant. They could make sheet and tube and rod and plate, and it was being built for them by the Austrians with some help from Polish engineers.

We couldn't imagine what they wanted with another brass plant, and so, when we came back, our people came back to the United States, there was some considerable doubt in our mind as to what this inquiry was all about.

We thought that it was simply a blind alley, but with the ceasefire that took place in August 1988, we were again contacted by the Matrix-Churchill people to say that what the Iraqis really wanted was a refinery.

Now that peace was coming, they wanted to take several hundred million dollars worth of spent shells, artillery shells, with a lot of copper cable that had been scrapped over the years—Iraq had no such facilities such as this—and together with a lot of other scrap that came from automotive, since they used copper and brass where we in this country use aluminum.

Now, the people who contacted us are from Cleveland. One was an engineer named Mr. Sam Nauman, who is an Iraqi, and another Matrix-Churchill contacted us from England, Mr. Al-Habobi, who also was technically informed.

The people we talked to in Coventry in England seemed also to be competent people, engineering-wise. The Matrix-Churchill Company is advertised as an engineering and machine-tool company.

Our engineers did, at the request of Matrix Churchill, design what we thought could be such a facility, that could handle some substantial production through a 5- to 7-year period.

The negotiations took place—were held both in the United States and Iraq in a place called Felugia. It was about 100 kilometers from Baghdad, pretty much in the desert. And the name of the factory manager that we dealt with over there was a Mr. Farouk. He was also an educated engineer. Most of the people we dealt with in Iraq were engineers, construction people.

After we designed this plant and came to some understanding of what it might cost, we entered into a tentative agreement with the Ministry of Industry. Iraq is a Socialist state and productive enterprises are owned by the government.

When August 2 came, we were in the 19th month of a 30-month contract to build the plant. We did not build the factory itself. The factory proper, which was a large building, was built by what would, in our country, be called the Iraqi Army Engineers. The Iraqi Army Engineers has a very peculiar name, called Project 112, an odd name.

And so on August 2, we were in the 19th month of our contract. We had only two men over there on that date. Not much happens in the heat of the Iraqi summer. Temperatures get very hot, so hot you can't touch a piece of metal. So we had just two men there.

The facility was without a roof. We had all of the equipment there. All of the equipment had been shipped and most had arrived by August 2.

Our Iraqi facility had only one purpose, and that was to refine and furnish brass ingots, sort of, I would say, demilitarizing—demilitarizing the Iraqi brass. The Iraqis use an old technique of hardening their brass. They contaminate it with silicon, an old technique that's not really used anymore in the West.

If you want to make more shells, you can just melt down the old shells, but the old shells have no commercial value, because the metal is too hard and can't be machined.

And so what they wanted us to do was to build this refinery to remove silicon, but they had some doubts about whether we could do that. Years ago, Bridgeport had done that, because in the early days of Bridgeport—and this is a very old company—there was silicon contamination, and so we learned how to do it, but since it was an old technology, nobody did it anymore.

We did show the Iraqis in the laboratory that we could do that. They brought some samples over. But they were still skeptical. So we asked them to bring over 5 tons of spent shells that were crushed and compacted. We would fire up a section of one of our old refineries and see if we could refine this 5 tons of scrap, which we did. That scrap, when it was refined, did meet the specifications that the Iraqis wanted, which would come within what's called commercial ASTM and DIN specifications, which means that it could be used anywhere in the world for commercial brass production.

In looking back, I think we can both doubt and confirm that when the Iraq-Iran War was over, there were many people in Iraq that thought there was going to be peace. Certainly a lot of the young Iraq soldiers being demobilized, and getting married, that I saw over there thought there was going to be peace, and so did a lot of other people. They thought there was going to be peace. Everybody said there was going to be peace. Everybody said they were going to rebuild the country, and a lot of people believed it. I believed that, too.

But the questions that you have raised do not allow me to dwell upon this phase of it, except to say that, with one exception, our plan was going ahead on schedule. And that one exception was that, inexplicably, in the spring of 1990, the Ministry of Industry began to falter on their construction, and for another inexplicable reason, they did not—they were not successful in putting the roof on, in getting the struts to put the roof on. They could have ordered them from Belgium, from Italy, from Poland. They said they didn't have the money.

I said, well, this whole thing is being held up; perhaps, and it's not a big expense, we'll just loan you the money, and you give us collateral with ingots that we produce after the factory is finished. They did not accept that offer.

In hindsight, I can be led to believe that maybe a decision was made not to finish this factory on time.

The chairman has asked me about the Banca Nazionale del Lavoro.

You know if you're sitting in Indianapolis and somebody wants you to build a factory in the middle of the desert in a country which you've never visited before, you begin to wonder how you're going to get paid, because the risk of this enterprise was entirely ours.

I noticed in some of the notes that came to me from your committee that there was a thought that we had borrowed some money from Banca Nazionale del Lavoro. Not one penny. We borrowed no money at any time from BNL.

Our factory was entirely financed by us. The risks were ours. We did ask the Central Bank of Iraq to confirm their irrevocable letter of credit with a bank rated B or better, which would be a major bank in a major city of the United States, that had a branch or a bank in the United States. We didn't say what bank. We just said that they had to be B or better, and had to have a bank in the United States.

We were then advised by the Iraqis that that bank would be the Banca Nazionale del Lavoro. We'd never heard of that bank before. We looked into it and we found it was the biggest bank in Italy, really a government bank, that it had two banks in the United States.

We found that many big American companies were doing business with this bank. We were in fact called by this bank from their Atlanta branch and they told us that the Central Bank of Iraq had issued an irrevocable letter of credit and that they were being asked to confirm it. This was in accordance with our contract. They also said that they, the bank, had looked into our records—that they would confirm it.

We sent someone down to Atlanta to look this bank over and the Atlanta bank official told us the business that they were doing with many American companies and many large grain companies. After our investigation of the Italian parent, there seemed to be no question that this was a responsible, respectable bank.

I want to say that during the entire time of this contract, when we submitted invoices for equipment shipped, there was no delay in making our payments. Then one day, like everyone else, we heard, we saw in the newspapers that there had been a defalcation in this bank.

Now I am a Director of a large bank, have been for many years. I know that Directors are not bankers but they do know a lot of bankers and they know bank procedures. We have defalcations in our bank. We have defalcations. We have loan officers that make bad loans, that make loans for kickbacks. They are found out, usually always. They are dismissed, often prosecuted; so it happens in all banks that trusted bank officials go wrong, so it didn't at first concern us. We thought, well, this is a defalcation and it will be cleared up. But as the investigation began to unroll, plane loads of auditors came over from Rome, so we were told, and operations in Banca del Lavoro shut down and nobody got paid. We didn't get paid for several months.

At the end of the auditors investigation we were told by Atlanta that any further invoices we had would have to be cleared by Rome.

Subsequently, Rome decided, after looking at our contract, our letter of credit, that everything was in order, that we had performed exactly as the letter of credit had requested and they continued then, Banca Nazionale del Lavoro continued then to pay our invoices after the investigation had been cleared up and normal business, you might say, was resumed.

Mr. Chairman, as you may recall, there was a great deal of discussion between the government of Iraq and the government of Italy about what their relations were, and were going to be after the investigation and disclosures. That discussion took many months, but even during those discussions, our invoices were paid, and so I do believe, Mr. Chairman, that all parties found our contract to be in order.

Officials here in Washington, particularly in the Department of Commerce, knew exactly what we were doing, all of the equipment we were sending over, even the furnaces which generate a top heat of 1,200 degrees centigrade, far under any level of heat that would be used for military exotic metals; so we feel that although the Banca Nazionale del Lavoro scandal came and went, that in the aftermath, we had normal commercial relations with this BNL and as far as I know always have had.

You ask if we noted any criminal activity in our contact with them. I can assure you, sir, without qualification that at no time did we note any activity that could be even in hindsight be termed criminal or subject to thought in that line.

I think our relations with this bank were—how should I term that?—were business-like at all times and still are.

You asked me briefly to answer the question on Iraqi intelligence. As I say, I was trained by the British. I served for many years in American intelligence during the war and after the war and much of the time in the Far East, and I served for some years as chairman of the Foreign Relations Commission of the American Legion and I am interested in and have always been involved in foreign affairs, so that subject interests me and so does the efforts of nations to inform themselves.

I can say, Mr. Chairman, I have no personal knowledge at all of Iraqi intelligence or how it worked. We were treated well when we were in Iraq. We were dealing with technical people, engineering people. Our people were technical engineering people. I met April Glaspie, the Ambassador, on several occasions. My son Paul, an engineer, also knew Ms. Glaspie and was frequently a visitor at the embassy.

We informed the military attache exactly what we were doing, invited him to come out to see it, but he was unfortunately unable to leave Baghdad. We also dealt with the commercial attache on numerous occasions and were at the embassy on numerous occasions, so the U.S. personnel there were well acquainted with what we were doing, what our objectives were as well all the folks at the Department of Commerce and I'm sure they also checked with Defense before they gave us a clearance.

Last, Mr. Chairman, you asked me two questions.

You wanted to know my opinion as to why Saddam invaded Kuwait. Well, there were reasons, some of which you have heard from panel members and that you have heard, Mr. Chairman, from

many much more qualified to comment than I, on Saddam's personality and his plans for himself and for his country. In simple terms, I think he invaded Iraq—I mean he invaded Kuwait simply because he was broke, completely, irrevocably broke, to the extent he couldn't get credit.

The scandal with Italy really damaged the last credit he had. He couldn't get any credit from anyone. All sources were closed. As a matter of fact, I don't think he could even afford to keep paying his army and when you're a dictator and you can't pay the army and you can't pay your bills you think of something desperate. I think his invasion of Kuwait was a reflex action. I think it had some planning but not much.

I think he just decided to loot it and to stop paying his bills, which he did, and to take the consequences, so I think it was a mindless act. I think it was an impulsive act, a reckless act, a reflex act of a desperate man who thought he had no other way to turn.

Last, Mr. Chairman, you asked me about what I thought of future U.S.-Iraq relations.

In the Middle East, those of us who have looked at their history know that there were many centuries, starting early with the Egyptians then with the Arab legions, then many centuries under the Ottoman Empire. During all this time, there was always a mighty sultan somewhere in the Middle East who would settle all territorial disputes and insurrections.

When the last conquerors of the Middle East, the Europeans, departed after World War II, they left part of the Middle East in the image of some of their colonies and other nations, like Iraq, they, the British, constructed from remnants of the Ottoman Empire. It was not a "real" nation. But there was also not any supreme sultan to put down the insurrections until recently, when Mr. Bush did form a coalition to replace the sultans who used to put these insurrections down, and the rest is history.

I do not believe that peace can be imposed on the Middle East. I do think, however, that a nucleus of the present coalition can be retained in which we could be a part.

That nucleus could be part of a future coalition should a new insurrection or territorial dispute arise, but I do not foresee that peace can be imposed upon the Middle East from the top because there is no universal sultan to cope with trouble in the area.

Mr. Chairman, I realize that I talked longer than the other panelists, but because, Mr. Chairman, you gave me those questions to answer, I did file a 14-page report with you.

First, I knew I could not read such a long report; then I made a shorter summary, but that was also too long, and I ask your forgiveness and indulgence at the length of these ad lib remarks.

[The prepared statement of Beurt R. SerVaas can be found in the appendix.]

The CHAIRMAN. No, I think you did have that. I asked the staff to double check. I think some of those questions kind of slipped by me.

I think that two or three of those actually were not pertinent, but nevertheless, you have addressed them very well and accurately, and we appreciate your testimony. It will be presented as you

gave it to us in written form, and of course, the transcript will follow of the verbal presentation, but thank you very much, Dr. SerVaas. It has been enlightening.

Mr. Abboud, thank you again for cooperating. You were our witness in Houston last June, and we expressed our gratitude then. It was very pertinent testimony.

As you know, we were at the threshold of what turned out to be the full-blown credit crunch, and we were trying to get some grass-roots, and you were there, and you also answered very promptly our request on this occasion. So, we are very grateful to you, and you may proceed as you deem best.

We want to thank you for your testimony, too. We got all of these in time to study them and review them before the hearing.

STATEMENT OF A. ROBERT ABOUD

Mr. ABOUD. Thank you very much, Mr. Chairman and members of the committee. I am very pleased to be here today and to be able to respond to this invitation.

I know that the purpose of the inquiry here and the hearing is really to examine the relationship between the Atlanta branch of Banca Nazionale del Lavoro and Iraq, and I cannot contribute directly to that inquiry, because I have no personal knowledge of that relationship.

However, in your April letter to me, you posed several questions regarding U.S.-Iraq commercial and financial relations, and I am honored to share my perspective on that topic with the committee today.

I have been a consistent supporter of President Bush's policies in the Gulf. I have had an opportunity to meet with the President twice since the August invasion. No question, what Saddam Hussein did was wrong, it was criminal, it was unjustifiable.

I do not know why Saddam Hussein invaded Kuwait. Having met with him only once, I would not care to attempt to analyze his reasoning or his motivations.

Suffice it to say that he did miscalculate badly. He underestimated the strength of President Bush. He underestimated the will of the American people, and he underestimated the manner in which political disagreements are put to the side when our troops face enemy forces abroad.

I would like to review with you, if I may, Mr. Chairman, my role in fostering international trade. As an individual and as a banker, I have long felt that international trade contributes to worldwide prosperity and tends to lessen tensions among nations. Over the years, I have traveled to scores of countries in pursuit of this objective.

The committee is concentrating its review today on trade with Iraq, a country with which the U.S. Government reestablished diplomatic relations in 1984.

As has been discussed today, ambassadors were exchanged, official trade credits were provided by the Department of Agriculture through the CCC, by the Export-Import Bank of the United States, but because the United States had not had diplomatic relations

with Iraq for many years, most American businesses did not know the country or have an avenue to research business opportunities.

Although chairing the U.S.-Iraq Business Forum was not a full-time or paid position for me, it was an opportunity to work with a premier group of U.S. companies, large and small, with an interest in developing the trade ties which the U.S. Government had endorsed, which it had initiated through programs, it had initiated through trade fairs, and had the direct encouragement of the U.S. Department of State and the Department of Commerce.

I have only been to Iraq on one occasion since Saddam Hussein became Iraq's leader. I have traveled to Iraq since 1960. I was there for 3 days from June 6 through June 8, 1989, as part of a group of prominent business leaders who are members of the Business Forum.

During that visit, the group had briefings by the U.S. Embassy staff who expressed a strong desire for the U.S. firms represented on the trip to participate in the upcoming trade fair in Baghdad. Our group met with several Cabinet members and bankers, virtually the entire delegation attended all the meetings which were held in conference rooms at the various Ministries, so there was no private discussion of First City business.

We met with President Saddam Hussein on our final evening in Baghdad, in the company of U.S. Ambassador April Glaspie. To my knowledge, Mr. Chairman, that was the first occasion on which the Ambassador met President Saddam Hussein.

I'd like to digress just briefly now from my formal statement to add some additional comment with regard to the meeting with Saddam Hussein. As the spokesman for the Business Forum, I began the meeting by informing President Hussein and his assembled cabinet officials, that the combined sales of the companies in the meeting would exceed \$500 billion, and if incorporated into a separate country, would rank third in the free world after the United States and Japan, in terms of gross national product.

So, these were companies that had very substantial activities on a global basis. Like our earlier meetings with other Iraqi officials, our discussion focused on Iraq's need to rebuild its civilian economy and its financial standing in the world community which had been devastated by 8 years of war with Iran. There was no talk of military requirements, but on developing agricultural and energy resources.

I was direct and blunt with the President, much to the evident discomfort of some of the Iraqi cabinet ministers in attendance. As you know, most people in Iraq don't speak up to the President. I told President Hussein that if Iraq wanted to attract capital to develop its resources, Iraq would have to play by the established rules of international trade.

This meant providing the West with basic financial information regarding the structure of the Iraqi economy, particularly with regard to the requirements of the IMF. President Hussein and I disagreed on this point and many others.

It was an adversarial meeting. It was obvious to me from this exchange that he had a very parochial perspective on international trade. Even more, he had a very parochial perspective on how the

world operated and what the proper conduct might be in the international financial community.

Concerning the BNL scandal, as I mentioned at the outset of my remarks, I cannot add to what the committee already knows. First City had no dealings whatsoever with BNL related to Iraq. I have not met with BNL officials, either in my capacity with the Business Forum, or as Chairman of First City.

None of my staff has met with him. Neither I nor my staff has spoken to BNL-Atlanta or BNL-Rome concerning any BNL loan to Iraq. In fact, the extent of First City's contacts with BNL, directly or indirectly, have been the following:

One; a phone call from Mr. Drugoul's secretary to the effect that Mr. Drugoul was or would be in town and would like to stop by the bank to meet me. He never stopped by and we never heard anything more about it.

Two; a telex from a Jordanian businessman that two Iraqi Government officials would be in the United States and would like to meet bank representatives to discuss, among other things, whether First City would be interested in participating as a lender in the creation of an Iraqi industrial fund with BNL.

No meeting occurred and no bank employee communicated with the Iraqi officials, with BNL employees or with the Jordanian, Wafai Dajani, concerning the concept. I was not a party to either of these two communications.

I understand that BNL was an active user of the U.S. Government's export programs for Iraq. I have no knowledge of whether they made proper use of these programs or not. Like most Americans, including the Congress, I learned through press reports about the billions of dollars in additional loans which BNL made available, illegally, to Iraq, and obviously, such activities must have a chilling effect on the relations between our two countries which was still on friendly terms at that time.

As to the effect on the CCC and Exim Programs, undoubtedly, there has been a high level of scrutiny of the underlying operations. BNL's activities should not, in my judgment, deter the creation of programs designed to improve export opportunities for American farmers and exporters of non-military products.

I dearly hope, Mr. Chairman, that we do not in any way recede from our commitment to developing foreign trade.

First City, during my years as chairman, was dedicated to meeting the trade finance needs of our customers. We worked with correspondent banks around the world to open up trade opportunities for farmers, for small business, for industrial and energy customers.

As you know, Mr. Chairman, international trade is fundamental to the prosperity of Texas. With leading ports in Houston, Galveston, Corpus Christi, as well as the border cities with Mexico, Texas enjoys some \$50 billion a year in international trade out of a gross State product of about \$325 billion. One out of every eight manufacturing jobs comes from exports, and in agricultural exports, we rank first in cotton, second in rice, and third in wheat in the United States. A large Texas bank would naturally finance its customers' trade.

During the late 1980's, Iraq was the leading trading partner of the Port of Houston—the number one trading partner of the Port of Houston—principally as a result of the export of agricultural products and the import of crude oil. We financed the sale of agricultural products to Iraq exclusively through the CCC program. The U.S. Department of Agriculture not only guarantees these exports; it originates the business with the importing country and allocates that by individual products.

The CCC concludes its arrangements on a government-to-government basis. Then the importing country makes its purchase arrangements. Banks come into the picture after these negotiations have been concluded.

First City committed to confirm and negotiate up to \$50 million of these American agricultural exports on the basis that it was good for our customers and that our principal risk would be capped at \$1 million because of CCC's 98 percent guarantee. We felt that this was a prudent, not excessive, and appropriate for our size and the needs of our customers. The money never left the United States. Most of the goods left through the Port of Houston. We paid the American exporter directly.

These transactions were on the basis of confirming commercial letters of credit made in the normal course of business, subject to the CCC guarantee on each and every transaction in advance.

We made no other export loans to Iraq, none through the Exim Bank, none for our own account.

At the request of our domestic energy customers, we issued import letters of credit for their purchases of Iraqi crude. In these transactions, the credit risk is that of the importer, major international oil companies. None was on the books at the time of the invasion.

The Central Bank of Iraq and Rafidain Bank, the commercial bank which issued the agricultural letters of credit, kept short-term deposits with First City and occasionally did foreign exchange transactions in the normal course of business.

In summary, we tried to be responsive to the needs of Texas customers—farmers and agricultural exporters, energy companies—while capping our principal risk at \$1 million to protect our shareholders. The exports that we financed were basically rice and wheat and vegetable seed.

Mr. Chairman, during the last 8 months, we have seen a small country invaded by a hostile aggressor. We have seen great resolve in this country and among the coalition partners. We have enjoyed military success, thanks to the sacrifices of hundreds of thousands of military personnel. I have consistently and publicly advocated the use of force to liberate Kuwait, both at the White House and in public gatherings, and I am delighted that this has now been achieved.

As a veteran, my heart goes out to those who lost loved ones and to those who were injured. Thankfully, the casualties were fewer than anticipated.

Again, let me thank you, Mr. Chairman, for providing me with the opportunity to share my perspective on these issues. I would be happy, obviously, to respond to any questions that you or other members of the committee might have regarding my testimony.

Thank you very much, sir.

The CHAIRMAN. Thank you once again, Mr. Abboud. Mr. Wiley. [The prepared statement of Mr. A. Robert Abboud can be found in the appendix.]

STATEMENT OF MARSHALL WILEY

Mr. WILEY. Thank you, Mr. Chairman, for inviting me to testify here today. I will summarize some of the questions that were in your letter of March 29, since we obviously do not have time to go into all of the testimony in detail.

The first question concerned my duties as President of the U.S.-Iraq Business Forum. The Forum, I should explain, became inactive in August after the invasion of Kuwait. Prior to that, it functioned as a trade association of American companies that were interested in the Iraqi market. Our Board of Directors had major corporations represented, such as Westinghouse, Caterpillar, General Motors, Mobil, and Amoco, and it was financed exclusively by dues from the member American companies. There was no Iraqi money anywhere involved in the Forum, nor did we have any Iraqi members. The members were all U.S. chartered companies.

As President, I was responsible for all of the activities of the Forum under the policy guidelines set by the Board. As a practical matter, much of my time was spent in developing the membership and developing the programs which were primarily of an educational nature for our membership to acquaint them with the Iraqi market and how to go about doing business in Iraq.

The next question you asked was a brief historical overview of U.S.-Arab commercial—I'm sorry—U.S.-Iraqi commercial relations.

There was, as you all know, a break in our diplomatic relations with Iraq following the 1967 war, and for a substantial period after that, there was almost no commercial exchange between the United States and Iraq.

There was some crude oil imported into the United States through normal marketing channels that had originated in Iraq, but we had almost no exports to Iraq during that period.

In 1973, we did establish an interests section there in the Belgian Embassy in Baghdad, and among the personnel, we assigned a commercial officer.

The interests section attempted to resume a low level of exports to Iraq, which of course is the duty of all embassies overseas, and they had pretty slow going for a number of reasons.

For one thing, the Iraqis, on their side, all of their imports are controlled by the government, and at that point, the government still had very cool relations with the United States, and their government officials were not anxious to be seen doing business with U.S. companies, although we did do a relatively small amount of business with them during this period.

Then in 1984, we did resume normal diplomatic relations with Iraq, and shortly after that, we began negotiating a commercial agreement with Iraq.

In 1985, I saw the need for some kind of an organization that could serve as a medium between the government on the Iraqi side and the private sector on the U.S. side, neither of which knew

much about the other, but it had become the policy of both governments to expand commercial relations between the two. Since I had had about 25 years of experience with Iraq, both as a diplomat and as a lawyer and as a businessman, I saw an opportunity here to create a nonprofit organization that could function as a medium, as a means of communication and a means of education on both sides, which I saw were quite lacking at that point.

By 1989, our total exports to Iraq had increased to approximately \$1½ billion a year, and a billion dollars of this were agriculture commodities, financed almost exclusively under the CCC credit program.

I might add that, in connection with that program, the Iraqis did keep their payments right up to date until August, as the gentleman from Kansas had mentioned earlier.

At the same time, there was almost no U.S. investment in Iraq, because the Iraqi government had, as a matter of policy, prohibited foreign investment except from other Arab countries.

They began to modify that policy slightly during the last year or two leading up to the invasion of Kuwait, but there still was no significant U.S. investment in Iraq at the time that the invasion of Kuwait took place.

Now, in the Forum's activities, we did sponsor one trade mission to Iraq. We worked closely with the U.S. Embassy in Baghdad in carrying it out. They were very cooperative and helped us arrange our programs.

We had a number of American companies go there who met first with senior government officials, and then we broke down into smaller groups who could contact their counterparts for whatever their particular business or specialty was.

We also took booths in the Iraqi international fair, which is called Baghdad International Fair, for 2 years, which were then sublet to member companies who did not want to pay the cost of a full booth for themselves.

This way, they could have a certain amount of their posters exhibited and the nature of their business indicated to the Iraqis without taking the whole booth.

The relationship with BNL was another question you asked me. Certainly, the scandal which involved activities on the part of BNL in exceeding their loan quotas, when that was uncovered, when that hit the papers, when the investigations began, and that did have an effect on our trade with Iraq.

For one thing, it had an effect on the U.S. Government. The decision to suspend our CCC credit guarantee program with Iraq in January 1989, was I think, largely due to the publicity surrounding the BNL scandal.

That called the attention of the Congress and other members of the Government to the fact that there must be something going on here that was not fully above board and began a further investigation of the CCC program, which did end up in a suspension of the program in January.

I personally met with BNL employees twice, once in my capacity as a lawyer when I was representing a client who was selling lumber to Iraq and whose letters of credit were arranged through

the BNL. I met with the Vice President in the company of the client.

The second time was when Chris Drogoul, the President of BNL, called at my office in Washington. This was after he was under investigation, and I think the purpose of his visit was to see if he thought that I might be of assistance to him as a lawyer in defending him in this investigation. Apparently, he concluded to the contrary, because I never heard from him again after he left my office, and that was the last contact I've had with Mr. Drogoul.

As far as the Embassy in Iraq is concerned, the last two ambassadors to Iraq have been old colleagues and personal friends of mine. I saw them every time I went back there, which was about once per year, I would say, since 1985. I knew personally many of the local employees in the Embassy, whom I did see on my trips back there.

Our business dealings were pretty much confined to the Commercial Attache and to the Agricultural Attache, who was responsible for the CCC credit arrangements.

The Embassy, until August 1989, was certainly promoting U.S. trade with Iraq, which is part of their mandated function, in the absence of any specific instructions to the contrary, and they, I think, were attempting to do that.

I am not familiar with what they were reporting about the arms build-up. I'm sure that was all in classified channels, and I did not have any opportunity to see that.

I do believe that they did their best to promote the agricultural sales and the non-military sales, of which I did have some familiarity.

The Eximbank limited its line of credit to \$100 million and limited it to short-term credits of 6 months or 1 year. This was probably not enough to have a major impact on our trade with Iraq, which was then up to \$1.5 billion per year, and I am not aware that the BNL scandal did have an impact on the Exim programs, although I'm certain it was one thing that was taken into consideration in their constant review of the program and in evaluating the credit risk involved in Iraq.

The CCC credit guarantees are obviously very important in the agricultural trade. Almost all of the agricultural commodity sales were financed through the CCC credit guarantee program. So when that was terminated, it did impact very heavily on our agricultural trade, and following January 1989 when this program was suspended, I think our agricultural trade did drop off very substantially.

Then you asked me about what my reaction was when I learned that the Iraqi Government had used poison gas on the Kurds, and how did this issue affect U.S.-Iraqi commercial relations?

Well, like everybody else, I found the use of poison gas against civilian populations abhorrent. The extent to which this affected trade with Iraq, I don't really know, although there may well have been some businessmen who decided at that point that they would concentrate their efforts elsewhere because of the fact that they had used poison gas and the publicity that this engendered, but I am not specifically aware of any case where they did modify their efforts to Iraq because of that.

Then you asked me my personal opinion on why Saddam Hussein invaded Kuwait, and did I believe that the Iraqi financial difficulties played a large role in his decision to invade?

I think that his decision was motivated primarily by economic reasons and perhaps by a bit of paranoia. In the Middle East, paranoia seems to be fairly common. Conspiracy theories are frequently evoked as justifications for actions that are taking place, and I think Saddam Hussein was very much susceptible to conspiracy theories.

When he came out of the war with Iran, he had a very serious debt problem, mainly in short-term debt that he had accrued in the course of the 8-year war. He did not listen to the advice of international financial experts on how he could better manage this debt through rescheduling and stretching out the debt, which would have lowered the short-term payments burden.

Instead, he chose to believe that the international community, and particularly the other Arab states, owed him something as a result of this war, and that we shouldn't be so fussy about if Iraq missed payments on letters of credit. He felt strongly that Kuwait, Saudi Arabia, and the other Arab Emirates owed him a considerable amount for the war. He really felt that he was defending them as well as Iraq in preventing the Iranians from gaining more influence on that side of the Gulf.

And I think he was particularly disappointed in Kuwait, who at that point was exceeding its OPEC quota by about 50 percent. They were also refusing his request to cancel the war debt and to extend him more credit. He was unhappy at the rate they were pumping out of the North Rumaila oil field, which crossed the border between Iraq and Kuwait, and he generally felt that the Kuwaitis were not responding to what he viewed as reasonable requests to rectify these situations, to help him with the very serious financial squeeze that he was in.

This financial squeeze, incidentally, was not only a result of the war. It really hit Iraq very hard in the mid-1980's when the price of oil dropped sharply when the Saudis began increasing their production in 1985 to drive down the price. He had counted on a much higher price than he was getting. So he did not look kindly upon the Saudis and the Kuwaitis and the other Arab States who had, he thought, conspired to drive down the price of oil, which was hurting the Iraqi economy very seriously at that point.

I think he probably also was looking closely at signals from the United States of our attitude toward Iraq and I think the decision to suspend the CCC credit program in January probably gave him the idea that we did have some hostile intent towards Iraq because he had given us favored treatment. He was not paying many of his international creditors but he was very careful to keep his payments up to date to the United States and on the CCC credit program.

I think that he probably took that as an intention, a hostile intention on the part of the United States.

Putting these things together I think he felt that there was an attempt out there among the great powers to damage the Iraqi economy for reasons of hostility towards his country.

Just because this opinion cannot be substantiated in fact, doesn't mean that he didn't have it. I think that he probably did believe there was a conspiracy and this was one of the reasons that he made the snap decision that he did to invade Kuwait and to try to alleviate his economic situation through the plunder of that country.

You asked me what other thoughts I might have regarding US-Iraqi relations in light of the BNL scandal and the aftermath of it. I would only say that I think we should keep all of these events in perspective. Iraq is going to be, some day, an important country in the Middle East.

It has oil reserves second only to Saudi Arabia in that part of the world.

It has the natural resources for a well-rounded development in industry and in agriculture.

It has a relatively good transportation infrastructure in place.

It has educational facilities, medical facilities in place, at least it did before the war began, that were much better than other countries' in that part of the world.

It has a relatively well-educated population, a good manpower base upon which to develop.

By virtue of these economic resources it's probably going to continue to be an important player in that part of the world and a country that, when and if we can get past our current political problems, could continue to be an important trading partner for the United States.

We, I think, given the international competitiveness we are facing these days, should keep this in mind in formulating our policies towards Iraq. Regardless of what we think of Saddam Hussein and his actions, another day will undoubtedly come when hopefully we'll have a more reasonable government in Iraq and at that point our relationship with Iraq is going to continue to be an important relationship with the United States.

Thank you, Mr. Chairman.

[The prepared statement of Marshall Wiley can be found in the appendix.]

The CHAIRMAN. Thank you very much, Mr. Wiley, for an excellent statement and summing up.

Again, I express on behalf of the committee our profound appreciation and gratitude to each and every one of you, of the witnesses. Your testimony has been invaluable.

Well, I think you are right, Mr. Wiley, no matter what happens that part of the world is going to continue to be inhabited mostly by Arabic people and culture and no matter what we think we can do, the size of the destruction we have really wreaked in that part of the world, but I can see the confusion that would arise in, say, a combatant nation like Iraq coming out of a prolonged and bloody war, mean war. When we had the scandal of the Tow missiles that we provided Iran, you know, how many Iraqis did those Tow missiles kill?

Then our own experience in the Gulf with our Navy, the damage and the lives that were lost on our ship, the U.S.S. *Stark*, by a missile that happened to be an Iraqi missile. But it was a Silkworm provided by China because the arrangement that our leaders made

with the Chinese when our President then and our Secretary of Defense then visited China was to provide the licenses for the construction of that missile, the Silkworm, and China entered the arms market and it comes back to what I think Mr. Kowalsky stressed in his recommendation.

I agree with you 100 percent, Mr. Kowalsky, that it's imperative that some effort be made. Of course, now it has to be on that same level, U.N. level, on arms control, because we haven't learned anything.

Even now the arms race rages on and we have got countries from everywhere, from China, as I said, to almost every other country you can point a finger at that produces any of the materials and goods that would be needed.

I do think that is the big issue. I don't know—I mean sometimes covering this I despair of us even doing anything domestically, so I hate to say I am not so optimistic but I do think you have touched on the main challenge at this point if we care to learn anything and I don't know. I think some of this, World War I, World War II, a lot of Hitler's financing and trading was done by our largest corporations until you had the outbreak of the war and so I don't know to what extent—however, it is imperative that those of us on this committee realize that we have first call on the main line of responsibility as far as the regulatory oversight of the foreign, commercial and banking and financial interests doing business in the United States.

There is really no reciprocal—because it's very difficult to compare our systems and relate and then have the comity that would reflect some viable system, but we have to.

Mr. Bryen, I think your testimony was also most valuable for us to understand the scope, the scale, and the dimensions of the problem confronting us from the statutory level. It's not a simplistic problem but I do think it isn't perceived with the sense of urgency that I would hope would be there.

Then with these other things happening and the condition of the insurance funds and, you know, we have a full plate here.

As you can best recall, what role do you recall the State Department playing in allowing sophisticated technology to be exported to Iraq and other countries for military purposes?

For instance, I speak of the State Department, because the State Department is one of our departments that has its staffs, its agents, its diplomats in every one of these countries, and they had them right there in Baghdad.

Do you think, as a corollary to the first question, that the State Department, with its embassy in Baghdad, should have known of some of Iraq's planned use of these materials?

Mr. Bryen. Well, Mr. Chairman, I think, first of all, that, certainly, they knew, and I have been listening to the explanations given about why Saddam Hussein invaded Kuwait, and I do not know the answer to that, frankly, but I do know that he was conducting a systematic military buildup, a huge, vast operation.

We were well aware of that, and when you are starting to build nuclear weapons and chemical weapons—Seth Carus told you that it became the number one chemical weapons producer in the world, largely thanks to the Germans, but when you see that going

on, it has a purpose, and it seems to me it was an aggressive purpose.

Whether he was broke and his timetable in respect to Kuwait was advanced thereby, it could well be, but I think the fact of the matter is that this was an Iraq that was aggressive, that was building to be aggressive, and that he saw himself at least as a major regional power in that area. We knew about it.

In respect to exports, the State Department had two attitudes, because it had different people doing different things. The people in the licensing, economic areas of the State Department, the desk officers, for the most part, urged approval of licenses.

I do not ever recall any of those officials opposing any license request, and in many cases, they were aggressively promoting these sales, even though we would warn them, from time to time, that there was serious risks, and that went as high, in my experience, as assistant secretary level, Assistant Secretary for Near East Affairs.

The proliferation people in the State Department, people concerned about nuclear proliferation, on the other hand, took, I think, a positive role and tried their best to do what they could to prevent Iraq from getting some of this technology that could be used for nuclear programs.

In the main, they focused on what some of the allied countries were doing, especially the Germans, and there was a lot of activity from 1985 on aimed at convincing our allies not to export some of this technology that could be used for chemical, nuclear, and other programs.

The problem was that our allies knew that we had a two-faced policy. On the one hand, we were saying you should not do this, and on the other hand, we were doing it, and that sort of thing was extraordinarily embarrassing.

I remember sitting in a meeting with our counterparts from Italy.

Italy was involved in—an Italian company—let me be careful here—called SNIA, part of FIAT, was involved in the Condor missile program that involved Iraq; legally, I might add, involved in it, and we were trying to convince them this is a bad idea, that the Condor was a long-range ballistic missile, and it was not in anyone's interest that it be built, and they said, "well, but we have here copies of Commerce Department licenses for machines to mix the fuel for these rockets, that were approved".

"So, what are you talking about? On the one hand, you are saying no; on the other hand, you are saying yes; and we do not know what you mean".

So, we got into that kind of conundrum, and so, the result was that our policy was a failure, I think, and it was a failure because it was at cross purposes.

The CHAIRMAN. Thank you very much.

My time has expired.

Mr. Leach.

Mr. LEACH. Thank you, Mr. Chairman.

I just have several questions for Mr. Abboud and Mr. Wiley. First, Mr. Abboud, I must say that, as this whole confrontation built up, as you know far better than anyone on this panel, there

was a lot of division in the American community that had ties to the Middle East. In this regard, your support for the President and his policy was very forthright and very appreciated.

I would just like to ask, as a banker associated with international lending, from the perspective of regulation, do banks have to report to regulators their involvement in CCC-type programs? What do regulators require? How do they note these kinds of things in terms of bank exams?

Mr. ABBOD. Congressman, the answer is yes, indeed, they do. As you know, in most banks there is a full-scale exam once a year, and in that, all of the assets are classified, so that, as regulators, whether it is under the jurisdiction of the Comptroller of the Currency for a national bank or whether it be the FDIC or whether it be a State bank and State regulatory authorities, they would go through the balance sheet on the asset side.

Therefore, when you see government-guaranteed credits, particularly now, under the risk-based capital requirements, because they have less of a capital component than a full-scale loan, those are reviewed, and therefore, all banks have to give the exposure, by country and by classification, and those are examined in the normal course.

Mr. LEACH. Do you think that U.S. and Italian bank regulatory agencies would or should have had full access to all of the information about BNL's exposure to the CCC program or vice versa?

Mr. ABBOD. Well, it's a little hard for me to comment on that, Congressman, because it would seem to me that if all the records were out there and in the normal course, they would have to have it. I mean, it would just jump out at you.

Now, I understood from some of the newspaper articles that the records weren't being kept in the normal course. Let me just say this about Iraq. I think, in a couple of facets, first of all, at the time that we went over there, their total debt was about \$70 billion, but I think you have to look at that in laminations. About \$35 billion of it was war debt which typically, I think, under the normal course, you would think would be extended out at, say, 35 years at a 2 percent rate of interest.

Mr. LEACH. Excuse me. I don't accept that, but go ahead.

Mr. ABBOD. OK, I mean it—

Mr. LEACH. I mean, quite seriously. I don't know what typicality you're referring to.

Mr. ABBOD. I don't know; maybe "typically," was the wrong word. I mean, it would seem to me that if you were looking at the structure of the country and you were looking at \$70 billion, you'd say \$35 billion is war debt which has to be viewed in one capacity. It was another \$15 or \$20 billion which were basically Paris Club type of credits which were country-to-country, mostly France, Germany, and Japan.

Then there were commercial credits for about another \$20, and this was a country which was producing about 3 million barrels a day, which created a cashflow, just on oil revenue, in excess of \$20 billion.

Now, they had agricultural exports and sulfur exports as well, so it's a very rich country with potentially—it if hadn't been totally loused up managerially, which is exactly what

a country which, before the war with Iran, had no debt whatsoever, was totally out of debt because its cashflow was able to sustain it.

Now, the real question was; how to encourage those units within Iraq that really wanted to proceed with an openness and to disassemble the existing regime and to create kind of open trade and investment so that they could interact with the outside?

I think that's what the benefit of trade does. Trade is there to promote the freedom. I think that the direct answer to your question is; in any bank, the records are right there, and if they're being maintained properly, they're available to the regulatory community.

Mr. LEACH. OK, let me just continue this with Mr. Wiley for a second. There have been press reports that Saddam Hussein has substantial sums of money hoarded outside the country for his own personal benefit, usually in sophisticated circles that deal with countries of this nature.

That type of information has come to be widely known, in this case. Is it your view that he probably does have that sort of resource available to him?

Mr. WILEY. Well, I have no factual information. I think dictatorships all over the world quite frequently have a reserve put away in Swiss banks.

Mr. LEACH. There's a difference in quantity. I mean, it's a million dollars versus a billion dollars versus 10 billion dollars.

Mr. WILEY. The press accounts that I saw confused Saddam Hussein's personal funds with Government of Iraq money. I'm not sure what they were referring to. At one point, they seemed to be talking about Saddam Hussein's funds, and at another point, they were talking about Iraqi Government money.

I don't know, really, what was behind the press accounts that gave this. I'm certain that there was an attempt to hide some of the Iraqi Government money, right before the invasion in August, because they probably realized that this would be at risk to be frozen. So, some of it could well have been shifted into nominee accounts or something of this kind.

Mr. LEACH. Did you know about this before the invasion?

Mr. WILEY. No, not at all. Had he asked me about the invasion, I certainly would have advised against it, yes.

Mr. LEACH. What I mean is, if you had known, would you have informed our government? That's kind of a precursor to—

Mr. WILEY. No, I knew nothing about his bank accounts, no.

Mr. LEACH. One final comment. There has been a press report that the primary reason, or a significant reason the U.S. Government cut off the CCC credits was the allegation that about 10 percent of the money was being used as kickbacks. Did you have any knowledge of that, Mr. Wiley?

Mr. WILEY. I had no knowledge of any kickbacks. The Government of Iraq sometimes asked suppliers to make gifts to the Government of Iraq, not as kickbacks to individual people for their personal use, but there was no legal obligation for the supplier to do this. He didn't have to make the gift, but by making the gift, he assured that he would be at least on the list the next time this

Mr. LEACH. So, basically, from our perspective, we were encouraging trade with a country that had \$70 billion debt, a policy of kickbacks as gifts, and a fair amount of money outside the country?

Mr. WILEY. Yes.

Mr. LEACH. I just think it's a picture of a government that seemed to be bent on buying the kind of things Dr. Bryen says were of an aggressive nature. It's just not a pretty situation.

Mr. WILEY. Well, the Iraqi market was always considered by U.S. businessmen to be one of the least corrupt in that part of the world. The necessity of paying kickbacks to government officials just didn't exist there, as far as I know.

That was because they were very brutal with any government official whom they caught taking a kickback. They executed several on the spot when they found this out.

So, on the working level, doing business in Iraq was probably a lot cleaner than anywhere else in the Middle East. Now as far as government funds being hidden overseas, I'm not aware that any great amounts were hidden. They didn't have that large an amount.

Actually, they were very short on cash from the time of the end of the war till the time of the invasion. So, they didn't really have any substantial amounts to hide, and then we—and the rest of the countries of the world—froze almost all of what they did have, although there may have been some hidden away under false names that we don't know about.

Mr. LEACH. I appreciate that. Thank you, Mr. Wiley.

The CHAIRMAN. Let's see, Mr. Cox left, and Mr. Slattery—Ms. Waters came after. Mr. Slattery.

Mr. SLATTERY. Thank you, Mr. Chairman.

First let me thank the panelists for their testimony today. I found your comments really fascinating on the one hand, and on the other hand, some of the comments appalling.

And one of the things that I would like to explore a little further is the comments of Dr. Bryen. I appreciate the position that you gentlemen, Dr. SerVaas and Mr. Abboud—is that the way you pronounce it?

Mr. ABBOUD. Yes, sir.

Mr. SLATTERY. And Mr. Wiley found yourselves in. I mean, our government had a policy of encouraging some degree of trade with Iraq. You were in the business of trying to work with your customers who sought to take advantage of perfectly legitimate and legal trading opportunities. And I share the view expressed by one of the panelists that international trade has historically done much to enhance international relations and peace in the world, and I can understand why we would want to pursue that sort of policy.

But I also believe there is a very legitimate question that we as a society and a country have to address, and that is this question of how can we protect our taxpayers and our citizens' investment in the enormously expensive high technology equipment that we have developed and that the world saw demonstrated in this most recent war?

And I think Mr. Bryen's testimony is incredible. And I'm just going to read back some of what this man has said. And we're not

hearing from someone who is some left wing nut, OK. I mean, we're hearing from somebody who was Deputy Under Secretary of Defense during the Reagan Administration, for goodness sakes, and served there for a number of years. And, you know, some of what you've told this committee today, Mr. Bryen, is incredible, and I just want to reemphasize some of what you said.

One of the comments, and I think you mentioned this in your oral testimony, you said that there is a complete lack of workable checks and balances in the system.

Mr. BRYEN. Yes.

Mr. SLATTERY. "That is why the State Department and the Commerce Department could with impunity release technology to Iraq." I'm reading from your written testimony that you have submitted to the committee.

"If we in the Defense Department complain too much, they simply would issue export permits and not tell us, or they would threaten us with 12(c) violations. This type of intimidation is very effective, and it was used and continues to be used with effect."

First of all, for us lay people over here that aren't familiar with a lot of these regulations, what is a 12(c) violation?

Mr. BRYEN. It's interesting. There is a part of the Export Administration Act, which is called section 12(c), that in effect directs the Commerce Department to restrict the distribution of information about export licenses in order to protect the proprietary information of the companies who are making application, which is a reasonable provision as it was conceived by the Congress.

Unfortunately, it's been twisted around, so that if the Defense Department or any other official in the government wants to complain in any public way about a licensing action, he will be threatened, and he is threatened with revealing information that is protected under this provision of law, and the Commerce Department has written innumerable letters of complaint to the Secretary of Defense, among others, complaining about public officials who attempted to raise alarm bells.

Even most recently on the furnace case, this CONSARC furnace case that took place in July of this last year, the Commerce Department—a senior Commerce Department official—I'll leave it at that; I know who it was—telephoned the Under Secretary Defense for Policy, complaining that one of the investigators leaked information that was a 12(c) violation, and they regarded this as a major violation. And basically they use it as a way of covering up unseemly regulatory activity, which is the only way I know how to characterize what was going on in respect to some of these licenses.

Mr. SLATTERY. Well, I appreciate your comment there. And let me just further read back some of the testimony that you have offered today.

You say that "strategic exports cannot be regulated by the Commerce Department and the State Department acting alone. The national security agencies have to play a concrete part. Right now today, the Defense Department is excluded from even knowing about 90 percent of what is exported from the United States."

You go and say: "There is a complete lack of workable checks and balances in the system."

Then you say: "There is a complete policy fog in regard to export controls."

Then you say: "Rather than see some improvement now, there is every reason to believe that the situation is about to deteriorate even more. The United States is backing a major liberalization in COCOM, which is the organization that regulates East-West high technology trade. A huge array of high technology, advanced microprocessors, high-speed computers, precision machine tools, night vision equipment, sophisticated analytical instruments, advanced radar and air traffic computers will be released from effective multinational control."

I guess my concern is that a lot of this equipment is being developed with taxpayers' money by the Pentagon, and then a lot of this is subsequently converted for civilian trade purposes, and, of course, let's face it, people are buying this equipment in many instances for the sole purpose of reselling it to other entities in the world, other countries in the world who otherwise would not be able to acquire it.

And it seems to me that we are truly in a situation where all of the investment of the 1980's in terms of enhancing our military capability is going to very quickly be, in effect, sold to the very people and very countries around the world that we spent all this money to try and defend ourselves against.

Mr. BRYEN. Absolutely.

Mr. SLATTERY. Is that a correct—

Mr. BRYEN. You've got it right. Take the night vision as a simple example.

Mr. SLATTERY. I mean, what in the world are we selling night vision technology for? Why do people need night vision in Eastern Germany or in Czechoslovakia?

Mr. BRYEN. Well, we are proposing to sell it to the Soviet Union. Mr. SLATTERY. Pardon me?

Mr. BRYEN. We're proposing to sell it to the Soviet Union.

The CHAIRMAN. The time of the gentleman has expired.

Mr. SLATTERY. Would the chairman, in light of the fact that there are not very many other members here, would the chairman graciously consent to give me a few more minutes?

The CHAIRMAN. Well, if the gentleman asks unanimous consent to proceed—

Mr. SLATTERY. I ask for unanimous consent.

The CHAIRMAN. Certainly. Without objection, so ordered.

Mr. SLATTERY. Thank you very much, Mr. Chairman, and I appreciate the indulgence of my colleague from California.

It just seems to me that—the other point that was made here today that is really appalling is the fact that, and one of you have made this observation, is that when—was it you, Mr. Bryen, that indicated that when you trying to deal with European countries, in pointing out to them that they were selling high technology equipment to Iraq, and this equipment was being immediately converted to strategic weapons development purposes, you were told that, look, your own Commerce Department is selling equipment that they're using also. Scram off the porch. How can you have the audacity to challenge us when you're, in fact, doing exactly what you're attempting to condemn us of doing?

Mr. BRYEN. That is exactly right.

Mr. SLATTERY. It just seems to me that this is a very, very serious problem that we are talking about. If this country—if the United States of America doesn't move quickly to correct this, then all of the people that have died in this war and all the enormous costs that we have borne will have all been in vain.

Your testimony today, Mr. Bryen, and again, I emphasize that you are not some left wing nut, you are a former Reagan appointee, I assume, in the Department of Defense, is truly shocking.

I hope that some people downtown in the White House are listening. Because I can tell you this with absolute certainty, that—that people across this country are angry at the prospect of this high technology equipment that they have paid dearly through the nose for, for the last 10 years, is now going to be sold to the Soviet Union, sold to China. Little effort is being made to really prevent the proliferation of this equipment around the world.

It is a sad, sad reality, that we have got to accept some responsibility for the fact that the Europeans and people in this country helped create the monster that we had to deal with here in the last few months.

The CHAIRMAN. The time of the gentleman has again expired.

Mr. SLATTERY. Thank you, again, for your testimony today.

The CHAIRMAN. Ms. Waters.

Ms. WATERS. Mr. Chairman and members, I, too, would like to join with my colleagues in thanking the panel for the most revealing testimony and information that they have shared with us. I—I guess I differ from my colleague, Mr. Slattery; I am not shocked. I guess I have known.

I asked the gentleman who was here testifying, from the Treasury Department, in a rather facetious way, about our inability to know, and Mr. Bryen confirmed that my approach and my question, indeed, made some sense, because it is absolutely absurd to believe that we could not have systems to detect or know what is going on.

In addition to that, I mean, even with the most sophisticated systems, it does not matter if we have a policy that goes in the opposite direction. It is clear from this testimony here today that that was what was going on. I do not even think it was a foggy policy.

I think it was a policy that was one of cooperation and assistance to Kuwait, despite the information that was readily available or known about their build up. So, I am not surprised that we find ourselves in a situation where R&D money and other resources, taxpayers of this country, is being used to support efforts to export sophisticated technology, and so forth, to countries who may be doing whatever they want to do with it, you're right, when you export some of this stuff.

I do not think that anyone could be so naive as to believe that they just simply wanted to look at it or to have it around. People have intentions. That is quite obvious to me.

Let me just say that Mr. Moore's testimony, part of it, was such that he identified the complication that we may be confronted with in putting together sophisticated systems to detect what is being exported and why; that some of the equipment is generic and it could be used for any number of things.

Certainly, with our knowledge of computers, we could put together systems where patterns would develop, and we could see the level of activity and the amount of activity that was being generated, that would help lead us to some conclusions.

I am sitting here with a panel where we are talking about Kuwait, and we are talking about what has happened in the past and, perhaps, what should be happening in the future.

It was just a few weeks ago that we heard that, in Panama, we have been exporting materials that could only be materials used to manufacture drugs, and in huge amounts, unusually large amounts. So, I mean, today, we are talking about Kuwait and we are talking about sophisticated technology and Iraq, rather. Yesterday, it was Panama and drugs, and it goes on and on and on.

I do not know how much people know about anything out there, but eventually, I think people will raise questions about how we operate and what our policies are. I do not really have any questions. I am just appreciative for the information that we have received.

I would agree with Dr. SerVaas, I think, and Mr. Abboud, that trade is and should be about the business of promoting freedom; but when I hear that we have business persons who do not even raise questions about the use of our agricultural products to develop chemical warfare and would want to proceed with a government that kills thousands and perhaps are doing it even today, as we sit here, after having gone through all of this.

We have enough information to know that Saddam may have used chemical warfare again on the Kurds, then I do not know how we can conclude that trade is always promoting freedom. It looks to me as if we have been involved in a business where trade might have been promoting death and continues to do so.

Thank you all for your presentations here today. Hopefully, the revelations of today will help us to be a more principled country, with better policy, and certainly develop systems that will help us to unveil the accumulation of weaponry and other kinds of things that will be used to destroy.

Thank you.

The CHAIRMAN. Thank you. Mr. Vento.

Mr. VENTO. Mr. Abboud, you know, I am sitting here, I have got a page of material from the State Department, or from the research staff that testified to the fact that there have been a lot of loans made under this BNL credit facility. In fact, out of the 15 pages, 5 pages are American companies. Five pages, so we are talking in this credit. Now, not all of this credit was extended, I understand.

As Mr. SerVaas mentioned, they had this contract, about which we might want to raise some questions. It points out here, on page 5 of your testimony, that you were extending credit. I mean, you're a banker. What is the creditworthiness of Iraq during this particular time? Do you have any idea or notion, during this sequence of events, that all of a sudden there had been a large infusion of credit? I mean, where was Iraq getting this money from? Didn't we have any idea, when they were dealing with all of these American companies?

You obviously point out that you had—you were obviously using the CCC credit facility; is that correct, Mr. Abboud?

Mr. ABBOUD. Yes, sir. Congressman, let me say that, in my judgment, Iraq was not creditworthy. That was the point that we were trying to make to President Saddam Hussein, that he had so mismanaged his economy and his position in the world community, that nobody would lend him a dime.

Mr. VENTO. Well, you were lending money here; but you said you were serving the industrial and energy customers of Texas.

Mr. ABBOUD. No, no. We—

Mr. VENTO. You were lending money to your customers and then they personally were extending credit?

Mr. ABBOUD. No. We were doing two things. We had lent, under the CCC Program, where basically the U.S. Government had a compact to make credit available to countries to buy American agricultural goods.

Once they negotiate that agreement with a country, and that goes Government to Government, the United States with Iraq, they set up a facility, and then they allocate that facility to individual banks, in order to service exporters, farmers, who were sending rice and wheat and, in our case, vegetable seed, rice and what.

Mr. VENTO. That was solely the type of credit that you were extending?

Mr. ABBOUD. That was solely the type of credit that we were extending.

Mr. VENTO. I misunderstood your statement.

Mr. ABBOUD. Yes. Now, there was one other thing that I mentioned in there, and that was that we were extending letters of credit to large international oil companies who were importing crude. That credit was the credit of the oil companies who were bringing in the crude, not of Iraq.

Mr. VENTO. To Texas?

Mr. ABBOUD. To Texas. Yes, sir.

Mr. VENTO. Well, do you think it was general knowledge that Iraq had this situation with regards to credit?

Obviously CCC credit looks beyond that at the soft window, as it were, but do you think there was general knowledge in the banking community of that?

Mr. ABBOUD. Oh, I think all over the world, Congressman, that people knew that Iraq was not creditworthy, which was the reason why they had to have a total restructuring and credit—refinancing of their situation.

Mr. VENTO. Thank you. Let me just—we don't have a lot of time here and I know it's been a long hearing and I appreciate the patience of the panel and the members, but Mr. SerVaas, how did you think Iraq was going to pay for what they were purchasing?

Here I note you were trying to sell them a \$115 million system but they finally apparently, according to the document I have, agreed to a \$32 million contract. Is that correct?

Mr. SERVAAS. Well, the only way you can tell whether or not the country has credit is if there's some bank, American bank, in this case an Italian bank with an American subsidiary, which would confirm it.

Mr. VENTO. What bank—you were dealing with this Atlanta branch, is that correct? Who were you dealing with? Who do you think you were dealing with?

Mr. SERVAAS. Well, we had no idea who the Central Bank of Iraq would use. According to our contract, they had to have their letter of credit confirmed by a bank which is known as B or better with a branch or a bank in the United States and we had no idea—

Mr. VENTO. Did they fulfill that commitment?

Mr. SERVAAS. I beg your pardon?

Mr. VENTO. And they fulfilled that particular requirement that they satisfy you with regards that you were sending people there, you were spending money on engineering, you're obviously ordering materials to build this brass reprocessing facility, is that correct?

Mr. SERVAAS. All of the money that was spent on the precontract engineering was simply an investment by us.

In other words, there was no reimbursement for that.

Mr. VENTO. You made no assessment as to whether they had fulfilled the credit requirements according to the contract that you had with them?

You had a contract? Did you have a contract—

Mr. SERVAAS. We had a contract with the Minister of Industry.

Mr. VENTO. What was the amount of the contract?

Mr. SERVAAS. It was around \$40 million.

Mr. VENTO. \$40 million. So you didn't, in other words—they had not satisfied that particular issue, you said, with B quality type of credit?

Mr. SERVAAS. Yes. Yes, they did, because we were called by an officer of BNL to advise us that they had received in Atlanta a letter of credit from Central Bank of Iraq.

Mr. VENTO. A telephone call would be sufficient?

Mr. SERVAAS. A telephone—well, just to notify us that they had. They had been asked to confirm it.

Mr. VENTO. That would be sufficient, then?

Mr. SERVAAS. Yes, that was the first indication we had of which bank this was.

Mr. VENTO. Well, it just sounds to me like, you know, I listened to the debate here between Mr. Bryen and others. My time has already expired but I mean the U.S. has gone from selling something less than \$10 billion worth of foreign arms in the 1970's—I remember when Carter was trying to put a cap on it about \$9 billion. The other day, I picked up the paper and it said that we were really not doing very well—we had only sold \$45 billion last year, which is exponential growth. Then we wonder when all of these people get all of these arms why they start attacking one another.

I mean what the hell do you think they are going to do with them? You know, it's pretty clear to me what they are going to do with them. Clearly I have heard the debate between the Commerce Department and the Defense Department with regards to limits on who is stifling trade.

Did any of the agreements or arrangements here involve any type of offsets, for instance, Mr. SerVaas—

Mr. SERVAAS. Of what?

Mr. VENTO. Offsets? In other words building a plant there. It actually is an offset because you are really transferring the technology. aren't you?

Mr. SERVAAS. Well, this was what you might call an obsolete technology.

Mr. VENTO. Well, I know, but that's what you were doing.

Mr. SERVAAS. Yes.

Mr. VENTO. You were saying we're going to do this—

Mr. SERVAAS. In fact, we had to—

Mr. VENTO. Which is another concern that I've had with just regards to getting that reported and of course invariably they focus on, guess what, electronics and aeronautics offsets? Well, guess what two areas we lead the world in? That's the type of technology we have and of course now we read that we have transferred that to the Japanese, which will now be building their own aircraft, so the type of benefit we might get is gone.

You know, over and over again we keep going through this and I think we have a lot of ourselves to blame in terms of what happened with regards to Saddam Hussein in terms of he didn't come up out of the ground like a mushroom.

Not only did we do the financing but we provided a lot of the technology, at least one-third of it, according to this series of credit line that is being exposed here in this committee today.

I want to thank the witnesses and thank the chairman for the indulgence to go beyond my 5 minutes.

The CHAIRMAN. Thank you, Mr. Vento.

I do know that some of the members have departed, and I myself have a jillion questions, but if that is the case, we would be unfair to the witnesses, so we will sum up.

However, I wanted to comment on something here Mr. Vento was bringing up.

Mr. SerVaas, Mr. Vento had explained in quite a detail his arrangement, and the requirements for the financing, and the satisfaction thereof by the BNL as the Iraqi supporter of the letter of credit, but the Export-Import Bank did report that it did not consider Iraq creditworthy, and it had some history there of defaults.

However, the State Department—and we are going to have a hearing next Wednesday, April 17, and we are going to have the Export-Import Bank and hear the testimony—the State Department intervened and demanded that the Export-Import Bank go out on the limb, as it did, and that is for guarantees which did expose the Government on those loans.

Of course, the witnesses, I think, have very well portrayed the tremendous myriad, the difficulty, the complexity of that area, and the historical background that adds to that complexity. The use of poison gas, for instance. Frankly, it is a shameful episode for the colonial powers, because the first one to authorize the use of a chemical, which was mustard gas, was Winston Churchill, in Iraq, on the request of the Royal Air Force, that was having trouble, in the words of the request, with "recalcitrant Arabs," and Winston Churchill said, I see no reason why there should be any hesitation, you know, these are weapons that are available to us.

They actually then were used after Churchill left the War Office, and that was in 1923. The British did use gas against Iraqi citizens, of what is now Iraq.

As I see it, I think the big thing we do not see from our perspective, is we do not perceive ourselves as most of that part of the

world perceives us, and that is, stepping into the shoes of the two departed colonial powers, England and France. I believe that is the way we are perceived.

I know it does not sound right to us, but the truth is, all you have to do is read in their intellectual discussions, in their literature, and we can see.

Therefore, the defense procurement, for instance—and I wish Mr. Slattery were still here—we can wax indignant how our military does not know, but actually, the Defense Department, in its procurement, is now procuring a great percentage from foreign countries.

Sole source, in the most sophisticated weaponry used in this last war, if we can consider it as being over, an overwhelming percentage of the vital component parts are foreign-made. They are not manufactured domestically in the United States. This was an expressed concern by a high-ranking Department of the Air Force official, but it is true. That is the other side of this.

We had testimony with respect to kickbacks, Mr. Wiley. They were not kickbacks in the sense of kickbacks to Iraqi officials. These were apparently in some form of false billings to the business involved, the American business involved. We did have testimony to that effect in one of the first hearings we had. So we do have all of that, and of course, as ever, whether it is in public or private enterprise, if you have secrecy and no accountability to speak of, you are going to have to have some abuses.

I think the most astounding thing today was Mr. Newcomb's testimony that the President's Executive orders do not cover the private accounts, for example, the private accounts of the Emirate family and the Al-Sabah. And I know as a matter of fact, has had billions, over \$160 billion alone in the United States, not in the name of Kuwait or the Kuwait Government, but in the family name, and at least another \$100 billion more in Europe and in Switzerland.

Now, some day, some congressional committee will be looking into how much of that money was used in stimulating the intervention on behalf of Kuwait, but at this point, I think the significant thing is that if that is the case, as Mr. Newcomb answered, he said that is right, Presidential Executive order does not cover those accounts, it is entirely possible that Saddam Hussein, not in his name perhaps, but in another private citizen's name, could have money right now in the United States that is not covered by that Executive order. I think that is the most amazing thing, and therefore it comes back to us on this committee on how we can structure the proper responsible regulatory environment.

We know now the Federal Reserve Board, which is supposed to be chiefly responsible for foreign bank enterprises doing business in the United States will, insofar as say the headquarters, and the original branch in the United States, of even this case, of the BNL, but we know that when it comes to chartering a State, either agency or branch, that it becomes further complicated and impossible to really govern.

I was going to ask Mr. Abboud as the banker witness here—and this will save writing some questions—that you give us the benefit, and perhaps we may ask your indulgence again and call you back

specifically on what suggestions you have on the restructuring, and what you would visualize as a proper, and not an improper, or a sort of an oppressive type of regulatory framework. We certainly do not want to oppress international trade and financing, or obstruct it, but we certainly do know that the national interest demands that we do something about this lack of regulatory oversight.

As I said at the very beginning, we are the only country that does not have any kind of real oversight. Even in direct investments or indirect prime-asset investments in our country, we do not have a screening board. Canada does, even Canada. We are the only nation that does not. So we are very grateful to you. I know I speak for every member of this committee. If you did not see more Members here, it is because, as I said at the outset, of the circumstances under which we are meeting, which were totally unforeseen last week, some of it so sad.

However, we do have one of our new Members that came in late, and I was just going to recognize his presence and ask him if he had anything to say, for about 1 minute.

Mr. MORAN. Thank you very much, Mr. Chairman. We do appreciate your initiating these hearings.

The question I have is on July 27, when the administration lobbied very strongly for an additional \$500 million in crop credit assistance for Iraq, did we not know the experience that we had had with the Atlanta branch in using their conduit capacity to generate machine parts and other manufactured goods that could be of assistance to Iraq in the event of a military engagement?

At the time we had 30,000 Iraqi troops on the border with Kuwait but we also must have had some indication of the banking system that we were dealing with through which this crop assistance was being funneled.

I would like to know if anybody has any knowledge of our knowledge at that point in time, 5 days before the invasion occurred.

I happened to see an article in the *New York Times* about that time where it was revealed that some of this money, it was about \$4 billion up to that point that we had provided Iraq in the form of crop subsidies, had actually used through kickback schemes and the like to acquire truck parts and other machinery that would be of Iraq's benefit but was not in any way consistent with the intent of the legislation that the administration asked us, asked the Congress, to pass.

Can anybody respond to that?

Mr. ABBOUD. Congressman, I am not aware of what we knew at that time about Atlanta and Banca Nazionale del Lavoro but with regard to the CCC credits which I think are an invaluable, useful program that we have for American farmers to get our agricultural products sold, if they are done correctly, and I just happened to have an example of one of ours right here, which was a rice shipment that basically we sent or hard, red winter wheat shipment that we sent out to Iraq or the rice shipment we sent to Iraq, each one of those requires a bill of lading.

It requires a certificate as to who the exporter is. The money goes, and this happened to be a Houston exporter, the money goes directly to the Houston exporter. It shows the destination. For ex-

ample, it goes out through the port of Kuwait and up into Iraq so if these programs are administered properly and all the documentation is there it is very hard for them to be abused and for money to be siphoned off because the money stays right here. It goes exactly to that farmer that you're supposed to know or the exporting agency that you are supposed to know and goes to pay for the crops.

Mr. MORAN. But it is a fact that some of it did not go to pay for crops—

Mr. ABBOUD. The Banca Nazionale del Lavoro apparently had two sets of books and they abused the program and they diverted it.

I think that there has to be a bifurcation that what is an abuse of a good program was really done in kind of a venal way for whatever reason, probably greed or whatever—to get that thing going, but the basic program itself is a very desirable program.

I would hope that what would emanate out of these hearings would be not a cutback of that particular program—maybe some additional surveillance, maybe some additional scrutiny, maybe some additional controls, maybe more regulatory oversight but basically the program is a good, sound program and good for the American farmer.

Mr. MORAN. Well, I am sure it's good for the American farmer but there are a number of countries in need of agricultural products grown in the United States but the recipient, the client, of that program, I think you would agree, left something to be desired, and particularly when you do have evidence of a manipulation of a program for other purposes then the program ought to be suspended at least until those accusations are checked into.

That is why I was surprised that the administration so strongly urged that the \$500 million in additional assistance go to Iraq after the misdeeds of the Banca Nazionale branch in Atlanta had already been uncovered.

That is the only comment I would make. We have got a kind of a rocky path that led to the initiation of hostilities and I hope the chairman is right, that this war is over. I am not sure that it is but, well, we don't want to enter a period of recrimination. We nevertheless want to look into some of the causal reasons why we found ourselves in that situation and try not to repeat them in the future if it can be helped.

This may be one of the situations that ought not be repeated. Thank you—and thank you, Mr. Chairman.

The CHAIRMAN. Well, that's right. I think, Mr. Abboud, all good things are susceptible to abuse somewhere or another and that is when you don't have accountability, but I think that this was one egregious example where the United States guaranteed the bribes because that is what it actually did in some of those cases.

I don't think we had evidence that they were Texas transactions! [Laughter.]

Mr. ABBOUD. No.

Mr. MORAN. I certainly did not mean to imply that by any means, Mr. Chairman.

Mr. ABBOUD. Not at all.

Mr. MORAN. Let the record be very clear on that.

Mr. ABBOUD. Thank you.

The CHAIRMAN. Anyway, thank you, gentlemen.

You have been very patient and very, very helpful.

We will still have some questions. I know I'll have one or two for Mr. Moore and Mr. Kowalsky and Mr. Carusf but thank you very much. Your testimony covered the ground.

[Whereupon, at 1:55 p.m., the hearing recessed, to reconvene at the call of the Chair.]

PREPARED STATEMENT OF R. RICHARD NEWCOMB
DIRECTOR, OFFICE OF FOREIGN ASSETS CONTROL
DEPARTMENT OF THE TREASURY

before the

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

April 9, 1991

APPENDIX

Economic Sanctions Against Iraq and Kuwait

Chairman Gonzalez and members of the committee:

My name is R. Richard Newcomb and I am the Director of the Office of Foreign Assets Control at the United States Department of the Treasury. I am here today to appear before the committee to discuss the Treasury Department's role in formulating, administering, and enforcing the sanctions against Iraq and Kuwait.

April 9, 1991

The Office of Foreign Assets Control ("FAC") has primary responsibility within the Executive branch for implementing the financial and trade sanctions against Iraq and measures to protect the assets of the legitimate Government of Kuwait. In addition to these programs, FAC also administers economic sanctions programs against Libya, Iran, South Africa, Cuba, Vietnam, Cambodia, and North Korea and administers certain Residual World War II asset controls affecting the Baltic Republics. The Office was also responsible for administering the recently-concluded economic sanctions programs against the Sandinista regime in Nicaragua and the Noriega regime in Panama.

This morning I will address the topics and concerns in which you have expressed an interest, which relate principally to the blocking of Iraqi and Kuwaiti assets in the United States. I will also comment on your offer to suggest measures which would increase FAC's effectiveness in formulating, administering, and enforcing administrative sanctions.

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Identification and Blocking of Iraqi and Kuwaiti Assets

Following the Iraqi invasion of Kuwait on August 2, the President, acting under authority of the International Emergency Economic Powers Act ("IEEPA"), declared a national emergency and issued Executive Orders No. 12722 and No. 12723 ("the August 2 Executive Orders"), which froze all Iraqi and Kuwaiti government-owned assets within the jurisdiction of the United States or under the control of U.S. persons and imposed an immediate and comprehensive trade embargo against Iraq.

On August 6, the United Nations Security Council, to bring the invasion and occupation of Kuwait to an end and to restore the sovereignty, independence, and territorial integrity of Kuwait, decided that all U.N. member states should impose sweeping economic sanctions against Iraq and occupied Kuwait. On August 9, the President issued Executive Orders No. 12724 and No. 12725, this time acting under authority of IEEPA and the United Nations Participation Act, broadening the U.S. sanctions with respect to both Iraq and Kuwait to include a complete prohibition on trade and trade-related activities with any person located within the territories of Iraq or Kuwait, in addition to continuing the freeze of Iraqi and Kuwaiti government-owned assets imposed seven days earlier. The Executive orders of August 2 and 9 were developed by Treasury with the assistance of the Departments of State and Justice, the White House Staff and the National Security Council. The sanctions programs presented by the orders are similar, in whole or in part, to sanctions programs previously implemented with respect to other countries, most notably Libya in 1986.

The August 9 Executive order with respect to Iraq:

- prohibits exports and imports of goods, technology, and services between the United States and Iraq, and any activity that promotes or is intended to promote such exportation and importation;
- prohibits any dealing by a U.S. person in connection with property of Iraqi origin exported from Iraq after August 6, 1990;
- prohibits transactions related to travel;
- prohibits transactions related to transportation to or from Iraq, or the use of vessels or aircraft registered in Iraq by U.S. persons;
- prohibits the performance by any U.S. person of any contract in support of projects in Iraq;

-- prohibits the commitment or transfer of funds or other financial or economic resources by any U.S. person to the Government of Iraq, or any other person in Iraq; and

-- blocks all property of the Government of Iraq located in the United States or in the possession or control of U.S. persons, including their foreign branches on or after August 2, 1990.

The August 9 Executive order with respect to Kuwait imposed essentially the same regimen of economic sanctions on Kuwait, then under occupation and control by Iraq. Since the liberation of Kuwait, the prohibitions on most trade and financial transactions with Kuwait have been removed through the issuance of a general license authorizing such transactions. Similarly, except for seven Kuwaiti banks, the U.S. property of the Government of Kuwait has been effectively unblocked by general license. The seven banks, while remaining blocked, are licensed to utilize their assets to settle pre-August 2 obligations.

The objectives of the Executive orders were to deprive Iraq of any economic or financial benefits that might result from its illegal invasion and occupation of Kuwait and to preserve and protect the assets of the Government of Kuwait for the benefit of their rightful owner. Iraqi assets blocked in the United States and in all U.N. member states may be used as a source of funds to pay claimants and creditors of Iraq if such a course of action is determined appropriate and enabling legislation is enacted.

The August 2 Executive orders immediately froze, by operation of law, all property and interests in property, of the Governments of Iraq and Kuwait that were in, or thereafter came within, the jurisdiction of the United States or under control of U.S. persons. Any unauthorized transfers of property or interests in property subject to the blocking orders occurring after the effective date are deemed to be null and void. This means that a U.S. financial institution, for example, which transfers blocked funds after the effective date without authorization from FAC can be penalized for violating the sanctions.

On the morning of August 2, immediately after the President signed the blocking orders, FAC began contacting major U.S. money center banks and requested that the Federal Reserve Bank of New York ("the FRBNY") notify Federal Reserve member banks of the blocking. We also began a series of what have since become regular consultations with the FRBNY, and various U.S. Government agencies, including the Departments of State, Commerce, and Defense, the Customs Service, the FBI, the NSC, and members of the intelligence and law enforcement communities. Since the morning of August 2, we have travelled abroad several times for coordination meetings with our allies. We have also met with

hundreds of U.S. and foreign businesses, official agencies, and individuals affected by the sanctions, in addition to responding to several thousand telephone inquiries and pieces of correspondence. Additionally, we have an ongoing program in place with foreign governments and their embassies which enables us to act in concert with all governments worldwide to ensure the uniform application of all U.N. resolutions.

On August 3, we issued a press release announcing the first of a series of general licenses designed to address many of the most immediate and pressing problems relating to the freeze. Most of these licenses addressed the need to safeguard and preserve the value of the frozen assets and investments without causing unnecessary and irreparable harm to the interests of innocent third parties, including those of many U.S. businesses and individuals and of the legitimate Government of Kuwait.

The need to quickly address these complicated and fact-intensive problems proved especially critical with respect to the Kuwaiti assets since the freeze was intended primarily as a protective measure, and complete immobilization of the Kuwait governmental assets in the United States for a prolonged period would have diminished their value and disrupted a number of markets.

These initial licenses addressed problems such as: what to do about Iraqi and Kuwaiti oil already en route to the United States on the effective date; how to complete or unwind variously affected financial or securities transactions entered into prior to the effective date; what types of transactions or investments by blocked companies or investment portfolios owned or controlled by the Government of Kuwait to allow to continue unimpeded; and what to do about payments due under letters of credit involving U.S. banks for goods or services exported to Iraq or Kuwait prior to the effective date. These general licenses, as well as the specific licenses we have issued on a case-by-case basis, have been carefully crafted to ensure that transactions permitted thereunder are consistent with the objectives of the sanctions and do not confer any realizable benefit on the Government of Iraq. These licenses have been fully incorporated into a comprehensive body of implementing regulations published on November 30, 1990, for Kuwait and on January 18, 1991, for Iraq.

Very early in the program we began meeting regularly with Kuwaiti Embassy officials to begin the process of identifying and clarifying the status of Kuwaiti-owned entities around the world, licensing limited operation of Kuwait entities within U.S. jurisdiction under the effective control of legitimate governmental authorities, and generally coordinating the efforts of our respective governments concerning the sanctions. We received excellent cooperation from the Kuwaiti authorities. This proved to be an understandably painstaking and tedious

process inasmuch as the legal, financial, and commercial information required to make these determinations must be precise and accurate. Moreover, this information must be obtained from various locations worldwide and some of the records were destroyed or were under the control of Iraqi authorities.

In the first few weeks, our efforts regarding Kuwait focused heavily on identifying and clarifying the status of Kuwaiti-owned banks and financial institutions and communicating this information through the Federal Reserve System. By October 4, we were able to issue a general notice clarifying the status of 94 major banking and non-banking entities or corporate groups operating in the United States.

Obviously, no such assistance was forthcoming from the Government of Iraq. In identifying and blocking Iraqi assets, both in the U.S. and worldwide, FAC has relied upon the cooperation of allied governments, other Federal agencies, the business community, and the investigative efforts of its own staff.

The Nature of the Property Blocked

The Kuwaiti and Iraqi government-owned assets frozen by the August 2 Executive orders were substantial. The frozen Kuwaiti investments totalled in the billions of dollars and consisted primarily of bank deposits, debt and equity securities (involving both direct investment and portfolio holdings), and real estate. Most of these assets were owned or controlled by licensed Kuwaiti governmental entities such as the Kuwait Investment Office and the Kuwait Investment Authority. The blocked Iraqi assets in the Government of Iraq designated accounts will total more than a billion dollars. They are primarily bank deposits and blocked oil payments. On February 11, 1991, we initiated a formal census or inventory of these blocked assets as well as U.S. financial claims against Iraq by publishing in the Federal Register regulations requiring the filing of reports by all U.S. holders of Iraqi property and U.S. claimants against Iraq as to the full extent of such assets and claims. The inventory of blocked Iraqi assets has not yet been completed; thus a total value is not yet available.

In addition to the publication of the list of Specially Designated Nationals, which I will describe momentarily, six individual blocking actions have been taken to identify property not clearly known to the public as property of the Government of Iraq.

Iraqi-Owned or -Controlled Companies

Through information obtained by FAC from readily available public sources, as well as from the domestic and international intelligence communities, we have undertaken a major initiative to identify front companies and agents used to acquire technology, equipment, and other resources for Iraq. This is called the Specially Designated Nationals or "SDN" program. As in the case of current sanctions against Cambodia, Cuba, Libya, North Korea, and Vietnam, FAC has the authority to "specially designate"--i.e., to identify publicly and to block--any person, whether an individual or a business, directly or indirectly owned or controlled by the Government of Iraq, or who acts or purports to act for or on its behalf.

The term "specially designated national" is not used in the Iraqi Sanctions Regulations (31 C.F.R. Part 575, 56 Fed. Reg. 2112 (January 18, 1991) ("ISR"). Such designation relies rather on the definition of the Government of Iraq provided by Section 575.306 of the ISR:

The term "Government of Iraq" includes:

- (a) The state and the Government of Iraq, as well as any political subdivision, agency, or instrumentality thereof, including the Central Bank of Iraq;
- (b) Any partnership, association, corporation, or other organization substantially owned or controlled by the foregoing;
- (c) Any person to the extent that such person is, or has been, or to the extent that there is reasonable cause to believe that such is, or has been since the effective date [August 2, 1990], acting or purporting to act directly or indirectly on behalf of any of the foregoing; and
- (d) Any other person or organization determined by the Director of the Office of Foreign Assets Control to be included in this section.

In practice, a Specially Designated National of the Government of Iraq ("Iraqi SDN") is an Iraqi government body, representative, agent, intermediary, or front (whether overt or covert) that is located outside Iraq and functions as an extension of the Government of Iraq. It may be a firm created by the Iraqi government, or it may be a third-country company that otherwise becomes owned or controlled by the Iraqi government, or that operates for or on behalf of the Government of Iraq.

The effect of being listed as an Iraqi SDN is four-fold: (1) the SDN is exposed internationally as an Iraqi government front; (2) U.S. persons will be prohibited from any trade or transactions with the SDN; (3) the SDN's property, including financial assets, within U.S. jurisdiction (which includes U.S. banks' corporate branches overseas) will be blocked; and (4) other governments will be urged to take similar steps or other appropriate actions against the SDNs subject to their jurisdiction. As a matter of U.S. law, persons holding the property of any Iraqi SDN or other property in which there is a Government of Iraq interest must report that information to FAC.

A U.S. company or individual could be designated as an Iraqi SDN and, as such, would have its assets blocked by FAC and, in effect, would be put out of business. Note that, because of the definition of "Government of Iraq" in the ISR, a U.S. firm that had not been designated an SDN, but in which the Government of Iraq holds a controlling interest, is already subject to blocking. For example, in September 1990 FAC served a blocking notice covering all bank accounts and tangible property of the Matrix-Churchill corporation of Solon, Ohio. Public sources of information demonstrated that the company was owned by Iraqi-controlled companies in England. Last month, the property and accounts of a Santa Monica, California, based company as well as that of its owner and his wife, were blocked. All were identified as participants in Saddam Hussein's arms network.

On April 1, Treasury formally identified these and other businesses and individuals worldwide as front companies and agents of Iraq. The full list of these companies and individuals, which are now considered SDNs, accompanies my testimony as an attachment. The Iraqi SDN list is not a static document, but will be continuously augmented as additional front companies and agents are identified.

For U.S. persons, dealing with an Iraqi SDN is equivalent to doing business with the Government of Iraq--an activity that is prohibited by Executive Orders No. 12722 and No. 12724, and the ISR. Such violations are subject to severe penalties. Pursuant to the Iraq Sanctions Act (Pub.L. 101-513, Sec. 586E), civil penalties of up to \$250,000 may be imposed administratively. Criminal fines of up to \$1,000,000 per violation may be imposed on both individuals and corporate entities, and prison sentences of up to 12 years are authorized for individuals, including officers, directors, and agents of a corporation, who are knowingly involved in a corporate criminal violation.

Problems in Blocking Assets

I have already alluded to the frenzy of activity into which the staff of FAC was plunged beginning on the morning of

August 2, and which continued in the weeks and months to follow. The incredible demands placed on the Office by the Iraqi emergency occupied every member of my staff and resulted, unfortunately but necessarily, in a temporary suspension of much of our important work in the various other sanctions programs currently in effect. The American people have every reason to be proud, as I am, of this loyal and dedicated cadre of individuals who worked literally around-the-clock, putting aside their personal lives to perform countless hours of uncompensated service, under very difficult conditions, to put the new sanctions program in effect and make them work as intended. The workload demands of the Iraqi and Kuwaiti programs more than equalled that of all other sanctions programs combined, but international crises are seldom predictable, nor is the workload they create. Ultimately, we were fortunate to be able to get personnel detailed to us from other agencies and got the job done.

Monitoring of Government-Controlled Banks

Under the Executive orders, as well as the Kuwaiti Assets Control Regulations and the Iraqi Sanctions Regulations, the definitions of Government of Kuwait and Government of Iraq include the central bank of each country. For this reason all assets of the Central Bank of Kuwait and the Central Bank of Iraq that were in the control of a U.S. person were blocked from August 2, 1990. Secondly, any transaction between these entities and any U.S. person required the authorization of FAC. Where transactions affecting the assets of the Central Bank of Kuwait or the Central Bank of Iraq occurred pursuant to FAC authorization, reports were required to ensure that the transactions were carried out in a manner consistent with the authorization. The Government of Kuwait complied fully with the requirements to report regularly on the assets of the Central Bank of Kuwait which were subject to U.S. jurisdiction.

It is a pleasure to appear before this committee again. I will be pleased to respond to any questions.

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Attachment

Office of Foreign Assets Control
31 CFR Part 575

Iraqi Sanctions Regulations

AGENCY: Office of Foreign Assets Control, Department of the Treasury.
ACTION: Final rule; List of specially designated nationals of the Government of Iraq; List of vessels registered, owned or controlled by the Government of Iraq.

SUMMARY: The Iraqi Sanctions Regulations (the "Regulations") are being amended to add a new appendix A and a new appendix B to the end thereof. Appendix A contains the list of individuals and entities determined to be within the Term "Government of Iraq" (Specially Designated Nationals of Iraq). The list at Appendix A contains the names of companies and individuals which the Director of the Office of Foreign Assets Control has determined are acting or purporting to act directly or indirectly on behalf of the Government of Iraq. Appendix B contains the names of vessels registered, owned, or controlled by the Government of Iraq. These lists may be expanded or amended at any time.

EFFECTIVE DATE: April 3, 1991.
ADDRESSES: Copies of these lists are available upon request at the following location: Office of Foreign Assets Control, U.S. Department of the Treasury, Annex, 1500 Pennsylvania Avenue NW., Washington, DC 20220.

- 34. Spectman (ashanti, England, United Kingdom
- 35. Tall, Alkham, P.O. Box 1312, Amman, Jordan
- 36. Tevera, A. Arnaldo G., Praça Pio X, 54-107, Andar, CEP 20931, Rio de Janeiro, Brazil
- 37. Zahran, Youssif, P.O. Box 1218, Amman, Jordan

Vessel name	Ship type	DWT	Call sign	Owner
1 Am Zaid	Tug	30,330	M242	Iran Oil Tankers Company, Bahrain, Iraq
2 Al Jozeh	N/A	N/A	N/A	Government of Iraq, managed by the State Organization of Iraq Ports, Basrah, Iraq
3 Al Feg	Reg	80	NVAN	Iran Oil Tankers Company
4 Al Farah	Tu	12,882	HMND	Iran Oil Tankers Company
5 Al Farah	Tu	12,882	HMND	Iran Oil Tankers Company
6 Al Farah	Tu	1,223	HMND	Iran State Enterprise for Water Transport
7 Al Farah	Tu	4,649	HMND	Iran State Enterprise for Water Transport
8 Al Farah	Tu	1,218	NAS	Iran State Enterprise for Water Transport
9 Al Farah	Tu	1,218	NAS	Iran State Enterprise for Water Transport
10 Al Farah	Tu	2,144	DMRH	Iran State Enterprise for Water Transport
11 Al Farah	Tu	1,522	HMNR	Iran Oil Tankers Company
12 Al Farah	Tu	1,522	HMNR	Iran Oil Tankers Company
13 Al Farah	Tu	230	VIA	Iran Oil Tankers Company
14 Al Farah	Tu	324	VBE	Iran Oil Tankers Company
15 Al Farah	Tu	544	VBA	Iran Oil Tankers Company
16 Al Farah	Tu	N/A	VFB	Iran Oil Tankers Company
17 Al Farah	Tu	N/A	VFC	Iran Oil Tankers Company
18 Al Farah	Tu	3,548	HM2W	Iran State Enterprise for Water Transport, Baghdad
19 Al Farah	Tu	3,548	HM2W	Iran State Enterprise for Water Transport, Baghdad
20 Al Farah	Tu	268	VAM	Iran Oil Tankers Company
21 Al Farah	Tu	268	VAM	Iran Oil Tankers Company
22 Al Farah	Tu	8,828	HM8T	Iran Oil Tankers Company
23 Al Farah	Tu	290	VBR	Iran Oil Tankers Company
24 Al Farah	Tu	1,872	VBR	Iran Oil Tankers Company
25 Al Farah	Tu	372	NVA	Iran Oil Tankers Company
26 Al Farah	Tu	366	VHR	Iran Oil Tankers Company
27 Al Farah	Tu	366	VHM	Iran Oil Tankers Company
28 Al Farah	Tu	366	VHM	Iran Oil Tankers Company
29 Al Farah	Tu	375	VNU	Iran Oil Tankers Company
30 Al Farah	Tu	100	HNKS	Iran State Enterprise for Water Transport
31 Al Farah	Tu	366	VBE	Iran State Enterprise for Water Transport
32 Al Farah	Tu	628	VHM	Iran State Enterprise for Water Transport
33 Al Farah	Tu	528	VTH	Iran State Enterprise for Water Transport
34 Al Farah	Tu	148	VYMH	Iran State Enterprise for Water Transport
35 Al Farah	Tu	1,662	HMDS	Iran State Enterprise for Water Transport
36 Al Farah	Tu	1,662	HMDS	Iran State Enterprise for Water Transport
37 Al Farah	Tu	8,242	HM8B	Iran State Enterprise for Water Transport
38 Al Farah	Tu	18,441	HM8A	Iran State Enterprise for Water Transport
39 Al Farah	Tu	3,525	HMKN	Iran State Enterprise for Water Transport
40 Al Farah	Tu	8,242	HMKN	Iran State Enterprise for Water Transport
41 Al Farah	Tu	155,210	HMNS	Iran Oil Tankers Company
42 Al Farah	Tu	155,210	HMNS	Iran Oil Tankers Company
43 Al Farah	Tu	4,740	VME	Iran Oil Tankers Company
44 Al Farah	Tu	155,210	HMNS	Iran Oil Tankers Company
45 Al Farah	Tu	8,977	VSD	Iran State Enterprise for Water Transport
46 Al Farah	Tu	1,865	HMAD	Iran State Enterprise for Water Transport
47 Al Farah	Tu	8,242	HMNS	Iran State Enterprise for Water Transport
48 Al Farah	Tu	18,441	HMNS	Iran State Enterprise for Water Transport
49 Al Farah	Tu	18,441	HMNS	Iran State Enterprise for Water Transport
50 Al Farah	Tu	112,210	N2LC	Iran Oil Tankers Company
51 Al Farah	Tu	508	VSD	Iran Oil Tankers Company
52 Al Farah	Tu	3,525	HMNS	Iran Oil Tankers Company
53 Al Farah	Tu	36,200	HM8B	Iran Oil Tankers Company
54 Al Farah	Tu	847	N/A	Iran Oil Tankers Company
55 Al Farah	Tu	2,800	VYAD	Iran State Enterprise for Water Transport
56 Al Farah	Tu	13,856	HM8D	Iran State Enterprise for Water Transport
57 Al Farah	Tu	2,800	VYAB	Iran State Enterprise for Water Transport
58 Al Farah	Tu	17,656	HM8S	Iran State Enterprise for Water Transport
59 Al Farah	Tu	36,400	HM8S	Iran State Enterprise for Water Transport
60 Al Farah	Tu	N/A	N/A	Iran Oil Tankers Company
61 Al Farah	Tu	N/A	N/A	Iran Oil Tankers Company
62 Al Farah	Tu	N/A	N/A	Iran Oil Tankers Company
63 Al Farah	Tu	N/A	N/A	Iran Oil Tankers Company
64 Al Farah	Tu	N/A	N/A	Iran Oil Tankers Company
65 Al Farah	Tu	N/A	N/A	Iran Oil Tankers Company
66 Al Farah	Tu	N/A	N/A	Iran Oil Tankers Company

Vessel name	Ship type	DWT	Call sign	Owner
68 Duple	Tug	390	YBLJ	State Org of Iraq Ports
69 Duple	Tug	390	YBLJ	State Org of Iraq Ports
70 Duple	Tug	390	YBLJ	State Org of Iraq Ports
71 Duple	Tug	390	YBLJ	State Org of Iraq Ports
72 Duple	Tug	390	YBLJ	State Org of Iraq Ports
73 Duple	Tug	390	YBLJ	State Org of Iraq Ports
74 Duple	Tug	390	YBLJ	State Org of Iraq Ports
75 Duple	Tug	390	YBLJ	State Org of Iraq Ports
76 Duple	Tug	390	YBLJ	State Org of Iraq Ports
77 Duple	Tug	390	YBLJ	State Org of Iraq Ports
78 Duple	Tug	390	YBLJ	State Org of Iraq Ports
79 Duple	Tug	390	YBLJ	State Org of Iraq Ports
80 Duple	Tug	390	YBLJ	State Org of Iraq Ports
81 Duple	Tug	390	YBLJ	State Org of Iraq Ports
82 Duple	Tug	390	YBLJ	State Org of Iraq Ports
83 Duple	Tug	390	YBLJ	State Org of Iraq Ports
84 Duple	Tug	390	YBLJ	State Org of Iraq Ports
85 Duple	Tug	390	YBLJ	State Org of Iraq Ports
86 Duple	Tug	390	YBLJ	State Org of Iraq Ports
87 Duple	Tug	390	YBLJ	State Org of Iraq Ports
88 Duple	Tug	390	YBLJ	State Org of Iraq Ports
89 Duple	Tug	390	YBLJ	State Org of Iraq Ports
90 Duple	Tug	390	YBLJ	State Org of Iraq Ports
91 Duple	Tug	390	YBLJ	State Org of Iraq Ports
92 Duple	Tug	390	YBLJ	State Org of Iraq Ports
93 Duple	Tug	390	YBLJ	State Org of Iraq Ports
94 Duple	Tug	390	YBLJ	State Org of Iraq Ports
95 Duple	Tug	390	YBLJ	State Org of Iraq Ports
96 Duple	Tug	390	YBLJ	State Org of Iraq Ports
97 Duple	Tug	390	YBLJ	State Org of Iraq Ports
98 Duple	Tug	390	YBLJ	State Org of Iraq Ports
99 Duple	Tug	390	YBLJ	State Org of Iraq Ports
100 Duple	Tug	390	YBLJ	State Org of Iraq Ports
101 Duple	Tug	390	YBLJ	State Org of Iraq Ports
102 Duple	Tug	390	YBLJ	State Org of Iraq Ports
103 Duple	Tug	390	YBLJ	State Org of Iraq Ports
104 Duple	Tug	390	YBLJ	State Org of Iraq Ports
105 Duple	Tug	390	YBLJ	State Org of Iraq Ports
106 Duple	Tug	390	YBLJ	State Org of Iraq Ports
107 Duple	Tug	390	YBLJ	State Org of Iraq Ports
108 Duple	Tug	390	YBLJ	State Org of Iraq Ports
109 Duple	Tug	390	YBLJ	State Org of Iraq Ports
110 Duple	Tug	390	YBLJ	State Org of Iraq Ports
111 Duple	Tug	390	YBLJ	State Org of Iraq Ports
112 Duple	Tug	390	YBLJ	State Org of Iraq Ports
113 Duple	Tug	390	YBLJ	State Org of Iraq Ports
114 Duple	Tug	390	YBLJ	State Org of Iraq Ports
115 Duple	Tug	390	YBLJ	State Org of Iraq Ports
116 Duple	Tug	390	YBLJ	State Org of Iraq Ports
117 Duple	Tug	390	YBLJ	State Org of Iraq Ports
118 Duple	Tug	390	YBLJ	State Org of Iraq Ports
119 Duple	Tug	390	YBLJ	State Org of Iraq Ports
120 Duple	Tug	390	YBLJ	State Org of Iraq Ports
121 Duple	Tug	390	YBLJ	State Org of Iraq Ports
122 Duple	Tug	390	YBLJ	State Org of Iraq Ports
123 Duple	Tug	390	YBLJ	State Org of Iraq Ports
124 Duple	Tug	390	YBLJ	State Org of Iraq Ports
125 Duple	Tug	390	YBLJ	State Org of Iraq Ports
126 Duple	Tug	390	YBLJ	State Org of Iraq Ports
127 Duple	Tug	390	YBLJ	State Org of Iraq Ports
128 Duple	Tug	390	YBLJ	State Org of Iraq Ports
129 Duple	Tug	390	YBLJ	State Org of Iraq Ports
130 Duple	Tug	390	YBLJ	State Org of Iraq Ports
131 Duple	Tug	390	YBLJ	State Org of Iraq Ports
132 Duple	Tug	390	YBLJ	State Org of Iraq Ports
133 Duple	Tug	390	YBLJ	State Org of Iraq Ports
134 Duple	Tug	390	YBLJ	State Org of Iraq Ports
135 Duple	Tug	390	YBLJ	State Org of Iraq Ports
136 Duple	Tug	390	YBLJ	State Org of Iraq Ports
137 Duple	Tug	390	YBLJ	State Org of Iraq Ports
138 Duple	Tug	390	YBLJ	State Org of Iraq Ports
139 Duple	Tug	390	YBLJ	State Org of Iraq Ports
140 Duple	Tug	390	YBLJ	State Org of Iraq Ports
141 Duple	Tug	390	YBLJ	State Org of Iraq Ports

Visual name	Doc type	DVT	Call sign	Owner
142 Space Launch No. 1	Reg	N/A	N/A	State Dep. of Iraq Ports
143 Space Launch No. 2	Reg	N/A	N/A	State Dep. of Iraq Ports
144 Space Launch No. 3	Reg	N/A	N/A	State Dep. of Iraq Ports
145 Tanager	Tr	3.627	WNTD	Iraqi Oil Tankers Company
146 Tanager	Tr	118.138	WNTZ	Iraqi Oil Tankers Company
147 Tanager 2490	Tr	220	WYAC	State Dep. of Iraq Ports
148 Tanager	Tr	368	WYUR	State Dep. of Iraq Ports
149 Tanager	Tr	385	WYUR	State Dep. of Iraq Ports
150 Tanager	Tr	386	WYUR	State Dep. of Iraq Ports
151 Tanager 31	Tr	N/A	N/A	Iraqi State Company for Oil Projects (Iraqi State Arabia)
152 Tanager	Tr	N/A	N/A	Iraqi State Company for Oil Projects (Iraqi State Arabia)
153 Tanager	Tr	N/A	N/A	Iraqi State Company for Oil Projects (Iraqi State Arabia)
154 Tanager	Tr	N/A	N/A	Iraqi State Company for Oil Projects (Iraqi State Arabia)
155 Tanager	Tr	N/A	N/A	Iraqi State Company for Oil Projects (Iraqi State Arabia)
156 Zamboula	Tr	3.549	WYUR	Iraqi State Emergency for Water Transport
157 Zamboula	Tr	N/A	WYUR	Iraqi State Emergency for Water Transport
158 Zamboula	Tr	1.302	WYUR	Iraqi State Emergency for Water Transport
159 Zamboula	Tr	1.302	WYUR	Iraqi State Emergency for Water Transport
160 Zamboula	Tr	1.302	WYUR	Iraqi State Emergency for Water Transport

Dated: March 13, 1991.
 R. Richard Newcomb,
 Director, Office of Foreign Assets Control.
 Approved: March 13, 1991.
 John P. Simpson,
 Acting Assistant Secretary, (Economic).
 [FR Doc. 91-7783 Filed 4-1-91; 8:45 am]
 BILLING CODE 4810-21-4

**PARTIAL TEXT OF REMARKS OF DR. STEPHEN D. BRYEN
 PREPARED FOR DELIVERY TO THE COMMITTEE ON BANKING,
 FINANCE AND URBAN AFFAIRS, April 9, 1991**

Between 1981 and 1988 I served as Deputy Under Secretary of Defense for Trade Security Policy and as Director of the Defense Technology Security Administration. During part of my tenure my agency was involved in export license cases for Iraq.

From 1985 until I left in 1988 the Defense Technology Security Administration objected to about forty percent of the licenses that came before it for Iraq. This is an extraordinarily large number of objections. Comparably, the objection rate for the Soviet Union runs at about five percent; even when "approvals with conditions" are added in for the USSR, the overall rate comes to less than half the turn down rate for Iraq.

Generally speaking, most of our strongest objections for Iraq concerned the potential use of the exported goods for Iraq's nuclear program, for missile testing and construction, and for chemical and biological weapons development. Examples include special computers for missile testing, analytical instruments best suited for chemical and biological weapons development, satellite and airborne surveillance equipment to accurately locate distant targets, and furnaces for Iraq's nuclear weapons development program.

In most cases when we raised these issues in the system we ran into strong opposition from both the Commerce Department and the State Department. In July, 1987 on the urging of the State Department, the National Security Council directed us to be "more forthcoming" in respect to Iraq. The NSC singled out a number of the cases we had held up, and urged us to revisit them. We decided, in all but two or three of the cases identified by the NSC, to stick by our guns and not give in because we had evidence the technology was going into strategic military programs.

There is no doubt that United States policy was heavily "tilted" toward Iraq. Our argumentation, therefore, was aimed at clarifying what our policy was in respect to military end use of dual use technology by Iraq. We tried to establish that, even in cases where there might be a military end use, that any use for non-conventional weapons (e.g., chemical, biological or nuclear) or for

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their delivery systems (the Missile Technology Control Regime) needed to be prevented because of our legal and international responsibilities.

It is important to keep in mind that official U.S. policy was that we would not provide military support either to Iran or Iraq. While we might be prepared to help Iraq in a wide variety of other ways, military support was not allowed. For that reason we never sold any weapons to Iraq. Dual use equipment that can be used to manufacture arms we regarded as the same as the sale of arms.

Obviously our policy did not mean anything to either the Commerce Department or the State Department. The Commerce Department, with State Department backing in some instances, was routinely approving sales of military technology and goods including helicopters, military trucks, special electronic equipment to the Iraqi Air Force --even machines to repair jet engines and damaged rocket casings! In literally all of these cases my agency in the Defense Department was not told about these transactions.

It is important to note that the United States is obliged to follow the Nuclear Non Proliferation Act, the Geneva Conventions on Chemical and Biological Warfare and, after 1987 the Missile Technology Control Regime. There is no doubt in my mind that these instruments were violated in spirit and in fact by public officials who were more interested in appeasing a dictator in Iraq then conforming to international law and approved policy.

Why is it that this was allowed to go on and we did not carry out our international obligations or execute our stated policy on non-proliferation?

On one level the evidence shows that our non-proliferation policy was inoperative. We didn't take it seriously; the people in charge of it had very little idea of how to apply it; allies and friends around the world quite rightly questioned our sincerity about arms proliferation. Indeed our excesses turned out to be quite modest when compared to the performance of many of the European countries. Having no reason to find us credible, Western Europe supplied an incredible amount of sophisticated technology and helped Iraq in its missile programs, nuclear reactor and weapons programs and in its effort to produce mustard gas, nerve agents, and biochemical substances such as anthrax and micotoxins.

At another level the evidence shows that institutionally we will have more

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"Iraqs" in future because the system we have cannot properly regulate sensitive, strategic exports.

There are a number of reasons for this. To begin with, strategic exports cannot be regulated by the Commerce Department and the State Department acting alone. The national security agencies have to play a concrete part. Right now, the Defense Department is excluded from even knowing about 90 percent of what is exported from the United States!

There is a complete lack of workable checks and balances in the system. That is why the State Department and the Commerce Department could, with impunity, release technology to Iraq. If we in the Defense Department complained too much, they simply would issue export permits and not tell us, or they would threaten us with "12-C Violations." This type of intimidation is very effective and it was used, and continues to be used, with effect.

In addition there is a complete policy "fog" in regard to export controls. U.S. policy was deeply conflicted in the 1980s in respect to export controls and Iraq. The result was (1) that we exported technology that should not have been sold and (2) our allies saw sales to Iraq only as a competition --not one of them was the least bit concerned about the risks these transfers caused for stability in the Persian Gulf and world wide.

Rather than see some improvement now, there is every reason to believe the situation is about to deteriorate even more. The United States is backing a major liberalization in COCOM which is the organization that regulates East-West high technology trade. A huge array of high technology, advanced microprocessors, high speed computers, precision machine tools, night vision equipment, sophisticated analytical instruments, advanced radars and air traffic computers will be released from effective multinational control.

The result will be that all of this technology will be available without any license to any country, for any project, without any national or multilateral review or control.

For example, countries such as Libya, Syria, Iran, Iraq, and North Korea will be able to buy this technology directly from the United States, from Japan or from any of the European countries. No licenses will be required. Any kind of assistance, including help to build military factories, will be available without

regulation. In addition, the Soviet Union, whose armaments were shown to be technologically inferior in the recent war, will be able to both upgrade their weapons and enhance their arms export business thanks to our technology.

Carrying forward this policy, as the administration now is doing, will make it impossible to establish any meaningful policy on arms proliferation in the future.

In summary I believe our entire export system is in disarray and continues launched on a dangerous course that cannot serve our national interest or the cause of world peace. While export controls cannot completely protect us from bad policy and poor judgement, a solidly built export control system combined with a multinational framework such as COCOM can play a concrete role in enhancing our security and the security of our allies and friends.



THE WASHINGTON INSTITUTE for Near East Policy

Testimony of W. Seth Carus,
Fellow, Washington Institute for Near East Policy,
Before the
Committee on Banking, Finance and Urban Affairs

U.S. House of Representatives

April 9, 1991

Mr. Chairman, it is an honor to be asked to testify before this committee to discuss Iraq's unconventional weapons programs. The Iraq case has many unique features. Nevertheless, our experience with Iraq provides some insights into the wider problem of weapons proliferation. If we learn from our past successes and failures it may be possible to develop more effective policies in the future.

In the next few minutes, I would like to outline the extent of Iraq unconventional weapons programs and the resulting responses by the United States and our allies. Mr. Chairman, in the interest of time, I will give only a summary and request that my full statement be submitted for the record.

Before proceeding, however, let me provide some background on my qualifications to discuss this subject. During the past several years, I have been affiliated with the Washington Institute for Near East Policy, a Middle East oriented think tank, as a research fellow concentrating on military affairs. In the course of my work, I have had the opportunity to publish articles and books on the proliferation of missiles, chemical weapons, and biological weapons. Although most of this research focused on developments in the Third World at large, or in the Middle East in general, Iraq had become such an important part of the global problem that I have written monographic studies on Iraq's chemical and biological weapons programs and on selected aspects of its ballistic missile program.

When I began this research four years ago, relatively little was known about many facets of Iraq's unconventional weapons programs. The magnitude of Iraqi endeavors, however, was so great that information in increasing amounts has surfaced. It must be stressed, however, that the public record is incomplete. There are considerable gaps, but it is now possible to provide an outline of Iraqi efforts to develop nuclear, chemical, and biological capabilities and ballistic missiles.

Iraqi Unconventional Weapons Programs

There are many countries attempting to develop unconventional warfare capabilities in the Third World. According to some estimates, by the end of this decade eight Third World countries could be nuclear capable, more than twenty could have chemical weapons, several will have biological weapons capabilities, and as many as fifteen might be producing surface-to-surface missiles. Thus, Iraq was only one of many countries seeking to acquire unconventional weapons capabilities.

Iraqi activity, however, was unique in three important respects. First, no Third World country tried so hard to develop such a broad range of capabilities so quickly. Iraq was devoting extensive resources to acquiring not only a full range of unconventional and advanced conventional capabilities, but also was seeking to build an infrastructure capable of supporting such programs. Moreover, unlike many countries which have been content to slowly develop capabilities, the Iraqis wanted them immediately. Hence, during the past few years Iraq was engaged in a flurry of proliferation activities probably unprecedented in the Third World. Indeed, even though Iraq probably had more money than any other Third World country to spend on unconventional weapons, a result of its substantial oil exports, it lacked the financial resources to pay for the programs in the works. Significantly, the pace of activity in many instances appears to have accelerated following the end of the war with Iran in 1988. As a result, Iraq was overextending itself financially to the detriment of the long-term future of the country.

Second, in many instances Iraq was attempting to develop autonomous production

capabilities independent of external sources of supply. This was especially evident with the chemical weapons program. Not only was Iraq attempting to produce chemical agents, but it also was developing an ability to manufacture the precursor chemicals as well. Thus, Iraq was working to create production facilities that would enable it to take crude oil and transform it into mustard gas or to mine phosphate ore and turn it into one of several nerve agents. There is reason to believe that similar efforts were underway in other areas as well. Iraq was attempting to acquire production capabilities for components of strategic weapons. As a result, it is often difficult to distinguish between activities intended to produce legitimate civilian goods from those intended to support weapons production.

Third, unlike most other Third World countries, Iraq was ready and willing to employ its unconventional weapons. It used chemical agents as early as 1983 in violations of the Geneva Protocol, which prohibits first use of chemical weapons. It developed extended-range ballistic missiles specifically to launch at Iranian cities. Starting in 1988, it began extensive employment of chemical agents against civilians, mainly Iraqi Kurds. It appears that the Iraqis threatened to employ chemical agents against Iranian cities as well.

Nuclear: The origins of the Iraqi nuclear program date to the mid-1970s. At that time, France agreed to sell Iraq a nuclear reactor capable of producing plutonium, which could be used to make atomic bombs. An Israeli air strike during 1981, however, destroyed the reactor before it was activated. There is some evidence of continued Iraqi interest in nuclear weapons during subsequent years.

By 1989, however, information became available indicating that Iraq had made its nuclear weapons program a high priority. Iraq was caught attempting to acquire technology needed to produce vacuum centrifuge technology suitable for producing highly enriched uranium. Although significant gaps remain in our knowledge of Iraqi capabilities, it seems certain that Iraq would have possessed a stockpile of nuclear weapons by the end of the decade. This would have been made possible by enrichment facilities capable of producing sufficient highly enriched uranium to assemble one or more bombs a year.

Most of the technology needed for this nuclear infrastructure was acquired by Iraq in West Europe. Iraq was able to purchase, often in apparent violation of export control regulations, designs and components to build both centrifuges and manufacturing equipment ultimately needed to produce components. Some of the equipment came from the United States, although alert action by the U.S. Customs Service appears to have inhibited Iraqi activity here.

Chemical: The Iraqi chemical weapons program originated in the early 1970s. Iraq attempted to acquire production facilities suitable for the manufacture of chemical agents in a number of countries, including the United States, Britain, and Italy during the 1970s. It was not until the early 1980s, however, that it found companies in West Germany willing to supply such plants with no questions asked. Initially, this led to the construction of production units at Samarra capable of producing mustard gas, nerve agents, and hydrogen cyanide. According to some estimates, Iraq was capable of producing as much as 1,000 tons of chemical agent a year, though actual production may have been lower. All known exports of precursor chemicals, the chemicals used to make chemical agents, from the United States resulted in criminal investigations or in changes in regulations to cover future exports.

Iraq relied on precursor chemicals acquired in West Europe, Japan, and the United States. For example, press reports suggest that it purchased at least 1,500 tons of thiodiglycol from companies in the Netherlands, Belgium, Spain, the United States, and Japan, sometimes in direct violation of export laws. Thiodiglycol is one step away from mustard gas, and this quantity of was sufficient to produce as much as 2,700 tons of mustard gas.

Even though Iraq was able to acquire precursor chemicals, the dangers posed by export regulations in supplier countries led it to develop an indigenous production capacity for such chemicals. Nerve agent precursor production was initiated at a complex located at Falluja, an industrial city west of Baghdad. In addition, Iraq invested heavily in industries relying on phosphate, apparently to acquire infrastructure needed to ensure autonomous production of nerve agents. Similarly, Iraq developed plans for Petrochemical Complex Number 2, an ethylene production facility that would have included units to make ethylene oxide. Ethylene oxide is the

main ingredient needed to make thiodiglycol. Completion of these projects, originally planned for the early 1990s, would have given Iraq an autonomous production capability for chemical agents.

Biological: Relatively little is known about the infrastructure supporting Iraq's biological weapons program. It is known that West German companies built the research and development facility at Salman Pak, and provided at least some of the machinery and supplies needed to operate the program. It is possible, however, that equipment supplied for other purposes was adapted by the Iraqis for use in their program. Iraq was developing an indigenous pharmaceutical industry, including vaccine production, and it possessed other industries capable of producing biological agents. In this respect, it must be stressed that machinery needed to produce biological agents can be used to manufacture legitimate organisms as well.

It is not known where Iraq acquired the cell cultures for use in production of biological agents. Although Iraq acquired some organisms in the United States, acquisition of pure strains of potential biological agents is one of the least difficult aspects of developing a weapons capability.

Missile: Although Iraq may have initiated work on ballistic missiles in the late 1970s, it was not until 1987 that the first finished product emerged. This was the Al-Husayn, a modified version of the Soviet-built Scud-B missile with an extended range. Approximately 190 of these missiles were fired at Iranian cities in 1988, and it appears that more than 80 were fired at Israel and Saudi Arabia in early 1991. Operating under the auspices of Project 124, the Al-Husayn missiles were cannibalized versions of Scud-B missiles. It is not known who designed or produced the modification, but the available evidence tends to suggest that the systems design may have been done in East Germany and the actual production in Iraq.

During the past two years, Iraq embarked on follow-on projects to produce Al-Husayn and comparable missiles. This effort involved production of critical components in West Germany for eventual assembly in Iraq. Tentative information suggests that the missiles fired by

Iraq in early 1991 reflected only some of the benefits of these new projects.

Potentially of greater significance were some of the other projects underway in Iraq. The most important was the Condor II missile, known in Egypt as the Badr 2000. This missile was designed in West Germany for production by Argentina and Egypt. Additional technical assistance came from Italy. Iraq funded development, and was expected to receive at least half the missiles built. Technical problems, growing costs, and diplomatic pressure by the United States on Egypt, Argentina, Italy, and West Germany led to a collapse of the program in 1988.

By 1989, however, an infrastructure was beginning to appear in Iraq potentially capable of developing similar missiles. This included the Sa'ad 16 research and development complex at Mosul and the production facilities associated with Project 395. The Sa'ad 16 complex was the recipient of much of the high technology equipment sold to Iraq by American companies. It provided Iraq with advanced engineering labs suitable for developing a range of modern weapons systems, including ballistic missiles. Project 395 gave Iraq production facilities comparable to those associated with the Condor II program in Argentina. It remains unclear whether these facilities were completed, and it is not known if they produced any finished product before being destroyed in the air attacks after the start of the Persian Gulf War in January 1991.

U.S. Policy

The United States has a mixed record regarding its policies towards Iraq's unconventional weapons programs. The United States government led efforts to impose supplier controls on the Iraqi chemical, nuclear, and missile programs. Nevertheless, more could and should have been done. The United States was slow to act against Iraq's use of chemical weapons during the Iran-Iraq War. Moreover, our export policies permitted Iraq to acquire critical dual use technologies needed to produce unconventional weapons, even as we worked to stem the proliferation of such weaponry. Nevertheless, our support for Iraq was not absolute and it should be recognized that the United States was responsible for most of the important initiatives taken to constrain Iraqi activity.

Several factors motivated U.S. policy towards Iraq through most of the 1980s. First, there was considerable concern that Iraq might lose the war it started with Iran. Given the aggressive anti-Western views of the fundamentalist regime in Iran, the United States and its allies believed that our interests were best served by making sure that Iraq did not lose the war. This was reflected in "Operation Staunch," an aggressive effort by the United States to impede weapons sales to Iran, and in the intelligence information reportedly supplied to Iraq.

Second, it appears that some officials hoped that Iraq could be convinced to drop its radical political orientation. Since the 1958 revolution, Iraq has been a leading supporter of anti-Western policies in the region. During the course of the Iran-Iraq War, however, Iraq began to moderate many of its declared policies. This led some people, both in the United States and the Arab world, to conclude that Iraq might be encouraged to align itself with pro-Western countries in the region.

Finally, Iraq was a potentially lucrative market for U.S. exports. During the Iran-Iraq War, the United States loaned Iraq money to purchase agricultural goods. Once the war came to an end, it was believed that Iraq might turn to American companies to acquire many of the items needed for reconstruction. Accordingly, U.S. companies were encouraged to supply high technology items related to petrochemical, fertilizer, and other industrial projects.

Despite the pro-Iraq tilt that developed during the 1980s, the United States did not ignore the efforts by Iraq to develop unconventional weapons capabilities. A variety of initiatives were launched to constrain such activities as they were identified. Many of these initiatives were extremely successful, a fact which was reflected in many of the hostile comments directed by Iraq at the United States through the early months of 1990.

The United States was directly involved in efforts intended to prevent export of materials needed by Iraq for its chemical, nuclear, and missile programs.

Chemical: The United States was at the forefront of efforts to stop Iraq's chemical weapons production program. Through involvement in the Australia Group and domestic export regulations, the United States sought to prevent Iraq from acquiring the precursor chemicals needed to make chemical agents. At the same time, the United States tried to convince allied countries, but especially West Germany, to take similar steps.

- Nuclear: When it became evident that Iraq was resuming its nuclear weapons program, the United States moved vigorously to prevent exports of technology needed by Iraq in this project. In 1989, the United States prevented Iraq from acquiring vacuum pumps potentially useful in the production of highly enriched uranium. In 1990 an attempt to purchase capacitors suitable for use in nuclear weapons was stopped.
- Missile: The United States was responsible for creation of the Missile Technology Control Regime, a suppliers agreement intended to prevent countries like Iraq from obtaining ballistic missiles and the technology needed to make such weapons. Pressure from the United States also was largely responsible for the collapse of the Condor II missile program, a joint Iraqi-Egyptian-Argentinean missile project based on West German and Italian technology.

Although more could have been done, the record of the United States contrasts favorably with most other major exporting countries.

Despite the many useful steps taken against Iraqi unconventional weapons programs, there was much that could have been done that was not done. Exports of dual use technology was allowed, even though it could be used to produce advanced technology weapons, including ballistic missiles. The complexity of the United States position can be illustrated by a detailed look at U.S. policy towards Iraqi chemical weapons.

The United States government worked vigorously to prevent Iraq from obtaining and sustaining a capability to produce chemical weapons. Such activity started soon after it was determined that Iraq had used chemical weapons against Iran in 1983. This activity is reflected in three areas. First, the United States was a founding member of the so-called Australia Group, a suppliers group consisting of Western countries with chemical industries which agreed to keep Iraq suppliers group which consists of Western supplier's gathering of Western countries. The Australia Group was created at the initiation of the government of Australia, but with the active support of the United States, following reports of widespread Iraqi use of chemical weapons during the Iran-Iraq War. In addition, the United States has supported more recent efforts to expand the activities of the Australia Group to cover production equipment as well as precursor chemicals.

Second, the United States government actively worked to prevent exports of precursor chemicals from the United States. Perhaps the most dramatic episode took place in February

1984, when U.S. Customs officials intercepted a shipment of potassium fluoride, a chemical useful in the production of nerve agents. The shipment had been arranged by a Nashville, Tennessee, company, Al Haddad Brothers Trading Company, which was primarily engaged in the export of grain to Iraq. Although the export of the chemical was not illegal at the time, it appears that Customs officials stopped the shipment.

The United States moved aggressively against Alcolac, a Baltimore company, in 1988 when it was discovered to be supplying Iraq with a key mustard gas precursor, thioglycol. In total, this company exported approximately 500 tons of thioglycol to Iraq, enough to make as much as 900 tons of mustard gas.

Third, the United States engaged in bilateral diplomacy intended to convince other countries of the need to constrain the Iraqi chemical weapons program. For example, it appears that demarches were sent to the government of the Federal Republic of Germany as early as 1984. This reflected the primary role played by West German companies in constructing Iraqi chemical weapons production facilities.

The positive record reflected in these examples stand in stark contrast to what was not done, but should have been. First, greater pressure should have been placed on allied countries to control illicit exports in support of chemical, nuclear, biological, and missile programs. West Germany paid little attention to U.S. demarches, leading one former U.S. official to call them "demarshallows." In retrospect, it may have been wise to step up pressure on the government of West Germany. Given the extensive involvement of West German companies in a host of proliferation cases involving countries as diverse as Pakistan, India, Iraq, and Libya, much might have been gained by a harsher line with the Bonn government. Unfortunately, concerns over the health of the NATO alliance dominated U.S. policy towards the Federal Republic during the 1980s. However appropriate such an orientation may have been in the 1980s, it is evident that we will pay a price for this policy in the 1990s and beyond.

Second, the United States should have made support for the 1925 Geneva Protocol a top priority from the beginning. Although the United States first criticized Iraq for use of chemical weapons in 1984, protests were few and far between during the next five years. Often the

statements "deployed use of chemical weapons in the Iran-Iraq War," as though both parties were equally to blame. It was not until after the vicious gas attacks in April 1988 on the Kurdish town of Halabja, during which as many as 5,000 people may have died, that the United States escalated its protests against Iraqi use of chemical agents. Even then, it was not until after the subsequent use of chemical weapons in August 1988 against Kurdish villages in northern Iraq that an aggressive diplomatic campaign was mounted. It is true that the United States played an active role in organizing the January 1989 Paris Conference, which reaffirmed international support for the Geneva Protocol. However, it was too little too late.

The United States record on these matters is better than most countries, but not what it should have been. Our country took many appropriate steps to deal with Iraqi proliferation. Unfortunately, certain critical actions were not taken to the ultimate detriment of U.S. national security. If the United States had acted vigorously against Iraqi employment of chemical agents in early 1984, the extent of chemical weapons proliferation might have been drastically reduced. If we had acted against the irresponsible export policies of West Germany in the early 1980s, the world might be a safer place today and many of the dangers we will face in the future might have been delayed or averted.

Preventing Future Iraq's

Several interesting conclusions emerge from an examination of Iraq's efforts to acquire unconventional weapons capabilities. First, unconventional weapons programs cannot proceed without financial resources. It is expensive to develop production capabilities for such weapons. Although chemical and biological agents may be "poor man's atomic bombs," the available evidence suggests that only the rich can afford to develop the production facilities needed for militarily-significant capabilities. Iraq, for example, probably invested hundreds of millions of dollars in its chemical weapons program, apparently sufficient to provide a production capability of only 1,000 tons per year. By making it difficult to acquire and produce unconventional weapons, costs can be increased and programs delayed. This may accomplish a great many

desired results, even if the results are less than perfect.

Second, a lack of regulations was not the main constraint on U.S. efforts to stop Iraq's unconventional weapons programs. When a decision was made to interfere with Iraqi activities, action proceeded quickly and decisively. If it was not possible to prevent particular exports, steps were taken to close legal loopholes. This suggests that when insufficient efforts were made to act against Iraq, the problems arose primarily from policy choices, not legal constraints.

Third, unless other countries implement controls as tough as those in the United States, it is not possible to stop proliferation. This suggests future problems. Typical are the problems posed by West Germany. Although West Germany has taken steps to strengthen export controls, the sorry performance of the Bonn government during the course of the past decade provides grave reason to be skeptical of its long-term good intentions. Should the West Germans once again choose to look the other way when its companies engage in illicit activities, even the most rigorous export controls in the United States will be useless.

Finally, there are limits to export controls. As the technical sophistication of countries producing unconventional weapons increases, the technology they seek from countries like the United States becomes increasingly remote from the end product. This was demonstrated by Iraq's efforts to produce precursor chemicals, as well as by its efforts to produce the chemicals needed to make the precursors. Eventually, the link with the final product becomes so remote that it is virtually impossible to rely on export controls as a primary tool.

Testimony of Jerry Kowalsky before the House Committee on Banking, Finance and Urban Affairs on April 9, 1991

Overview of CSI

Founded in 1969, CSI Technologies Inc. is a San Marcos, CA manufacturer of custom designed high voltage pulse and filter capacitors. A capacitor is an electronic component that can, amongst other things, accumulate, store and deliver intense pulses of electricity. Typical applications include radar, TV and radio transmitters, heart defibrillators, medical lasers and impulse test equipment. While most of CSI's capacitors are used in medical and industrial applications, some are used in military equipment such as Laser rangefinders.

International Distribution

CSI not only markets its products throughout the United States, but also in most major international markets. CSI is represented in these markets by local agents, Walmore Electronics being our UK agent. When I came to CSI in 1985 there was an order in house from the Baghdad electric utility for capacitors of the type commonly used for basic electrical research. Presumably, it was Iraq's experience with CSI at that time that led them to approach us in 1988.

Function of Capacitor

A modern nuclear weapon consists of a spherical mass of fissionable material encased by a sphere of conventional high explosives. The triggering system consists of a specially designed pulse capacitor, a krytron switch and an array of detonators imbedded in the high explosive. Typically, the krytron switch closes on command from an altitude (pressure) switch permitting the electricity stored in the capacitor to activate the detonators in unison. The high explosives then compress the fissionable material until the critical mass is reached.

Initial Inquiry

On Sept. 6, 1988 a fax was received from CSI's London agent transmitting an inquiry from a company called European Manufacturing Center (Euromac) "acting for an Iraqi delegation". The technical specification supplied exactly matched what I knew from prior experience to be that of a capacitor for a nuclear warhead trigger circuit. I immediately notified contacts at the CIA and the Customs Service. Special Agent Daniel Supnick requested that I make an attractive proposal to Euromac and do everything possible to get a purchase order. Thus, the sting operation known as "Operation Quarry" was born. As the issue was primarily one of export control, the CIA's role was generally passive during the sting.

Nov. 1988 Meeting

On Nov. 2, 1988 I met with Michael Hand, a British national, and Euromac's director of exports and sales, in the offices of

CSI's London agent. Hand went into great detail to impress us with the volume of materials procured by Euromac for their sole customer-the Iraqi government. He claimed that Euromac had processed up to a billion dollars per month during the war with Iran and that even though the war had ended, a billion dollars per year was still being procured. He said Euromac had offices in the UK, Italy and New Jersey. He explained that while there was an official Iraqi procurement organization in the UK called TDG, whenever Iraq had a significant requirement they contacted Euromac. (Much later it became public that TDG was also a major player in Iraq's clandestine war procurement network.) Further, he commented that Euromac had procured large quantities of explosion proof switches from a California company called Custom Control Sensors. Also, he asked me if we could supply electronic connectors. During the meeting Hand received a call on his cellular telephone asking him to locate 500,000 ball bearings. When I asked Hand who was his customer within Iraq for the capacitors, he replied "Sorg." (Actually this is an Iraqi contraction of "State Organization of..."). Hand also implied that Euromac's managing director, Ali Dagbir, was involved in many activities that Hand was not privy to and was, in fact, close to the highest levels of the Iraqi government.

Jan. 1989 Aborted Meeting

As Michael Hand had no technical background, some unresolved technical issues were not settled at the meeting and on Jan. 4, 1989 I was invited to attend a meeting later that month with Iraqi engineers in London. On Jan. 26 & 27, I was in London, but the Iraqis did not show. On Feb. 6 they did arrive and our London agent was summoned to meet with them at Euromac's offices. At the conclusion of the meeting a fax was sent to me by Hand resolving some, but not all of the technical questions.

Washington Post Article

On April 17, 1989, shortly after an article was published in the Washington Post speculating on the existence of an Iraqi nuclear weapons program, we received notification that Mike Hand had left Euromac and that the capacitor project had been terminated. I called Mike Hand at his home and learned that his replacement at Euromac was Jeanine Speckman (a French national) and that he was joining another import/export company. I called her and she told me she would be visiting Baghdad soon and would try to find out what was going on. On June 7, we received a telex from her with what appeared to be a new inquiry.

In this same time period, a separate attempt by Iraq to obtain the nuclear capacitors through a direct order from the Ministry of Higher Education placed on Maxwell Laboratories of San Diego was aborted. Maxwell had become suspicious and notified Customs just before shipment.

On July 13, Speckman sent a fax stating "As you know this offer has been outstanding for several months and there is still

a final query which the client has not clarified yet. However in spite of this, client has just placed a firm order with us for 100 of these capacitors. In view of the technical query still outstanding, our managing director would prefer that this order is placed directly with you and is wondering if you would like to take it over and perhaps visit this client (ALQAOAA) in order to obtain clarification - there could be a bigger order in the pipeline later." I responded that a visit to Baghdad was not practical, and suggested instead that a meeting be held in London during September or October.

At that time the name Al Qagaa meant nothing to me. It later was revealed to be the site of a large, secret military research facility and the location of a huge explosion on August 17, 1989 that killed as many as 700 people including Egyptian and, perhaps, North Korean technicians. It also was there that Farzad Bazoft, a reporter for the British newspaper The Observer, and his driver Daphne Parish, were arrested for alleged spying. On March 15, 1990 Bazoft was hung while Parish was unexpectedly freed a few days before the invasion of Kuwait though she had been sentenced to 15 years.

Sept. 1989 Meeting

Eventually, Euromac and the Iraqis agreed to a September meeting in London to resolve the outstanding technical issues. I flew to London meeting Special Agent Supnick there. Early on Sept. 11, after Supnick (posing as a CSI employee) installed a tape recorder, we walked to the Cavendish Hotel for the meeting under the surveillance of at least four British agents. In the lobby we first met Jeanine Speckman and Ali Daghir and were shortly joined by two Iraqi engineers, Karim Dhaidas Oman and Walid Issa Ahmad, from Al-Qagaa. The meeting was held in the hotel's restaurant and took about two hours. Whenever a probing question was asked regarding the application, the Iraqis would lapse into an Arabic discussion before an answer was given. A translation later had Ali Daghir saying "you see, Americans are naive, stupid." During the course of the meeting we learned that the Iraqis wanted four types of capacitors three of which were fairly conventional pulse capacitors. All capacitors had to meet military specifications for humidity, shock and vibration. The fourth had tighter specifications and high reliability for a single shot application. Regarding delivery, the Iraqis said the parts were urgently needed. My impression from their attitude was that Iraq's nuclear program was more advanced than many Western experts had speculated. A contract was signed calling for 15 each of the less critical parts and 40 of the fourth (detonator) design. The total was \$10,500 with delivery to be 6-8 weeks. We were advised the funds were already at Iraq's London embassy. No mention of BNL was ever made. A long discussion regarding end use finished with Ali paghir saying the parts would be used for air conditioners. He alluded to having used this cover in a prior transaction. Further, paghir, an Iraqi national, said "we don't want you to include a single dollar for us. I am an English

company, but I am an Iraqi. If I profit my country, it is for me a profit." As the meeting adjourned, I was asked by Ali Daghir if CSI would be willing to supply a turnkey capacitor plant in Iraq substantiating rumors regarding Iraq's goal of independence from Western suppliers.

TMI

By coincidence, while I was in London for the meeting with Euromac, our British agent received an inquiry for the detonator capacitors from another export organization, Test and Measurements Limited. Nothing developed from this inquiry as the originator was involved in a serious auto accident shortly after the initial contact.

Proposed Visit by Iraqi Engineers

On Sept. 26, 1989 Speckman sent a fax saying the Iraqis wanted to send engineers to CSI to witness the testing of the capacitors before shipment. We replied this was OK.

On Nov. 14 Ali Daghir sent a fax to Dan Supnick saying "This is to advise you that the Client would like to see you (or Mr Jerry Kowalsky) urgently between November 25- December 5 in Baghdad to discuss the order and other future business." We advised them we would try to arrange the trip.

Manufacture of the parts was completed on Jan. 3, 1990 and on Jan. 11 a telex was received directly from Al Qagaa saying their engineers would not visit CSI and again asking for a visit to Baghdad to discuss some new inquiries.

An end user certificate arrived Feb. 6 from the School of Applied Sciences, University of Baghdad, stating the parts were for the sole use in a CO2 laser system.

Euromac-Ship to Iraq

On Feb. 21 Euromac changed the shipping instructions from London to direct to Iraq. We now had a serious problem as the parts had to be shipped to the UK if the conspirators were to be arrested. Thus, we replied a shipment to Iraq was not possible as it would expose CSI to problems with US authorities.

Finally, on March 13 we were authorized by Euromac to ship the parts to them in London. A few days earlier a duplicate set of disabled parts had been shipped to British Customs. On March 19 the operational parts left Los Angeles arriving at Heathrow on March 20. After clearing British customs, a Euromac employee delivered them to Iraqi airlines the morning of March 28. When an attempt was made to load the parts aboard the Baghdad flight, the shipment was confiscated and the Euromac conspirators were arrested. Their trial is now scheduled for April 22 in London. Omar Latif, the Iraqi Airlines station agent was immediately expelled.

Arms Proliferation

"The Invisible Superpower" is the title on an article published in the June 1990 issue of Seapower. The article continues "The Cold War may indeed be over, but another war already has started. It is a war waged in the shadows, by enemies unseen and often unknown." "The proliferation of nuclear, chemical, and biological weapons-and of sophisticated guidance systems for those weapons is creating a number of incipient Third World superpowers capable of conducting military operations on a scale previously reserved for the U.S., the Soviet Union, and their closest industrial allies. By the end of this decade, a major conflict involving Brazil, Iraq, Pakistan, South Africa, Taiwan or Turkey would risk significant, and possibly nuclear, proliferation."

Scientific American, August 1990... "Third World Ballistic Missiles"... "The spread of strategic weapons to unstable regions greatly increases the likelihood that they will be used. We cannot reverse the process and so must learn to manage its consequences." In chilling detail, the article describes the missile programs of 13 Third World countries including Iraq, Syria, Libya and Iran. Clearly, "the genie is out of the bottle" and the best that can be hoped for is a slowing down of further proliferation of weapons of mass destruction. As the United States is still the world leader in many areas of military high technology, US export control procedures are a vital element in maintaining world peace.

US Laws

The basic laws and regulations controlling exports are reasonable. Unfortunately, the fine line between stopping illegal exports while promoting legitimate exports makes enforcement very difficult. Throughout my involvement with the sting the performance of all of the customs agents, both American and British, with whom I had contact with was exemplary. In particular, the determination and skill of Special Agent Daniel Supnick was vital to the successful conclusion of the sting.

Enforcement Problems

Frequently businessmen will not ask questions whose answers might block a sale. The division of responsibility amongst the Customs Service, Commerce and State complicates the process. At the same time dual uses of a given product makes it difficult for export control authorities to exercise independent judgement. In many cases the Government can not afford to have a staff of technical experts qualified to make these judgements. Perhaps a group of retired professionals would be useful along the lines of the Dept. of Commerce's "Score" small business assistance organization. There is also a problem keeping all US businesses actively exporting informed with US export regulations. While they are thorough, they do not make easy reading. Virtually all industries have trade organizations such as the Electronic Industries Assoc. and American Electronics Assoc. who would

gladly assist the government by keeping their members informed of current policy.

In November of 1990 I was told in detail by an American engineer how he had actively sought and obtained an order from Iraq after a British company turned down the order for precision electronic parts that could have improved the accuracy of Iraq's ballistic missiles. He had advised representatives of the Department of Commerce and State of the contract, but did not make an issue of the fact that it was irrational for an order from an electric utility to have a requirement for operation at 350,000 feet (70 miles).

The Future

I believe recent events have given the United States an unusual opportunity to promote world wide arms reduction which we should not let pass.

To be successful we need a multi-faceted approach aimed at cutting off both the supply and demand for weapons of mass-destruction. The basic elements should be:

1. Completion of our ongoing disarmament negotiations with the USSR.
2. Promotion of regional agreements to reduce the perceived need by Third World nations for offensive armaments.
3. Development of incentives to reduce the attractiveness of armaments as a vehicle for earning of hard currency.

Major Powers

Clearly as the US, USSR, Great Britain, France and China are the major suppliers of armaments, any meaningful disarmament must first have their agreement on a coordinated plan of action.

Third World

Though many third world countries can barely feed their population, their limited resources are wasted on unneeded armaments. Ballistic missiles are looked upon as status symbols of national manhood in many nations. Others consider their weapons factories to be primary sources of exports to gain hard currencies. A coordinated effort amongst the major powers is necessary to change this unfortunate pattern. Use of foreign aid and preferential trade arrangements by major powers could be used as incentives to wean third world countries from weapons production.

James Kanabek
4-1-91

Servvaas
INCORPORATED

STATEMENT OF DR. BEURT R. SERVVAAS
PRESIDENT OF SERVVAAS, INC.

Before The

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED SECOND CONGRESS

APRIL 9, 1991

My name is Dr. Beurt R. Servvaas, and I am the President and owner of Servvaas, Inc., a diversified industrial company whose executive offices are located at 1000 Waterway Blvd., Indianapolis, IN 46202. My Curriculum Vitae is appended for the record. I am pleased to provide your committee any assistance into its investigation of Banca Nazionale del Lavoro (BNL) and its relationship to Itaq. I appreciate your invitation to share with you our experiences with the Itaqis and BNL. For purposes of organization, I will follow the outline suggested in your letter of March 29, 1991.

1. You requested a history of Bridgeport Brass Corporation's and Servvaas, Inc.'s dealings with Iraq, including the brass project in Iraq. As background, Bridgeport Brass Corporation has been located in Indianapolis for more than 50 years and has conducted the business of manufacture and sale of brass sheet, tube, rod and wire. In 1986, Bridgeport Brass was in serious financial trouble. Union and management representatives discussed with me the danger that the company would fail, leading to a serious loss of jobs and a substantially adverse impact on the Indianapolis economy. That year Servvaas, Inc. acquired controlling interest of the stock of Bridgeport Brass Corporation and set about revitalizing that company as an independently owned brass producer. Most of the brass companies in the United States are substantially larger than Bridgeport and many of them are part of publicly owned and very well

1000 Waterway Boulevard, Indianapolis, Indiana 46202
(317) 636-1000 Fax: 317-634-1791 Telex: 27440 (Curtis USA)

financed companies. Nevertheless, we were very successful in our efforts to revitalize Bridgeport Brass and provide a secure opportunity for its employees.

In February of 1988, Bridgeport Brass was approached by representatives of Matrix-Churchill Corporation of Cleveland, Ohio, requesting an inspection of the Bridgeport Brass facilities. We were told that Matrix-Churchill represented the Government of Iraq and that it was interested in viewing Bridgeport and other brass manufacturers regarding a possible contract for the construction of a brass facility in Iraq. Because we were not familiar with the company, we ran a Dun & Bradstreet report on Matrix-Churchill. I have attached a copy of that Dun & Bradstreet report for your records. As you will note, the report indicates that Matrix-Churchill was a U.S. corporation started in 1967 with a good credit history and approximately \$7 million of annual sales. Its business was described as a wholesaler of high precision industrial machinery. Dun & Bradstreet also reported that Matrix-Churchill was a subsidiary of TI Group, PLC, of Birmingham, England, a company that had been founded in 1919 and had more than one hundred other subsidiaries. Based upon that Dun & Bradstreet report, we responded favorably to the request to inspect our facilities at Bridgeport Brass.

We then had visits by Mr. Sam Naman, an engineer with Matrix-Churchill's Cleveland office, and subsequently by Mr. Safa Al-Habobi, who represented himself as Chairman of one of the British affiliates of Matrix-Churchill Corporation, called Matrix-Churchill, Limited. We received a set of requirements for proposed facilities that appeared to have also been sent to other brass companies that Matrix-Churchill were interviewing on behalf of Iraq. Since this seemed like a project that could reasonably be undertaken by our staff at Bridgeport, we prepared certain drawings and estimates, which were submitted to Matrix-Churchill's Cleveland office for transmission to its principal, Iraq.

At that time, our understanding was that a full and complete brass

facility was being sought by the Iraqi government. We proposed to build such a plant for \$115,000,000. In order to get a better understanding of the needs of the potential customer, Bridgeport sent a plant engineer and a consultant to visit with the appropriate engineering staff in Iraq. We did this at the end of April of 1988. When they were in Iraq, our representatives learned that we had completely misunderstood the needs of the Iraqi government, because they already had a full and exceptionally modern brass facility, built in stages by an Austrian concern starting in 1984, which was capable of producing billets, cakes, sheets, strip, rod, tube and wire from virgin materials. Our staff members concluded that a far more modest facility was needed for the purpose of utilization of the substantial amounts of scrap brass that was available in Iraq. This scrap consisted of normal wire, cable, tube, radiators and also shell casings from the Iraq-Iran War. I have attached some pictures of that scrap. We were informed that the shell casings had either been made in the Soviet Union or had been made in Iraq to Soviet specifications, and that they contained silicon.

It was obvious to our experts that brass scrap containing silicon could not be utilized in the production of commercial brass production, and could not be sold on the world market. The key part of the Iraqi needs, therefore, was to be able to remove the silicon from the shell casings that had been generated during its war efforts, in order to provide Iraq with brass scrap pure enough to run through its existing brass facilities and be made into commercially usable products for sale on the world market. If the purpose of the Iraq project were to produce more shell casings from the scrap casings, all they had to do was melt them down as they were and use the existing Austrian facility. It was explained to us that Iraq was looking to a long term project of utilizing this substantial amount of scrap, estimated to be worth several hundred million, for the purpose of supplementing its oil revenues through the sale of commercial products in the peacetime economy that was anticipated following the termination of the war with Iran. Following our visit to the Iraqi facilities and discussion there with Iraqi engineers, we made a substantially revised proposal, limiting the proposed facility

51 00

to a scrap reclamation project only.

We were led to believe by representatives of Matrix-Churchill that they were soliciting bids from other potential contractors. Engineering correspondence followed in which we refined some of the ideas we had expressed, and tried to define what we believed were our capabilities. We noticed a significant increase in interest and activity in August of 1988, at the time of the informal ceasefire between Iraq and Iran. We assumed that until that time, Iraq was not in a position to proceed vigorously with this project. We were informed by Matrix-Churchill, as agent for the government of Iraq, that a delegation of officials from the Ministry of Industry's Al-Shaheed Factory, which was the name of the existing brass plant, would come to the United States to visit and negotiate a contract with us in mid-September. The Iraqi delegation did, in fact, arrive and we reached agreement on the terms of the contract, which was signed on September 10, 1988. We have recently heard this Iraqi governmental agency called the "Ministry of Industry and Military Production." Our contract and all our correspondence referred to the contractor as the "Ministry of Industry." In our dealings with this agency, the name "Military Production" was not used.

We were told that the government of Iraq had to approve the terms and conditions of the contract that had been negotiated by the parties. Certain technical issues were raised by the negotiating team while it was still in the United States, and some revisions to the contract were made. The contract was re-executed on October 2, 1988. Even at that time, we had not sent a substantial team of experts to investigate the major problems and challenges involved in this project. A prerequisite to the execution of the contract, however, was our company's being able to demonstrate that we could, in effect, demilitarize the scrap by removing the silicon from the shell casings, so that the finished products could be sold commercially in the worldwide brass market. The Iraqis sent 10,000 lbs. of crushed brass shell casings to the U.S. After extensive tests, we were able to demonstrate a method to remove the silicon from the scrap brass so that the product came within commercial ASTM and DIN specifications.

that was a qualifying reason why Matrix-Churchill was selected over other international engineering companies to conduct this search. We were informed that Matrix-Churchill was an independent contractor, with the Government of Iraq as one of its clients.

3. You requested an overview of our relationship with BNL.

a. The original contract with the Ministry of Industry executed in September of 1988, and revised on October 2, 1988, provided that if the Iraqi government approved the contract, the Ministry of Industry was to open "an irrevocable letter of credit with a financial institution having an office or branch in the United States of America." The only other limitation on the letter of credit was that the financial institution's obligations were to be rated "g" or better by a rating service of recognized national standing at the time of the issuance of the letter of credit. At no time during the negotiations leading up to the execution of this contract was BNL mentioned. "In fact, the terms in the contract regarding the qualification of the bank issuing the letter of credit were proposed by our counsel, based upon standard legal qualifications for contracts of any international nature. So long as the letter of credit met the terms and conditions of our contract, we had no right to select, designate or refuse to accept a letter of credit proffered by the Ministry of Industry. We first learned of BNL in mid-November of 1988. We received a direct call from an officer of BNL in Atlanta informing us that its correspondent, the Central Bank of Iraq, had issued an irrevocable letter of credit in favor of SerVaas, Inc. in the amount of \$40,602,000 U.S. The BNL executive indicated that the Central Bank of Iraq had requested that BNL confirm the letter of credit and contract with SerVaas, Inc. that if all of the terms and conditions of the letter of credit were met, BNL would duly honor the payment terms under that letter. Subsequently, we received that confirmation dated November 21, 1988.

b. Prior to our receiving the phone call from BNL and the receipt of the BNL confirmation of the letter of credit issued by the Central Bank of Iraq, neither Matrix-Churchill nor any of the representatives of the Ministry of Industry, nor anyone else mentioned BNL to us. Subsequent to the issuance of the letter of credit and as part of normal business relationship that developed from our contract, we learned that Matrix-Churchill and a number of the people with whom we worked at the Al-Shaheed Factory were aware that the Central Bank of Iraq's letter of credit was confirmed through BNL. In fact, we and the Ministry of Industry negotiated several modifications to the Central Bank of Iraq's letter of credit, and thereafter these modifications appeared as modifications confirmed by BNL. As a matter of general curiosity about BNL, since we had never dealt with that bank before, we did inquire from the BNL officers with whom we worked about other businesses that were receiving similar letters of credit confirmations for business activities in Iraq and were told that BNL was providing similar confirmations under contracts being performed by General Motors, Caterpillar Tractor and other major corporations.

c. When we were first contacted by BNL and received the BNL letter of credit confirmation, we did make appropriate inquiries about the bank because, as I have said, we had not had prior business activities with BNL. We learned that it was the largest state-owned bank in Italy with a worldwide banking presence. We learned that it had offices in both New York and Atlanta. At that point, we had no further doubt as to the fact that BNL met the criteria that we had established in the contract and that its confirmation constituted a letter of credit by a bank with a "B" or better rating with a United States branch.

d. You asked whether we had any indication that BNL was engaged in any criminal activity. The answer is no. Before we accepted the confirmation of the letter of credit by BNL's branch in Atlanta, we sent one of our staff there to visit with

the officer with whom he had been conversing by phone. It was at that time that we were told that this branch was acting in a similar capacity for General Motors, and other major United States companies, as well as grain sales. Based upon that visit and our investigation of the worldwide status of BNL, we had no reason to believe that these officers were not fully authorized to provide the confirmations to us. Likewise, our contract required us to establish performance guarantees through bank guarantees. The Ministry of Industry required that a \$10 million performance guarantee be established in its favor with the Rafidain Bank of Iraq. Our employees discussed this performance guarantee with BNL officers in Atlanta, who were familiar with this procedure. They indicated it was also in other similar contracts with Iraq. We negotiated for BNL's providing that bank guarantee to the Rafidain Bank. Based upon the credit worthiness of our companies, the experience of our engineering staff and the nature of the contracts with the Ministry of Industry, BNL provided this guarantee. Of course, we performed all our obligations, so the guarantee was not needed. All of this appeared to be perfectly above board and beyond reproach.

Let me say that as a director of a major bank in Indianapolis, and as a person who has had many banking relationships over the years, I consider myself to be well informed about banking procedures. So, I may say unequivocally that we had no indication at any time that BNL officers were not acting in a fully authorized manner until August of 1989 when we learned through the newspapers of the U.S. and Italian governments' investigation of BNL. Until that time, our draw requests had been honored in a timely fashion.

e. The subsequent BNL scandal did influence our scrap brass project because we had a draw request on our letter of credit on file at BNL in August of 1989. Previously, we had timely payments on our draw requests because of our accurate paperwork and our compliance with the requirements of the letter of

credit. We were told by BNL officers in August, 1989, however, that bank auditors were involved at BNL and that our request would have to be confirmed by the Italian headquarters of BNL before payment could be made. Eventually, after full investigation of the situation and careful scrutiny of our documentation, I am pleased to say, the BNL authorities recognized the validity of its confirmation of the Central Bank of Iraq's letter of credit and agreed that we had fully complied with the terms and conditions of that draw request.

4. U.S.-Iraq Business Forum

a. At a meeting I attended that included former Ambassador Marshall Wiley, we discussed the project that our company had undertaken in Iraq. This was in late January or early February of 1989. Soon thereafter Ambassador Wiley sent some further information to me and solicited our membership in the Forum. We learned that the Forum had been created in 1984 when diplomatic relationships between Iraq and the United States resumed and that the Forum membership included a number of major American corporations, including General Motors, Exxon, Chrysler, Westinghouse and PepsiCo. Significant law firms such as Sidley & Austin and Paul, Hastings, Janofsky & Walker were active in the Forum, together with many major American banks. It appeared to us that the Forum would provide us with information and updates that could be helpful to us in carrying out our contractual obligations. Because we were a relatively small company when compared with the very large corporations that were members of the U.S.-Iraq Business Forum, we were not of sufficient stature to be invited to participate in some of the major activities of the Forum, including the meetings which were set up between Sadaam Hussein and the large corporate members of the Forum.

b. Our annual membership in the Forum expires May 4, 1991 but it is our understanding that the Forum is no longer active.

5. You asked about my thoughts on why Sadaam Hussein invaded Kuwait. Of course, I think that we can all agree that Sadaam Hussein has many of the megalomania tendencies of other classic absolute dictators. These people lose perspective and come to believe that they must destroy or at least neutralize their neighbors so long as no one deters them. More particularly, I believe that the invasion of Kuwait was precipitated by the continuing financial problems of Iraq. Its 8-year war with Iraq drained the financial resources of the country, and certainly limited its exploitation of its vast oil wealth. During that war, Iraq incurred enormous debts to its Arab neighbors, and in particular, Kuwait. Of course, I am not privy to the understandings between these countries and the basis of the Kuwait advancement of funds to Iraq to conduct its war against Iran. Nevertheless, it has been widely reported that Sadaam Hussein, rightfully or wrongfully, believed that the billions of dollars he received from Kuwait should not have been considered to be a loan, but should have been considered to have been payment for Iraq's standing up to Iran.

In the Spring of 1990, we began to recognize that the Ministry of Industry was not honoring the timeframes that were part of our contract. In particular, the Ministry of Industry had a responsibility to put a roof over the facilities, and inexplicable delay after delay occurred in its putting on that roof. We were led to believe this delay was caused by the lack of funds to erect such a facility. The problems with BNL no doubt further prevented Iraq from being able to convince other governments and business enterprises in the world to provide products and materials necessary for the completion of a myriad of commercial projects that were undertaken by Iraq, such as ours. I have a belief that Sadaam Hussein concluded that his country was being choked off financially and that the only financial solution to his problem was to take over and loot Kuwait. Like other dictators, he undoubtedly made the assumption that the rest of the world would sit idly by. Clearly, he made a wrong assumption.

6. You asked about any observations I may have regarding the workings of the Iraqi networks based upon my intelligence community background. To me it is clear that although Iraq is a third world country with sparse infrastructure, it is very rich in natural resources. Those resources are not just oil, but also a substantial agricultural area. Iraq did undertake a major rebuilding effort in 1988 following eight years of devastating war. It counted on the rest of the world's giving it credit for its vast resources against future payments. But Iraq was soon living far beyond its means. A country can only live for a limited period of time in those circumstances. It can live on borrowed money, mortgaging its future, but only for so long. We carefully investigated and assured ourselves that all of the services and products we provided were well within the existing U.S. export restrictions and rules. For example, the furnaces that were purchased for the brass plant could only generate about 1200°C, well below any range that would have a military application. Our firm received a confirmation of a letter of credit by a major international bank. On site, the Iraqi people we dealt with were hard-working engineering-construction personnel. As I said, our particular project was one we felt was instrumental in converting the war scrap of Iraq, that had been built up during the Iranian War into products whose metallurgy met the Western commercial standards necessary to produce hard currency for the country. I have attached some pictures to illustrate this text. If the Iraqi government had a secret military agenda, it was well hidden behind a clearly peaceful plan to rebuild an economy devastated by war and to feed its people. The Iraqi quarrel with the Italian government, its chief financial intermediary, arising out of the BNL scandal, reverberated for months throughout the world banking community. It would seem in retrospect to have triggered a financial crisis wherein not only rebuilding Iraq was threatened, but even Sadaam Hussein's ability to pay his army. It would appear that the move into Kuwait was a reflex action growing from that crisis.

7. You asked about my comments on future U.S.-Iraq relations.

When Arab legions and the Ottoman Turks controlled the Middle East, there was "peace" in the area in the sense that the then Supreme Sultan could always put down or overcome local insurrections and territorial disputes.

When the latest conquerors, the Europeans, pulled out after World War II, they left fragments of former empires, some in the image of their former colonies and others, like Iraq, composed of three disparate provinces of the Ottoman Empire, the provinces of Mosul (Kurds and Christians), Baghdad (Sunni), and Basra (Shiite).

Now there is no empire to settle the quarrels; only coalitions to enforce a consensus that a wrong must be righted.

But, why not! Coalitions have settled modern wars since the 18th century. Coalitions settled colonial wars; coalitions settled the European quarrels of World War I and II. Given the tribal, ethnic and religious differences of the region overlaid with the extreme economic disparity of the political entities, and complicated by territorial disputes and the personal egos and enmities of the military, religious and political leaders, I do not see how "peace" can be imposed.

What can be achieved under U.S. leadership is the preservation of a nucleus for future coalitions that could be formed from then affected states to either arrest or mediate a new challenge in the area. The U.N. will continue to be a party to future coalition action, and our diplomacy should quickly react to this new reality.

In short, we should attempt to build respect and cordiality throughout the Middle East but remain free to build such coalitions as may be necessary to preserve the "peace."

Respectfully Submitted,



Beurt SerVaas

President

Attachments

Beurt SerVaas, Med.Sc.D.

Chairman of the Board

SerVaas
INCORPORATED

Subsidiary Companies:

The Curtis Publishing Company - magazine, book publishing; licensing
 Curtis International Ltd. - foreign trade - South America, Far East
 Curtis International Europe, Inc. - foreign trade - Europe
 Curtis Management Group - personality licensing
 Curtis TradeGroup, Inc. - import/export trading and management
 Carpenter Manufacturing, Inc. - school buses
 Franklin Power Products, Inc. - truck engine manufacturing
 Findlay Diesel - fuel injection systems
 Central Precision Ltd. - automotive and truck engine manufacturing
 Marine Drive Systems, Inc. - manufacturer of stern drive systems
 Lake City Forge, Inc. - engine, gear, transmission parts
 Northland Precision Manufacturing, Inc. - tool and die
 SerVaas Laboratories, Inc. - manufacturer of cleaning products
 SerVaas Management, Inc. - construction, building management
 SerVaas Engineering, Inc. - plant engineering
 U.S. Rubber Reclaiming, Inc. - rubber refining
 Healthcare Technologies, Inc. - pharmaceutical licensing
 Manufacturing Chemists - pharmaceutical manufacturing
 Waterway Capital Corp. - wholesale distribution, air freight
 Indiana Business Magazine, Inc. - specialty magazines
 Industrial Communication Engineers, Ltd. - electronic components

President of:

Indianapolis City Council
 (The legislature for greater Indianapolis)

Chairman of:

U.S. - Polish Economic Council
 (Joint Federation of the U.S. and Polish Chambers of Commerce)

A member of the Board of Directors of:

Banc One Indiana
 Indiana Public Health Foundation
 Indianapolis Entrepreneurship Academy
 Robert Schuler Ministries (The Hour of Power)
 Chairman, The National Institute for Fitness & Sport
 The Council for National Policy
 The Hudson Institute

Former Director of:

American Legion (National Foreign Relations Commission)
 Goodwill Industries - Grolier, Inc.
 Indiana Commission for Higher Education
 Indiana State Board of Health
 KCOM (Medical College)
 National League of Nurses

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Education:

1925 - 1938 Public School 70; Shortridge High School, graduated 1937 High Honor Roll
 1938 - 1939 University of Mexico, Mexico City, undergraduate
 1939 - 1940 Indiana University, AB chemistry, history and Spanish
 1941 Purdue University, du Pont scholar, graduate chemistry
 1962 - 1970 Indiana University School of Medicine, Doctor of Medical Science

Military Career:

1941 - 1945 Officer, United States Navy; American Intelligence Command; Office of Strategic Services (China Theatre).
 1946 Returned to China in connection with the mission of General George C. Marshall and the resumption of hostilities between the Nationalists and the Communists.

Personal Information:

Born May 7, 1919, in Indianapolis, Indiana of Dutch ancestry
 Married: Cory Synhorst, January, 1950
 Five children: Eric, Kristin, Joan, Paul, Amy
 Member of Second Presbyterian Church
 Business Address: 1000 Waterway Boulevard, Indianapolis, IN 46202
 Home Address: 2525 West 44th Street, Indianapolis, IN 46208

Honors and Awards:

Eagle Scout - 1935
 Amateur Radio W9WV0 - 1935
 Phi Delta Kappa Scholastic Honorary
 Bronze Star Medal (World War II)
 Army Commendation Medal (World War II)
 Golden Plate Award, American Academy of Achievement - 1973
 Doctor of Business Management (Indiana Institute of Technology) - 1973
 Doctor of Humane Letters (Baylor University) - 1974
 The National Horatio Alger Award for 1980
 Saganore of the Wabash - 1981
 Doctor of Laws (University of New England) - 1982
 Doctor of Laws (Indiana State University) - 1984

A Member Of:

American Academy of Achievement
 Association of American Medical Colleges
 American Legion
 Amateur Trapshooting Association of America
 Boy Scout National Program Committee
 Columbia Club
 Delta Upsilon
 Economic Club of Indianapolis
 English-Speaking Union
 "500" Festival Association
 Indiana & Indianapolis Chambers of Commerce
 Indianapolis Athletic Club
 Indianapolis Press Club
 Jordan YMCA
 Marion County & Indiana Historical Societies
 Meridian Hills Country Club
 National Association of Manufacturers
 Newcomen Society of North America
 U.S. Naval Reserve
 World Future Society
 World Trade Center of Indianapolis
 Young Presidents' Organization

Has been a lecturer and guest speaker on such subjects as:

U.S. Foreign Policy in the Far East
 Communism as I Saw it at Work
 My Years in Latin America
 Everything is Chemistry in Action
 What it Takes to Make Good in Business
 What Will Happen to Castro's Cuba
 Why the Russians Kicked Communism Out in 1922
 God is What He Means to You
 Are You Learning a Foreign Language or a Foreign Vocabulary
 Political Action
 Executive Health

OHIO STATE BAR ASSOCIATION - CLEVELAND UNDER LICENSE
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ATTN: CO BE REC

MAIN DATA

DUNS: 04-120-8497
MATRIX-CHURCHILL CORPORATION
(FOREIGN PARENT IS Y I
GROUP, PLC, BIRMINGHAM,
ENGLAND)

5903 HARPER RD.
(SOLO) CLEVELAND OH 44139
TEL: 216 248-7950

CHIEF EXECUTIVE: PAUL HENDERSON; PRES

PAYMENTS REPORTED	RATING	HIGH CREDIT	LOW OWES	PAST DUE	SELLING TERMS	LAST SALE WITHIN
02/88	Ppt	100	-0-	-0-	N10	6-12 Mos
01/88	Ppt	1000	-0-	-0-	1 Mo	1 Mo
	Ppt	1000	-0-	-0-	1 Mo	1 Mo
12/87	Ppt	100	-0-	-0-	N15	6-12 mos
10/87	Ppt	50	-0-	-0-	N30	1 Mo
	Ppt	250	-0-	-0-		
/87	Ppt	500	-0-	-0-		2-3 Mos

* Each experience shown represents a separate account reported by a supplier. Updated trade experiences replace those previously reported.

FINANCE
05/26/87

Fire insurance on edge of first \$4,000,000. Umbrella policy.
On May 28 1987 Gordon Cooper, vice president, deferred financial statement but submitted the above figures.

He submitted the following partial estimates dated MAY 28 1987:
Projected annual sales are \$7,000,000.

He stated that sales for the 12 months ended Apr 30 1987 were up compared to the same period last year.

On May 28 1987 Gordon Cooper, vice president and treasurer, stated that financial statements are insured as a consolidated statement by parent company.

FUELIC FILINGS

UCC FILINGS
06/03/87

Financing Statement #600088 filed 06-30-87 with Secretary, State of OH. Debtor: Matrix-Churchill Corporation, Cleveland, OH. Secured Party: Toulift Inc, Cleveland, OH. Collateral: specified industrial equipment/machinery.

The public record items reported above under 'FUELIC FILINGS' and 'UCC FILINGS' may have been paid, terminated, vacated or released prior to the date this report was printed.

HISTORY
05/23/87

GORDON COOPER, V PRES-IBREAS

PAUL HENDERSON, PRES
EILEEN C ELLIS, SEC

DIRECTOR(S): THE DEWEER(S)
Incorporated Delaware Apr 1 1967. Authorized capital consists of 100,000 shares common stock, \$10 par value.
Business started 1967 by parent. 100% of capital stock is owned by parent.

HENDERSON born 1938. Prior to 1975 active with subject and parent. 1979-82 Hi-Tec Inc. United Kingdom, 1982-85 Lanter Brothers. United Kingdom. 1985-present active here full time.

COOPER born 1942. 1963-present employed by parent concern. England. 1973-present devotes full time to subject as vice president and treasurer.

ELLIS born 1947. Received JD degree from Case Western Reserve University in 1972. Active here as an advisor only.

OPERATION
05/23/87

Foreign parent is Y Group, PLC, Birmingham, England, started 1919 which operates as a stockholding company. Parent company owns 100% of capital stock. Parent company has over 100 other subsidiaries. Intercountry Relations: Consist of subject selling merchandise of parent's manufacturing subsidiaries. There are no quaranties or endorsements.
Wholesales high precision industrial machinery manufactured by foreign affiliates of the machine tool division of parent concern. Terms are net 30 days. Has 700+ accounts. Sells to industrial concerns. Territory: United States, Canada and Mexico.

EMPLOYEES: 10 including officers.

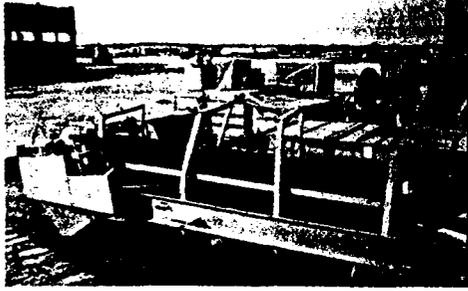
FACILITIES: Fents 10,000 sq. ft. in one story brick building in good condition. Premises neat.

GOOD LOCATION: Industrial section on side street.

02-24(940 /179) 00000 2000000008 012 163
PK

FULL DISPLAY COMPLETE

64



Ingot Caster with Iraqi scrap yard in background



Cable and wire chopping equipment in Iraqi warehouse



Iraqi brass refinery as of May 30, 1990. As of Aug. 2, 1990 no roof construction had occurred.



Foundation for furnace as of May 30, 1990. No furnaces were ever installed.

118



Scrap brass & copper with spent Iraqi shells in background



Scrap copper tubing with various other Iraqi scrap

119



Scrap Iraqi cable and wire



Scrap heat exchangers with spent Iraqi shells

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REMARKS TO THE

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

BY

A. ROBERT ABBOUD

APRIL 9, 1991

Mr. Chairman and members of the Committee:

Thank you for the invitation to testify today concerning the Committee's ongoing investigation of the relationship between the Atlanta Branch of Banca Nazionale del Lavoro and Iraq. I cannot contribute directly to your inquiry because I have no personal knowledge of that relationship. However, Mr. Chairman, in your April 1st letter to me, you posed several questions regarding U.S.-Iraq commercial and financial relations, and I am honored to share my perspective on that topic with the Committee today.

I have been a consistent supporter of President Bush's policies in the Gulf, and have had an opportunity to meet with him twice since the August invasion. What Saddam Hussein did was wrong - it was criminal - and it was unjustifiable. I don't know why Saddam Hussein invaded Kuwait. Having met with him only once I would not care to attempt to analyze his reasoning or motivations. Suffice it to say that he miscalculated badly, and underestimated the strength of President Bush, the will of the American people, and the manner in which political disagreements are put to the side when our troops face enemy forces abroad.

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- 2 -

I would like to review with you my role in fostering international trade. As an individual and as a banker I have long felt that international trade contributes to worldwide prosperity and tends to lessen tensions among nations. Over the years I have traveled to scores of countries in pursuit of this objective.

The Committee is concentrating its review today on trade with Iraq, a country with which the United States government re-established diplomatic relations in 1984. Ambassadors were exchanged, official trade credits were provided by the Department of Agriculture through the CCC, and by the Export Import Bank of the United States. Because the U.S. had not had diplomatic relations with Iraq for many years, most American businesses did not know the country or have an avenue to research business opportunities.

Although chairing the U.S.-Iraq Business Forum was not a full-time or paid position for me, it was an opportunity to work with a premier group of U.S. companies, large and small, with an interest in developing the trade ties which the U.S. government endorsed and initiated through its programs, trade fairs, and the direct encouragement of the U.S. Department of State and Department of Commerce.

I have only been to Iraq on one occasion since Saddam Hussein became Iraq's leader. I was there for 3 days from June 6-8, 1989 as part of a group of prominent business leaders who were members

stop by the bank to meet me (he never stopped by and we never heard anything more about it); and (2) a telex from a Jordanian, businessman that two Iraqi government officials would be in the United States and would like to meet bank representatives to discuss, among other things, whether First City would be interested in participating as a lender in the creation of an Iraqi Industrial Fund with BNL. No meeting occurred and no bank employee communicated with the Iraqi officials, with BNL employees, or with the Jordanian, Wafai Dajani, concerning the concept. I was not a party to either of these two communications.

I understand that BNL was an active user of the U.S. government's export programs for Iraq. I have no knowledge as to whether they made proper use of these programs or not. Like most Americans, including the Congress, I learned through press reports about the billions of dollars in additional loans which BNL made available illegally to Iraq. Such activities could only have a chilling effect on relations between our countries, which were still on friendly terms at the time. As to the effect on the CCC and Exim programs, undoubtedly there has been a high level of scrutiny of the underlying operations. BNL's activities should not deter the creation of programs designed to improve export opportunities for American farmers and exporters of non-military products.

First City, during my years as Chairman, was dedicated to meeting the trade finance needs of our customers. We worked with

of the Business Forum. During that visit the group had briefings by the U.S. Embassy staff, met with several cabinet members, and bankers. We met with President Saddam Hussein on our final evening in Baghdad - in the company of U.S. Ambassador April Glaspie.

The discussions were consistently on Iraq's need to rebuild its civilian economy and its financial standing in the world community, which had been devastated by eight years of war with Iran. There was no talk of military requirements, but on developing agricultural and energy resources. Virtually the entire delegation attended all the meetings, which were held in conference rooms at the various ministries, so there was no private discussion of First City business. The American Embassy expressed a strong desire for the U.S. firms represented on the trip to participate in the upcoming trade fair in Baghdad.

Concerning the BNL scandal, as I mentioned at the outset of my remarks, I cannot add to what the Committee already knows. First City had no dealings whatsoever with BNL related to Iraq. I have not met with BNL officials, either in my capacity with the Business Forum or as Chairman of First City. None of my staff has met with them. Neither I nor my staff has spoken to BNL-Atlanta or BNL-Rome concerning any BNL loan to Iraq. In fact, the extent of First City's contacts with BNL, directly or indirectly, have been the following: (1) a phone call from Mr. Dragoul's secretary to the effect that Mr. Dragoul was or would be in town and would like to

for our customers, and that our principal risk would be capped at \$1 million because of CCC's 98% guarantee. We felt that this was prudent, not excessive, and appropriate for our size and the needs of our customers. Remember, the money never leaves the United States. Most of the goods left through the Port of Houston. We pay the American exporter.

These transactions were on the basis of confirming commercial letters of credit made in the normal course of business, subject to the CCC guarantee on each and every transaction in advance.

We made no other export loans to Iraq. None through Eximbank. None for our own account.

At the request of our domestic energy customers we issued import letters of credit for their purchase of Iraqi crude. In these transactions the credit risk is the importer - major international oil companies. None was on the books at the time of the invasion.

The Central Bank of Iraq and Rafidain Bank, the commercial bank which issued the agriculture letters of credit, kept short term deposits with First City and occasionally did foreign exchange transactions in the normal course of business.

correspondent banks around the world to open up trade opportunities for farmers, small businesses, industrial and energy customers. As you know, Mr. Chairman, international trade is fundamental to the prosperity of Texas. With leading ports in Houston, Galveston, and Corpus Christi as well as the border cities with Mexico, Texas enjoys some \$50 billion a year in international trade out of a gross state product of about \$325 billion. One out of every eight manufacturing jobs comes from exports. And in agricultural exports, we rank first in cotton, second in rice, and third in wheat in the U.S. A large Texas bank would naturally finance its customers' trade.

During the late 1980's Iraq was the leading trading partner of the Port of Houston, principally as a result of the export of agricultural products and import of crude oil. We financed the sale of agricultural products to Iraq exclusively through the CCC program. Please remember, that the U.S. Department of Agriculture not only guarantees these exports - it originates the business with the importing country, and allocates that by individual products. The CCC concludes its arrangements on a government to government basis. Then the importing country makes its purchase arrangements. Banks come into the picture after these negotiations have been concluded.

First City committed to confirm and negotiate up to \$50 million of these American agricultural exports on the basis that it was good

In summary, we tried to be responsive to the needs of Texas customers - farmers and agriculture exporters and energy companies - while capping our principal risk at \$1MM to protect our shareholders.

Mr. Chairman, during the last eight months we have seen a small country invaded by a hostile aggressor; we have seen great resolve in this country and among the coalition partners; and we have enjoyed military success thanks to the sacrifices of hundreds of thousands of our military personnel. I have consistently and publicly advocated the use of force to liberate Kuwait both at the White House and at public gatherings, and I am delighted that this has now been achieved. As a veteran, my heart goes out to those who lost loved ones and to those who were injured. Thankfully, the casualties were fewer than anticipated. Again let me thank you for providing me with the opportunity to share my perspective on these issues. I would be happy to respond to any questions that you or other members of the Committee might have regarding my testimony.

TESTIMONY TO THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

MARSHALL W. WILEY
PRESIDENT (RETIRED)
UNITED STATES IRAQ BUSINESS FORUM
APRIL 9, 1991

1. Please explain your duties and responsibilities as President of the U.S.-Iraq Business Forum.

The U.S.-Iraq Business Forum is now inactive. Prior to August 1990, it functioned as a trade association of United States companies interested in doing business with Iraq. Its only source of funds were dues paid by member companies and its Board of Directors included such major corporations as Westinghouse, Caterpillar, General Motors, Mobil and Amoco. The Forum received no funds from the Iraqi government or other Iraqi sources.

As President I was responsible for all Forum activities within the policy guidelines established by the Board. Most of my time was devoted to membership development and program development. Our programs were designed primarily to educate the membership on the Iraqi market and on Iraqi business practices. In carrying out these duties I was able to draw on my own experience as a Foreign Service Officer, including service in Iraq, and as an international lawyer with a major law firm.

2. Please provide a brief historical overview of U.S.-Arab commercial relations.

During the 1967 Arab-Israeli War, diplomatic relations between the United States and Iraq were severed. After that date U.S. exports to Iraq were minimal and commercial relations were limited to the importation of Iraqi crude oil through normal international marketing channels.

In 1973, the U.S. established an Interests Section in the Belgian Embassy in Baghdad and assigned a commercial officer to the staff of the Interests Section. U.S. exports to Iraq increased slowly, but Eastern Europe, Western Europe, Japan, China, and the Soviet Union continued to be the main suppliers of Iraqi imports.

In 1984, the United States and Iraq resumed full diplomatic relations and subsequently signed an agreement on trade and commerce, indicating the desire of both governments to expand commercial relations between the two countries. In 1985, the U.S. Iraq Business Forum was founded at my initiative to assist U.S. companies who were interested in the Iraqi market. The Forum received the cooperation of both governments in its efforts to promote commerce between the U.S. and Iraq.

By 1989, U.S. exports to Iraq had increased to approximately \$1.5 billion dollars per year. This figure included approximately \$1 billion in agricultural commodities, most of which were exported under the Department of Agriculture's

Commodity Credit Corporation guarantee program. The other \$500 million included a variety of construction materials, automotive spare parts, pharmaceuticals, medical equipment, and other miscellaneous items.

Until recently, the government of Iraq prohibited foreign investment in Iraq, except for investment from other Arab countries. As a consequence, there is now no significant United States investment in Iraq.

3. Did the Forum sponsor trade shows in Iraq? How often did you personally visit Iraq? Did you ever meet with Saddam Hussein? Please elaborate.

The Forum sponsored one trade mission to Iraq for our member companies. The U.S. Embassy Commercial office assisted us in developing a program for the mission. The Forum also twice rented booths at the United States pavilion at the Baghdad International Fair. The Fair is an annual trade show for non-military materials and commodities. The Forum then sublet space in our booth to member companies who did not wish to incur the full expense of a single booth. I personally visited Iraq approximately once per year. I met with Saddam Hussein once with a delegation of senior U.S. business executives in the late spring of 1989. The meeting was cordial and Saddam Hussein expressed his interest in expanding normal commercial relations with the United States.

4. Regarding BNL:

- a. What effect did the BNL scandal have on U.S.-Iraq relations?
- b. What effect did the BNL scandal have on the financial condition of Iraq?

The BNL scandal undoubtedly contributed to the decision of the Department of Agriculture to suspend the CCC credit program for Iraq in January 1990. Since Iraq was unable to obtain private bank credit from other U.S. banks to finance commodity sales to Iraq, the suspension of the CCC credit program severely reduced the level of U.S.-Iraqi trade. Since Iraq had given the United States priority in its debt repayments and had kept its payments on prior CCC guaranteed loans up to date, the decision to suspend the program probably also created concerns in the minds of the Iraqi leadership about U.S. intentions towards Iraq.

The BNL scandal and the subsequent suspension of CCC credit guarantees added to Iraq's cash flow difficulties. Although potentially a wealthy country, Iraq emerged from the Iran-Iraq war with a pressing need for additional credits to service their debt and finance their ambitious development program. The BNL scandal obviously contributed to their cash flow problems.

- c. Did you ever meet any of the BNL employees? What did you think of the BNL-Atlanta involvement with Iraq? Did you think it was unusual that a small branch of an Italian bank was financing so much business with Iraq?

In my capacity as a lawyer, I met with a BNL vice president in Atlanta in the company of a client to discuss arrangements for a CCC guaranteed loan for a sale of lumber to Iraq. At a later date, the BNL President, Chris Drougel, called on me in my Washington office in the presence of his attorney to discuss the investigation of BNL then being conducted by several agencies of the U.S. government. He apparently concluded that my legal service would not be of use to him, and I have not heard from him since that visit.

I did not find it unusual that many of the CCC guaranteed loans were made by BNL. I assumed that the Iraqi government had some arrangement with the BNL main office in Rome which included the use of the BNL Atlanta branch to provide loans for Iraq under the CCC credit guarantee program. I was unaware of any additional BNL loans to Iraq not guaranteed by the U.S. government.

5. Regarding the U.S. Embassy in Baghdad, Iraq

- a. How often were you in contact with the U.S. Embassy in Iraq? What was the nature of your contact with the

competitors were receiving medium term export credit guarantees from their governments which made it impossible for U.S. companies to compete on some major projects such as power plants, and major water projects. The Forum's relationship with the EX-IM Bank personnel was cordial and EX-IM officials were normally invited to our membership symposia and receptions.

- b. How important were EX-IM Bank guarantees to U.S.-Iraq trade?

The EX-IM program was limited to \$100 million in short term credit insurance. The program was too small to have had a major impact on U.S.-Iraqi trade.

- c. How important were CCC guarantees to U.S.-Iraqi agricultural trade?

The program reached a level of \$1 billion per year before it was suspended. Since Iraq was unable to obtain unguaranteed credit for U.S. sales to Iraq, there would have been very few, if any, agricultural sales without the CCC programs.

- d. What effect did the BNL scandal have on the CCC and Export-Import Bank programs?

The BNL scandal was certainly one factor that entered into the decision to suspend the CCC programs in January, 1990. To

Embassy? How would you characterize the Embassy's position towards Iraq-U.S. commercial relations?

I am a retired Foreign Service Officer and I served in Iraq from 1975 to 1977. The last two U.S. Ambassador's to Iraq were personal friends and colleagues of mine from my days in the Foreign Service. I also knew personally several of the Embassy staff, both American and local. My business dealings, however, were focused primarily on the Embassy's commercial officers and the agricultural attache who was responsible for the agricultural commodity sales program. I worked closely with the Embassy on all of my visits to Baghdad.

Prior to the Iraqi invasion of Kuwait the Embassy considered the promotion of U.S. Commerce with Iraq as one of its major responsibilities. This would be true of any Embassy, unless it were specifically instructed to the contrary by legislation or senior administrative authority.

6. Regarding the Export-Import Bank and CCC Programs

- a. What was the Business Forum's reaction to the EX-IM Bank's not approving medium term programs for exports to Iraq?

The Business Forum kept its membership informed of EX-IM Bank and CCC policies. It is a fact that most of our foreign

the best of my knowledge, it had no direct effect on the EX-IM program.

7. What was your reaction when learning that the Iraqi government had used poison gas on the Kurds? How did that issue affect U.S.-Iraqi commercial relations?

To the extent that these allegations are true, I find such action abhorrent. I do not know the extent to which such allegations affected the actions of U.S. businessmen. It may well have made some decide not to do business in Iraq. The Forum had hoped to exert a modifying influence on the behavior of the Iraqi government by strengthening its ties with the United States.

8. Please share with us your personal thoughts as to why Saddam Hussein invaded Kuwait. In your opinion, did Iraqi financial difficulty play a large role in Saddam Hussein's decision to invade Kuwait? In your opinion, did Iraqi financial difficulties play a large role in Saddam Hussein's decision to invade Kuwait?

In my opinion, Saddam Hussein invaded Kuwait primarily for economic reasons. He believed that Kuwait was conspiring with the United States to wreck the Iraqi economy. As evidence he cited Kuwait's oil production 50% in excess of its OPEC quota and Kuwait's reluctance to cancel Iraq's debts and make further loans to Iraq. He also believed Kuwait was over-producing from

the North Rumaila oil field which straddles the Iraq-Kuwait border. He believed that Kuwait had benefited from Iraq's long and bloody war with Iran and was not sufficiently appreciative of Iraq's efforts, considering Kuwait's immense wealth and Iraq's difficult economic circumstances. The U.S. Department of Agriculture's decision to suspend the CCC credit guarantee program with Iraq - despite Iraq's excellent repayment record - was no doubt taken as evidence of a U.S. determination to harm Iraq economically.

At the same time, I believe that Saddam Hussein did not view his invasion of Kuwait as an anti-U.S. action. He had not threatened U.S. oil supplies - or even an excessive oil price increase. He was probably honestly surprised at our strong reaction in defence of the Emir of Kuwait and the Sabah family for whom he had a very low opinion, bordering on contempt. His decision to invade was motivated by his sense of insecurity and his belief that Iraq was under siege from unfriendly powers.

9. Any other thoughts you may have regarding U.S.-Iraq relations or the BNL scandal?

The allegations of wrong doing in U.S.-Iraq commercial relations should be kept in perspective. The U.S. government and the media have made intensive efforts to uncover such wrongdoing for the last 18 months and the concrete results of these investigations have so far been quite limited. In fact, there

appears to be very little evidence of any substantial number of illegal shipments to Iraq from the United States. To the extent such wrongdoing has occurred, it should, of course, be prosecuted. On balance, however, most businessmen considered Iraq the least corrupt of the countries of that area and almost all of our trade with Iraq has been legal and above-board.

There is a danger that our intensive focus on the personality of Saddam Hussein will obscure the longer range considerations of U.S. interests in Iraq and elsewhere in the area. In the long run, Iraq will no doubt become an important country by virtue of its huge oil reserves, its natural resources, its infrastructure and its relatively well educated manpower resources.

There is a natural fit between the U.S. and Iraqi economies which could provide the basis for an important economic relationship when and if we can overcome our present political problems. In the emerging world of intensive international economic competition, Iraq could emerge as an important trading partner for the United States. I hope our present policies will not foreclose this opportunity for the future.

KENNETH L. MOORE

Consulting Engineer--Ordnance Development and Production

General

Mr. Moore is a senior ordnance engineer with 18 years' experience in the design, production, and upgrade of conventional munitions. Specific experience includes ROCKEYE cluster bombs, laser-guided bombs, 2.75" and 5" air rockets, Mk 80 series bombs, 105mm tank ammunition, and 155mm artillery projectiles. Mr. Moore currently is involved primarily in the design and set-up of ordnance production facilities, and in associated hazards analyses and safety design studies.

Areas of Experience

Mk 80 series general purpose bomb production and loading
155mm artillery projectile metal parts production and loading
105mm tank round parts production and loading
Adaptation of foundry production technology to replace forged projectiles and bombs with ductile iron castings from commercial foundries
Formulation and casting of composite rocket propellants to 21" diameter
20mm, 25mm, and 30mm gun ammunition development and production

Explosives, propellant, and pyrotechnic safety and hazards analyses and facility design for protection of personnel and capital assets

Professional Accomplishments

Responsible for introduction to service use of several new ordnance systems and major performance improvements in several others. Twelve patents in ordnance, energetic materials, and energy conservation; numerous publications on same topics.

Career Status

Independent consultant to US Government and industry for production of improved air and land weapons systems. Work includes facilities design, safety and hazards analyses, and classroom training.

OVERVIEW OF THE MUNITIONS INDUSTRY

General. Conventional weapons and ammunition are frequently regarded as a cornerstone of national independence by modern nations. This attitude is not restricted to major powers such as the United States, Europe, and Japan, but increasing applies to those nations described as "developing" or "third world" countries. In most instances, the desire to produce weaponry arises from considerations of national security, particularly in situations where there is concern over an arms embargo in the event of conflict with one's neighbors or other enemies.

The attitude toward indigenous production is the same in most countries--it is usually desired that high-use items such as ammunition for tanks, artillery, and the infantry be produced (or at least assembled) in-country, and for this purpose special load-assemble-pack (L.A.P.) plants, intended for filling projectiles with explosives and for assembling complete rounds from shells, cartridge cases, and propellant charges, are popular first items in any military industrial buildup. On the eve of World War Two, for instance, the United States embarked on a massive program of erecting LAP facilities all across the country, and based its war-time industrial policy on the ability of industry to supply these plants with such items as cartridge cases, artillery shells, and bomb bodies. Production of explosives and propellants was expanded from Government hands to Government Owned, Contractor Operated (GOCO) plants, and contracts were given to, or forced upon, many industrial firms for the duration of the war. What thus developed was a highly integrated infra-structure of metal parts and chemical producers working together with LAP facilities to produce and deliver complete rounds of ammunition to the military. At a somewhat later date, Government-owned facilities for metal parts were expanded, facilities which at the present have become largely idle due to increasing obsolescence of their machinery and end products. Only in time of major conflict, or due to national isolation or paranoia, will dedicated facilities be erected for military ammunition metal parts production. This is due to the inefficient nature of such plants, and to the extremely high cost of capital equipment and maintenance.

United States practice at present is to procure ammunition or bomb metal parts from both GOCO and Industry sources, and to accept delivery of these components at GOCO plants for filling with propellants and explosives (usually from other GOCO plants), and assembly with fuzes and other metal components such as links (from commercial sources) into complete munitions which are then packed into metal or wooden containers from commercial sources. Actual production of procured components is frequently undertaken in plants which are dedicated to military goods production, although this is changing as the US Defense budget declines. In addition, there are now several private LAP plants in operation, both for US Government sales and for overseas sales, and nearly all private firms, whether metal parts, fuze, or explosives producers, look

increasingly to the overseas market for their financial support. What has changed most in this picture over the past few years is the extent to which US industry is allowed to sell its products overseas, either loaded or as components, and the transfer of armaments production technology and machinery to other nations. The United States is not alone in this field; in fact, it is frequently a secondary player as there are few firms in the United States which specialize in the supply of armaments production facilities. For many years, such work was undertaken by a number of European firms, on both sides of the Iron Curtain, and the activities of US firms were restricted to supply of machinery or components to plants already in existence. When US firms did participate, it was usually under US Government contract to supply a complete, operable plant under so-called "turn-key" conditions. In recent years, a few US firms have entered the arms production facilities market, where their ability to compete has been hampered by their inexperience in arranging financing for the sale, frequently including conditions of payment at the end of the job, or arrangements for payment over a period of several years.

Many US firms are novices in the field of export operations, and the Commerce Department has an aggressive program of support to US firms wishing to engage in export activities. In addition, many states and regional development authorities have arrangements with banks to finance various phases of overseas sales. Because of the complexity of the process for obtaining permits for export of machinery for production of military goods, two phenomena are highly visible at the present time. These are the use of export management firms, or trading firms, as brokers for the sales, and the use of commercial export licenses, whenever possible, to ease and speed up the export process.

Export firms, including trading companies, normally operate either as agents (on commission) or brokers, buying goods for subsequent re-sale to another intermediary or to the end user. This arrangement is popular with machinery producers, in particular, who are reluctant to begin a job without some advance payment and who frequently will not ship machinery without having all, or nearly all, of the payment received by their own bank. In nearly all cases, machinery used for production of munitions components is obtained from standard industrial sources, as will be discussed later, and equipped with special tooling to permit production of specific end items. In this market, it is not uncommon for a firm working on a turn-key project to become its own trading and finance company, which requires that it become proficient in such areas as project management, industrial sub-contracting, and handling of international commercial letters of credit.

In a typical export case, such as a machine for production of rifle cartridge cases, the exporting firm will engage the services of an engineering firm to buy the required machinery, make such modifications as are necessary, and prepare the goods for shipment. To

exercise greater control over the project, and to minimize the extent of information "leaks" to potential competitors, some firms will hire technical experts to exercise technical management over the project, and then sub-contract the engineering to one firm, the machinery to another, and the tooling to yet a third. This works well when the export firm is fully versed in the particular production art, and has, in fact, led to some interesting embarrassments when goods delivered to the customer require extensive modifications before they are operable. To avoid this, successful export firms arrange for all equipment and tooling to be checked out in their own country, or at least under their own supervision, prior to shipment to the customer. The process of "commissioning" the machinery in the customer's factory is then done at greatly reduced risk, and suppliers and sub-contractors are much more agreeable to working on the project since their payments will be received before the goods leave their physical control.

Munitions production. This is a specialized field of industrial activity, frequently performed under military supervision, involving materials and processes adapted from similar commercial activities. The range of such processes encompasses virtually the entire field of commercial engineering practice--chemicals, metal components, and electronic assemblies are produced and assembled in manners frequently identical to those employed in the commercial sector. There are, in fact, very few military end items which are produced in plants or with machinery designed and manufactured specifically for military production purposes--most machinery in use today is adapted from commercial chemical, metal-working, and electronic production practice.

Military Industry Build-up in Iraq. In the 1980's, with a war against Iran already in progress, Iraq became a major consumer of military hardware, including aircraft, armored vehicles, artillery, and ammunition. The extent of this activity increased to the point where supply became a problem, as Iraq's ocean access was restricted and goods had to be transported overland after unloading of vessels, usually in Jordan or Turkey. To reduce the economic cost of the military procurement, Iraq undertook a major expansion of its military industries, an expansion which grew to encompass virtually every field of industrial activity which would support the enormous Iraqi military machine. Chemical industries based on petroleum were expanded significantly, and centers were set up for research and development as well as for production of military products ranging from sewn goods (packs, bandoleers, tents) to munitions. Much of this was based on acquisition and modification of commercial equipment, frequently from firms having little or no experience in the military field but who could manufacture the required equipment and export it as commercial goods, thus avoiding (it is presumed) scrutiny by the normal arms control agencies.

Examples of the use of commercial equipment for production of military goods of special interest to this hearing include artillery

gun barrels, artillery shells and tank track components, other ammunition components, cluster bombs and fuel-air-explosive (FAE) bombs, and electronic components such as integrated circuits and solar cells.

Centrifugal Casting of Gun Barrels. Throughout 1990, there was considerable press coverage of the activities of Dr. Gerald Bull and his firm, Space Research Corporation, in the development of a so-called "super-gun" for Iraq. The initial portions of this gun were, it is alleged, procured from forging houses in Europe for assembly in Iraq. One highly interesting item which came to light was the attempt by Iraq to buy a state-of-the-art centrifugal casting machine. This machine, supplied by an American firm, was supposedly for the production of ductile iron water and sewer pipe. In fact, this is the principal use of such equipment in the United States today, but it has a somewhat chilling military application. During World War Two, the United States built well over 100,000 artillery gun barrels by centrifugal casting, and went so far as to set up a special factory for this purpose alone. Attached sections of Army and other historical documents show this clearly, even though today most engineers think of gun barrels as suitable only when produced by hot-forging operations. In fact, it was known that the centrifugal casting process produced consistently superior gun barrels, and barrels were produced up through the largest items in service in World War Two.

Rotary Forging of Gun Barrels. The so-called "rotary forge" is a machine which employs a set of external, radially operating hammers to pound a tube or hollow billet of steel over a work piece, known as a mandrel, for the purpose of forming it into a useful hollow cylindrical item. Examples include vehicle drive train components and suspension items as well as gun barrels. One notice of this equipment in the West was its acquisition in large numbers by the Soviet Union in the 1970's; at that time, the US Government had acquired one such forge for evaluation purposes at the Watervliet Arsenal gun barrel shop. In some calibers, it is possible to generate the internal grooves, known as "rifling" by this process, thus avoiding what is otherwise a costly, time-consuming procedure.

Shell Production by Forging. Most artillery shells are produced today by the "hot-cup, cold-draw" process which transforms solid cylinders or square sections into nearly finished projectiles. The machines employed in this work are normally of two types--hydraulic extrusion presses, and a device known as an "upsetter". Hydraulic presses are most common today, and are used for forming shells from both heated as well as cold stock. There are still several suppliers of this type of press in the US, and adaptation of such a machine for military production is accomplished through acquisition of appropriate tooling. The latest machines will have two or more operations performed in the same machine, with robotic handling equipment to insert, transfer, and extract the forged shell bodies. There is no difference between a hydraulic press for forging shells

and one for forging aircraft landing gear components or vehicle suspension members. An upsetter is used commercially for production of cylindrical bodies such as truck axles in high volume, and in World War Two was used extensively to produce many millions of shells up through 105mm. The use of upsetters has come back in recent years due to changes in specifications and quantities of automotive components and hand tools. Again, the only difference is the tooling and the impact force and repetition rate, which today is controlled from a computer console.

Cluster Bomb Components. During the Iran-Iraq war, it is alleged that Iraq acquired the technology to produce sophisticated cluster bombs originally of US design. Components for the small bomblets used in these cluster bombs are produced by processes known as stamping and "deep-drawing", which are used commercially for the production of lip-stick tubes, ball-point pens, and aluminum cigar containers as well as sub-munition grenades and small arms cartridge cases for the military. These machines are usually comprised of a series of vertical punch or press elements, laid out in a straight line, along which the work piece is moved as it is transformed from a solid piece of metal into a finished or nearly finished article.

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Fuel-Air-Explosive (FAE) Bomb Filling. During the last year, it has come to light that Iraq has acquired the technology to produce fuel-air-explosive (FAE) bombs, and has even advertised its products in its military products catalogue. What is of concern here is that the Iraqi FAE bomb is filled with a material known as ethylene oxide, which is used commercially for sterilization of medical instruments and in agriculture for accelerated ripening of fruit during shipment. It is also the starting point for several other chemicals of military and commercial use.

Printed Circuit Boards. Most modern electronic assemblies in communications equipment are produced by attaching individual components and sub-assemblies to "printed-circuit" boards. In these systems, copper previously plated onto insulating materials such as fiberglass or phenolic is etched away chemically to form electrical connections, thus avoiding a time-consuming and costly wiring process. In 1986, General Amar, head of Iraq's Scientific and Development Committee was asked about the role of an electronics component factory supplied by the French firm Thomson-CSF. He replied that Iraq's goal was to develop its own electronics industry, not just become self-sufficient in production, and that:

independence and free action in the future was dependent on such abilities in the electronic field. Machinery used for production of circuit boards and most other electronic components is the same, whether the end items are television sets, medical instrumentation, or military radios.

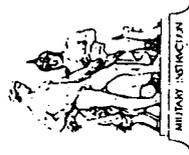
Hybrid and Monolithic Integrated Circuits. Sometime in the 1980's, Iraq acquired the capability to produce integrated circuits at a level achieved by the US and most other powers during the 1960's and 1970's. Perhaps this was a portion of the technology acquired from the French; in any case, when combined with a printed circuit capability it leads to the ability to fabricate compact, rugged electronic assemblies such as are required for modern guided missiles, aircraft electronics, spacecraft, and artillery proximity fuzes as well as small computers and associated hardware.

Solar Cells. Solar cells are not normally thought of as having many military applications, although they are extremely useful in supply of electrical power to modern electronic equipment in remote sites where electric generators will provide electrical emissions which can be detected by surveillance equipment. They are also used as power sources in orbital spacecraft, which is interesting in light of Iraq's announcements to develop space weapons in response to Israel's capabilities in those fields.

The Technical Services

THE ORDNANCE DEPARTMENT:
PROCUREMENT AND SUPPLY

by
Harry C. Thomson
and
Lida Mayo



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that, "The manufacture of cannon from cast steel is an accomplished fact. Molten steel is poured into a revolving mold and shaped by centrifugal force to the shape of the mold. The result is a piece of ordnance superior in many ways to anything heretofore produced."¹¹³ There were still many problems to be solved, and rejection rates remained high, but by 1940 the process was sufficiently developed to be ready for quantity production.

During World War II centrifugally cast guns made a substantial contribution, starting with the small sizes and eventually working up to medium sizes. On 20 June 1944 Watertown passed two landmarks in its production history: completion of its 100,000th centrifugally cast gun tube, and installation of a new machine for casting heavy cannon weighing up to 10 tons. The centrifugal process not only resulted in speedy production and economy of material but produced a gun that, unlike the forged gun which was stronger lengthwise than crosswise, had uniform directional properties. Centrifugal force tended to drive impurities toward the center where they could be eliminated when the gun was bored, and to increase the specific gravity of the product. Economy, simplicity of manufacture, speed of production,

Centrifugal Casting

Though the first patent on casting in a rotary mold was issued in England early in the nineteenth century before the Ordnance Department was created, application of the principle to gun production in the United States dates only from World War I and the years following. Long before 1918 the centrifugal process had been used for commercial manufacture of pipes, piston rings, gear blanks, and thin-walled metal tubing, but Ordnance did not begin serious experimentation with centrifugal casting of cannon until 1925. In 1918 an Ohio concern, the Paper and Textile Machinery Company of Sandusky, had submitted to Ordnance for examination three centrifugally cast steel cylinders and had been awarded a contract to build a machine large enough to cast the 155-mm. howitzer tube. In 1925, after delivery of the machine, its use was energetically pushed by Brig. Gen. Tracy C. Dickson, commanding officer at Watertown from 1918 to 1932. During the experimental stages in the mid-20's Watertown made large numbers of castings under different conditions and gave the resulting guns every known metallurgical test. The experimental casting cylinder used at Watertown was fitted with glass end pieces to permit observation of the molten metal after it was poured into the whirling cylinder.¹¹⁴ By 1932, after years of experimental production, a member of the Watertown staff was able to report in a scientific journal

¹¹³ History, Watertown Arsenal, vol. 102. This reference gives a detailed account of centrifugal casting experience at Watertown, including numerous photographs.

¹¹⁴ "Whirling Molten Steel to Make Gun Castings" by 1st Lt Steven L. Conner, *Scientific American*, 147 (September 1932), 160.

OFFICE OF THE CHIEF OF MILITARY HISTORY
DEPARTMENT OF THE ARMY

WASHINGTON 25, D. C., 1960

and greater uniformity of product—all these were virtues of centrifugal casting.¹¹⁴

In December 1941 Ordnance placed contracts for two government-owned, contractor-operated plants to make gun tubes according to Watertown's centrifugal casting method. The Houston Tool Company built and operated the Dickson Gun Plant in Houston, Texas, and the Ohio Steel Foundry Company operated the Ohio Gun Plant at Lima, Ohio. The latter arrangement was terminated in September 1942 in view of the drastic reductions in the Army Supply Program, and the plant thereafter became the Lima Tank Depot. The Dickson plant continued in operation until the end of the war, turning out a total of more than 12,000 gun tubes, of which about half were for 105-mm. howitzers.¹¹⁷

¹¹⁴ Hist., Watertown Arsenal, vol. 102, including long extracts from Watertown Arsenal Rpts by Dickson, Capt Hugh C. Minton, Capt Scott B. Ritchie, and Lt Steven L. Conner during the 1920's and 1930's and personal notes of Dr. J. L. Martin, superintendent of production.

¹¹⁷ (1) History, Dickson Gun Plant, OHF; (2) History, Ohio Gun Plant, OHF. The latter contains a lengthy memorandum by Maj. Tracy Dickson, Jr., to OCO Historical Section, 31 December 1943.

ELEMENTS OF ORDNANCE

*A Textbook for Use of Cadets of the
United States Military Academy*

PREPARED UNDER THE DIRECTION OF

MAJOR GENERAL THOMAS J. HAYES

FORMERLY PROFESSOR OF ORDNANCE AND SCIENCE OF GUNNERY

UNITED STATES MILITARY ACADEMY;

OFFICE OF THE CHIEF OF ORDNANCE,

WAR DEPARTMENT, WASHINGTON

*A revision of the "Textbook of Ordnance and Gunnery," by
Colonel Earl McFarland, formerly Professor of Ordnance
and Science of Gunnery, United States Military Academy*

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COLD-WORKED GUNS; CENTRIFUGALLY CAST GUNS 193

176. Centrifugal Casting of Cannon.—A means of forming pipe and other cylindrical shapes from various metals by centrifugal casting has been known and used for more than one hundred years, but the application of this process to the casting of steel is a comparatively recent development. The process involves the pouring of molten or liquid metal into a chill mold (a mold made of cast iron instead of sand), which is rotated at a high rate of speed so that centrifugal force causes the metal to take the shape of the mold before it solidifies. Since the solidifying or freezing temperature of steel is much higher than that of any metal previously cast by this process, the problem of centrifugally casting steel was a much more difficult one.

This method of shaping steel has been developed by the Ordnance Department to the extent that it is now a standard step in the manufacture of gun tubes up to and including the 3-in. antiaircraft. Experimental castings for 5-in. guns have been produced and studies are being made towards producing guns up to 8-in. caliber by this method. In addition to the saving of time and money, elimination of the forging process in gun manufacture relieves one of the serious problems encountered in the production of armament in time of war. The action of centrifugal forces upon the physical and chemical structure of the steel, moreover, gives a high-quality casting.

Knowing the dimensions of the desired cannon casting and the chemical composition of the alloy steel from which it is to be cast, the steel melter determines the weights of the various items of the melting stock that will form the furnace charge. When the "heat" is ready, the molten steel is poured into a special runner box which carries a spout that will direct the molten metal into the opening in the chill mold. The chill mold is a special shaped casting, the outside of which fits into the casting machine but the inside is bored out to the desired shape of the exterior surface of the cannon to be cast. Each design of tube or liner requires a special chill mold for that design.

The pouring of the whole heat must be accomplished quickly to avoid the freezing of the steel before the mold is properly filled. The casting is removed from the chill mold as soon as it is solid and rigid enough to keep its shape during handling. When removed from the chill mold, the hot casting is cooled slowly in cinders or in a furnace to obtain a more uniform crystalline structure of the metal.

It is then given a normalizing and annealing treatment, and rough-machined internally and externally. The casting is then quenched and drawn, the treatment being similar to that given a gun forging. If the casting is to be cold-worked, it is then re-machined.

FOUNDRIY PRACTICES

BY

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American Society of Tool Engineers

Society of Automotive Engineers

American Society for Engineering Education

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Society of American Military Engineers



AMERICAN TECHNICAL SOCIETY

Chicago, U.S.A.

die cast from copper-base alloys. The tensile strength of copper-base alloy die castings is considerably higher than that of die castings produced from other alloys. For example, die castings made from yellow brass, and much usable alloy, have a tensile strength of 65,000 pounds per square inch. Another type of a special brass, a high-grade alloy, produces die castings which have a substantially higher tensile strength—105,000 pounds per square inch. Manganese bronze die castings have a tensile strength of 85,000 pounds per square inch.

The materials first used for die castings were lead-base alloys because of their low melting temperatures. The use of these alloys for die castings at the present is rather limited. This is due to the continued development of other low-melting temperature alloys, such as zinc-base alloys, which yield products of high quality at low cost. The following products are die cast from lead-base alloys: light duty bearings, X-ray shields, battery parts, weights, and other products for which it is necessary that good resistance to corrosion be obtained. The tensile strength of these alloys is low as compared with previously described alloys, the range being 7,700 to 13,800 pounds per square inch.

Other low-melting temperature metals are the tin-base alloys, but their use for die castings is limited at the present because of the low value of their mechanical properties and the high cost of material. Some of these alloys, known as *Babbitt metal*, are used for bearings in the automotive and aircraft industries. Other alloys have been developed which offer good resistance to corrosion and are recommended for food and beverage handling equipment, soda fountain fixtures, and other equipment in this category. The tensile strength of these alloys is rather low, ranging between 7,500 and 10,000 pounds per square inch.

Centrifugal Casting. The principle of this casting process is that the mold rotates fairly rapidly while the molten metal is poured into it. This casting process is also referred to as *liquid forging* because of the poured metal being worked while the mold rotates. Due to the rotation of the mold, centrifugal forces are being developed, which direct the incoming liquid metal to the inner surface of the mold with considerable intensity, where solidification occurs. This method of casting produces a product of greater accuracy and superior physical properties as compared with that produced by gravity sand casting. Centrifugal casting is especially appropriate for products of symmetrical shape, such as cast-iron pipe, sleeves, and other castings of cylindrical form. The molds may be permanent and entirely metallic, semipermanent (made of metal and lined with refractory material), or of sand. If sand molds are used, they

are usually placed in a metallic container or housing adapted for spinning.

The centrifugal casting principle dates back to 1850, but the commercial application of the process began about 1900. Iron castings were the first products manufactured by this process. Production of nonferrous and plain carbon steel castings came later, and centrifugally cast bronze and alloy products came into use in recent years.

There are several methods of centrifugal casting which vary, depending upon the shape of the casting produced. The *true centrifugal casting* is one method which can be applied in the production of cast-iron and cast-steel pipes and tubes. Large tonnages of these materials are produced

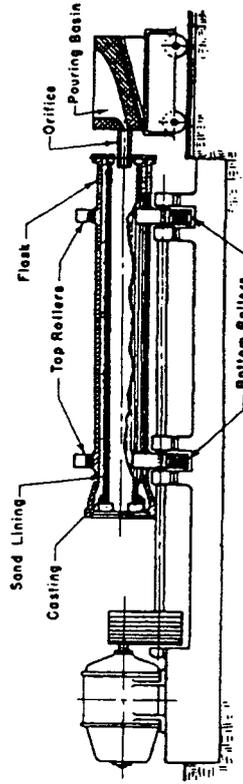


Fig. 12. True Centrifugal Machine for Long-Tube Casting
Courtesy of American Cast Iron Pipe Company, Birmingham, Ala.

by this casting method. The operation consists of spinning the mold about its horizontal or vertical axis by mechanical means. Rapid spinning of the mold produces a force capable of holding the molten metal against the inside surface of the mold until the metal solidifies. The interior of the mold is cylindrical, and usually is fitted with a liner of highly refractory material. The inside diameter of the cylindrical liner is equal to the outside diameter of the desired pipe or tube, and no core is required, as the wall thickness of the tube is controlled by the volume of molten metal poured into the mold. Pouring temperatures for iron and steel range from 2,700° to 3,000°F. A true centrifugal machine, with indirect drive through the top and bottom rollers supporting the flask, is shown in Fig. 12.²

Production of sound cylindrical castings depends upon correct spinning speeds. These have been well determined after considerable research

² "Centrifugal Casting of Steel," by S. D. Moxley, from *A.S.M.E. Transactions*, October, 1944.

and development. Excessive spinning speeds produce high stresses in the casting, making it unsuitable for practical purposes, while slow speeds prevent the molten metal from adhering to the inside surface of the mold. Speeds vary in accordance with the metal being cast, the size of the castings, and other factors. A shop producing a large variety of work by centrifugal casting requires mechanical equipment suitable for speeds ranging from 50 to 3,000 revolutions per minute. The machines are either mechanically or hydraulically driven, hydraulic operation being pre-

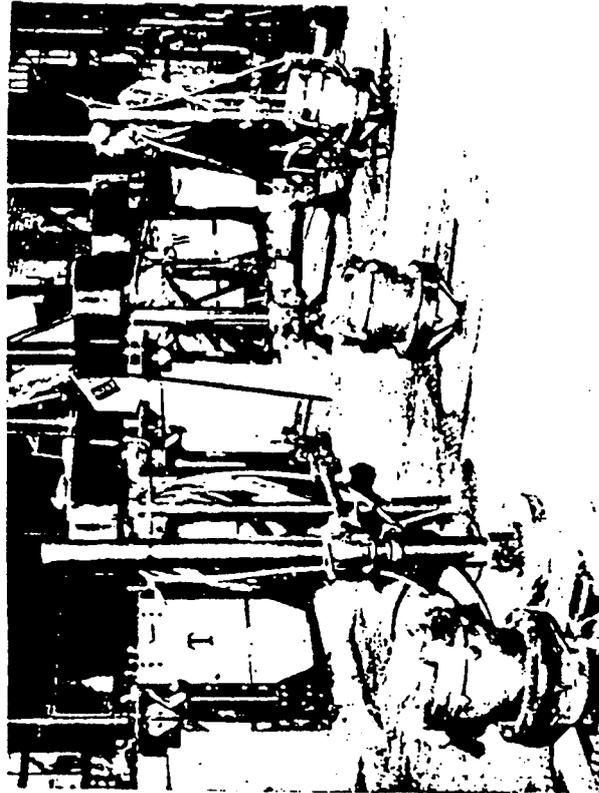


Fig. 13. Group of Vertical Spindles and Part of Melting Equipment in a Centrifugal Casting Shop

Courtesy of Ampco Metal, Inc., Milwaukee, Wis.

ferred because of the smooth operation and the capacity for infinite speed variation it provides. Fig. 13 shows a group of stands and spindles which revolve about a vertical axis, and other equipment of a centrifugal casting shop producing small castings. These machines are suitable for production of ferrous and nonferrous castings.

Mold design for centrifugal casting varies, depending upon the casting desired and the type of machine used in the casting process. The

ORDNANCE PRODUCTION METHODS

A Collection of Articles Published in **MACHINERY** Describing Manufacturing Operations on Rifles and Small Arms, Machine Guns, Bullets, Shells, Cartridge Cases, Guns, Bombs, Tanks and Other Weapons of War

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CHARLES O. HERB

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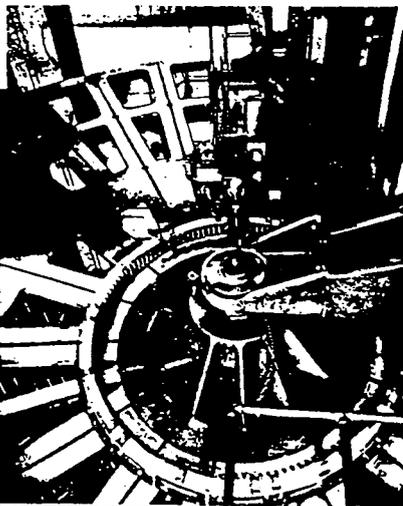
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Manufacturing Watertown

By
COL. ROLLAND H. CANE
Commanding Officer



Fig. 1. (Left) This Huge Gear Finishing Machine Has a Faceplate 33 Feet in Diameter



THE centrifugal casting of gun tubes and their cold-working by the application of hydraulic pressure on the internal surfaces constitutes one of the most outstanding manufacturing developments of the Ordnance Department during recent years. The operations involved in this highly interesting process were developed and are now being performed in the shops of the United States Arsenal at Watertown, Mass. All information concerning the operations is, however, strictly confidential and this article, therefore, will be confined to manufacturing processes that are somewhat less spectacular, but fully as important in keeping the United States Army equipped for maximum fighting efficiency.

One of the important functions of an arsenal is to serve as a laboratory during peacetime for the development of manufacturing methods that can be adopted immediately, in case of war, by private industrial plants called upon to produce similar munitions. The shops of the Watertown Arsenal

are assigned primarily to the building of medium and heavy gun mounts, which are, of course, required in fairly limited numbers, and so the Arsenal is operated somewhat on a jobbing shop basis. Jigs and fixtures have, however, been provided for repetitive operations to save time and insure interchangeability.

During the last year or so a considerable number of machine tools have been installed to enable the manufacturing program to be accomplished by the most advantageous methods. Typical operations on these new machines and on some of the older ones will be described to show that government manufacturing plants can be operated as efficiently as the shops of private industry if comparable equipment is provided.

What is believed to be the largest gear-cutting machine in the world is illustrated in Fig. 1. This is a Gleason gear-tooth planer, installed primarily for cutting the gears used to train coast guns. The faceplate is 33 feet in diameter, and gears some-

Preparedness at Arsenal

what larger than this can be accommodated. The internal gear being machined at the time that the photograph was taken was about 10 feet in diameter. Gear teeth can be cut with a circular pitch up to 3 1/2 inches.

The teeth are planed by the reciprocation of a tool-head that is actuated through an eccentric crank. The bed on which this tool-head is mounted can be fed across the front of the faceplate on wide floor ways which are normally kept covered by a wooden platform. Accurate indexing of the gears to insure proper spacing of the teeth is accomplished through an indexing gear about 16 feet in diameter back of the faceplate.

Another machine of outstanding interest is the 380-ton H.P.M. hydraulic press shown in Fig. 2, which is used for straightening gun tubes. A tube for a 3-inch anti-aircraft gun is seen on the machine table. A gun tube of this size is straightened by the machine within 1/32 inch for its entire length. The machine table is stationary, the posts that support the overhead hydraulic pressure unit being mounted on carriages that run on tracks extending along the length of the bed. With this construction, the press ram can be positioned at any desired point along the tube.

The gun tube is supported on rollers at both ends. The rollers at the far end of the bed, as seen in Fig. 2, are provided with a motor drive for rotating the tube between successive applications of pressure. An open pit extends along the back of the machine to enable uninterrupted shifting of the pressure unit. A similar pit at the front is kept covered at all times by telescoping steel sheets.

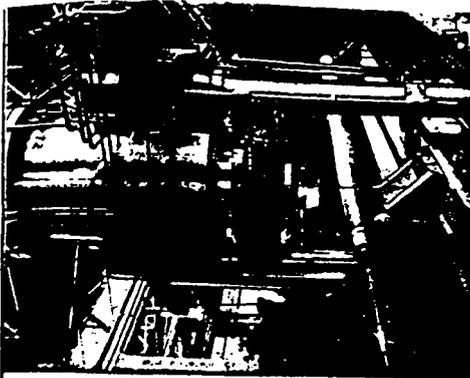


Fig. 2. Hydraulic Press which Develops Pressures up to 350 Tons for Straightening Large Gun Barrels



Fig. 3. Gun Tubes up to 25 Feet Long can be Handled by This "Super" Gun Boring and Turning Lathe



The Army's Big Guns Are Made at



By COLONEL RICHARD H. SOMERS, Commanding Officer
Watervliet Arsenal, Watervliet, N. Y.

WATERVLIET Arsenal dates back to the War of 1812, when it was one of a group of depots established between Albany and Buffalo for collecting and distributing the military supplies required in the northern campaign of the United States Army. It immediately became the principal manufacturing establishment for ammunition and field artillery components.

In 1887 appropriations were made by Congress to convert the Arsenal into a large-caliber gun shop, all cannon up to that time having been produced from private concerns. Since 1918 the Arsenal has been equipped for making guns of all sizes above caliber 0.80, including the largest used by the armed forces of the United States Govern-

ment. Articles describing the methods followed in making the huge 16-inch guns and their breech mechanisms appeared in *MACHINERY* for November and December, 1928.

The important part played by aircraft in modern warfare has given an impetus to the manufacture of anti-aircraft cannon. It was decided to equip one of the shops at Watervliet Arsenal for this work, and since 1935 about \$1,000,000 has been expended for modernizing this shop. It is now being operated on a real production basis. Typical operations will be here described.

Centrifugally cast steel gun tubes are received from the Watertown Arsenal and gun forgings from private plants with preliminary turning op-

Watervliet



Fig. 1. Gun Tubes are Rough-turned with Tungsten-carbide Tools at Speeds up to 240 Surface Feet per Minute with a Cut up to 3/8 Inch Deep and a Feed of 0.020 Inch

erations having been performed. They are again rough-turned at the Watervliet Arsenal, Fig. 1 showing an operation of this type being performed in a Lodge & Shipley lathe on a 160-inch long tube for a 3-inch anti-aircraft gun. In the roughing operation on the tough material from which this gun tube is made, a carbide tool takes a cut up to 3/8 inch deep at a speed of 268 surface feet per minute, the feed being 0.020 inch. The maximum diameter of this gun tube is 9.400 inches.

Rough-turning is followed by step-boring and rough- and finish-taper boring, after which the gun tubes are finish-turned. Step-boring is accomplished by using 14 hog-nose reamers, which leave a series of cylindrical bores that decrease in diameter from the breech to the muzzle end. The tube is thus prepared for taper boring. The taper boring operation illustrated in Fig. 2 is being performed in a LeBlond lathe equipped with a bed approximately 60 feet in length. In both rough- and finish-boring, use is made of long pecked-bit reamers constructed with a steel arbor to which two long cutting blades are attached, and hard maple blocks that are made to a diameter slightly larger than the gun bore. The maple blocks are squeezed into the bore and thus hold the tool firmly. The gun bores are tapered 0.005 inch per inch of length and so several taper reamers must be used to bore a gun tube for its entire length. In the operation shown, a taper reamer 31 inches

long is being entered into the breech end of a 3-inch anti-aircraft gun for boring the muzzle end. Twelve taper reamers are required for roughing and finishing this gun tube. Each reamer is provided with a brass cylindrical pilot at the front end which engages the rough bore.

Oil at a pressure of 100 pounds per square inch is forced through the long tool-bar and discharged at the muzzle end to 6.113 inches at the breech end. The gun tube bore tapers from 4.884 inches at the muzzle end to 6.113 inches at the breech end. Limits of plus 0.002 inch minus nothing must be maintained on the internal diameters, which are checked every inch of the gun length.

A thread of modified Acme form, 0.20 inch deep and of 0.760 inch pitch, is being chased on the end of a gun tube in Fig. 4 to receive a breech ring, the operation being performed in a Lodge & Shipley 36-inch lathe. In the illustration a form cutter is shown being used for rough-cutting the thread. In taking the finishing cuts, different tools are used for the bottom of the thread, the pressure side and, finally, the clearance side.

These gun tubes are later ground on a long Norton cylindrical grinding machine, as shown in Fig. 5, along the section that will be supported by the recoil cradle of the gun mount. The nominal diameter of this section on the gun tube shown is 9 inches. This diameter must be held within minus 0.005 inch plus nothing.



Fig. 2. The Tapered Bore of Anti-aircraft Gun Tubes is Finished by the Use of a Succession of Packed-bit Tap-bladed Reamers

loans, and \$50 million to the CBI if it was fully collateralized, the more people that knew about the BNL loans, the riskier it became. Thus, option B was devised.

In order to lessen the paperwork burden, and most importantly, to disguise BNL as a source of funds to Iraq, a second method of disbursement was devised under which BNL would simply take money out of its bank account at Morgan Guarantee Trust Company in New York and then deposit the money in Iraqi bank accounts at Manufacturers Hanover Trust, Irving Trust Company, Bankers Trust Company and Chase Manhattan Bank. \$693 million was disbursed under this method. Exporters receiving payment from CBI under Option B would never have to know that BNL was the source of funds. CBI simply sent a telex to BNL containing the exporters name, a very cursory description of the goods to be exported to Iraq, and the amount to be transferred to the CBI accounts at the above New York money center banks.

The third option, option C, was comprised of BNL receiving a phone call in Atlanta from Baghdad requesting BNL transfer sums ranging from \$10 million to \$36 million, to Iraqi bank accounts in New York money center banks. In total, \$107 million was disbursed to Iraq using this method. BNL employees had little, if any, idea how this money was going to be used.

After the raid on BNL, Iraq still insisted that BNL make good on the remaining \$600 million in loans still outstanding under the MTL's. After months of intense negotiations in which Iraq often threatened to default on the loans, on January 24, 1990, BNL and Iraq renegotiated the \$600 million. They agreed that the residual \$600 million or so would be utilized for new transactions, two-thirds of which would finance projects, the supplies and services coming from Italian firms and one-third could be used for purchases from other countries.

BNL Loans Go for Western Technology and Know-how

One purpose of the Committee's investigation of BNL is to explore the implications of over \$4 billion in BNL loans to Iraq. The war with Iran taught Iraq just how vulnerable it was to the shifting policies of nations supplying it with armaments. Iraq was determined to become more self sufficient in the field of armaments. In order to achieve that goal, it had to develop an industrial base advanced enough to produce sophisticated weaponry. It turned to Western nations as the main supplier of that technology and know-how.

Building an industrial base also had the advantage of diversifying the Iraqi economy and making less vulnerable to the often shifting fortunes of the world oil markets. But the long war with Iran left Iraq a heavily indebted nation. If it was to achieve the goals of diversifying its economy and becoming more self sufficient in defending itself Iraq would have to depend on foreign credit.

Because it was in such poor financial condition, Iraq had very little access to credit for the purchase of nonfarm products. BNL was the exception. Over \$2 billion in BNL loans were used by Iraq to procure myriad goods ranging from computer hardware and software, computer controlled lathes, metal presses, heavy machinery, carbide tipped drills, chemicals and chemical plants, steel mills, hard alloy aluminum and steel sheet, tube and coils, armor plate, brass recycling plants, to mobile satellite tracking systems, telecommunications equipment, and engineering services. Much of this technology transfer went into civilian projects. Much did not. The full truth behind the uses of this technology may never be known. One thing is sure: BNL money was the lifeblood of Iraqi efforts to establish an industrial base and to become more self sufficient in the production of various armaments.

To help in obtaining Western technology, Iraq established a secret network of companies and individuals operating in the U.S. and Europe. This network would export goods to Iraq directly, but most often it was simply responsible for finding companies that could supply Iraq with various technology. Under this scenario, the front companies would locate a U.S. or European company that manufactured or provided the desired good or service, and they would in turn put them in contact with persons responsible for various projects in Iraq.

A portion of the BNL money was loaned directly to the members of the secret Iraqi-owned network of companies. The vast majority of the BNL loans were used to pay companies that had been recruited by the network to export goods and services to various projects in Iraq.

At today's hearing, witnesses will identify firms and individuals that made up the secret Iraqi procurement network in Europe and the U.S.. Others will explore the procurement goals of the network, share their experiences in dealing with the network, and talk about the success Iraq achieved in obtaining Western technology and know-how.

In order to understand the effect the BNL loans had on Iraqi efforts to obtain Western technology, the Committee has compiled a list of companies that were the beneficiaries of BNL loans to Iraq.

Notes on the List

The information in the list was gleaned from BNL records including loan files created by the former BNL employees, telexes between BNL-Atlanta and Iraq, disbursement records, bank account statements, and other records maintained by the former employees of BNL. Other sources were also used. The description of the goods or services and the dollar amount of those goods or services is based on the records created either by the exporting company, the former employees of BNL or the Iraqi's themselves.

It is safe to assume that the companies listed either had contracts to export or re-export their goods or services to Iraq or were at various stages in the process of exporting their goods or services to Iraq.

Some of the listed goods and services may not have reached Iraq. Reasons range from Iraq or the company canceling the export, to the embargo on dealing with Iraq, or as a result of the BNL scandal.

Many of the companies listed did not even know they were the beneficiary of BNL loans to Iraq. For example, BNL disbursements under options B or C went into Iraqi bank accounts. Iraq would then pay the exporter directly. The exporter would have no idea BNL was involved. Approximately \$800 million in exports to Iraq were paid for under this method.

Another roughly \$800 million in BNL disbursements went to the exporter's bank account(s) and thus the exporter knew BNL was the source of the funds. The Committee does not have records on the remaining \$600 million or so in binding BNL commitments to Iraq earmarked for nonfarm exports. This money may or may not have been disbursed by BNL by the time the war with Iraq started.

The value of individual exports is listed by the currency specified in the BNL records. When disbursement amount was evident, it is listed. Many of the amounts contained in the list do not represent amounts actually disbursed. For reasons listed above, contracts may not always have been fully consummated. Thus, dollar amounts listed may not reflect those amounts actually disbursed under an individual contract to export to Iraq.

Investigators made an effort to classify companies by the country in which they are headquartered.

BENEFICIARIES OF BNL-ATLANTA LOANS TO IRAQ

Company	Product	Amount
AUSTRIA		
AMS Handels	Reflective Panels for Road Studs	ASCH 7,303,900
Cimex Handels	Machines	ASCH 34,501,838
Engel Vertriebs	Injection Moulding Machines	ASCH 21,156,476
Hydrotechnik	Water Treatment Plant	ASCH 21,281,800
Lenzing AG	Polyethylene Production Plant	ASCH 200,000,000
Lenzing AG	Polypropylene Production Plant	ASCH 172,000,000
Petrochemie Dunubia/Amman Resources	Polypropylene Granules	USD 6,400,000
Rosendahl Maschinen	2 Continuous Vulcanization Lines	
BELGIUM		
Comelec SA (Schreder S.A. Subsidiary)	Light Fittings	BFR 69,482,000
Maison F Mathieu NV	Steel Strips	BFR 40,536,350
Mobil Petrochemical	Chemicals & Allied Products	USD 2,547,566
SKF Intertrade S.A.	Steel Balls, 415 tons	BFR 40,888,000
Space Research Corp.	?	?
Trane Equipment Sales	2 Centrifugal H2O Cooled Chillers	FFR 2,361,732
Trane Equipment Sales	Air Handling Unit	FFR 16,166,089
Trane Equipment Sales	Air Cooled Reciprocating Chiller	FFR 9,786,797
BAHRAIN		
Gulf Industrial Investment Co	?	USD 47,250,000
BULGARIA		
CE (Kintex)	Total Credit Line	USD 30,750,000
CE (Kintex)	Technology Transfer - Telecommunications Equip.	USD 343,338
CE (Kintex)	Know how & masking	USD 1,301,500
CE (Kintex)	Know how	USD 243,770
CE (Kintex)	Machines	USD 1,863,750
CE (Kintex)	Goods & Services	USD 1,827,862

CE (Kintex)	Soldering Iron Equipment	USD 330,500
CE (Kintex)	Battery Chargers	USD 1,870,783
CE (Kintex)	Know-how	USD 333,370
CE (Kintex)	Welding Machines	USD 2,500,000

CANADA

Canadian Commercial Corp.	?	USD 14,000,000
Howe International Ltd	Thinshell Dome Technology	USD 2,750,000

CZECHOSLAVAKIA

TechnoExport Foreign Trade Co	Production Asst w/Heavy Engineering Equipment Factory	USD 96,390,674
TechnoExport Foreign Trade Co	Hand Machine Tools	USD 3,000,000

ENGLAND (UK)

AGS Industrade Cheam	Electrical Steel Strip	?
Avon Industrial Polymers Ltd	Factory for Automotive Hoses	PS 2,000,000
Avon Technical Services Ltd	Technical Services	USD 5,570,000
BiWater Process	Chemical Plant and its Utilities Equipment	PS 11,200,000
BP Chemicals Ltd	Product License for Polyethylene	USD 23,400,000
British Steel Tubes Export Ltd	Carbon Steel Pipes	PS 390,743.90
Brown Engineering Ltd	Sand & Gravel Plant	PS 1,312,020
Concept Coated Steel Ltd	Precoated Steel Strip	PS 867,970
Concept Coated Steel Ltd	Precoated Steel Strip	PS 867,538
Davy Morris Ltd	Machines for Crane Manufacturing Project	PS 982,403
Davy Morris Ltd	Machines for Crane Manufacturing Project	PS 928,370
Dorman Smith Switchgear	Electrical Materials	PS 424,536
Gatewood Engineers	Dump Truck & Spares	USD 12,541,179
Gatewood Engineers	Vibratory Compactors	USD 1,326,637
Grove Coles Ltd	Hydraulic Truck-mounted Cranes	PS 2,785,100
Klockner Moeller Ltd (1)	Switchboards Subdistribution Board	PS 1,562,712
Leigh Pollution Control Ltd	Internal Coating Equipment	PS 571,876
Matrix Churchill Ltd	Batch Plant & Feeder Equipment	USD 14,300,000
Matrix Churchill Ltd	CNC Machining Center & CNC Lathes	PS 8,950,000
Matrix Churchill Ltd	Machines Kits Supply	PS 3,430,480

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Matrix Churchill Ltd	Material & Services for Die Project	DM 10,690,000
MetroTech Ltd	?	USD 892,281.90
Munradtech	Welding Machine	USD 17,896
Pirelli General	Hi & Low Tension Multicore Cables	PS 380,000
Power Technic Ltd	Carbon & Stainless Steel Pipe Fabrication Factory	PS 4,400,000
Project Management	Coating Materials & 3000 tons Coal Tar Enamel	PS 955,090
SKS Plant & Equipment Ltd	Semit Manufacturing Material	PS 298,339
Thorn Lighting Ltd	Lighting Fixtures Poles & Exhaust Fans	PS 224,500
T.D.G Tech. & Develop. Group	Special Materials	USD 2,420,000
T.D.G Tech. & Develop. Group	2322 tons Cold Drawn Seamless (steel?)	PS 756,778
T.D.G./Matrix Churchill	Hot Forging Dies Project	DM 81,000,000
T.E.G.	Raw Materials	PS 1,658,804
WYKO Equipment Ltd	Building Drums for Tire Manufacturing	PS 194,000

FRANCE

Butec Engineering	Preengineered Building	USD 7,749,474.60
Creusot Loire Industrie	Armored Steel	FFR 21,165,000
Eino SA	Accessories for Comm Equipment	FFR 30,600,000
Foseco	?	FFR 687,500
G2M	Painting Line for Window Splitan and CAC	FFR 9,863,400
International Trading Group	Unwinding Chocke	FFR 6,250,000
International Trading Group	Electrical Materials	FFR 3,007,125
International Trading Group	Nickel Mesh	FFR 7,280,000
Merlin Gerin	Low Voltage Distribution Boards & Spares	FFR 2,000,000
Merlin Gerin	Electrical Materials	FFR 11,900,000
Merlin Gerin	Electrical Equipment	FFR 13,475,350
Petjean	Lighting Poles Project	FFR 1,517,511
Potain	5 Cranes	FFR 42,041,800
Promat Industries	Machines & Equipment	FFR 4,900,000
Telemeccanique	ELectrical Materials	FFR 4,539,896
Thomson CSF	Electronic Components	FFR 25,096,500
Vibracho Parc D.Activities		

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GERMANY

Air Prod. & Chem Inc	Tertiary Amine Catalyst, 10MT	USD 138,400
Alfred Tenes & Gesghoff/Sbereich	Cooling System w/Pipes	DM 2,115,000
Alloy Pipe & Metal	Various Steel Plates & Materials	DM 18,724,708
Alloy Pipe & Metal	Raw Material	DM 7,436,979.50
Alnost Allgemeine	Capacitors	DM 3,300,000
Alriwo	Aluminum Coils, 2700 tons	DM 19,985,650
ASEA Braun Boveri	Industrial Furnace Melting System	DM 3,273,565
BASF	General Purpose Polystyrene, 100 MT	USD 338,500
Bayer	BBP, 100 MT	USD 266,000
Bayer	Chemicals	DM 1,598,750
Bomag Menck	Self-propelled Vibratory Rollers	DM 964,800
Carl Schenck	Balancing Machine for AC motor	DM 140,859
Carl Schenck	Hard Bearing Universal Balancing Machine	DM 111,465
Dorr Oliver	3 Foundry Sand Processing Plants	DM 8,200,000
EE Schwender	Tools	DM 2,923,256
Ferrostaal AG	Raw Materials	DM 2,652,246
Friedrich Deckel	5 units Universal & Boring Machines	DM 2,407,363.75
Friedrich Deckel	4 Milling Machines w/Spares	DM 755,745.01
Goldschmidt	Silicon Oil, 50 MT	USD 479,900
Guhring Postfach	Tools	DM 3,797,262
HKS Hahn & Kolb	?	USD 4,997,000
Havert Industrie	Steel Bars, flat & round	DM 568,843.45
Hertel	Carbide Cutting Tools	USD 8,547,644
Hoesch	Metal Pieces	DM 231,510
Hoesch	Spiral Pipe Fabrication machinery	DM 34,500,000
Hoesch	Polyethylene Coating Equipments	DM 10,500,000
IBK Industrie	?	DM 1,456,835
Inwako	Aluminum Tubes	DM 2,430,000
Klockner Industrie Anlagen	Steel Section, 17,477 tons	DM 16,093,280
Klockner Industrie Anlagen	Machines & Equipment for Utilities	DM 17,400,000
Klockner Industrie Anlagen	Metionary & Equipment	DM 17,344,000
Krupp-Widia	Cutting Tools	USD 2,672,075

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Kunkel Wagner	Moulding Lines	DM 11,000,000
Lenk Consulting Co	Newspaper Machine	DM 16,500,000
Lurgi GmbH	Deminerization Plant	DM 5,100,000
Mannesmann Demag.	Crawler Drills, Air Compressors, & Spares	DM 5,818,666
Mannesmann Demag.	Computer Equipment	?
Mannesmann Handel	4 Schwing Truck Mounted Concrete Pumps	DM 1,822,320
Mannesmann Handel	Stainless Steel Pipe Fittings & Valves	DM 3,324,684
Mannesmann Handel	Hot Rolled Steel Coils, 40,000 MT	DM 38,720,000
Mannsmann Handel	10 Schwing Truck Mounted Concrete Pumps	DM 4,555,800
Mannesmann Handel	Steel Pipes	USD 7,380,135
Maschinenbau Scholz Co. LTD	V-belt Project	DM 4,500,000
Maschinenbau-Gesellschaft	Cast Ductile Iron Pipe	USD 1,700,000
Maschinen Fabrik Niehoff	Drawing lines for Cable Project	USD 1,861,815
Metalgesellschaft	?	DM 4,140,000
Neue Magdeburger Werk Zeumaschinenfab	6 Center Drive Lathes	DM 7,750,000
Radio Keller	Technical Assistance	DM 13,420,536
Schwabishe Huttenwerke	3 Universal Milling & Boring Machines	DM 3,500,000
Siemens AG	11/04 KV Substations	DM 19,000,000
Siemens AG	Cathode Production Equipment	DM 3,450,000
Siemens AG	Light Switch & Distribution Boards	DM 4,500,000
Siemens AG	Cables	DM 5,966,320
SMS Hasenclever	Machines, Equipment, Spares, Training, Supervision	USD 16,000,000
Stolberger Maschinenfabrik	7 Machines for Cable Project	USD 5,139,302
Terramar GMBH	Control Truck Chassis	DM 1,102,578
Thyssen Rheinstahl Technik	Steel Materials, 5917 tons	DM 5,414,062
Thyssen Rheinstahl Technik	Rotary Forging Plant	DM 63,500,000
Thyssen/Lummus Crest - Joint Venture	Spare Parts & Chemicals	USD 10,500,000
Thyssen/Lummus Crest - Joint Venture	Spare Parts & Chemicals	USD 6,500,000
TPS---Techitube Rohrenwerke	Magnetic Steel Strip	DM 1,582,000
Unionmatex	Complete Plant	DM 29,300,000
Wanzke	Hydraulic Presses	DM 3,683,306
Wanzke	Equipment & Dies for A/C Body	DM 580,000
Weco Industrial Products	Special High Grade Zinc	USD 3,530,000

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INDIA

HMT International Ltd	Tooled Up Automatic Machines	DM 2,125,940
Kudremukh Iron Ore Co Ltd	Iron Ore Pellets, 90,000 tons	USD 3,231,900

ITALY

APV Chemical Machinery	?	USD 2,395,516
Ajax	Cooling Tower	ITL 981,814,600
C.M.B. Constuzioni Meccaniche Bernardini	Bleaching, Deodorizing, etc Plant	USD 898,000
CTIP Compagnia Tecnica Int. Progetti	Engineering Material & Construction Supervision	USD 4,750,000
Conser Spa	?	USD 500,000
Danielli	Rolling Mill for Steel Plant	DM 126,000,000
Endeco—Barazzuol Joint Venture	Steel Pipe Plant	DM 159,370,000
Euromac European Manuf Center	Various Tools	ITL 56,951,410
Icomsa Engineering Construzioni	Fiber Board, 25,000 pieces	DM 1,076,750
Innse Innocenti	45 Rolls for Section Mill	ITL 2,439,280,000
Innse Innocenti	Hard Alluminum Alloy Press	DM 24,975,330
I.S.T. Spa	Shipping & Forwarding	USD 314,460
Marangoni Meccanica Spa	Complete Moulds & Accessories	PS 4,696,000
M.E.S Mechanical Engineering Systems	Various Parts	USD 129,054
Montefluos, Spa	Freon II, 200 MT	USD 447,744
Necchi Compressori	Spare Parts	DM 7,000,000
Officine Meccaniche Pavesi	Production Line for Motors	ITL 3,380,409,000
OMAV Spa	Aluminum Hard Alloy Foundry Plant	ITL 7,800,000,000
Press Industrial, Spa	?	USD 1,250,000
Technimont	Engineering for Polypropylene Plant	USD 7,000,000

JAPAN

Best Corporation	Nickel Cadium Batteries	Yen 61,080,000
Best Corporation	Assembly Line for A/C & Heat Exchangers	Yen 925,000,000
Best Corporation	Manufacturing Equipment for CAC	Yen 990,000,000
Juki Corp.	Overlook Sewing Machines, 2826 pcs	USD 1,519,540
Juki Corp.	Overlook Sewing Machines, 2826 pcs	USD 927,719
Makita Electric/Hitachi Koki	Electronic Hand Tools, 41,638 Kgs	USD 1,345,000
Nichimen/Maruchi Steel Tube Co	Galvan Steel Conduit Tube, 250,000 pcs	USD 1,062,500

6

Nichimen/Maruchi Steel Tube Co	Galvanized Steel Tubing, 1 mil pcs	USD 2,915,000
Nichimen/Maruchi Steel Tube Co	Galvan Steel Conduit Tube, 214,000 pcs	USD 21,250,000
Nichimen/Maruchi Steel Tube Co	Galvan Steel Conduit Tube, 250,000 pcs	USD 725,000
Nippon Chemical Trading Co.	16 tons Escorez 1102 Eq.	USD 20,480
Sharp	Sharp Plain Paper Copiers, 100	USD 1,030,824
Sharp	Materials for Copiers	USD 444,458
Sharp	Operating Materials for Copiers	USD 467,864
Sharp	Spare Parts for Copiers	USD 494,456
Sharp	Operating Materials for Copiers	USD 558,856
Sharp	SF-8100 Copiers w/Operating Materials, 70	USD 721,579
Sharp	SF-8100 Copiers, 200	USD 2,021,200
Sharp	SF-8100 Copiers, 300	USD 2,529,834
Sharp	SF-8100 Copiers	USD 55,042
Toyo Menka Kaisha Ltd	132/11 KV Mobile Substation	Yen 1,150,000,000

JORDAN

Mastini Ma Jali Trading Co	?	FFR 3,200,000
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KOREA

Hyundai	Copper Strip, 500 MT	USD 1,927,320
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LUXEMBOURG

Campagne Europeenne de Sud (COMSUD Rolled Steel		USD 4,500,000
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NETHERLANDS

Hessen Technocom	Automatic Chain Feeding Systems for Poultry	USD 4,871,750
Meichemie Holland	Zinc Oxide, 150 Tons	FL 558,750
Rossmark Van Wijk & Boerma Water Treat	Water Purification Plant	FL 5,000,000
Sembodja Holland	Carbon Black SRF N 762, 300 tons	USD 252,000

SAUDI ARABIA

Mohmoud Al Hamoud	Bars, High Tensil Grade, 20,000 T	USD 6,940,000
Sabic Marketing	??	USD 4,050,000

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SPAIN

Trabelan	Nosing, 500 cans	USD 400,000
Zayer	5 Zayer Machining Centers	PTS 303,144,945

SWEDEN

Byjing Uddemann	Construction & Engineering Assistance	SKR 85,282,125
Elof Hansson	Production Line for Fluting Paper	DM 88,500,000
Volvo International Development	Spare Parts for Kokums Dump Trucks	SKR 3,877,320
Volvo International Development	Water Tank Trucks & Tanks	SKR 2,574,000
Volvo International Development	Units for Volvo Diesel Fuel Pump	SKR 40,663

SWITZERLAND

Bonaventure (Europe) Inc	Machines, Accessories, & Tools	USD 6,188,582
Bonaventure (Europe) Inc	Raw Material	USD 2,616,000
Buhler Bros. Ltd.	Hydraulic Truck Spare Parts	USD 17,188
Chemap	Equipment, Spares, Technical Assistance, etc	SFR 5,440,000
Dow Trading SA	?	USD 1,350,000
Falma Fabrique Delampes	Production Line for Light Bulbs	SFR 8,109,969
Getrin SA	Two Motors, type G3L & 160 S	USD 10,816
Interagency Bramens Trasse	Machines	SFR 5,530,000
Liebherr Export	Truck Mixers	USD 632K+DM 591
Liebherr Export	Mack Truck Chassis, 30 units	USD 1,894,722
Liebherr Export	Various Types of Hydraulic Excavators	DM 8,468,160
Liebherr Export	Truck Mixers, 30 units	USD 847,421
Liebherr Export	Mack Truck Chassis, 10 units	USD 631,574
Liebherr Export	Truck Mixers, 10 units	DM 530,062
Schaeublin Fabriques de Machines	CNC Machines & Spare & Ready Parts	SFR 7,793,533
Sprecher Energie	132 KV Substation	SFR 13,757,923

TURKEY

Alemdar Kimya Endustris	Stearic Acid, 250 tons	USD 212,000
Alemdar Kimya Endustris	Stearic Acid, 90 tons	USD 79,380
Armada Foreign Trade inc	Inner Tube Valves, 300,000	USD 306,000
Atimak Makina	Condensors for Refrigerators & Freezers, 135,000	USD 2,139,000

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Beko Teknik	Parts for Color TV 20"	USD 4,975,380
Beko Teknik	Kits for 1 & 2 Band Radios, 500,000	USD 5,150,000
Beko Teknik	Parts for Color TV 20", 24,400 sets	USD 7,591,600
Emsan Emaye/Bektas Bakir Emaye	Copper Wire	USD 828,750
Eregli Demir ve Cleik Fabrikaleri	Steel Cables	USD 3,316,324
Exsa Export	Dipped Nylon Fabric	USD 2,000,000
Organik Kimya	Silicon Emulsion, 20 tons	USD 48,000
Ozer Metal	Copper Material, 24.6 kgs	USD 511,514
Rabak Electronik	Aluminum Conductor, Steel Reinforced	USD 1,434,000
Tamcam Otocam	Thermo Glass Doors, 20,000	USD 37,800
Tekfen Dis Ticaret	Steel Wire for Bead for Cars, 200 tons	USD 174,000
Tekfen Dis Ticaret	Copper Rods	USD 6,400,000
Yaramica Petrokimya	Butadiene Rubber, 400 tons	USD 420,000
Yaramica Petrokimya	Various Types Carbon Black, 650 tons total	USD 451,000

UNITED ARAB EMIRATES

Emirates Trading Agency	Freight Charges for Iron Ore from India	USD 1,350,000
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UNITED STATES

AFG Technologies, Michigan (1)	Float Glass Production Plant	USD 52,460,000
AIS Cranetex	Spare Parts	USD 49,656
Akron Standard/Eagle-Picher, Ohio	Tire Testing Machines	USD 1,011,400
Al Haddad, Tennessee	Paper & Board Machine Blades	USD 48,272
Al Haddad, Illinois	Rubber Blankets	USD 67,143
Al Haddad, Tennessee	Reed Cutter Knives	USD 67,494
American Cast Iron Pipe, Alabama	Ductile Iron Pipe	USD 6,000,000
America International	Prepainted Galvanized Steel Coils, 3000 T	USD 3,180,000
American EX-IM, Michigan	Electronic Parts	USD 2,100,000
Amlian Resources	Polypropylene	?
Applied Research Labs (ARL) (may have be	Spectrometer Metal Analyzer	USD 217,450
Armco Advanced Materials	Silicon Steel Strip	USD 586,214
Assoc. Instrument Distr., Georgia	Carbide Cutting Tools and Inserts	USD 12,161,502
Atlas Copco Compec, N.Y.	Air Compressors	USD 2,260,000
Automotion Engineering	Office Equipment (Xerox, Microfiche, etc.)	USD 441,797

A.C. Monk & Company, Inc.	Computing Equipment	USD 19,800
A.O. Smith Electric Products, Ohio	Technical Documents	USD 400,000
A.O. Smith Electric Products, Ohio	Sleeve Bearing	USD 440,000
A.O. Smith Electric Products, Ohio	Sleeve Bearing & A 125 Flinger	USD 220,000
Bechtel, California	Technical Service Agreement - PC2	USD 10,000,000
BRC Commercial Kitchens	Spare Parts	USD 23,604
Breezevale Inc., N.J.	Tires & Tubes	USD 5,249,649
Breezevale Inc., N.J.	Tires & Tubes	USD 683,194
Bristol Myers Intl.	Pharmaceuticals	USD 348,750
Burr Oak Tool & Gauge Co, Michigan	Fin Line Machine & Equipment	USD 1,150,000
Caterpillar	Various Types Heavy Equipment	USD 9,902,605
CDP Intl. Inc., Ohio	A/C Compressors	USD 1,928,505
Centrifugal Casting, Oklahoma	Cast Ductile Iron Pipe Plant	USD 26,337,241
Century II, Wisconsin	Cranes	USD 2,307,088
Ceva Labs, N.J.	Vet Pharmaceuticals	USD 177,550
Cinrock	Spare Parts	USD 33,489
Comtech Systems, Inc.	Mobile Satellite Tracking System	USD 36,000,000
Cooper Industries	Spare Parts	USD 130,815
Cooper Industries	Spare Parts	USD 166,676
Copeland International	A/C Compressors	USD 147,120
Corning Engineering, N.Y.	Spare Parts	USD 266,178
C.S. Johnson Co	Refrigeration Equipment, incl. ice makers	USD 55,252,355
Dow Chemical	Lorsban & Dursban (chemicals?)	USD 1,497,000
Dow Chemical	Plastics	USD 10,000,000
Drago Supply	Spare Parts	USD 32,248
Draper Corp, S.C.	Spare Parts	USD 96,213
Draper Corp., S.C.	Spare Parts	USD 77,326
Dresser Construction Equipment, Illinois	Wheel Loaders	USD 4,750,530
Dresser Rand	Spare Parts	USD 118,095
Drexel Industries, Pennsylvania	Forklift, Truck	USD 442,050
Duracell	Batteries?	USD 17,171.25
Emco Engineering, Massachusetts	Pressure System	USD 277,833

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Emco Engineering Ltd	Sewage Treatment	USD 180,000
Emco Engineering, Massachusetts	Water & Wastewater Treatment Systems	USD 700,000
EMU Inc., N.Y.	Cellophane & Dry Pexol	USD 19,400
EMU Inc., N.Y.	Varnish, Wax, and Paint	USD 326,670
EMU Inc., N.Y.	Various Chemicals	USD 332,820
Entrade, N.Y.	?	USD 3,000,000
Ethylene Corp	Spare Parts	USD 67,564
General Motors, Michigan	Machines, Equipment, & Technical Asst. (1)	USD 114,000,000
General Motors, Michigan	10,000 1990 Olds Cutlass Cierras & spare parts	USD 154,000,000
Goodyear SA, Luxembourg	Tires	USD 4,376,310
Gould Electronics, MA	Controllor Modicum	USD 127,942
Gould Electronics, N.J.	Spares for Electrical Equipment	USD 195,614
Glass Inc International, California	Glass-fiber Manufacturing Plant	USD 3,517,819
GTE Valenite, Michigan	Machine tools	USD 65,062,705
Hewlett Packard, California	Spare Parts	USD 142,055
Hewlett Packard, California	Computer Hardware & Software	USD 2,223,208
ICO Industrial Supply, N.J.	Chemical Materials, 30 tons	USD 172,800
ICO Industrial Supply, N.J.	Bar Compound, 1000 tons, BDG Compound, 1000 tons	USD 3,680,000
ICO Industrial Supply, N.J.	Various Types Carbon Black, 550 tons total	USD 488,750
ICO Industrial Supply, N.J.	Dipped Nylon Fabric, 980 tons	USD 5,682,000
Inductotherm International, N.J.	5 Megawatt Power Tak Melting System	USD 2,730,647
Ingersoll Rand	Spare Parts	USD 137,354
Interx Assoc. Export Corp., N.Y.	Aluminum Billets	USD 2,865,000
Ionics Inc., Massachusetts	Water Treatment Plant (Desalination)	USD 1,375,000
Ionics Inc., Massachusetts	Water Treatment Plant (Deminerlization)	USD 1,780,000
Ionics Inc., Massachusetts	Water Treatment Plant (Deminerlization)	USD 960,000
Ionics Inc., Italian branch	Pretreatment Plant & Raw Water Pipeline	USD 9,550,500
Jetstream of Houston	Spare Parts	USD 28,106
John Deere Co., Illinois	Spare Parts	USD 94,913
Johnson Co., Illinois	Concrete Batching & Mixing Equipment	USD 5,252,355
J.H. Jones	Spare Parts	USD 20,198
Lincoln Electric Co., Ohio	Welding Machines	USD 259,072
Lincoln Electric Co., Ohio	Welding Machines & Spares	USD 840,000
Lindner & Co, Texas	Centrifugal Fans	USD 1,043,190

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Lobel Chemical Corp., N.Y.	Herbicide	USD 247,005
Loius Dreyfus Corp	Textiles	USD 14,000,000
Lummus Crest/Thyssen (Germ.)-Joint Vent	Spare Parts, Equipment, Chemicals	USD 6,472,482
Lummus Crest, N.J.	10 Steam Cracking Furnaces	USD 23,827,776
Lummus Crest, N.J.	Ethylene Plant - PC2	USD 30,459,832
Mack Trucks, Pennsylvania	Tractors, trucks, cranes, dumpers	USD 6,422,965
Marnerwood Ltd., Maryland	Cooling Plant Parts	USD 144,884
Masonneilan	Spare Parts	USD 278,972
Masten-Wright, Connecticut	Insulating Materials, 282, 987 lbs.	USD 556,038
Masten-Wright/Westinghouse	Diamond Pattern Paper	USD 607,373
Matheson Gas Products	Spare Parts	USD 32,648
Matrix Churchill/Glass Inc Inter, Ohio	Platinum Sponge & Rhodium Powder	USD 2,420,000
Matrix Churchill, Ohio	Machine Tools & Glass-fiber Project	USD 14,300,000
McMaster-Carr	Spare Parts	USD 24,029
McNeil Akron, Inc., Ohio	Tire Manufacturing Machines	USD 1,203,770
McNeil Akron, Inc., Ohio	26 Tube Presses	USD 1,796,448
Med-Tek Intl., N.Y.	C.T. Scanner Parts	USD 448,009
Miller Electric, Wis.	Microwave 300 Amperes, 20 units	USD 67,192
Mobayt Crop Dyes, S.C.	Leather Dyes	USD 59,500
Mobil Oil Corp, N.Y.	Plastics	USD 15,000,000
Moore Special Tool Co (1)	Computer-controlled Jig Grinder	USD 500,000
Munradtech Ltd., Michigan	2 35 ton Dump Trucks	USD 297,926
Nash Intl Co., Connecticut	Vacuum Pumps	USD 313,760
NCR Corp, Ohio	Computers w/ Peripherals & Spares	USD 1,207,036
Norwalk Co. Inc., Connecticut	Power. End Comp. Ass	USD 66,325
N.R.M. Corp., Ohio	Tire Manufacturing Machines	USD 3,310,485
N.R.M. Corp., Ohio	Presses & Accessories	USD 950,000
OHM International Corp	Spare Parts	USD 102,990
Petrogen Intl. Ltd., Virginia	Oxy-Gas Cutting Torches	USD 230,000
Pneumatic Products Corp	Spare Parts	USD 39,411
Posacon, Texas	Valves	USD 132,960
Power Marketing Group, Colorado	Wrapping Materials	USD 599,040
Process Automation	Spare Parts	USD 50,690
Process Electronics	Spare Parts	USD 164,290

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Puffer Sweiven	Spare Parts	USD 45,630
Ransome Company, Texas	Arc Welding Equipment	USD 283,193
Rawson & Co	Spare Parts	USD 852,000
RD & D Intl. Inc., Virginia	Machine Tools & Technical Services	USD 3,805,938
Roessing Brass Company	Brass	USD 163,044
Rotec Industries, Inc., Illinois	Cranes, Dumpers with Terex Chassis, Conveyor Belts	USD 18,708,365
Scientific Design Co	Ethylene Oxide, Monoethylene Glycol Plant & Catalyst	USD 5,743,000
Semetex Corp, California	Technology for Fabrication of Semiconductors	USD 7,673,500
Servaas Inc., Indiana	Brass Scrap Refining Plant	USD 32,292,800
Singer Products, N.Y.	Spare Parts	USD 80,244
Snap-On Tools, Wisconsin	Spare Parts	USD 217,090
Sobray Machine & Equipment Co, Ohio	Machinery Equipment & spares	USD 2,000,000
Sperry International	Computer Hardware & Software	USD 1,351,000
Stork Gamco	Spare Parts	USD 1,050,234
Technical Communication Corp., Massachu	Digital Systems & Services	USD 198,400
Telwar Intl., Tennessee	Paint Solvent & Thinner	USD 179,200
Telwar Intl., Tennessee	Chemical Raw Materials	USD 9,712,000
Telwar Intl., Tennessee	Chemical Raw Materials & Solvents	USD 806,423
Top Value Auto Exporters, N.Y.	Spare Parts for GM cars	USD 700,084
Trading & Ive Corp., N.C.	Air Cooler Parts	USD 352,560
Turtle & Hughes Internat'l	Spare Parts	USD 190,538
Uniroyal Goodrich	744 tons B.D.G. Compound, 748 tons B.A.R. Compound	USD 2,025,000
Upjohn, Michigan	Plastics	USD 10,000,000
Upjohn Worldwide, Michigan	Pharmaceuticals	USD 2,169,950
Videojet System Intl., Illinois	Coding Machine & Parts	USD 45,487
Vinson Supply	Spare Parts	USD 49,168
VWR Scientific, California	Lab Equipment	USD 126,848
West Point Foundry, Georgia	Spare Parts for Looms	USD 53,911
Westinghouse Electric Corp., Pennsylvania	Technical Documents	USD 200,000
Wholesale Electric Supply	Spare Parts	USD 131,977

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Wilson Fire Equipment	Spare Parts	USD 73,475
XYZ Options Inc., Alabama	Carbide Tool Manufacturing Plant	USD 14,072,625
Suppliers: Modern Machinery Associates, Alabama		
Pratt & Whitney, Inc		
General Industrial Diamond Co., N.J.		
York International, Penn.	Cooling Tower & Air Handling Units	USD 193,519
Zeta Laboratories Inc., California	Electronic Mats (incl. 10 channel X-band oscillator)	USD 1,105,000

UNKNOW COUNTRIES

Bomag Menck (German?)	?	DM 964,800 (2)
B.E.A.	Copper Tubing	USD 9,000,000
B.E.A.	?	USD 10,000,000
Engel Swertzberg (German?)	?	USD 1,944,180 (2)
Icom SA	?	USD 550,682 (2)
Instrubel (Dutch?)		USD 27,778,000
Intragency	?	SFR 5,530,000 (2)
MetalChem Internat'l		USD 566,128 (2)
Perbadanan	?	USD 3,248,908
Tinkjat Menara (Turkish?)	?	USD 3,248,908 (2)
Witterman	?	USD 895,192

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NOTES:

- (1) May have been cancelled
- (2) Principal of loan unknown; amount shown represents partial payment

CURRENCY ABBREVIATIONS

- ASCH = Austrian Schilling
- BFR = Belgian Franc
- DM = Deutsche Mark
- FFR = French Franc
- FL = Florin (Netherlands)
- ITL = Italian Lira
- SFR = Swiss Franc
- SKR = Swedish Krona
- USD = United States Dollar

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Dr. Stephen D. Bryen
April 15, 1991
Page Two

removal of silicon is to create a silicon-free brass that was saleable in the West. Our confidence that the plant we were building was to enhance peaceful, commercial purposes, was reinforced by the fact that we assisted the Al-Shaheed Factory personnel in developing an English language Sales Brochure for brass strips, rods, billets, cakes, ingots, pipes/tubes, profiles, and wires. None of these products that the Iraqis were offered for sale contained silicon. We assisted in putting together and working with the Al-Shaheed Factory personnel in the methodology of entering the world brass market.

I appreciate your observation to the Indianapolis News that there should be no criticism of our facility and our undertaking. We do believe, however, that your observation was based upon your assumption that, in fact, the brass was to be used for military purposes and that the United States Government knew that it was going to be used for those purposes. As I have testified before the Committee and we can demonstrate in technical detail, that hypothesis is wrong. The fact is that it would not have been economical for the Iraqi government to incur the cost of removing silicon from brass that was to be reused for shells. The incremental cost of the processing that we were engineering could only logically mean that the Iraqis intended to use this brass on the world market where that extra extraction cost was a necessary cost.

I am certain that as a world noted expert on strategic military issues and as a former Assistant Deputy Under Secretary of Defense, you will wish to correct your observation to the Indianapolis News, as it was based upon incomplete information given you, if you have any questions, please give me a call. I would appreciate a response.

Cordially,

Beurt Servaas

Beurt Servaas
President
Enclosure
3, 9/173

Servaas
INCORPORATED

April 15, 1991

Dr. Stephen D. Bryen
President
Delta Tech
1111 Jefferson Davis, Suite 801
Arlington, VA 22202

Dear Dr. Bryen:

I was interested in hearing your comments made at the hearing before the Committee on Banking, Finance and Urban Affairs last Tuesday, April 9, 1991. My plane did not arrive in time for me to meet you before the hearing. As you remember, I arrived after the seven citizen panel members were joined into a single panel by the Committee. Following our presentations I was approached by various news media, as I am sure you were, and I did not have an opportunity to introduce myself to you.

I know that you are a learned person who would wish to be accurate in his pronouncements and statements. Before the hearing, Mr. Dunstan, Director of the Indianapolis News called you and asked you questions about the brass refining plant that we were building for the Ministry of Industry of Iraq. He reported that you doubted that the plant was to refine the old brass scrap, which included a substantial amount of shell casings containing silicon, for export. In fact, the reporter states that you said that once the old shell brass had been purified, it probably would have been used to make new shells. I am enclosing a copy of the article in which you are quoted.

Because I assume that the reporter did not give you any substantial further detail (as is the wont of reporters) before he asked your opinion, I thought it would be important for you to have a copy of the statement we submitted to the Committee. If the Iraqis intended to utilize the scrap for new shell casings, there would have been absolutely no reason for paying \$40 million for a recycling plant. They owned a new, ultra modern brass plant built for them in the mid 1980s by the Austrians. Soviet designed shells, including shells that were made by Iraq to Soviet specifications, contain silicon. The Iraqis were using their existing, modern facility to melt down the shell casing containing silicon to make new shells.

Commercial brass meeting the Western ASTM and DIN standards, on the other hand, contains no silicon. Our experts were able to discover an old technique to take silicon out of brass. This technology is obscure in the West because our brass specifications do not call for silicon. It is only logical that the sole purpose for the recycling plant and the

1000 Waterway Boulevard, Indianapolis, Indiana 46202
(317) 636-1000 Fax 317-634-1791 Telex: 27440 (Curtis USA)



April 19, 1991

Mr. Beurt SerVaas
President
SerVaas Incorporated
1000 Waterway Blvd.,
Indianapolis, Indiana 46202

RECEIVED

APR 23 1991

CURTIS COMPANY

BRYAN

Dear Mr. SerVaas,

Thank you for your letter of 15 April and your observations about my comments to Mr. Dunstan McNichol of the Indianapolis News. I was interested in your statement to the Banking and Consumer Affairs Committee and your explanation of the process you used to remove the silicon from old shell casings. I have no reason to disagree with your explanation. I did not know you had a process to remove silicon from the brass, as that sort of knowledge is not public. On that basis it is clear that the facility you were building in Iraq was for commercial purposes, namely, to allow Iraq to realize commercial benefit from the sale of recovered, silicon-free, brass.

Having said that, the entire situation in Iraq is complex. To begin with, as you point out, the Austrians had already built in Iraq a very large remelting facility for changing old shell casings into new shells. Iraq was completing a huge ammunition facility at Taji. One would think that the supply of old shell casings was finite, not infinite, and the large ammunition factory would absorb all the old shell casings. My assumptions about the additional remelting facility were formed based on the large ammunition manufacturing capability going into Iraq and the collateral requirement for brass and other metals. It was this very large capacity to make ammunition that was of concern in the United States -- and, so far as I can learn, became one of the high priority targets during the U.S. bombing raids against Iraq.

With every good wish

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Sincerely,

Dr. Stephen D. Bryen

CC: Mr. Dunstan McNichol, Indianapolis News

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212-512-6710

SerVaas
INCORPORATED

April 24, 1991

The Honorable Henry B. Gonzalez
Chairman, U. S. House of Representatives
Committee on Banking, Finance and Urban Affairs
One Hundred Second Congress
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Gonzalez:

On April 18, 1991, we received a letter from you dated April 11, 1991, requesting a written response to three questions for the official record completing my testimony before your Committee on April 9, 1991. For clarity, I will repeat the question and then provide the answer.

Question No. 1:

At the time BNL was providing the Letter of Credit for your work in Iraq, did you believe that Iraq would have had any trouble finding financing from any other source? Was there any indication that BNL was the only possible source of financing for the project?

Answer:

Before the August, 1989, newspaper expose of the alleged unauthorized activities of the BNL officers in Atlanta, Georgia, we had no relevant knowledge regarding the general credit position of Iraq or the availability of its financing from sources other than Banca Nazionale del Lavoro. As I have previously testified, we were told by BNL personnel that BNL had been utilized by the republic of Iraq in financing with major United States companies. Once we were able to identify ourselves that BNL was a major international bank and that its confirmation of the letter of credit from the Central Bank of Iraq met in all respects the requirements contained in our contract of September, 1988, we did not have need for any further inquiry as to the credit worthiness of Iraq.

Question No. 2:

How likely is it that the Iraqis were planning to use the recycled brass from the factory your company built to make new gun shells or other munitions?

Answer:

According to information that my personnel learned from Iraqi engineers, the formula used by the Iraqis for the production of shell casings included silicon. We understood that this formula followed specifications and standards given to the Iraqis by the Soviet Union. Silicon increased the hardness of the shell casings. Our contract specifically required that we develop a refinery that was capable of removing silicon from

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To make any "commercial" brass in the Austrian factory for strictly commercial use, e.g. brass sheet, rod, wire and tubing, it was necessary for Iraq to buy virgin copper and virgin zinc (the primary metals in brass) at world prices, for hard currency for the total input. This is contrary to the practice in industrialized countries, which use up to 85% refined scrap metal (at much lower cost than virgin metal) and the balance only from virgin metals. This anomaly obviously made Iraqi commercial brass non-competitive. Without the ability to refine their surplus scrap brass metal and remove the silicon, the Iraqis could not realize full value for their scrap.

The refined brass ingots from the refinery we were building would have provided another hard currency product to be sold by Iraq, thereby reducing its dependence on oil as its sole hard currency product.

We have attached some brochures that were prepared and utilized for the promotion and future sale of Iraqi brass on the world market to demonstrate the marketing efforts that had been undertaken.

We trust that the above answers will aid your Committee in its deliberations and consideration of these very complex and weighty issues. If there be anything further that we can provide you, we would be most pleased to do so.

Respectfully Submitted,

/s/ Beurt ServVaas

Beurt ServVaas
President

Attachment

the scrap brass that the Iraqis had stockpiled. Our conclusion from this contract requirement was that the Iraqis intended to use the refinery for commercial brass production rather than to make new shell casings.

We learned that during most of the Iranian war the Iraqis purchased their shells during that time. The Iraqis had no capacity to recycle those shells, or that each they accumulated an enormous inventory of spent shells. The Al-Shahed factory, completed by the Austrians near the end of the Iranian war, had the capacity to melt down existing shell casings for the purpose of creating new shells. We were told that when making shells the Iraqis were very careful to follow the Soviet specifications, including silicon. We learned that in one instance, several million pounds of "brass cake" were rejected because the cake did not contain sufficiently to the Russian specifications for silicon content.

The existing Austrian built factory also had the capability to produce brass from virgin materials for commercial applications, such as tubing, rod and sheet goods. In turn, these products were used by brass manufacturers for decorative and architectural products, heat exchangers, tubing and bearings.

It has been estimated that the Iraqis would incur an additional cost of approximately \$15/lb. to refine the scrap shells by removing the silicon to meet Western commercial brass specifications. At that point, the brass would be saleable for hard currency. If the Iraqis intended to re-introduce silicon in the material being refined, they would not build a refinery to do something that could have been done in their existing facilities.

Question No. 3:

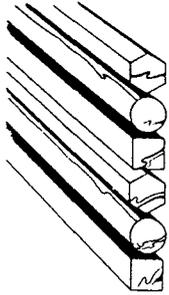
Is it practical/economical to use the recycled brass from the spent shells to make door knobs or other commercial products?

Answer:

The attached excerpt from Materials Engineering lists the brass specifications required to sell various types of brass on the general Western commercial market. They specify the absence of silicon. It was estimated to us that Iraq had as much as 70,000 tons of brass scrap, a substantial portion of which were shell casings.

The cost of those shells was a sunk cost, already incurred by the Iraqis; and, therefore, the additional cost of refining the scrap to remove silicon, which has been estimated to be approximately \$15/lb., was extremely economical and practical.

RODS



Al Shaheed Brass... A history of tradition, dedicated to excellence

Al Shaheed Brass offers brass and copper rod in straight lengths and a variety of alloys and sizes to meet each of its customer's requirements. Efficient production methods and an uncompromising knowledge and expertise permit Al Shaheed Brass to be very competitive in a world marketplace in terms of this commodity.

انواع السبائك

Alloys Designation

Ser.	Alloy	Specification	Chemical Composition			
			Cu	Zn	Pb	Other Elements
1.	Si-Cu	DIN 1787	99.90	...	...	P= 0.015-0.040
2.	Cu Zn 30		69.0-71.0	...	...	0.43 Max.
3.	Cu Zn 37	DIN	62.0-64.0	...	...	0.74 Max.
4.	Cu Zn 39 Pb2	17660	58.5-59.8	Rest	1.5-2.5	1.0 Max.
5.	Cu Zn 3 Pb3		57.0-59.0		2.5-3.5	1.0 Max.
6.	CDA 360	ASTM B-16	60.0-63.0		2.5-3.7	Fe 0.35 Max. Rest 0.50 Max.

الابعاد والواصفات القياسية

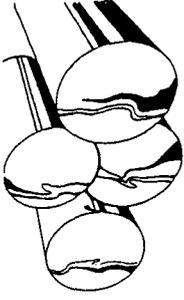
Dimensions and Physical Properties

Ser.	Shape of Product	Physical Properties	Diameter (mm)
1.	Round Rod	DIN	Drawn 8-32mm acc 1756 Extruded 14-125mm acc 1782
2.	Hexagonal Rod	17672	Drawn 10-16mm acc 1763 Extruded 14-48mm acc 1782

Packing:
 - Length: - sizes 8-32mm - 2-3.7 meters +/- 1 inch
 - bundles and cases about 500kg each
 - sizes 33-48mm - 2-3 meters +/- 1 inch
 - sizes over 48mm 1-2 meters
 - bundles and cases over 10mm in diam.

P.O. BOX 93 ANBAR, FALLUJA, AMERIA, IRAQ
 TEL 964 8879402 TLX 943 216124 (SHFA) IQ FAX 964 8879409

BILLETS



Al Shaheed Brass... A history of tradition, dedicated to excellence

BILLETS are produced at the Al Shaheed Brass state-of-the-art facility. The billet product line conforms to the highest standards of surface quality and internal soundness. Specially instrumented equipment permits maximum control of chemistry. This type of high-quality casting will maximize your rod and tube mill yields.

انواع السبائك

Alloys Designation

Ser.	Alloy	Specification	Chemical Composition			
			Cu	Zn	Pb	Other Elements
1.	Si-Cu	DIN 1787	99.90	...	...	P= 0.015-0.040
2.	Cu Zn 30		69.0-71.0	...	...	0.43 Max.
3.	Cu Zn 37	DIN	62.0-64.0	...	...	0.74 Max.
4.	Cu Zn 39 Pb2	17660	58.5-59.8	Rest	1.5-2.5	1.0 Max.
5.	Cu Zn 39 Pb3		57.0-59.0		2.5-3.5	1.0 Max.
6.	CDA 360	ASTM B-16	60.0-63.0		2.5-3.7	Fe 0.35 Max. Rest 0.50 Max.

الابعاد والواصفات القياسية

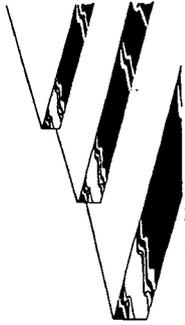
Dimensions and Physical Properties

Ser.	Shape of Product	Physical Properties	Dimensions (mm)		
			Diameter	Length	
1.	BILLETS	As Cast	155	+2 / -5	
			180	+3 / -8	
			210	+1 / -10	
			Tolerance	Tolerance	
				300-400	+8 / -0
				401-4000	+12 / -0

P.O. BOX 93 ANBAR, FALLUJA, AMERIA, IRAQ
 TEL 964 8879402 TLX 943 216124 (SHFA) IQ FAX 964 8879409



CAKES



Al Shaheed Brass... *A history of tradition, dedicated to excellence*

High-quality brass and copper cakes are produced at the Al Shaheed Brass facility utilizing a variety of specialized state-of-the-art equipment. This product line conforms to the highest standards of surface quality and internal soundness. Sophisticated laboratory equipment permits maximum control of chemistry. This type of high-quality casting will maximize your sheet mill yields.

Alloys Designation انواع السبائك

Ser.	Alloy	Specification	Chemical Composition		
			Cu	Zn	Other Elements
1.	Cu Zn 28	DIN 17660	71.0-73.0	Rest	0-13 Max.
2.	Cu Zn 30		69.0-71.0		
3.	Cu Zn 33		66.0-68.0		
4.	Cu Zn 37		62.0-64.0		
5.	Cu Zn 40		59.5-61.5			0.74 Max. 1.26 Max.

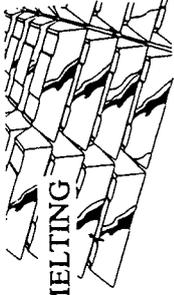
Dimensions and Physical Properties الأبعاد والخصائص الفيزيائية

Ser.	Physical Properties	Shape of Product	Dimensions (mm)		
			Thickness	Width	Length
1.	Cakes	As Cast	145	670	3000-6000

P.O. BOX 83 ANBAR FALLUJA, AMERIA, IRAQ
TEL. 964 8879402 TLX 943 216124 (SHFA IK) FAX 964 8879409



INGOTS RAW MATERIALS for MELTING



Al Shaheed Brass... *A history of tradition, dedicated to excellence*

The Al Shaheed Refinery generates brass ingots of various copper content to meet each customer's raw material needs. The state-of-the-art Al Shaheed Brass Refinery utilizes a process to produce raw material without impurities or contamination. Al Shaheed's ingots are backed by certified analysis to assure the product is of the highest quality. Ingots are cast according to each individual customer's material specifications.

BRASS INGOTS

Alloys Designation انواع السبائك

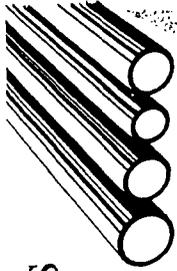
Alloy Specifications -
Per DIN, ASTM, BS, SIS standards or according to customer requirements
Impurities -
Will be within the above specified standards

Dimensions and Physical Properties الأبعاد والخصائص الفيزيائية

Size -
(mm) 290 x 130 x 80
Weight -
25 kg
Suitable for casting in Brass Strip, Rod or Tube

P.O. BOX 83 ANBAR FALLUJA, AMERIA, IRAQ
TEL. 964 8879402 TLX 943 216124 (SHFA IK) FAX 964 8879409

PIPES/TUBES



Al Shaheed Brass... A history of tradition, dedicated to excellence

The Al Shaheed Brass engineers and support personnel are carrying out their commitment to the future... by producing products of the highest quality standards. This comprehensive, fully equipped facility produces pipes and tubes in straight lengths, which are available in a variety of alloys and sizes.

انواع السبائك

Alloys Designation

Ser	Alloy	Specification	Chemical Composition		
			Cu	Zn	Other Elements
1.	Sf-Cu	DIN 1787	99.90	...	P= 0.015-0.040
2.	Cu, Ni 5	DIN 17664	Rest	...	4.0-6.0 0.1 Max.
3.	Cu, Zn 30	DIN 17660	69.0-71.0	Rest	0.43 Max.
4.	Cu, Zn 37		62.0-64.0	...	0.74 Max.

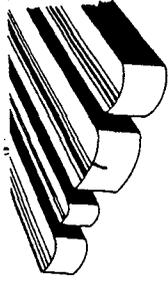
الابعاد والمواصفات القياسية

Dimensions and Physical Properties

Ser	Shape of Product	Physical Properties	Dimensions (mm)	
			Outside Diameter	Thickness
1.	Pipes and Tubes	DIN 17671	20-185	2-20

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TEL. 964 8879402 TLX 943 216124 (ISHFA IQ) FAX 964 8879409

PROFILES



Al Shaheed Brass... A history of tradition, dedicated to excellence

A full complement of special shapes are available from the Al Shaheed Brass facility to meet the specialized needs of each customer. Precision machinery capable of meeting the most intricate and exacting designs are employed to fulfill the customer's needs.

انواع السبائك

Alloys Designation

Ser	Alloys	Specification	Chemical Composition		
			Cu	Ni	Other Elements
1.	Sf-Cu	DIN 1787	99.90	...	P= 0.015-0.040
2.	Cu, Ni 5	DIN 17664	Rest	4.0-6.0	0.1 Max.

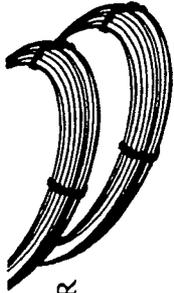
الابعاد والمواصفات القياسية

Dimensions and Physical Properties

Ser	Shape of Product	Physical Properties	Dimensions (mm)	
			Outside Diameter	Thickness
1.	Profile	DIN 17672	PM: PM 119; PM 110 (For Cu) PI 4; PI 5; PI 10; PI 11 (For Cu Ni5) (Special dimensions for the driving bands for heavy artillery)	

P.O. BOX 83 ANBAR, FALLUJA, AMERIA, IRAQ
TEL. 964 8879402 TLX 943 216124 (ISHFA IQ) FAX 964 8879409

WIRES BRASS & COPPER



Al Shaheed Brass... A history of tradition, dedicated to excellence

Backed by uncompromising knowledge and expertise, Al Shaheed Brass produces both copper and brass wire in coils. This product line is made with a tireless dedication to detail that meets the industry's most exacting standards. Quality wire products complement the Al Shaheed product line and are offered in a wide variety of sizes and alloys as directed by each customer's requirements.

انواع السلك

Ser.	Alloy	Specification	Chemical Composition		
			Cu	Zn	Pb Other Elements
1.	E-Cu 58	DIN 1787	99.90	---	---
2.	Cu Zn 39 Phl	DIN 17660	59.3-61.5	Rest	1.0-2.0 0.96 Max.
3.	Cu Zn 37 Ph ₂		60.0-62.0	2.5-3.5	0.97 Max.

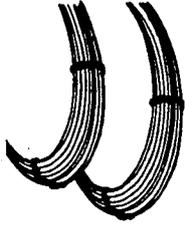
الابعاد والارصاف الفيزيائية

Ser.	Shape of Product	Physical Properties	Diameter (mm)
1.	Wires	DIN 4051(X) (For Copper) DIN 17677 (For Brass)	0.69-3.5 For Copper On Spools Soft 5-12 For Brass On Coils 40-50kg Half Hard And Hard

P.O. BOX 93 ANBAR, FALLUJA, AMERIA, IRAQ
TEL 964 8879402 TLX 943 216124 (SHFA IK) FAX 964 8879409

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WIRES LEAD/ANTIMONY



Al Shaheed Brass... A history of tradition, dedicated to excellence

Al Shaheed Brass produces a wide range of products that includes Lead/Antimony Wire to fill a specialized industry need. This alloy is backed by Al Shaheed's strict quality assurance program. A wide variety of sizes of Lead/Antimony Wires are produced at Al Shaheed's comprehensive and fully equipped facility.

انواع السلك

Ser.	Alloy	Specification	Chemical Composition		
			Pb	Sb	Other Elements
1.	Pb Sb 10	Pb 90%	89.0-91.0	9.0-10.0	
2.	Pb Sb 2.5	Pb 97.5%	97.0-98.0	2.0-3.0	0.2 Max
3.	Pb Sb 2	Pb 98%	97.8-98.2	1.8-2.2	
4.	Pb		99.90	---	0.01 Max

الابعاد والارصاف الفيزيائية

Ser.	Shape of Product	Physical Properties	Diameter (mm)
1.	Wires and Rings	Density 10.5-11.2 gm/cm ³	5.9-10.1

P.O. BOX 93 ANBAR, FALLUJA, AMERIA, IRAQ
TEL 964 8879402 TLX 943 216124 (SHFA IK) FAX 964 8879409



TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 565-2041

FOR IMMEDIATE RELEASE
April 1, 1991

Contact: Barbara Clay
202-566-5252

PRESS RELEASE

JOHN F. ROBSON
DEPUTY SECRETARY OF THE TREASURY
APRIL 1, 1991

Today the Treasury Department is revealing the names of 89 businesses and individuals determined to be agents and front companies in Iraq's arms procurement and financial network.

While this action may lack the spectacular drama of Operation Desert Storm, it represents an important companion effort by the United States to bring stability to the region. It will disrupt the ability of Saddam Hussein or a successor to employ this network to rebuild Iraq's military capacity or to divert funds that rightfully belong to the Iraqi people for other nefarious purposes or personal gain.

The events that culminated in Iraq's invasion of Kuwait last August 2nd began long before.

For over the last decade, Saddam strengthened the sinews of his war machine through a sophisticated network of front companies and agents. Through it he got weapons, spare parts, machine tools, and raw materials necessary to sustain his militarized state. And through it he may have hidden away ill-gotten fruits of embezzlements from the Iraqi people. We want the network exposed. And we want it neutralized.

By declaring these front companies and agents to be Specially Designated Nationals of Iraq, we are putting the world on notice that when you deal with them, you're dealing with Saddam. And exposure of the network may also assist the allied nations in discovering hidden wealth that could be used to pay part of Iraq's war reparations.

I should point out, however, that despite considerable speculation, neither we nor anyone else knows the specific dollar amount of hidden assets. As the investigation of this network's operations goes forward we hope to learn more. But at this point it is inappropriate for us to speculate about the amount of assets that may have been diverted.

Treasury's action today places these companies and individuals under the trade embargo and asset freeze that President Bush imposed following the invasion of Kuwait. This

MB-1205

means that they are cut off from their financial assets and business relations within our jurisdiction and that their ability to serve Saddam is disrupted.

Months of hard investigative work under the leadership of Treasury's Office of Foreign Assets Control went into producing this information. But the job is not finished. And I want to emphasize that the fact that a name or a company isn't on this list does not imply the U.S. Government's seal of approval. We have many more cases under investigation.

Throughout the embargo we've worked closely with our allies. We are asking them to join us in this effort by taking similar steps to expose and neutralize Saddam's known agents and front companies in their jurisdictions. Worldwide cooperation will help eliminate this network.

Thank you.



TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

4810-25-M

DEPARTMENT OF THE TREASURY

Office of Foreign Assets Control

EMBARGOED FOR RELEASE AT 1:00 PM
April 1, 1991

CONTACT: Barbara Clay
202-566-5252

TREASURY NAMES IRAQ'S AGENTS

The Treasury Department today identified 52 businesses and 37 individuals worldwide as front companies and agents of Iraq. The action is part of an ongoing investigation by Treasury of Iraq's worldwide arms and financial complex.

In announcing the action, Treasury Deputy Secretary Robson said, "Exposing these companies and individuals strikes a blow at Iraq's subterranean network in the world of arms trading and clandestine financial operations."

As a result of today's action by the Treasury's Office of Foreign Assets Control (OFAC), the companies and individuals are now considered "Specially Designated Nationals" or agents of the government of Iraq, bringing them under the existing embargo and asset freeze put in place by President Bush against Iraq. All transactions with them under U.S. jurisdiction are prohibited unless licensed by the Treasury Department.

In addition, Treasury today named 160 Iraqi-owned or controlled merchant ships. These ships are now subject to embargo provisions that prohibit their use by U.S. businesses and individuals.

Doing business with an Iraqi specially designated national is equivalent to doing business with the government of Iraq, which carries criminal penalties of up to \$1 million per violation for both corporations and individuals, as well as prison sentences of up to 12 years for individuals. Civil penalties of up to \$250,000 may be imposed administratively.

OFAC has established a special Iraqi assets telephone hotline through which anyone with information on companies or individuals holding Iraqi assets, or acting on behalf of Iraq may report that information to OFAC. All calls will be kept confidential. The number is 202-566-6045.

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NB-1024

31 CFR Part 575

Registered in the Office
of the Federal Register

2/24/91
11

Iraqi Sanctions Regulations

AGENCY: Office of Foreign Assets Control, Department of the Treasury.

ACTION: Final Rule; List of Specially Designated Nationals of the Government of Iraq; List of Vessels Registered, Owned or Controlled by the Government of Iraq.

SUMMARY: The Iraqi Sanctions Regulations (the "Regulations") are being amended to add a new Appendix A and a new Appendix B to the end thereof. Appendix A contains the list of Individuals and Organizations Determined to be Within the Term "Government of Iraq" (Specially Designated Nationals of Iraq). The list at Appendix A contains the names of companies and individuals which the Director of the Office of Foreign Assets Control has determined are acting or purporting to act directly or indirectly on behalf of the Government of Iraq. Appendix B contains the names of merchant vessels registered, owned, or controlled by the Government of Iraq. These lists may be expanded or amended at any time.

EFFECTIVE DATE: [this rule is effective upon publication]

ADDRESS: Copies of these lists are available upon request at the following location: Office of Foreign Assets Control, U.S. Department of the Treasury, Annex, 1500 Pennsylvania Avenue, N.W., Washington, D.C. 20220.

FOR FURTHER INFORMATION CONTACT: Richard J. Hollas, Chief, Enforcement Section, Office of Foreign Assets Control, Tel.: (202) 566-5021.

SUPPLEMENTARY INFORMATION: The Iraqi Sanctions Regulations, 31 C.F.R. Part 575 (56 FR 2112, Jan. 18, 1991, the "Regulations") were issued by the Treasury Department to implement Executive Orders No. 12722 and 12724 of August 2 and August 9, 1990, in which the President declared a national emergency with respect to Iraq, invoking the authority, inter alia, of the International Emergency Economic Powers Act (50 U.S.C. 1701 et seq.) and the United Nations Participation Act (22 U.S.C. 287c), and ordered specific measures against the Government of Iraq.

Section 575.306 of the Regulations defines the term "Government of Iraq" to include:

- (a) The state and the Government of Iraq, as well as any political subdivision, agency, or instrumentality thereof, including the Central Bank of Iraq;

(b) Any partnership, association, corporation, or other organization substantially owned or controlled by the foregoing;

(c) Any person to the extent that such person is, or has been, or to the extent that there is reasonable cause to believe that such person is, or has been, since the effective date, acting or purporting to act directly or indirectly on behalf of any of the foregoing; and

(d) Any other person or organization determined by the Director of the Office of Foreign Assets Control to be included within this section.

Determinations that persons fall within this definition are effective upon the date of determination by the Director, Office of Foreign Assets Control ("FAC"). Public notice is effective upon the date of publication or upon actual notice, whichever is sooner.

This rule adds Appendix A to Part 575 to provide public notice of a list of persons, known as "specially designated nationals" of the Government of Iraq. The list consists of companies and individuals whom the Director of the Office of Foreign Assets Control has determined to be owned or controlled by or to be acting or purporting to act directly or indirectly on behalf of the Government of Iraq, and thus fall within the definition of the "Government of Iraq" contained in section 575.306 of the Regulations. The persons included in Appendix A are subject to all prohibitions applicable to other components of

the Government of Iraq. All unlicensed transactions with such persons, or in property in which they have an interest, are prohibited.

The list of specially designated nationals is a partial one, since FAC may not be aware of all the persons located outside Iraq that might be owned or controlled by the Government of Iraq or acting as agents or front organizations for Iraq, and which thus qualify as specially designated nationals of the Government of Iraq. Therefore, persons engaging in transactions may not rely on the fact that any particular person is not on the specially designated nationals list as evidence that it is not owned or controlled by, or acting or purporting to act directly or indirectly on behalf of, the Government of Iraq. The Treasury Department regards it as incumbent upon all U.S. persons to take reasonable steps to ascertain for themselves whether persons they enter into transactions with are owned or controlled by the Government of Iraq or are acting or purporting to act on its behalf, or on behalf of other countries subject to blocking (at present, Cambodia, Cuba, Libya, North Korea, and Vietnam).

This rule also adds Appendix B to Part 575 to provide public notice of a list of merchant vessels which the Director of the Office of Foreign Assets Control has determined to be registered, owned, or controlled by the Government of Iraq or by persons acting or purporting to act directly or indirectly on behalf of the Government of Iraq, pursuant to section 575.306 of the

Regulations. The merchant vessels included in Appendix B constitute blocked property in which the Government of Iraq has an interest, and are subject to all the prohibitions applicable to the Government of Iraq. No U.S. person may engage in any unlicensed transaction involving these vessels.

The list of Government of Iraq-flagged, owned, or controlled vessels is a partial one, since FAC may not be aware of all merchant ships registered, owned, or controlled by the Government of Iraq or by persons located outside Iraq that may be acting as agents or front organizations for Iraq who fall within the definition of "Government of Iraq." Therefore, persons engaging in transactions may not rely on the fact that any particular vessel is not on the list as evidence that it is not owned or controlled by the Government of Iraq. The Treasury Department regards it as incumbent upon all U.S. persons to take reasonable steps to ascertain for themselves whether such vessels are registered, owned, or controlled by Iraq or by other countries subject to blocking or transportation-related restrictions (at present, Cambodia, Cuba, Libya, North Korea, and Vietnam).

Section 586E of the Iraq Sanctions Act of 1990, contained in the Foreign Operations Authorization and Appropriations Act of 1990, dated November 5, 1990, 104 Stat. 1979, provides for civil penalties not to exceed \$250,000 for violations of the Regulations and fines of up to \$1,000,000 and imprisonment for up to 12 years for willful violations of the Regulations. In

addition, Section 5(b) of the United Nations Participation Act of 1945 (22 U.S.C. 287c(b)) provides for the forfeiture of any property involved in a violation of the Regulations.

1. The authority citation for Part 575 continues to read as follows: 50 U.S.C. 1701 et seq.; 50 U.S.C. 1601 et seq.; 22 U.S.C. 287c; Pub. L. 101-513, 104 Stat. 2047-55 (Nov. 5, 1990); 3 U.S.C. 301; E.O. 12722, 55 FR 31803 (Aug. 3, 1990); E.O. 12724, 55 FR 33089 (Aug. 13, 1990).

2. Appendices A and B to Part 575 -- APPENDIX A TO PART 575-- INDIVIDUALS AND ORGANIZATIONS DETERMINED TO BE WITHIN THE TERM "GOVERNMENT OF IRAQ" (SPECIALLY DESIGNATED NATIONALS OF IRAQ); APPENDIX B TO PART 575--MERCHANT VESSELS REGISTERED, OWNED, OR CONTROLLED BY THE GOVERNMENT OF IRAQ OR BY PERSONS ACTING DIRECTLY OR INDIRECTLY ON BEHALF OF THE GOVERNMENT OF IRAQ -- are added to read as follows:

APPENDIX A

INDIVIDUALS AND ORGANIZATIONS
DETERMINED TO BE SPECIALLY DESIGNATED NATIONALS
OF THE GOVERNMENT OF IRAQ

Please note that addresses of companies and persons may change. The addresses listed below are the last ones known to the Office of Foreign Assets Control. Where an address is not listed or someone wishes to check for latest address information, the Office of Foreign Assets Control will assist with any updated information in its possession.

COMPANIES

1. ADMINCHECK LIMITED
1 Old Burlington Street
London, England
United Kingdom
2. ADVANCED ELECTRONICS DEVELOPMENT, LTD.
3 Mandeville Place
London, England
United Kingdom
3. AL-ARABI TRADING COMPANY LIMITED
Lane 11, Hai Babil
Baghdad District 929
Iraq.
4. AL-RAFIDAIN SHIPPING COMPANY
Bombay
India
5. THE ARAB PETROLEUM ENGINEERING COMPANY LTD.
Amman
Jordan
6. ARAB PROJECTS COMPANY S.A. LTD.
P.O. Box 1318
Amman
Jordan

P.O. Box 7939
Beirut
Lebanon

P.O. Box 1972
Riyadh
Saudi Arabia

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7. ARAB TRANS TRADE CO. S.A.E.
36, Kaft Abou Street
Rouchdy, Alexandria 481 638
Egypt
8. ARCHI CENTRE I.C.E. LIMITED
3 Mandeville Place
London, England
United Kingdom
9. ARCHICONSULT LIMITED
128 Buckingham Place
London 5, England
United Kingdom
10. ASSOCIATED ENGINEERS
England
United Kingdom
11. A.T.E. INTERNATIONAL LTD.
f/k/a RWR INTERNATIONAL COMMODITIES
3 Mandeville Place
London, England
United Kingdom
12. ATLAS AIR CONDITIONING COMPANY LIMITED
55 Roebuck House
Palace Street
London, England
United Kingdom
13. ATLAS EQUIPMENT COMPANY LIMITED
55 Roebuck House
Palace Street
London, England
United Kingdom
14. A.W.A. ENGINEERING LIMITED
3 Mandeville Place
London, England
United Kingdom
15. BANCO BRASILEIRO-IRAQUIANO S.A.
Praca Pio X, 54-100 Andar
CEP 20091, Rio de Janeiro
Brazil (Head office and city branch)
16. BAY INDUSTRIES, INC.
10100 Santa Monica Boulevard
Santa Monica, California
United States

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17. DOMINION INTERNATIONAL
England
United Kingdom
18. ENDSHIRE EXPORT MARKETING
England
United Kingdom
19. EUROMAC, LTD.
4 Bishops Avenue
Northwood, Middlesex
England
United Kingdom
20. EUROMAC EUROPEAN MANUFACTURER CENTER SRL
Via Ampere 5
20052 Monza
Italy
21. EUROMAC TRASPORTI INTERNATIONAL SRL
Via Ampere 5
20052 Monza
Italy
22. FALCON SYSTEMS
England
United Kingdom
23. GEODESIGNS
England
United Kingdom
24. INVESTACAST PRECISION CASTINGS, LTD.
112 City Road
London, England
United Kingdom
25. I.P.C. INTERNATIONAL LIMITED
England
United Kingdom
26. I.P.C. MARKETING LIMITED
England
United Kingdom
27. IRAQI AIRWAYS
Saddam International Airport
Baghdad
Iraq
- Opernring 6, 1010 Wien
Vienna
Austria

- 4 Lower Regent Street
London SW1Y 4P
United Kingdom
- 5825 W. Sunset Blvd. #218
Los Angeles, California 90028
United States
- 25040 Southfield Road
Southfield, Michigan 48075
United States
- Building 68
J.F.K. International Airport
Jamaica, New York 11430
United States
- 1211 Avenue of the Americas
New York, New York 10036
United States
- Sanaa
Yemen
- Belgrade
Yugoslavia
28. IRAQI ALLIED SERVICES LIMITED
England.
United Kingdom
29. IRAQI FREIGHT SERVICES LIMITED
England
United Kingdom
30. IRAQI REINSURANCE COMPANY
31-35 Fenchurch Street
London EC3M 3D
United Kingdom
31. IRAQI STATE ENTERPRISE FOR FOODSTUFFS TRADING
P.O. Box 1308
Colombo 3
Sri Lanka
- P.O. Box 2639
Calcutta 700.001
India
32. IRAQI STATE ENTERPRISE FOR MARITIME TRANSPORT
Bremen
Germany
- Amman
Jordan

- General Service Agent
Bangladeshi-owned Travel Agency
Dhaka
Bangladesh
- Rio de Janeiro
Brazil
- Jiangmenwai Diplomatic Housing Compound
Building 7-1, 5th Floor, Apartment 4
Beijing
People's Republic of China
- Prague Airport
Prague
Czechoslovakia
- Nekazanka 3
Prague 1
Czechoslovakia
- Copenhagen
Denmark
- Main Eisenhuttenplatz 26
Frankfurt 6
Germany
- Rome
Italy
- Tokyo
Japan
- Casablanca
Morocco
- The Netherlands
- 27, Ulica Grojecka
Central Warsaw
Poland
- Tunis
Tunisia
- Ankara
Turkey
- Moscow
U.S.S.R.
- Abu Dhabi
United Arab Emirates

33. IRAQI TRADE CENTER
Dubai
United Arab Emirates
34. KEENCLOUD LIMITED
11 Catherine Place
Westminster
London, England
United Kingdom
35. MATRIX CHURCHILL CORPORATION
5903 Harper Road
Cleveland, Ohio 44139
United States
36. MEED INTERNATIONAL LIMITED
3 Mandeville Place
London, England
United Kingdom
37. PANDORA SHIPPING CO. S.A.
Honduras
38. PETRA NAVIGATION & INTERNATIONAL TRADING CO. LTD.
White Star Bldg., P.O. Box 8362
Amman
Jordan
- Armoush Bldg., P.O. Box 485
Aqaba
Jordan
- 18 Huda Sharawi Street
Cairo
Egypt
- Hai Al Wahda Mahalat 906
906 Zulak 50, House 14
Baghdad
Iraq
39. PMK/QUDOS (LIVERPOOL POLYTECHNIC)
England
United Kingdom
40. RAFIDAIN BANK
New Banks' Street
P.O. Box 11360
Massarif, Baghdad
Iraq (227 branches in Iraq)
- P.O. Box 607
Manama
Bahrain (2 branches in Bahrain)

115

- 114 Tahreer Str. Eldukki
P.O. Box 239, Omran Giza
Cairo
Egypt
- P.O. Box 1194
Cinema al-Husseini Street
Amman
Jordan
- P.O. Box 685
Aqaba
Jordan
- P.O. Box 815401
Jabal Amman
Jordan
- Mafrag
Jordan
- 2nd Floor Sadat Tower
P.O. Box 1891
Beirut
Lebanon (2 branches in Lebanon)
- Sheikh Khalifa Street
P.O. Box 2727
Abu Dhabi
United Arab Emirates
- Rafidain Bank Building
7-10 Leaderhall Street
London EC3V 1NL
United Kingdom
- P.O. Box 10023
Sanaa
Yemen Arab Republic
41. RAJBROOK LIMITED
England
United Kingdom
42. REYNOLDS AND WILSON
England
United Kingdom
43. S.M.I. SEWING MACHINES ITALY S.P.A.
Italy

44. SOLLATEK
England
United Kingdom
45. TECHNOLOGY AND DEVELOPMENT GROUP LTD.
Centric House 390/391
Strand, London, England
United Kingdom
46. T.E.G. LIMITED
3 Mandeville Place
London, England
United Kingdom
47. T.M.G. ENGINEERING LIMITED
Castle Row
Horticultural Place
Chiswick, London, England
United Kingdom
48. T N K FABRICS LIMITED
England
United Kingdom
49. TRADING & MARITIME INVESTMENTS
San Lorenzo
Honduras
50. U.I. INTERNATIONAL
England
United Kingdom
51. UNIMAS SHIPPING
138 El Geish Road, P.O. Box 44
Alexandria
Egypt
52. WHALE SHIPPING LTD.
c/o Government of Iraq
State Organization of Ports
Maqal, Basrah
Iraq

INDIVIDUALS

1. ABBAS, Abdul Hussein
Italy
2. ABBAS, Kassim
Italy
3. ABRAHAM, Trevor
England
United Kingdom
4. AHMAD, Raseem
P.O. Box 1318
Amman
Jordan
5. AHMAD, Wallid Issa
Iraq
6. AL-AMIRI, Adnan Talib Hassim
43 Palace Mansions
Hammersmith, London, England
United Kingdom
7. AL-AZAWI, Dafir
Iraq
8. AL-DAJANI, Leila N. S.
P.O. Box 1318
Amman
Jordan
9. AL-DAJANI, Nadim S.
P.O. Box 1318
Amman
Jordan
10. AL-DAJANI, Sa'ad
P.O. Box 1318
Amman
Jordan
11. AL-HABOBI, Dr. Safa Haji J.
Flat 4D Thorney Court
Palace Gate
Kensington, England
United Kingdom
12. ALI, Abdul Mutalib
Germany

13. ALLEN, Peter Francis
"Greys", 36 Stoughton Lane
Stoughton
Leicestershire, England
United Kingdom
14. AL-OGAILY, Akram H.
Flat 2, St. Ronens Court
63 Putney Hill
London, England
United Kingdom
15. AMARO, Joaquim Ferreira
Praca Pio X, 54-100 Andar
CEP 20091, Rio de Janeiro
Brazil
16. ARMOUSH, Ahmad
White Star Bldg.
P.O. Box 8362
Amman
Jordan
17. ARMOUSH, Ali
White Star Bldg.
P.O. Box 8362
Amman
Jordan
18. AZIZ, Fouad Hamza
Praca Pio X, 54-100 Andar
CEP 20091, Rio de Janeiro
Brazil
19. DAGHIR, Ali Ashour
2 Western Road, Western Green
Thames Ditton, Surrey, England
United Kingdom
20. FATTAH, Jum'a Abdul
P.O. Box 1318
Amman
Jordan
21. HAND, Michael Brian
England
United Kingdom
22. HENDERSON, Paul
4 Copt Oak Close
Tile Mill
Coventry, Warwickshire, England
United Kingdom

23. JON, Hana Paul
19 Tudor House
Windsor Way
Brook Green, London, England
United Kingdom
24. JUME'AN, George
P.O. Box 1318
Amman
Jordan
25. KADHUM, Dr. Fadel Jawad
c/o Alvaney Court
250 Finchley Road
London, England
United Kingdom
26. KHOSHABA, Robert Kambar
15 Harefield Road
Maidenhead, Berkshire, England
United Kingdom
27. MOHAMED, Abdul Kader Ibrahim
Jiangmenwai Diplomatic Housing Compound
Building 7-1, 5th Floor, Apartment 4
Beijing
People's Republic of China
28. OMRAN, Karim Dhaidas
Iraq
29. RAOUF, Khalid Mohammed
Praca Pio X, 54-100 Andar
CEP 20091, Rio de Janeiro
Brazil
30. RICKS, Roy
87 St. Mary's Frice
Benfleet, Essex, England
United Kingdom
31. SCHMITT, Rogerio Eduardo
Praca Pio X, 54-100 Andar
CEP 20091, Rio de Janeiro
Brazil
32. SIM, Gilberto F.
Praca Pio X, 54-100 Andar
CEP 20091, Rio de Janeiro
Brazil

33. SOUZA, Francisco Antonio
Praca Pio X, 54-100 Andar
CEP 20091, Rio de Janeiro
Brazil

34. SPECKMAN, Jeanine
England
United Kingdom

35. TALL, Aktham
P.O. Box 1318
Amman
Jordan

36. TAVEIRA, A. Arnaldo G.
Praca Pio X, 54-100 Andar
CEP 20091, Rio de Janeiro
Brazil

37. ZAHRAN, Yousuf
P.O. Box 1318
Amman
Jordan

APPENDIX B

MERCHANT VESSELS REGISTERED, OWNED, OR CONTROLLED BY
THE GOVERNMENT OF IRAQ OR BY PERSONS ACTING DIRECTLY OR INDIRECTLY
ON BEHALF OF THE GOVERNMENT OF IRAQ

- o All ships listed are Iraqi-flagged unless otherwise indicated.
o "N/A" is listed where information is not available.

<u>Vessel Name</u>	<u>Ship Type</u>	<u>DWT</u>	<u>Call Sign</u>	<u>Owner</u>
1. AIN ZALAH	Tkr	36,330	HNAZ	Iraqi Oil Tankers Company, Basrah, Iraq
2. AL ANBAR	Tug	N/A	YIAY	Government of the Republic of Iraq. Managed by the State Organization of Iraqi Ports, Basrah, Iraq
3. AL FAO	Res	80	YIAN	State Org. of Iraqi Ports
4. AL KARAMAH	Tkr	12,882	HNRH	Iraqi Oil Tankers Company
5. AL KHALIDA	Tkr	7,155	HNKD	Iraqi Oil Tankers Company
6. AL MANSUR	Ycht	1,223	HNMR	Iraqi State Enterprise for Water Transport
7. AL MERBID	Svc	4,649	YIMD	State Org. of Iraqi Ports
8. AL MOSUL	Svc	1,219	YIAS	State Org. of Iraqi Ports
9. AL NAJAF	Svc	4,740	YINF	State Org. of Iraqi Ports
10. AL NASR	Svc	2,444	DDRH	State Org. of Iraqi Ports
11. AL NASR	Tkr	1,502	HNNR	Iraqi Oil Tanker Company
12. AL OMARAH	Tug	320	YIAY	State Org. of Iraqi Ports
13. AL RAMADI	Tug	320	YIAI	State Org. of Iraqi Ports
14. AL RASHEED	Svc	304	YIBE	State Org. of Iraqi Ports
15. AL RATBA	Tkr	544	YIBA	State Org. of Iraqi Ports
16. AL SHUOOKH	Tug	375	N/A	State Org. of Iraqi Ports
17. AL WALEED	Res	N/A	YIBF	State Org. of Iraqi Ports

<u>Vessel Name</u>	<u>Ship Type</u>	<u>DWT</u>	<u>Call Sign</u>	<u>Owner</u>
18. AL ZAB	Tug	N/A	YIBH	State Org. of Iraqi Ports
19. AL ZAWRAA	Cgo	3,549	HN2W	Iraqi State Enterprise for Water Transport, Baghdad
20. AL-ALYAA	Tug	375	N/A	State Org. of Iraqi Ports
21. AL-AMIN	Tug	368	YIAM	State Org. of Iraqi Ports
22. AL-BAATH	Tkr	9,928	HNBT	Iraqi Oil Tankers Company
23. AL-BAKR	Res	390	YIBR	State Org. of Iraqi Ports
24. AL-BAYAA	Brig	1,662	HNHB	Iraqi State Enterprise for Water Transport. Formerly the HIBOOB.
25. AL-ENTISAR	Tug	375	N/A	State Org. of Iraqi Ports
26. AL-HAYHER	Tug	368	YIHR	State Org. of Iraqi Ports
27. AL-KARRKH	Tug	368	YIKH	State Org. of Iraqi Ports
28. AL-KHALIJ AL-ARABI	Svc	4,740	YIKA	State Org. of Iraqi Ports
29. AL-NOHOODH	Tug	375	YINU	State Org. of Iraqi Ports
30. AL-QADISIYA	Ycht	100	HNKS	Iraqi State Enterprise for Water Transport
31. AL-RESSAFA	Tug	368	YIRF	State Org. of Iraqi Ports
32. AL-SAHIL AL-ARABI	Svc	6,396	HNSA	Iraqi State Enterprise for Sea Fisheries, Basrah, Iraq
33. AL-THIRTHAR	Tkr	524	YITH	State Org. of Iraqi Ports
34. AL-WAHDAH	Tug	149	YIWH	State Org. of Iraqi Ports
35. ALABID	Brig	1,662	HNDB	Iraqi State Enterprise for Water Transport. Formerly the SANABUL.
36. ALEDREESI	Cgo	3,550	HNID	Iraqi State Enterprise for Water Transport
37. ALFARABI	Cgo	8,342	HNFB	Iraqi State Enterprise for Water Transport
38. ALFARAHIDI	Tkr	149,441	HNFR	Iraqi Oil Tankers Company

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<u>Vessel Name</u>	<u>Ship Type</u>	<u>DWT</u>	<u>Call Sign</u>	<u>Owner</u>
39. ALFIDAA	Brig	1,662	HNFD	Iraqi State Enterprise for Water Transport. Formerly the SILOWAT.
40. ALKHANDSAA	Cgo	3,525	HNKM	Iraqi State Enterprise for Water Transport
41. ALKINDI	Cgo	8,342	HNKI	Iraqi State Enterprise for Water Transport
42. ALMUSTANSIRIYAH	Tkr	155,210	HNMS	Iraqi Oil Tankers Company
43. ALMUTANABEI	Tkr	130,241	HNMB	Iraqi Oil Tankers Company
44. ALNAJAF	Svc	4,740	YINF	State Org. of Iraqi Ports
45. ALQADISIYAH	Tkr	155,210	HNQS	Iraqi Oil Tankers Company
46. ALSUMOOD	Svc	6,977	YISD	State Org. of Iraqi Ports
47. ALTAAMIN ALARABI	Cgo	13,634	HNMI	Iraqi State Enterprise for Water Transport
48. ALWAHDA	Brig	1,662	HNAD	Iraqi State Enterprise for Water Transport
49. ALWASITTI	Cgo	8,343	HNMS	Iraqi State Enterprise for Water Transport
50. ALYARMUK	Tkr	149,371	HNVK	Iraqi Oil Tankers Company
51. ALZUBAIR	Svc	4,540	YIZR	State Org. of Iraqi Ports
52. AMURIYAH	Tkr	155,210	HNAM	Iraqi Oil Tankers Company
53. ANTARA	Svc	508	YIBD	State Org. of Iraqi Ports
54. ARBEEL	Tug	320	YIBB	State Org. of Iraqi Ports
55. BABA GURGUR	Tkr	36,397	HNGR	Iraqi Oil Tankers Company
56. BABYLON	Cgo	13,656	HNBB	Iraqi State Enterprise for Water Transport
57. BADR 7	Svc	647	N/A	Government of the Republic of Iraq, Ministry of Oil, State Company for Oil Projects, Baghdad, Iraq. (flag: Saudi Arabia)

<u>Vessel Name</u>	<u>Ship Type</u>	<u>DWT</u>	<u>Call Sign</u>	<u>Owner</u>
58. BAGHDAD	Svc	2,900	YIAD	State Org. of Iraqi Ports
59. BAGHDAD	Cgo	13,656	HNBD	Iraqi State Enterprise for Water Transport
60. BALQEES	RO/RO	3,985	HNBL	State Organization for Iraq Government
61. BASRA	Svc	2,906	YIAB	State Org. of Iraqi Ports
62. BASRAH	Cgo	13,656	HNBS	Iraqi State Enterprise for Water Transport
63. BUZURGAN	Tkr	16,400	HNBR	Iraqi Oil Tankers Company
64. DAMASCUS	Tug	149	YIDS	State Org. of Iraqi Ports
65. DAMEN GORINCHEM 5716	Svc	N/A	N/A	State Org. of Iraqi Ports
66. DAMEN GORINCHEM 5717	Svc	N/A	N/A	State Org. of Iraqi Ports
67. DAMEN GORINCHEM 5718	Svc	N/A	N/A	State Org. of Iraqi Ports
68. DEYALA	Tug	350	YIBJ	State Org. of Iraqi Ports
69. DIJLAH	Tug	356	HNDJ	State Org. of Iraqi Ports
70. DIVING LAUNCH 1	Svc	N/A	N/A	State Org. of Iraqi Ports
71. DIWANIYA	Tug	350	YIBK	State Org. of Iraqi Ports
72. DOCKAN	Tkr	528	YIDN	State Org. of Iraqi Ports
73. DUMP BARGE I	Svc	1,330	J8IY	Whale Shipping Ltd., c/o State Org. of Iraqi Ports (flag: Gibraltar)
74. DUMP BARGE II	Svc	1,330	J8IZ	Whale Shipping Ltd., c/o State Org. of Iraqi Ports (flag: Gibraltar)
75. DUMP BARGE III	Svc	1,330	J8JA	Whale Shipping Ltd., c/o State Org. of Iraqi Ports (flag: Gibraltar)
76. FIRE BOAT No. 705	Svc	N/A	N/A	State Org. of Iraqi Ports
77. FIRE BOAT No. 706	Svc	N/A	N/A	State Org. of Iraqi Ports

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<u>Vessel Name</u>	<u>Ship Type</u>	<u>DWT</u>	<u>Call Sign</u>	<u>Owner</u>
78. FOREL	Fsh	1,163	HNFL	Rafidain Fisheries Co. Ltd., Basrah, Iraq
79. FURAT	Tug	350	HNFT	State Org. of Iraqi Ports
80. GAZA	Svc	2,422	YIGZ	State Org. of Iraqi Ports
81. HAMDAN	Tug	387	YIHM	State Org. of Iraqi Ports
82. HEET	Tug	89	N/A	State Org. of Iraqi Ports
83. HILLAH	Svc	6,709	YIAR	State Org. of Iraqi Ports
84. HIRREEN	Svc	508	YIHN	State Org. of Iraqi Ports
85. HITIN	Tkr	155,210	HNHT	Iraqi Oil Tankers Company
86. IBN KHALDOON	Svc	12,670	HNIN	State Org. of Iraqi Ports
87. IBN MAJID 6	Svc	N/A	N/A	Iraqi State Company for Oil Projects (flag: Saudi Arabia)
88. IMHEJRAH	Tug	386	YIMH	State Org. of Iraqi Ports
89. JABHA	Tug	244	YIJA	State Org. of Iraqi Ports
90. JAMBUR	Tkr	35,338	HNJH	Iraqi Oil Tankers Company
91. JAMHORIA	Tug	368	YIJR	State Org. of Iraqi Ports
92. KEPAL	Fsh	1,170	HNKL	Rafidain Fisheries Co. Ltd.
93. KERBALA	Svc	N/A	N/A	State Org. of Iraqi Ports
94. KHALID IBIN AL WALEED	Svc	2,235	YIBM	State Org. of Iraqi Ports
95. KHANAQIN	Tkr	35,338	HNKQ	Iraqi Oil Tankers Company
96. KHAWLA BINT AL ZAWRA	RO/RO	3,985	HNKH	Iraqi State Enterprise for Water Transport
97. KIRKUK	Tkr	35,338	HNKK	Iraqi Oil Tankers Company
98. MANDALI	Svc	6,977	YIQS	State Org. of Iraqi Ports. Formerly the ALKADISIYAH.
99. MAYSALOON	Tug	368	YIMY	State Org. of Iraqi Ports
100. MEASAN	Tug	310	YIMN	State Org. of Iraqi Ports

<u>Vessel Name</u>	<u>Ship Type</u>	<u>DWT</u>	<u>Call Sign</u>	<u>Owner</u>
120. RADHWA 18	Tug	N/A	N/A	Iraqi State Company for Oil Projects
121. RADHWA 19	Tug	N/A	N/A	Iraqi State Company for Oil Projects
122. RADHWA 20	Tug	N/A	N/A	Iraqi State Company for Oil Projects (flag: Saudi Arabia)
123. ROBIAN	Fsh	129	N/A	Iraqi State Fisheries Company
124. RUMAILA	Tkr	36,330	HNRH	Iraqi Oil Tankers Company
125. SAIF SMAD	SVC	742	N/A	State Org. of Iraqi Ports
126. SAMARRA	Fer	N/A	YIBC	State Org. of Iraqi Ports
127. SANAM	SVC	508	YISH	State Org. of Iraqi Ports
128. SBOOR	Fsh	129	HRN2	Iraqi State Fisheries Company
129. SEABANK	Fsh/Cgo	6,953	HQHR4	Trading & Maritime Investments, Honduras. Managed by Arab Trans Trade Co. S.A.E., Alexandria, Egypt. Formerly the Iraqi-owned AL-BAHAR AL-ARABI (flag: Honduras)
130. SEAMUSIC II	Cgo	26,732	9HVH2	Seamusic Shipping Co. Ltd., c/o Theamaris Ships Management Inc., Athens, Greece. Vessel seized by Government of Iraq. (flag: Malta)
131. SEBAA NISSAN	Tug	368	YISN	State Org. of Iraqi Ports
132. SHABOOT	Fsh	1,163	HNLK	Rafidain Fisheries Co. Ltd.
133. SHATT AL BASRAH	Fsh	404	HNSR	Iraqi State Fisheries Company
134. SHOROOK	SVC	403	YISH	State Org. of Iraqi Ports
135. SHU' ALAH	Tug	N/A	N/A	State Org. of Iraqi Ports
136. SIHAN	Tug	387	YISI	State Org. of Iraqi Ports
137. SINAI	SVC	1,286	N/A	State Org. of Iraqi Ports
138. SINJAR	SVC	N/A	YIAY	State Org. of Iraqi Ports

<u>Vessel Name</u>	<u>Ship Type</u>	<u>DWT</u>	<u>Call Sign</u>	<u>Owner</u>
101. METHAQ	Tug	248	YIMQ	State Org. of Iraqi Ports
102. MOON LADY	RO/RO	3,985	HNNZ	Pandora Shipping Co., S.A., Honduras. Managed by Petra Navigation & International Trading Co. Ltd., Amman, Jordan. Formerly the Iraqi-owned AL-ZAHRAA. (flag: Honduras)
103. NAGROOR	Fsh	140	N/A	Government of the Republic of Iraq, Ministry of Agriculture & Agrarian Reform, State Fisheries Company, Baghdad, Iraq
104. MAINAWA	Tug	310	YINW	State Org. of Iraqi Ports
105. NISR	SVC	744	YISR	State Org. of Iraqi Ports
106. NO. 1	SVC	30	N/A	State Org. of Iraqi Ports
107. NO. 2	SVC	30	N/A	State Org. of Iraqi Ports
108. NUWAIBI	Fsh	140	N/A	Iraqi State Fisheries Co.
109. OHOD 5	SVC	N/A	N/A	Iraqi State Company for Oil Projects (flag: Saudi Arabia)
110. OHOD 6	SVC	N/A	N/A	Iraqi State Company for Oil Projects (flag: Saudi Arabia)
111. OHOD 7	SVC	N/A	N/A	Iraqi State Company for Oil Projects (flag: Saudi Arabia)
112. OROOBA	Tug	368	YIOB	State Org. of Iraqi Ports
113. OTORI MARU No. 2	SVC	N/A	N/A	State Org. of Iraqi Ports
114. PALESTINE	SVC	4,649	YIFN	State Org. of Iraqi Ports
115. PILOT 393	SVC	N/A	N/A	State Org. of Iraqi Ports
116. PILOT 394	SVC	N/A	N/A	State Org. of Iraqi Ports
117. POLICE 1	Ptvl	N/A	N/A	State Org. of Iraqi Ports
118. POLICE 2	Ptvl	N/A	N/A	State Org. of Iraqi Ports
119. POLICE 3	Ptvl	N/A	N/A	State Org. of Iraqi Ports

Vessel Name	Ship Type	DWT	Call Sign	Owner
139. SKY SEA	Cgo	8,334	HNZ2	Pandora Shipping Co. S.A., Honduras. Managed by Petra Navigation & International Trading Co. Ltd., Amman, Jordan. Formerly the Iraqi-owned ALRAZI. (flag: Honduras)
140. SOLMECHNIK	Fsh	404	UOJE	Iraqi State Fisheries Company
141. SULAIMANIYAH	Svc	N/A	VIAG	State Org. of Iraqi Ports
142. SURVEY LAUNCH No. 1	Res	N/A	N/A	State Org. of Iraqi Ports
143. SURVEY LAUNCH No. 2	Res	N/A	N/A	State Org. of Iraqi Ports
144. SURVEY LAUNCH No. 3	Res	N/A	N/A	State Org. of Iraqi Ports
145. TADMUR	Tkr	3,627	HMTD	Iraqi Oil Tankers Company
146. TAHEREER	Svc	4,649	YITR	State Org. of Iraqi Ports
147. TARIK IBN ZIYAD	Tkr	118,135	HNTZ	Iraqi Oil Tankers Company
148. THEEQAR	Tug	220	VIAC	State Org. of Iraqi Ports
149. UR	Tug	368	YIUR	State Org. of Iraqi Ports
150. WORK BOAT No. 6	Brg	N/A	N/A	State Org. of Iraqi Ports
151. WORKSHIP 3	Svc	N/A	N/A	State Org. of Iraqi Ports
152. YANBU 31	Svc	N/A	N/A	Iraqi State Company for Oil Projects (flag: Saudi Arabia)
153. YOUSIFAN	Tug	386	YIYN	State Org. of Iraqi Ports
154. ZAIN AL QAMS	Cgo	9,247	HNZQ	Iraqi State Enterprise for Water Transport
155. ZAMZAM	Tkr	544	VIYZ	State Org. of Iraqi Ports
156. ZANOOBIA	Cgo	3,549	HNZN	Iraqi State Enterprise for Water Transport.
157. ZUBAIDY	Fsh	N/A	YIBO	State Org. of Iraqi Ports

Vessel Name	Ship Type	DWT	Call Sign	Owner
158. 1 ATHAR	Tkr	1,502	HNAR	Iraqi Oil Tankers Company
159. 1 HURIZAN	Tkr	1,502	HNHN	Iraqi Oil Tankers Company
160. 7 NISSAN	Tkr	1,502	HNNN	Iraqi Oil Tankers Company

Dated: March 13, 1991


 R. Richard Newcomb
 Director
 Office of Foreign Assets Control

Approved: March 15, 1991


 John P. Simpson
 Acting Assistant Secretary
 (Enforcement)

4. In your testimony, you say that you assumed that the Iraqi government had some arrangement with BNL in Rome. What led you to this assumption?

My assumption was based on the fact that BNL was extending credit to U.S. agricultural exporters under the CCC credit guarantee program when other U.S. banks were unwilling to do so. Most banks seemed to believe that they could realize a better return on their capital with other types of loans. I had also heard that the Government of Iraq had substantial deposits with BNL in Italy and assumed that this might explain BNL's willingness to extend credit to U.S. exporters through the BNL branch in Atlanta.

5. In your testimony, you state that Iraq was unable to obtain bank credit from other U.S. banks. Do you have more specific information on banks which denied credit to Iraq or companies exporting to Iraq? Please provide us with any information along these lines that you may have.

The U.S.-Iraq Business Forum did not keep records on specific business transactions by member companies with Iraq. The Department of Agriculture and the EX-IM Bank would, of course, have specific information on the loans they guaranteed. By 1989, it was common knowledge in the U.S. business community that most U.S. banks would not confirm Iraqi letters of credit without some form of government guarantee. The Government of Iraq was careful to keep up to date on their payments on all U.S. government guaranteed loans until the USG froze Iraqi foreign exchange assets on August 3, 1990. Private U.S. banks, however, were reluctant to extend credit to Iraq because of Iraq's poor repayment record to creditors in other countries.

MM091A05.SED (4/18/91 3:30pm)

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QUESTIONS SUBMITTED TO MARSHALL W. WILEY BY HON. HENRY B. GONZALEZ

1. In your dealings with the Iraqis, was there ever indication of anti-Israeli sentiment on the part of the Iraqis? Did you receive any hints that companies which did not do significant business with Israel would be favored by the Iraqis?

The Iraqis shared the sense of historic injustice common to the Arab world over the dispossession of the Palestinians. They took the position that any settlement of the Arab-Israeli dispute that was acceptable to the Palestinians would be acceptable to them.

The Iraqis participated in the Arab League boycott of Israel. In common with Saudi Arabia, Syria, and all other Eastern Arab countries, the Iraqis observed the Arab League regulations and would not do business with U.S. companies on the Arab League black list.

2. You state that "To the extent that allegations of the use of poison gas on the Kurds are true you find such actions abhorrent, as if the allegations are unproven. Do you believe that the Kurds were not gassed? Should the use of poison gas have given chemical companies pause in dealing with the Iraqis, or do you believe that concerns about gassing civilians have no place in business considerations?"

I do not have access to the classified information upon which the allegations of the use of poison gas were based. I am therefore not in a position to make an informed judgment on the conflicting claims made by the various parties concerning these allegations.

The possible use of poison gas, cluster bombs or other weapons of mass destruction should have a role in business considerations, particularly if they are used, or might be used, against civilian populations. I would favor international agreements to limit or remove all such weapons from the area.

3. Are you surprised by the number of Iraqi front companies identified by the Treasury Department and the way Iraq set up a secret network to obtain western technology? Did you have any idea that Iraq had such a network?

To my knowledge, there are only two small U.S. companies on the Treasury list, one of which went out of business before the list appeared. I was not familiar with Iraq's purchasing operations in other parts of the world, but it does not seem to have been a serious problem as far as the U.S. business community is concerned. To the extent that U.S. companies violated U.S. export laws or regulations, they should, of course, be prosecuted. As far as I am aware, there have been very few prosecutions to date despite intensive investigative efforts by the U.S. government and the media.

Opening Statement of Henry B. Gonzales, Chairman
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives

Full Committee hearing on the
Banca Nazionale del Lavoro (BNL) Scandal

April 9, 1991

Today's hearing is the second in a series of hearings aimed at getting to the bottom of the Banca Nazionale del Lavoro scandal. Since we held our first hearing last October on the Atlanta branch of BNL, which lent billions of dollars to what we now know as our enemy, Iraq, much has taken place. The Justice Department in February charged ten defendants, including two former officers and an employee of BNL-Atlanta, in a 347-count indictment with conspiracy, mail and wire fraud. In March, three former employees of BNL-Atlanta pled guilty to conspiracy to commit fraud and other charges. And, the Federal Reserve Board has issued a cease and desist order against BNL and ordered the bank to halt its violations of civil banking laws.

The documentation and information of the links between BNL funding and Iraq's procurement of military goods continue to grow, as does the knowledge that maybe someone did know that BNL was illegally funding Iraq and that Iraq was using the monies for its war machine. On February 21, I said on the House floor that I had obtained a memo indicating that a top ranking Administration official from a Cabinet-level department had knowledge that BNL money was used to purchase military goods.

Because of the importance of the BNL case, I believe it essential to find out how BNL could lend \$4 billion to Iraq without any of the banking regulators -- the Federal Reserve or five of the state banking regulatory agencies -- noticing. Even more sobering is the suggestion that someone in the Administration did know, and chose not to share this information with the Congress or the press.

The BNL case is the largest individual banking fraud case in history. As an oversight Committee, we are required to make sure that the banking regulators do their job. Yet, it was apparent at our October 16 BNL hearing, that the regulators had come well armed with excuses but apparently were unprepared to issue an apology for their lax supervision. How can anyone not be angered by this regulatory fiasco when we now know the human toll involved? This is not just another oversight hearing where we criticize the regulators for wasting tax dollars.

The lax work of our commercial bank regulators in not spotting the real situation at BNL and BCCI, the Luxembourg bank recently discovered to have secretly controlled First American Bankshares, the largest bank holding company in the nation's capital, leaves massive public policy questions.

It is time to take a serious look at the idea of a consolidation that will provide coherent supervision for banks. The foundation of our financial system must be a strict, take-charge regulatory body that is not a captive of the banks it regulates.

The theme of today's BNL hearing is to place the \$4 billion in loans to Iraq in perspective. After all, during the time BNL was lending these monies in a regulatory deficient environment, it was Administration policy to feed the Iraqi people and to bend over backwards to help Saddam Hussein upgrade his military capability. How could roughly \$2 billion in BNL loans go for Iraqi food purchases and about \$2 billion for goods and services ordered by the Iraqi Ministry of Industry and Military Production or to any other country's similar activities? Ours is the only country without safeguards to the national interest in such transactions.

I am placing in the record data sheets that provide details on BNL loans to Iraq. BNL loans were the grease that permitted the Iraqi procurement machine to function. BNL loans went directly to several Iraqi front companies. For the most part, BNL loans were used to pay hundreds of companies in the U.S. and abroad that were recruited by the Iraqi network to export goods to Iraq.

INFORMATION SUPPLIED BY RICHARD NEWCOMB IN ANSWER TO QUESTIONS
FROM HON. MARY ROSE OAKAR

NAC REVIEW OF BNL PARTICIPATION IN GSM PROGRAMS

The National Advisory Council on International Monetary and Financial Policy (NAC) does not review which individual banks are to lend under the USDA's GSM-102 and GSM-103 programs. During the NAC's early consideration of the CCC's proposal for the availability of guarantees in connection with sales to Iraq, and prior to any NAC action, agreement had been reached between counsel of the USDA and counsel of the bank that BNL would accept no further assignments of CCC guarantees. In fact, BNL took no additional assignments after October 1989. The main function of the NAC is to review individual proposals made by international financial institutions and U.S. Government agencies to undertake loans and other financial transactions, primarily for the purpose of coordinating affected agencies' policies and programs to the extent necessary or desirable. As its name indicates, the NAC is an advisory body; it does not generally become involved in the operational aspects of agency programs.

TREASURY VERIFICATION OF AGRICULTURAL EXPORTS
UNDER GSM PROGRAMS

Treasury does not verify that only agricultural exports are shipped under GSM programs. Ordinarily, Treasury would not as a result of its role in the NAC independently verify the execution of transactions of another agency's international lending, guarantee or insurance operations. Verification is an operational question that is properly the primary responsibility of the agency managing the program. Elements of Treasury such as the Customs Service might, of course, assist operating agencies on certain aspects of their verification procedures.

The NAC has seven member agencies: Treasury, State, Office of U.S. Trade Representative, Commerce, Federal Reserve Board, Export-Import Bank, and the International Development Cooperation Agency. Other agencies such as Agriculture participate when matters of interest to them are before the NAC.

PAGE 39 (after line 856)

ENHANCED TREASURY OVERSIGHT OF CCC

Generally speaking, an expanded monitoring and oversight role for Treasury with respect to CCC operational activities does not appear needed. It is our understanding that, as a result of

revelations growing out of the BNL matter and other Iraqi actions with respect to CCC guarantees, the CCC has tightened its internal monitoring procedures. This would appear to be the most effective means of ensuring enhanced oversight of the CCC programs.

Audizioni della Commissione Banche e Finanze della Camera dei
rappresentanti USA:

b) in data 17 aprile 1991, su Iraq e Banca nazionale del lavoro,
partecipazioni ai programmi di export-import.

Documento n. 304/b

**IRAQI AND BANCA NAZIONALE DEL LAVORO
PARTICIPATION IN EXPORT-IMPORT PROGRAMS**

304 b

HEARING
BEFORE THE
**COMMITTEE ON BANKING, FINANCE AND
URBAN AFFAIRS**
HOUSE OF REPRESENTATIVES
ONE HUNDRED SECOND CONGRESS
FIRST SESSION
APRIL 17, 1991

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IRAQI AND BANCA NAZIONALE DEL LAVORO
PARTICIPATION IN EXPORT-IMPORT BANK
PROGRAMS

WEDNESDAY, APRIL 17, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS,
Washington, DC.

The committee met, pursuant to call, at 9:30 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the committee] presiding.

Present: Chairman Gonzalez, Representatives Annunzio, Oakar, Barnard, Torres, Kleczka, Kennedy, Hoagland, Cox, Wylie, and McCandless.

The CHAIRMAN. The committee will please come to order.

Again, as I think last week, we had some unanticipated developments; we had some caucus meetings that were called for chairmen and a few other things.

Last week, of course, it was the unfortunate accidents and the change in the programs.

Today, we may be interrupted, because the House will go into session at 10 a.m., and it will be going into the budget resolution. And I am sure there will be some amendatory processes.

The focus of today's hearing, of course, is Iraq, the BNL participation and both as relating to the Export-Import Bank and its programs.

The hearing will also touch upon the lack of accountability over the process by which billions in taxpayer funds through guarantees are utilized to promote the sale of U.S. agriculture and commercial products to Third World nations such as Iraq.

Between 1985 and the Iraqi invasion of Kuwait, the Export-Import Bank insured U.S. exports to Iraq totaling \$267 million; \$50 million of that total were financed by BNL.

Now that Iraq has defaulted on its outstanding Export-Import Bank obligations, the taxpayer stands to lose about \$50 million or just a little bit over.

Now, compared to the other losses, this is a very small amount that the taxpayer ultimately must pay, and that in comparison to the Commodity Corporation exposure is small.

The size of the Export-Import Bank program was roughly one-twentieth the size of the CCC program. The reason behind the disparity in the size of the two Iraq programs was Export-Import's de-termination that Iraq was not creditworthy.

I think this shows how, as we have had in other cases in hearings, how some of our institutional forces are vigorous and are there.

In addition, Iraq was suspended several times from the Export-Import Bank's program because of nonpayment. During the same time and same period that the Export-Import Bank was making these adjudications, Iraq was defaulting on the Export-Import Bank guarantee.

Just a mile away at the CCC, Iraq was obtaining ever larger allocations of credit; in fact, over \$5 billion in total.

Because of its tough stance against loaning billions to Iraq, the Export-Import Bank was repeatedly chastised by the staff of the State and Commerce Departments.

During 1989, criticism from State and Commerce Department staff was severe enough to cause the Export-Import Bank Board of Directors to reconsider its negative conclusion regarding Iraq's creditworthiness. Even Ambassador April Glaspie visited the Export-Import Bank to lobby on behalf of U.S. businesses in Iraq.

Now this may sound in retrospect harsher than the environment at that time should lead us to conclude. I think in my own judgment the Ambassador was just faithfully carrying out the policy of her superiors, the State Department superiors.

Lucky for the taxpayer, the revised country review did not persuade Export-Import Bank to change its mind about Iraq and this is why I say in repeat that we should be very, very grateful to the Export-Import Bank and its leaders and directors who despite—I can tell you, those are pretty severe pressures.

Export-Import Bank also faced intense pressure from the United States export community. For example, at one U.S.-Iraq business forum reception, an Export-Import Bank employee was introduced to Mr. Robert Abboud, whom we had here last week, the Chairman then of the U.S.-Iraq business forum, as quote, "The person at Export-Import Bank responsible for holding up business with Iraq," end of quote.

The Export-Import Bank should be commended for acting responsibly and sticking by its decision not to loan money to countries it felt was not creditworthy.

Today, the taxpayer is better off because of the Export-Import Bank's diligence. Ironically, Iraq turned to BNL to finance several of the projects that Export-Import Bank refused to finance.

Both the CCC and the Eximbank programs with Iraq were approved by the inter-agency National Advisory Council on International Monetary and Financial Policies, commonly referred to as NAC.

The NAC is chaired by the Secretary of the Treasury, with other members, including the heads of the Department of State and Commerce, the U.S. Trade Representative, the Federal Reserve Board, the International Development and Cooperation Agency and the Export-Import Bank.

The NAC is responsible for making decisions regarding the allocation of foreign credit, including the CCC and the Export-Import Bank programs.

Despite Eximbank's warnings about Iraq's inability to repay its debts, and the fact that Eximbank had repeatedly suspended Iraq

for not paying its bills, the NAC approved over \$5 billion in CCC guarantees to support the sale of U.S. agricultural goods to Iraq. The NAC also violated several of its own internal operating policies in approving CCC and Eximbank programs for Iraq.

Future hearings will explore the NAC process in more details.

At this time, also, I wish to incorporate with my opening statement a document on the occasion of this hearing that we have obtained that have, for instance, Iraq's and BNL's utilization of Eximbank programs, the chronology of U.S. Eximbank's relationship with Iraq, summary of Iraq and BNL participation in Eximbank programs, the list of potential exports to Iraq, and paper entitled "Mythology about Iraq," and then finally an overview of the Eximbank country risk analysis for Iraq.

These I will recommend to my colleagues who may wish to pursue the study in connection with these hearings a little bit further.

They are, I think, very revealing now, and so with that, I will ask if Mr. Annunzio has any statement.

[The information referred to can be found in the appendix.]

Mr. ANNUNZIO. Yes. Thank you, Mr. Chairman.

I do have a statement. I want to congratulate you for calling this hearing on the participation of Iraq and the Banca Nazionale del Lavoro (BNL) in Export-Import Bank (Eximbank) programs.

I am increasingly concerned with the activities of the Eximbank. Just last month, I joined 93 of my colleagues in writing Secretary of State James Baker to express my opposition to another Eximbank matter, the Bush administration's initiative to permit the Eximbank to provide financial guarantees in support of military sales to both industrialized and nonindustrialized nations.

This initiative would reverse 17 years of prudent policy by both Democratic and Republican administrations not to finance military sales through Eximbank. I urge the administration not to pursue this highly unwise and short-sighted initiative.

Today, we will explore another Eximbank controversy. The involvement of the Export-Import Bank and Banca Nazionale del Lavoro in providing credit to Saddam Hussein's Iraq.

Since 1985, Eximbank guaranteed \$267 million in U.S. exports to Iraq, in spite of the fact that Iraq frequently failed to meet payments. Of that amount, BNL was responsible for \$50 million. Eximbank's internal analyses supposedly could not support these extensions of credit, but they were made nonetheless as a result of pressure from Iraq and the U.S. State Department.

I find these reports very disturbing. I look forward to hearing from the witnesses and receiving a full explanation of this matter.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

I will ask Ms. Oakar, who is chairing the Subcommittee on International Institutions and Trade, if you have any opening statement.

Ms. OAKAR. Mr. Chairman, just very briefly.

Interestingly enough, Mr. Macomber was before our subcommittee several days ago, and I think does a good job as the permanent Director of the Eximbank.

But, Mr. Chairman, I want to thank you for having this hearing. I know you and your staff have done very, very important work on this, and I compliment you for that work.

I think what we are really examining today is instructive, and I think it is important. And that is to what extent, and I would like to ask unanimous consent to put my entire statement in the record.

The CHAIRMAN. Without objection, so ordered.

[The The prepared statement of Ms. Oakar can be found in the appendix.]

Ms. OAKAR. Basically, Mr. Chairman, what we are examining is to what extent should pressure from the administration, with respect to these kind of quasi-independent financial areas that help some of our business communities and so on, to what extent should foreign policy on the part of one department of the administration or views relative to foreign policy impact on entities like the Eximbank.

I mean, I think that is really what the relevant question is, for me anyway. And it is very interesting to see that when votes were taken, the Eximbank was kind of the odd person out in not supporting what Treasury and other members of NAC wanted to do, but then ultimately voted to extend further credit to Iraq, not under its own bank but under the OCC.

And I think therein lies the difficulty. I think the staff of the Eximbank deserves an awful lot of credit for analyzing the situation comprehensively and doing a very, very good job.

But the real question I have is when you know you are doing the right thing and you really feel something, some situation, as was the case in this Iraqi credit extension, was not the right thing, to what extent are individual entities like the Eximbank put under pressure by other departments of the government.

My own way of thinking is that you ought to be able to certainly—certainly you are part of the administrative manifestation of government, but you ought to be able to act independently, too, particularly when your analysis does not believe what the administration wants.

And so I give you high marks for understanding what the real root of the problem was, beyond what others did, other departments did.

But I guess I would give you low marks for succumbing to the pressure. Maybe you had no other choice; I don't know. And I guess that is the purpose of the hearing.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Let me say in connection with that, Ms. Oakar, that our prime and fundamental and only reason for conducting these hearings is legislative intent, and it has to do with the total absence of regulatory oversight in the case of activities of international financial entities doing business in the United States.

We just don't have it. We are the only country that doesn't have any kind of a structural oversight and accountability.

It is a dangerous situation. It continues to be. No assurances that even now as we are congregating here today we have even higher

volumes of activities, perhaps not involving guarantees, but involving national interests.

We have a tremendous amount of, in excess of, well over \$630 billion of this activity in this country, and it is amazing how just a fraction of that can be used to leverage extremely rich combinations of capital, for purposes that only God in Heaven knows what, from drug laundering to anything else.

So that is our prime purpose. Now, in the course of that, we find the need to communicate with other committees, such as the Foreign Affairs Committee, perhaps one or two others, that have oversight responsibilities on some aspects of their agency, Government Ops, for instance, we are going to have to give them some briefing and give them some of the documentation because in the light of the Eximbank's consciousness and conscientiousness and responsibility, we lose sight of the fact in practice in real life how difficult it is to stand up to intra-administration and superior pressures.

It is very difficult, if you will study some of these documents, you will see that at some of these sessions, you had everybody from the CIA to State Department and what not present there and obviously every one of them in agreement that business should have been done with Iraq.

Once President Reagan removed Iraq in 1983 from the list of terrorist nations, the door was open to do business. And the rest is history.

But in examining this, we are not interested—that is, our prime concern isn't to go out and investigate all these doings; our prime concern is to show the need and as near as we can the immediacy of the need to reform and restructure our regulator system.

Federal Reserve Board clearly and amply demonstrates its inability to know what is going on. The State chartered institutions under our dual system are not able to do it. So we are in a dilemma, and we are trying to expedite as much as we can while the staffs—the staff's counsel is preparing suggested legislation that we hope to get into.

But that is the prime purpose, Ms. Oakar.

Ms. OAKAR. Thank you.

The CHAIRMAN. Does any other Member have any other opening statements here?

Mr. Torres.

Mr. TORRES. Well, Mr. Chairman, I think that your calling for this hearing is very timely, given last nights and this morning's revelations about this kind of administration attitude, as the drama on Iraq unfolds. Contrary to intelligence reports that the administration was receiving, nonetheless it proceeded to provide Iraq with important military parts and other technology through Jordan.

I would perceive this to be sort of the tip of the iceberg, but through your investigations and a hearing, you have already stated that this is not an investigation, we can attempt to develop legislation that will really bring to light these, what I tend to believe are outrageous actions on the part of government at a time like this. The CHAIRMAN. Thank you very much.

If you will yield to me, Mr. Kennedy, I will recognize Mr. Wylie. He arrived a little late, so I will ask Mr. Wylie for any opening statement.

Mr. WYLIE. Thank you very much, Mr. Chairman. I appreciate the courtesy, and I am sorry to be a little late.

I appreciate you having these hearings today, and we do want to hear, of course, from the Eximbank and Mr. Macomber and Director Rodriguez a little later here.

From the reading of today's testimony, I think we can conclude that the Eximbank has done a very good job of analyzing Iraq's foreign credit situation. In retrospect, I wish the Commodity Credit Corporation had been as vigilant as the Eximbank.

But before we rush to judgment or incriminations involving administration policies, I think it is wise to view the Iraqi credit situation from the perspective of U.S. foreign policy during the time that credits and guarantees were extended.

And I know that it is worth noting that there is far more governmental scrutiny as far as U.S. trade policy as it affects foreign policy concerns than there are for other exporting countries, especially in Europe.

And we want to look at it from that perspective, too. There is another important difference between our government and those of the European community, and our system has more public accountability as evidenced by the hearing today, and many other governments would sweep a similar controversy under the rug.

So I want to commend you, Mr. Chairman, for your vigilance in holding these hearings, and I want to commend our witnesses for their willing helpfulness in trying to get to the bottom of this.

But I would ask unanimous consent to enclose my entire statement in the record at this point.

The CHAIRMAN. Certainly, without objection, so ordered.
[The prepared statement of Hon. Chalmers P. Wylie can be found in the appendix.]

The CHAIRMAN. I want to thank you for your kind words, thank Mr. Torres for his kind words.

Mr. Kennedy.

Mr. KENNEDY. I want to again add my voice to those that are offering praise this morning for the leadership that you have shown on this issue because I think that without your vigilance, the activities of BNL and the complicity that has been applied by the U.S. Government would never have come to the fore.

I think that your leadership has also demonstrated that these hearings aren't just designed to lay blame, but they are designed to try to deal with the problem a more fundamental way.

And I think one of the concerns that I have that came out in the testimony that came forward last time the Eximbank came before the committee were some of the longer term reforms that are necessary to make sure that the Eximbank has the capability of checking with the other agencies in the United States to make sure that goods and services that they are providing export subsidies to are not, in fact, on any kind of list that would indicate that these are activities that should not be condoned.

And as I understand it, there are over 180 different transactions that have been included, or approved, by your—one of the depart-

ments, I think it was the Engineering Department, within the Eximbank that have not, where we have not gotten any kind of assurance that they are reviewed by the CIA or other agencies to determine whether or not these goods and services are on any kind of black list.

So I want to make sure that we are going to hear from you today as to exactly what reforms are being undertaken by the agency to make sure that you are aware of the kinds of activities that ought not to be permitted and, in fact, are illegal by this country.

So I am concerned, Mr. Chairman, that I am not going to be able to stay for the whole hearing this morning, but I do want to make certain that Chairman Macomber has the—answers those issues, and if he cannot do it while I am here, Mr. Chairman, I would certainly appreciate it if he could do it in writing back to me at some point.

Thank you very much, Chairman Gonzalez.

The CHAIRMAN. I will ask unanimous consent that all members have an opportunity to present in writing any questions they may wish to submit to Mr. Macomber and the other witnesses.

Mr. Kleczka.

Mr. KLECZKA. Mr. Chairman, in an effort not to delay the testimony, I would ask unanimous consent that my statement be entered into the record.

Chairman GONZALEZ. Certainly. Without objection, so ordered.
[The prepared statement of Hon. Gerald D. Kleczka can be found in the appendix.]

The CHAIRMAN. The chair will recognize our two panelists for their opening presentation.

It is a privilege to welcome the Chairman, Mr. John Macomber, and the Director, Ms. Rita Rodriguez, and recognize you at this moment, and thank you very much for submitting your statements.

We have an opportunity to look them over, and that we deeply appreciate.

Mr. McCANDLESS. Mr. Chairman, before the gentleman begins, you have another gentleman down here at the other end. I just wanted you to know I was here.

The CHAIRMAN. If the gentleman wishes to make an opening statement.

Mr. McCANDLESS. I do not have an opening statement.

The CHAIRMAN. I apologize to the gentleman from California.

Mr. McCANDLESS. Thank you, Mr. Chairman, and I assume your remarks imply that my submitted written testimony will be included in the record.

The CHAIRMAN. Yes, sir, indeed it is.

[The information referred to can be found in the appendix.]

STATEMENT OF JOHN D. MACOMBER, CHAIRMAN, EXPORT-IMPORT BANK

Mr. MACOMBER. With your permission, I would like to highlight briefly a few important points and then I have a few other comments.

Since I am going to be the first of the witnesses today, I would like to go through a brief history of the chronology of the Bank's

dealings with Iraq that are relevant to the session that you are going to have today, not only with Dr. Rodriguez, but with my colleagues, from the professional staff of the Bank, who are coming on the second panel.

From July 1987 until early August 1990, the Bank was open, in Iraq but we provided only short-term insurance cover and that cover up to 360 days for American exports.

That is the absolute minimum type of opening that our Bank can have. We set up \$200 million outside limit on this revolving line, if you will.

Now, prior to 1987, as the chairman said in his comments, the Bank had been off cover for the roughly the preceding 16 months, because of what essentially all of us would call payment difficulties.

So as I say, in July 1987, we opened cautiously and we opened with the fact that all of the arrears had been paid up.

In other words, the Iraqis at the time that we opened had a clean slate under the short-term program. We opened up essentially to gather repayment experience, that is to test Iraqi creditworthiness.

And this was despite, as you understand, understandable and considerable pressure, which is perfectly normal, by the way, from the American business community to open up longer lines, and not to mention the competition from other foreign export credit agencies that were open across the board, short, medium, and longer term which again the Chairman referred to in his remarks.

During this time, the Bank monitored the coverage on a continuing basis because of again creditworthiness concerns. I should say in response to the Representative from California, that whenever there was a credit problem, the Bank suspended any further cover until the Bank was current on all Iraqi debts. This was the Bank's policy until the President signed the Executive order in August 1990.

Once we reopened in 1987, Iraq continuously requested that we expand the coverage to include medium- and long-term transactions, which are really the basic part of our programs, and by far the most valuable.

And that request as you have referred to, was declined. At no time did the Bank ever allow its exposure to get beyond \$200 million, and we always kept it well within the 360 days which is required by the program.

Now, these are the relevant facts behind this thing. But at the heart of the issue, and what you will have to decipher directly or indirectly from all of the written statements, is the basic credit criteria that has always existed since the days when this Bank was set up in the New Deal. Behind Eximbank's credit analysis, and there has to be reasonable assurance of repayment on any transaction the Bank supports.

Mr. Chairman, I think I am correct in saying that this is actually written in the legislation. The Bank has not been established as a profit-making agency, but at the same time, we are not a grant agency either.

And that sets the tone for all that we do. The phrase reasonable assurance of repayment translated in the case of Iraq into a will-

ingness by the Bank to limit what we were doing to short-term transactions.

That is the Bank's credit evaluation process which you are going to hear a great deal about later on, sir, from my colleagues on the professional staff—how it works its strengths and limitations. As a result of the credit analysis by the Bank's staff, we decided that we would go no further than short term and only on the limited basis that I have talked about.

Our current Iraqi debt of \$50 million is a lot of money by most of our standards, and parenthetically I think we will be able to eventually recover it. But the Bank's credit evaluation and adherence to the principles of this reasonable assurance for repayment prevented truly significant losses, which in a way I am repeating what you said earlier, Mr. Gonzalez.

So that is the basic background I would like to lay before you, and perhaps you would like to hear Dr. Rodriguez and then question us. We will do it any way you would like.

[The prepared statement of Hon. John D. Macomber can be found in the appendix.]

The CHAIRMAN. Very well.

Thank you very much.

Ms. Rodriguez.

STATEMENT OF RITA M. RODRIGUEZ, MEMBER, BOARD OF DIRECTORS, EXPORT-IMPORT BANK

Ms. RODRIGUEZ. Chairman Gonzalez and members of the committee, I have been a member of the Board of Directors of Eximbank since 1982.

So I welcome the opportunity to appear before you, and discuss my role in formulating and approving Eximbank's policy in specific countries in general, and Iraq in particular, and the participation of specific financial institutions, such as BNL, in Eximbank's program.

As a member of the Board of Directors of Eximbank, I participate in the policy decisions as to the programs and the conditions under which Eximbank credit is to be made available in the country.

The guiding first principle in this decision is the congressional mandate to find reasonable assurances of repayment, and you will find that phrase in all our board memos. In this decision, the board established the maximum repayment terms that will be acceptable for that country, short-term, medium-term or long-term.

This decision, in turn, determines what programs will be used under a given country, the insurance program, for example, being the only program that is available at Eximbank for short-term financing.

In situations where there are questions about the creditworthiness of the country, like Iraq, the Board may decide to impose a limit on the exposure that it will be willing to accept in that country, in the aggregate or by transaction size.

Finally, since 1987, the Board also decides on the country risk fee schedule to be applied in the country. The Board meetings to decide on country policy are usually preceded by an in-depth, inter-

agency review of the country's capability to repay its debts in the future.

During this review, Eximbank's economist presents his or her analysis and the other agencies comment on it. The decision to offer the short-term insurance program in Iraq with a maximum outstanding balance of \$200 million was reached in July 1987 following this procedure.

Now, once the Board has established general guidelines for country policy, specific cases still come up to the Board in that country in three general cases. One is cases which fall within the parameters of the given country policy, but which involve credit amounts higher than the amounts delegated by the Board for decision by Eximbank staff or the loan committee.

The bank letter of credit insurance policy used by Banca Nazionale del Lavoro in Atlanta was approved by the Board, because its size exceeded the amount delegated by the Board for a decision by the staff on this type of policy.

The other type of specific cases that come to the Board for a decision are cases which fall still within the parameters of the given country policy, but which staff considers to be outside Eximbank's policy in other areas, for example, in the area of financing of defense goods.

In the case of Iraq, a few cases were denied at the Board level because of their relationship with Iraqi military.

Finally, the third type of cases that come for decision to the Board involve cases which are outside the parameters of the country policy, but which the applicant insists be brought for a decision by the board.

In Iraq, the typical request in this category involved the financing of exports associated with projects which require, and typically will be offered, longer terms than the 360 days allowed under Eximbank's policy for Iraq.

Now you have asked me to comment on my responsibility in general at the Eximbank, in addition to the duties as a member of the Board, among the other responsibilities assigned to me, all Eximbank's presidents under whom I have served since 1982, have asked me to work closely with the country analysis staff. This work has involved primarily the establishment of methodologies and procedures which would preserve and enhance the independence and objectivity of the economists responsible for generating country risk analyses, and which would facilitate the comparison of country's risks and associated policies.

In 1986, these efforts led to the establishment of a separate Country Risk Analysis Division at Eximbank, to which all the country economists formerly under the regional division were assigned.

In 1987, an informal group with whom I had worked in developing an exposure management concept for Eximbank was formally constituted by Chairman Bohn, as the Exposure Management Committee, which I have chaired almost since its inception.

The Exposure Management Committee is responsible for reviewing country policy and portfolio policy for the Bank as a whole, and to make recommendations to the Board as to country and portfolio policies on a semi-annual basis, or more frequently, if needed.

However, the Exposure Management Committee does not review the risk analysis performed for a specific country before it is presented to the Board.

You are interested in the influence that the country risk analysis performed by the staff had in my decision on policy for Iraq.

Clearly, the assumptions and the analysis made by Eximbank's economists were decisive in determining the narrowness of our policy in Iraq.

In spite of the enormous demand for export financing, which U.S. exporters alleged to exist in Iraq, and in spite of the presence of heavy competition from other export credit agencies, which we are generally mandated by Congress to meet, and which offered not only their short-term program, but also their medium-term and long-term programs to finance their exports, extending goods to Iraq, Eximbank's economist analysis prevailed.

That analysis indicated lack of reasonable assurance of repayment in credit transactions with Iraq on terms other than short-term, and it shaped the Board's decision to offer only a very limited program in Iraq.

You are also interested in the influence that other agencies in the United States may have had in our decision.

Because of the recurrent petitions from exporters, which all the members of the Board were hearing since the United States reestablished diplomatic relationships with Iraq, inquiries into the staff's analysis of Iraq's creditworthiness were common, when confronted with a policy that would not support the kind of financing they were looking for. Similarly, a staff from other agencies often provided evidence which in their opinion supported a more optimistic outlook of Iraq's creditworthiness than the analysis of Eximbank's economists suggested.

Finally, the influence of the BNL-Atlanta matter on Eximbank's policy: As I said earlier, the policy used by BNL to cover repayment risk in Iraq was approved by the Board. Eximbank's Board was not asked to approve any transactions with BNL-Atlanta since the scandal of that institution began to be known.

The last renewal of the BNL-Atlanta was approved by the Board in October 1988. When the BNL-Atlanta case began to be discussed in the papers, I asked in our senior staff meeting whether anybody was looking into our relationship with BNL after the fact. In successive meetings, I was informed that the review did not show any evidence of impropriety in our relationship and that the last transaction with that institution had taken place some months earlier.

Mr. Chairman, this concludes my testimony. I will be glad to answer any questions that you or the other members may have.

[The prepared statement of Ms. Rodriguez can be found in the appendix.]

The CHAIRMAN. Thank you very much, Ms. Rodriguez.

Chairman Macomber, I believe that most of the discussions and all were really to staff level, so that the appropriate staff level from, say, State, usually that would be what, a desk officer relating to that particular area or country?

Now, we do have this documentation showing a considerable—what can easily be defined as pressure from these levels, from the State Department, the Commerce Department. But to your mind or

memory, do you have any recollection of any sub-secretarial or secretarial-level intervention?

Mr. MACOMBER. Mr. Chairman, the answer to your question is absolutely not.

I have not been, nor do I know of any other Board member, been that has subjected to the word "pressure," if you will, to bend policies that have been long in adherence at the Bank and, in fact, are a matter of law. There has been no pressure of that type.

The CHAIRMAN. What about what today would be called "private sector," but private area that has connotations with quasi-official, individuals and associates that at some time or another some governmental responsibility?

I believe that, perhaps, the greatest intervention or efforts would have been made from the private, the commercial sector corporations.

Because our documentation, and again I remind my colleagues that I have submitted that documentation for the record, shows corporations from Bechtel to General Motors seeking considerable Export-Import Bank intervention or help.

Isn't it rather difficult to resist more from that level than from, say, the governmental the pressure or the insistence that the Eximbank approve a guarantee of some kind?

Mr. MACOMBER. Mr. Chairman, that is at the heart of the whole issue, and I think it is right on, if I may say so.

As you mentioned in your earlier statements, there was, at that time in the mid-1980's, into 1988, 1989, tremendous business interest in Iraq, for a whole variety of reasons. Therefore, it was absolutely normal for people in the Bank to be discussing with those companies or institutions whether or nor there was a chance of doing business; absolutely no question about that.

There is a thing in the U.S. Government called "checks and balances," and there is something in the Eximbank called "checks and balances," and it is called, "the reasonable assurance for payment."

I can have that wonderful ability to sit politely and listen to somebody in business say, or from another agency say, you know, it is this interest, or that interest, and wouldn't you consider, and all I have to say is we have a professional staff that does the economic and credit evaluation, and if that credit evaluation does not come up to the point that we can make a favorable credit decision, there is no way we can do it.

Now, I should emphasize that the Board makes the decisions, not the professional staff, which, again, is the way it is set up in the legislation.

But, obviously, we listen hard to what the professional staff has to say. That is the great protection of the Bank.

The CHAIRMAN. In the case of Iraq, you did meet the Iraqi Ambassador and other Iraqi officials to discuss the Eximbank's refusal to loan money to Iraq. I believe the Iraqi Government protested very fiercely, and was trying to make a case that the United States was hostile to the regime as a result of the refusal for the loan money.

Were these meetings often and insistent, and to what degree did they have the joinder of American interests, private interests?

Mr. MACOMBER. They were not particularly frequent, but they were there. They did occur.

In fact, I attended one of the meetings when I joined the Bank's Board a couple of years ago. But I don't consider that to be anything other than normal courtesy, if I may say so, the willingness to meet with ambassadors who think that we should have a different attitude about their country, or who would like to present their case as to why we should have a different attitude about the credit-worthiness of their country. That is a normal, ongoing situation, and in addition to courtesy, we often learn a lot from these visits.

Having said that, we keep retreating to the basic fundamentals. The CHAIRMAN. Dr. Rodriguez, could you describe how the Eximbank's counterparts in foreign countries were handling the Iraq matters, and what kind of payment record Iraq had with those countries, if you have any knowledge?

Ms. RODRIGUEZ. Other major countries competing with the United States were by and large open in Iraq, under all their programs, as I have said. Their repayment experience was one that by certainly 1989, when the subject was discussed at the Berne Union meetings, the practice of Iraq requesting bilateral rescheduling was common, that was well known.

The CHAIRMAN. OK.

Mr. WYLIE. Mr. Chairman, Director Rodriguez, you are a member of the board of directors and there are different members, I guess, on the board; five?

Ms. RODRIGUEZ. Yes.

Mr. WYLIE. And there are two that are not voting members, is that right, ex officio, that is the Secretary of the Commerce and the U.S. Trade Representative.

OK.
Do the five members all vote on whether to extend credit to a particular country, or is that a decision that you are able to make on your own initiative?

Ms. RODRIGUEZ. In most cases, it is a consensual decision. In cases where the members do feel very strongly, and there is a divided opinion, there will be a vote taken.

Mr. WYLIE. Otherwise, you are able to do it as an individual, and that is what happened in the case of Iraq.

Ms. RODRIGUEZ. I cannot remember whether a vote was taken.

Mr. WYLIE. I am not questioning the wisdom of your decision of that, I was just trying to educate myself as to how this comes about.

Now, does the Secretary of Commerce attend the meetings when votes are taken?

Ms. RODRIGUEZ. During my almost 9 years at the Bank, the Secretary of Commerce has not attended. The Assistant Secretary for International Trade often attends.

Mr. WYLIE. The Chairman asked about the intervention of the State Department and the Department of Commerce, and perhaps the U.S. Trade Representative, as far as decisions of the Eximbank are concerned. Do they come into play very much?

What foreign policy considerations come into play at Eximbank's program?

I guess that is the bottom-line question?

Mr. Macomber, you can answer that if you want.

Mr. MACOMBER. Well, clearly, we are governed by a series of Executive orders as well as the occasional legislative regulations from Congress.

We are off cover in several countries at the moment, either because of human rights issues, the Marxist-Leninist prohibition, and sometimes terrorists activities.

So there is a whole gambit of countries that can be documented by the State Department, or other parts of the executive branch and/or by Congress.

Mr. WYLIE. So on occasion, that does come into play, foreign policy considerations?

Mr. MACOMBER. In that case, absolutely no question.

Mr. WYLIE. But in this case that did not necessarily rear its ugly head.

Mr. MACOMBER. It had earlier, because of the terrorist situation, that is correct. It had, indeed, slowed the Bank down. And at one point if I recall, Congress had put it off balance because of the terrorist activity.

Mr. WYLIE. BNL participated in your bank letter of credit; is that correct?

Mr. MACOMBER. Yes, sir.

Mr. WYLIE. What type of information did you ask BNL to supply you with? You might be better equipped to answer that, Director Rodriguez?

Ms. RODRIGUEZ. The standard information requested from any financial institution that applies to participate in our programs, which is information associated with their financial conditions, their history in business, and then typically there will be 3 or 4 years of financial statements submitted, plus some history of what kinds of transactions they have done and where they have been engaged.

In the case of BNL, it clearly was a multinational bank.

Mr. WYLIE. Would regulators have any occasion to check records of BNL against the records which you elicited from them?

Ms. RODRIGUEZ. Certainly.

Mr. WYLIE. So the bank regulators might have been involved here; is that what you are saying?

Ms. RODRIGUEZ. No. They were not involved.

To the best of my knowledge, nobody raised any question. When that policy was approved there was absolutely no question about the creditworthiness of the parent company and the ability to perform of the Atlanta office in particular.

Mr. WYLIE. So you don't know if they did or did not ask for any help?

We now know that BNL greatly exceeded internal limits set by its parent company, partly through BNL's participation in the Commodity Credit Corporation, Eximbank. In approving the participation of a bank, and your Exim program, is information ever referred from a bank regarding its internal lending limit or exposure to a particular country?

Ms. RODRIGUEZ. We do not take that information. In fact, in most cases or very often, you will find a financial institution asking for the insurance program of Eximbank or CCC, I imagine, because

they are already at the country limit that their internal regulations have imposed.

Mr. WYLIE. OK.

To what extent, and do you think the Commodity Credit Corporation guaranteed credit to Iraq when Eximbank was not, or when Eximbank's exposure was so low, whereas the Commodity Credit Corporation's exposure was a little higher?

I am not sure that—why do you think that the Commodity Credit Corporation extended credit in areas where you weren't able to or didn't?

Ms. RODRIGUEZ. I, quite frankly, am not familiar with the mandate given to CCC, nor how they implement it. We have received information from them, which included what they were doing in Iraq. In addition, they participated in the country analysis discussion.

But their programs I do not understand, nor do—

Mr. WYLIE. It was a strange question, and I am not surprised by your answer.

Thank you very much.

The CHAIRMAN. Mr. Macomber, what is your position on the Bush administration's initiative to permit the Eximbank to provide financial guarantees for sales of military products to industrialized and Third World nations?

Mr. MACOMBER. Sir, I am very much in favor of that, and I don't know how much time you want to devote to that today, but let me give you a brief, if I may, rationale, as to why I think it is a good idea.

In your opening comments you made the comment that this would have been a big change from the Bank's past history over the past 15 to 17 years. It is a big change, but things have changed.

Most defense contractors in this country are seeing a much smaller domestic market.

I do not believe there are too many people who think it is not in our interest to maintain a strong defense manufacturing capacity, and, therefore, the overseas markets which heretofore have not been all that important to them suddenly loom very, very important. That is the first point.

The second point is that the administration, and I suspect people like yourself have been much more forthcoming about supporting the budget of the Export-Import Bank.

In other words, there is room to do this without robbing Peter to pay Paul, Peter being the traditional nondefense business.

Third, we are proposing a limited amount of money. It is a lot of money, but in terms of defense business, it is a billion dollars, and that is not going to change the character of the Bank. However, it could be of some help to the defense industry.

And as important as anything else is from the Chairman's point of view our charter reauthorization is coming up, as Ms. Oaka: realizes in another year, and we are proposing this as a pilot program, and unlike many other pilot programs in the U.S. Government, this really would be one.

Because by definition, you have to look at this next year and say yes or no about it. I understand the emotional issue surrounding the financing of defense articles and services, but I think we have

put firewalls around this program so I can say to you in a straightforward, practical way that we will be of some help in the trade promotion are for our defense industry.

I can talk on forever on this, Mr. Chairman, but I think that summarizes it.

Mr. ANNUNZIO. Mr. Macomber, I have been a long time member of this committee, over 20 years. You have the record. I have always supported the Bank. But this particular policy is very disturbing to me.

What happens when we loan money to one of these countries and we go to war? They have the weaponry. They have the equipment. They are killing American boys.

Mr. MACOMBER. Yes.

Mr. ANNUNZIO. Doing it with our own money. That is what disturbs me.

Mr. MACOMBER. Yes. It would be absolutely irresponsible for the Bank to embark on a program where the likelihood of that happening is very, very high. We are proposing this for our NATO allies as well as Japan, Australia, and Israel.

Mr. ANNUNZIO. I appreciate your answer, but you know it has already happened.

Mr. MACOMBER. I don't see where it happened under those circumstances.

Mr. ANNUNZIO. In Iraq.

Mr. MACOMBER. Iraq would not pass the credit analysis. There is no way we could do it. First of all, it has to be a creditworthy transaction. Iraq was not then, and is not now a creditworthy country.

There is no way it could be done. That is why we have this limitation to countries which in your and my vernacular would be AAA countries.

Mr. ANNUNZIO. It is my understanding that Iraq got approval, when they got this money, to buy arms and we went to war with Iraq and these weapons were used, you know, there were American boys out there.

It just appears to me like we are financing our own destruction, Mr. Macomber.

I yield to the Chairman of the committee.

The CHAIRMAN. I was going to ask the gentleman to yield to me. Although we are interested, this isn't the principal focus for this hearing. It is a matter that is concerning more and more of our members. We have a couple of Members, in fact, who have drafted a bill that would provide legislation to prohibit this as a new policy for the Eximbank.

Let me say this, that I agree it is not a matter pertinent to this hearing, but I can understand why it would be brought up.

The reason is, and I think Mr. Annunzio is absolutely correct. I must agree with him. Given the contradictory—I hate to use that word, but you can say its schizophrenic policy or lack of policy is that our country has developed, it is conceivable that if the Eximbank is allowed to get away from its traditional loan practices and go into military merely because the domestic military industry is supposed to be having a hard time because of cut-backs, but actually compounding the world's problem.

What we will say is we are learning nothing; we have learned nothing if we then continue with a vengeance the very thing that is leading the whole world now to God only knows what disastrous conclusion.

So I think that it is something that we cannot keep from having it injected here in the course of these hearings.

Let me add my voice to Mr. Annunzio's because I am in complete agreement with him. Nobody would have foreseen in 1983 when the President removed Iraq from the list of terrorists countries, even though Iraq and Israel have been in a state of war for years, and in full knowledge of that the United States with its traditional policy with respect to Israel nevertheless fomented, stimulated that we are discovering is this intricate, inner-connecting maze. That is why I was asking the questions awhile ago. You have everybody from Kissinger and associates to a present highly placed official, a Deputy Secretary of State, Egleburger, intervening in a contradictory way.

It was Henry Kissinger's voice last autumn that was saying last autumn, Mr. President, you can't wait; you have to go in and have a quick kill in Iraq.

Yet it was his business associates and his representations through one of his staff in Iraq that was contributing to the enormous scorn of the taxpayer to loans some of which—no question about it—provided monies for the military and equipment and food stuffs that kept Iraq's army going.

I wanted to join my colleague.

Mr. ANNUNZIO. I thank the Chairman.

I want the Chairman to realize he was speaking on my time. My time has expired. I have some more questions that will have to wait.

The CHAIRMAN. I ask unanimous consent the gentleman be given an additional 2 minutes.

Mr. ANNUNZIO. Thank you very much.

While I—

Mr. MACOMBER. I would just add—

Mr. WYLIE. Reserving the right to object, I just wanted to ask Mr. Macomber about, before you get to that, isn't the suggestion that credit be extended to just NATO and Japan in this case for military equipment?

Mr. MACOMBER. That is correct, plus Australia and Israel, those countries.

Mr. WYLIE. You did not have authority to extend the credit directly to Iraq.

Mr. MACOMBER. In actual fact, we have authority to extend credit to many of those countries the way the legislation is written today.

Mr. Annunzio put his finger on it earlier when he said there is a practice that has existed for 15-17 years whereby the Bank has not provided the financing for defense articles and services, and therefore as a matter of good faith—the Chairman and I talked about this earlier—we thought it appropriate to have the issue raised and have it debated.

Ms. OAKAR. Will the gentleman yield?

Mr. WYLIE. I withdraw my reservation. I just wanted to make that point.

Ms. OAKAR. Reserving the right to object, will you yield?

Mr. ANNUNZIO. Sure.

The CHAIRMAN. You still don't have your 2 minutes.

Ms. OAKAR. May I ask my Chairman to yield? You will yield, Mr. Chairman, Chairman Annunzio?

Mr. ANNUNZIO. Absolutely.

Ms. OAKAR. Let me just assure my colleagues that the subject of the administration's proposal and the Eximbank proposal which was the subject of a subcommittee hearing last week will be fully explored and I appreciate that it is attempting to bring it up at this particular hearing, but I wanted to assure my members that we are going to take it up, and there was significant interest in this particular aspect of the proposal, and we will be marking up that bill in the near future.

The CHAIRMAN. Mr. Annunzio, you are recognized for 2 minutes.

Mr. ANNUNZIO. Mr. Macomber, what is the total dollar amount of Exim loans to Iraq, which are in default today and who will pay for the resulting losses?

Mr. MACOMBER. At the moment the number is roughly \$50.8 million.

Mr. ANNUNZIO. Fifty point eight million—

Mr. MACOMBER. Million.

Mr. ANNUNZIO. Billion?

Mr. MACOMBER. Million.

Mr. ANNUNZIO. Million.

Mr. MACOMBER. Million. We are a little smaller than that. It is our hope and certainly our intention and you will hear more about this later from our claims and collection group, that we will, in fact, recover that money over time.

Mr. ANNUNZIO. You will.

Mr. Macomber, Iraq has had a history of not meeting its loan payments. Yet in July 1987, Exim reopened its lending relationship with Iraq even though its internal analysis supposedly could not support these extensions of credit.

Did Eximbank receive any pressure from the U.S. Government to lend to Iraq? When I say "the government," I mean the Secretary of State or the President?

Mr. MACOMBER. Absolutely not. And we opened in those days only after the Iraqis had cleared up arrears, and as all of us have said earlier and you will hear more later on, there was no further extension of the credit.

Mr. ANNUNZIO. Thank you.

My time has expired.

Mr. MACOMBER. Sorry, maybe I have taken too much.

The CHAIRMAN. Ms. Oakar.

Ms. OAKAR. Thank you, Mr. Chairman.

Chairman Macomber, on page 8 you indicated at the bottom of the page that the Bank's economic analysis rates have very serious questions about Iraq's financial capabilities and noted that Iraq was increasingly financing a military machine and then, of course, you mentioned that it was lightened by the possibility of conflict and so on

You were more of a prophet apparently than some others in the government. But in any event, based on that, I still really—then you go on to say that the National Advisory Council structure, and that includes the Secretary of Commerce, the U.S. Trade Representative, Secretary of State, yourself, Chairman of the Federal Reserve and the International, director of the International Development Corporation Agency, and so forth, and chaired by Mr. Brady, Treasury Secretary, that basically that structure doesn't really do anything with respect to the structure itself—I am trying to find the exact language here—where you say that with respect to economic programs that come before that entity you indicate that it is very seldom that you object to another department's kind of credit like CCCs.

So, while Eximbank had serious reservations about furthering long-term extensions of credit and even in your engineering department where they raised a question, you said that it was not likely that chemical weapons were being produced but at least they raised the question, still you felt that you could not cast a vote against the CCC credit even though you indicated in your testimony that there was surfacing this BNL scandal.

What is the purpose of having this National Advisory Council Board if the members on the board don't object to loans and extensions of credit that come under other agencies that are not board-member agencies?

Mr. MACOMBER. As you know, we are clearly not the lead agency in the National Advisory Council process, and therefore our role in the National Advisory Council process in matters that are not related to the Eximbank is simply to provide information.

Ms. OAKAR. But you provided the information about Iraq; didn't you? I mean, your department—as I mentioned earlier, you should get high marks for giving the danger signals relative to Iraq and the analysis was very negative. That was by your own admission and the director's admission and apparently your staff was on to something.

But I don't understand why, based on that, why you didn't cast a negative vote for the CCC, could modify program that they wanted which we have reason to believe did not necessarily involve agriculture entities but involved weaponry.

Mr. MACOMBER. Yes, I think the best reply I can give is that many issues are brought to bear in the NAC process. After a balanced presentation of the facts, other information and judgments on the types of transactions of a certain size or certain character from members of the National Advisory Council a decision is made: For example, the State Department would have certain issues relating to human rights and other matters; the intelligence agencies would have certain inputs; any negative inputs provided by Eximbank or any NAC member, may be offset by more positive inputs from other agencies.

Now, in actual practice there is a great deal of informal discussion I suspect on many of these controversial issues so from the Bank's point of view we have it pretty well talked out by the time they get there. But there are controversial issues here.

As far as the relationship with other agencies are concerned, the Bank's role is really a purveyor of information in the National Advisory Council.

Ms. OAKAR. Then you did give the information, your staff's negative report which you really emphasized in your statement, concerning Iraq and its credibility, creditability, and yet how did they react? How did National Advisory Council members react when you put forward your analysis?

Mr. MACOMBER. I can't answer going back to past years, but they put it into their own decisionmaking process. That was their reaction.

Ms. OAKAR. Why can't you answer how they reacted?

Mr. MACOMBER. I wasn't around.

Ms. OAKAR. Let me ask, Director Rodriguez, you were around?

Mr. RODRIGUEZ. I was around but not in a NAC meeting.

Ms. OAKAR. I don't believe neither one of you know what the reaction was of the NAC members. That is really hard for me to believe. I am not trying to attack the credibility of the Eximbank, because I am a fan of the Bank. I think we need it for the sake of our export opportunities. I want to make that very clear.

But who was around?

Mr. Chairman, can I ask who was around and who would know what the reaction of the NAC was?

Mr. MACOMBER. Can I take a whack at the answer?

Ms. OAKAR. Sure.

Mr. MACOMBER. The kinds of information you all have gotten which is prepared by our internal staff is obviously made available to other agencies. It is obviously a part of their decisionmaking process.

To the extent that they find it relevant to their particular decisionmaking process is something you have to ask them about.

Ms. OAKAR. Well, but you were there for some of the discussion; weren't you?

Mr. MACOMBER. No, the NAC is carried out at a lower level within the Bank.

Ms. OAKAR. Then do I ask your staff? Do they know more than you do—

Mr. MACOMBER. They might know more about the particular instances, yes.

Ms. OAKAR. Mr. Chairman, because I think this is a pertinent question—but the buck has to stop with the Chairman of the board. I would assume that you would know.

My concern is that apparently the Eximbank had a very relevant analysis that gave all kinds of danger signals about this situation with respect to Iraq and had probably done the most comprehensive analysis and yet apparently it was virtually ignored by this very sophisticated board.

Mr. Chairman, I think the whole point is, why? Why is it that public policy did not go forward, based on some very intense research and if that research weren't enough, then what research did the Secretary of Commerce, the Secretary of State, U.S. Trade Representative, and others, provide that counteracted the Eximbank research?

The CHAIRMAN. Will the gentlelady yield to me?

Ms. OAKAR. Delighted.

The CHAIRMAN. Of course, Chairman Macomber is the best qualified witness. He may not know some of the details like we may not know some of the intricacies that the staff works up on some banking legislation, but I think in answer to what you are leading to, I think Mr. Macomber answered that in a way when he said that once the Central Bank—I imagine of Iraq—cleared its account and became creditworthy, a decision was made to extend whatever credit was extended. But it will be refused up to that point, because of its lack of creditworthiness and whatever the track record showed was a poor payer.

Now, I think the central question here is, why, if the staff of the Eximbank, and even the board members knew and had a hard opinion on it, would there have been in the light of recommendations from other levels of the government, a change?

I believe that those departments, Ms. Oakar, just absolutely had a different policy at the time and that policy was to do business with Iraq.

Mr. WYLIE. Will the gentlelady yield? I think you are on to something I was trying to get into a little earlier.

Ms. OAKAR. Sure.

Mr. WYLIE. And it had to do with the membership on the directors and the ex officio capacity of the Secretary of Commerce and the Trade Representative.

I have a chart that says National Advisory Council, and it mentions all the people that you mentioned. Over here in its functions, though, it mentions that it is supposed to be advisory *inter alia* to the World Bank, Inter-American Development Bank, Asian Development Bank and African Development Bank Fund. It doesn't say anything about the Eximbank.

Is this same group advisory to the Eximbank?

Mr. MACOMBER. It is—the National Advisory Council that we are talking about has the representatives that Ms. Oakar has listed. They are a board or a group, if you will, that reviews the decisions of the Bank that go beyond the immediate authority of the Bank.

Ms. OAKAR. But if I can reclaim my time, what I am trying to get at is, frankly, not my concern about the international Banks, but my concern about the Commodity Credit Corporation.

To be honest with you, it—that is not necessarily your fault—but judged by your description of how votes are taken with respect to NAC, by a poll, telephone poll and so on, it is somewhat of a frivolous type of sensitivity to situations that might be very meaningful.

I would think, for example, that if the Eximbank came forward with a very comprehensive analysis relative to the credibility of Iraq and some real question marks that this NAC board would meet and not take a telephone poll relative to CCCs desire to give them extensive credit that will cost the taxpayers a lot of money.

I would just think that procedurally, we might want to look into this, Mr. Chairman, and ask if this Council operates so frivolously in terms of the manner in which it conducts its business.

I would have thought that based on your analysis the Council would have raised some real serious questions about extending credit to Iraq with respect to CCC. In other words, you wouldn't do

it but they found, they went fishing and found another agency that would.

Mr. MACOMBER. The functions of our agencies, as you know, are very different from one to the other—and we are in the commercial part of it. We have a certain approach to it based on credit analysis. Obviously, credit analyses are relevant because money is fungible and in that sense I think you are 100 percent correct.

Ms. OKAR. On insurance and loans, there is a leveling ground with respect to that aspect.

Thank you, Mr. Chairman. My time has expired.

The CHAIRMAN. The Chair will ask my colleague to yield for a moment.

We are very honored to have present with us there on the front row behind the witnesses some very distinguished visitors from the Italian Senate, the Senate of the great nation of Italy. We have Senator Carmine Gallafalo, Senator Marino Ortissa and the little lady I believe is a member of the staff and we didn't get her name, but why don't you get up and introduce yourself. I am sure you are bilingual.

The CHAIRMAN. And we have the Deputy Chairman of the committee. Let me say by way of parenthesis, that I have had the great, great honor of meeting the chairman, Senator Garda, about a moment and a half ago, a very distinguished gentleman.

You know, they have been in the matter of investigatory work for sometime in Rome. The Deputy Chairman, Mr. Guido Guersoa, and the Second Deputy Chairman, Mr. Massimo Riva.

Good to see you again.

And I think I should introduce the gentleman that accompanies the group who is so fluent in both of our languages that he is not only a representative, but a translator-interpreter, Mr. Enrico Zarnelli.

He and I are what we call in Spanish, *locallos*, meaning the same first name. But my real name is not Henry. It is Enrique. In Italian it is Enrico.

Thank you for taking the time to be with us. We feel honored to have you among us.

Mr. Flake, I believe you were in the point of arrival.

Mr. FLAKE. Thank you, Mr. Chairman. I have no questions.

The CHAIRMAN. Thank you.

Mr. Vento.

Mr. VENTO. Mr. Chairman, I haven't been here for the entire hearing and I apologize. I had schedule conflicts.

I think it is important to continue this matter by calling in administration witnesses. The concern I have is, first of all, with the independence of the Export-Import Bank because it appears to me that over the course of consencies' involvement.

Mr. Macomber, can you give me any assurance about the independence of the Eximbank decisions? Obviously, you decided at some point not to proceed with loans and guarantees of a short-term nature. Shouldn't we be concerned about that if we have other agencies of the national government, the State Department and others, having to have you take positions contrary to the positions or judgments made by the board itself and of the staff?

Mr. MACOMBER. Sir, I think that the Bank's Board over a period of time and the staff, while hardly perfect, has a record of looking at credit decisions from a very strong, straightforward credit analysis point of view, and unless it can meet the old-fashioned test of reasonable assurance of repayment there is no way that we can make the deal. That is part of the law. It is also part of the methodology of the place as well.

With regard to credit, of course, there are all kinds of lengths and durations. We opened up back in 1986, after having been closed, only after the Iraqis had brought themselves up-to-date on all of their arrears. There were none when we reopened.

Mr. VENTO. Was this with respect to the Eximbank credits they had or was it with respect to the range of credits which they had been extended on a broader basis with the United States or other international financial institutions? Were they up on their arrears on all of that?

Mr. MACOMBER. You have asked a very large question. The answer was as far as we were concerned was they had brought themselves up-to-date, absolutely no question whatever.

I believe, and you will check into this later on, they were up-to-date in the CCC, which will respond to some other questions.

At that time, they were beginning to play one export credit agency off against another. That was the reason why we, in fact, limited ourselves to very, very limited credit.

In the world of international banking, as you probably know, better than I, short-term credit does not amount to very much. The thing that everybody wants is the medium- and long-term credit. That, we would not do.

Mr. VENTO. One further question along these lines, in many of the loans that were put forward, they are blended credit; are there not? Eximbank puts them forward? You take a position but there is a private sector position in some of the credit; is that not correct?

Mr. MACOMBER. We would be financing the sale of goods or manufactured goods from the United States. We are not taking any position in the company or any position—

Mr. VENTO. No, I am not talking about that. In terms of credit, you have part of the credit; you take the first position in terms of exposure.

Was there any shortage in terms of other credit types extended to Iraq from the private sector within this participation? What was the input that you were getting for participation from the private sector in terms of credit for the Iraq transactions that you participated in? What was the message you were getting in? Can you generalize?

Mr. MACOMBER. Certainly, there was no great rush on the part of American, Japanese, or European banks to go in and do business in Iraq without any kind of a guarantee from and export credit agency.

Mr. VENTO. So without your participation, they were not willing to do it independently at that time at that point?

Mr. MACOMBER. Very unlikely, yes, sir.

Mr. VENTO. This is hard credit. This is not a soft window credit; is that correct?

Mr. MACOMBER. That is correct.

Mr. VENTO. So we are talking about market rates of credit, all about it, somewhat limited I guess by this particular agency.

Mr. Chairman, that is satisfactory for now. Thank you.

The CHAIRMAN. Thank you very much.

I believe Mr. Wylie and perhaps Ms. Oakar may want to have a follow-up.

Mr. Wylie indicates he does, so I will recognize him.

Mr. WYLIE. Thank you, Mr. Chairman.

Just so I will understand the line of questions Ms. Oakar went into earlier, the NAC Council in its current form is the advisory body authorized to review proposed transactions, programs, and policy to extend U.S. programs and for coordinating policy. This was a statutory group until 1965 when the Congress decided it shouldn't be any more.

Then, it was reinstated by Executive order according to the memorandum I have here.

Now, is it your position that NAC has veto authority over a credit extension of the Eximbank?

Mr. MACOMBER. No, it does not.

Mr. WYLIE. That is what I thought.

Now, their suggestion is advisory only. But in the case of Iraq, the NAC Council, as I understand it, suggested that at one stage of the proceedings that Iraq was not creditworthy and took your advice that a loan should not be made to that country.

Mr. MACOMBER. That is correct.

Mr. WYLIE. While almost in the same—at the same time period the Commodity Credit Corporation said that Iraq was creditworthy and NAC said it is OK, go head and extend them credit.

Is that a fair way to analyze what happened in that period?

Mr. MACOMBER. I am not familiar with the sequence of payments and repayments and disbursements of the CCC. I cannot speculate on that.

Mr. WYLIE. Let's assume hypothetically that that is accurate. Would that be an inconsistency in your view?

Mr. MACOMBER. It would not necessarily because it would depend on the criteria used which the CCC made their credits.

Mr. WYLIE. I thought that point had to be made and cleared up. In its present form, the NAC Council could not veto a credit extension of the Eximbank so that decision is basically yours and yours alone.

Mr. MACOMBER. In practice, the NAC is primarily an administrative vote to ensure coordination among the different agencies of the government. For example, if there is a human rights issue or intelligence issue associated with a transaction, the NAC, ensures that the other issue is brought into the decision-making process.

Mr. WYLIE. You would pay attention to what NAC had to say, but on the other hand you might suggest that they be wrong in this instance?

Mr. MACOMBER. Clearly.

Mr. WYLIE. OK.

Thank you very much.

Ms. OAKAR. Will the gentleman yield?

The CHAIRMAN. Ms. Oakar.

Ms. OAKAR. If I could, you referred to me. My point was really not about the Eximbank's extending the credit indirectly to Iraq. My point was about the CCC which extended \$5 billion or more in credit. They extended millions. CCC extended billions.

Mr. WYLIE. I understand that, but—

Ms. OAKAR. The point I was trying to make was not veto power and so on. The point I was trying to make, I say to my good friend from Ohio, was that this board did have oversight over CCC, and because Eximbank had done such a sophisticated analysis which was negative, that should have been on the table when they made the rounds and did their telephone poll and so on.

That is my point. I just want to be sure everybody gets the point I was making.

I wasn't criticizing Eximbank's loan to Iraq, which was short-term, and so forth. I was criticizing CCCs loan and asking why this red flag was not put up with the NAC board which to me I think acts rather frivolously if the only thing they do is take a little poll and say are you for it or against it.

I think there was some meat and potatoes there that were ignored.

Mr. WYLIE. I think that is the point I was attempting to make. There may have been different considerations. In the case of CCC, maybe they were extending credit to provide meat and potatoes, and in this case Eximbank was going for a different purpose.

Ms. OAKAR. In this case, it was chemical weapons.

Mr. WYLIE. For what? From what? From Eximbank?

Ms. OAKAR. From CCC.

Mr. WYLIE. Chemical weapons.

Ms. OAKAR. In some cases I believe, yes.

Mr. WYLIE. We will have to check that out.

The CHAIRMAN. Well, I think here the main fundamental purpose for this morning, I explained, and I think Ms. Oakar, you have touched on an all-important question. We will defer to your subcommittee, because you are going to continue your hearings and oversight with respect to Eximbank and we will go to that level. But from the overall level, the issue you have raised, I think, is a pertinent one, and that is the government is getting into trouble for the same reason that some of our biggest banks.

I think of the 1984 Chicago Bank, the Continental Illinois, you know, nobody really asked how could a bank just rated number one have gone under so soon.

Well, one thing, it became pretty big and extended to where the second floor of the bank didn't know what the third floor was doing and the fifth didn't know what the second or the third were doing and they were even violating such fundamental laws, traditional banking laws such as exposure of 10 percent to any one single borrower. The bank didn't know it.

It is the same here except in a little more complicated form. That is what we are about. We are particularly anxious to make sure that the financial institutions, the banking regulatory system of our country is shaping up as soon as it is possible for us to provide what I think is essential and necessary legislation.

So we want to thank you very much, Chairman Macomber—

Mr. VENTO. Mr. Chairman, I have another question.

The CHAIRMAN. The Chair will yield to Mr. Vento.

Mr. VENTO. What is the record in terms of the limit over the short-term was \$200 million. Do you have a record as to the actual number of dollars of credit provided? It was a 360-day period, but what was the amount of credit actually extended between 1987 and 1990 on August 2? Do you know?

Mr. MACOMBER. Roughly \$260 million.

Mr. VENTO. In toto. In other words, they kept most of it outstanding that time, and that was the maximum?

Mr. MACOMBER. No, that was the maximum.

Mr. VENTO. Was it \$200 million?

Mr. MACOMBER. Two hundred sixty million. We never went above \$200 million at any time and rarely came close to the \$200 million. Mr. VENTO. I understand.

What was the impact on the private market in terms of the Eximbank's presence for the short-term 360-day credit? It was positive; wasn't it? That was a positive signal to the private sector to participate?

Mr. MACOMBER. It was positive if you want to open up the door a crack.

Mr. VENTO. Well, that is exactly right. You did your risk analysis and you talked about creditworthiness. There are other factors involved, though; are there not?

Mr. MACOMBER. In the analysis of creditworthiness, yes.

Mr. VENTO. A risk analysis.

Mr. MACOMBER. Yes, a whole variety.

Mr. VENTO. In terms of the use of the credit that was use of the credit for various products and the determination as to the validity of such use.

How were you involved in that? How would you characterize Eximbank's involvement in that, Mr. Macomber?

Mr. MACOMBER. We would review the specific products that were involved.

Mr. VENTO. Did you find any problems with any of the products involved during that period?

Mr. MACOMBER. Occasionally, yes, but the engineering people will be getting into that in their testimony, but it was very rare that we would find that.

Mr. VENTO. That was not a reason for not extending credit or changing from short-term to mid-term or terminating it; is that correct?

Mr. MACOMBER. No, because people know we simply won't finance certain types of products.

Mr. VENTO. I know, but I was trying to understand whether or not, in fact, there was a repeated effort for marginal types of products being financed that were questionable? You don't believe so; is that correct?

Mr. MACOMBER. I do not believe so.

Mr. VENTO. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Kennedy, did you have any questions of these witnesses? We have 5 minutes following, but if you do, we will recognize you.

Mr. KENNEDY. Thank you, Mr. Chairman.

I had to be called out to testify before the Appropriations Committee briefly. I do have a question.

I mentioned in my opening statement, Mr. Chairman, I understand in reviewing the earlier documents in the subcommittee that the Eximbank is insured by \$267 million in exports to Iraq under 182 different transactions.

Are you familiar with those statistics? Can you tell us what percent of those transactions were reviewed for military applications by the engineering department?

Mr. MACOMBER. By definition anything with a military application goes there.

Mr. KENNEDY. When were any of those red flagged for having—are they reviewed for potential designations where these would not be available for export under U.S. law?

Mr. MACOMBER. No, there clearly is a list, sir, of products that come under the category of military and if anything is on that list or comes close to that list that rings a bell.

Mr. KENNEDY. I see.

Mr. MACOMBER. I know, Mr. Chairman, the engineers will go into that later on in the testimony.

Mr. KENNEDY. Can you tell us how many were actually reviewed?

Mr. MACOMBER. All of the cases are looked at from that point of view—if there is any product that comes close to or is on the list—the Bank simply cannot support it.

Mr. KENNEDY. My understanding was something different than that.

Can you explain to us what checks are in place to ensure the Eximbank does not guarantee military sales under its program?

Mr. MACOMBER. There is a list of military products and if these products show up on that list, we simply cannot do it.

Mr. KENNEDY. And you are confident that your agency is looking into those on a regular basis?

Mr. MACOMBER. As Mr. Annunzio was saying earlier, the mix of military sales in the Eximbank has always been an important issue.

I can assure you that, we have been looking at that very, very carefully.

Mr. KENNEDY. OK.

Let me try to follow up as the next panel comes forward because I have a different understanding of the extent to which your agency has been looking at these.

This is testimony that came out the last time that you were before the committee. I am not sure it was you, but last time this issue was before this committee it came out that there wasn't, in fact, the kind of review that you are talking about. In fact, in most cases nothing was done.

To be honest with you, my understanding is out of 182 different transactions, there was just a handful that was actually reviewed. I would be very interested if you could go back and really double check to make sure that all 182 were actually reviewed.

Because that is not my understanding. My understanding is, as I say, somewhere in the neighborhood of a dozen out of 182 were actually reviewed.

So could you let me know in writing?

Mr. MACOMBER. If we see something on here that says pipes and wrenches, clearly traditional products, we may not go through the investigatory review. If we see military ambulances, we sure will have it reviewed.

Mr. KENNEDY. Well, as I say, let's see to what extent once that should have been reviewed, were not.

[The information referred to can be found in the appendix.]

Mr. KENNEDY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Mr. Chairman, and Mrs. Rodriguez, thank you, again, for your cooperation. We deeply appreciate it.

Mr. MACOMBER. Thank you, sir.

The next witnesses are Daniel L. Bond, Vice President for Country Risk Analysis; Robert L. Charamella, Vice President, Insurance; Arthur Pilzer, Vice President, Africa and Middle East; John W. Wisniewski, Vice President, Engineering; and Stephen D. Proctor, Vice President, Claims and Recoveries.

Unless there is reason not to or there is objection, it is my intention to recognize you in the order in which you were introduced.

We want to thank you for your testimony that you submitted, and because of the time we took with the initial witnesses may I suggest that we have your written testimony as you presented to us in the record, and then I would suggest if you would summarize the high points of your testimony and thereby giving each member of the panel to be heard. Then, we will ask questions.

We will recognize Mr. Bond first.

STATEMENT OF DANIEL L. BOND, VICE PRESIDENT, COUNTRY RISK ANALYSIS

Mr. BOND. Thank you, Mr. Chairman.

I am Daniel Bond. My current position is Vice President and Chief Economist. I am in charge of the Country Risk Analysis Division of the Eximbank.

I came to the Bank in early 1988 and was Deputy Vice President of the division at that time. I became Vice President in early 1989, so I was involved in a good deal of the country risk discussions of Iraq in 1988, 1989, and 1990.

As you suggested, I will briefly summarize my written responses to the questions asked by the committee. First, using Iraq as an example, I will explain the country risk analysis process.

Dr. Rodriguez has gone over some of the major aspects of the country risk analysis process, but let me remind you that it starts in our division with a country risk analyst assigned to the country. Our analysts normally are assigned about a dozen important countries each. This analyst is responsible for looking at all types of information that might affect the repayment prospects for a country. We look at the past and we try to look into the future, that is, we do not limit our analysis simply to what is the condition today or yesterday. We provide the other staff members and the Board with an analysis of what each country's prospects, even to the extent of trying to provide quantitative projections of a country's repayment capabilities.

This process really looks at two things, the country's ability to pay and the country's willingness to pay. Our analysts had serious reservations about Iraq on both of these grounds.

Iraq's debt servicing obligations to its creditors were so great that we did not think that given their projected revenue, which was mainly tied to oil production, would be able to service all of their debt. In terms of their willingness to pay, they had a well-established record of not being a good debtor country. By the time the Bank was allowed to reopen in Iraq in the mid-1980's, they had already established a very bad record with other export credit agencies around the world. They had a tendency to play credit agencies off against each other. They were willing to make a dollar in payments only if you provided them with a dollar or \$1.50 in new money.

This type of information is very important in our analysis. We are members of the Berne Union, that is the union of export credit agencies. I attend the Berne Union meetings together with Mr. Charamella usually twice a year. We discuss country policy, so we had direct discussions with other export credit agencies about their experience in Iraq and so we knew they were a bad debtor country; they had a very bad record. So we were concerned about the willingness and ability of Iraq to pay.

Twice a year the staff reviews all the countries where Eximbank does business for the Board of Directors. We don't go into great detail on all the countries because it is about 150 countries, but we focus on the important countries.

In terms of Iraq, we not only did these semiannual reviews, but we did in-depth reviews of Iraq, which are called interagency reviews. We did interagency review for Iraq quite frequently in the late 1980's, one review in 1986, two reviews in 1987, one review in 1988 and three reviews in 1989. That was probably more frequent than any other country that we did this for.

The reason was that Iraq is a very important country—it is a large economy where we had substantial exports. So there was an importance in terms of our mission of expanding U.S. exports. But it was a very questionable country in terms of country risk. So we used the inter-agency review process to evaluate these risks.

In this process the analyst responsible for the country would prepare a detailed written assessment, both text and numbers, and a summary of the experience of other export credit agencies were included.

This assessment would be reviewed by the Vice President, myself, and then would be distributed to the key staff people within Eximbank and to other government agencies. We stay in close contact with analysts in all the other agencies, the Federal Reserve, Treasury, State Department, CIA, U.S. Trade Representative, and so forth.

After distributing the written analysis (usually a week before the board briefing, we would have a briefing), with our Board of Directors. At this briefing, we would go into the Eximbank analysis as well as comments from the other representatives. These briefings would last anywhere from a half hour to an hour or longer, so there was ample opportunity for the Board of Directors to hear from other agencies.

No decisions are made at interagency reviews. However, as a result of interagency reviews, the Board of Directors is informed in a way that allows them to later make decisions when the staff brings recommendations to them on country policy and country risk classification.

Now, let me explain briefly, country policy refers to what type of business we would do in a country, that is, whether we would offer short-term or medium- or long-term cover with restrictions or without, or with particular guarantees or without. Country risk classifications rank countries according to perceived risk. We grade them like in school, A, B, C, D, E, and F. The Bank has a policy of being open in high risk countries. We believe it is important to stay open even in countries where the risks are high but we charge increasingly higher fees to cover higher risk.

In the case of Iraq, even though we were open, we viewed this as the highest level of risk we were willing to take and charged them the highest fee—we would charge of any country and included a surcharge on top of that.

Mr. Charamella, who is in charge of the insurance program, can go in to the actual fees we charged Iraq.

The exposure fee helps Eximbank to cover some of the risk. That is, if we later have a payment problem, this helps to cover the expenses to the U.S. taxpayer.

Now, the Board hears from the staff on recommendations of policy according to the following procedure. First, the Country Risk Analysis Division, or the lending division, can initiate a proposal for change in policy or in country risk classification. Normally, it is the Country Risk Analysis Division because that is basically our job. These recommendations are discussed by the staff in the Exposure Management Committee as Dr. Rodriguez has explained. She is chairman of that committee. I am executive director of that committee and we have representatives at the vice presidential level from the other divisions that are involved in export financing.

So we try to iron out any differences staff may have on country policy and country ranks and then we write a proposal that explains the change in country policy or fee, and the justification for it.

This written document is circulated to the Board of Directors and to the NAC representatives. Then, a Board meeting is held at which the Board will make a decision whether to accept, reject or modify the recommendations from the staff.

Normally, they accept staff recommendations. Rarely, will they ask the staff to reconsider or reexamine. Sometimes they will outright reject the staff recommendation. But normally, I would say my experience is 90 percent of the time or more, they would go with the staff's recommendation.

So you have a very careful process of working up recommendations through the staff, review by the NAC representatives they are at the Board decisionmaking meeting and they can make comments on the recommendations and the Board finally decides.

That is the country policy process and we followed it in the case of Iraq. In particular, the number of interagency reviews show that we were very careful about looking at Iraq in depth with other agency participation.

That really answers the second question as well as the first. From my perspective, was this procedure used in the case of Iraq, and, in fact, in terms of what role other agencies played such as CIA, State and Federal Reserve.

Your third question, that has been partially answered. But you asked another question, how do these agencies influence your country risk analysis of Iraq?

They have a major influence in the following sense: Starting with the analyst, who absorbs a lot of information from the State Department, CIA cables. He has access to secret cables and he sees classified and unclassified materials. This is a very important source of information. So we get a lot of information from the other agencies.

In addition, the analyst will stay in contact with the analysts in these other organizations so there are discussions about our policies and what we are doing.

Occasionally, they will hear from someone like a State Department desk officer who be in a sense recommending changes in policy. He listens to that, but normally the discussion will be at the level of what information do you have. We have these problems; we need this information.

So the operation within the country risk analysis department is we actively interact with other agencies at the staff level to gather information and judgments and viewpoints, then, through the interagency review process, which I have outlined, and through the Exposure Management Committee and Board meeting process, these other agencies have an opportunity to make an official statement as to their view on the recommendations and the analysis.

The next question, did the BNL scandal influence the country risk process at the Bank? I think it had the effect of confirming our suspicions that Iraq was not a good credit risk. It played games in its financing. It strengthened that impression and gave us more evidence of that, otherwise it didn't have an impact because we had a quite negative view of Iraq's prospects for repayment or in meeting its obligations on long-term transactions.

Finally, how could the country risk analysis process be improved? We are always trying to improve the quality, but I think we are satisfied, and the Board appears to be satisfied, with our procedures as they currently stand. We do not have plans for changing the procedures at this time.

Thank you very much.
[The prepared statement of Dr. Bond can be found in the appendix.]

The CHAIRMAN. Thank you.

Mr. Charamella.

STATEMENT OF ROBERT L. CHARAMELLA, VICE PRESIDENT,
INSURANCE

Mr. CHARAMELLA. Thank you, Mr. Chairman.

Once again, my testimony has been presented for the record so I will try to summarize that and be as brief as possible.

Once again, I welcome the opportunity to be here today to discuss Banca Nazionale del Lavoro and Iraq's participation in the Eximbank programs.

We at the Bank have carefully reviewed how both parties have used our programs, and I am pleased to share those findings with the committee.

Mr. Macomber did provide a review to the committee on the coverage chronology in Iraq, so I will not repeat that chronology at this time.

I would like to point out, however, the relationship that we had with Iraq during the time that we were open for business. A clearance mechanism was set up with the government of Iraq whereby only those transactions cleared by the Iraqi Government by Telex notification to us were eligible for cover. Payment had to be in the form of an irrevocable letter of credit, opened or guaranteed by the Central Bank of Iraq.

Where the Central Bank was the guarantor, either Rafidain Bank or Al-Rasheed Bank, two of the major banks in the country, could be the opening bank of the letter of credit.

Deferred payment terms were permissible up to a maximum of 360 days.

Now I would like to make some comments about the overview of our particular program that was used in Iraq.

The program utilized was the Export Credit Insurance Program. This program provides insurance policies at a fee to eligible exporters and banks who seek coverage against political and commercial events of default.

Specifically, the policy used by the commercial banking community supporting U.S. exports to Iraq, was the bank letter of credit insurance policy. All commercial banks doing business in the United States and financing U.S. exports are eligible to use Eximbank's credit insurance program.

We review every bank's application to ascertain its operational history, financial strength, ownership, international experience, and other factors to determine program eligibility.

In most situations, Eximbank initiates direct contact with the financial institutions during its review process. At present, over 130 financial institutions have export credit insurance policies.

Turning specifically to BNL, Mr. Chairman, I will explain their participation in our programs.

After review of BNL's financial standing, its status as an Italian Government-owned institution and its operations abroad and in the United States, programs were made available to BNL. BNL-Atlanta specifically received a bank letter of credit policy, which was used primarily to ensure Iraq letters of credit.

This policy expired in December 1989. BNL was the insured party for 51 transactions aggregating \$47 million; \$34.5 million was repaid satisfactorily.

The last request authorized for cover in favor of BNL-Atlanta was in June 1989. There is currently \$3.5 million outstanding to BNL, which is part of the \$50.8 million of the Bank's present exposure and possible claims in Iraq, that Chairman Macomber mentioned earlier. During the period when we were open in Iraq Eximbank supported 187 export transactions, totaling \$267 million.

Iraq's payment history was checkered with intermittent arrears. Insurance was not provided during the period in which arrears existed.

We were very conscious of other export credit agencies' payment problems in the market, through means of telecommunications and also through the Berne Union meetings. Therefore, the Bank was kept abreast on a weekly, if not daily basis, of payment history of the Iraqis.

This concludes my remarks, Mr. Chairman. I will be happy to answer any questions you after the rest of my colleagues finish. Thank you.

[The prepared statement of Mr. Charamella can be found in the appendix.]

The CHAIRMAN. Mr. Pilzer.

STATEMENT OF ARTHUR PILZER, VICE PRESIDENT, AFRICAN MIDDLE EAST DIVISION, EXPORT-IMPORT BANK

Mr. Pilzer. Mr. Chairman, thank you.

As the Vice President of the Africa Middle East Division, it is my responsibility to implement Eximbank's medium- and long-term programs in all the countries under my jurisdiction. Iraq is clearly in that area.

Because we opened up short-term, however, I did not have the implementation responsibility for that program, Mr. Charamella did, as he testified a moment ago.

It is also my responsibility, Mr. Chairman, to interface with, of course, the other divisions of Eximbank such as our Policy Analysis Division, the Country Risk Division, to offer my comments as to what our policy should be and to recommend such policy to our Board of Directors.

Therefore, when the Country Risk Analysis concur or not concurring, Division analyzed Iraq, we reviewed their analysis, concur or not concur, discuss it with our colleagues and then go to the Board with a joint staff recommendation.

I fully concurred in the recommendation by our Country Risk Analysis Division. At that point in time, I think we recognized that many countries around the world were very active in Iraq.

The British, the French, and other governments had billions of dollars of medium-term credit being offered to the Iraqis.

We had a great deal of pressure from the U.S. business community to do medium- and long-term financing in Iraq. However, again, as Mr. Macomber testified, we have to find reasonable assurance of repayment. Even though our colleagues in Europe were providing medium- and long-term credit, we viewed the situation in a much more negative way, and, therefore, we decided to keep our programs short-term.

In addition to implementing our medium- and long-term programs, I also interfaced with the U.S. business community and listened to their financing questions and passed them along to our Board of Directors, and the Country Risk Analysis Division. We kept the Board informed over the 2 or 3 years of all the large contracts that U.S. companies would have liked us to finance.

The Iraqis also approached us and asked for medium- and long-term financing, and we repeatedly refused to do that.

That, sir, concludes my testimony.

The CHAIRMAN. Thank you very much.

Before I recognize the two remaining witnesses, let me advise that we have a recorded vote signal.

The two lights on the clock indicate that it is a recorded vote. I think the wisest thing to do would be for us to recess for about, not more than 10 minutes, to allow the Members and myself to record our vote, and then return.

So we ask your indulgence in light of that.

[The prepared statement of Mr. Pilzer can be found in the appendix.]

[Recess.]

The CHAIRMAN. We will recognize our third witness while the rest of the Members record their vote and come back.
Mr. Wisniewski.

**STATEMENT OF JOHN W. WISNIEWSKI, VICE PRESIDENT,
ENGINEERING DIVISION, EXPORT-IMPORT BANK**

Mr. WISNIEWSKI. I am John Wisniewski, Vice President of the Engineering Division.

The CHAIRMAN. Excuse my mispronunciation.

Mr. WISNIEWSKI. That is fine. That is one of the ways of pronouncing it.

Mr. Chairman, members of the committee, thank you for this opportunity to explain the functions of Eximbank's Engineering Division and its role in evaluating U.S. exports to Iraq.

The Engineering Division has the primary responsibility for ascertaining, analyzing, and advising the Board of Directors, senior management, and staff concerning the technical risk and the technical feasibility of the proposed transactions presented to the Bank for financing assistance.

In addition, the engineers provide general technical information, explanations, and interpretations to nontechnical personnel of the Bank.

The division has primary responsibility for the administration and application of the Bank's military sales and foreign content policies.

It also is responsible for administering the Bank's engineering multiplier and operation maintenance programs. In accordance with the Bank's Environmental Procedures published in the Federal Register in September 1979, the Engineering Division is responsible for determining the environmental effects of the project in all long-term transactions.

The Engineering Division provides expert advisory services to the Board management and staff, and represents the Bank on engineering issues with other government agencies, private companies and foreign nationals.

In addition to the responsibility associated with the processing of applications, the division provides advisory services to other functional areas of the Bank, including inter-agency industry policy studies.

Now, concerning the Iraq short-term transactions support by the Bank, the Engineering Division's chemical engineer reviewed those transactions which the loan officer had requested technical assistance because of the possibility of military or chemical warfare usage of the proposed exports. In each case, the engineer determined that the chemical was not a weapon, nor a precursor to a weapon.

The engineer further checked the specific substances in the standard chemical industry references, and "Dangerous Properties of Industrial Materials-Sax," to determine if it could be readily modified to make a chemical weapon.

Following consultation with exporters and on occasion with the Office of Munitions Control at the State Department, the Engineering Division made the determination that it was highly unlikely that chemicals supported under the FCIA policies could be used to make chemical weapons.

The chemical engineer currently refers to the list of 50 precursors in the new rules, Expansion and Imposition of Foreign Controls on Chemical Weapon Precursors, published by the Department of Commerce on December 20, 1989, and March 13, 1991. The chemical engineer examines each transaction brought to his attention for export to chemical process plants or equipment and includes in his findings an engineering evaluation of the transaction. Our involvement with other agencies is somewhat limited when making a decision.

The Bank has consulted sometimes with the State Department, and on occasion, we have coordinated with the Customs Intelligence Division on the export of precursors.
Thank you.

I would be happy to answer any questions that the committee may have.

[The prepared statement of Mr. Wisniewski can be found in the appendix.]

The CHAIRMAN. Thank you very much.

Mr. Proctor.

**STATEMENT OF STEPHEN D. PROCTOR, VICE PRESIDENT, CLAIMS
AND RECOVERIES DIVISION, EXPORT-IMPORT BANK**

Mr. PROCTOR. Yes, sir.

Thank you.

Stephen Proctor, Vice President of the Claims and Recoveries Division. It is probably important, Mr. Chairman, that we are the last to speak today, because oftentimes our division is described as the people in the white coats with the shovels and brushes who are at the end of the parade.

Our division is responsible for the claims that are filed under the insurance and guarantee programs of the Eximbank worldwide. We are also responsible for the direct credits and loans that are more than 90 days in arrears.

Once claims have been paid, once we have addressed problem loans, it is our responsibility to recover these funds. This may involve various sorts of efforts of recovery, workouts, restructuring of debt, and so forth.

Our division also serves as the technical advisor to the Paris Club delegation for the restructuring of official debt.

With respect to the claims in Iraq, in our testimony we have attached an annex which sets forth those claims that have been filed to date, including those claims which have already been acted on. You will note from an examination of that document that we have addressed several claims, one of which has resulted in a denial, and also three which have been approved.

I may add one further thing about our function. The claims on Iraq, as is true with all of the claims filed under our insurance program are filed with our agent in New York, the Foreign Credit Insurance Association (FCIA). These claims are then organized and once FCIA has performed a cursory review, they put the documents together for each claim forward and then send them to us for action.

I will be pleased to answer any questions that you may have.

[The prepared statement of Mr. Proctor can be found in the appendix.]

The CHAIRMAN. Thank you very much, Mr. Proctor, in fact, I thank each and every one of you.

I know some of the members will be coming back, Ms. Oakar particularly, but if they are delayed inordinately, you have been here very patiently since 9:30, so we will act in accordance with that.

Mr. Proctor, we had Mr. Newcomb of the Treasury here, I believe, it was last week, and he was discussing the potential for recovering some of the monies.

What is the likelihood in your opinion that the \$50 million or so in claims that are related to Iraq will be repaid?

Have you been in touch with Treasury with respect to the frozen asset claims relative to their disposition or distribution?

Mr. PROCTOR. Yes, sir. More particularly our Office of Legal Counsel has been in touch with Treasury, and we are working on strategies that we can promptly follow to recover these funds.

I think at this stage it is a little too early to say exactly what that strategy will be, but I think several avenues will be open to us.

The CHAIRMAN. I believe that the one thing that even kind of surprised me, though I really didn't know, and I asked Mr. Newcomb the extent of the Executive order, the President's Executive order of August 9, in which by virtue of that one and another, these assets were frozen.

In a way I was surprised that that Executive order did not cover, and I should have known that, because in our system and the Federal Reserve Board it claims—its inability to go beyond—that is into the private account of the deposit system.

So Mr. Newcomb said that Executive order did not cover private Iraqi accounts, or any other countries accounts, which I think in a way is really astounding, because I brought out and he more or less affirmed the truth of it. I am referring to in the case of the Kuwaiti family, not the government, not the so-called Central Bank, but in the name of the family, they had extraordinarily, substantial amounts, in the range of close to \$300 billion, out of the country in the personal family name.

I would say about, a little better than half of that in the United States. And the other in European and maybe Swiss banks.

Now, it seems to me that with that, and also including every other country, including Iraq, most of the officials, like the al-Sabah family, do place a lot of the monies that we would find conceivable in our country as being anything but public monies in their private name.

So it would be entirely possible for Saddam Hussein to have direct or indirect personal accounts. It has been reported that a considerable amount of money had been established away by him, outside of Iraq.

And it seems to me that with that and with the question as to just what the meaning is in the case of the assets thus far officially frozen, that the Congress has a clear responsibility there somehow where. And how to approach it, I don't know.

Because we are then, unless we have a change in our form of government, on the outer limits of constitutionally acting. But it is this maze, this interlocking highly intricate system, and the world that we live in today is that way.

We are tremendously interdependent. And I just wonder though in the case of these government funds by the taxpayers, that is the full faith and credit of the government, what the potential would be for recovery. Would you say that there is some encouragement from, say, Treasury as to the ability of the Eximbank to recover, if not all, at least a good portion of the \$50 million?

Mr. PROCTOR. Mr. Chairman, I believe so, from what I have been advised so far, that assets would be sufficient. It depends a lot on the direction, though, that one would take in the strategy of recovery, whether it is done through litigation in the Federal district court where the assets are located, or whether it may take the turn and go to a tribunal, such as the one we had for Iran, Iraq's neighbor.

The CHAIRMAN. Well, in fact, I think it is still in existence.

Mr. PROCTOR. Yes, sir, that tribunal is still in existence.

Fortunately, Eximbank has recovered everything that it paid out with respect to the problems with Iran back in the early 1980's.

The CHAIRMAN. All right, sir.

I have several other questions to some of the other witnesses, but my time is up, and I think we are going to have to stick to the time limits pretty closely.

I will ask before you leave as we have already obtained to submit some of these questions in writing to you.

Each one of you, of course, you have been here before. I wanted to say something, if my colleagues will indulge me.

Mr. Bond has made a very impressive presentation, approves that coming from the congressional level is a mark of superiority, and not the other way around as in the case of legal contracts by some of the regulators.

So I wanted to advise my colleagues that Mr. Bond was with the Joint Economic Committee as an economist; am I correct?

Mr. BOND. That is correct, Mr. Chairman.

The CHAIRMAN. And I wanted to express my thanks to you for your very efficient work.
Mr. Wylie.

Mr. WYLIE. Thank you very much, Mr. Chairman.

I think it had just come to my attention as to where the gentleman, Ms. Oakar is coming from, and I think her questions are legitimate.

But I have been supplied now with a—

Ms. OAKAR. Thank you.

Mr. WYLIE. *Christian Science* article, dated, April 12, Friday, April 12, in which you are quoted, Mr. Bond, as having said that in effect, "CCC didn't want risk assessments," that is a direct quote, "as a matter of fact, in their way when implementing their own programs."

So they have a different risk assessment than the Eximbank; is that what you are saying?

Mr. BOND. Thank you, Mr. Wylie.

I would like to clarify sort of the context of that remark.

I don't deny making that remark; it was indiscreet I think, however, in the following sentence: It is the kind of remark in the midst of a very long conversation I had with a report that I made. But it doesn't fully reflect all that I said and that I feel about the CCC process.

As our Chairman mentioned, and as I mentioned to Mr. Kane when he was discussing this with me last week, risk depends upon where you are sitting.

What is appropriate to risk assessment at the Export-Import Bank may not be exactly the same as with the CCC, or with a commercial bank. In fact, there is a great deal of difference between the risk that a commercial bank would have in dealing with a country and an export credit agency.

There is the Paris Club process of rescheduling that the official creditors go through, whereas the commercial banks deal with another club. So in that respect, because different agencies have different charters, as our Chairman mentioned; they have different purposes; they have different collection capabilities, the goods that they are dealing with have different amounts of time and they have different experiences, I would not like to presume that the CCC people do not really concern themselves with risk.

My point was more that they didn't make a different conclusion, even though they did have the information from Eximbank. We did share our information with the Commodity Credit Corporation.

It was in that process through staff level contacts. But I think the comment is much stronger than I would like to have in the record as to my feeling about what CCC actually was doing with their risk assessment.

Mr. WYLIE. Maybe you are not in a position to answer this. But what is the difference between your country review—or excuse me, your country review, the country review by Eximbank and country review as to risk analysis by OCC?

Mr. BOND. CCC.

Mr. WYLIE. I mean CCC.

Mr. BOND. Well, I think we would have commonalities in terms of looking at the willingness and the ability of the country to pay. That would be quite the same.

I think the important difference would be the relationship between the creditor and the borrower. That would be one thing that I would look at.

I don't know exactly how CCC evaluates that. But that is a difference, in that they are supplying agricultural commodities on different terms in different volumes, and the importance of these goods to the Iraqis would have to be taken into consideration.

In addition, they have their own experience in dealing with Iraq, which was quite different from many of the export credit agencies. I had mentioned in my own earlier testimony, there was a clear record of the Iraqis not servicing their debts properly with other export credit agencies.

However, as I understand it, through much of this period, that we have looked at, the CCC had a good payment record, although I understand they also did have some payment problems later in the 1980's.

I would not like to get into my trying to evaluate the CCC program's risk analysis, however, because I don't know the details of how they go about doing it. Although, we have begun to have more conversations with them about our risk analysis and their risk analysis. In fact, they have come to us and studied our system. Furthermore, they have recently implemented a new system themselves and asked us to look at it. So we are in contact concerning the process of risk analysis now.

Mr. WYLIE. In this article also quotes a Treasury official as saying that in the case of a cursory review for Iraq, that Eximbank was asked for a review on four different occasions within a 15-month period.

But the same kind of analysis apparently was not done for the Commodity Credit Corporation, or wasn't asked of the Commodity Credit Corporation. Do you know that to be a fact or not?

Mr. BOND. I don't know that to be a fact. I don't know the frequency of the type of analysis they were doing.

Mr. WYLIE. I don't know how to phrase this question exactly, but it is possible that the country review as far as the Eximbank might be more sophisticated than the country review for the Commodity Credit Corporation?

Mr. BOND. At Eximbank we are very fortunate in that we have a substantial staff devoted solely to this function. In fact, I would say our staff, which is comprised of 10 professional country risk analysts, four of whom have Ph.D.s., and most of the remainder who have masters degrees in economics. Our's is probably one of the largest remaining country risk analyses divisions of any commercial or government agency in the United States.

Much larger now than the money center banks in New York who have trickled down quite a bit in this area.

So we do have a substantial capability, larger than any other agency for this particular purpose of Eximbank, and I think that should give us an ability to do perhaps a more sophisticated analysis.

Mr. WYLIE. As a matter of fact, the CCC might have extended some credit to my agricultural products during that particular period of time. I made a comment a little facetiously earlier, but I think that might, in fact, be the case.

What was the exposure of other countries who dealt with Iraq? Do you have any way of knowing that?

Mr. BOND. Mr. Charamella has the details on that.

Mr. CHARAMELLA. Yes, I do have some exposure figures. The total export credit agency exposure in Iraq, and this is as of 12-31-1990, is \$12.3 billion. Our counterparts, particularly in France, Italy, the United Kingdom, Germany, Japan, had exposure considerably more than the Export-Import Bank.

Specifically, Germany had \$2.8 billion in exposure. France, \$2 billion; Italy, \$2.3 billion; Japan, \$810 million. Now I should point out that those figures encompass the entirety of the export credit agencies support.

So whereas Eximbank and CCC have different functions, those two separate functions are coordinated within the export credit agencies abroad.

So the export credit agency, for example, in Germany would not only support those products that would traditionally be supported by Eximbank, they would also support agricultural commodities, those products supported by CCC, and they would also support military products as well. So it encompassed a broad spectrum of export support from those markets.

So to characterize or to try to look at our exposure, the \$50.8 million in exposure that Eximbank has comparatively with the other export credit agencies, wouldn't exactly be comparing apples and apples, but nonetheless, their exposure is quite a bit.

Mr. WYLIE. You mentioned some sort of a fee arrangement with reference to the credit extended to Iraq a little earlier. You said we will lose about \$50 million.

How much of that \$50 million will have been recouped through fees already paid, or is that a appropriate way of asking the question?

Mr. CHARAMELLA. Well, I think it is. We look at the insurance program in a conceptual manner in that we look at the total amount of premium generated by issuing insurance policies. For example, last fiscal year our total insurance premium amounted to almost \$30 million.

So if you want to compare the total program vis-a-vis the potential losses in Iraq, then the claims-to-premium ratio would not be so dramatic. But you have to keep in mind, sir, that we are looking at the worldwide program in the insurance program, so we are not only looking at the potential claims in Iraq, we may be looking at potential claims in other markets.

But I do not have in my mind a figure of premium generated supporting the sales into Iraq.

I would imagine it would be, roughly, between \$5 and \$10 million of premium generated.

Mr. WYLIE. If you could supply that for the record, I think it would be helpful.

I have been given a note that my time has expired, Mr. Chairman.

Ms. OAKAR. Thank you, Mr. Chairman.

Mr. Bond, you gave pretty extemporaneous testimony, and your written testimony is very devastating relative to Iraq's credit and the credit risk of Iraq.

And you also mentioned in response to Mr. Wylie's point that you did supply the analysis to CCC, and to NAC. What was their reaction?

Mr. BOND. I don't know what their reaction is, because they did not make a reaction back to me. In the instances where they were provided with the information, either it was in a *passé* sense that they would reference documents or they had access to documents, or they had attended our meetings.

I don't recall at our interagency review their saying anything more than reporting on their own experience with Iraq, which they, I think, at the time of these emergency review were not experiencing payment arrears. And as we pointed out in our own analysis for our Board, the CCC program was one of the very few credit programs, official credit programs that did not have payments problems with Iraq, up until very late.

The British Export Credit Agency managed to have a fairly good payment insurance with Iraq, and that was attributed to the fact that Britain had a special relationship with Iraq, and an agreement that kept the Iraqis servicing debt to Great Britain. The CCC program had a good payment record, and Eximbank had a pretty good payment record.

Other export credit agencies were reporting dismal experiences with Iraq, and were going off cover, bilateral reschedulings were going on, and the Iraqis were still not servicing a bilateral—

Ms. OAKAR. But you never go a—your colleague listed all the other loans, some of the loans from other countries. But you know, the American taxpayers, \$5 billion is a lot.

Maybe the Iraqis wanted to make sure that there was no exposure relative to the types of products that were being covered. I don't know. But that is interesting that they didn't have a real problem with respect to CCC.

Let me ask you, what type of loan did the Eximbank finance? What products were they?

For anyone appropriate.

Mr. CHARAMELLA. Yes, ma'am. We have, of the 187 transactions that were cleared in Iraq, we have a very wide myriad of products that were supported. They range anywhere from paper to tractors, various spare parts, many pharmaceuticals, polyester yarn, and tires.

Ms. OAKAR. What kind of pharmaceuticals?

Mr. CHARAMELLA. I can't be specific at this point in time. I think most of them were immediately related. They went to the State organizations for drugs and medical applications.

Ms. OAKAR. Trucks? Did you finance anything for trucks?

Mr. CHARAMELLA. We did finance the sale of some medical ambulance trucks to the Iraqi Government during this period of time, yes.

Ms. OAKAR. How many of those did you finance?

Mr. CHARAMELLA. It was one transaction. I believe there were 40 vehicles involved.

The total amount of the transaction was \$11 million.

Ms. OAKAR. Well, you know, we are talking about relatively small amount of loans, I mean compared to the bills of the CCC.

But when you look at the entire portfolio of the Eximbank, it is not a small amount of money.

I mean you are asking, or the administration is asking for about \$9 million this time. That is a fairly substantial amount of transactions, I would think, relative to the portfolio.

Mr. PILZER, you mentioned that there were a lot of projects, and we have a mini-list of products that American businesses you mentioned put a lot of you under tremendous pressure to finance these transactions. GM, for example, wanted to have 50 million or 50,000, rather, automobiles financed, and I understand one of the subsidiaries that would have benefited is the corporation from my own area, Eaton Corp.

Why did you feel they were putting tremendous pressure on you? Is that normal, or was this just a special kind of situation?

Mr. PILZER. Normal, it is perfectly normal. We respond to applications made to us by the U.S. business community and by foreign buyers, but primarily from the U.S. business community.

GM, Bechtel, and other large companies would frequently come into us on Iraq and tell us of the vast opportunity that they had to sell U.S. products, thus creating U.S. jobs in the United States, if we could see fit to open up our program for medium- and long-term financing, which the Iraqis wanted.

We repeatedly indicated to the U.S. companies that although we recognized that jobs would be lost if we did not finance the sales, we were not prepared to do so because of the Bank's legislative requirement to find a reasonable assurance of repayment on any transaction we support. We only felt comfortable with our short-term program because of the lack of payments that were being made to other ECA around the world, other export credit agencies.

Ms. OAKAR. Did any members of the administration or any Members of Congress ever call you relative to any of these situations? Bechtel is, you know, is one corporation that relates to some former civil servants around here. And they want—they are right in there in the Middle East, that is a for sure.

Did you have any pressure from Members of Congress or any members of the State Department, for example?

Mr. PILZER. Again, I think the word pressure is probably the wrong term. What I would say is we have had congressional letters come to us inquiring as to why we would not finance a Bechtel project or a GM project, and we therefore respond indicating our economic analysis and political analysis of the country.

But we didn't get pressure to do something that we had decided we should not be doing for economic and financial reasons.

Ms. OAKAR. So you didn't feel that normal requests of your looking into the people being advocates for the company, that is many Members of Congress do feel the need to be advocates for people in their own districts, and so on.

What about in the administration?

Did anybody in the State Department or various agencies ever pick up the phone or write you a little note on something?

Mr. PILZER. No, Ma'am, they did not. In fact, the State Department made it very clear to us that they would not second guess our decision not to provide medium- and long-term credit.

Ms. OAKAR. One last question, Mr. Chairman?

Mr. Wisniewski, you mentioned in your testimony, and the Chairman Macomber mentioned it as well, that you weren't positive, but you did not see any chemical weaponry in terms of the types of loans that were given to Iraq; is that correct?

Mr. WISNIEWSKI. There were eight transactions brought to the attention of the Engineering Division, and these were referred to by my chemical engineer. And the chemical engineer from a professional standpoint made the determination, based on reference books and his own knowledge of the area that it was highly unlikely that these products could be used for chemical warfare.

Ms. OAKAR. What relationship were they to any type of chemical industry?

Mr. WISNIEWSKI. Well, they were—I am not a chemical engineer, but as I understand it, they were normal, off the shelf type things, used like for termitic control and pesticides, that type.

But they did not contain any of the so-called listed precursors such as are in the Department of Commerce's list. And also, the fall-back position, too, is the export license would eventually weed that out.

From our personal standpoint from our military policy, it was required of the engineer to look at and make a determination whether or not it could be used for chemical warfare.

Ms. OAKAR. Why are you still dealing with Banca Nazionale? You just mentioned in their testimony that a few days ago you—don't you have some question marks about that?

On page 4 of Mr. Charamella's testimony, you say, "BNL New York has used the Eximbank working capital guarantee for 10 transactions. The latest transaction was approved within the last few days."

Then you say, "None of it went to Iraq, but the aggregate value of these transactions are \$5.7 million." Why are you still dealing with this institution? Why don't you have any questions about it? Mr. CHARAMELLA. I think any questions that we have, Ma'am, have been resolved to the extent of activity of the Atlanta branch of BNL.

Ms. OAKAR. So you don't hold the New York branch much responsible for the Atlanta branch?

Mr. CHARAMELLA. No, Ma'am, nor do we hold the home office, to the extent of our relationship with the home office. I mean we look at BNL in Rome as a very important financial institution in the marketplace in Italy, and we are looking we feel at an isolated incident in Atlanta, and we really have not looked upon any activity that is done by other branch offices of BNL to—

Ms. OAKAR. I bet the American banks would love to be viewed that way, where the bank itself wasn't held responsible, as opposed to the just the branch being held responsible. I mean really.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Well, there is, I think, a necessity to pursue for a few minutes anyway.

At the outset, I provided for the record the documentation that is styled "Overview of Eximbank Country Risk Analysis Process," and in that documentation dated July 18, 1988, there is a memorandum to the Board of Directors. And it is from Thomas A. For-

board, Vice President for Country Risk Analysis, I guess, at that time.

And the subject is the country review of the Republic of Iraq on Monday, July 25 at 10 a.m. So this memo was in prospective.

"Attached is the Eximbank's staff paper prepared by Clement Miller of the Country Risk Analysis Division, which will serve as a basis for the above referenced discussion. It has been distributed with the Bank and to outside agencies. Representatives of the agencies listed below will be at the review to offer their reviews."

Now, here is the outside agency: CIA; Representative of the Office of Global Issues and its Office of Near East-South Asia analysis; the Commerce Department; R. Lee and J. Keller; the Federal Reserve; R. Emery; State Department; A. Sundquist; L. Pope; A. Glaspie, which is Ambassador Glaspie; and P, like in Paul, Remmler; Treasury Department; E. Barber; J. Nisenenson; the U.S. Trade Representative Office; M. Gallivan.

Now, in that is a country review of the Republic of Iraq. "Introduction: After years of war against the Kurds and Iran, Iraqi Arabs nurture a mixed sense of insecurity and destiny. They want Iraq to remain a powerful military force, yet desire a resumption of economic development.

"Saddam Hussein does not wish to disappoint Iraqi Arabs. He intends to achieve Iraqi Arab's multiple political, military, and economic objectives through accelerated application of modern technologies, greater exploitation of oil reserves, and skillful manipulation of its relationships with foreign powers and their official creditors.

"This manipulation will be necessary because for the foreseeable future, Iraq will not have enough money to repay all of its foreign creditors."

So this kind of position, so to speak, is going to be reviewed by this committee consisting of all these representatives; normally that is the procedure. So we cannot say that the Export-Import Bank did not communicate or advise with these others.

In other words, these other agencies from State Department, Commerce Department, CIA, were fully advised.

Then, what is more disturbing, is another document that I am going to ask be placed in the record at this point, and it is entitled, "Manufacturing Project, Iraq, July 18, 1989."

[The information referred to can be found in the appendix.]

Mr. WYLIE. What was the date on that, Mr. Chairman?

The CHAIRMAN. July 18, 1989.

Now, this, I believe, is from the Eaton Corp., and the first paragraph says, "Assumptions before trip, June 25, 1989."

Obviously this industry group, appearing before the Bank and saying, hey, we want business.

And there is this other document that shows the membership: Volvo; GM; Heavy Truck Corp.; Cummins Engine Company, Inc.; Eaton Corp., and Rockwell Corp.

They went on ahead, and here are their assumptions as they are listed: "Volume of up to 5,000 units a year, but probably no more than 2,000 to 3,000 units a year. Exports of surplus to neighboring countries, equity participation, Iraq's way of assessing our interests

not seriously considered. Local integration, technological infrastructure not known to exist."

They go to Iraq, and they visit the industrial sites in Iraq.

"Plan 6: CNC lathes, assembly line under Matrix Churchill license."

In the second step early next year they will machine the frames and mechanical parts; and in the third phase, it will go to the Eli Connie's. It is interesting to know that Matrix Churchill in the United Kingdom is 75 percent owned by the Iraqi Government.

And we are told that a similar project exists for the manufacture of CFC machine centers. The building is already under construction.

Now, what was that for? That was for heavy truck plants. Actually, a copy of this is in the form of a letter to the Ministry of Industry. But they forgot to put the full title, and that is, the Ministry of Industry and Military Production is the full title.

So that to its everlasting credit and glory, the Export-Import Bank did not process this despite very heavy lobbying.

We also have a document showing congressional intervention—

Mr. WYLIE. You glanced over at me. Is my name on there?

The CHAIRMAN. No. But we have always asked the question, have you had political pressure? And I am going to submit for the record here a list of the loan officer's file compiled in March 1991, and listing interventions from September 18, 1989 through August.

From August to September 1989, and obviously these were Members of the Congress who had manufacturing plants in their districts and were supporting and intervening in behalf of this particular Eaton and combination application. So I wanted to show here the vast difference.

Now, we have documentation showing that in the case of the CCC, the CCC, let me say, Ms. Oakar, did have occasions in which it did deny and not recommend Iraq guarantees because of poor payment records. But then they have also faced considerable pressure.

But there, I think we can conclude that the agricultural lobby is a lot more stronger than these other lobbyists because they were able to overwhelm the CCC and actually go against their judgment, which, as I say, in repeat to the everlasting glory and credit of intervention did not capitulate.

And that is pretty heavy pressure, let me say.

The CHAIRMAN. I have worked on the other side of things. I have been on the employee side, and when anybody tells me that there is no such thing, that you can always have a free judgment, maybe so, if you are on top. But if you are in a take-odds employee capacity, it does add up.

Yes, Ms. Oakar.

Ms. OAKAR. Mr. Chairman, I just wanted to point out, the bottom line of this interesting hearing is that the administration did know well in advance of Saddam Hussein's threat militarily. I mean, from the Eximbank to the, probably—

The CHAIRMAN. Will you yield to me on that?

Ms. OAKAR. Sure.

The CHAIRMAN. This is again, this is a kind of world that has been shaping up, and particularly, rightly or wrongly, the failure of our countries to develop any kind of farsighted, long-range, since World War II.

This is the reason that I joined Chairman Annunzio awhile ago in saying, hey, look, we think the Eximbank has been right in its policy on military sales. We don't think that this is the time to change, if it ever was.

And the reason is that at that time, it was a stated policy of this country to do everything we could in behalf of Iraq.

Militarily, we were providing Iraq during the Iraq-Iran conflict sophisticated knowledge because of our satellite observations that helped Iraq considerably in reaching the point it did, and whether you want to call it a stalemate or a victory for Iraq.

So you can see here that it took considerable integrity to stick to the stated purposes and the facts as presented by the analysts to stay there in view of this heavy presence, even the list that I mentioned awhile ago.

That is pretty heavy presence. And, of course, they were faithful to this respective department heads whose policy it was at that time to consider Iraq as an ally or quasi ally.

So that today, we may say yes, why not make the sale at this time under these circumstances to this country that can very well, through some at this point not determined or foreseen change of events becomes an adversary.

And given that kind of a situation, I think the record is illustrative, though, that when we in the legislative or the executive branch are faithful to our main charge and our oath of office, we are not going to stray too far.

It is only when we stray away from these basic principles that we get into trouble. And I think that it is shocking for us to have conducted a policy right up to the invasion of Kuwait that was indicative of a stimulating and encouraging policy to Iraq.

Mr. WYLLIE. Mr. Chairman?

The CHAIRMAN. Yes, Mr. Wylie.

Mr. WYLLIE. I would observe that we do not have a crystal ball, unfortunately, and there is a lot of hindsight going on here.

But I would also observe in the case of the CCC that this article also indicates that Iraq was the largest market for U.S. rice exports and a big buyer of U.S. wheat until August 2, 1990.

Now, I have a very strong feeling that the farmers of this country might equate in that consideration as far as CCC is concerned. Do you think my observation is accurate there?

The CHAIRMAN. I am sure.

Mr. WYLLIE. Now, I want to ask a question, though. Recently both the CCC and the Eximbank made loans to the USSR, despite reservations from private credit ratings, private credit ratings agencies that the USSR may not be a very good credit risk right now.

And it seems to me that there is some analogy here with the situation with reference to Iraq, maybe 2 or 3 years ago.

What is Eximbank's credit risk rating of the USSR right now?

Mr. BOND. When the Jackson-Vanik waiver was initiated at the end of last year, the Board listened to a review by the Country Risk Analysis Division that pointed out that while the Soviet

Union had arrears, there had been no arrears on any transactions guaranteed by the Vneshekonbank, the bank for foreign economic affairs of the Soviet Union.

Our policy, therefore, was the following: We opened up all of our programs with the Soviet Union, but we required the Vneshekonbank provide a guarantee on all transactions in the name of the State.

That is a sovereign guarantee. The rating that we gave them was a fairly middle rating for short-term transactions and a high risk rating for medium and long-term transactions.

Also we still have under the Stevenson and Byrd amendments congressionally mandated limitation on the total amount of commitments in the Soviet Union. Therefore, we have a limitation on how much business we can do.

Our view is different from the commercial banks in the sense that first, we do take risks that commercial banks will not take.

That is why we have an Eximbank, to cover a part of the market the banks won't cover. But I think in addition, the Vneshekonbank is a guarantee that if the commercial banks could get it, they would do business with the Soviet Union, too.

Many of the commercial banks, however, have reached their own internal limits on the amount of exposure they want to carry with the Soviet Union. So you have very few commercial banks who at this time will take on new exposure with the Soviet Union without Eximbank's guarantee at this time.

Mr. WYLLIE. There are a lot of shifting winds in the political arena, and whereas I think maybe the risk that the Soviet Union would repay was less, perhaps, maybe 2 or 3 months ago or 6 months than it is now?

Is that a fair observation?

Mr. BOND. Certainly. Their credit standing is dropping in everyone's eyes, including ours. And I am sure we will be watching the situation and trying to adjust our program accordingly.

Mr. WYLLIE. Do you have any apprehension or fear that the Soviets might use some of the credit that they obtained from the Eximbank for military action in the Baltics?

Mr. BOND. I think Mr. Charamella can remark on some of the products.

Mr. WYLLIE. That is a kind of rhetorical question.

Mr. CHARAMELLA. I really don't think so.

Again, we prescribe to a clearance procedure that reviews each and every transaction that is going forward, especially with the USSR and the country creditworthiness issue that we have before us today.

We have at this point looked at some manufacturing plants, but nothing militarily related.

Mr. WYLLIE. Well, I would observe that it is too bad that we loan Saddam Hussein or Iraq any money at all.

I think Saddam Hussein is even stupider than we thought he was when he invaded Kuwait and incurred the wrath of George Bush, the President. I don't think that he thought that we would ever try to defend Kuwait or force him out of there.

But be that as it may, I think there are some parallels here now that we ought to take a look at, maybe make an examination of those two.

Thank you.

Ms. OAKAR. Mr. Chairman, may I ask one quick question to Mr. Pilzer or the other gentleman?

The CHAIRMAN. Certainly. Fine.

Ms. OAKAR. Did you portray the truck sale, the desire for this loan to finance the trucks that the chairman described in complete form as military trucks? Even though the loan was rejected, did you portray that as military?

Mr. WISNIEWSKI. I will respond to that. This was a transaction that under our normal military policy, we looked at the criteria. It was being sold as a military export, but it met one of our exceptions, that being humanitarian.

Under Eximbank's policy, the transaction was submitted to the Board and approved.

Ms. OAKAR. You are talking about a different project. I was talking about—Mr. Pilzer, I think you know what I am talking about.

Mr. PILZER. No, ma'am, I am afraid I don't.

We have been off cover medium and long term. I don't recall an application coming in.

Ms. OAKAR. GM didn't?

Mr. PILZER. I know about the GM truck plant.

Ms. OAKAR. That is what I am talking about. Did you see it as a military—

Mr. PILZER. No, ma'am. We rejected their application because we were off cover for medium and long term. And they needed medium- and long-term credit.

Ms. OAKAR. You never analyzed it in any way?

Mr. PILZER. We never got to that stage because it was ineligible at that point in time under our program.

Ms. OAKAR. How did GM present it to you?

Mr. PILZER. As I recall, I was in a meeting with GM, and they portrayed it to us in two ways. One was a sale of automobiles. Second, I think there was a plant to either build trucks or cars.

Ms. OAKAR. But not military, or did they portray any aspect of—

Mr. PILZER. No, they were not portrayed to us in any way as being military, and we never got into the analysis again because we did not receive or accept the application.

Ms. OAKAR. Just one last point, and you don't have to respond if you feel your job is jeopardized.

But you are the senior staff that the chairman has given accolades to and I think we all agree had a measure of independence that is admirable.

Do you agree with the policy, the desire, to have military equipment, and so forth, be part of the Eximbank's portfolio, loans for those?

Does anybody want to comment?

Mr. BOND. You know the position we are in, but I would say that I would put out that there was some interagency discussions about this before the decision was made. And my concern was creditwor-

thiness, and I pointed out to the other agencies and my Chairman backed me up 100 percent.

He said, even countries on the list that we were approved to sell military goods to, if we viewed them as uncreditworthy by our standards, or maybe even tighter standards, we would reject them.

And I made that clear in the interagency discussions, and he made it clear he would back up that program.

Ms. OAKAR. In terms of subject matter, do you want to get into that, or would you rather not comment?

Mr. PILZER. Ma'am, I don't think it is appropriate for us to comment on that as to our opinion on these administrative matters.

We simply implement the programs that Congress and the administration tell us to implement.

Ms. OAKAR. Thank you, Mr. Chairman.

The CHAIRMAN. I think in a way it is not appropriate. We did ask Chairman Macomber, and that was the proper person. He is the chairman of the policymaking level.

Ms. OAKAR. We hope he listens to you guys, though.

The CHAIRMAN. Well, I think that as we see it in the case of banking and everything else that we have gone into in other areas, if the top would listen to the middle, we would be all right.

It has been a very dedicated core of sub-level, middle level regulators and staffers that have done great work. They have not only been efficient and prepared, but they have been integral; and that is the record of all the hearings we have had here.

To me, that is good because I have always—I had the privilege of serving on all three levels in the Representative capacity. I served on the local legislative body as a City Council, served in the State Senate of Texas, and then here; and now I am going to 30 years.

And let me tell you the first thing I noticed was the tremendous difference in the skill, the ability of the work core on the Federal level. It has been with great pain that I have seen the generation of the merit system that I always felt was a sacrosanct section of the Federal Government.

But anyway, we want to thank you very much.

Do you have any additional questions?

Mr. WYLIE. No.

Thank the panel.

The CHAIRMAN. I don't want to keep you here. It is going to be 1 p.m., and it just isn't fair. But these documents will be part of the record, and I will have about, maybe, three or four questions in writing for the purposes of the record.

You will each get a transcript of the proceedings for your review and correction, and if the questions arrive in a time, then if you would favor us with an answer, fine.

Thank you very much, gentlemen. We deeply appreciate your testimony, and once again compliment you.

[Whereupon, at 12:45 p.m., the hearing was adjourned.]

A P P E N D I X

April 17, 1991

Opening Statement of the Honorable Chalmers P. Wylie
Hearing on Iraqi and BNL Participation in Export-Import Bank Programs
April 17, 1991

Thank you, Mr. Chairman,

We have the opportunity today to hear from the Export-Import Bank on their policies toward dealing with Iraq and the Banca Nazionale del Lavoro during the late 1980's. From reading today's testimony I think that we can conclude that the Ex-Im bank did a very good job of analyzing Iraq's foreign credit situation. In retrospect, I wish that the Commodity Credit Corporation had been as vigilant.

However, before we rush to any judgments or recriminations involving Administration policies, I think it is wise to view the Iraqi credit situation from the perspective of U.S. foreign policy during the time that credits and guarantees were extended to Iraq. During the mid 1980's, concern about the stability of the middle east, because of the threat of domination by Iran, caused our government to restore diplomatic relations with Iraq. During 1985, many U.S. banks participated in Ex-Im backed lending to Iraq. During 1989 and 1990, our government was again engaged with Iraq in order to attempt to encourage policies of moderation. One way to obtain influence over a country is to offer the government-backed export of American commercial products and commodities. This policy was attempted again in 1989 and 1990. Since then have realized that the attempt to use trade policy against Saddam Hussein was pure folly, but, at the time, it was viewed as a plausible way to

influence Iraq.

I think it is worth noting here that there is far more governmental scrutiny of U.S. trade policy as it effects foreign policy concerns than there is in other exporting countries, especially in Europe. Most European countries' trade policies are driven by commercial, rather than political, concerns. We have seen evidence of this in the construction of chemical and nuclear plants in Libya and Iraq, and the German built concrete bunkers in Baghdad.

There is another important difference between our government and those in the EC. Our system has more public accountability as evidenced by our hearing today. Many governments would sweep a controversy like this under the rug. I commend you, Mr. Chairman, for you vigilance in these BNL hearings and look forward to working with you.

My major concerns are in the area of the supervision of the banks that engage in Ex-Im and CCC-backed lending. I would like to know how a foreign bank could use an American branch to obtain over \$2 billion in CCC guarantees and keep them on a separate set of books; while the bank regulators were totally unaware of these loans. I look forward to learning how this could happen and what we need to do to prevent this from happening again.

STATEMENT OF
JOHN A. MACOMBER
PRESIDENT AND CHAIRMAN
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

APRIL 17, 1991

Mr. Chairman, Members of the Committee

I welcome the opportunity to be here today to discuss the Export-Import Bank of the United States' (Bank) relationship with Iraq and Banco Nazionale de Lavoro (BNL).

The Bank is currently not open in Iraq. Pursuant to Executive Orders that were issued by the President and dated August 2, 1990 and August 9, 1990, U.S. exports to Iraq, as well as financing for them, were banned. The Bank's Board of Directors formally withdrew coverage on August 9, 1990.

Background

From July of 1987 until August 2, 1990, the Bank provided only short-term insurance cover (up to 360 days) for U.S. exports sales to Iraq. The Bank set a \$200 million aggregate limit on the revolving short-term insurance facility. Prior to July of 1987, the Bank had been off-cover for the preceding sixteen months

STATEMENT OF HON. GERALD D. KLECZKA
APRIL 17, 1991

MR. CHAIRMAN: Thanks for calling today's hearing on Iraqi and Banca Nazionale del Lavoro (BNL) use of the Export-Import Bank short-term foreign sales insurance program.

An unflattering picture of the breakdown in government accountability has emerged from the Iraqi/BNL fiasco. At its most benign level, the present situation implies the National Advisory Council was duped by a multi-billion dollar Iraqi Ponzi Scheme. At its worst level, the present scandal demonstrates the Administration's eagerness to gamble recklessly in Iraq with billions of taxpayer dollars -- while possibly sacrificing national security.

The depth of this financial quagmire is truly staggering. Admittedly, Eximbank's \$73.5 million exposure from Iraqi defaults is only a small portion of the \$2 billion in claims the U.S. government must now honor as a result of this scandal. However, this sum is more than 10% of the bank's Fiscal Year 1991 program pool. It would have been much better used underwriting dozens of U.S. exports to proven allies -- rather than dubious sales to bolster the grandiose and dangerous schemes of Saddam Hussein.

From 1986 to 1990, Eximbank conducted thorough Country Risk Analyses on the Republic of Iraq. None could possibly be construed as positive. Indeed, the bank repeatedly noted Iraqi disdain of commonplace debt practices and international financial policies. The bank considered Iraq a bad credit risk, based on numerous arrearages here and abroad. Eximbank also uncovered the calculated Iraqi strategy of relying on payments on existing debt to extort new money from U.S. export agencies, such as the Commodity Credit Corporation (CCC).

The National Advisory Council ignored these compelling Eximbank reports, although they were available to its members. Hindsight raises doubts about whether the Council's decisions affecting Iraq were based on sound economic appraisals. If the Council was vulnerable to political pressure favoring Iraq, as I expect the testimony will show, it must be reorganized without delay to prevent such costly and dangerous situations from arising again.

The history of this scandal will assign Eximbank the role of Cassandra, who in Greek mythology foretold disaster. It is for this reason that I am very curious about why the bank ignored its own findings, and opened a \$200 million short-term insurance facility for Iraq in 1987. This decision appears to have been prohibited by the bank's statutory requirement to support only transactions which "offer a reasonable assurance of repayment." Furthermore, why was the bank poised to approve the establishment of a generous medium-term credit program for Iraq during this period? I look forward to learning more about these specific issues from the panelists.

If there is a "silver lining" to this disgrace, it is that we may include reforms, based on what we learn about Iraqi/BNL manipulation of Eximbank programs, in its charter as part of the Fiscal Year 1992 reauthorization. Thank you.

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because of payment difficulties. However, before the Bank reopened in Iraq all arrears were paid in full.

In July of 1987, the Bank opened very cautiously under the short-term insurance program in order to gather repayment experience. This was despite considerable pressure from the American business community to open longer term as well as competition from other foreign export credit agencies who were open for short, medium and long-term cover in Iraq. It was determined that if the Bank at any time during the operation of the facility experienced any arrears we would suspend the issuance of cover. While we were operating the facility, the Bank's staff monitored our coverage on a continuing basis because of creditworthiness concerns. In fact, whenever there was a long period of delay or arrears, the Bank suspended any further short-term cover.

Once we reopened, Iraq continually requested that we expand our cover to include medium and long-term transactions; however, we declined. At no time did we allow our exposure to exceed the \$200 million limit previously set.

The Bank's willingness to continue the operation of the facility was contingent upon Iraq's willingness and ability to service its existing debt to the Bank and the U.S. Government in a satisfactory manner.

Application Procedure

A clearance mechanism was set up with the Government of Iraq whereby only those transactions that were cleared by the Iraqi Government by telex notification to the Bank were eligible for coverage. Payment had to be in the form of an irrevocable letter of credit opened or guaranteed by the Central Bank of Iraq. Where the Central Bank was guarantor, either Rafidain Bank or Al-Rasheed Bank could be the opening bank for the letter of credit. Deferred payment terms were allowed up to a maximum of 360 days.

Policies Used

The actual insurance policies used by Iraq were the standard Foreign Credit Insurance Association (FCIA) Short-term Single Buyer and the Bank Letter of Credit.

In general, both insurance policies indemnify the insured party--the U.S. exporter or U.S. financial institution--against the risk of non-payment on the part of the Iraqi opening bank on a letter of credit issued in payment for Iraq's purchase of eligible U.S. goods.

The Short-Term Single Buyer Policy was utilized by U.S. exporters (non-financial institutions) and the Bank Letter of Credit insurance policy was utilized by U.S. banks.

If the exporter was the insured, in most cases, it would assign its insurance policy proceeds to the U.S. bank as collateral so as to obtain funding after shipment of the goods and negotiation of the letter of credit. The U.S. bank would then collect the funds from the Iraqi opening bank at maturity.

If the U.S. bank was the insured, it would issue the beneficiary an irrevocable commitment to pay under the Iraqi letter of credit (silent confirmation) upon presentation of documents as stipulated in the letter of credit. After the credit was negotiated, the U.S. bank would also collect the payment at maturity from the Iraqi opening bank.

In either case, if the Iraqi opening bank did not pay, the insured party could file a claim with the Bank.

Limited Bank Exposure

Current Bank exposure in Iraq is \$50.8 million. The Bank expects a total of \$50.8 million in claims under the facility, of which \$2.8 million have been approved for payment, and \$46.5 million are pending at FCIA. These claims are being treated as a purchase of assets by the Bank, which we intend to work out with the Iraqis at some future date.

BNL Facility Participation

The Bank's programs are available to any financial institution which is determined to be creditworthy as required by the Export-Import Bank Act of 1945, as amended.

After review of BNL's financial standing as well as its operations abroad and in the U.S., the Bank made its programs available to BNL offices in Rome, New York and Atlanta.

Under the facility, BNL-Atlanta received a Bank Letter of Credit policy which expired on December 31, 1989. This policy was used to insure Iraqi letters of credit. BNL was the insured for 51 transactions or shipments which aggregated \$47 million, of which \$43.8 million was paid satisfactorily. There is currently \$3.5 million outstanding to BNL which is included in the \$50.8 million of actual exposure to Iraq and will likely result in a claim.

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National Advisory Council Process

I would like to now turn to the specific questions you have asked me to address in today's testimony.

The National Advisory Council (NAC) was established to coordinate international trade and financial policies of the U.S.

Government. The NAC is a forum to air and discuss international trade and financial activities. In this connection, the function of the Council is to review all of the Bank's proposed loan and guarantee transactions that are equal to or exceed \$30 million. As far as insurance is concerned, the Council reviews all insurance transactions involving a Bank liability of \$50 million or more. The Council is composed of seven members--the Secretary of Treasury, the Secretary of State, the United States Trade Representative, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, the Director of the International Development Cooperation Agency and the Chairman of the Export-Import Bank of the United States. Formal meetings are only occasionally held; usually a telephone poll is taken of members.

As a matter of policy, the Bank generally does not take exception to specific transactions at the NAC with regard to matters that involve other agencies, e.g. the Commodity Credit Corporation (CCC), provided such transactions fall within established program parameters. Our interest is related to our financial activities, and to ensure that the programs and policies of other U.S. Government sponsored international finance programs are not in conflict with the Bank's objectives. Therefore, in any poll taken with regard to Iraqi participation in CCC programs the Bank representative would not have raised any objections.

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Functions of Country Risk Analysis

The Bank's Country Risk Analysis Division reviews and analyzes for the Board, senior management and staff the economic/political conditions (country conditions) for any transaction. Furthermore, the Division does a semiannual review of the economic conditions in all countries in which the Bank currently operates. Special meetings also are held to update the Board on a deteriorating economic situation in any country.

Functions of Engineering Division

The Engineering Division has the primary responsibility for ascertaining, analyzing and advising the Board of Directors, senior management and staff concerning the technical risks and technical feasibility of proposed transactions presented to the Bank for financing assistance. In addition, the engineers provide general technical information, explanations and interpretations of products and projects to non-technical personnel of the Bank. The Division has primary responsibility for the administration and application of the Bank's military sales and foreign content policies. It is also responsible for administering the Bank's Engineering Multiplier and Operation and Maintenance Programs. In accordance with the Bank's Environmental Procedures published in the Federal Register September 4, 1979, the Engineering Division is responsible for determining the environmental effects of the project in all long-term transactions.

Concerning the Iraq short-term transactions, the Engineering Division reviewed those cases which the financial loan officer had requested technical assistance concerning potential military or chemical warfare usage of the proposed exports. Following consultations with exporters and on occasion with the Office of Munitions Control at the State Department, the Engineering Division was able to make a determination that "it was highly unlikely" that chemicals supported under the FCIA policies could be used to produce chemical weapons.

Chronology of Board and Other Inter-agency Meetings

In October 1988, the Board deferred consideration of medium-term cover, citing concerns over Iraq's creditworthiness, and the fact that the Bank was experiencing delinquencies on the first two letters of credit. At that time, officials from other agencies supported medium-term and long-term financing from the Bank because of potential business opportunities for the U.S. business community. In November 1988, the Board again deferred consideration of medium-term cover. The reasons cited at that time were the U.S. Government's concern over Iraq's use of chemical weapons and the fact that the National Security Council was reviewing U.S. policy towards Iraq.

In April 1989, at an Interagency Country Review session on Iraq, the Bank's economic analysis raised serious questions about Iraq's financial capabilities and noted that Iraq was increasingly

financing a military machine. In fact, Iraq seemed to be making debt repayments contingent upon receiving larger amounts of new money. Moreover, the Bank's concerns were heightened by the possibility of renewed military conflict between Iraq and its neighbors, and continued fluctuations in U.S. Iraqi relations.

In June 1989, the Bank again held an Interagency Country review further describing Iraq's difficult economic situation. While the Bank's concerns were more widely shared by other agencies, it was still pointed out that the Bank's actions could result in the loss of opportunities for U.S. businesses.

In October 1989, the Bank conducted its third Interagency Review Update. The Bank was continuing to experience difficulties in receiving payments under letters of credit. Furthermore, in spite of growing international pressure, Iraq was continuing to refuse to undertake a multilateral rescheduling of its debts through the Paris Club. In addition, Iraq was continuing to cajole export credit agencies through offers of lucrative contracts to their exporters. The discussion also focused on the just-unfolding BNL scandal.

In November 1989, the NAC Agency Deputies held a meeting to discuss Iraq's request for a second CCC tranche. At that time, discussion focused on Justice lawyers' findings about the BNL scandal, and the reason why the Bank viewed Iraq as a risky market.

Also in November 1989, the Bank had temporarily shut down the facility to Iraq because of the likelihood of inclusion of a Congressional prohibition in the Foreign Assistance Appropriations Act of FY'90. This prohibition, however, provided for a Presidential waiver, which was exercised in January 1990. The Bank then reopened the short-term program.

However, in calendar 1990 the U.S. exporting community expressed little interest in the facility. Few requests were received for short-term insurance support. Furthermore, we did not receive clearances from the Central Bank of Iraq for coverage. Finally, as I mentioned earlier, the Bank went off-cover in August 1990 after the President issued Executive Orders in the wake of Iraq's invasion of Kuwait.

Finally, I will address your question of the role I played in approving Iraqi participation in the Bank's programs. As I was not the Chairman at the time the Bank opened in Iraq, my role was initially somewhat limited. Upon assuming the Chairmanship, I made sure that I kept fully apprised of Iraq's economic situation and monitored all changes. The Board directed extensive staff reviews in light of the continuing changes in Iraq and its belligerent behavior. In the final analysis, I believe that we acted in a prudent manner when, despite pressure from the U.S. business

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community and Iraq, the Board refused to open for medium and long-term cover.

I would be happy to answer any question you may have.

Statement of
RITA M. RODRIGUEZ
 DIRECTOR, EXPORT-IMPORT BANK OF THE UNITED STATES

before the

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
 U.S. HOUSE OF REPRESENTATIVES

April 17, 1991

Eximbank Programs: Iraq and BNL Participation

Chairman Gonzalez and members of the committee:

My name is Rita M. Rodriguez and I have been a member of the Board of Directors of the Export-Import Bank since October, 1982. I am here today to appear before the committee to discuss my role in formulating and approving Eximbank's policy in specific countries and the participation of specific financial institutions in Eximbank's programs.

Responsibilities as a Member of the Board of Directors of Eximbank

As a member of the Board of Directors of Eximbank I participate in the policy decision as to the programs and the conditions under which Eximbank credit is to be made available in a country. In this decision, the Board establishes the maximum repayment terms that would be acceptable for that country -- short-term, medium-term or long-term. This decision, in turn, determines what programs will be used in the given country -- the insurance program being the only Eximbank program available for short-term financing. In situations where there are questions about the creditworthiness of the country, the Board may decide to impose a limit on the exposure that it would be willing to accept in that country in the aggregate, and in each transaction. Finally, since 1987 the Board also decides on the country-risk fee schedule to be applied in the country.

The Board meetings to decide on changes in country policy are usually preceded by an in-depth, inter-agency review of the country's capability to repay its debts in the future. During this

review the Eximbank economist presents his or her analysis and the other agencies comment on it. The decision to offer the short-term insurance program in Iraq with a maximum in outstanding balances of \$200 million reached in July 1987 was reached following this procedure.

Once the Board decides on a policy for a given country, specific cases in that country are brought to the Board for decision in the following instances:

(1) Cases which fall within the parameters of the given country policy, but which involve credit amounts higher than the amounts delegated by the Board for decision by FCLIA, Eximbank staff, or Eximbank's Loan Committee. The bank letter-of-credit insurance policy used by Banco Nazionale del Lavoro (BNL) in Atlanta was approved by the Board because its size exceeded the amount delegated by the Board for decision by the staff on this type of policy.

(2) Cases which fall within the parameters of the given country policy, but which staff considers to be outside Eximbank's policy in other areas -- areas other than country policy -- such as Eximbank's policy against financing of defense goods.

(3) Cases which fall outside the parameters of the given country policy, but which the applicant insists be brought for a decision by the Board. In Iraq the typical requests in this category involved the financing of exports associated with projects which require, and typically would be offered, longer terms than the 360-days allowed under Exim policy for Iraq.

Other Responsibilities Assigned to Me by Eximbank's President

Among the other responsibilities assigned to me, all Eximbank Presidents under whom I have served have asked me to work closely with the country-analysis staff. This work has involved primarily the establishment of methodologies and procedures which would preserve and enhance the independence and objectivity of the economists responsible for generating country-risk analyses and which would facilitate the comparison of countries' risks and associated policies. In 1986, these

efforts lead to the establishment of a separate Country Risk Analysis Division at Eximbank to which all the country economists formerly under the regional divisions were assigned. In 1987, an informal group with whom I had worked in developing exposure management concepts for Eximbank was formally constituted by Chairman Bohn as the Exposure Management Committee, which I have chaired almost since its inception.

The Exposure Management Committee is responsible for reviewing country policy and portfolio policy for the Bank as a whole and to make recommendations to the Board as to country and portfolio policies on a semi-annual basis. However, the Exposure Management Committee does not review the risk analysis performed for specific countries before it is presented to the Board.

Role of Country Risk Analysis in Eximbank's Policy for Iraq

Clearly, the assumptions and analysis made by Eximbank's economists were decisive in determining the narrowness of our policy in Iraq. In spite of the enormous demand for export financing which U.S. exporters alleged to exist in Iraq; and in spite of the presence of heavy competition from other export credit agencies which offered not only their short-term program but also their long-term programs to finance their exports to Iraq, Eximbank economists' analysis prevailed. That analysis indicated lack of a "reasonable assurance of repayment" in credit transactions with Iraq on terms other than short ones, and it shaped the Board's decision to offer only a very limited program in Iraq.

Because of the recurrent petitions from exporters, which all the members of the Board were hearing since the United States re-established diplomatic relationships with Iraq in 1984, inquiries into the staff's analysis of Iraq's creditworthiness were common. Similarly, staff from other agencies often provided evidence which in their opinion supported a more optimistic outlook of Iraq's creditworthiness than the analysis of Eximbank's economists suggested.

The BNL-Atlanta Office Scandal

Eximbank's Board was not asked to approve any transaction with BNL-Atlanta after the scandal of that institution began to be known. The last renewal of the BNL-Atlanta insurance policy was approved by the Board on October 1988. When the BNL-Atlanta case began to be discussed in the papers I asked in our senior staff meeting whether anybody was looking into our relationship with BNL. In successive meetings I was informed that the review did not show any evidence of impropriety in our relationship and that the last transaction with that institution had taken place some months earlier.

STATEMENT OF

ROBERT L. CHARAMELLA

VICE PRESIDENT

EXPORT-IMPORT BANK OF THE UNITED STATES

BEFORE THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

APRIL 17, 1991

Mr. Chairman, Members of the Committee:

Once again, I welcome the opportunity to be here today to discuss Banca Nazionale del Lavoro (BNL) and Iraqi participation in Export-Import Bank programs. We at the Bank have carefully reviewed how both parties used Eximbank programs and I am pleased to share our findings with the Committee.

To review my previous testimony, Eximbank was open in Iraq for short-term insurance cover only (up to 360 days) from July, 1987 to August 2, 1990. Based upon our country analysis, Eximbank set a relatively modest aggregate principal exposure limit of \$200 million. We were "off cover" in Iraq for the preceding sixteen months due to payment delinquencies which were paid in full prior

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to our re-opening that July. Eximbank's willingness to continue its short term cover in Iraq was based on Iraq's willingness and ability to service its existing debt to the U.S. Government and Eximbank in a satisfactory manner.

A clearance mechanism was set up with the Government of Iraq whereby only those transactions cleared by the Iraqi Government by telex notification to Eximbank were eligible for coverage. Payment had to be in the form of an irrevocable letter of credit opened or guaranteed by the Central Bank of Iraq. Where the Central Bank was the guarantor, either Rafidain Bank or Al-Rasheed Bank could be the opening bank of the letter of credit. Deferred payment terms were permissible up to a maximum of 360 days.

Now I will provide the Committee with an overview of the Eximbank program used by Iraq. The program utilized was the export credit insurance program. This program provides insurance policies to eligible exporters and banks who seek coverage against commercial and political events of default. Specifically, the policy used by the commercial banking community supporting U.S. exports to Iraq was the Bank Letter of Credit insurance policy.

In general, this policy indemnifies the U.S. financial institution against the risk of non-payment on the part of the

Iraqi opening bank of a letter of credit issued in payment for Iraq's purchase of eligible U.S. goods.

The U.S. bank issues the U.S. supplier an irrevocable commitment to pay under the Iraqi letter of credit (silent confirmation) upon presentation of documents as stipulated in the letter of credit. After the credit was negotiated, the U.S. bank would also in this case collect the payment from the Iraqi opening bank at maturity. They purchased export credit insurance to protect against losses under the letter of credit mechanism.

All commercial banks doing business in the United States and financing U.S. exports are eligible to use Eximbank's credit insurance program. We review every bank's application to ascertain its operational history, financial strength, ownership, international experience and other factors to determine program eligibility. In most situations, Eximbank initiates direct contact with the financial institution during its review process. At present, over 130 financial institutions have export credit insurance policies.

Turning specifically to Banca Nazionale del Lavoro, Mr. Chairman, I will explain BNL participation in Export Import Bank programs. After review of BNL's financial standing, its

status as an Italian government owned institution and its operations abroad and in the U.S., Eximbank programs were made available to the BNL offices in Rome, New York and Atlanta. An insurance policy was issued in June, 1987 to BNL-Atlanta.

The U.S. branches of BNL have never used the Eximbank medium term and long term programs.

BNL-New York has used the Eximbank Working Capital Guarantee Program for ten transactions. The latest transaction was approved within the last few days. None of the export shipments resulting from a working capital guarantee went to Iraq. The aggregate value of these transactions is \$5.7 million.

BNL-Atlanta received a Bank Letter of Credit policy which was used to insure Iraqi letters of credit. This policy expired on December 31, 1989. BNL was the insured for 51 transactions which aggregated \$47 million - \$43.5 million has been repaid satisfactorily. This last request authorized for coverage in favor of BNL-Atlanta was June, 1989. There is currently \$3.5 million outstanding to BNL which is part of the \$50.8 million of present exposure to Iraq. Claims have been submitted for this amount.

STATEMENT OF
ARTHUR PILZER
VICE PRESIDENT - AFRICA AND MIDDLE EAST DIVISION
BEFORE THE
COMMITTEE ON BANKING, HOUSING AND CURRENT AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
APRIL 17, 1991

Mr. Chairman, Members of the Committee

As the Vice President of the Africa and Middle East Division it is my responsibility to implement Eximbank's medium and long term financing programs in all the countries in this geographic region where we are open for business. Short term financing requests are handled by the FCIA Division of Eximbank. Mr. Charamella will be testifying on behalf of the FCIA division.

Iraq is one of the countries within my jurisdiction. My staff and I respond to financing requests from U.S. exporters, international banks and from foreign borrowers who seek financing in order to purchase U.S. goods and services. Financing requests are reviewed by my staff for creditworthiness and are also reviewed by Eximbank's Country Risk Analysis Division, the Engineering Division and our Legal Division before they are presented to our Board of Directors or Loan Committee for a decision.

In addition to reviewing financing requests, the Africa and Middle East Division, in conjunction with other divisions of the Bank, recommend or concur in policy changes to the Board of

During the period when we were open in Iraq, Eximbank supported 187 U.S. export transactions totaling \$267 million. Iraq's payment history was checkered with intermittent arrears. Insurance was not provided during the period in which arrears existed. We were very conscious of other export credit agencies' payment problems in the market and therefore kept abreast weekly of our payment history. I have provided the committee with a coverage chronology which depicts Eximbank's coverage position until official closure in August, 1990.

This concludes my remarks, Mr. Chairman. I would be happy to answer any questions the Committee may have.

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Directors as they relate to specific countries within our jurisdiction.

On July 9, 1987, Eximbank's Board of Directors authorized the resumption of short term FCIA insurance cover only for Iraq. This new cover policy for Iraq was limited to \$200 million. The Board of Directors specifically did not authorize medium or long term credits or guarantees for Iraq. As a result of the Board's action, the FCIA Insurance Division was charged with implementing this new short term facility.

My staff and I continued to monitor financing requests by the U.S. export community and the Iraqis but no applications for financing were accepted or presented to the Board of Directors because of our short term only cover policy. The Board of Directors were informed from time to time of the financing inquiries being made to Eximbank.

On August 7, 1990 Exim's Board decided to go "off cover" in Iraq as the result of Iraq's invasion of Kuwait. Between July 9th, 1987 and August 7th, 1990, Eximbank did not change its basic policy of providing only short term insurance for exports to Iraq. Medium and long term financing was never provided during this period.

That concludes my statement, Mr. Chairman. I would be happy to answer any questions that you may have. Thank you.

**Remarks of
John W. Wisniewski, Vice President-Engineering
Export-Import Bank of the United States
before the
Committee on Banking, Finance and Urban Affairs
United States House of Representatives
April 17, 1991**

FUNCTIONS AND ROLE OF EXIMBANK'S ENGINEERING DIVISION

The Engineering Division has the primary responsibility for ascertaining, analyzing and advising the Board of Directors, senior management and staff concerning the technical risks and technical feasibility of proposed transactions presented to the Bank for financing assistance. In addition, the engineers provide general technical information, explanations and interpretations to non-technical personnel of the Bank. The Division has primary responsibility for the administration and application of the Bank's military sales and foreign content policies. It also is responsible for administering the Bank's Engineering Multiplier and Operation and Maintenance Programs. In accordance with the Bank's Environmental Procedures published in the Federal Register September 4, 1979, the Engineering Division is responsible for determining the environmental effects of the project in all long-term transactions.

The Division is managed by a Vice President and Deputy Vice President who are also engineers. Currently, the Division has five staff engineers with cumulative professional experience of over 130 years with 50 of the cumulative years being at the Bank. The engineers serve as industry experts commensurate with their engineering discipline (electrical, chemical/nuclear, mechanical, mining and petroleum) and work experience. All long-term transactions processed by the Bank require the assignment of an engineer. Medium-term, working capital and insurance transactions are assigned engineers at the request of a loan officer. In Fiscal Year 1990 the Division processed 430 transactions.

The Engineering Division provides expert consultative advisory services to the Board, management and staff and represents the Bank on engineering issues with other Government agencies, private companies and foreign nationals. In addition to responsibilities associated with the processing of applications, the Division provides consultative services to other functional areas of the Bank including interagency industry/policy studies. The Vice President-Engineering is the Bank's designated energy officer under Section 2(b)(1)(c) of the Export-Import Bank Act of 1945, as amended, and serves as the Bank's representative on the interagency Committee On Renewable Energy, Commerce and Trade (CORECT) established by P.L. 98-370.

The engineers' written reports to the Board are considered technically authoritative and require little or no substantive technical changes when reviewed by management. The engineer is expected to independently handle assigned cases and other responsibilities with only administrative and minimal technical guidance on broad policy issues. Attached is a list enumerating the "Basic Duties and Responsibilities of Engineers".

IRAQ - Chemical Transactions

Prior to calendar year 1991, the Division's chemical engineer reviewed each case of chemicals exports to Iraq which were brought to his attention by the loan officers.

In each case, he determined that the chemical was not a weapon, nor a precursor to a weapon. He further checked the specific substance in the standard chemical industry reference, "Dangerous Properties of Industrial Materials - Sax", to determine if it could be readily modified to make a chemical weapon.

The chemical engineer currently refers to the list of 50 precursors in the new rules "Expansion and Imposition of Foreign Controls on Chemical Weapon Precursors," published by the Department of Commerce on December 20, 1989 and March 13, 1991. The chemical engineer examines each transaction brought to his attention for export of chemical process plants or equipment and includes his findings in an engineering evaluation of the transaction.

Attachment

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BASIC DUTIES AND RESPONSIBILITIES OF ENGINEERS

- Assess the technical feasibility of projects, evaluating:
 - Capital cost estimates;
 - Construction schedule;
 - Project site selection criteria (raw materials supply, utilities, and transportation);
 - Capabilities of the principals to construct and operate project;
 - Training program, availability of skilled work force, and
 - Estimates of proven mineral reserves (in appropriate cases).
- Provide a Technical Risk Assessment rating for appropriate projects.
- Identify and determine the strength of foreign technical competition faced by U.S. suppliers for each long-term transaction.
- Compute the percentage of U.S. goods and services supplied by small businesses.
- Examine the project's environmental effects under Eximbank's environmental procedures.
- Incorporate the foregoing in a concise engineering evaluation memorandum for inclusion in Memorandum to the Board.
- Support other members of International Lending application teams -loan officer, lawyer, economist - with specialized insights into industry, market, and country conditions.
- Serve as technical consultants to Eximbank officials and Board of Directors.
- Assist in making Bank authorized transactions operative by:
 - Advising lawyer on technical aspects of loan agreement;
 - Reviewing acquisition list for technical eligibility of items of U.S. procurement;
 - Providing technical advice in respect to disbursement requests and terms and conditions of progress payments eligible for financing.
- Monitor active loans by reviewing project progress and operating reports, and conduct on-site engineering reviews when appropriate.
- Advise General Counsel and contract officers with regard to technical problems and considerations in project overruns and project debt rescheduling.
- Contribute to work of Policy and Planning, Information Management, and Ad Hoc committees with specialized knowledge of technologies, markets and industries.
- Provide technical backup to traveling Eximbank teams and explain engineering aspects of loan applications to potential foreign applicants.

Iraq Utilization of Export-Import Bank Programs

Iraq used BNL to finance many of its imports transactions using Eximbank insurance programs. Eximbank finances U.S. exports by providing guarantees, insurance and loan support. The Eximbank programs utilized by Iraq include the Short-term Single Buyer Policy which was utilized mainly by American exporters, and the Bank Letter of Credit insurance policy which was utilized by banks like BNL. Both programs indemnify the insured party - a U.S. exporter or a bank - against the risk of Iraqi non-payment.

From July, 1987 to August 2, 1990, the Export-Import Bank (Eximbank) provided Iraq with \$200 million of short-term insurance coverage - insuring against Iraqi non-payment for up to 360 days. In testimony before the House Banking Committee, Eximbank officials stated, "... we cautiously opened in Iraq only for short-term insurance despite tremendous pressure from the American business community as well as competition from foreign export credit agencies ..." Eximbank also received tremendous pressure from the Government of Iraq which was continually requesting that Eximbank expand its coverage to include medium and long-term insurance coverage.

Eximbank was cautious about its exposure to Iraq because of a history of Iraqi payment delinquencies. In fact, for 18 months prior to opening with Iraq in 1987, Eximbank had suspended Iraq

because of payment delinquencies. As recent as July 20, 1990, Eximbank had to pay an exporter \$53,000 because of Iraqi refusal to make good on a contract insured by Eximbank.

In total, Eximbank has insured hundreds of millions of dollars of exports to Iraq. The current Eximbank exposure to Iraq is \$73.5 million, of which \$55 million is for amounts outstanding and \$18.5 million represents potential exposure. The potential exposure of \$18.5 million relates to shipments which did not take place prior to August 2, 1990. Since these exports were banned, Eximbank should be able to take these guarantees off its books.

Under the Eximbank Letter of Credit program with Iraq, BNL was insured for 51 export transactions with a dollar value of \$47 million. Of this amount \$43.8 million has been repaid by Iraq. Eximbank currently owes BNL the remaining \$3.2 million because Iraq defaulted on several letters of credit that were funded by BNL and insured by Eximbank.

CHRONOLOGY OF U.S./EIF RELATIONSHIP WITH IRAQ

1967- Iraq broke diplomatic relations with U.S. at the time of the Arab-Israeli war.

Sept. 1980- Iraq invaded southern and western Iran.

November 26, 1984- Full diplomatic relations were restored.

1985- Exim opened for short-term business only.

August 15, 1985- Exim Board authorized \$50mm medium term facility for Iraq, however difficulties encountered in discussions with Iraqi govt officials re operating agreement. Iraqis thought the amount was too small, among other things. Subsequently, negotiations were suspended because of arrears which appeared from short-term insurance.

At highest point, the arrears amounted to \$5mm. There were some claims paid which were recovered in full. Total authorizations amounted to \$47.4mm, \$39.2mm disbursed and repaid. Coverage was principally for Rafidain ILC's.

Meillon Bank was principal insured. Some others were UBAF, Chemical, Manuf. Hanover and Republic Bank. NOTE: BNL DID NOT PARTICIPATE DURING THIS PERIOD.

March 1986- EXIM WENT OFF COVER BECAUSE OF ARREARS.

Late 1986- Iraqi govt made some paymts.

Feb. 18, 1987- Became current.

March 17, 1987- Fell into arrears once again. Highest point \$1.9mm.

April 21, 1987- Became current.

April 24, 1987- Interagency review with reps from State, CIA, Treas., USDA/CCC, Commerce and NSC.

May 15, 1987- EXIM'S BOARD APPROVED RE-OPENING IN IRAQ FOR SHORT-TERM ONLY UP TO \$200MM EXPOSURE WITH CENTRAL BANK AS OBLIGOR ONLY.

Late May 1987 ??- Cover suspended because of Iraqi missile attack on the USS Stark. Negotiations with Iraq re short-term facility never began.

July 9, 1987- EXIMBANK RE-OPENED FOR SHORT-TERM BUSINESS UP TO \$200MM.

October 15, 1987- Memo of Understanding and Operating Agreement for ST Facility signed by Exim and Iraqi officials.

Sept 1989- Coverage suspended because of arrears.

December 1989- Congress passed legislative prohibition re Exim program for Iraq.

February 1990- President waives legislative prohibition however, Exim remains off cover because of existing arrears.

March 8, 1990- Iraq becomes current and Exim lifts suspension of ST program.

August 2, 1990- ST program suspended per President's Executive Order.

August 9, 1990- Exim's Board meets and formally goes off cover.

EXPORT-IMPORT BANK TRANSACTIONS FOR EXPORTS TO IRAQ

The Export-Import Bank financed 187 transactions for exports to Iraq totalling \$267 million. The largest areas of purchases were for tire production, tires and other rubber products, and water/sewer pipes.

The attached list shows the name of the insured company (usually a bank), the name of the supplier/exporter, what entity in Iraq was importing the product, what the products were, the amount, and the date the transaction was authorized.

Table with columns for State, Importer, Supplier, Product, and Amount. Includes entries for various goods like tires, rubber products, and machinery.

Handwritten notes at the bottom of the table, including a date '1/23/87' and a reference to 'F53,300'.

PNL-ATLANTA
 ALGERHE BK
 BANKAMER INTL-NY
 BNL-ATLANTA
 IONICS INC.
 JUNE HARVEY TRUST
 ALGERHE BANK
 BANKAMERICA INTL
 IRVING TRUST
 BNL-ATLANTA
 BNL-ATLANTA
 BNL-ATLANTA
 BNL-ATLANTA
 BNL-ATLANTA
 BNL-ATLANTA
 TORO INTL CORP.
 DRAPER CORP.
 BNL-ATLANTA
 BNL-ATLANTA
 BNL-ATLANTA
 UPJOHN WORLDWIDE
 BNL-ATLANTA
 ELL LILLY S.A.-GENEVA
 IRVING TRUST
 IRVING TRUST CO
 IRVING TRUST CO
 CHEM CORP/AMERON INC.
 BNL-ATLANTA
 BNL-ATLANTA
 GULF INTL-NY
 GULF INTL BK
 IRVING TRUST
 BNL-ATLANTA
 TRANS ATLANTIC INC.
 BNL-ATLANTA
 BANK OF N.Y.
 ALGERHE BK
 BNL-ATLANTA
 BANKAMERICA INTL-NY
 IRVING TRUST CO
 BNL-ATLANTA
 BANKAMERICA INTL
 BNL-ATLANTA
 BNL-ATLANTA
 BNL-ATLANTA
 BNL-ATLANTA
 TRANS EXPORT INC.
 PHILA MAIL BK
 UPJOHN WORLDWIDE
 BNL-ATLANTA

AM-ATLANTA
 IZV TRUST
 IRVING TRUST
 BNL-ATLANTA
 YORK INTL
 R/S CARGOES INC.
 BANKAMERICA INTL
 IRVING TRUST CO
 AMERICAN EX- LTD.
 BNL-ATLANTA
 RACAL VADIC INC.
 BNL-ATLANTA
 IRVING TRUST
 IRVING TRUST
 UPJOHN S.A.-BELGIUM
 GULF INTL BANK
 IRVING TRUST CO.
 IRVING TRUST
 IRVING TRUST
 ALLCARGOES INC.
 IRVING TRUST CO
 BNL-ATLANTA
 BNL-ATLANTA
 ALGERHE BANK
 IRVING TRUST
 IRVING TRUST
 IRVING TRUST
 IRVING TRUST
 CREDITANSTALT
 IRVING TRUST CO.
 GULF INTL BANK
 AMERICAN EX- IN LTD.
 AMERICAN EX- IN LTD.
 BNL-ATLANTA
 BANK OF NY
 BNL-ATLANTA
 BNL-ATLANTA
 ALGERHE BK MED
 R/S ALLCARGOES INC.
 ALGERHE BK MED
 BNL-ATL
 CO TRUST SUPPLY
 BNL-ATLANTA
 BNL-ATLANTA
 BNL-ATLANTA
 BNL-ATLANTA
 BNL-ATLANTA
 BNL-ATLANTA
 BNL-ATLANTA
 BNL-ATLANTA
 IRVING TRUST

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HOUSTON
 NASHVILLE
 BALTIMORE
 WATERTOWN
 MINNEAPOLIS
 TORRANCE
 DENVER
 CHARLOTTE
 KENOSHA
 VIENNA
 STONEY
 NEW YORK
 HOUSTON
 NASHVILLE
 YORK
 GREENSBORO
 WEST POINT
 NEW YORK
 NEW YORK
 ROCK HILL
 KALAMAZOO
 BRESTOL MIERS INTL
 ELL LILLY
 SUPERIOR AIR PRODUCT TILER
 ELDER PHARMACEUTICAL COSTA MESA
 ELDER PHARMACEUTICAL COSTA MESA
 CHEM EXPLORATION INC JENSEN BEACH
 VIDEOJET SYSTEM INTL ELK GROVE VILLAGE
 HONELL AERON. INC. AERON
 TRANS ATLANTIC INC. DETROIT
 TRANS ATLANTIC INC. DETROIT
 LUKOR CALIFORNIA SAN DIEGO
 BREEZEVALE INC. WOODBRIDGE
 TRANS ATLANTIC INC. DETROIT
 COPELAND INTL INC.
 PLUMBATECH LTD.
 SOLVOCHEN-NOLLAND
 WOODBRIDGE
 TORRANCE
 CEDARBURG
 NORTH
 LOS ANGELES
 GASTONIA
 WAYNE
 NEW YORK
 LE CROSSE
 YORK
 LA CROSSE
 WAYNE

NORGEN, SWITZERLAND
 PARAMUS
 AERON
 SOUTHFIELD
 YORK
 NEW YORK
 LOS ANGELES
 NORTH AURORA
 SOUTHFIELD
 HILIPAS
 MORRIS PLAINS
 ELK GROVE VILLAGE
 PARAMUS
 MORRIS PLAINS
 COLUMBUS
 PARAMUS
 ELK GROVE
 NEW YORK
 CINCINNATI
 NORGEN, SWITZERLAND
 PARAMUS
 SOLVOCHEN-NOLLAND
 NEW YORK
 COLUMBUS
 CLEVELAND
 AERON
 AERON
 PARAMUS
 GATEPILLAR TRACTOR
 WILHE PLAINS
 PARAMUS
 SOUTHFIELD
 BRAMON
 PARAMUS
 WEST POINT
 WEST POINT
 SINGER PRODUCTS
 GREAT ECK
 SOLVOCHEN-NOLLAND
 NEW YORK
 SPARTANBURG
 PARAMUS
 AL HADBAD
 DES PLAINES
 NASHVILLE
 BASH INTL CO
 NORMALE
 NASHVILLE
 NASHVILLE
 DES PLAINES
 NASHVILLE
 BUNFALO
 CINCINNATI

OIL EQUIPMENT CO. AKC WELDING EQUIPMENT 283193.00 04/08/88
 NATL CHEM & PLASTICS 500 TD 80/20 (SIC) 1892500.00 04/08/88
 MODERN PAINT INDUST CHEM RAW MATERIALS,SOLV 59400.00 04/12/88
 BAYON STEEL ESTAB COOLING PLANT PARTS 146886.00 04/12/88
 SAAD JEM ESTAB WATER TREATMENT EQUIPMT 137250.00 04/12/88
 DEML NUTH TRADING AUTO PARTS 134703.00 04/12/88
 ST ENT RUBBER INDUST 500 TONS BAR COMPOUND 1050000.00 04/28/88
 IRADI TRADING CO. MAGNETIC COMPUTER TAPE 465580.00 04/28/88
 GEML JO FRAIN PROCES COOL STORAGE UNITS 438993.00 04/28/88
 AL HILAL IND ESTAB AIR COOLER PARTS 352340.00 05/11/88
 LIGHT INDUSTRIES CO. SPARE PARTS 237090.00 05/11/88
 SAGHAM GENL ESTABMT MACHING TOOLS & TECH SVCS 3805938.00 05/11/88
 IRADI TRADING CO. A/C COMPRESSORS 1928505.00 05/11/88
 ST ENT MECH & AG SUPP HERBICIDE 247005.00 05/11/88
 OIL EQUIPMENT CO. (12) WELDING MACHINES 16584.00 05/17/88
 MODERN PAINT INDUST. CHEM RAW MAT & SOLVENTS 806423.00 05/17/88
 IRADI TRADING CO. A/C ACCESSORIES 145271.00 05/17/88
 ST EST COTTONS TEXT WEAVING LOOM PARTS 237075.00 05/24/88
 ST ESTABLISH COTTON SPARE PARTS FOR LOOMS 20108.00 05/25/88
 ST CO. DRUGS MED AP MEDICATED MILK 169144.00 05/25/88
 NORTH CEMENT ST ENT (2) 35 TON GUMP TRUCKS 297926.00 05/25/88
 ST EST LEATHER IND LEATHER BTES 59500.00 05/25/88
 ST CO. DRUGS MED AP PHARMACEUTICALS 237801.00 06/07/88
 ST CO. DRUGS MED AP PHARMACEUTICALS 348750.00 06/07/88
 ST CO DRUGSE MED APH PHARMACEUTICALS 128650.00 06/07/88
 ST ENT NORTHERN GAS NITROGEN BASE PLANT 1528300.00 06/14/88
 ST CO DRUGSE MED APH PHARMACEUTICALS 133194.00 06/14/88
 ST CO DRUGSE MED APH PHARMACEUTICALS 387764.00 06/14/88
 HIBSON ST SUGAR ENT (3) CHLORINATORS & SPARES 2955.00 06/14/88
 ST ENT BEVERAGES COOLING MACHINE & PARTS 45487.00 06/14/88
 NEW TIRE PROJECT (26) TUBE PRESSES 179444.00 06/14/88
 AL-KADISIEN ST ESTAB STANDARD TOOLS 322057.00 06/14/88
 AL-KADISIEN ST EST STANDARD TOOLS 65507.00 06/14/88
 ST ENT TOBACCO CIGA CIGARETTE PAPER & GLUE 1799988.00 06/21/88
 IRADI TRADING CO. TIRES & TUBES 5249649.00 06/21/88
 AL-KADISIEN ST ESTAB CARBIDE TOOLS 18300.00 06/23/88
 IRADI TRADING CO. A/C COMPRESSORS 147120.00 06/23/88
 ST ENT CONSTRUCTION SPARE PARTS 48000.00 06/23/88
 ST ENT RUBBER INDUST BAR COMPOUND 1050000.00 06/29/88
 IRADI TRADING CO. TIRES & TUBES 683194.00 06/29/88
 IRADI TRADING CO. MAGNETIC COMPUTER TAPE 671810.00 06/29/88
 ST ENT BATTERY PRODUCT (4) FILLING/SEALING MACH 982602.00 06/29/88
 GEML CEMENT ST ENT CONTROLLER MOLDING 127942.00 06/29/88
 IRADI TRADING CO. TIRES 65534.00 06/29/88
 ST EST FOR COTTON POLYESTER YARN 1210000.00 07/18/88
 AGRIC SUPPLIES VET PHARMACEUTICALS 267000.00 07/15/88
 ST CO DRUGS MEDICAL C. T. SCANNER PARTS 448009.00 07/15/88
 ST EST RAYON INDUST A/C SPARE PARTS 5959.00 07/15/88
 IRADI TRADING CO A/C PARTS 64981.00 07/15/88
 AGRIC SUPPLIES VET PHARMACEUTICALS 1409240.00 07/15/88
 AGRIC SUPPLIES VET PHARMACEUTICALS 177550.00 07/15/88

AGRIC SUPPLIES EORSBAN & OUBERAN 1497000.00 07/15/88
 ST ENT RUBBER INDUST USED TIRE ROLDS 21000.00 07/22/88
 ST ENT RUBBER INDUST TIRE PRESSES & PARTS 75258.00 07/22/88
 ELECTRONIC INDUST CO ELECTRONIC PARTS MAY 218000.00 07/22/88
 IRADI TRADING CO. A/C ACCESSORIES/CHILLERS 144900.00 07/24/88
 IRADI TRADING CO. A/C SPARE PARTS 21000.00 07/24/88
 IRADI TRADING CO. TIRES 1680517.00 07/24/88
 IRADI TRADING CO. WATER PUMPS W/ACCESSORIES 34330.00 07/24/88
 AL-KADISIEN ST EST EQUIPMENT 1727314.00 07/29/88
 HIBSON ST SUGAR ENT SPARE PARTS 94913.00 08/03/88
 R/S INDUSTS RIBBERALS COMPUTER MODEMS 89679.00 08/03/88
 CO DRUGS MED APP PHARMACEUTICALS 19332.00 08/04/88
 ST ENT MGR GILLS CODERS & PARTS 337631.00 08/04/88
 ST CO DRUGS MED APP DRUGS 945390.00 08/04/88
 ST ENT RICHMAD ELEC CASH RECEIPTING MACHINES 824440.00 08/11/88
 ST ENT RUBBER INDUST SPARK PARTS 164972.00 08/19/88
 ST ENT RUBBER INDUST 800 TONS CARBON BLACK 672000.00 08/19/88
 ST ENT BATTERY PRODUCT DAIRT EQUIPMENT 551746.00 08/19/88
 IRADI TRADING CO. COMPRESSOR SPARE PARTS 79500.00 08/19/88
 AL-KADISIEN ST EST SILICON STEEL 908000.00 08/19/88
 AGRIC SUPPLIES-BAGHD DUMSBAN 4 TC 1562848.00 10/31/88
 ST ENT RUBBER INDUST NYLON RUBBER CORD 1593800.00 10/05/88
 ST ENT RUBBER INDUST SYNTHETIC RUBBER 987000.00 10/05/88
 NEW TYRES PROJECT EQUIPMENT AND PARTS 2800000.00 09/30/88
 NEW TYRES PROJECT EQUIPMENT AND PARTS 1100000.00 09/30/88
 NEW TYRES PROJECT EQUIPMENT & PARTS 1922000.00 10/03/88
 NEW TYRES PROJECT EQUIPMENT & PARTS 2580000.00 10/03/88
 NEW TYRES PROJECT TIRE PRODUCTS 226000.00 10/05/88
 ST RACH TRADING CO SPARE PARTS 201891.00 10/05/88
 ST RACH TRADING CO INSECTICIDE 69585.00 10/31/88
 ST ENT RUBBER IND SYNTHETIC RUBBER 252880.00 10/05/88
 AL-KADISIEN ST EST TOOLS 338254.00 10/31/88
 AL-KADISIEN ST EST SPARE PARTS 1195315.00 10/31/88
 AGRIC SUPPLIES CO. EMBROY TRANSFER SUPPLIES 72740.00 10/31/88
 ST ENT RUBBER IND NYLON CORD FABRIC 479060.00 10/31/88
 ST EST COTTON SPARE PARTS 53845.00 10/31/88
 ST BATTERY MANUF SPARE PARTS 80244.00 10/31/88
 NATL CHEM P-ASTIC STEARIC ACID 126990.00 10/31/88
 IRADI TRADING CO A/C PARTS 29380.00 10/31/88
 ST ENT RUBBER IND SYNTHETIC RUBBER 244480.00 10/31/88
 ST EST COTTON SPARE PARTS 77326.00 10/31/88
 ST ENT RUBBER IND NYLON CORD FABRIC 479060.00 10/31/88
 ST ENT PLAPS PAPER RUBBER BLANKETS 47143.00 10/31/88
 ST ENT PLAPS PAPER TEGO CUTTER KNIVES 47494.00 10/31/88
 ST ENT PLAPS PAPER FACILUM PUMPS 313760.00 10/31/88
 ST ENT PLAPS PAPER PAPER & BOARD MACH BLADES 48272.00 10/31/88
 ST EST LEATHER IND VARIOUS CHEMICALS 332820.00 07/24/88
 MODERN PAINT INDUST PAINT SOLVENTS TRIMMER 179280.00 04/29/88
 ST EST LEATHER IND VARIOUS MAX & PAINT 326670.00 07/18/88
 AL-KADISIEN ST ENT SILICON STEEL 5080000.00 10/11/88

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RECENT SERIOUS INQUIRIES CONCERNING LARGE IRAQI PROJECTS August, 1988

DATE	PROJECT	COMPANY	TOTAL COST (\$ millions)	APPROXIMATE U.S. COSTS (\$ millions)
1987-88	Pipeline (IFSA II, 2nd Stage)	Various	\$1.5 billion	?
1987-88	Pipeline (3rd Turkish)	Various	\$400	?
1985-88	Bekhme Dam	Bechtel	\$3.2 billion	?
2/88	Fertilizer Complex	Kellogg	\$300	\$170
3/88	Automobiles (50,000?)	GM	\$750	\$750
6/88	Oil Field Expansion	Occidental	\$300	\$170
7/88	Irrigation Project	Valmont	\$50	\$50
1988	3 Power Stations	Westinghouse, Stone & Webster, Others	\$2 billion	\$1.5 billion
7/88	Trucks	Hack	\$75	\$75
7/88	Petrochemical complex	Various	\$2.5 billion	\$1.5 billion
1988	Various small manufac- turing plants (tires, air conditioners, pipe, etc.)	Various	\$10 to \$20 each.	?
8/88	Helicopter co-produc- tion Project	Bell Textron	\$400	\$400

R. Swartz
August 23, 1988

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APPENDIX I
IRAQ

Project	Estimated Potential U.S. Costs (millions)	Potential U.S. Supplier
Al Mussaib Power Project		
- Capital Goods	\$ 43.0	Not yet determined
- Design Work	14.0	C. T. Main
- Turbine Generators	159.0	Westinghouse
Daura Power Project		
- Boiler Portion	\$ 40.0	Combustion Engineering
- Turbine Generators	50.0	General Electric
Yusifiya Power Project	\$500.0	Combustion Engineering General Electric
-		Combustion Engineering
-		General Electric
Baghdad Metro (may be deferred)		
- Design	\$ 10.6	Deleuw Cathar
- Engineering/Procurement Construction Mgmt.	150.0	Bechtel
Oil Pipeline-Jordan		
- Construction	?	Foster Wheeler
- Engineering/Procurement/ Construction		Bechtel
Oil Field Equipment	\$ 8.0	Midland Int'l
Oil Field Equipment	\$ 10.0	Halliburton
Scanners & Computer for Shopping Mall	\$ 7.0	NCR
Arab Company for Detergent Chemicals	\$ 35.0	Combustion Engineering
Linear Alkyl Benzene Plant	\$ 25.0	Hove-Baker Engineers
Oil and Gas Treatment Equipment	\$ 6.0	Hove-Baker Engineers
Turnkey Ammonium Storage Plant	\$ 30.0	General Electric
Medical Systems	\$ 25.0	General Electric
Transmission Substations	\$ 5.0	E. Holzer/Barco Int'l
Poultry Farm Equipment	\$ 5.0	Bell Helicopter/Lockheed
Helicopters for Civilian Ambulance Service by Air Force	\$300.0	
Antibiotic Plant	\$ 30.0	Foster Wheeler
Feed Concentrates	\$ 13.0	Bankers Trust for Pillsbury
Total	\$1,510.6 million	

Sub. 1984

July 1988

MYTHOLOGY ABOUT IRAQ

- MYTH #1:** Iraq is one of the largest markets for U.S. exports in the developing world.
- Reality:** The myth of the Iraqi market is based on two or three years of huge imports around 1980. The Iraqi market was not among the largest before that, nor is it now. Iraq in 1987 was the 28th largest importer (of civilian goods) among non-OECD countries. An end to the war alone does not imply a financial bonanza for Iraq. The conditions existing in 1981--simultaneous 4 mb/d production and \$30 per barrel oil-- will not return. Any dramatic increase in imports depends on the uncertain prospect of substantially higher oil revenues and the willingness of creditors (such as Exim) to finance the creation of a larger Iraqi market.
- MYTH #2:** Because of its vast oil reserves, Iraq must be a highly creditworthy country.
- Reality:** Large oil reserves do not imply high oil revenues. Oil revenues depend on oil export capacity and oil prices. In spite of valiant efforts to boost oil export capacity, Iraq's oil revenues remain at half their level of the early 1980s. Neither oil export capacity, nor oil prices, are guaranteed to work in Iraq's favor in the future.
- MYTH #3:** Iraq is perfectly willing to repay creditors; it just does not have the ability to repay right now.
- Reality:** Because its debt has a short maturity structure, Iraq cannot pay all its debt service. Moreover, Iraq has an attitude problem regarding foreign debt. Iraq only fully repays creditors who offer large new loans. If creditors don't offer new loans, Iraq simply fails to pay, and demands bilateral rescheduling arrangements involving oil barter. This strategy permits Iraq to secure project financing, as well as pure BOP assistance.
- MYTH #4:** Iraq hit rock-bottom in 1986; since then, Iraq's finances have already gotten a lot better.
- Reality:** The oil price collapse (and Iranian military victories) of 1986 took the Iraqis by surprise; for a time, they weren't even answering communications from creditors. Today, they are better organized, but within an Iraqi context. Iraq has become more sophisticated in its calls for bilateral reschedulings, and in its cultivation of potential creditors (such as Exim).
- MYTH #5:** Iraq's financial problems are temporary; when the next oil pipeline opens up, things will get better.
- Reality:** Pipeline capacity has more than tripled since 1984, without significant effect on total oil revenues. Weak oil prices, caused in part by Iraq's larger output, offset volume increases. In the long run, oil revenues will depend on Iraq's ability to influence OPEC decisionmaking, to the detriment of moderates like Saudi Arabia. Iraq attempts to increase oil export volumes may lead to lower world oil prices and thus dampen Iraq's own oil revenues.

Source: Export-Import Bank Country Risk Analysis Division

MYTH #6: The end of the war with Iran, and thus of Iraq's financial problems, is just around the corner.

Reality: The "cease-fire" does not guarantee an effective peace accord. Even if the war with Iran should formally "end", Iraq is not likely to ignore the continuing threats posed by Iran and the Kurds, and will not drastically reduce military spending. Furthermore, Iraq will undertake a costly reconstruction, at the expense of debt repayment. To sustain the benefits of playing one creditor off the next, Iraq will avoid a multilateral Paris Club rescheduling, and continue to use default as a device to secure continued financial assistance.

MYTH #7: Closer ties between the U.S. and Iraq will ensure Exim repayment, even if other creditors are not being paid.

Reality: Relations between Iraq and the U.S. are not guaranteed to be warm, because the principal U.S. interest in the region is not in supporting Iraq's objectives (a peace settlement which favors Iraqi border claims, and an end to the Kurdish threat), but in ending the Gulf War. Even if the U.S. offered political and material support to Baghdad, Exim repayment is still not guaranteed. Iraq does not fully repay countries (such as France, Italy, Japan, or Turkey) which have been important to Iraq's military or economic effort, because Iraq believes these creditors have already received a payoff in the form of greater access to the Iraqi market. Iraq will view Exim credits as something the U.S. does in its own self-interest, not in Iraq's.

MYTH #9: Iraq pays CCC; the Iraqis believe we're all one government so they'll repay us, too.

Reality: Iraq pays CCC, and two other export credit agencies, because they have been offering consecutively larger programs of new medium-term credit. Mizar Hamdon and other sophisticated observers of the American scene know that Exim and CCC do not speak with the same voice. If Exim becomes a "favored creditor", it is only because Baghdad believes that we too will eventually commit to larger and larger programs of long-term credit.

MYTH #10: Iraq is no less creditworthy than other heavily-indebted countries where Eximbank is open.

Reality: Creditworthiness has two components, ability and willingness. In the long run, Iraq may have greater ability to repay than many countries. However, Iraq has demonstrated a clear unwillingness to adopt normal debtor-creditor relations. Iraq is more aptly compared to Peru (which pays when it wants to), than to Yugoslavia (which makes a valiant effort) or Argentina (which at least pays lip service to the IMF and the Paris Club).

Overview of Eximbank Country Risk Analysis Process

A portion of the hearing will focus on the Export-Import Bank Country Risk analysis process. The Committee has asked the Eximbank to discuss the following:

Country Risk Analysis

- a. Using Iraq as an example, please explain the country risk analysis process at Eximbank.
- b. From your perspective, how was that analysis used in making decisions about Iraqi participation in Eximbank programs?
- c. What role do agencies such as the Central Intelligence Agency (CIA), the State Department, the Federal Reserve, etc., play in the country risk analysis process? How did these agencies influence your country risk analysis of Iraq?
- d. Did the BNL scandal influence the country risk analysis process at Eximbank?

The following section provides an overview of the Export-Import Banks position related to Iraq's creditworthiness during the period 1984-1990. Highlights of Eximbank country risk analysis have been included for each year.

1. The Export-Import Bank rarely considered Iraq creditworthy between 1984 and the invasion of Kuwait.
2. The State Department, Treasury Department, Commerce Department, U.S. Trade Representative, the CIA, and the Eximbank Board of Directors participated in most Iraqi country reviews.
3. During the years 1984-1990, Eximbank was under tremendous pressure from exporters such as General Motors, Bechtel, Mack Trucks, Westinghouse, General Electric, Combustion Engineering, Bell Textron Helicopter, Occidental Petroleum, and Kellogg.
4. The State and Commerce Department staffs were also pressuring Eximbank to do more business in Iraq. April Glaspie and the previous Ambassador to Iraq often visited or communicated with Eximbank to discuss extending medium-term loans to Iraq.
4. Note that there are several country risk analysis of Iraq in 1989. Eximbank staff have stated that they had to revisit the Iraq creditworthiness issue several times in 1989 mainly because of State and Commerce Department staff pressure to do more business in Iraq (see list of potential projects in Iraq).
5. Only once did the Eximbank Board actually approve medium term loans to Iraq - \$50 million. The Iraqi's considered this amount an insult and did not utilize that allocation.

Highlights of Export-Import Bank

Country Risk Analysis

Iraq

1990

EXPORT-IMPORT BANK OF THE UNITED STATES

August 7, 1990

MEMORANDUM TO THE BOARD OF DIRECTORS

Subject: Country Policy Recommendations for Iraq and Kuwait

The Country Risk Analysis Division and the Africa and Middle East Division recommend the following changes in country policy:

(1) IRAQ - to close all programs

The Iraqi government announced on August 3, 1990, that it was ceasing payments on its obligations to Eximbank/FCIA. Given the Iraqi government's unwillingness to honor its obligations, it is recommended that no new transactions be undertaken.

The recommended country policy is:

IRAQ

Cover not available.

(2) KUWAIT - to close all programs

On August 2, 1990, Iraqi forces took control of Kuwait, and established a proxy regime. Since the Iraqi government is now likely to dictate Kuwaiti policy on foreign debt servicing (including foreign debt servicing by private firms), and is expected to withhold payments, it is recommended that no new transactions be undertaken.

The recommended country policy is:

KUWAIT

Cover not available.

Clement Miller
Clement Miller
Economist
Daniel L. Bond
Daniel L. Bond
Vice President
Country Risk Analysis Africa & Middle East
Arthur Pilzer
Arthur Pilzer
Vice President

MEMORANDUM TO THE BOARD OF DIRECTORS

August 7, 1990

Subject: Iraq and Kuwait - Country Policy

The staff recommends that Eximbank go off cover under all its programs in Iraq and Kuwait. The attached memos from the Legal Division and the Country Risk Analysis Division discuss the background for this recommendation. The staff has also consulted with State and Treasury on this issue.

LeRoy M. LaRoche
LeRoy M. LaRoche
Bruce R. Hunt
Bruce R. Hunt
Clement Miller
Clement Miller
Miguel E. Rubignone
Miguel E. Rubignone

CONCUR:

James R. Sharpe
James R. Sharpe
Executive Vice President

* Memo from Legal to be distributed separately.

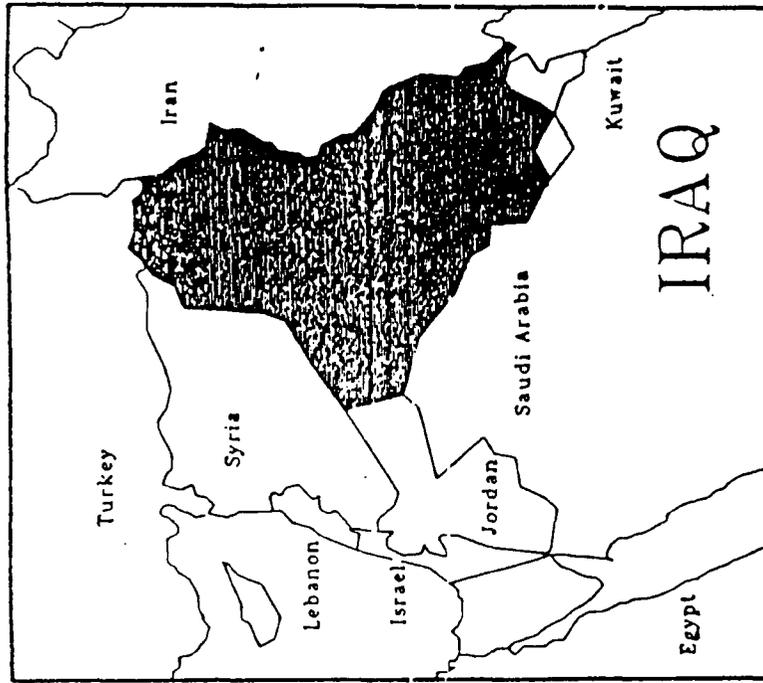
COUNTRY REVIEW UPDATE

Highlights of Export-Import Bank

Country Risk Analysis

Iraq

1989



COUNTRY RISK ANALYSIS DIVISION
EXPORT-IMPORT BANK OF THE U.S.
OCTOBER 10, 1989

IRAQ COUNTRY REVIEW UPDATE, October 6, 1989

Since our April and June 1989 Country Reviews, Iraq's ability and willingness to repay foreign obligations appears not to have changed appreciably. Unable to service all of its debts, Iraq only pays creditors who it believes are willing to increase their exposure continuously. Recent events confirm this analysis.

- ECGD--once Iraq's "most favored" creditor--has suspended its \$600 million 1989 protocol because of major arrearages. Iraq was to repay over \$400 million in 1989, but permitted arrears because ECGD refused to consider a large increase in its program.
- Because of arrears this year, CCC's \$1 billion program has occasionally been suspended. Iraq permits arrears to CCC in spite of the program's size and attractive terms. Because of their concerns about Iraqi financial behavior, the Fed and Treasury want CCC to scale back this program.
- Other export credit agencies--COFACE, MITI, and SACE--are off-cover or suspended for medium- and long-term credits. Only HERMES has a medium-term program, but it is smaller than Exim's short-term program. Like Exim, most agencies now operate only on a revolving basis--providing cover only as Iraq makes payments.
- The BNL incident--which may have involved criminal behavior by both BNL and Iraqi officials--raises additional doubts about the nature of Iraq's financial behavior. Iraq does not wish to repay already-disbursed L/Cs unless disbursements are made on promised L/Cs, even those issued illegally.
- In spite of growing international pressure, Iraq continues to refuse to undertake a multilateral rescheduling exercise through the Paris Club. Paris Club reschedulings would force Iraq to treat creditors equally, and would require international scrutiny of Iraq's economic situation and priorities. U.S. policy requires multilateral reschedulings.
- The BNL incident has revealed the extent of Iraqi efforts to attract Western financial support for Iraq's military industrialization program. Iraq is pursuing technologically advanced, import-substituting, dual civilian-military industrialization, possibly in violation of Western export restrictions.
- Iraq's oil revenues cannot cover Iraq's ambitious industrialization plans. Even before the recent completion of a second Saudi pipeline, Iraq had ample pipeline capacity; however, its OPEC quota permits no room for additional oil exports. Any Iraqi attempt at overproduction risks retaliation by other OPEC members and a revenue-offsetting price collapse.
- Iraq continues to cajole export agencies through offers of lucrative contracts to exporters, friendly visits, and promises of favored creditor status.

OFFICIAL U.S. GOVERNMENT POLICY ON DEBT RESCHEDULING

1. Debt service payments on international debt should be reorganized on a case-by-case basis and only in extraordinary circumstances where reorganization is necessary to insure repayment. Debt relief should not be given as a form of development assistance.
2. Debt-service payments on loans extended or guaranteed by the U.S. Government to foreign governments will normally only be reorganized in the framework of a multilateral creditor club agreement.
3. When a reorganization involving government credit or government-guaranteed credits takes place, the United States will participate only if:
 - (a) the reorganization agreement incorporates the principle of non-discrimination among creditor countries, including those that are not party to the agreement;
 - (b) the debtor country agrees to make all reasonable efforts to reorganize unguaranteed private credits falling due in the period of the reorganization on terms comparable to those covering government or government-guaranteed credits;
 - (c) the debtor country agrees to implement an economic program designed to respond to the underlying conditions and to overcome the deficiencies which led to the need for reorganizing debt-service payments.
4. The amounts of principal and interest to be reorganized should be agreed upon after a thorough analysis of the economic situation and the balance of payments prospects of the debtor country.
5. The payments that are reorganized should normally be limited to payments in arrears and payments falling due not more than 1 year following the reorganization negotiations.

Source: Annual Report, National Advisory Council on International Monetary and Financial Policies, FY 1987

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EXPORT-IMPORT BANK OF THE UNITED STATES
COUNTRY RISK ANALYSIS DIVISION

June 6, 1989

MEMORANDUM TO THE BOARD OF DIRECTORS

From: Daneil L. Bond
Vice President for
Country Risk Analysis

Subject: Creditworthiness Review of Iraq: Part Two

An interagency review of Iraq is scheduled for Tuesday, June 13, 1989 at 9:00 a.m. in the Board Room (Room 1141). Attached is the Eximbank staff paper prepared by Clement K. Miller of the Country Risk Analysis Division, which will serve as the basis for this discussion. It has been distributed within the Bank and to outside agencies. Representatives of the agencies listed below will be at the review to offer their views, to answer questions from Eximbank's Board and, where their analyses or conclusions differ from those in this paper, to identify the assumptions or data causing the differences.

<u>Outside Agencies</u>	<u>Representative</u>
CIA	Representatives from the NESAs Branch
Commerce	Robert Lee Tom Sams
Federal Reserve	Robert Emery
State	Alex Sundquist Philip Remmler
Treasury	Edwin Barber Jerry Nisenson
USTR	Matthew Gallivan

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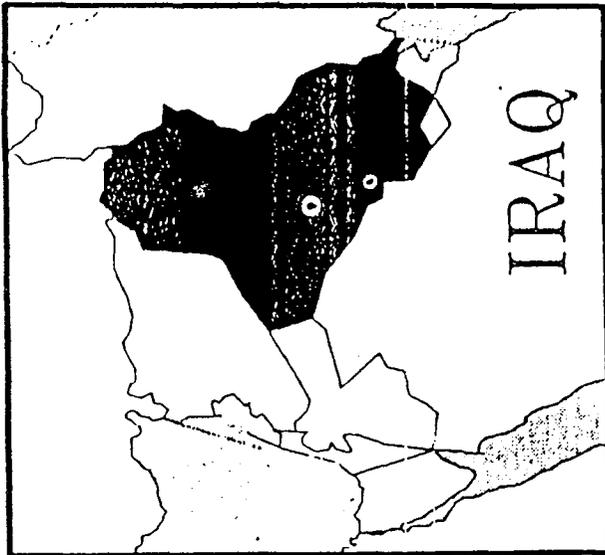
CIA - Representative from the
NESAs Branch

FROM: Country Risk Analysis

SUBJECT: ~~CONFIDENTIAL~~
Interagency Review Iraq

DATE: June 6, 1989

COUNTRY REVIEW PART TWO



COUNTRY RISK ANALYSIS DIVISION
EXPORT-IMPORT BANK OF THE U.S.
JUNE 13, 1989

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CREDITWORTHINESS REVIEW OF IRAQ: PART TWO

Introduction

On April 24, 1989, Eximbank held Part One of a Creditworthiness Review of Iraq. Part One indicated, inter alia, that:

- Iraq's debt strategy is likely to remain unchanged. Iraq repays only those creditors who offer larger amounts of new credit and reschedules--or leaves unpaid--other obligations. An early return to normal debtor-creditor relations is not expected.
- Export credit agencies, except for ECAD, are off-cover for medium-term project finance. Other ECAs seek to reverse Iraq's debt strategy by linking new credits to the settlement of debt arrears. They also seek preferential repayment for older debts.
- Iraq's oil revenues are constrained by the pursuit of OPEC production restraint. Unilateral increases in oil output would fail, as in the past, to yield proportionately higher revenues.

Part One concludes: if Eximbank is willing to commit to consecutively larger credit programs year after year, Iraq will likely be willing to service these credits. This outlook depends on fluctuations in U.S.-Iraqi relations, Iraq's political stability, and the potential for new military conflict.

Part Two of this review will address in greater detail fundamental economic factors affecting Iraq's ability to restore normal debt service and avoid arrears and reschedulings.

Military Absorption of Iraqi Resources

By far the most critical constraint on Iraq's ability to mobilize resources for foreign debt repayment is its extremely heavy military burden. Iraq devotes more resources to its military than almost any other country (see Table 1 for a comparison with other oil producing countries).

About a quarter of the male labor force (over age 15) is on active military duty. Military spending constitutes over half of Iraqi government expenditures and consumes nearly two-fifths of Iraq's entire GDP. Hard-currency military imports represent fully one-half of Iraq's imports, absorbing almost half of Iraq's oil revenue.

- An emphasis on military technology. Iraqi leaders, in the wake of their technology-driven "victory" over Iran, believe that advanced military technologies--bombers and missiles, chemical and-bacteriological weapons, and nuclear capability--are the key to military power.

- Given Iraq's defense needs and fears, and its ambitious military and political objectives, it is difficult to imagine significant intentional reductions in the military's absorption of Iraq's resources. There is unlikely to be any substantial diversion of present or future resources from the military either to foreign debt service or to alternative productive endeavors.
- Competent private sector managers freed from the state's political, military, and economic constraints would likely bring about a much higher rate of return on the same industrial and human resources now managed by the state industries. However, Iraq has announced only very limited privatization measures, namely the sale of several state farms and small service firms in 1985 (reportedly to friends and relatives of government leaders) and last fall's proposed sale of several tourist facilities.
- Non-oil industries. In addition to higher oil production, the government is planning to develop new state-controlled industries to supply the military, the civilian market and export markets. Iraq's ambitious plans, unlikely to be completed even within the next five-to-ten years, include oil refineries, petrochemical complexes, specialty steel and aluminum plants, vehicle assembly, and various manufacturing activities. These new industries will fashion products required by the military (including intermediate products for the new arms industries), and produce goods for sale in the domestic market and perhaps in export markets.
- The Ministry of Industry and Military Industrialization has plans to integrate the proposed specialty metals, vehicle assembly, and other manufacturing plants directly into Iraq's planned missile, tank, and armored personnel carrier industries. Further, the new industries, as with the older industries, will likely to be required to provide heavily subsidized goods to other industries (both civilian and military), to agriculture, and to the general public, at a considerable loss.
- Under favorable conditions and with sustained, gradual improvement in the government's economic policies (including a moderate reduction in the military's claim on resources), Iraq's debt service capacity can probably be restored within a ten-year time horizon.

- Full restoration of debt service capacity is theoretically possible within a shorter time frame, even five years. However, such a scenario would require that alternative claims on Iraq's resources be greatly reduced within a very short time frame. Table 3 presents much more optimistic alternative assumptions for each of the key variables, and the reductions/in arrears (from the baseline) associated with each variable.
- A dramatic reduction in domestic military and civilian state sector claims on oil revenues and non-oil production would provide resources for an earlier end to arrears and reschedulings. However, such massive reductions in military and civilian absorption of resources seem very unlikely, for all of the reasons cited above. A massive expansion of foreign lending to Iraq--or a lengthening of debt maturities to 10 years--would also improve Iraq's debt service capacity. However, neither massive new lending nor comprehensive debt reschedulings (with a concessional component) can be expected until Iraq accedes to equal treatment of creditors in a multilateral context.
- If the current claims of either civilian or military importers on Iraq's oil revenues continue unabated, there can be no foreseeable end to Iraq's debt arrears and reschedulings. Iraq's debt service problems would continue on past the year 2000. Inability to free up non-oil production for export, or increase borrowing, or lengthen debt terms would also lead to greater arrears and reschedulings than expected under the Country Risk baseline, particularly in the 1995-1999 period.
- Conclusion of Part Two
- The Iraqi government is likely to persist in its costly military, political, economic, and financial policies, which have already produced eight years of arrears and reschedulings. While a major reversal in Iraq's policies cannot be ruled out, it is also not very likely. Consequently, debt arrears and reschedulings are more than likely to continue beyond five years. Nevertheless, if there is sustained, gradual improvement in Iraqi government policies, Iraq's arrears and reschedulings could end within ten years.

EXPORT-IMPORT BANK OF THE UNITED STATES
COUNTRY RISK ANALYSIS DIVISION

April 18, 1989

Revised: 4/21/89

MEMORANDUM TO THE BOARD OF DIRECTORS

From: Daniel L. Bond
Vice President for
Country Risk Analysis

Subject: Country Review: Iraq

An interagency review of Iraq is scheduled for Monday, April 24, at 2:30 p.m. in the Board Room (Room 1141). Attached is the Eximbank staff paper prepared by Clement K. Miller of the Country Risk Analysis Division, which will serve as the basis for this discussion. It has been distributed within the Bank and to outside agencies. Representatives of the agencies listed below will be at the review to offer their views, to answer questions from Eximbank's Board and, where their analyses or conclusions differ from those in this paper, to identify the assumptions or data causing the differences.

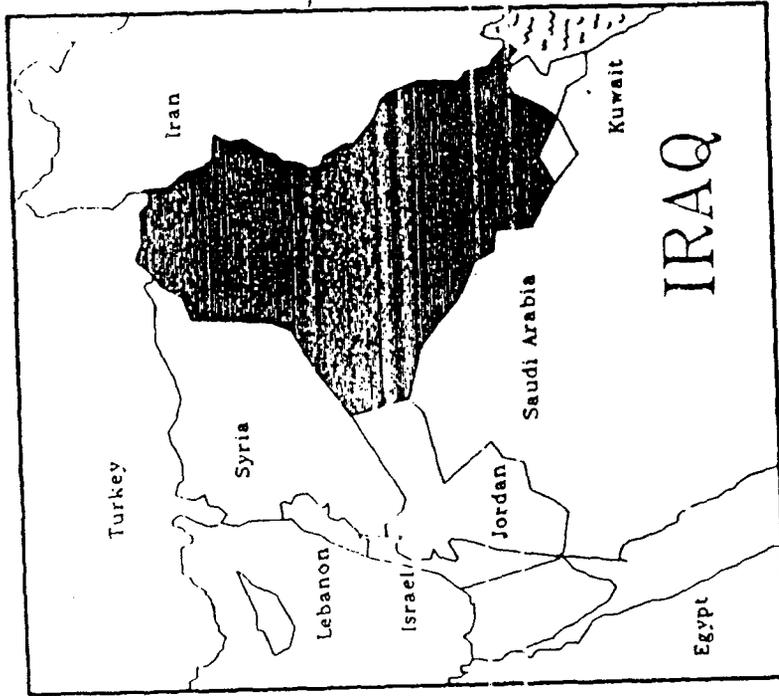
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COUNTRY REVIEW



COUNTRY RISK ANALYSIS DIVISION
EXPORT-IMPORT BANK OF THE U.S.
APRIL 24, 1989

CREDITWORTHINESS ASSESSMENT OF IRAQ

Iraq will not be able to commit sufficient resources for foreign debt service over the next five years of longari.

- The military absorbs a substantial share of Iraqi resources:
- Long-term program for enhanced regional political power.
- 1/4 of all adult males are on active duty in the armed forces.
- Large military hardware purchases: fighters, etc.
- Costly high-tech military production projects.
- Military will absorb output of new civilian industries.

The "civilian" government also absorbs considerable resources:

- Large, costly intelligence services and informer networks.
- Costly government bureaucracies control most industry.
- "Privatization" efforts are minimal.
- Costly consumer price subsidies--including farm products.
- Costly prestige projects--Basra and others.

The government fails to mobilize the private sector:

- Military and government have first claim on resources.
- Private business limited--by government--to small scale.
- Government price controls constrain profits.
- Traders forced to operate outside government FX system.
- State banking system discourages private savings, investment.

The government's additional resources will be insufficient:

- Oil revenues remain constrained by OPEC negotiations.
- New industries: civilian FX contribution likely small.
- Non-oil projects: will not be permitted to "stand alone".
- Massive agricultural development is far off.

Iraq will make timely debt payments only to "favored creditors":

Iraq's debt strategy is not likely to change:

- Iraq only repays those who offer larger amounts of new money.
- Iraq attempts to force new money from creditors by defaulting, or threatening to default, on existing debt.
- Iraq reschedules--on a bilateral basis--debts owed creditors who are unwilling to commit new money.
- Iraq will not go to the Paris Club or otherwise adopt "normal" debtor-creditor relations.

Export credit agencies seek to reverse Iraq's strategy:

- Only ECGD--backed by HM Treasury--provides MT project cover.
- Other ECAs link ST cover to specific amounts of repayments.
- ECA terms: pre-84 debt repaid first, post-83 debt rescheduled
- Political element to rescheduling negotiations: Italy & Japan

Iraq's strategy toward Eximbank:

- Iraq seeks small MT program as a "foot-in-the door."
- Iraq will seek much larger Exim programs thereafter.
- Iraq using U.S. exporters to lobby for new credit.
- Iraq will maintain ST payments while MT is on Exim agenda.

Exim can expect Iraqi "favored creditor" status as long as:

- Exim commits to consecutively larger lending programs.

CREDITWORTHINESS REVIEW OF IRAQ

April 24, 1989

Introduction

With the resumption of full U.S.-Iraq diplomatic relations in November 1984, Exim provided case-by-case short-term cover. In late 1985, Iraq became delinquent, interrupting discussion on a \$50 million medium-term protocol. In March, 1986, because of claims, Exim went off-cover. Delinquencies rose to \$5 million (of \$7.5 million exposure) by late-1986, before Iraq renewed payments. Iraq became current again in April, 1987.

In July, 1987, Eximbank reopened

for short-term FCIA coverage, up to a \$200 million revolving ceiling. This ceiling has now been reached. Payment experience amounts to about \$20 million, subject to a few, relatively insignificant delinquencies, none so far resulting in claims.

With increasing frequency, Iraqi officials have been requesting substantial amounts of medium-term cover from Exim. In late 1988, the Board deferred consideration of this request because of

delinquencies on the first two LCs (issued on sight terms). Subsequent Board consideration was suspended due to the U.S. government's concerns over Iraq's use of chemical weapons. Over the last few weeks, the National Security Council has been reviewing U.S. policy toward Iraq and other countries in the Middle East.

This report provides assessments of Iraq's balance of payments, the economic and political factors underlying balance of payments developments, the impact of Iraq's oil policies on external creditworthiness, Iraq's relations with foreign creditors, and the Iraqi government's strategy vis-a-vis Exim.

Balance of Payments Outlook Still Bleak After Cease-Fire

Iraq's balance of payments picture remains bleak. All the familiar sources of Iraq's financial troubles still linger:

- A hard-currency debt larger than that of Ecuador, Yugoslavia, Algeria, or Nigeria. Because of the Iraqi government's strategy of securing medium-term credit and reschedulings, debt service will continue to grow at a faster pace than income, preventing debt servicing.

Basic Data (1988):

Size - Twice Idaho
Population - 17.6 mill.
GDP - \$40 billion
Per Capita GDP - \$2,300
Major Export - Crude Oil
External Debt - \$27 bill.
owed Western creditors
Debt/GDP - 65%
Debt SVC Ratio - 67%

The costs of other military-related ventures are also rising. Iraq is continuing development of long-range missiles and rebuilding its nuclear energy research program. Iraq has dispatched tanks and other arms to the Phalangist militia in Lebanon. Iraq is building secure camps to resettle Kurdish refugees. To create an atmosphere of renewed prosperity after a half-decade of wartime austerity, Iraq has boosted imports of consumer goods. For example, Iraq has imported tens of thousands of mid-sized cars as gifts for loyal soldiers and party bureaucrats.

Iraqi officials have also focused attention on restarting their stalled economic development agenda. They seek to build power plants, automobile plants, oil refineries, petrochemical complexes, and other manufacturing facilities. Even before the cease-fire, the government had piqued the interest of exporters by promising a radical transformation in Iraq's economic and financial policies after the war.

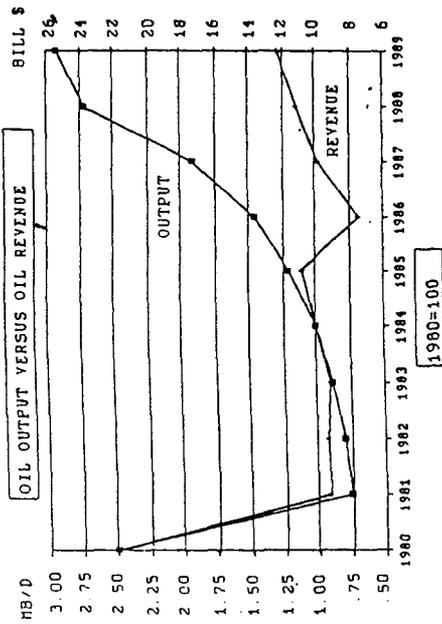
Under these new policies, Iraq was to divert military spending to civilian investment. With expanded revenues from reopened Gulf terminals, Iraq would finance ambitious development projects; reward allies and wartime financial backers with new contracts; export markets, and foreign investment opportunities; and begin to repay wartime debts.

However, with oil revenues growing only modestly, military spending requirements undiminished since the cease-fire, and foreign exchange expenditure for consumer goods increasing dramatically, Iraq has not been able to undertake civilian investment projects using its own resources. Thus, Iraq has linked awards for new contracts to the provision of 100% foreign financing.

Moreover, Iraq has once again rescheduled--or continues to leave unpaid--most payments owed to foreign creditors. Only those creditors providing larger amounts of new money are being repaid. Iraq is refusing payments even to those creditors who provided the greatest levels of financial support during the war--unless they now offer additional money.

Greater Oil Production is No Panacea

Even after seven years of messy debt reschedulings, Iraqi officials insist that their 100 billion barrels in oil reserves--arguably the world's second largest--are capable of underwriting continued military expenditure, higher consumption, a new construction boom, and debt repayments. However, Iraq's oil is unlikely to provide any better guarantee of improved debt repay-



Higher Output Does Not Bring Proportionately Higher Revenues

Iraq has repeatedly rejected a formal Paris Club multilateral rescheduling. Officials realize that a series of normal Paris Clubs would ease Iraq's overall financial position by stretching out debt repayments over a long time frame. However, they know that the Paris Club would undercut its entire strategy of using payments on existing debt to extort new money. Medium-term loans and rescheduling "bunch" debt service payments, guaranteeing annual rounds of new money protocols and debt negotiations. A comprehensive retiming of the debt burden would reduce the pressure to provide limited amounts of new money on an ongoing basis. Annual bilateral negotiations may be agonizing for creditors, but for Iraq they have proven to be a credible instrument for obtaining new money commitments.

Iraqi officials hope that their debt strategy will prove more successful than in the last year, when creditors started to link new money commitments to equal amounts of debt repayments. If they can convince several export credit agencies that the long-run payments outlook is now sufficiently favorable to allow unlinked medium-term credit--and induce others to match these agencies' terms for specific projects--they may be able to secure a great deal more project-related finance than at present.

However, increased lending would lead to a continued pyramiding of Iraq's foreign debt, unlikely to be matched by faster growth in the oil-based foreign exchange earnings. Iraq's return to normal debt servicing, within any reasonable time frame, would become still less probable.

From the moment Exim announced short-term cover, and continuing until today, the Iraqis have approached Exim for substantial amounts of project finance. Iraqi officials have called on Exim many times, urged interested exporters to call on the bank, and have invited Exim's chairman to visit Baghdad. In recent meetings, Iraqi officials have exhibited impatience with Exim's reluctance to provide such credit.

Iraq is likely to continue to pay on its letters of credit as long as medium-term credit remains on Exim's agenda. The Iraqis are aware that two delinquencies prompted the Board to table the issue of medium-term credit last fall. Consequently, Iraqi financial officials are now under orders to maintain payments on the short-term program.

Iraq appears to be employing the same debt strategy vis-a-vis export credit agencies. It currently authorizes timely repayments to only three government credit agencies. These agencies appear to Iraq to be the only agencies likely to keep increasing their exposure.

- U.K. Export Credit Guarantee Department. ECGD is offering \$60 million in 1989, against \$48 million in payments due. Iraq did allow a build-up in arrears at end-1988, after ECGD turned down a request for still-greater assistance.

- U.S. Commodity Credit Corporation. CCC in 1989 is offering \$1.1 billion (\$100 million on 7-year terms) against a smaller level of payments due. With exposure at \$1.8 billion, CCC credit to Iraq has reached agency limits. Nevertheless, Iraqi officials visited CCC in April, requesting additional credit.

- U.S. Eximbank. Iraqi officials are well aware that medium-term credit may be considered by Exim and will continue to service short-term credits.

Until 1988, Australia's EFIC was told by Iraqis that it too was a "favored creditor." However, the start of large repayment obligations--unmatched by larger credit offers--led to arrears and a \$43 million rescheduling.

All other export credit agencies have experienced annual debt reschedulings of increasing scope and size. For those with the largest exposures, the reschedulings have occurred every year since 1983. They have come to encompass increasingly large

Iraq is also pressing the Soviet Union for an increase in its estimated \$10-11 billion exposure. While the Soviets are seeking cash payments for new military hardware, Iraq is seeking deferred payment in oil shipments. A Soviet debt negotiator in Baghdad told the U.S. Embassy that Moscow considers Iraq's Soviet debt "an intractable problem."

- Because of the above factors, increases in Iraq's debt burden are not expected to end, and the volume of debt subject to arrears and reschedulings is expected to rise over the near term, from some \$3-4 billion per year to \$8 billion per year.

- With additional oil revenues of only about \$1 billion per year, Iraq will not be able to compensate for the recent loss of Saudi and Kuwaiti oil aid, procure desired military hardware, boost civilian consumption and investment levels, and yet still restore debt service to the degree desired by creditors.

• Iraq's Debt Strategy Unchanged

From the start of the Gulf War, the inadequacy and unreliability of oil revenues have forced Iraq to rely on massive external financial assistance, in the form of grants, loans, and reschedulings. Iraq's hard-currency external debt (excluding "soft loans" from Saudi Arabia, Kuwait, and the Soviet Union) is today greater than the external debts of Algeria, Chile, Nigeria, or Yugoslavia.

The Iraqi government does not pursue normal principles of debtor-creditor relations (timely repayment as a natural state of affairs, financial disclosure, public multilateral rescheduling negotiations, and equal treatment of creditors). Iraq conducts new money and rescheduling negotiations on a confidential bilateral basis, offering promises of favored creditor status at first, but later making repayments on existing debt contingent upon new money commitments.

Iraq employs default and the threat of default to obtain the best possible rescheduling and new money deals from its creditors. Oil deliveries are viewed as an acceptable (though not always optimal) means of partial repayment, and cash repayment as leverage with which to secure still greater levels of financial assistance from heavily exposed creditors.

• Iraq's Objective and Strategy vis-a-vis Exim

Iraq's objective with regard to Eximbank is to establish a protocol arrangement, starting with an annual \$250-300 million program, and providing progressively larger annual programs of medium-term credit.

Iraq would use Exim's credit guarantees to support a wide range of infrastructural and industrial projects. The larger industrial projects sought by Iraq may each have an Exim-guaranteed portion up to \$100-200 million. These projects are unlikely to influence Iraq's balance of payments to the extent oil does (oil revenues may swing several billion dollars up or down in a single year, depending on output policies). Consequently, the government will be forced to rely on oil income to ensure foreign-exchange availability for payments on project-related debt.

Conclusion

- If Eximbank is willing to commit to consecutively larger credit programs year after year, Iraq will likely service these credits on a timely basis. However, even this prognosis is subject to significant risks:
- Saddam's overthrow. Rumors of coup attempts notwithstanding, Saddam appears entrenched. As Iraqi policies are fashioned in the palace, a successful coup will likely bring dramatic changes in debt strategy.
 - Renewed war. With both Iran and Iraq eschewing demobilization, the Gulf war may flare up again. In addition, Iraq may become directly entangled with Syria (with which it is currently fighting a proxy conflict in Lebanon) or even with Saudi Arabia and Kuwait (over newly simmering territorial claims). Any serious military conflicts may result in unintentional defaults.
 - Continued fluctuations in U.S.-Iraqi relations. Iraq may hold Exim exposure hostage to political considerations, namely U.S. government policy towards Iraq's human rights record; its nuclear, chemical, and missile development; and its role in regional affairs.

EXPORT-IMPORT BANK OF THE UNITED STATES COUNTRY RISK ANALYSIS DIVISION January 23, 1989

Alert Report - Iraqi Payments Situation Further Deteriorates

Iraq's payments situation has further deteriorated, according to recent reports from Embassy Baghdad, the CIA, and others.

- o ECGD of the United Kingdom, once Iraq's paramount "favored creditor", suspended all cover in December after two months of significant (and clearly non-technical) arrearages. So far, the suspension has not resulted in any catch-up payments by Baghdad.
- o The French Finance Ministry has been approached to reschedule interest payments falling due on already twice rescheduled debts. The French recently conducted a poll of export credit agencies to explore methods of negotiating payment from the Iraqis. However, COFACE is very nearly at the point of saying "enough is enough", and going off cover even for short term credit.
- o Other creditors -- EFIC of Australia (previously a favored creditor), EDC of Canada, HERMES of West Germany, OeKB of Austria, and Japan's Marubeni, Mitsubishi, and Sumitomo trading houses -- also report significant new arrearages under previous bilateral rescheduling agreements.
- o As for the U.S., payments under Eximbank's short term insurance facility are now current, after technical arrearages early last fall. Payments due CCC are also current, after a more recent arrearage (which brought a short suspension of CCC cover). No doubt, the Iraqis anticipate that Eximbank will approve a large medium-term program in early 1989 (assuming an improvement in the political climate), and do not want to spoil the atmosphere, even through technical arrearages.
- o With export credit agencies off cover for medium-term project-related credit, Iraq has approached commercial banks and investment banks. Banks are reportedly considering extending credits secured by Iraqi oil export receipts placed in overseas escrow accounts (a la the new Venezuelan debt package). The banks are fully aware of Iraq's severe payments problems vis-a-vis official creditors, and will seek concrete legal mechanisms to ensure that they become Iraq's new favored creditors.
- o Iraq's payments problems -- related to its low, uncertain oil revenues -- are likely to continue. In the heady days following the cease-fire, Iraq was convinced that oil prices would immediately rise to \$18 per barrel, and boast of plans for renewed exports of 4 million barrels per day. Since then, reality has set in. Oil prices plunged to \$11-12 per barrel, forcing Baghdad to come to terms with its fellow OPEC members and accept an output quota of 2.6 million barrels per day. Plans to rebuild the destroyed Gulf oil terminals -- a prerequisite to significantly higher oil output -- have been suspended.

July 18, 1988

MEMORANDUM TO THE BOARD OF DIRECTORS

From: Thomas A. Forbord
Vice President for
Country Risk Analysis

Subject: Country Review: Republic of Iraq on Monday, July 25
at 10:00 a.m.

Highlights of Export-Import Bank
Country Risk Analysis

Iraq

1988

Attached is the Eximbank staff paper prepared by Clement Miller of the Country Risk Analysis Division, which will serve as the basis for the above-referenced discussion. It has been distributed with the Bank and to outside agencies. Representatives of the agencies listed below will be at the review to offer their views, to answer questions from Eximbank's Board and, where their analyses or conclusions differ from those in this paper, to identify the assumptions or data causing the differences.

<u>Outside Agencies</u>	<u>Representative</u>
CIA	Representatives of the Office of Global Issues and the Office of Near East-South Asia Analysis
Commerce Department	R. Lee, J. Keller
Federal Reserve	R. Emery
State Department	A. Sundquist, L. Pope, A. Glasby, P. Remmler
Treasury Department	E. Barber, J. Nisenson
USTR	M. Gallivan

*↳ Ambassador,
April Glasgow.*

Attachment

cc: See distribution list.

Country Review: Republic of Iraq

● Introduction

After years of war against the Kurds and Iran, Iraqi Arabs nurture a mixed sense of insecurity and destiny. They want Iraq to remain a powerful military force, yet desire a resumption of economic development. Saddam Hussein does not wish to disappoint Iraqi Arabs. He intends to achieve Iraqi Arabs' multiple political, military, and economic objectives through accelerated application of modern technologies, greater exploitation of oil reserves, and skillful manipulation of its relationships with foreign powers and their official creditors. This manipulation will be necessary because, for the foreseeable future, Iraq will not have enough money to repay all of its foreign creditors.

● Financial Problems: Oil Revenue Inadequacy and Unreliability

Iraqi Arabs are proud that their country (including Kurdish provinces) contains the world's second largest oil reserves. However, as with all assets, the size of Iraq's reserves is less relevant than their overall rate of return, annual crude oil revenues. Before 1980, Iraq's crude oil earnings were broadly sufficient to permit both military and civilian imports, as well as growth in overseas bank deposits. Since 1980, however, Iraq's oil revenues have been inadequate to finance both arms purchases and economic development. In addition, Iraqi oil revenues have proven quite unreliable. Baghdad has often miscalculated the amount of oil revenues available to meet Iraq's financing needs.

● Parity with Iran would leave Iraq's oil export revenues little changed from current levels, frustrating again Baghdad's projections of petroleum prosperity. Any large increases in civilian imports and development spending would depend on the unrequited generosity of Iraq's foreign creditors.

● Iraq is currently cultivating Eximbank as a new source of long-term external financial support. Baghdad hopes to appeal to U.S. national security interests in obtaining yet another strategic financial partner. Also, Baghdad is dangling large high-technology projects in front of well-known U.S. firms, but with one caveat: that they can go forward only with Eximbank support.

● Western Governments: Western governments have also provided extensive financial support to Baghdad, largely in the form of export credits. Export credit agencies took major hits on export guarantees to Iraq over 1983-1984, resulting in a massive build-up in their direct exposure. In 1986, the ECAs faced bilateral reschedulings of the debts they assumed earlier. Iraq interprets these reschedulings as "new credits", and indeed they are nothing more than pure balance of payments assistance. In these reschedulings, the ECAs have deferred payments for 2-4 years, and many offered to accept partial repayment in crude oil.

Largely on account of these reschedulings, ECA exposure to Iraq has risen to \$10.8 billion, greater than total ECA exposure in Colombia, the Philippines, Venezuela, or Yugoslavia. Because of their bad experience in the 1986 reschedulings, the ECAs have taken a cautious attitude toward Iraq. However, for political reasons, Western governments have often insisted that their ECAs offer some support, however limited. Consequently, most ECAs (exceptions are the ECAs of Germany, Italy, the Netherlands, and Sweden) offer highly-circumscribed short-term cover. However, only Australia's EPIC, the United Kingdom's ECOD, and the United States' Commodity Credit Corporation are open for medium-term cover.

● By the late 1980s, Iraqi Arabs had hoped to establish an advanced, diversified economy, which would produce and export a wide variety of manufactured and agricultural goods. However, the war forced an interruption of Iraq's ambitious plans. Now, after nine years of war, Iraqi Arabs are anxious to restart their stalled development program.

Saddam's Western-trained ministers are fingering blueprints for expanded oil production capacity, as well as for oil refineries, power plants, hydropower/irrigation projects, petrochemical plants, plastics plants, aluminum and steel plants, and other manufacturing facilities. Throughout Iraq, army commanders, enterprise directors, government ministers, and private farmers all desire to purchase high-technology products. They have done their research, and identified and even contacted specific foreign suppliers of desired products.

Many of these suppliers are in the United States. The Iraqis are impressed by American technology. However, in the wake of the Stark and Iran Air incidents, they hold no illusions about inherent American superiority. The Iraqis do understand, quite painfully, that importing high-technology goods, from the United States or elsewhere, will ultimately require foreign exchange. In Iraq, foreign exchange remains a centrally-administered and highly-rationed commodity.

● Treatment of Creditors: Securing Strategic Financial Partners

From the start of the Gulf War, the inadequacy and unreliability of oil revenues has forced Iraq to rely on massive external financial assistance, in the form of grants, loans, and reschedulings. Iraq's hard-currency external debt (not including grants from Saudi Arabia and Kuwait, or debts on clearing accounts with the Soviet Union) is today greater than the external debts of Algeria, Chile, Nigeria, or Yugoslavia. Nevertheless, Iraqi Arabs are far too proud to consider their oil-rich country a debtor nation.

Bilateral reschedulings, imposed by Baghdad on unhappy Western creditors, with two-to-four year repayment terms, have left Iraq's debt service payments "bunched", maintaining a much higher debt service burden than countries which have received multilateral debt "stretch-outs." A Paris Club, or its equivalent, would ease Iraq's financial difficulties. However, the Iraqi Arabs would consider a multilateral rescheduling a severe blow. After all, neither Iran nor its Arab Gulf brothers have suffered such humiliation.

Baghdad does not accept the normal concept of debt or the principles of normal debtor-creditor relations. It considers external financial assistance a two-way street, serving not only Iraq's aims, but the military, political, and economic interests of creditors. Hence, Iraq does not accept the principles of financial disclosure, public multilateral negotiations, and equitable treatment of creditors. Rather, Iraq pursues a ruthless strategy of securing strategic financial partners, employing financial secrecy, private bilateral negotiations, and blatant unequal treatment of creditors.

Iraq's preference for secrecy has pre-war roots. Baghdad's money managers have long been considered as discreet as the Swiss. Before the war provided a good excuse for not releasing any financial data, Iraq would refuse to release information on the size and whereabouts of foreign assets. Today, Baghdad offers no data on trade, military spending, borrowing, debt stock or payments. Data on oil reserves, production, and export volumes are employed selectively to entice creditor interest in providing additional financial support.

Baghdad's preference for bilateralism and creditor discrimination also has pre-war roots. Baghdad has long conducted the bulk of its foreign trade under Soviet-style bilateral arrangements, cleared either in oil deliveries or hard-currency payments. In extending the philosophy of trading arrangements to relations with creditors, Baghdad regularly uses default to obtain the best possible rescheduling and new money deals from its creditors. Baghdad downgrades the importance of repayment, viewing loans as providing creditors immediate payback in terms of increased access to the Iraqi market. Timely financial repayment is not viewed as the action of a responsible creditor, but rather as leverage to secure even greater financial resources. Oil deliveries are an acceptable and even preferable means of clearing accounts.

Baghdad strongly desires to develop strategic financial partners, whose self-interest in providing credit to Iraq extends beyond the receipt of interest payments. Iraq's strategic financial partners must be willing to sacrifice repayment in return for heightened Iraqi military security, greater exports to the Iraqi market, or increased political goodwill.

● Conclusion

After years of war against the Kurds and Iran, Iraqi Arabs nurture a mixed sense of insecurity and destiny. They want Iraq to remain a powerful military force, yet desire a resumption of economic development. Saddam Hussein wishes to fulfill the aspirations of Iraqi Arabs. He intends to achieve Iraqi Arabs' multiple political, military, and economic objectives through accelerated application of modern technologies, greater exploitation of oil reserves, and skillful manipulation of its relations with foreign powers, including foreign creditors.

With oil revenues unpredictable, and insufficient to cover Iraq's financing needs, Baghdad wants to secure strategic financial partners who place their military, political, and economic interests in Iraq above their requirements for repayment. Within this context, Iraq repays in full only those creditors who provide credits in excess of payments falling due.

In the late 1970s and early 1980s, Saddam Hussein twisted the Ba'ath doctrine to fit the emerging national consciousness. The new ideology is rooted in a personality cult -- with Saddam's face plastered on every street corner. However, its emphasis is on the Iraqi Arab nation. Its strength is drawn not from foreign notions such as socialism, secularism, and Arab unity, but from chauvinist Iraqi Arab sentiments regarding foreign imperialism, the Kurdish nationalists, and Persian Iran.

Saddam uses several national symbols to capture Iraqi Arab sentiment: Babylon and the al-Abbasid caliphate. These symbols reveal the nationalist drift from ideological Ba'athism: Babylon was not Arab, and al-Abbasid not secular. Both empires once dominated the Fertile Crescent, and were both menaced by powerful Eastern empires. Iraqi Arabs view themselves as inheritors of the legacy of Babylon and al-Abbasid, as Iranians under the Shah viewed themselves as inheritors of the legacy of Persia.

Iraqi Arab national consciousness, with its mixed sense of insecurity and destiny, has inspired Iraqi Arab regimes to pursue nearly continuous hostilities against the Kurds, re-shuffle constantly their alliances with foreign powers, and launch their costly war against Iran.

Iraqi Arabs view the Kurds as their greatest long-term problem. The Kurds, who form almost a third of the population, are struggling to form a state embracing territories carved mainly out of Iraq and Turkey. In the 1960s, Iraqi Arab regimes turned to the Soviets to purchase arms needed to wage new campaigns against the Kurds. However, the Kurds soon came to obtain their own Soviet arms, and Iraqi forces could not dislodge the Kurdish forces from their mountain redoubts.

In 1972, Iraq signed a friendship pact with the Soviet Union, in order to stop the flow of arms to the Kurds. The Kurds then turned to the Shah of Iran, who allowed Kurdish guerrilla groups to operate freely from Iranian territory. Kurdish attacks persisted until 1975, when Iraq reluctantly consented to Iranian demands for border adjustments in the disputed Shatt al-Arab waterway in return for an Iranian promise to stop harboring Iraqi Kurds. Nevertheless, in the wake of the 1979 Iranian revolution, Iran's military control of Kurdistan lapsed, freeing the Kurds to mount new attacks against Iraqi garrisons.

Sensing an opportunity in a moment of apparent Iranian weakness, Iraq in September 1980 launched a full-scale attack across the Shatt al-Arab. As Iraqi forces pushed deeper into Iranian territory, Baghdad expected Tehran to sue for peace. Iran's immediate response, however, was to use its air force to destroy Iraq's petroleum and industrial complex at Fao.

By early 1982, the land war's momentum shifted in Iran's favor as Iranian forces waged a war of attrition against the invading forces. Iran forged links with Iraqi Kurdish groups, who helped

PRESENTATION TO BOARD OF DIRECTORS, JULY 25, 1988

We're here today for a country review of Iraq. One year ago, Eximbank offered \$200 million in short-term insurance for Iraq. At that time, we decided to test the water with a small program, to see if Iraq intends to single out Eximbank for timely repayment. Unfortunately, due to the sluggishness with which the Iraqis first used our program, we today have practically no repayment experience, except for one payment problem we can discuss later. Nevertheless, we are here again today to review Iraq. Such a review is, of course, completely justified by recent developments in the region, including the Iranian call for a cease-fire, and Iraq's new incursions into Iran.

In order to provide a framework for analyzing these recent developments, I've put together a list of key questions, which is the first page in front of you. In my presentation, I will provide the context for what are reasonable answers to these questions. I've provided a map also, which will help you to follow my presentation. Also, I've provided a list of common myths we often hear about Iraq, which I will discuss later in my presentation.

Iraq is a country that, over the medium term, will only be able to repay a small portion of its external debts. However, in making a country risk assessment of Iraq, though, it is important not only to look at raw numbers on things such as oil prices and production, but to get a feel for the way the Iraqis think, the way they approach even such basic concepts as foreign debt. To understand the way they think, we must explore the Iraqi Arab national consciousness, their wars against the Kurds and Iran, their quest for high technology, their tendency to make overoptimistic miscalculations regarding oil, and their treatment of foreign creditors.

Iraqi Arab national consciousness was cast in struggles against colonialism, in their wars against the Kurds, and finally in the struggle against Iran. For centuries, Iraqi Arabs languished under the control of the Ottoman Turks. After the first World War, the Great Powers combined Arab Mesopotamia with Kurdish territories to form what is now Iraq. Britain installed a monarchy and a landed gentry which served British petroleum interests until the 1950s.

In 1958, Iraqi Arab military officers overthrew the British-backed regime, eliminated the gentry, consolidated their hold on the Arab and Kurdish populations through ruthless repression, and restructured relations with Britain, the superpowers, and the oil companies. Iraq also sought a leading role in Pan-Arab affairs. In the 1960s, Iraqi Arabs adhered to Ba'ath, an ideology endorsing resistance to imperialism, and espousing pan-Arab unity, secularism, and state socialism. In the 1970s, the Ba'ath party established a totalitarian state in Iraq.

1970s oil revenue and investment boom, but is now reinforced by the brilliant display of technology in response to the war. Throughout Baghdad's civilian ministries, and in the fledgling private sector, Iraqis now want to purchase only goods embodying the very best in modern technologies.

By the late 1980s, Iraqi Arabs had hoped to establish an advanced, diversified economy, which would produce and export a wide variety of manufactured and agricultural goods. However, the war forced an interruption of Iraq's ambitious plans. Now, after nine years of war, Iraqi Arabs are anxious to restart their stalled development program. Saddam has already placed new Western-trained technocrats in key ministries, and has allowed them a hand at restructuring parts of the economy. Saddam's efforts are aimed primarily at giving leverage to existing, low levels of development spending. They won't improve Iraq's foreign exchange shortage, but they do prepare Iraq for the day when more foreign exchange becomes available.

Saddam's new ministers are fingering old blueprints for expanded oil capacity, as well as for oil refineries, power plants, hydropower/irrigation projects, petrochemical plants, plastics plants, aluminum and steel plants, and other manufacturing facilities. They have done their research, and identified and even contacted specific foreign suppliers of desired products.

Many of these suppliers are in the United States. The Iraqis are impressed by American high technology. However, the Iraqis understand, quite painfully, that importing high-technology goods from the United States or elsewhere, will ultimately require foreign exchange. In Iraq, foreign exchange remains a centrally-administered and highly-rationed commodity.

Iraqi Arabs are proud that their country (including Kurdish provinces) contains the world's second largest oil reserves. However, the size of Iraq's reserves is less relevant than crude oil revenues. In spite of Iraqi optimism, Iraq's oil revenues have been inadequate to finance both arms purchases and economic development. Oil revenues have also proven quite unreliable. Baghdad has often miscalculated the amount of oil revenues available to meet Iraq's financing needs.

Early during the war, Baghdad made three serious miscalculations. First, Baghdad assumed the survivability of its Gulf oil terminal. Secondly, Iraq assumed that Syria would keep open Iraq's pipeline to the Mediterranean. And third was that oil prices would continue to keep rising, perhaps to \$50 per barrel. When Iraq was proved wrong all three counts, Iraq's oil revenues fell from \$25 billion per year to \$10 billion.

In 1983, Iraq started building new export pipelines. Since Iraq planned oil export capacity of 1.5 mb/d by 1985, and 2.2 mb/d by 1987, Baghdad came to expect a doubling of oil revenues by 1985, and a tripling by 1987. However, Baghdad had made yet a fourth

open a second front against the Iraqis. By 1984, Iraq was forced to withdraw most of its forces from Iran, and to re-deploy them along the border, to stop Iranian attacks. Iraq at this time took steps to secure a wider group of allies. Even while stepping up arms purchases from the Soviets, Baghdad began buying military equipment from Brazil, China, Egypt, France, and other countries.

In spite of superior Iraqi firepower, Iranian forces launched a successful series of offensives into Iraqi territory. Iranian forces broke through Iraqi defenses to capture Kurdish territory northeast of Baghdad; the Fao peninsula; and the marshes and islands abutting Basra, Iraq's second largest city. In the last few months, however, Iraqi forces, using chemical weapons, recaptured both Fao and the marshes east of Basra. Early last week, of course, Ayatollah Khomeini asked for an unconditional cease-fire, which the Iraqis have neither accepted nor rejected. On Friday, however, Iraqi forces attacked up and down the border, plunging 40 miles into Iraq. This may be last-minute Iraqi jockeying for position; but it is more likely that Iraq is pushing to obtain at least some kind of semi-victory before both sides finally lay down their arms.

It is impossible to forecast developments in Iraq's conflict against Iran and the Kurds, yet some observations can be made. First, Baghdad will insist on a peace settlement which addresses Iraqi concerns about the Kurds and about border disputes. Witness Iraq's call for a clearing of the Shatt al-Arab before a cease-fire. Further, even if an armistice is arranged, Iraq cannot ignore the long-term Iranian threat, and is likely to invest heavily in rearmament. Iraq will likely take the opportunity to strengthen its offensive posture against the Kurds. Finally, Baghdad will persist in courting foreign powers willing to provide arms and other support. However, Iraq will not enter into any stable political or military alliances, or agree to any guild-pro-quo in return for foreign support.

In all of these years of warfare, the Iraqis have gained an appreciation for technology. Back in the 1960s and 1970s, in their battles against the Kurds, Iraqi Arabs learned the value of modern military technologies: tanks, APCs, helicopters, field artillery, and automatic weapons. In the war against Iran, the Iraqis knew that eventual victory depended on the mastery of technology. On the battlefield, Iraq has used mobile infantry units, electronic surveillance, mine fields, controlled flooding, mustard gas, and nerve gas. Against Iranian air raids, Iraq has used SAM missiles and air interception. In its raids on Iran-bound shipping, Iraq has used high-altitude bombing, dive bombing, heat-seeking missiles, and long-range refueling. In missile attacks on Kharg Island and Tehran, Iraq has even used second-stage boosters.

Iraq's quest for advanced technologies is not limited to military equipment. A taste in high technology was acquired during the

miscalculation: that oil prices would remain at \$30 per barrel. Iraq's expectations were dashed by the 1986 oil price collapse, which more than offset the entire impact of the expanded Turkish pipeline and the new pipeline through Saudi Arabia. Iraq's oil revenues fell to \$7 billion.

In 1987, Iraq benefitted from a mild recovery in oil prices, and from the opening of its second pipeline through Turkey. However, 1987 oil revenues were still no greater than in 1985, before the oil price collapse.

With yet another pipeline under construction to Saudi Arabia, the Iraqis are making new oil revenue calculations, based on theoretical export capacity of 3.2 mb/d. The Iraqis planners are probably counting on oil revenues to regain pre-war levels by 1990. But Iraq is probably making yet a fifth miscalculation.

Baghdad's further efforts to increase export volumes run counter to OPEC efforts to impose production discipline and stabilize oil prices. With the coming on-stream of the second Turkish pipeline in 1987, Iraq effectively graduated from a price-taker to a major price-maker. To move additional oil, Iraq has been forced to undercut competitors, even other OPEC countries. Iraq's escalating production and predatory pricing actions are key factors depressing world oil prices, and are even counterproductive.

With weak global oil demand, and surplus OPEC capacity, the coming on-stream of the second Saudi pipeline will serve to drive down world oil prices still further. It is conceivable that Saudi Arabia, which has the most to lose from a worsening oil glut, might limit throughput to forestall disastrous price declines.

More likely, however, is a diplomatic solution in which Iraq would be offered an output quota equal to the one now in force in Iran. Baghdad had demanded such parity, but dropped its demand in 1987 when Iraqi oil output came to exceed Iranian output. Parity with Iran would leave Iraq's oil export revenues little changed from current levels, frustrating again Baghdad's projections of petroleum prosperity.

The inadequacy and unreliability of oil revenues has forced Iraq to rely on massive external financial assistance, in the form of grants, loans, and reschedulings. Iraq's hard-currency external debt (not including any grants from Saudi Arabia and Kuwait, or debts on clearing accounts with the Soviet Union) is today greater than the external debts of Algeria, Chile, Nigeria, or Yugoslavia. Nevertheless, Iraqi Arabs are far too proud to consider their oil-rich country a debtor nation.

Bilateral reschedulings with two-to-four year repayment terms have left Iraq's debt service payments "punched", maintaining a much higher debt service burden than countries which have

received multilateral debt "stretch-outs." A Paris Club, or its equivalent, would ease Iraq's financial difficulties. However, the Iraqi Arabs would consider a multilateral rescheduling a severe blow. After all, neither Iran nor its Arab Gulf brothers have suffered such humiliation.

Baghdad does not accept the concept of debt, or the principles of normal debtor-creditor relations. It considers external financial assistance a two-way street, serving not only Iraq's aims, but the military, political, and economic interests of creditors. Hence, Iraq does not accept the principles of financial disclosure, public multilateral negotiations, and equitable treatment of creditors. Rather, Iraq pursues a ruthless strategy of securing strategic financial partners, employing financial secrecy, private bilateral negotiations, and blatant unequal treatment of creditors.

Iraq's preference for secrecy has pre-war roots. Baghdad's money managers have long been considered as discreet as the Swiss. Before the war provided a good excuse for not releasing any financial data, Iraq would refuse to release information on the size and whereabouts of foreign assets. Today, Baghdad offers no data on trade, military spending, borrowing, or debt.

Baghdad's preference for bilateralism and creditor discrimination also has pre-war roots. Baghdad has long conducted the bulk of its foreign trade under Soviet-style bilateral arrangements. Such arrangements are inherently discriminatory, in that Baghdad has every incentive to make agreements with trading partners which offer the best terms.

In extending the philosophy of trading arrangements to relations with creditors, Baghdad regularly uses default to obtain the best possible rescheduling and new money deals from its creditors. Baghdad downgrades the importance of repayment, viewing loans as providing creditors immediate payback in terms of increased access to the Iraqi market. Financial repayment is not viewed as an action required of any responsible borrower, but rather as leverage to secure even greater financial resources. Oil deliveries are an acceptable and even preferable means of clearing overdue accounts.

Baghdad wants nothing less than to develop strategic financial partners, whose self-interest in providing credit to Iraq extends beyond the receipt of payments. Iraq's strategic financial partners must be willing to sacrifice repayment in return for heightened Iraqi military security, greater exports to the Iraqi market, or simply increased political goodwill.

The most well-known of Iraq's strategic financial partners are Saudi Arabia, Kuwait, Turkey, and Jordan. Saudi Arabia and Kuwait have poured untold billions of dollars into Iraq, mostly from oil from the Saudi-Kuwait Neutral Zone. All of this money is carried on the books of the Saudi Arabian Monetary Agency, the

Saudi central bank. However, no one can realistically count this money as debt, because it is never going to be paid back. You would think that Iraq would be grateful for this assistance. No, Iraq considers this money as owed to Iraq, for providing a front-line defense against Iran. Ambassador al-Anbari even told me that Iraq considers the Neutral Zone oil as Iraqi oil.

The central banks of Turkey and Jordan provide credits to Iraq to support sales by Jordanian and Turkish firms, just like Eximbank does. However, Ankara and Amman have been forced to accept crude oil in repayment of outstanding debts, and arrears now run into the billions dollars. Iraq discounts the importance of repayment. It thinks Jordan and Turkey have already received benefits, in the form of increased access to the great Iraqi market.

Western governments have also provided financial support to Baghdad, largely in the form of export credits. Export credit agencies took major hits on export guarantees to Iraq over 1983-1984, resulting in a massive build-up in their direct exposure. In 1986, the ECAs faced bilateral reschedulings of the debts they assumed earlier. Iraq interprets these reschedulings as "new credits", and indeed they are nothing more than pure balance of payments assistance. In these reschedulings, the ECAs have deferred payments for 2-4 years, and most offered to accept partial repayment in crude oil. Because of their bad experience in the 1986 reschedulings, the ECAs now take a very cautious attitude toward Iraq.

Several ECAs offer highly-circumscribed short-term cover. However, only Australia's EPIC, the United Kingdom's ECGD, and the United States' CCC are open for medium-term cover. This is because they are getting paid on time. You heard it right, they are getting paid on time. Why are they getting paid? And why is everybody else rescheduled? Is it because of the political or military support offered by their governments? No, France has provided much more of both. Is it a reward for overwhelming economic support over the years? No, France, Germany, Japan, and Italy all have greater exposure. Italy even financed the pipeline through Saudi Arabia.

Rather, the three enjoy favored creditor status because they are all offering new, large, and increasing programs of medium-term export credits. CCC alone is offering \$1 billion. It would be a tactical mistake for Baghdad to miss payments to these creditors. When these export support programs are diminished, and once repayments begin to exceed new credits, Baghdad will find it necessary to seek reschedulings of these debts, in order to secure balance of payments support.

Iraq is currently cultivating Eximbank as a new source of long-term external financial support. Baghdad hopes to appeal to U.S. national security interests in obtaining yet another strategic financial partner. Also, Baghdad is dangling large high-

technology projects in front of well-known U.S. firms, but with one caveat: that they can go forward only with Eximbank support.

The Iraqis envision an Eximbank program capable of supporting several large oil and power projects. For this reason, they are unhappy with the current short-term facility. The Iraqis are interested in discovering Eximbank's intentions on long-term credit in advance of due dates on the short-term facility. As long as Baghdad believes there is a high probability of long-term credit, it will probably treat Eximbank as a favored creditor and make payments on the short-term facility. This is why, Mr. Chairman, the Minister of oil asked you to about today's country review.

However, a large long-term program presents its own risks. Iraq's political and economic outlook provides no confidence in its willingness to repay the bulk of its foreign debts. Unless Eximbank were to commit itself to a large program of long term credit, followed by consecutively larger lending programs, Iraq has no incentive to keep repaying.

I'd like to follow this up with a story. When Heldridge and I were in Baghdad, every important government financial official told us that we didn't have to worry about getting repaid because Saddam Hussein himself had sent around a circular which said, very simply, Pay the Americans! I have to admit, this seemed reassuring to me, but only for a while. I then realized that, in Iraq, what Saddam giveeth, Saddam can taketh away. This is the way the Iraqi Central Bank and Finance Ministry are run.

I'd like now to turn to the list of common myths about Iraq. These are statements that you often here bandied about. When I use the term myth, I am relying on the following definition of a myth: "A notion based more on tradition or convenience than on fact: a received idea." I am not implying that there is absolutely no factual content to these myths. Often, myths do have some basis in reality. However, I do believe the factual content of all of these myths is much lower than 50%.

May 13, 1987

To: The Board of Directors
 From: William M. Arnold *WMA*
 Re: Short Term Cover in Iraq

I recommend that Eximbank reopen in Iraq under conventional terms, with an overall ceiling of \$200 million, and under the specific conditions detailed below. Such a decision would be based on competitiveness, improved communication with Iraqi authorities, and operational techniques to control exposure.

Competitiveness:

According to the most recent Barne Union exchange on Iraq, the following countries are open for short term cover (with some restrictions on transaction amounts or level of cover):

Japan	Denmark	Belgium
The United Kingdom	Italy	Sweden

The absence of Exim cover disadvantages our exporters and/or provides an incentive to produce and ship from plants abroad.

Communication:

1. Eximbank has established an important working dialogue with senior Iraqi officials, including those who control foreign exchange payments.

2. The Government of Iraq has maintained a nearly perfect repayment record with the Commodity Credit Corporation of the U.S. Department of Agriculture. The linkage between CCC and Eximbank is clear to the Iraqis. As Central Bank Governor Azawi said in a recent meeting at Eximbank, "you are the same government."

3. Iraq has paid off all arrears with Eximbank and is current under the remaining letters of credit. It has shown preference for us over other creditors. (Schedule of remaining payments is attached.)

Highlights of Export-Import Bank

Country Risk Analysis

Iraq

1987

April 17, 1987

MEMORANDUM TO THE BOARD OF DIRECTORS

From: Charles Hammond

Through: Thomas A. Forbord, Vice President
Country Risk Analysis Division

Subject: Interagency Review of Iraq

An interagency review for Iraq has been scheduled for Friday, April 24, 1987 at 11:00 a.m. in the Board Room. A paper, prepared by Eximbank staff, to serve as the basis of this discussion is attached. It has been distributed to Exim and to outside agencies. Representatives of the agencies listed below will be in attendance. Mr. Rys will provide a short briefing on the war with Iran and all representatives will be ready to offer their views and to answer any relevant questions from Eximbank's Board.

Outside Agencies Representative

- State - Peter Burreleigh, Country Director, Iraq Dev. Fin.
- CIA - John Britti, Economist; Steve Rys, Military Affairs; Dennis Jones, Political Affairs
- Treasury - Bill Quinn, Economist
- Agriculture, CCC - Dave Kunkel; Walter Stern
- Commerce - Tom Sams; Burt Planagan
- NSC - Steve Farrar

cc: Bohn, Ryan, Heldridge, Rodriguez, Fireman, Forbord, Arnold, Sharpe, Albright, Crafton, Moran, Morris, Plizer, Proctor, Williams, Fessenden, Wisniewski, Swart, Gosnell, Mayo, Turk, Price, Schwab, Morris, Miller, Huber, Powers, Hunt, Forsberg, Files

Exposure Management:

1. We would require Iraq to be current on all insured obligations as a condition precedent to authorization of new transactions and as a condition precedent to extensions of commitment periods/final shipment dates, or similar amendments on previously authorized transactions. This is similar to the way in which CCC operates.
 2. Coverage would extend to letters of credit issued by either Rafidain Bank or the Central Bank. When staff considered this point in January it felt that we should limit new exposure to the Central Bank. However, we now know that the foreign exchange decisions are centralized, and recently we have had good repayment experience with Rafidain Bank transactions. We would consider The Central Bank as a sovereign, while Rafidain Bank would be Class II, so the fee differential may direct the business to the Central Bank.
 3. Critical to the success of a program of new cover is that channels be established for the maintenance of data at Exim and transmittal of data to the U.S. Embassy in Baghdad and the Iraqi Government. Staff here is capable of tracking transactions and the U.S. Embassy in Baghdad is highly motivated to assist us in transmitting information and resolving any problems that may arise.
 4. Products: We would provide access to the U.S. exporting community as a whole, and it is therefore felt that Eximbank should not unilaterally impose restrictions (for otherwise eligible products) for purposes such as controlling exposure.
 5. Repayment terms: We would adhere to our standard terms and not concede any abnormal terms (such as the 720 day deferred letters of credit usually requested by Iraqi buyers). Consistent with this, terms normally should not exceed 180 days except for capital and quasi-capital goods, bulk agricultural commodities and other products where we have routinely agreed to a 360 day credit period.
 6. Commitment period/final shipment date: We would maintain our past practice of providing insureds with a 90 day period to obtain a contract or purchase order; if not obtained, our commitment will lapse. In addition, we propose that transactions be authorized with a 180 day period in which shipments must take place. These measures will be effective as a means of controlling exposure.
- Finally, it is recommended that we formalize these understandings through meetings and an exchange of letters with the Government of Iraq, especially the Central Bank officials.

April 17, 1987

CREDITWORTHINESS ASSESSMENTCOUNTRY: IRAQEximbank Attitude

Eximbank has been "Off Cover" for all transactions since March 1986 when it ended FCIA insurance coverage under letters of credit from Bank Rafidain and the Central Bank of Iraq because Bank Rafidain became delinquent. At the highest point these arrears amounted to just over \$5 million. Some claims were paid. Commencing in late 1986, the Iraqi Government made payments on the delinquencies and brought the payments current by February 18, 1987. Rafidain's letters of credit became overdue again on March 17, 1987, but subsequent payments of \$1.9 million brought the account current on April 13, 1987. Remaining exposure, all short term, amounts to \$4.6 million with maturities ranging from April 21, 1987 to December 12, 1987.

Foreign Exchange Reserves

Net foreign assets of the banking system were \$37 billion at the end of 1980. No official figures on reserves have been available since. However, with current account deficits on civilian goods in 1981 and 1982 totalling \$27 billion and smaller deficits in succeeding years, foreign exchange reserves have been exhausted.

Iraqis have said they recognize no quota restraints on their oil production and will produce whatever amount serves their national interests. Iraq was excluded from the OPEC production quotas established in October 1986 and refused to accept any quota in the December 1986 OPEC negotiations.

Although both scenarios are subject to much uncertainty because of the war with Iran and the volatility of oil prices, neither outcome indicates the basis for covering all principal payments falling due. Under both scenarios, arrears will accumulate through 1989 even as modest repayment of principal becomes possible. In Scenario II, arrears continue to grow after 1989 and overall debt remains high. Thus in either case willingly or not, Iraq's creditors will reschedule debt payments for the foreseeable future.

Bilateral Reschedulings and External Debt

Commencing in 1983, Iraq has been unable to make the progress payments due foreign contractors on cash contracts and asked that payments be restructured over 3 years with 1-year of grace. COFACE and the ECDD guaranteed the reschedulings with banks for French and U.K. companies. In addition, there were reschedulings with the other major European countries, as well as with Japan, India, and Yugoslavia. Similar reschedulings have taken place every year since 1983.

The first payment on the 1983 rescheduled debt came due April 1, 1985. Payments were made to the French, Germans, and British, but not to the Japanese, Indians or Yugoslavs. They were asked, and subsequently agreed, to defer these rescheduled payments. Additional deferrals were sought for rescheduled payments due later in 1985, in 1986, and to date in 1987.

While no official figures are available on Iraq's external debt, various estimates put it at end 1986 at approximately \$50 billion, of which \$25-\$30 billion is owed to the Gulf oil states and may not have to be repaid. The remaining \$20-\$25 billion was distributed as follows: \$10.3 billion reported by Berne Union members; \$6 billion outstanding to firms and others in OECD countries; and \$5 billion owed to non-OECD.

Existing payment schedules on the debt are difficult to determine. Much of the payments due since 1983 have been rescheduled and Iraqi authorities have been requesting delayed payment terms on new credits obtained since 1985. Berne Union members report payments due their export credit agencies on existing commitments at \$2.4 billion in 1986 and \$1.6 billion in 1987. Payment delays reported by Berne Union members were \$730 million as of December 31, 1986, up from \$70 million as of December 30, 1985. The Middle East Economic Digest estimated that payments due Western obligors would average \$3 billion annually until 1990.

A good indication of Iraq debt payment problems is its inability to repay its 1983 Euroloan of \$500 million. In late September 1986, Rafidain Bank asked that the September installment of \$71.4 million and three additional installments be deferred for 2 years. Rafidain Bank has also sought to defer payments due on letters of credit with major European and U.S. banks since March 1986. Some of these have been rescheduled on a bilateral basis.

In the United States, the Department of Agriculture, through its CCC program, has had favorable repayment experience. However, few U.S. banks will now participate in the program. In 1986, almost the entire program was taken by an Italian bank domiciled in the United States, as U.S. banks viewed the risk as too great even with the 98% CCC guarantee.

Berne Union Attitudes

Attitudes and commitments of Berne Union members on February 21, 1987 toward Iraq are shown in Table III. Eight of the major 12 members were "Off Cover" for medium- and long-term business and six were "Off Cover" for short-term business. The U.K. has remained open for medium-term cover under a Government Protocol signed in 1984. Most member countries reported delinquencies with Bank Rafidain on short-term letters of credit. A few cited favorable experience with Central Bank short-term letters of credit.

Highlights of Export-Import Bank

Country Risk Analysis

Iraq

1986

IRAQ: Pending Short-Term Insurance Requests

Insured/Supplier	Buyer	Amount	L/C Term/Issuer	Product
Republic Bank Houston/Moorco International	Central Bank of Iraq	\$ 1,300,000	360 days/Central Bk	Oil field equipment (pumps, volume improvers, down hole tools)
Bell Helicopter	General Body of Plant Protection	10,208,100	720 days/Rafidain Bk	4 Bell 222V Helicopters
Dial Manufacturing/Same	Al-Hilal Industrial Company	5,000,000	180 days parts, 360 days-capital goods/either Rafidain or Central Bk	Evaporative coolers and parts
Dial Manufacturing/Same	Iraqi Trading Company	1,300,000	360 days for capital goods & parts/either Rafidain or Central Bk	Evaporative coolers and parts
Manufacturers Hanover/Caterpillar Tractor	Rafidain Bank (State Org. for Imports)	20,000,000	720 days/Rafidain Bk	Wheel loaders
Philadelphia Nat'l Bk/Healthdyne Corp.	Rafidain Bank	125,000	sight/Rafidain Bk	Medical Supplies
Courtaids North Am. Inc./Same	Fine Textiles State Estab.	100,000	sight/Rafidain Bk	Rayon staple fiber
UBAF Arab Am. Bank/R.A. Hanson Co.	Rafidain Bank	1,602,701	360 days/Rafidain Bk	Concrete paver machines
Mellon Bank/Rockwell Int'l	Central Bank of Iraq	31,656	sight/Central Bk	Spare parts for control valves
Mellon Bank/Westinghouse	Rafidain Bank	5,000,000 (renewal)	360 days/Rafidain Bk	Electric motor
Security Pacific Bus. Credit/Agro Int'l	Iraq National Oil Company	3,000,000	180 days/Rafidain Bk	Spares for oil field equipment
Woodward & Lothrop/Same	State Estab. for Foodstuffs	4,000,000	360 days/Rafidain Bk	Rice
	Total	\$51,867,457		

MEMORANDUM TO FILES

Date: May 22, 1986
 Subject: Iraq - Eximbank Position and Deteriorating Economic Conditions

Participants: State Department
 David Newton, US Ambassador to Iraq
 Peter Burleigh, Country Director
 Steve Buck, DCM - Designate to Iraq
 Eximbank
 John A. Bohn, Jr.
 William Arnold
 Clayton Norris
 Randolph Swart
 Clare Ferguson
 Charles Hammond

Ambassador Newton called at Eximbank while on home leave and provided a report on the war with Iran and economic conditions in Iraq. He also wanted to learn about Eximbank's current attitude--particularly toward continued negotiations on the Medium-term Operating Agreement with Iraq.

The Ambassador was quite down-trodden concerning both the status on the war front as well as the economy. Concerning the war, the Ambassador reported Iraq was fighting with a "Third World" army, had a weak air force, and morale was quite low. Most families in Baghdad had had some close family member killed in the war and black bands proliferated. Iraq had stepped-up the war effort recently, striking an oil refinery in Tehran. Barring any disaster on the battle-field, he thought that they could continue to hold on. However, conditions were worse than at the same time one year ago. The Iranian's were now implanted in Fao, which was a strategic area in the south close to oil fields and to the transportation lines from Basra to Baghdad.

On the economic side, the oil price drop of early 1986 had come suddenly, the Iraqis were not prepared for it, and hadn't enough foreign exchange now to meet current payments. The Iraqi Government is seeking further debt relief from the major creditor Governments. The Ambassador emphasized that both the Governor of the Central Bank and the Minister of Finance were competent and were trying to live with the reduced income. There would be severe cuts in imports, particularly for civilian consumer goods. He believed that the Central Bank was much better organized than Bank Rafidain and he said the Central Bank would stand behind the current delinquent letters of credit of Bank Rafidain with Eximbank, but this would take time. The Ambassador believed the Central Bank would continue to stay current on CCC credits.

The Ambassador hoped that the Eximbank Medium-term Agreement could go forward. This would provide Iraq with a much needed boost and improve US-Iraqi bilateral relations even if Eximbank later could not approve subsequent requests. He realized that the Iraqis had been very stubborn and had made impossible demands in the initial negotiations. They now, however, want to come to DC to continue negotiations. The Ambassador reported that he wanted to be able to deal tactfully with the proposed Agreement. Could he tell the Iraqis to just take it or leave it in its existing form.

Mr. Bohn answered that the economic and military situation in Iraq had become quite obscure and the deterioration had seriously lessened his desire for considering anything new in Iraq even for short-term transactions with the Central Bank on letters of credit. It would be very difficult to consider favorably any medium-term business or to continue negotiations on the Medium-term Operating Agreement in its existing form. He said that his enthusiasm for doing any new business in Iraq varied from zero to not much.

The Ambassador replied that he could well understand this position from Eximbank's viewpoint, but he hoped that Eximbank would not take any action that would be at odds with current US Government policy toward Iraq. He informed that an Iraqi delegation would be coming to the US, probably in July, to sign the Commercial, Economic and Technological Agreement with the US. Mr. Norris cautioned the Ambassador to convey to the Iraqis the current thinking at Eximbank before they came to DC and Mr. Arnold asked the Ambassador to clearly indicate to the Iraqis that the signing of the Umbrella Commercial Agreement did not signify an automatic opening of Eximbank programs.

The Ambassador expressed his thanks for the discussion, said he would continue to press the Iraqis about paying their arrears on L/Cs covered by Eximbank/FCIA insurance, would convey to them the essence of the discussion at Eximbank, and would not press them at all at this time, on seeking any further negotiations with Eximbank on the Medium-term Operating Agreement.

Note: Eximbank has in-house 12 requests for additional Eximbank/FCIA insurance cover under L/Cs with an added exposure of \$52 million. These requests will continue to be held in-house as long as the existing delinquencies remain. A table listing the new requests is attached; a second table lists the current overdues.

IRAQ: Rafidain Bank Letters of Credit Overdue as of May 21, 1986

<u>Rafidain L/C No.</u>	<u>Beneficiary</u>	<u>Amount</u>	<u>Due Date</u>	<u>Buyer</u>
8/17237	Universal Manufacturing	\$50,010.53	March 14, 1986	Iraq Engineering Works
8/17236	Universal Manufacturing	\$35,047.48	March 14, 1986	Iraq Engineering Works
8/17108	Universal Manufacturing	\$81,345.33	March 14, 1986	Iraq Engineering Works
42/20500	Joslyn Manufacturing (\$ 4,731,600)	DM 4,731,600 (\$ 1,600,000)	May 20, 1986	State Organization of Electricity
42/20501	Joslyn Manufacturing (\$ 4,731,600)	DM 4,731,600 (\$ 1,600,000)	May 20, 1986	State Organization of Electricity

April 24, 1986

Bilateral-Reschedulings and External Debt

MEMORANDUM

TO: Distribution
 FROM: Clayton Norris
 SUBJECT: Interagency Review for Iraq

An Interagency review for Iraq has been scheduled on Tuesday, April 29, at 2:30 p.m. in the Board room.

Representatives from the following agencies will participate in the discussion:

State - Peter Burleigh, Country Director, Iraq
 CIA - Dave Shields, Chief, Research Branch in Persian Gulf
 - Bob Higgins, Economist
 Treasury - Bill Quinn, Economist
 Agriculture/CCC - George Pope
 Eximbank - Charles Hammond

The review will highlight the deteriorating economic and financial situation, the war status with Iraq, views of the Department of State on current political issues, CCC repayment experience, and outlook. Eximbank's current policy for considering Iraqi transactions as approved in February 1984 is as follows:

1. Supplier Credit Transactions.
 Short-term: Consider requests for small amounts of essential imports on a case-by-case basis with a letter of credit issued by the Bank Rafidain or the Central Bank.
 Medium-term: Discourage all requests unless a satisfactory external security arrangement can be provided.
2. Direct Credits and Financial Guarantees.
 Discourage all requests unless a satisfactory external security arrangement can be provided.

Foreign Exchange Reserves. Reflecting the large oil exports and balance of payment surpluses in the last half of the 1970's and through 1980, net foreign assets of the banking system rose from \$11 billion at the end of 1978 to \$37 billion at the end of 1980.

No official figures on reserves are available since the start of the war. However, with the large current account deficits on civilian goods in 1981 and 1982 totalling \$27 billion and smaller deficits the next two years, it is believed that foreign exchange reserves have been exhausted.

Commencing in 1983, Iraq was unable to make the progress payments due foreign contractors for projects and asked that these payments be restructured with repayments over three years including one-year of grace. In France and the UK, COFACE and the ECOD guaranteed the reschedulings with banks. In addition to the UK and France, there were reschedulings with the other major European countries, as well as with Japan, India, and Yugoslavia. Similar reschedulings took place in 1984 and 1985. The amount of the payments due in 1983 was about \$2 billion; similar amounts were due in 1984 and 1985.

The first payment on the 1983 rescheduled debt came due April 1, 1985. Payments were made to the French, Germans, and British, but not to the Japanese, Indians, or Yugoslavs. The ones not receiving payments were asked to defer these rescheduled payments for a longer period. While the Yugoslavs were reported ready to reschedule further and to take some oil as payment, the Japanese firms, which were asked to defer payments until 1987, and to lower the interest rate from 8.25% to 7.25%; a compromise was reached. The Germans were asked to re-schedule the second payment of the 1983 rescheduling due in October 1985. Other countries were approached with the same request.

On April 1, 1985, the first payment due banks on a \$500 million Euro-dollar loan was also due and reportedly made as scheduled.

External Debt Payment Problems

External debt payments due April 1, 1986, by Iraq on previously rescheduled debt with several foreign Governments have not been met and further debt reschedulings are being sought. Various reports indicate that approximately \$10 - \$200 million on credits deferred from 1983 and 1984 were due West Germany and have not been paid; payments were also due to the French and Indian Governments and to Japanese contractors. Further debt reschedulings will be sought. There have also been reports that letters of credit issued by Bank Rafidain were not being paid on time.

While no official figures are available on Iraq's external debt, various estimates place it, excluding credits supplied by Saudi Arabia and Kuwait for military purchases, at between \$9.0 and \$30 billion. Berne Union members report commitments to Iraq as of mid-1985 at \$6.4 billion. In addition, there are known debts for CCC guarantees for U.S. grain purchases, commercial bank credits, non-guaranteed export credits, and unknown military credits from France and the USSR.

Existing payments on the debt are also difficult to determine. Much of the payments due since 1983 have been rescheduled and Iraqi authorities have been requesting delayed payment terms on new credits obtained since 1985. Berne Union members report payments due their export credit agencies on existing commitments at \$1.7 billion in 1986 and \$1.3 billion in 1987. Unrecovered claims were reported of \$336.2 million as of 6-30-85 by Berne Union members. The Middle East Economic Digest estimated that payments due Western obligors would average \$3 billion annually until 1990.

The above projections indicate if the price of oil remained at \$15/b, Iraq would have to cut severely imports and continue to seek debt relief. At \$20/b, the picture would begin to improve by 1988, but imports would have to be cut until then and more debt reschedulings would be needed.

Conclusions

If oil prices remain below \$15/b and the war with Iran continues, Iraq will face continuing payment problems. At a price of \$20/b and with severe import restrictions, the economic picture could begin to improve by 1988, but additional debt reschedulings would be required.

Iraq has vast oil reserves and will be an important export market when the war ends and if it does so on satisfactory terms.

Berne Union members are becoming more concerned about payment problems and the economic outlook. At mid-1985, five members including Japan, Korea, and Switzerland were "off cover" for medium-term and Switzerland was also "off cover" for short-term. Many members have imposed various restrictions such as transaction limits, reduced percentage of cover, and annual ceilings.

EID/MITI reported on April 1, 1986 that Japanese banks were adopting more restrictions on letters of credit since Rafidain Bank has no yen balance with the Japanese banks.

Under these circumstances, Eximbank needs to reassess its current policy and its action regarding the medium-term operating arrangement.

Highlights of Export-Import Bank

Country Risk Analysis

Iraq

1985

Bilateral-Reschedulings and External Debt

Commencing in 1983, Iraq was unable to make the progress payments due foreign contractors for projects and asked that these payments be restructured with repayments over three years including one-year of grace. In France and the UK, COFACE and the ECGD guaranteed the reschedulings with banks. In addition to the UK and France, there were reschedulings with the other major European countries, as well as with Japan, India, and Yugoslavia. Similar reschedulings took place in 1984 and are being negotiated for 1985. The amount of the payments due in 1983 was about \$2 billion; similar amounts were due in 1984 and 1985.

The first payment on the 1983 rescheduled debt came due April 1, 1985. It has been reported that payments were made to the French, Germans, and British, but not to the Japanese, Indians, or Yugoslavs. The ones not receiving payments have been asked to defer these rescheduled payments for a longer period. While the Yugoslavs were reported ready to reschedule further and to take some oil as payment, the Japanese firms, which were asked to defer payments until 1987 and to lower the interest rate from 8.25% to 7.25%, have not to date reached agreement. Recently the Germans have been asked to re-schedule the second payment of the 1983 rescheduling which will be due in October 1985. Other countries have now been approached with the same request.

On April 1, 1985, the first payment due banks on a \$500 million Euro-dollar loan was also due and reportedly made as scheduled.

While no official figures are available on Iraq's external debt, various estimates place it, excluding credits supplied by Saudi Arabia and Kuwait for military purchases, at between \$9.0 and \$30 billion. Some Union members report commitments to Iraq as of end 1984 at \$7.6 billion. In addition, there are known debts for CCC guarantees for U.S. grain purchases, commercial bank credits, non-guaranteed export credits, and unknown military credits from France and the USSR. Thus we might put external debt, excluding Saudi-Kuwaiti debt, at \$15 billion. In addition, there are loans from the Gulf States which have been made to finance the war and it is unclear whether this debt is to be repaid and if so, on what terms.

On the basis of the above projections, we would conclude that Iraq will encounter extreme difficulty in funding minimum import requirements and making debt repayments over the next four years. This is true even with the increased oil production and exports from the two new proposed pipelines. While under Scenario I, with some price increases in oil, the current account deficits could end by 1986, there would still be funding gaps in the first two years as a result of the large debt repayments. We might assume that the debt repayments would be taken care of by additional debt rescheduling. In such a case and with careful control of new development spending and import restrictions, there should be ability to meet minimum import requirements.

The situation would be much worse if the price of oil should decrease as shown in Scenario II. In this situation, the current account deficits except in 1987, would remain and rescheduling requirements would be much greater.

July 5, 1985

MEMORANDUM

To: Randolph Swart
From: Charles Hammond
Subject: Iraq - PC Request No. 6062

Applicant: Brown & Root Inc.
Obligor: Government of Iraq
Project: Oil Pipeline through Turkey
U.S. Costs: \$66 million
Eximbank Liability: \$56.1 million

Country Economic Conditions

Country problems suggest that there is not a reasonable assurance of repayment based on the original schedule, except for short-term transactions which are not normally subject to multilateral debt rescheduling. However, selective longer-term transactions merit favorable consideration because country conditions are likely to improve sufficiently to provide repayment over the longer term if in accordance with the guidelines established by the Board. In February 1984, Eximbank approved guidelines for Iraq which stipulated that medium- and long-term transactions could be undertaken only if satisfactory external security were available. Since this transaction is to be structured with an escrow account and with contracts for purchasing the oil, the transaction can be considered as meeting Eximbank country requirements for providing reasonable assurance of repayment. (further country details are in Appendix).

Foreign Exchange Reserves. Reflecting the large oil exports and balance of payment surpluses in the last half of the 1970's and through 1980, net foreign assets of the banking system rose from \$11 billion at the end of 1978 to \$37 billion at the end of 1980.

No official figures on reserves are available since the start of the war. However, with the large current account deficits on civilian goods in 1981 and 1982 totalling \$27 billion and smaller deficits the next two years, it is believed that foreign exchange reserves have been exhausted. Figures published by the Bank for International Settlements show liabilities of reporting banks to Iraq as follows:

December 1980:	\$25.52 billion
December 1981:	15.78 billion
December 1982:	1.21 billion
June 1983:	0.78 billion

MEMORANDUM TO THE BOARD OF DIRECTORS
Africa and Middle East Division

February 21, 1984

COUNTRY: Iraq

SUBJECT: Country review and recommendations for Eximbank's programs. (Country Appendix attached.)

BACKGROUND AND
COUNTRY SUMMARY:

Eximbank currently has no exposure in Iraq and has not been active in the country for more than a decade due to a number of reasons. Iraq broke diplomatic relations with the U.S. in 1967 at the time of the Arab-Israeli war, subsequently embargoed imports from the U.S. until 1973, and the country paid cash for most imports in the late '70s following the large oil price increases after 1974 and until 1981. Iraq was cited by the U.S. as a country linked to international terrorism from 1979 through March 1982 and as such there were more stringent requirements for obtaining U.S. export licenses.

Iraqi-U.S. Relations.

Iraq broke diplomatic relations with the U.S. in June 1967 at the time of the Arab-Israeli war. Since late 1971 the U.S. has been represented by a U.S. Interests Section in the Belgian Embassy in Baghdad.

In 1973 Iraq ended its political ban on U.S. and West German imports, deciding to separate its economic and political policies. In its desire to proceed as rapidly as possible with the country's economic development, Iraq turned toward using Western technology and capital imports. The rapid rise in Iraq's imports from the U.S. prior to the war with Iran - from just \$23 million in 1972 to \$724 million in 1980 - attested to the change.

The U.S. Government has been willing to resume full diplomatic relations with Iraq but the Iraqi Government has not been prepared to take this step to date.

International terrorism has been an issue in relations between the U.S. and Iraq. The Fenwick Amendment to the Export Administration Act of 1979 established more stringent rules for the granting of export licenses for U.S. exports to countries cited for supporting international terrorism. In 1979, Iraq along with Syria, Libya, and the People's Democratic Republic of Yemen was put on the list. Iraq remained on this list until March 1982 when the U.S. Departments of Commerce and State removed Iraq, Cuba and Iran were added.

Since the removal of Iraq from the list of countries supporting international terrorism and more recently with the war going against Iraq along with the Iranian threats toward blocking oil shipments in the Arabian Gulf, the U.S. has shown renewed interest in a peaceful solution to the conflict.

In December 1983, the U.S. Special Mideast Envoy, Donald Rumsfeld, visited Baghdad to urge restraint and to discuss ways the U.S. could be of assistance. Subsequently, the press reported that the U.S. was tilting toward Iraq.

The official U.S. position is one of neutrality in the war and of seeking a peaceful solution.

Highlights of Export-Import Bank

Country Risk Analysis

Iraq

1984

A general policy has emerged in Iraq towards the refinancing of foreign contractors. For contracts involving firms from industrialized countries whose military or financial support has been, and will be, crucial to the war effort, Iraq directly negotiates with the firms, or with home country governments or bank consortia. These countries include Japan, France, Germany, and Italy. The refinancing package typically includes a 1-3 year rescheduling of a certain percentage of the debts, cash payments for another certain percentage - and, increasingly, the lifting of crude oil as partial payment.

As for contracts involving firms from non-industrialized countries, Iraq informs contractors that financing will end and suggests that they turn to their home countries for financing. Iraq will not negotiate refinancing, because it does not wish to increase its debt to countries such as India or the Philippines, which have not been in a position to assist Iraq financially or militarily.

Cessation of hostilities with Iran is critical to Iraq's economic recovery. Unfortunately, no end to the war is in sight at this time. In addition, when the war does end Iraq will be faced with serious obstacles on its path to economic recovery. Paramount among these are repayment of sizeable debt accumulated during the war years and the ability to sell larger amounts of Iraqi oil.

Against this background of deteriorating economic conditions, rapidly increasing foreign debt, and continuing war, Eximbank has received many inquiries concerning the possibility of financing for transactions ranging from feed concentrates to large power plants.

If one continues to assume that the Gulf states will not - or cannot afford to - let Iraq collapse through economic attrition, it becomes clear that a big part of this debt will be financed by Iraq's neighbors. The flow of loans from the Peninsula states is currently reported to be around \$6 billion per year. Unless it increases to over \$10 billion per year during the next years, it is quite likely that Iraq will be forced to abandon more civilian projects, seek to reschedule its debts beyond 1985, and intensify its efforts to negotiate future payments in oil.

The CCC reports that Iraq is current on the 1983 CCC credit. The CCC is willing to take some risk in this market as Iraq is expected to be a potentially large market for U.S. agricultural sales. A few commercial banks contacted reported that they would consider only short term credits for Iraq currently. One bank reports very good experience working with the Iraqi Central Bank and with Rafidain Bank.

Berne Union members have recently reported on their attitude and experience. Two members are "off cover" for short term and seven are "off cover" for medium and long term. In certain cases there is a reduced percentage of cover offered and a few limit cover to non-war zones. Some delinquencies are reported and claims have been paid.

In the Staff's opinion, due to both unsatisfactory country economic conditions and the possibility of physical damage to new projects due to the ongoing war, there would not be reasonable assurance of repayment for any medium and long term transactions based solely on Iraqi security. Although Iraq has considerable oil reserves, these do not, by themselves, provide reasonable assurance of repayment. Until the war ends and satisfactory solutions are found as to who will control Iraq's government and how war reparations and debts will be paid, we could not find reasonable assurance of repayment for medium and long term transactions in the absence of satisfactory external security arrangements.

Since Iraq is still paying for some of its top priority items, such as foodstuffs, Staff could recommend modest amounts of short term FCA insurance for these items. Because of the priority of such transactions and the short repayment, Eximbank support for these transactions would provide an opportunity to test this troubled market and support some exports while avoiding risks associated with lower priority, larger, longer term transactions.

External Debt

No official information is available on the amount of Iraq's current external debt. Various reports indicate that external debt at the end of 1983 was between \$27-30 billion. Of this amount, \$22-30 billion has been provided by Saudi Arabia and Kuwait since 1972 to cover balance of payments deficits and no information is available as to when or if these loans are to be repaid. As long as the war continues and without increased oil exports, the current account deficits of \$8-10 billion annually would add substantially to the external debt. Iraq has negotiated with contractors concerning payments due on cash contracts. It is understood that payments on these will be deferred until 1985 and payments will be spread over a three to five year period. Similar arrangements are being negotiated for payments due on cash contracts for 1984. New tenders from Iraq request deferred terms with no payments for two years even for such items as spare parts.

Balance of Payment Projections

Balance of payment projections for Iraq carry more than the usual hazards due to the on-going war, the lack of adequate base statistics, incomplete data on external debt, and pitfalls in estimating future oil production and prices. Nonetheless, the following scenarios are presented to show the order of magnitude of key elements and to help formulate an Eximbank policy for this market.

Foreign Exchange Reserves. Reflecting the large oil exports and balance of payment surpluses in the last half of the 1970's and through 1980, net foreign assets of the banking system rose from \$11 billion at the end of 1978 to \$37 billion at the end of 1980. Since then, they have declined to \$24 billion at the end of 1981 and to about \$6 billion at the end of 1982. A further erosion took place in 1983. While no precise figures are available, liquid foreign exchange might approach \$2 billion.

DR. DANIEL L. BOND
 VICE PRESIDENT FOR COUNTRY RISK ANALYSIS
 EXPORT-IMPORT BANK OF THE UNITED STATES

RESPONSE TO HOUSE BANKING COMMITTEE QUESTIONS
 CONCERNING COUNTRY RISK ANALYSIS

A. Using Iraq as an example, please explain the Country Risk Analysis process at Eximbank.

The Export-Import Bank Act states that all transactions supported by the Bank shall "...in the judgement of the Board of Directors, offer reasonable assurance of repayment...." Thus, when considering applications, the Board examines them for potential problems that could give rise to repayment delays or defaults.

The Bank's loan officers, engineers and lawyers advise the Board on potential commercial, engineering or legal problems that may arise from specific transactions. The Bank's country risk analysts advise on more general economic and political problems affecting payment that may arise in the country of the obligor or guarantor.

The country risk analysts examine both a country's ability and its willingness to repay foreign debts. Often, the focus of the analyses differs from country to country, because critical factors differ. In Iraq's case, the government's unwillingness to adopt normal standards of financial conduct was a very important consideration.

To deal with country risks the Board of Directors establishes for each country guidelines on country policy--which specifies whether there are any restrictions concerning the types of transactions the Bank is willing to undertake--and a country risk rating--which determines the exposure fee to be charged. Exposure fees vary according to the perceived risks and help to compensate the Bank for the risks it takes. In recent years, when Eximbank was allowed to undertake transactions in Iraq, the Bank had a very restricted country policy for Iraq--only short-term transactions up to a total exposure limit of \$200 million were allowed--and charged the highest level of exposure fees.

The country risk analysis process revolves around semi-annual reviews of all of Eximbank's potential markets. These reviews attempt to identify any recent changes in country credit-worthiness. If changes in country policy or country risk ratings are deemed necessary by the Country Risk Analysis Division, they are presented to the Bank's other Divisions and discussed at a ----

Medium-Term Outlook. Considering the low likelihood of the war ending in the near future, there are no grounds for optimism concerning the possibility that Iraq's foreign exchange problems may be alleviated anytime soon. With the Gulf terminals and the Syrian pipeline closed, Iraq's export potential will remain limited. Under the best circumstances - successful expansion of the Turkish pipeline capacity to around 960 thousands barrels per day by mid-1984, and continued Saudi and Kuwaiti oil sales credit to Iraq - Iraq may be able to expand its effective export volume to 1.1-1.3 million barrels per day by 1985. This, however, will by no means be sufficient to meet the increasing financial demands on the country.

During the period between 1983 and 1985, Iraq is projected to accumulate \$24.8 billion in current account deficits. In addition, there will be over \$1.5 billion of debt deferred to 1985 and 1988 alone. Thus, by the end of 1985, Iraq will find itself facing a debt of well over \$26 billion - possibly in the \$30-\$35 billion range. This amount does not include the soft loans that the Gulf states (Saudi Arabia, Kuwait, the UAE and Qatar) have made to Iraq so far.

RECOMMENDATIONS:

It is recommended that the following program be adopted until the war has ceased:

1. Supplier Credit Transactions.
 Short-term: Consider requests for small amounts of essential imports on a case-by-case basis with a letter of credit issued by the Bank Rafidain or the Central Bank.
 Medium-term: Discourage all requests unless a satisfactory external security arrangement can be provided.
2. Direct Credits and Financial Guarantees.
 Discourage all requests unless a satisfactory external security arrangement can be provided.

meeting of the Exposure Management Committee. This committee includes senior staff representing the various divisions of the Bank involved in export financing issues. The EMC then makes final recommendations to the Board of Directors at a formal Board meeting at which other National Advisory Council agencies are represented.

In addition to the semi-annual reviews, special inter-agency reviews are conducted for the more important or questionable markets, such as Iraq. For these briefings, a detailed, written country review is prepared by an Eximbank Country Risk Analyst, and is reviewed by the Vice-President of Country Risk Analysis. The written review is distributed to members of Eximbank's staff, Board of Directors, and other U.S. government agencies. The review is then discussed in an interagency meeting, involving our Board of Directors and representatives of other U.S. government agencies. Interagency reviews on Iraq were held on the following dates: April 24, 1986; January 12, 1987; April 17, 1987; July 25, 1988; April 24, 1989; June 13, 1989; October 10, 1989.

B. From your perspective, how was that analysis used in making decisions about Iraq's participation in Eximbank programs?

In the case of Iraq, the Country Risk Analysis Division's Iraq country reviews led Eximbank's Board of Directors to the conclusion that adoption of larger, or longer-term, credit programs would not be a prudent move. Eximbank's Board wanted to avoid lending successively larger amounts of new money to Iraq, because we did not want to fall into the financial trap that Iraq had set for other export credit agencies. Furthermore, we had very little confidence in Iraq's longer-term ability to service its growing debt burden, since so much of its foreign borrowing was being used to build up the country's military rather than to improve future export capabilities. All of this is detailed in these country reviews.

C. What role do agencies such as the Central Intelligence Agency (CIA), the State Department, the Federal Reserve, etc., play in the country risk analysis process? How did these agencies influence your country risk analysis of Iraq?

Eximbank receives a great deal of information on countries from these agencies, and our country risk analysts are in frequent contact with their country specialists. However, these agencies have no direct role in the preparation of the written risk analysis documents.

When the EMC makes recommendations on changes in country policy or country risk ratings, these are distributed to the key MAC members for official comment. The agencies also send

representatives to Eximbank's Interagency Country Reviews, and the principal MAC members attend our formal Board meetings.

We always encourage these agencies to comment on our analysis, and often their representatives do make comments. There are permanent representatives of the principal MAC agencies who attend Eximbank's country reviews. Also, the desk-officers of the various agencies, such as the State or Commerce desk officers, usually attend Eximbank's interagency reviews.

D. Did the BNL scandal influence the country risk process at Eximbank?

No. However, numerous press reports of the BNL scandal did serve as yet another indication of the financial games played by the Iraqi government.

E. How could Eximbank's country risk analysis process be improved?

Eximbank is always trying to improve the quality of our country risk analyses. However, the Board of Directors thinks that our current procedures have worked well and has no plans to change them at this time.

Memoriale mandato dal dott. D'Addosio in data 10 ottobre 1991, a integrazione del memoriale presentato alla Commissione dal vertice della BNL in data 5 giugno 1990.

Documento n. 306

MEMORIA INTEGRATIVA DELL'AMMINISTRATORE DELEGATO DELLA BANCA NAZIONALE DEL LAVORO DR. D'ADDOSIO, A SEGUITO DELL'INVITO FORMULATOGLI IL 1° AGOSTO 1991 DALLA COMMISSIONE PARLAMENTARE D'INCHIESTA SUL CASO DELLA FILIALE DI ATLANTA DELLA BANCA NAZIONALE DEL LAVORO.

In accoglimento dell'invito formulato da codesta COMMISSIONE PARLAMENTARE D'INCHIESTA al termine della testimonianza resa il 1°.8.91, l'Amministratore Delegato della Banca Nazionale del Lavoro, Dr. Umberto D'Addosio, rassegna la seguente memoria integrativa di quella che, nell'audizione del 5 giugno 1990, venne consegnata all'allora COMMISSIONE SPECIALE dal Presidente della Banca, Prof. Cantoni, e dall'allora Direttore Generale, Prof. Savona.

Riguardo alla citata memoria, del 5.6.90, il Dr. D'Addosio ribadisce che egli provvide a suo tempo a predisporre la struttura di base, che sottopose all'esame del Prof. Savona, e degli altri due Vice Direttori Generali dell'epoca, Dr. Croff e Dr. Gallo, recependone le osservazioni e discutendo collegialmente le modifiche. La bozza finale venne poi discussa tra tutti, alla presenza anche del Presidente Prof. Cantoni, nel suo studio, dove furono concordate le ultime modifiche.

Analoga procedura fu seguita dal Dr. D'Addosio anche per la nota integrativa rimessa in data 14.6.90 a codesta Commissione (tutti i riferimenti a codesta Commissione d'Inchiesta riguardano anche la precedente Commissione Speciale).

Metodologicamente, si ritiene ora di integrare ed aggiornare la precedente memoria - che qui viene riprodotta in 24 paragrafi trascritti con carattere diverso e tra "" - con le precisazioni suggerite dal pieno utilizzo di tutto il materiale attualmente in possesso della Banca e di cui l'Amministratore Delegato Dr. D'Addosio è a conoscenza; lo stesso conferma il suo intento di piena e totale collaborazione con tutte le Autorità inquirenti, intento che, a quanto gli risulta, è comune al vertice della Banca.

Precisazioni e aggiornamenti sono di seguito ordinati con lo stesso numero con il quale sono indicati i paragrafi riprodotti dalla precedente memoria.

* * *

1) *"Il Presidente e il Direttore Generale della BNL premettono che, come è già noto alla Commissione, sul caso della Filiale di Atlanta sono tuttora in corso indagini giudiziarie della Magistratura italiana e di quella dello Stato della Georgia negli Stati Uniti d'America; inoltre, non sono ancora terminati sia l'ispezione e la ricostruzione contabile da parte dell'Ispettorato della Direzione Centrale della Banca (Ispettorato Centrale), sia le indagini da parte del Ministero dell'Agricoltura degli Stati Uniti."*

* * *

1) Successivamente la Magistratura penale dello Stato della Georgia ha emesso, in data 28.2.91, il provvedimento di rinvio a giudizio ("criminal indictment" N. 1:91-CR-078) dei presunti colpevoli della frode in danno degli Stati Uniti, di cui la stessa BNL è stata vittima. Inoltre, in data 10.4.91 è stata emessa la relazione ispettiva sulla Filiale di Atlanta da parte dell'Ispettorato Centrale della Banca.

Entrambe le circostanze, alle quali, per quanto possa occorrere, si farà riferimento in seguito, sono note a codesta Commissione d'inchiesta, che ha già ricevuto sia il testo dell'"indictment", sia quello della relazione conclusiva dell'ispezione suddetta, che in seguito verrà citata come "Relazione Petti".

* * *

2) *"Come si dirà più oltre, il Ministro del Tesoro ha già informato la Commissione in ordine alla consistenza e alla natura delle irregolarità emerse presso la Filiale di Atlanta; pertanto in questa sede ci si limita ad integrare le suddette informazioni precisando che le notizie che seguono sono da riferirsi allo stato attuale delle conoscenze della Banca.*

"Sono inoltre sintetizzati i provvedimenti di tipo organizzativo adottati dalla BNL a seguito dei noti fatti; provvedimenti che si sono sviluppati con la massima determinazione, in uno con la più ampia collaborazione continuamente prestata alle Autorità giudiziarie e di Vigilanza sia in Italia che negli Stati Uniti."

* * *

2) Le notizie e le sintesi di cui era cenno nella riprodotta nota del giugno 1990 sono di seguito anch'esse oggetto di integrazione e del necessario aggiornamento, in base allo stato attuale delle mie conoscenze in merito alle

indagini ancora in corso da parte delle Autorità inquirenti italiane e statunitensi.

* * *

""ISTITUZIONE DELLA FILIALE DI ATLANTA

3) *""A seguito della trasformazione dell'Ufficio di Rappresentanza, che era stato aperto in quella città il 10 marzo 1980, la Filiale di Atlanta della BNL è stata istituita il 14 aprile 1982 e da quella data opera con lo status di "Agency" di banca estera, in base a licenza annualmente concessa dallo State Banking Department della Georgia (USA). Tale licenza è stata regolarmente rinnovata anche per il 1990.""*

* * *

3) Premesso che la suddetta "licenza" è stata rinnovata anche per il 1991, si ricorda che, come da documentazione trasmessa a codesta Commissione con lettera del 25.10.90, all'Ufficio di Rappresentanza di Atlanta venne preposto, sin dall'inizio (10.3.80), il Sig. Giuseppe VINCENZINO (dipendente di ruolo Italia, assunto il 20.2.75, dimessosi il 28.2.90), il quale ebbe formalmente l'incarico di Direttore della Filiale il 14.4.82, pochi mesi dopo che il suddetto Ufficio venne trasformato (il 9.2.82) in Filiale/Agenzia di Atlanta.

Al Sig. Vincenzino subentrò, nella direzione di quella Filiale, il Sig. Christofer Drogoul. Quest'ultimo, che era stato proposto dallo stesso Vincenzino, fu assunto il 1°.12.81, divenne "Acting Manager" della predetta Filiale il 2.4.84 e ne assunse formalmente la direzione dal 1°.3.85.

Il Drogoul venne immediatamente sospeso lo stesso 7.8.89, con provvedimento formale dell'11.8.89 (data della comunicazione dell'allora Direttore Generale, dr. Pedde, al Comitato Esecutivo), senza assegno, e quindi licenziato il 6.9.89 (v. allegato)..

In seguito, alla Direzione della Filiale di Atlanta si sono succeduti:

Sig. FRANCESCO PETTI
cittadino italiano; dipendente di ruolo Italia;
con funzioni di "Acting Manager" dal 7.8.89 al 15.10.89.
Successivamente, con lettera del 30.10.89, a firma Bonamici e Savona, inviata all'allora Direttore della Filiale di Atlanta (confermata con l'Ordine di Servizio del Direttore Generale

n. 31, del 31.10.89), il Sig. Petti ebbe l'incarico "di avviare le indagini necessarie ad accertare le responsabilità relative a tutte le operazioni poste "impropriamente in essere presso codesta Filiale" (di Atlanta, n.d.r.).

Sig. LUCIANO A. SILVESTRI

cittadino italiano; dipendente di ruolo Italia.

Già Direttore della Filiale di MIAMI; era in corso di rientro in Italia, ma con delibera del Direttore Generale del 6.9.89 venne trasferito alla direzione della Filiale di Atlanta, dove giunse il 18.9.89. La decorrenza ufficiale della nomina e quindi del trasferimento fu stabilita nel 16.10.89.

Il Sig. Silvestri ha mantenuto l'incarico fino al 15.10.90, com'era stato concordato nell'agosto 1989 (rientro in Italia dopo un anno di incarico).

Sig. ALESSANDRO DI GIOVANNI

cittadino italiano, dipendente di ruolo Italia.

Dopo aver assunto la direzione della Filiale di MIAMI, in sostituzione del predetto Sig. Silvestri, ha assunto la direzione della Filiale di Atlanta dal 16.10.90; incarico ancora in atto.

* * *

4) *"In relazione (alla suddetta licenza, n.d.r.), la Filiale di Atlanta è soggetta - come tutte le filiali di aziende creditizie estere operanti negli Stati Uniti - alle segnalazioni periodiche ed ai controlli ispettivi disposti dalle locali Autorità di Vigilanza: State Banking Department e Federal Reserve Bank.*

"Fino al gennaio 1988, insieme alle Filiali di Chicago, Los Angeles, Miami e New York, la Filiale di Atlanta dipendeva, in via gerarchica e funzionale, dal Regional Management dell'Area Nord America. A partire da quella data, invece, essa doveva rispondere - come Chicago, Los Angeles e Miami - alla direzione della Filiale di New York, in ottemperanza alla deliberazione del Consiglio di Amministrazione del 20 gennaio 1988, con la quale venne disposta la ristrutturazione di tutta l'Area Nord e Centro America e la Filiale di New York assunse il ruolo di Filiale capo zona."

* * *

4) Sull'evoluzione dell'organizzazione delle Filiali nord-americane e della loro dipendenza gerarchica e funzionale dall'Area, dalla Filiale di New York e quindi dalla Direzione Generale/Centrale si richiamano le relazioni

presentate dall'allora Direttore Generale (ma entrambe predisposte dal Vice Direttore Generale Vicario, Dr. Gallo) al Consiglio di Amministrazione nella seduta riservata del 30.8.89 e nella seduta ordinaria del 27.9.89.

* * *

5) *"La Filiale di Atlanta ha conosciuto inizialmente un discreto sviluppo dovuto all'esportazione di prodotti agricoli degli Stati Uniti. Ed è in questo quadro che la Filiale ha cominciato ad operare con controparti irachene per operazioni assistite dalla garanzia della Commodity Credit Corporation (CCC), agenzia del Ministero dell'Agricoltura statunitense, che garantisce le esportazioni agro-alimentari di origine USA."*

* * *

5) L'affermazione è basata sulla circostanza che nell'operatività ufficiale della Filiale erano compresi finanziamenti all'esportazione garantiti dalla CCC e che nell'85 la Direzione Generale aveva autorizzato alla Filiale di Atlanta la concessione di un fido di \$ 100 milioni a favore della RAFIDAIN BANK (la banca commerciale irachena nazionalizzata) per la concessione di finanziamenti per l'esportazione verso l'Iraq, sempre garantiti dalla CCC. Si trattava di una concessione importante per la Filiale di Atlanta, visto che al 31.12.1984 la situazione ufficiale di Atlanta dichiarava un totale di crediti per cassa a favore di clienti e corrispondenti di vari Paesi per \$ 336 milioni, di cui oltre 180 assistiti da garanzie. Al 31.12.85 il totale dei crediti era salito a 515 milioni di \$, di cui 371 assistiti da garanzie.

* * *

6) *"E' risultato che per operazioni della specie venne superato il massimale autorizzato dalla Direzione Centrale e tenuta una posizione occulta. Esiste agli atti una richiesta della Filiale di Atlanta per l'ampliamento dei fidi accordati a controparti irachene con garanzia CCC risalente al 18 aprile 1986: proposta non accolta dalla Direzione Centrale. Si ha motivo di ritenere che l'attività fraudolenta sia andata sviluppandosi quantomeno da quella data."*

* * *

6) Al riguardo si precisa quanto segue:

A) Dalla ricognizione dell'attività fraudolenta messa in atto dal Drogoul era fino ad allora emerso, tra l'altro, che l'attività tenuta occulta si poteva ritenere iniziata con le operazioni a favore dell'irachena RAFIDAIN BANK, che nell'insieme avevano di gran lunga superato i limiti autorizzati dalla Direzione Generale. Le esposizioni al 4 agosto 1989 verso la Rafidain, assistite da garanzia CCC, ammontavano a circa 705 milioni di \$, a fronte di autorizzazioni accordate dalla Direzione Centrale per soli \$ 150 milioni.

L'impegno notevole della Filiale di Atlanta per finanziamenti all'Iraq garantiti da CCC era stato rivelato anche dall'articolo "IRAQ: more banks brought in for US Commodity finance", pubblicato dal periodico "MEED" del 20.2.88 (rimesso a codesta Commissione), secondo cui nel 1986 la Filiale di Atlanta aveva finanziato il progetto americano per le esportazioni verso l'Iraq insieme ad una sola altra Banca, accordando condizioni che la comunità bancaria statunitense trovava fuori mercato e molto favorevoli per l'Iraq, tanto che la Filiale di Atlanta non era riuscita a rivendere nulla del credito finanziato, rimanendo pesantemente esposta. Peraltro, secondo lo stesso articolo, per il successivo programma americano di finanziamento all'Iraq, di circa un miliardo di dollari, si proponevano otto banche internazionali, tre delle quali offrivano un tasso di solo 1/4% in più del LIBOR: la filiale di Atlanta di BNL per 200 milioni di \$USA, la MANUFACTURERS HANOVER per 150 milioni e la filiale di New York della DEUTSCHE GENOSSENSCHAFTSBANK per 25 milioni di \$USA.

Naturalmente anche questa annunciata partecipazione della Filiale di Atlanta della BNL al finanziamento del piano d'intervento della CCC per l'esportazione dagli Stati Uniti verso l'Iraq non era autorizzata dalla Direzione Generale.

Il citato articolo della Rivista "MEED" venne casualmente a conoscenza del Dr. D'Addosio e del Dr. Petti durante la loro permanenza ad Atlanta, dopo il 7 agosto 1989 (1). Esattamente, dopo il ritrovamento dei tre telex che il Von Wedel si era affrettato ad inviare al Drogoul, per metterlo in guardia sul pericolo rappresentato dall'articolo "pubblicato da una rivista" (che fu in seguito individuata appunto nella "MEED"). Al riguardo è da sottolineare che tali telex furono trasmessi in data 25.2.88, nel giro di appena 90 minuti (rispettivamente alle ore 8.55, 9.32 e 10.23), tre

- (1) Fotocopia del suddetto articolo e del frontespizio della Rivista (recante un timbro della British Airway) fu consegnata al Dr. D'Addosio dal Dr. Croff, il quale riferì di averla avuta da un conoscente.

giorni dopo la firma a Bagdad del primo dei quattro Agreements con CBI (di cui si dirà in seguito) e furono tutti indirizzati al Drogoul presso l'Hotel Rasheed di Bagdad con toni che divenivano via via più allarmati: gli ultimi due telex, tra l'altro, invitavano Drogoul a "pregare forte"!

Dalla Relazione Petti è poi emerso che la Rivista "MEED" arrivava in Direzione Centrale, prima al SAI e poi all'Area Finanza.

B) La circostanza che la Direzione Generale non avesse accolto la richiesta della Filiale di Atlanta dell'aprile 1986 per l'ampliamento dei fidi alla Rafidain, garantiti dalla CCC, si ritiene ormai chiarita con la nota integrativa del 14.6.90 inviata a codesta Commissione. Il fatto, com'è noto, è citato anche nella Relazione Petti.

C) Quanto infine alla suddetta ipotesi circa l'epoca in cui potesse aver avuto inizio l'attività fraudolenta della Filiale, si precisa che essa venne avanzata sulla base delle informazioni allora note, che tenevano conto, oltre che delle citate circostanze, anche delle ripetute affermazioni dello stesso Drogoul e di altri funzionari della Filiale di Atlanta, durante gli interrogatori di agosto-settembre 1989, nonché delle scadenze dei contratti in essere con la CCC, che all'epoca si ritenevano di durata pari a 3-4 anni.

Peraltro, da successivi accertamenti sono emerse, com'è noto, irregolarità antecedenti all'aprile 1986, anche in relazione a finanziamenti garantiti dalla CCC.

E' noto che l'"indictment" indica infatti nel 1985 la presumibile epoca di avvio dell'attività fraudolenta.

Dalla Relazione Petti (p.33 e allegati ivi citati) risulta che il Drogoul ed il Von Wedel hanno irregolarmente sottoscritto il primo accordo per il finanziamento alla RAFIDAIN BANK, di \$ 200 milioni, il 23.1.85, prima cioè che la Direzione Generale autorizzasse, il 19.2.85, un affidamento per soli \$ 100 milioni per operazioni garantite dalla CCC.

Afferma inoltre la Relazione Petti, che dal 23/1/85 al 29/10/87, i suddetti funzionari infedeli hanno sottoscritto, con firma abbinata, "n. 6 agreement di complessivi \$ 2,015 milioni, oltre gli impegni assunti per complessivi \$ 50 milioni con due telex del 24.1.89 e del "9.5.89, con scadenze finali dal 31.12.88 al 31.12.95". In "particolare, le date di sottoscrizione degli Agreements" con

la RAFIDAIN BANK vengono così indicate nella Relazione Petti:

- "23.1.85, \$ 200 milioni (di cui \$ 100 milioni non garantiti "da CCC), data ultima di rimborso 31.12.88". Qui è da aggiungere che all'epoca il Drogoul era ancora "Acting Manager" della Filiale di Atlanta (ne divenne formalmente Direttore dal 1°.3.85); e che il Drogoul sottopose a Roma la proposta di fido per \$ 200 milioni, ma non tenne conto, successivamente, che l'autorizzazione era stata limitata alla quota dell'operazione (\$ 100 milioni) che era garantita dalla CCC;

- "12.12.85, \$ 556 milioni; data ultima di rimborso "31.12.89";

- "15.1.87, \$ 562 milioni; data ultima di rimborso 31.12.90";

- "15.1.87, \$ 25 milioni; data ultima di rimborso 31.12.90";

- "15.1.87, \$ 57 milioni; data ultima di rimborso 31.12.94". In altra parte della Relazione il Sig. Petti precisa che il testo di quest'ultimo "agreement" - che di fatto è il primo a prevedere una scadenza a sette anni (n.d.r.) - venne consegnato dal Sig. Von Wedel al nostro Avv. Driver di Atlanta solo in data 5.1.90;

- "29.10.87, \$ 615 milioni; data ultima di rimborso "31.12.95".

Per contro, le autorizzazioni accordate dalla Direzione Generale si limitano a soli \$ 150 milioni: i 100 accordati nel 1985 e successivamente rinnovati (ultimo rinnovo dell'11.5.89) e \$ 50 milioni autorizzati il 28.12.87, con scadenza a tre anni (e quindi a fine 1990). Ricorda la Relazione Petti (p.33) che, per quanto riguarda la pratica RAFIDAIN BANK, "al 4.8.89 (sono stati) rilevati interventi "per cassa e di firma per complessivi \$ 862 milioni con "scadenza fino al 15.6.96 a fronte di facilitazioni "autorizzate per \$ 150 milioni, di cui \$ 50 milioni con "scadenza al 31.12.90 e \$ 100 milioni con scadenza al "31.12.92".

Dal riscontro delle date è chiaro che - come rileva la Relazione Petti - sono false le affermazioni di Drogoul e Von Wedel, secondo i quali l'attività "in grey" sarebbe iniziata dopo che la Direzione Generale, nei primi mesi del 1986, non aveva autorizzato l'aumento da 100 a 200 milioni di \$ del fido RAFIDAIN assistito da garanzia CCC. Tale richiesta è stata infatti avanzata dalla Filiale di Atlanta quando

erano già stati posti in essere in modo fraudolento due degli accordi di cui si è detto sopra: il primo, nel gennaio 1985, per \$ 200 milioni, successivamente sottoposto all'autorizzazione della Direzione Centrale, che lo ha approvato limitatamente ai 100 milioni di \$ assistiti da garanzie CCC; il secondo, il 10.12.85, per ben \$ 556 milioni, mai sottoposto a richiesta di autorizzazione degli Organi competenti.

E' inoltre da sottolineare che l'attività fraudolenta posta in essere per i crediti garantiti da CCC, in favore della Rafidain Bank, riguardano operazioni con scadenza da tre a sette anni, che il Drogoul finanziava con un "funding" a breve, in genere di durata non superiore a sei mesi. Stante il modestissimo scarto in più rispetto al LIBOR, pattuito negli accordi con la Rafidain, è evidente il rischio anche economico di BNL a causa del notevole "mismatching" di scadenza occultato; e ciò anche a prescindere dai noti fatti che, da ultimo, hanno reso l'IRAQ "non performing" ed hanno ridotto il "rating" attribuito a BNL per il suo ricorso ai mercati internazionali, rendendo più onerosa la provvista di BNL, a breve ed a medio termine, a tassi vicinissimi al LIBOR, se non anche superiori.

Infine, sempre a riguardo della data di avvio delle irregolarità, il caso Newman - per quanto se n'è appreso finora - potrebbe indurre a pensare ad un'attività irregolare e fraudolenta avviata nel 1983, epoca in cui Direttore della Filiale di Atlanta era ancora il Sig. Vincenzino. Al riguardo, com'è noto, sono in corso indagini da parte delle Autorità inquirenti; quelle svolte dalla Banca, sono state portate a conoscenza di codesta Commissione.

L'indagine svolta dalla Banca certamente non è, né poteva essere, esaustiva con riferimento sia all'epoca in cui ad Atlanta hanno avuto inizio le attività fraudolente, sia alle connessioni di tali attività con soggetti estranei alla BNL.

E' stato ad esempio osservato che la la Relazione Petti non dà conto né del caso Newman, né di quello BCCI. Dagli accertamenti condotti successivamente - in base a richiesta delle Autorità inquirenti - e portati a conoscenza anche di codesta Commissione, è emerso che in entrambi i casi si trattava di posizioni estinte prima del 4.8.89, che non davano luogo, quindi, ad impegni futuri vincolanti per la Banca. In particolare:

- il rapporto con il Newman non era annotato nei "grey books" di Atlanta, né figurava più, perché estinto, nella contabilità ufficiale della Banca. Com'è stato rilevato dai successivi accertamenti, si trattava infatti di "time

deposits" (depositi vincolati a tempo) che la Filiale di Atlanta ha costituito autonomamente presso la Filiale di Londra della BNL, a nome "Oscar Newman", nel periodo 1983-1989. Come avveniva per altri depositi della specie trovati in essere al 7.8.89, la Filiale di Atlanta, in contropartita al contante (D: cassa) od agli assegni (D: corrispondenti) che dichiarava di aver incassato dal Newman, dava disposizione scritta alla consorella di Londra di accendere un deposito vincolato intestato ad un certo nome (il Newman, nella fattispecie) e contestualmente chiedeva a Londra di depositare un pari importo e per la stessa durata in conto filiali. Con tale operazione, nei conti di Atlanta risultava, a fronte di una disponibilità in cassa o presso corrispondenti, una passività nei confronti della consorella di Londra (avere in conto filiali); nei conti di Londra figurava invece un'attività nei confronti di Atlanta (dare in conto filiali) ed un'eguale passività nei confronti del nominativo segnalato da Atlanta; nei conti della Banca, che consolidano quelli in essere presso le singole filiali, era quindi iscritta da un lato la passività nei confronti di un cliente che aveva un rapporto di conto presso la Filiale di Londra, e dall'altro lato l'attività (cassa o corrispondenti) di Atlanta, mentre i rapporti tra filiali si azzeravano;

- quanto ai rapporti con la BANK OF CREDIT & COMMERCE INTERNATIONAL - BCCI, dalla documentazione ritrovata presso la Filiale di Atlanta è emerso che si è trattato soltanto di operazioni di "funding" in overnight che la Filiale ha ottenuto esclusivamente per il tramite di brokers.

A quanto risulta dalla suddetta documentazione, quindi, la Filiale non ha direttamente chiesto alla BCCI di fornirle il funding. Per contro, alla scadenza pattuita con il broker, la Filiale di Atlanta ha provveduto a restituire alla BCCI, ovviamente tramite il conto Morgan, ciascun deposito scaduto ed i relativi interessi.

Peraltro, anche se i suddetti accertamenti fossero stati fatti prima, la Relazione Petti non avrebbe potuto essere esaustiva. Essa avrebbe aggiunto qualche ulteriore specificazione al testo attuale, ma le indagini avrebbero comunque dovuto fermarsi a quanto poteva essere ricostruito solo attraverso i documenti ritrovati all'interno della Banca. Esattamente come è accaduto per tutte le posizioni emerse nel corso dell'ispezione ad Atlanta. D'altra parte, le indagini della Banca non possono che essere finalizzate all'accertamento delle responsabilità dei suoi dipendenti ed all'esatta individuazione degli impegni e degli obblighi che

le derivano, in modo vincolante, dall'attività fraudolenta dei propri dipendenti e degli eventuali complici che emergessero dall'esame della documentazione in possesso della Banca. La Banca cioè non dispone di elementi di prova diversi dalla documentazione in suo possesso e per questo costantemente pone la documentazione ritrovata a disposizione delle Autorità competenti (e della Vigilanza), per gli ulteriori accertamenti, collaborando al seguito delle indagini.

Ed è proprio questo che, a quanto mi risulta, il vertice della Banca ha sempre disposto che fosse fatto, anche in questa circostanza.

E' inoltre da considerare che, una volta acclarati gli impegni in essere ed il conseguente impatto attuale e futuro sul bilancio della Banca, l'ulteriore esame circostanziato di tutti i movimenti di tutti i conti, "ufficiali" ed occulti, accesi ed estinti presso la Filiale di Atlanta, dalla sua costituzione (1982) al 4.8.89, avrebbe richiesto una mole enorme di lavoro che avrebbe bloccato la Banca per un periodo di tempo assolutamente non determinabile; i risultati conseguibili non potevano essere, ai fini propri della Banca, molto diversi da quelli già raggiunti. Certamente, infatti, la Banca avrebbe potuto disporre di un più ampio elenco di terzi beneficiari o fornitori di fondi, con quelle indicazioni che gli stessi avevano fornito alla Banca, se lo dovevano fare, circa la destinazione del credito ottenuto o la provenienza dei depositi raccolti dalla Filiale. Comunque, la Banca non sarebbe stata però in grado di indagare in modo esaustivo a quale titolo e da chi quel danaro - movimentato nel tempo attraverso la Filiale di Atlanta, più o meno regolarmente - era stato effettivamente utilizzato, ovvero effettivamente versato. La Banca è quindi nell'impossibilità materiale di disporre di tutti gli elementi di conoscenza della verità, e non può che mettere a disposizione delle Autorità inquirenti - abilitate a proseguire in ogni luogo gli accertamenti - tutta la documentazione in suo possesso, anche al fine di tutelarsi legalmente nei confronti dei veri responsabili dei fatti illeciti.

* * *

7) "Al 4 agosto 1989 la Filiale constava di 19 persone, tutte di ruolo locale. Il Direttore, Mr. C. Drogoul, era stato assunto da BNL nel dicembre 1981 presso l'allora Ufficio di Rappresentanza, dopo una precedente esperienza presso alcune sedi europee ed americane della Barclays Bank. Il



funzionario addetto alle lettere di credito Mr. P. Von Wedel era stato assunto nel febbraio 1982, dopo una pluriennale esperienza presso banche americane, tra cui la Chemical Bank.

"La maggior parte del personale addetto alla Filiale era stata assunta su proposta del Direttore Mr. Drogoul. La Direzione dell'Area Nordamericana, nei periodi in cui si sono svolti i noti fatti, è stata retta dai Signori: Renato Guadagnini, fino al 18 luglio 1987, e Luigi Sardelli fino al luglio 1989."

* * *

7) In aggiunta alle notizie già in possesso di codesta Commissione si ritiene opportuno riepilogare nell'allegato n. 2 lo status dei suddetti 19 dipendenti che al 4.8.89 erano in servizio presso la Filiale di Atlanta.

La circostanza che tutti i dipendenti della Filiale fossero di "ruolo locale" (estero) è stata indicata - anche nelle Relazioni presentate nell'agosto e settembre 1989 agli Organi deliberanti della Banca, già a mani di codesta Commissione - tra i fattori che hanno concorso a rendere possibile la cospirazione attuata dal vecchio management della Filiale di Atlanta per frodare la Banca. E' peraltro da rilevare che, nel tempo, vi sono stati altri esempi (come Los Angeles e per un lungo periodo Chicago) in cui sia il direttore della Filiale che il responsabile dell'amministrazione erano entrambi di "ruolo locale", come tutti, o quasi, gli altri dipendenti.

Dal settembre 1989, anche in ossequio alle disposizioni introdotte dalla Vigilanza, BNL sta facendo in modo che presso ciascuna Filiale all'estero (e possibilmente anche presso le filiazioni) almeno entrambi i suddetti incarichi di direzione siano affidati a dipendenti di "ruolo Italia", o che, comunque, abbiano maturato una buona esperienza presso le unità operanti in Italia.

Quanto alla Direzione dell'Area Nordamericana si ricorda che essa fu affidata dall'origine (1981) al Dr. Guadagnini, la cui posizione, insieme a quella del Sig. Sardelli, è oggetto di circostanziata analisi nella Relazione Petti, ovviamente in base alla documentazione avuta a disposizione soprattutto presso la Filiale di Atlanta.

In relazione agli eventi occorsi dopo il 18.7.87, è opportuno precisare che nella seconda metà del 1987, l'allora Direttore Generale, Dr. Pedde, aveva personalmente corretto la proposta di ristrutturazione dell'Area Nord America, che poi venne deliberata - nella versione già nota a codesta Commissione - dal Consiglio di Amministrazione del gennaio 1988. La delibera consiliare venne regolarmente inviata al

Dr. Sardelli, il quale però non dette applicazione alla nuova struttura dell'Area: durante la missione negli Stati Uniti dell'ottobre 1988 si era cercato da un lato di capire le motivazioni di questa trasgressione e, dall'altro lato, di convincere il Sardelli dell'assoluta necessità di dare immediata applicazione alla delibera consiliare in questione.

E' altresì da ricordare che il Dr. Sardelli lasciò di fatto la direzione dell'Area il 17 aprile 1989, quando si mise in ferie dopo aver ricevuto la lettera del marzo 1989, con la quale gli venne notificata la disposizione del suo rientro in Italia, con decorrenza dal 30.6.89, al termine cioè delle ferie, di cui avrebbe dovuto cominciare a fruire dal 15.4.89 (un venerdì). La data finale del luglio 1989, di cui è cenno nella precedente relazione è quindi quella della cessazione dal servizio del Sardelli.

Da tutto quanto precede emerge che il Dr. Sardelli non ebbe il tempo di fare le consegne al Dr. Lombardi, che gli subentrò a partire dal 26.4.89 quale "facente funzioni" del Direttore dell'Area Nord America, con nomina a Direttore della stessa Area a partire dal 26.10.89. (In un documento inviato a codesta Commissione è stato erroneamente indicato che il Dr. Lombardi aveva cominciato nel marzo 1989 la presenza a New York come facente funzioni del Direttore dell'Area. In realtà, nel marzo 1989 il Dr. Lombardi ha soltanto svolto una breve missione a New York per problemi inerenti il budget delle filiali statunitensi).

Il Drogoul sembra aver approfittato in modo fraudolento delle suddette circostanze. Non va infatti dimenticato che, tra l'altro: le erogazioni a valere sui noti quattro Agreements con la **Central Bank of IRAQ (CBI)** ebbero inizio - come si preciserà in seguito - nel tardo autunno del 1988, alla conclusione della prima ispezione Messere (svoltasi dal 6.9 al 7.10.88), ed ebbero poi un vorticoso sviluppo a partire dall'inizio 1989; i rilievi mossi al Drogoul anche prima dell'emissione del rapporto ispettivo Messere (avvenuta in data 22.12.88) non ebbero la dovuta risposta nei tempi tecnici assegnati (gennaio 1989). Tale risposta, infatti, fu data dal Drogoul con lettera del 20.7.89, cioè dopo la fine del "follow up" dell'ispezione Messere, che si svolse dal 19.6.89 alla prima metà del luglio '89; e tale risposta era tutta tesa a tranquillizzare l'auditor "sull'avvenuta rimozione delle cause che hanno "originato i rilievi" (come fu precisato nella Relazione al Consiglio di Amministrazione del 30.8.89, già a mani di codesta Commissione).

Quanto infine al follow up dell'ispezione Messere è da ricordare che esso fu concordato dal Dr. Lombardi con la Direzione Centrale poco prima della metà di giugno 1989, cioè dopo 40/45 gg. dall'arrivo negli USA dello stesso Dr. Lombardi, come "facente funzioni" del Direttore dell'Area.

o o

""CONTROLLI ESISTENTI FINO AL 4 AGOSTO 1989

Per quanto riguarda questo paragrafo della memoria consegnata il 5.6.90 - che di seguito viene riprodotto - si ritiene di raggruppare in fondo tutti i necessari interventi integrativi e di aggiornamento, onde evitare un'eccessiva frantumazione della sintesi che segue.

8) *""All'epoca dei fatti, gli interventi di controllo sulle Filiali BNL negli Stati Uniti - compresa quindi Atlanta - erano così articolati:*

""- Fino all'inizio del 1987 erano previste ispezioni saltuarie presso ciascuna dipendenza da parte dell'Internal Auditor facente capo al Regional Management di New York.

""- Successivamente vennero prescritte verifiche giornaliere e periodiche presso ciascuna dipendenza, a cura di funzionari all'uopo preposti, i quali dovevano almeno trimestralmente rendere conto all'Internal Auditing Department, al Regional Manager e quindi all'Ispettorato Centrale.

""- L'Internal Auditing Department, con sede a New York, doveva effettuare almeno una volta l'anno una visita ispettiva presso ciascuna delle Filiali per l'accertamento della regolarità operativa. Le conseguenti relazioni dovevano essere trasmesse al Direttore dell'Area Nord America e da questi venivano inviate al Direttore della Filiale ispezionata ed all'Ispettorato Centrale.

""Al riguardo si rileva che nel settembre 1981 venne istituita l'Area Nord americana con funzioni di coordinamento della rete operante negli Stati Uniti e con l'attribuzione di limiti di autonomia creditizia a favore di clienti. Fino al 1987 l'Area riferiva al Servizio Attività Internazionali (SAI) della Direzione Generale, che era responsabile del coordinamento generale di tutta la rete estera, e delle politiche inerenti il rischio Paese, il rischio creditizio dei rapporti con corrispondenti e la posizione in cambi.

"A gennaio 1988, il Consiglio di Amministrazione deliberò la ristrutturazione della Direzione Centrale, scegliendo un modulo matriciale basato sull'incrocio tra competenze territoriali locali (Aree) e competenze funzionali (Direzione Centrale). Si giunse così alla soppressione del predetto SAI, la cui attività venne distribuita tra le varie Funzioni centrali competenti.

"Ai controlli sistematici interni, di cui si è detto, si aggiungevano ispezioni effettuate almeno una volta l'anno da Organismi esterni alla Banca:

"- le suddette Autorità di vigilanza locali, territorialmente competenti, i cui rapporti ispettivi venivano inviati alle Filiali ispezionate e da queste ritrasmesse alla Direzione Centrale;

"- una società di revisione e di certificazione, di rango internazionale, incaricata dalla Direzione Centrale di effettuare anche ispezioni a sorpresa e, da ultimo, di rilasciare la documentazione necessaria per l'emissione della certificazione del bilancio della Banca a livello mondo.

"In aggiunta, l'Ispettorato Centrale poteva effettuare ispezioni a sorpresa, su richiesta del Direttore Generale.

"Per quanto riguarda la Filiale di Atlanta elenchiamo di seguito le date in cui sono state effettuate visite ispettive, a partire dalla sua costituzione:

30/09/1983	Georgia State Banking Department (*)
13/10/1983	Internal Auditing New York
31/12/1983	Auditors esterni (KPMG Peat Marwick)
29/06/1984	Georgia State Banking Department (*)
28/12/1984	Internal Auditing New York
31/12/1984	Auditors esterni (KPMG Peat Marwick)
31/08/1985	Georgia State Banking Department (*)
31/12/1985	Auditors esterni (KPMG Peat Marwick)
06/06/1986	Internal Auditing New York
30/11/1986	Georgia State Banking Department (*)
31/12/1986	Auditors esterni (KPMG Peat Marwick)
31/06/1987	Georgia State Banking Department (*)
31/12/1987	Auditors esterni (KPMG Peat Marwick)
31/03/1988	Georgia State Banking Department (*)
02/09/1988	Internal Auditing New York
31/12/1988	Auditors esterni (KPMG Peat Marwick)
31/01/1989	Georgia State Banking Department (*)
16/06/1989	Internal Auditing New York

() N.B. - La Federal Reserve Bank è sempre intervenuta congiuntamente allo State Banking Department.*

""Per quanto da ognuna di queste visite ispettive potessero emergere disfunzioni amministrative e di gestione, nulla lasciava prevedere la dimensione e il peso delle irregolarità emerse successivamente al 4 agosto 1989.

""Al riguardo è da precisare che fino a quella data:

""- Nessuna eccezione di rilievo è stata mai segnalata dalla società internazionale di revisione e certificazione cui era affidato il controllo della Filiale di Atlanta, la KPMG Peat Marwick. Anche in relazione al bilancio 1988 di quella Filiale tale società ha rilasciato una "clean opinion" rispondendo al questionario proposto dalla società Price Waterhouse che ha certificato senza eccezioni il bilancio di quell'anno della nostra Banca a livello mondo.

""- Anche dalla relazione dell'ispezione del 31 gennaio 1989 del Georgia State Banking Department non sono emerse disfunzioni di rilievo. In essa si legge tra l'altro che: "tutto sommato sembra che l'Agenzia abbia un sistema adeguato di controlli interni e di direttive. I controlli sembrano adeguati, l'adeguamento alle direttive è considerato soddisfacente e nessuna violazione di legge o regolamento è stata scoperta attraverso le procedure ispettive. La direzione recepisce le raccomandazioni delle autorità di vigilanza"(1).

""- Neppure dalla relazione dell'Internal Auditor sull'ispezione al 2.9.1988 - che pure poneva in evidenza varie disfunzioni amministrative - si poteva desumere l'esistenza di fatti come quelli emersi dopo il 4 agosto 1989.

""D'altra parte, è da sottolineare che l'attività fraudolenta abusivamente sviluppata dal titolare della Filiale di Atlanta - come ha ricordato anche il Ministro del Tesoro - è stata realizzata "con svariati accorgimenti, sottrazioni e falsi diretti a dissimulare connotati e finalità delle operazioni". E ciò ha potuto accadere soprattutto a causa di una stretta collaborazione tra i Funzionari e alcuni impiegati della Filiale - tutti di ruolo estero - la cui omertà ha vanificato ogni forma di controllo. E' da aggiungere che i dipendenti infedeli si avvalevano di una procedura di "word processor" che veniva utilizzata su molti "personal computer", di cui la Filiale si era dotata, ufficialmente per ben altri scopi.

""I suddetti comportamenti hanno altresì vanificato i controlli a distanza che le funzioni centrali competenti effettuavano sui documenti inviati alla Direzione Centrale ed alle Autorità di Vigilanza.""

(1) *"Overall, the Agency appears to have an adequate system of "internal controls and policies. Audits appear adequate, "compliance with policies is considered satisfactory, and no "violations of law or regulation were disclosed through "examination procedures. Management is responsive to "recommendations of supervisory authorities."*

* * *

8) Per integrare ed aggiornare la riprodotta sintesi relativa ai controlli esistenti fino al 4 agosto 1989, si precisa quanto segue.

A) Le suddette "date in cui sono state effettuate visite ispettive" indicano le "date contabili" cui ciascuna ispezione ha fatto riferimento. Ciò spiega le eventuali differenze con le indicazioni di altri documenti a mani della Commissione circa il periodo in cui le suddette ispezioni sono avvenute e le date di rilascio dei rispettivi rapporti.

In seguito, con riferimento al punto n. 10, saranno elencate le ispezioni eseguite dai vari enti presso la Filiale di Atlanta dopo il 4.8.89.

B) Per quanto riguarda i controlli degli "auditors esterni" è da precisare che la Banca ha avviato negli Stati Uniti le procedure necessarie per introdurre un'azione di risarcimento danni contro la società indipendente di certificazione KPMG PEAT MARWICK. Peraltro, secondo il Collegio di difesa della BNL, sembra improbabile, allo stato, l'ottenimento di una condanna della Società, anche in considerazione del fatto che nell'"indictment" ripetutamente si afferma che gli imputati hanno adottato una serie di accorgimenti per nascondere agli auditors l'effettiva situazione della Filiale. D'altra parte, gli interventi degli auditors esterni si sono limitati agli accertamenti sulla situazione contabile di fine anno: questi avvenivano quindi in epoca ben definita, il che poteva dare tempo ai dipendenti infedeli per mettere tempestivamente in atto tutte le misure necessarie per impedire la scoperta degli illeciti.

In particolare, i legali americani affermano che la Peat Marwick farebbe luogo a sicure eccezioni, che indeboliscono la posizione della Banca, quali, tra l'altro: le analoghe conclusioni raggiunte nelle verifiche effettuate sia dagli auditors interni della Banca, sia dalla Federal Reserve Bank, sia dal Georgia Department of Banking and Finance; l'illecito occultamento di dati e documenti operato dallo staff dirigente della Filiale di Atlanta.

I legali italiani, pur ritenendo prevalente e decisivo il parere degli avvocati americani, pervengono alle



stesse conclusioni, evidenziando, tra l'altro: che il Magistrato americano ha espresso l'avviso che il Drogoul avrebbe frodato anche i controllori; e che la Peat Marwick si è impegnata al compito senza assumere responsabilità per i falsi documentali.

Tutti i legali, ai fini di una valutazione completa e definitiva, ritengono tuttavia utile acquisire l'opinione di specialisti statunitensi dell'auditing (la competenza è dei giudici della Georgia). La Banca ha dato mandato per l'ottenimento di tale opinione ed ha posto in essere tutte le formalità necessarie per ottenere l'interruzione dei termini di prescrizione di un'azione risarcitoria a carico della Peat Marwick.

C) In relazione all'"internal auditing" è da rilevare che fino al 1988 le visite ad Atlanta si erano andate diradando durante la direzione di Drogoul: la prima si ebbe a dicembre 1984 (otto mesi dopo l'insediamento come "acting manager"), la seconda diciotto mesi dopo (giugno 1986) e la terza 27 mesi dopo (settembre 1988).

Le prime due furono effettuate dal Sig. Cannito, dipendente della Filiale di New York, di ruolo locale, il quale, com'è noto a codesta Commissione, dopo la scoperta dei fatti di Atlanta, venne dapprima relegato in compiti d'ordine e quindi licenziato il 6.9.1990. Dai rapporti ispettivi del Sig. Cannito non risultava, tra l'altro, che la Filiale di Atlanta aveva aperto senza autorizzazione un conto con la Morgan, disciplinato da una convenzione che risale al 18.1.84: prima, cioè, come osserva la Relazione Petti (p. 83), che il Drogoul assumesse la direzione della Filiale e che il Sig. Sardelli disponesse autonomamente, in data 13.4.88, che anche la Filiale di Atlanta poteva direttamente approvvigionarsi di fondi sul mercato, e quindi ricorrere a conti di clearing con altre banche.

Quest'ultima disposizione rendeva apparentemente regolare la presenza del conto Morgan, per i successivi accertatori.

D) In merito alla prima ispezione presso la Filiale di Atlanta da parte del Sig. Messere, svolta dal 6.9.88 al 7.10.88 (il 2.9.88 è la data del riferimento contabile presa a base dell'ispezione), il Dr. D'Addosio conferma che, anche a suo avviso, dal relativo rapporto, emesso il 22.12.88, pur potendosi rilevare varie "disfunzioni amministrative e di gestione, nulla lasciava prevedere la dimensione e il peso

"delle irregolarità emerse successivamente al 4 agosto 1989" (come venne affermato nella memoria del 5.6.90). Il Messere, infatti, non ha rilevato nulla dell'attività fraudolenta - che gli venne probabilmente occultata con i noti accorgimenti, tanto più che la visita era stata preannunciata - ed ha formulato i suoi rilievi soltanto sull'attività "ufficiale", ancorché spesso irregolare, della Filiale.

Il Dr. D'Addosio ricorda che la relazione presentata dall'allora Direttore Generale al Consiglio di Amministrazione del 30.8.89, in seduta riservata, sottolineava, tra l'altro, che:

- delle due "ispezioni più recenti disposte dall'auditor interno della Banca" è "soprattutto alla prima (quella del "settembre 1988, n.d.r.) che occorre riferirsi per "individuare le lacune nei controlli. Infatti la revisione "condotta nel settembre 1988, analitica e corposa, pur non "avendo evidenziato le operazioni Iraq fuori bilancio, ha "messo in luce una serie di carenze, nella gestione sia dei "rischi che contabile della Filiale, gravi e inequivoche, "tali comunque da ingenerare in chi l'avesse analizzata a "fondo ampi sospetti sulla regolarità della gestione "stessa.
"La relazione è stata comunicata tempestivamente "dall'auditor al Direttore Regionale dell'Area "Nordamericana";
- "le operazioni (fraudolente, n.d.r.) sono state "contabilizzate con sistemi artificiosi in violazione delle "norme sulla contabilità della Banca".

Il Dr. D'Addosio - che non ha partecipato all'estensione della citata relazione del 30.8.89, in quanto rimasto ad Atlanta fino a pochi giorni prima (dal 6 al 26.8.89) - non è in grado di precisare la natura e il tipo dei "sospetti sulla regolarità della gestione" della Filiale di Atlanta che secondo l'estensore (o gli estensori) della relazione avrebbero dovuto insorgere, né in quale delle funzioni centrali tali sospetti avrebbero dovuto insorgere.

Ancora oggi il Dr. D'Addosio ritiene peraltro - cercando di non lasciarsi influenzare dal cosiddetto "senno di poi" - che il primo rapporto ispettivo del Sig. Messere (quello cioè relativo alla visita del settembre 1988) non lasciava trasparire nulla di quanto è emerso dopo il 4.8.89, ancorché denunciasse "gravi ed inequivoche" carenze nella "gestione della Filiale", che risultava evidentemente non rispondente alla normativa interna. Di qui la necessità che i vari Servizi Centrali competenti, anche in base alle risposte

fornite dalla direzione della Filiale, avessero avviato tutto quanto necessario per rimuovere le irregolarità e prendere i provvedimenti conseguenti, anche d'ordine disciplinare, nei confronti dei responsabili. Resta comunque da chiarire "quando" tutto ciò avrebbe dovuto avvenire e da parte di "quale" delle funzioni competenti.

1) Circa il "quando", il Dr. D'Addosio ritiene di dover ricordare la cronologia dei fatti, peraltro già specificata in allegato alla relazione presentata al Consiglio di Amministrazione della Banca del 27.9.89; relazione e allegati già a mani di codesta Commissione. Il Sig. Messere, nel rispetto della normativa interna allora in vigore, durante l'ispezione, che durò dal 6.9 al 7.10.88, aveva provveduto ad informare la Direzione dell'Area Nordamericana delle principali irregolarità, via via che emergevano, mediante appositi memorandum, del 23.9 e del 27.9.88. La Direzione Centrale, invece, risulterebbe informata del contenuto dell'ispezione soltanto a seguito dell'invio del rapporto conclusivo che, com'è noto, fu rilasciato dal Messere in data 22.12.88 e risulta pervenuto all'Ispettorato Centrale una prima volta il 29.12.88 ed una seconda volta il 28.2.89 (1).

Il direttore della Filiale di Atlanta fu invitato in data 3.10.88 dal Regional Manager, Dr. Sardelli, a presentarsi a New York il 7.10.88 con spiegazioni scritte in merito ai due ricordati memorandum del Sig. Messere. La risposta scritta fu consegnata il 7.10.88, con lettera datata 6.10.88 che il Sig. Drogoul indirizzò al solo Regional Manager. Sul fatto e sulla mancanza di immediati provvedimenti da parte del Regional Manager cfr. la citata relazione al Consiglio di Amministrazione del 27.9.89.

Inviando al Drogoul il rapporto ispettivo del Sig. Messere, del 22.12.88, fu richiesta una formale risposta entro e non oltre il 31.1.89. Risposta che invece si fece attendere fino al 20.7.89, con lettera della Filiale di Atlanta al Regional Manager; risposta che in data 26.7.89 venne ripetuta all'Ispettorato Centrale, cui pervenne il 3.8.89: alla vigilia, cioè, della scoperta della frode.

(1) Non ci si dilunga in questa sede sui ritardi con cui il suddetto rapporto venne diffuso all'interno della Direzione Centrale, non avendo nulla da aggiungere a quanto rilevato nella relazione presentata al Consiglio di Amministrazione del 27.9.89, già nota a codesta Commissione, e nella Relazione Petti, pure a mani di codesta Commissione.

In pari data (26.7.89) venne anche inviato all'Ispettorato Centrale il rapporto del Sig. Messere sul "follow up", che lo stesso eseguì ad Atlanta dal 19.6 alla prima metà del luglio 1989, con riferimento alla data contabile del 16.6.89.

Da tutto quanto precede si può dedurre che i Servizi Centrali destinatari dei rapporti conclusivi degli "internal auditors" non abbiano avuto il tempo materiale di esaminare le risposte del Direttore di Atlanta ai rilievi dell'auditor prima di decidere se e quali provvedimenti adottare. L'esigenza di conoscere le controdeduzioni della Direzione della Filiale cui sono rivolti i rilievi ispettivi deriva dal fatto che è opportuno analizzare preventivamente le possibili giustificazioni del Direttore, ma soprattutto dalla necessità di accertare se, nell'intervallo tra la data contabile di riferimento dell'ispezione (il 2.9.88, nella fattispecie) e la data di rilascio del rapporto (il 22.12.88), alcune irregolarità siano state rimosse e quindi non essere più oggetto di specifico intervento da parte dei Servizi Centrali.

2) Circa le **funzioni centrali** nelle quali, secondo la relazione del 27.9.89, avrebbero dovuto "insorgere ...ampi sospetti sulla regolarità della gestione", il Dr. D'Addosio ritiene che esse vanno cercate, in aggiunta alla Direzione dell'Area Nordamericana, tra quelle che, secondo il Regolamento della Direzione all'epoca vigente, erano direttamente responsabili del controllo delle varie attività della Filiale che hanno dato luogo a rilievi ispettivi (quali: Area Finanza, Servizio Crediti, Organizzazione, Reti Estero e Ragioneria Generale).

Il Dr. D'Addosio, peraltro, tiene a precisare che, a suo avviso, impropriamente nella citata relazione si parla di "ampi sospetti sulla regolarità della gestione". Il rapporto Messere tratta infatti solo di comportamenti non coerenti con la vigente normativa interna e di colpevoli inadempienze. L'irregolarità della gestione, quindi, esiste ed è rilevata; semmai si tratta di stabilire chi doveva e come porvi rimedio; e chi avrebbe forse potuto, attraverso più approfondite indagini, evitare la frode o per lo meno contenerne gli effetti.

Si ricorda al riguardo che, come precisato in allegato alla relazione al Consiglio di Amministrazione del 27.9.89 - relazione che delinea anche le competenze della Direzione di Area e dei Servizi Centrali dell'epoca - le irregolarità contestate al Drogoul dal Sig. Messere, nel suo

rapporto del 22.12.88, riguardano prevalentemente la "gestione dei rischi". In particolare, infatti, con riferimento solo alla situazione contabile "ufficiale" della Filiale di Atlanta, i rilievi si riferiscono a:

- eccedenze di utilizzi rispetto al fido accordato, anche in presenza di fidi scaduti ai fini interni e non rinnovati (né proposti per il rinnovo), ovvero, addirittura, in assenza di proposta per nuova concessione;
- mancata o irregolare formalizzazione delle garanzie che avrebbero dovuto assistere le concessioni di fido prima del loro utilizzo, secondo quanto comunicato alla, o richiesto dalla, Direzione Centrale, in sede di proposta di autorizzazione;
- insufficienza o totale inesistenza delle garanzie suddette;
- mancati controlli sui fidi interbancari;
- mancate formalizzazioni dei fidi accordati nei limiti di autonomia della Filiale;
- disordine nella tenuta dei fascicoli della clientela e nella gestione delle lettere di credito.

Quanto poi alle "carenze ...nella gestione contabile della Filiale", il Dr. D'Addosio rileva che il rapporto Messere ha di fatto constatato:

- a) la non tempestiva registrazione di un certo numero di lettere di credito confermate;
- b) la mancata registrazione delle lettere di credito non confermate e di alcuni documenti all'incasso;
- c) l'esigenza di centralizzare le funzioni contabili, che risultavano distribuite tra più persone;
- d) la necessità di ristrutturare l'area esecutiva, anche con una razionalizzazione delle strutture fisiche e la preparazione di manuali operativi.

Gli aspetti strutturali attengono quindi a problemi "organizzativi", più che a modalità di rilevazione contabile; il che, ancora una volta, manifesta carenze organizzative e di controllo.

La non tempestiva registrazione di L/C confermate è una grave inadempienza, di cui peraltro era possibile rendersi conto soltanto in sede di controllo locale: il ritardo, ove fosse esistito a cavallo d'anno, avrebbe ovviamente comportato una esposizione incompleta in bilancio degli impegni vincolanti effettivamente in essere; ma tale

vada letta, in realtà, "contabilità in parallelo". Infatti, dal materiale all'epoca prelevato dal Sig. De Angelis è emerso che nei programmi gestiti dal word processor utilizzato sui numerosi P/C in uso presso la Filiale (i cosiddetti CPT) vi erano informazioni uguali a quelle risultanti dalle contabilizzazioni rilevabili ufficialmente dalle procedure MANTEC o dal vecchio sistema BNL. Ciò fa presumere che anche nel momento del sopralluogo gli archivi erano stati depurati delle annotazioni sui grey books, che peraltro erano gestite sugli stessi CPT quando in Filiale non erano presenti estranei.

In conclusione, l'ispezione Messere ha esaminato soltanto posizioni inserite nella contabilità ufficiale della Filiale e con riferimento solo a queste ha mosso i suoi rilievi di ordine soprattutto organizzativo e di gestione.

E) Quanto al "follow up" eseguito dallo stesso Sig. Messere, dal 19.6 a metà luglio 1989, con riferimento alla data contabile del 16.6.89, è stato prima ricordato: che la particolare situazione determinatasi nella primavera del 1989 nella Direzione dell'Area Nord America poteva aver favorito il Drogoul a tardare nel rispondere ai rilievi mossi dal Messere con il suo rapporto del 22.12.88; che il nuovo Direttore dell'Area, il Dr. Lombardi (facente funzioni dal 26.4.89), nella prima metà del giugno 1989 aveva concordato con l'Ispettorato Centrale (Sig. Bonamici) l'avvio del suddetto "follow up"; che il rapporto sulla visita venne inviato il 26.7.89 alla direzione di Atlanta e, per conoscenza, al Regional Manager ed al Direttore della Filiale di New York; e che lo stesso 26.7.89 copia del rapporto venne inviato all'Ispettorato Centrale.

F) A questa cronistoria dei fatti, il Dr. D'Addosio aggiunge che già nella riunione del Consiglio di Amministrazione del 7 settembre 1989 - il cui verbale è agli atti di codesta Commissione - rispondendo ad una domanda del Consigliere Avv. Sciumè, egli affermava "che i saldi ""compensati"" iscritti nel "passivo ufficiale della Filiale" (il riferimento era ai saldi dei conti di comodo intestati a Central Bank of Iraq e Rafidain Bank n.d.r.), "risultano "inseriti nel bilancio della Banca relativo all'esercizio "1988. Purtroppo, rileva il Dr. D'Addosio, prima del giugno "1989 non risulta fosse stata effettuata la circolarizzazione "dei saldi, cioè l'invio degli estratti conto e la richiesta "della loro conferma. Infatti, tale richiesta è stata "effettuata dall'internal auditing della Banca solo nel corso "dell'ispezione effettuata nel giugno 1989, mentre ciò non "era avvenuto nel corso della visita del settembre 1988".

Dallo stesso verbale, sempre a pag. 34, risulta che il Dr. D'Addosio faceva inoltre presente che era in corso di accertamento la circostanza che "numerose risposte alle richieste di conferma dei saldi effettuate nel giugno 1989 siano state inviate da alcuni clienti alla Filiale di Atlanta, anziché alla Direzione dell'Area Nord-Americana, come prescritto."

All'epoca il Dr. D'Addosio, che solo ad Atlanta era venuto a conoscenza dei rapporti ispettivi del Sig. Messere, aveva infatti avuto modo di rilevare - con lo stesso Messere, oltre che con il Sig. Petti ed altri funzionari interni ed esterni alla Banca - che, a suo avviso, la prima ispezione Messere aveva avuto almeno tre tipi di carenze, tenuto conto di quanto era emerso dopo il "follow up" del giugno/luglio 1989 e dopo il 4.8.89:

- 1) la mancata circolarizzazione dei saldi, anche se ora è da aggiungere che questa procedura non era allora prescritta in sede di visita ispettiva, mentre è stata raccomandata a tutti gli internal auditors delle Filiali all'estero, con lettera del 14.2.90 dell'Ispettorato Centrale (lettera già a mani di codesta Commissione).

Rilevava all'epoca il Dr. D'Addosio, come già accennato, che se la circolarizzazione effettuata durante il follow up del giugno '89 fosse stata fatta anche nel settembre 1988 - sia pure sempre con riferimento soltanto a quanto poteva risultare dalla contabilità "ufficiale" - avrebbero potuto emergere allora le irregolarità acclerate dopo il follow up: conferme inviate dalla clientela alla Filiale di Atlanta, invece che, come richiesto, all'indirizzo di New York dell'Internal Auditor; conferme falsificate da dipendenti infedeli di Atlanta e da questi inviate a New York simulando l'invio diretto da parte del cliente; reazioni nervose e/o espliciti rifiuti da parte dei presunti clienti cui era stata diretta la richiesta di conferma; e così via. La scoperta di tali irregolarità e le conseguenti indagini forse avrebbero potuto portare ad acclarare in anticipo i fatti illeciti emersi dopo il 4.8.89 (falsi collaterali, utilizzi impropriamente attribuiti a clienti affidati ufficialmente, e così via). Non è peraltro certo che, se anche la circolarizzazione fosse stata fatta nel settembre 1988, sarebbero emerse le abnormi movimentazioni del c/ Morgan. Si sta infatti parlando della circolarizzazione dei saldi dei conti e non della ricostruzione di tutti i movimenti di un conto e delle relative contropartite: soltanto un esame così vasto

incompletezza non può che essere addebitata al dipendente che non ha rispettato la normativa interna.

Quanto alla mancata registrazione delle lettere di credito non confermate e di documenti all'incasso, in particolare, senza nulla togliere alla inadempienza rispetto ai principi anche locali, si nota che, in definitiva, si tratta di "conti di evidenza", in quanto le operazioni sottostanti costituiscono un mero servizio reso al pubblico, che non comporta impegni patrimoniali per la Banca. Ne deriva che l'annotazione, quando effettuata, ha carattere prevalentemente gestionale, più che contabile. Ancora una volta, l'inadempienza non poteva essere acclarata se non attraverso verifiche in loco.

3. Riguardo ai "sistemi artificiosi" con i quali sono state contabilizzate da Atlanta le operazioni fraudolente, "in violazione delle norme sulla contabilità della Banca", si ricorda che, a suo tempo, anche il Ministro del Tesoro aveva sottolineato che l'attività fraudolenta della Filiale BNL di Atlanta era stata realizzata "con svariati accorgimenti, sottrazioni e falsi diretti a dissimulare connotati e finalità delle operazioni".

La Relazione Petti (p. 84), sottolinea, nell'aprile 1991, che il rapporto del 22.12.88, conclusivo dell'ispezione del Sig. Messere, "evidenziava una serie di irregolarità in "materia creditizia e di intermediazione la cui reale portata "si è manifestata in tutta la sua pienezza solo dopo il "4.8.89 in quanto, all'epoca degli accertamenti, il "management di Atlanta aveva posto in essere accorgimenti di "occultamento e falsificazione proprio per impedire "all'Auditor di appurare la sostanza di tali irregolarità". E la stessa relazione certifica un ampio spettro di tali "accorgimenti", per molti dei quali sono anche stati avviati provvedimenti disciplinari a carico di dipendenti infedeli che li hanno messi a punto e utilizzati.

I suddetti "accorgimenti", come si preciserà in seguito, vengono esplicitamente richiamati anche nell'"indictment", dove ripetutamente si legge: "tutto allo "scopo di nascondere la vera natura delle varie transazioni "della BNL di Atlanta agli occhi degli auditors interni della "BNL, di quelli esterni alla Banca (Peat Marwick), degli "auditors dell'U.S. General Accounting Office e degli "Ispettori rappresentanti il Federal Reserve System ed il "Georgia Department of Banking and Finance".

Sulle tecniche di occultamento si dirà in seguito.

In merito alle suddette precisazioni, il Dr. D'Addosio ricorda infine che, com'è noto a codesta Commissione:

- l'arrivo del Sig. Messere ad Atlanta fu preannunciato per tempo. Secondo dichiarazione del Drogoul, tramite le rispettive segreterie, per definire la sistemazione logistica degli internal auditors. Secondo dichiarazioni della Barden, le visite ispettive sarebbero state in genere preannunciate dal Sig. Cannito al Sig. Von Wedel. In relazione, è evidente che la Filiale, anche per l'ispezione Messere, ebbe tutto il tempo di occultare l'attività annotata nei grey books;
- il Drogoul aveva personalmente dato alcune istruzioni scritte ai suoi collaboratori, al fine di occultare all'auditing (interno ed esterno che fosse) le operazioni irregolari. Di tali istruzioni riferiscono anche la relazione presentata al Consiglio di Amministrazione del 27.9.89, nonché, da ultimo, la Relazione Petti;
- la prima ispezione Messere ebbe luogo dopo che Drogoul e Von Wedel avevano sottoscritto il primo dei noti quattro Agreements con le Autorità irachene, controgarantiti dalla Central Bank of Iraq (CBI) (22.2.88). Peraltro, quando l'ispezione Messere ebbe termine (7.10.88), quel primo agreement (di 200 milioni di \$) era ancora tutto da utilizzare ed il secondo agreement era stato appena sottoscritto (6.10.88); non era cioè ancora cominciato il grosso dell'attività fraudolenta e quindi poteva essere relativamente facile occultare le prove dell'illecito;
- il F.B.I. ha restituito alla Filiale documenti che aveva sequestrato presso le abitazioni e/o i bagagliai delle automobili di alcuni dei dipendenti infedeli. La circostanza è ribadita nell'"indictment", dove spesso si parla di "archivi volanti", cioè di "documenti scritti tenuti fuori della banca, in scatole, bagagliai di macchine e abitazioni private, per evitare di essere scoperti". Non sarebbe quindi da escludere che all'epoca dell'ispezione Messere negli archivi della Filiale non vi fossero molte evidenze degli illeciti acclarati dopo il 4.8.89;
- dal rapido sopralluogo della Direzione Centrale all'EDP di Atlanta (v. Relazione del Sig. De Angelis, già a mani di codesta Commissione, come allegato al rapporto ispettivo del Sig. Costantini) sembrerebbe emergere l'esistenza di una "contabilità parallela". Credo che tale espressione

- che dopo il 4.8.89 è stato fatto dagli Ispettori BNL - avrebbe potuto far scoprire gli "accorgimenti" messi in atto dai dipendenti infedeli, così come indicati nella Relazione Petti (1);

- 2) la mancata verifica della sussistenza del cosiddetto "foglio di fondo" della macchina telex (cioè della bobina continua contenente in progressione temporale i messaggi in partenza e quelli in arrivo).

In base a quanto accertato dopo il 4.8.89, si può infatti ritenere che l'Ispettore Messere, se avesse dato la dovuta importanza alla mancata esistenza del foglio di fondo del telex, avrebbe potuto accertare per tempo - come hanno fatto dopo il 4.8.89 gli ispettori della Direzione Centrale - l'esistenza di telex falsificati, ma soprattutto il frequentissimo scambio di messaggi anche con la Rafidain per operazioni non comprese nella contabilità ufficiale;

- 3) il mancato controllo sistematico dell'apertura e della spedizione del corriere, per mezzo del quale sarebbe stato possibile individuare messaggi attinenti l'attività fraudolenta. E' vero che, con la complicità dei numerosi dipendenti infedeli, anche il "corriere" avrebbe potuto essere occultato; ma è pur vero che tale occultamento sarebbe stato piuttosto problematico se il controllo fosse stato sistematico, per tutta la durata della prima ispezione (dal 6.9 al 7.10.88, come si è detto).

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""EVENTI EMERSI NELL'AGOSTO 1989 E
CONSEQUENTE ESPOSIZIONE BNL

9) *"E' da premettere che appena informati dalla Banca d'Italia, la sera del 4 agosto 1989, il Presidente ed il Direttore Generale in carica disposero l'invio ad Atlanta del Vice Direttore Generale responsabile dell'Area Amministrazione e di alcuni Ispettori della Direzione Centrale con l'incarico,*

- (1) Più in particolare, la circolarizzazione dei saldi, com'è noto, costringe alla ricostruzione solo di quei movimenti che risultano effettuati tra le due date di rilevazione contabile (quella della Banca e quella del cliente), che di solito sono diverse; si tratta quindi soltanto dei movimenti relativi a partite ancora viaggianti, ovvero ad eventuali sospesi.

oltre che di assumere la gestione della Filiale, di prestare la massima collaborazione alle Autorità che già stavano indagando localmente sull'accaduto: Federal Bureau of Investigation, Magistratura penale, Federal Reserve Banks, State Banking Departments, Ministeri della Difesa e dell'Agricoltura statunitensi, ai quali subito si aggiunse la Banca d'Italia."

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9) Al riguardo sembrano dovute alcune precisazioni.

Quanto all'immediato invio ad Atlanta del Vice Direttore Generale responsabile dell'Area Amministrazione è innanzi tutto da ricordare che quel venerdì sera, il 4 agosto 1989, il Dr. D'Addosio era l'unico dei tre Vice Direttori Generali - nominato tale dal 1°.7.89 - presente in sede. Per il successivo lunedì 7 agosto, era previsto il rientro dalle ferie del Dr. Gallo, il Vice Direttore Generale più anziano di nomina (e perciò "Vicario", in caso di assenza o impedimento del Direttore Generale). Il Dr. Croff - nominato Vice Direttore Generale dal 15.6.89 - era da poco partito per le ferie, che stava trascorrendo negli Stati Uniti.

Nella notte dal 4 al 5 agosto il Dr. D'Addosio venne convocato in Banca, dal Dr. Pedde e dal Dr. Nesi, e gli fu prospettata la necessità di partire al più presto per gli Stati Uniti per rendersi conto dell'accaduto. Si parlava di gravi irregolarità nella nostra Filiale di Atlanta, la cui natura non era ancora chiara, e si sapeva soltanto che il F.B.I. era entrato nella Filiale di Atlanta e stava interrogando i dipendenti, mentre uomini della FED avevano avviato quello stesso venerdì ispezioni in Atlanta e nelle altre quattro nostre Filiali nord-americane. Era quindi indispensabile conoscere al più presto la natura e l'entità delle irregolarità, cercare di porvi rimedio, assicurare con immediatezza la massima collaborazione alle Autorità inquirenti e garantire l'immediata riapertura della Filiale di Atlanta il successivo lunedì 7 agosto.

Ai fini suddetti si decise che il Dr. Gallo fosse richiamato dalle ferie per mantenere i contatti con Bankitalia già dalla domenica 6 agosto, rimanendo a Roma, nella sua veste di Vicario; il Dr. D'Addosio partisse il sabato 5 agosto per gli Stati Uniti, per gestire in loco l'emergenza e per collaborare con le Autorità locali nelle loro indagini, ottenendo l'immediata riapertura della Filiale; il Dr. Croff, già negli Stati Uniti, si sarebbe tenuto disponibile per ogni eventualità. (Di tutto ciò fu riferito in seduta riservata al Comitato Esecutivo dell'11.8.89, come da verbale a mani di codesta Commissione.)

Contestualmente fu deciso: di inviare subito ad Atlanta i Sigg. Petti e Raffo, Ispettori della Direzione

coordinare direttamente "tutte le indagini e le attività di accertamento di responsabilità relative alla Filiale di Atlanta". Da quella data quindi, per quanto riguardava la questione Atlanta, il Dr. D'Addosio intervenne direttamente solo per quanto atteneva alle Aree di propria competenza (Amministrazione e Legale), ancorché, nella sua funzione di Vice Direttore Generale, abbia ovviamente continuato a collaborare attivamente ad ogni richiesta o decisione collegiale.

E' infine da dire, com'è indicato anche nella Relazione Petti, che il Dr. Gallo provvide ad attivare, subito dopo il 6 agosto 1989, presso la Linea Istituzioni Finanziarie della Direzione Centrale, un gruppo di Funzionari e Dirigenti esperti della materia. Tale gruppo ebbe il compito di esaminare tutta la documentazione che mano a mano perveniva da Atlanta o mediante fotocopie, trasmesse via fax ovvero raccolte sul posto da funzionari della Direzione Centrale appositamente giunti ad Atlanta (Dr. Chiamenti e, in seguito, anche il Dr. Sartoretti), oppure mediante duplicazione dei dischetti dei telex e dei CPT (come ho appreso dalla Relazione Petti). Ciò al fine di rilevare eventuali anomalie di documentazione opponibili in sede di utilizzo delle lettere di credito o degli impegni, per garantire la corretta applicazione della Deliberazione del Comitato Esecutivo della Banca dell'11.8.89. In quella sede, come già noto a codesta Commissione, il Comitato aveva dato "mandato alla Direzione Centrale di verificare la validità formale di tutti gli impegni di finanziamento accesi dalla Filiale di Atlanta e di adempiere unicamente a quelli assunti verso terzi beneficiari solo in quanto risultino da documentazione formalmente ineccepibile e vincolante per la Banca".

Da ultimo, riguardo ai due gruppi operanti ad Atlanta ed a Roma, si ricorda che nella relazione al Consiglio di Amministrazione del 30.8.89 si precisava che "un gruppo di ispettori sta ricostruendo ogni posizione (le pratiche di crediti documentari sono oltre un migliaio), anche al fine di pervenire ad una contabilità corretta, mentre un gruppo di esperti della materia sta passando al setaccio ogni credito documentario al fine di rilevare eventuali anomalie opponibili in sede di pagamento".

* * *

10) "Dopo la scoperta dei fatti criminosi la Filiale di Atlanta è stata oggetto di tre ispezioni generali:

""- dalla Banca d'Italia, che ha inviato un nucleo ispettivo da Roma, che ha concluso i suoi lavori il 10 novembre 1989;

""- dalla Federal Reserve Bank della Georgia in unione con lo State Banking Department della Georgia che hanno concluso i lavori nel gennaio 1990;

""- dall'Ispettorato Centrale della Banca Nazionale del Lavoro che, oltre all'accertamento delle responsabilità, è stato incaricato anche dell'intera ed analitica ricostruzione contabile delle operazioni irregolarmente poste in essere fin dal 1986. Tale ispezione è in corso di conclusione e si prevede che il relativo rapporto possa essere prodotto per il prossimo mese di ottobre.""

""Altre ispezioni su aspetti specifici della vicenda sono state predisposte da vari organismi americani.""

* * *

10) La previsione sull'epoca di chiusura dell'ispezione interna si basava sull'aspettativa che entro luglio 1990 potesse essere reso pubblico l'"indictment" da parte della Magistratura penale americana, in modo che gli ispettori della BNL potessero tener conto anche degli accertamenti eseguiti dalla Magistratura stessa. Com'è noto, di rinvio in rinvio, la Magistratura americana ha finito col depositare la sentenza di rinvio a giudizio solo il 28.2.91 e la Relazione Petti porta la data del 10.4.91, riferendosi all'ispezione condotta, ripetersi, dal 2.11.89 al 13.2.91, sulla situazione contabile al 4.8.89.

Con lettera del 22.6.90 vennero indicati a codesta Commissione i nove Enti statunitensi che all'epoca avevano indagato o stavano indagando sul caso Atlanta:

"1) U.S. District Attorney's Office - Northern District of Georgia

"2) U.S. Department of Justice - International Affairs, Washington

"3) FBI - Federal Bureau of Investigation

"4) U.S. Department of Defence - Criminal Investigation

"5) U.S. Department of Agriculture

"6) U.S. Customs Service

"Le indagini di questi sei Enti - si precisava nella suddetta lettera - "sono ancora in corso e, per quanto "ci risulta, si stanno sviluppando nel senso di condurre

Centrale, che erano presenti a New York per un'attività ispettiva allora in corso in quella Filiale; nonché di prendere i necessari contatti per l'individuazione del nuovo Direttore della Filiale di Atlanta. Intanto, al Sig. Petti venne subito affidato l'incarico, a partire dallo stesso 7 agosto 1989, di "Acting Manager" della Filiale di Atlanta: incarico mantenuto, come si è detto, fino al 15 ottobre 1989. Al riguardo sembra opportuno sottolineare che in BNL era all'epoca normale che gli ispettori fossero anche incaricati di sostituire personale temporaneamente assente presso le filiali (di solito direttori amministrativi, ma, a volte, anche il direttore dell'agenzia e/o della filiale). Nella circostanza, entrambi gli ispettori della Direzione Centrale, che in quel momento erano fisicamente i più vicini ad Atlanta, conoscevano bene l'inglese ed erano ormai esperti dei problemi contabili e organizzativi delle filiali nord-americane.

In seguito, il Sig. Petti avviò formalmente l'ispezione sulla Filiale di Atlanta, a seguito della ricordata lettera d'incarico del 30.10.89, cui fece seguito l'Ordine di Servizio n. 31 del 31.10.89, che al riguardo così si esprime:

"Filiale di Atlanta

"Terminata la prima fase di ricognizione e definita "la copertura del ruolo di Direttore della Filiale di Atlanta "con la nomina del Dott. Luciano A. Silvestri, conferisco "all'Ispettore Superiore rag. Francesco Petti, già Acting "Manager della Filiale stessa, l'incarico di condurre tutte "le indagini necessarie per l'accertamento delle "responsabilità connesse con le operazioni impropriamente "poste colà in essere.

"Il rag. Petti coordinerà l'attività di un apposito "Gruppo Ispettivo che opererà prevalentemente ad Atlanta e, "ove necessario, si avvarrà anche di specialisti di società "internazionali di revisione e/o di accreditati studi legali "della piazza. ... (omissis)".

Va peraltro precisato che la Banca non ha atteso il 31.10.89 per avviare una ispezione da parte della Direzione Centrale sui fatti di Atlanta. In realtà, in assenza del Direttore Generale cui fa capo il Servizio Ispettorato, gli accertamenti ispettivi riguardanti il caso Atlanta hanno fatto capo al Dr. Gallo sin dal 7 agosto 1989: all'inizio, in forza dei poteri spettantigli nella sua qualità di "Vicario" del Direttore Generale; poi, fino al 31 ottobre 1989, in forza dei poteri conferitigli dal Direttore Generale con l'ordine di Servizio n. 27 del 7.9.89, di cui si è detto.

E' inoltre da ricordare che fino all'ottobre 1989 l'impegno alla collaborazione con i numerosi inquirenti è stato spasmodico: c'erano in atto ad Atlanta, contemporaneamente, tre ispezioni generali (quella della Banca d'Italia e quelle della Fed della Georgia e dello State Banking Department della Georgia), oltre alle complesse ricerche per conto sia della Magistratura e di vari Ministeri ed Enti governativi statunitensi (che saranno elencati in seguito), sia della Direzione Centrale e degli avvocati per le richieste inerenti le pratiche in essere. D'altra parte, ricordo che nell'ottobre 1989: lo State Banking Department della Georgia sospese la sua ispezione, per agevolare le necessarie sistemazioni contabili; e anche la Federal Reserve Bank di Atlanta fece altrettanto per poi riprendere la sua ispezione nel dicembre 1989.

Da tutto quanto precede emerge che non è corretta l'informazione, riportata dalla stampa di quei giorni, secondo cui il Dr. D'Addosio era stato mandato ad Atlanta con compiti ispettivi. Egli svolse un'azione ricognitiva dei fatti, al fine di appurare l'entità e la meccanica delle malversazioni, avendo cura di accertare la consistenza delle esposizioni e degli impegni in corso. In tale azione egli ha anche interrogato il Drogoul ed alcuni suoi collaboratori, peraltro sempre in presenza del Sig. Petti (nella sua qualità di "Acting Manager" della Filiale) e/o del Sig. Raffo (che fungeva anche da interprete e verbalizzatore per la Banca) e talora degli avvocati di parte. (All'epoca, il legale del Sig. Drogoul, che non era certamente a carico della Banca, era l'Avv. Theodore H. LACKLAND, dello Studio ARNALL, GOLDEN & GREGORY, 55, Park Place, Atlanta). Il Dr. D'Addosio, inoltre, coordinò sia la complessa e delicata opera di sistemazione anche contabile delle partite irregolarmente poste in essere presso la Filiale, sia i molteplici e concomitanti rapporti con le numerose Autorità inquirenti e di Vigilanza italiane e statunitensi, al fine di soddisfare con la massima prontezza possibile le loro continue richieste di documenti e precisazioni, tenendo i necessari collegamenti con la Direzione Centrale. Non era quindi nei compiti assegnati al Dr. D'Addosio quello di svolgere indagini ispettive e accertare responsabilità, né tanto meno quello di indagare anche sulle posizioni già chiuse alla data del 4.8.89 e quindi ormai fuori non solo dalla contabilità ufficiale, ma anche dai grey books.

E' da aggiungere che dopo un mese di quasi ininterrotta presenza negli Stati Uniti (dal 5 al 26.8.89 e dal 3 al 6.9.89), il Dr. D'Addosio rientrò in sede ed ovviamente si adeguò al ricordato Ordine di Servizio n.27 del 7.9.89, con il quale l'allora Direttore Generale, Dr. Pedde, delegava il Vice Direttore Generale Vicario, Dr. Gallo, a

"all'incriminazione formale di ex dipendenti della Filiale di Atlanta. In particolare, ci risulta che il Dipartimento dell'Agricoltura, ha in corso indagini sull'intero programma americano della CCC-Commodity Credit Corporation.

"7) U.S. Commerce Department: per quanto a nostra conoscenza, ha condotto indagini per verificare che i beneficiari di Lettere di Credito emesse dalla Filiale BNL di Atlanta abbiano ottemperato alle leggi americane sul commercio estero.

"8) Federal Reserve Bank della Georgia: ha terminato la sua ispezione alla Filiale di Atlanta.

"9) Department of Banking and Finance - State of Georgia: dopo aver assistito la Federal Reserve Bank durante l'ispezione di quest'ultima, si ripromette di ritornare presso la Filiale di Atlanta per l'annuale ispezione, relativa al 1990."

A queste precisazioni del 22.6.90 è ora da aggiungere che hanno svolto o stanno ancora svolgendo indagini sul caso Atlanta, oltre alle Autorità fiscali, statali e federali, degli Stati Uniti, i seguenti altri Enti americani, anche con interventi diretti presso la Filiale di Atlanta per la consultazione di documenti:

- U.S. Generale Accounting Office (GAO)
- U.S. Department of Treasury - Office of Foreign Assets Control
- Foreign Credit Insurance Association (FCIA)
- U.S. Department of Commerce - Office of Antiboycott Compliance
- House Banking Committee, la Commissione parlamentare statunitense presieduta dal Sig. Gonzales.

E' da aggiungere che hanno effettuato visite di controllo presso la Filiale di Atlanta anche:

- PRICE WATERHOUSE, per la certificazione del bilancio al 31.12.89, con relazione datata 16.7.90;
- DEPARTMENT OF BANKING AND FINANCE della Georgia & FEDERAL RESERVE BANK di Atlanta: ispezione congiunta con riferimento ai dati contabili del 30.9.90, con rilascio di due rapporti separati, rispettivamente in data 11.1.91 e 8.5.91;
- PRICE WATERHOUSE, per la certificazione del bilancio al 31.12.90, con relazione in data 9.7.91.

E' infine da ricordare che, come già noto a codesta Commissione, le indagini della Magistratura americana hanno portato, il 28.2.91, all'emanazione del provvedimento conclusivo dell'istruttoria della Magistratura americana ("indictment"), che prevede il rinvio a giudizio per i fatti di Atlanta dei seguenti imputati, a ciascuno dei quali - singolarmente o in concorso con altri - vengono minuziosamente ascritti uno o più reati:

Christopher DROGOUL, già Direttore della Filiale BNL di Atlanta, con cittadinanza francese e americana, accusato di: cospirazione, frode postale e false comunicazioni via cavo, false dichiarazioni e fraudolento trasporto interstatale di refurtiva, commercio con il nemico (degli Stati Uniti, n.d.r.), riciclaggio di danaro sporco, falsificazioni, intralcio ed evasione fiscale.

Therese Marcelle BARDEN, già capo dei Servizi Esecutivi della Filiale BNL di Atlanta, con cittadinanza francese, accusata di: cospirazione, frode postale e false comunicazioni via cavo, false dichiarazioni e trasporto interstatale di refurtiva.

Amedeo DE CAROLIS, già impiegato della Filiale BNL di Atlanta con l'incarico di assistente contabile, cittadino americano, accusato di: cospirazione, frode postale e false comunicazioni via cavo, false dichiarazioni e trasporto interstatale di refurtiva.

ENTRADE INTERNATIONAL Ltd., Società commerciale con sede a New York (controllata dalla ENKA HOLDINGS INVESTMENT COMPANY INC., con sede ad Istanbul), accusata di aver ottenuto finanziamenti non autorizzati per esportazioni verso l'Iraq e altri scopi, spesso con garanzia di Enti del governo americano; avrebbe anche dato somme di danaro e oggetti di valore, per uso e beneficio personale, a dipendenti della Filiale BNL di Atlanta, per l'ottenimento dei finanziamenti stessi.

Yavuz TEZELLER, di nazionalità turca, Dirigente dell'ENTRADE e responsabile della sede di New York della Società, accusato di aver gestito i suddetti rapporti dell'ENTRADE con la Filiale BNL di Atlanta e con altre entità in Europa e nel Medio Oriente di proprietà della ENKA, casa madre della stessa ENTRADE.

RAFIDAIN BANK, con sede a Bagdad, di proprietà del governo iracheno, accusata di aver goduto, in qualità di mutuataria, di finanziamenti garantiti attraverso la CCC

dal Ministero americano dell'Agricoltura, nonché di crediti non garantiti, che erano stati concessi senza autorizzazione dalla Filiale BNL di Atlanta e che erano stati annotati al di fuori dei libri ufficiali della Banca e quindi non erano stati segnalati alle Autorità americane di controllo e di Vigilanza.

Sadik Hasson TAHA, di nazionalità irachena, già Direttore Generale della Rafidain Bank, Direttore dell'Ufficio Contratti e Finanziamenti della Central Bank of Iraq, nonché Direttore finanziario della Società TECHNOLOGY AND DEVELOPMENT GROUP (TDG), di proprietà irachena, con sede a Londra, accusato di cospirazione, false comunicazioni via cavo e riciclaggio di danaro sporco.

Abdul Munim RASHEED (noto anche come Abdul Munim RASHEED ABBAS), di nazionalità irachena, Direttore Generale della Rafidain Bank e Direttore Generale per gli investimenti della CBI, accusato di cospirazione, false comunicazioni via cavo e riciclaggio di danaro sporco.

Raja Hassan ALI, di nazionalità irachena, Direttore Generale del Dipartimento Economico del Ministero dell'Industria e della Produzione Militare dell'Iraq, accusato di cospirazione, false comunicazioni via cavo e riciclaggio di danaro sporco.

Safa Haji AL HABOBI, di nazionalità irachena, Direttore Generale del Complesso di AL-NASAR, Ente controllato dal Ministero dell'Industria e della Produzione Militare dell'Iraq, funzionario e consigliere di varie società possedute e controllate dall'Iraq in Inghilterra e negli Stati Uniti: TECHNOLOGY AND DEVELOPMENT GROUP (TDG), MATRIX CHURCHILL Ltd., MATRIX CHURCHILL Corporation, AL ARABI TRADING COMPANY Ltd., TMG ENGINEERING Ltd., NEWCAST FOUNDRIES Ltd., ARCHICONSULT Ltd. e TIGRIS TRADING Inc.. Avrebbe sollecitato finanziamenti della Filiale BNL di Atlanta ad uso di vari Ministeri iracheni, per il che è accusato di cospirazione, false comunicazioni via cavo e riciclaggio di danaro sporco.

Le imputazioni dei dieci soggetti così rinviati a giudizio si sviluppano su 347 capi di accusa e riguardano un importo di oltre 4 miliardi di \$ per prestiti e linee di credito che la Filiale BNL di Atlanta ha complessivamente concesso, in modo irregolare, a beneficio del governo iracheno, ancorché non tutti ancora in essere al 4.8.89.

Circa il contenuto dell'"indictment", già noto a codesta Commissione, sembra opportuno ricordare che in esso - sulla base dei documenti raccolti dalla Magistratura americana, ovviamente non tutti noti al vertice della Banca - si parla di "un piano fraudolento internazionale attuato da "colletti bianchi", con una "pista documentale che ha "coinvolto tre continenti".

L'incriminazione evidenzia una "cospirazione" tra gli imputati per "defraudare la BNL attraverso finanziamenti "e concessioni di linee di credito al governo iracheno senza "autorizzazioni, ...fatti in violazione ai limiti di "autonomia fissati in Italia e negli USA e non riportati nei "libri della Banca". In conseguenza "furono fornite alle "Autorità di Vigilanza americane e italiane false "informazioni, documentazioni e segnalazioni, al fine di "nascondere i finanziamenti non autorizzati. Le transazioni "illegali furono mantenute in una segreta serie di grey books "attraverso l'uso di separati computers, word processors e "dischi. Documenti scritti furono tenuti come archivi "volanti, fuori della Banca, in scatole, bagagliai di "macchine e case private per evitare di essere scoperti". Ciò al fine di occultare alla Banca, agli auditors interni ed esterni ed alle Autorità di Vigilanza le transazioni fraudolentemente poste in essere.

Nell'elencazione dei vari metodi usati per "occultare la cospirazione ed al fine di assicurarne la "continuazione e il successo", l'"indictment" elenca, tra gli altri, i seguenti:

"(c) Creare documentazione falsa, ivi inclusi "telex, telefax, corrispondenza, fatture commerciali, "conferme di trasferimento fondi, ordini di pagamento, "ricevute, partecipazioni a prestiti, garanzie CCC e altra "documentazione che falsamente confermava l'esistenza di "collaterale, tutto allo scopo di nascondere la vera natura "delle varie transazioni finanziarie della BNL di Atlanta, "agli occhi degli auditors interni della BNL, di quelli "esterni alla Banca, Peat Marwick, Mitchell & Co. e dei loro "successori Peat, Marwick Main & Co. (qui di seguito Peat "Marwick), degli auditors dell'United States General "Accounting Office e degli Ispettori rappresentanti il "Federal Reserve System ed il Georgia Department of Banking "and Finance.

"(d) Usufruire di una macchina facsimile "nell'abitazione di un complice dipendente della BNL di "Atlanta utilizzandola per trasmettere false comunicazioni "agli Uffici della stessa BNL di Atlanta per l'acquisizione "negli archivi della Banca.

"(e) Creare e gestire le registrazioni di prestiti "e le concessioni di linee di credito non autorizzate su "dischi di computer, su attrezzature di word processing, in "annotazioni e in raccoglitori - ai quali i complici si "riferivano tra di loro come ai "raccoglitori bancari "volanti" - in maniera che queste registrazioni potessero "essere occultate nei locali o rimosse rapidamente dai locali "della BNL di Atlanta e nascoste nei bagagliai delle auto e "nelle abitazioni dei complici, nel caso in cui gli auditors "o gli ispettori fossero apparsi.

"(f) Creare false conferme di audit da fornire - o "fare in modo che le vere conferme di audit venissero "occultate - in risposta alle richieste di conferma audit "effettuate dagli auditors interni della BNL e dai suoi "auditors indipendenti Peat Marwick.

"(g) Occultare messaggi telex e telefax agli occhi "degli auditors interni BNL e dei suoi auditors indipendenti "Peat Marwick.

"(h) Acquisire - avvalendosi della favorevole "valutazione triplo "A" della BNL - i fondi necessari per la "concessione di linee di credito non autorizzate al Governo "dell'Iraq ed altri da fonti del mercato monetario in varie "parti del mondo, fonti che non erano quelle abitualmente "utilizzate dalla BNL di Atlanta per finanziare le "concessioni di credito autorizzate. Al fine di identificare "e separare le registrazioni delle transazioni con le quali "la BNL di Atlanta acquisiva fondi per concessioni di linee "di credito autorizzate da quelle relative ai fondi per le "concessioni non autorizzate, i complici, nei loro discorsi e "con materiali annotazioni su vari documenti, descrivevano le "registrazioni riguardanti i crediti non autorizzati come ""Perugina" - riferimento a una popolare marca di dolci "italiani - e come "non Perugina" quelle relative ai fondi "per i crediti autorizzati."

L'indictment precisa inoltre, sempre nella sezione "modi e mezzi della cospirazione", che:

"(10) In violazione alle norme e procedure interne della BNL, "la BNL di Atlanta avrebbe e di fatto ha fornito "informazioni, documentazione e rapporti materialmente falsi, "fittizi e fraudolenti diretti ai vari auditors, Organi di "Vigilanza ed enti governativi e dipartimenti USA, ivi "incluso il Board of Governors del Federal Reserve System, il "Dipartimento del Tesoro degli Stati Uniti, la Banca degli "USA per l'Export-Import, il General Accounting Office degli

"USA e il Dipartimento dell'Agricoltura degli USA;
 "informazioni, documentazione e rapporti che rappresentavano
 "in modo falso l'attivo, il passivo e gli impegni e rischi
 "della BNL di Atlanta oltre ad alcune operazioni finanziarie
 "e procedure operative della stessa BNL di Atlanta."

* * *

11) *"Come detto in premessa, il Ministro del Tesoro, nella sua audizione, ha già informato codesta Commissione in ordine alla consistenza ed alla natura delle irregolarità compiute nell'ultimo triennio dalla dismessa Direzione della Filiale di Atlanta, riferendo ampiamente anche su quanto è finora a conoscenza di BNL. Ci si richiama pertanto alle relazioni del Ministro, precisando che rispetto alle cifre fornite il 22 maggio u.s. - e riferite al 4 agosto 1989 - l'esposizione verso l'Iraq è complessivamente diminuita di circa 250 milioni di dollari al 31 maggio 1990, soprattutto a seguito dei rimborsi dei crediti garantiti dalla CCC.*

"Altre operazioni irregolari sono state condotte dal management infedele di Atlanta, sia per transazioni su altri Paesi, sia su conti di clienti della Filiale. Si tratta di irregolarità di importo di gran lunga inferiore, rispetto a quelle poste in essere con l'Iraq: per la maggior parte hanno avuto in questi mesi una sistemazione, mentre per altre sono in corso di definizione gli accordi con le controparti.

"Com'è noto a codesta Commissione, i crediti per cassa e di firma nei confronti di controparti irachene garantiti dalla Central Bank of Iraq (CBI) derivano da quattro "agreements" abusivamente sottoscritti dall'allora Direttore della Filiale di Atlanta, tra il febbraio 1988 e l'aprile 1989 con i Ministeri del Commercio e dell'Industria iracheni per un importo complessivo di 2.155 milioni di dollari USA."

* * *

11) Nel giugno 1990 non si era ritenuto di doversi dilungare sulla consistenza e sulla natura della frode messa in atto da dipendenti infedeli, ritenendo che fossero sufficienti le indicazioni fornite dal Ministro Carli anche nella sua Relazione presentata il 22.5.90 a codesta Commissione, in attesa che si concludessero sia l'"indictment" che l'ispezione dell'Ispettorato Centrale BNL.

Si preferì allora dare notizia della progressiva riduzione dell'esposizione globale BNL sia verso l'Iraq, grazie al regolare rimborso dei prestiti in scadenza (quasi

tutti con garanzia CCC ed Eximbank) ed al rigido contenimento delle nuove concessioni, sia verso altri Paesi. Quanto alle esposizioni verso soggetti non iracheni venne riferito a codesta Commissione anche nella "nota integrativa" del 14.6.90.

A maggior dettaglio e per tener conto dei fatti a mia conoscenza intervenuti dal giugno 1990, preciso quanto segue:

A) CONSISTENZA DELL'ESPOSIZIONE BNL

Il rimborso dei crediti a scadenza ed il rigido contenimento delle nuove concessioni sono continuati fino all'inizio del conflitto del Golfo (2.8.90) ed hanno consentito un non trascurabile alleggerimento della nostra esposizione globale, non solo di quella verso l'Iraq, come emerge dal seguente confronto relativo alla situazione dei conti della Filiale di Atlanta, desunto dalla Relazione Petti per il confronto tra il 1989 ed il 1990, ed aggiornato al 31.8.91.

E' da aggiungere che dal 1° gennaio al 2 agosto 1990 sono affluiti sul conto economico della Filiale di Atlanta, e quindi alla Banca: circa 73 miliardi di lire per interessi scaduti ed incassati su crediti verso banche irachene; nonché 10,6 miliardi di lire per commissioni attive su aperture di credito ordinate da banche irachene.

Superfluo aggiungere che si tratta di importi estremamente modesti, attesa l'entità dell'esposizione ed il costo sostenuto per il relativo funding. Nè va dimenticato che dal 2 agosto 1990 i crediti verso l'Iraq sono non performing, il che ha significato un importo ben maggiore di interessi non pagati.



Posizione Filiale di Atlanta (cfr. anche Relazione Petti)
(in milioni US \$)

	<u>al 4.8.89</u>		<u>al 31.8.90</u>	<u>al 31.8.91</u>
	<u>grey</u>	<u>ufficiale</u>	<u>Totale</u>	<u>Totale</u>
	<u>books</u>			
<u>Attività:</u>				
Crediti per cassa banche irachene				
- garantiti	706	65	771	129
- non garantiti	<u>1,154</u>	<u>-</u>	<u>1.154</u>	<u>1,347</u> (a)
	1,860	65	1.925	1,476
Crediti per cassa a clienti e banche non irachene				
- garantiti	-	417	417	103
- non garantiti	-	<u>318</u>	<u>318</u>	<u>54</u>
		735	735	157
Insoluti				
- garantiti	-	-	-	274 (b)
- non garantiti	-	-	-	174 (c)
Crediti diversi	2 (d)	10	12	83 (e)
Mobili e impianti	<u>-</u>	<u>1</u>	<u>1</u>	<u>1</u>
Totale attivo	<u>1,862</u>	<u>811</u>	<u>2,673</u>	<u>2,165</u>
	=====	=====	=====	=====
<u>Impegni e rischi</u>				
Verso Iraq	641	75	716	200
Verso altri Paesi	<u>297</u>	<u>27</u>	<u>324</u>	<u>9</u>
	938	102	1.040	209
	=====	=====	=====	=====
Promesse di affidamento	226	30	256	0
	=====	=====	=====	=====
Totale generale	<u>3,026</u>	<u>943</u>	<u>3,969</u>	<u>2,374</u>
	=====	=====	=====	=====

- (a) Solo CBI, la cui esposizione risultava di 1.017 milioni di \$ al 4.8.89.
 (b) Per la massima parte Rafidain (2,4 milioni di \$ per CBI), garantiti da CCC e Eximbank.
 (c) Di cui: 116 per Rafidain, 46 per Rasheed e 12 per clientela e banche extra Iraq.
 (d) Interessi passivi pagati alla scadenza sul funding.
 (e) Crediti verso Filiali BNL.

Il prospetto evidenzia come dal 4.8.89 al 31.8.91 (ultimi dati disponibili) i crediti per cassa garantiti in essere si sono più che dimezzati (da 1.188 a 506 milioni di \$, di cui 274 milioni per insoluti, connessi con il blocco dei pagamenti iracheni); quelli non garantiti figurano complessivamente in aumento di \$ 103 milioni (da 1.472 a 1.575 milioni di \$), ma tale aumento è la risultante di variazioni diverse: da un lato sono diminuiti da 455 a 228 milioni di \$ (compresi 174 di insoluti) i crediti non garantiti verso Rafidain Bank, Rasheed Bank e clienti e banche non iracheni; dall'altro lato sono invece aumentati di 330 milioni di \$, da 1.017 a 1.347 milioni di \$, i crediti a favore di CBI. A quest'ultimo riguardo è peraltro da rilevare che a fronte del suddetto aumento di 330 milioni di \$ nelle esposizioni per cassa verso CBI, a valere sui noti quattro "Agreements", vi è stata una riduzione di 516 milioni di \$ nel totale degli impegni di firma verso le banche irachene, in conseguenza sia delle avvenute erogazioni, sia degli impegni cancellati a seguito dell'accordo di Ginevra (v. oltre), o comunque scaduti.

Decurtati, inoltre, dal 4.8.89 al 31.8.91, gli impegni di firma a favore di Paesi diversi dall'Iraq - da 324 a soli 9 milioni di \$ - e completamente azzerate le promesse di affidamento di vario genere (i cosiddetti "commitments"), che al 4.8.89 ammontavano a 256 milioni di \$.

I suddetti valori confermano che la posizione verso l'Iraq è di gran lunga la più importante nell'ambito delle attuali consistenze e di quelle rilevate al 4.8.89 presso la Filiale di Atlanta. Essa deriva, per la massima parte, dai quattro "Agreements", che, com'è noto, raggiungevano una potenziale esposizione, per BNL, di ben \$ 2,155 milioni. Si ritiene quindi opportuno tornare in argomento, non fosse altro che per riassumere quanto finora reso noto in varie relazioni interne ed informazioni al pubblico.

B) ENTITA' E CARATTERISTICHE DEI QUATTRO AGREEMENTS CON CBI

Si ricorda che i quattro Agreements, controfirmati per garanzia dalla banca di stato irachena, la CENTRAL BANK OF IRAQ (CBI), hanno avuto la seguente successione, con le caratteristiche a fianco di ciascuno indicate:

I^ : \$ 200 milioni, stipulato con il Ministero del Commercio iracheno a Bagdad, il 22.2.88;

rimborsi a cinque anni, di cui due anni di grazia (cioè pagamento semestrale posticipato degli interessi con rimborso del capitale in tre annualità posticipate, a partire dalla fine del terzo anno); tasso: Libor semestrale +0,50%;

II^ : \$ 300 milioni, stipulato con il Ministero dell'Industria iracheno ad Atlanta, il 6.10.88; rimborsi a sette anni, di cui quattro di grazia (rimborso del capitale in tre annualità posticipate, a partire dalla fine del quinto anno); tasso: Libor semestrale +0,25% (cioè 1/4% in meno rispetto al primo, nonostante due anni in più di grazia);

III^: \$ 500 milioni, stipulato con il Ministero dell'Industria iracheno, presumibilmente a Washington il 3.12.88; rimborsi a otto anni, di cui cinque di grazia (un anno in più rispetto al II agreement e tre rispetto al I); tasso: Libor semestrale +3/16% (cioè 1/16 meno del secondo e ben 5/16 meno del primo, nonostante il maggiore importo e la più lunga durata). Prevista la facoltà per la Filiale di Atlanta di optare per il bonifico dei fondi ad altra banca che accetterà la L/C: la cosiddetta "Option B";

IV^: \$ 1,155 milioni, stipulato con il Ministero dell'Industria iracheno; dichiaratamente a Londra in data 8.4.89, alle stesse condizioni del terzo accordo, nonostante l'ingente ammontare.

E' altresì noto che solo il primo ed il secondo accordo risultano a due firme, quelle dei Sigg. Drogoul e Von Wedel. Quest'ultimo ha tuttavia ripetutamente dichiarato che nel primo accordo la sua firma figura solo nell'ultimo foglio e che, rileggendolo, ha avuto la sensazione che il testo delle pagine precedenti fosse diverso da quello che egli ricordava di aver discusso e corretto a Bagdad insieme a Drogoul. Von Wedel affermava di ritenere che il Drogoul, partito da Bagdad insieme a lui, ma non diretto ad Atlanta, fosse ritornato successivamente a Bagdad per controfirmare i

fogli precedenti all'ultimo, variati rispetto alla stesura concordata in presenza dello stesso Von Wedel (1).

Il terzo ed il quarto agreement risultano invece firmati soltanto dal Drogoul, in netto contrasto con le norme interne della Banca, che prescrivono la firma congiunta da parte di due funzionari abilitati: norme, stampate in quattro lingue sul "libro firme" (che raccoglie gli "specimen" di tutte le firme autorizzate); libro che certamente era stato inviato alla CBI in epoca antecedente gli accordi, le cui prescrizioni sono state però disattese da quel corrispondente. La circostanza della firma singola è stata giudicata dal Collegio di difesa BNL non proficuamente opponibile a terzi, nei rapporti internazionali, a meno che fosse possibile provare la mala fede del terzo contraente.

Le norme sull'obbligo della doppia firma erano inoltre a perfetta conoscenza di tutti i funzionari della Filiale di Atlanta che, tuttavia, in loro dispregio hanno spesso disposto pagamenti o confermate lettere di credito anche a firma singola: infrazione oggetto di rilievi anche nella Relazione Petti.

A proposito dei poteri di firma sembra opportuno ricordare in questa sede che, come già noto a codesta Commissione, al Drogoul non è mai stata accordata una procura di carattere particolare. Al Drogoul è stata infatti sempre data la stessa procura che era in uso per tutti i direttori delle cinque filiali nord-americane; procura che, secondo un testo pervenuto dagli Stati Uniti, all'epoca in cui era Direttore dell'Area il Dr. Guadagnini, era molto ampia, ma che, proprio per questo motivo, veniva accompagnata da una formale dichiarazione, secondo la quale il direttore dell'Area Nord America e ciascuno dei cinque direttori delle Filiali statunitensi si impegnavano comunque al rigoroso rispetto delle norme interne relative ai limiti di autonomia ed ai poteri di firma. Le suddette procure, poiché erano attribuite alle persone, nelle loro funzioni negli Stati Uniti, dovevano essere rinnovate, ovviamente, ogni qualvolta cambiava il direttore dell'Area, ovvero il direttore della Filiale interessata. Ciò premesso è da sottolineare che la procura "troppo ampia" rilasciata al Drogoul, di cui spesso

- (1) Che il Von Wedel sapesse che il Drogoul sarebbe tornato a Bagdad dopo la firma del primo accordo, lo dimostra il fatto, di cui si è detto, che dopo tre giorni dalla data dell'Accordo indirizzò a Bagdad i tre telex inviati nel giro di 90 minuti per rivelare la pubblicazione dell'articolo che segnalava le loro irregolari operazioni a favore dell'Iraq, garantite dalla CCC.

si è parlato, perché relativamente recente rispetto alla data del 4.8.89, era del tutto uguale a quelle precedenti, salvo che per il nome del direttore dell'Area, che era divenuto il Dr. Lombardi (subentrato, come si è detto, al Dr. Sardelli), che a sua volta era subentrato al Dr. Guadagnini).

La Relazione Petti accenna inoltre, sia pure implicitamente, a qualche dubbio circa l'esattezza della data e del luogo di sottoscrizione del IV Agreement. Nei documenti esaminati ad Atlanta, infatti, non fu rintracciato l'originale del contratto. Il Drogoul è apparso molto incerto, nei vari interrogatori, ed ha finito con l'accettare come data e luogo di sottoscrizione dell'accordo - che pure era di ben oltre un miliardo di dollari - quelli che "ricordava" la sua segretaria, Miss Leigh New. Lo stesso Drogoul, dichiarando di non riuscire a rintracciare la stesura originale, disse che il 18.8.89 aveva richiesto il IV Agreement, per le vie brevi, al Signor Taha (dirigente CBI), uno dei firmatari dell'accordo, il quale però si era rifiutato di mandarlo. Né migliore risultato ebbero le numerose richieste avanzate direttamente da Roma alle Autorità irachene (anche dai dirigenti BNL inviati in missione a Bagdad), finché in data 30.8.89 il Ministero dell'Industria iracheno ne trasmise copia via fax alla filiale di Atlanta, in risposta ad un'apposita richiesta del Sig. Petti (v. la Relazione di quest'ultimo).

In merito ai quattro agreements sembra opportuno aggiungere che essi prevedevano il finanziamento di esportazioni verso l'Iraq mediante emissioni di lettere di credito (L/C) ordinate da CBI e confermate e notificate al beneficiario dalla Filiale di Atlanta della Banca Nazionale del Lavoro; oppure, a partire dal III Agreement, mediante trasferimento di un importo pari al totale dell'emittenda L/C sul conto della CBI presso la banca designata dalla stessa CBI per l'emissione e la conferma della L/C.

Di fatto, fino al 4 agosto 1989, la Filiale di Atlanta ha effettuato finanziamenti ed ha assunto impegni - tutti annotati soltanto nei "grey books" - in base a tre diverse categorie di operazioni, le cosiddette:

- "OPTION A": emissione di L/C da parte di CBI, confermata e notificata da BNL Atlanta, previo consenso da parte di CBI. In conseguenza, la Filiale conosceva esattamente l'esportatore beneficiario, la provenienza e la natura dei beni esportati verso l'Iraq - così come le stesse venivano dichiarate nella documentazione prodotta dagli esportatori - nonché tutta la documentazione relativa all'esportazione stessa;

- **"OPTION B"**: come per l'Option A, CBI preannunciava a BNL Atlanta la necessità di emettere una L/C a favore di un certo beneficiario e per una determinata importazione. BNL Atlanta informava la CBI che non riteneva di confermare e notificare la L/C in questione, e si dichiarava disposta, invece, ad effettuare il bonifico dell'importo richiesto a favore della banca che CBI avrebbe prescelto. In tal modo la Filiale di Atlanta versava alla banca indicata da CBI, a nome di quest'ultima, un importo pari a quello dell'emittenda L/C, versamento che di fatto costituiva un "deposito collaterale" che CBI effettuava presso la banca prescelta per l'emissione e la conferma della L/C. Effettuato il bonifico, la Filiale di Atlanta perdeva ogni possibilità di verifica sull'identità del beneficiario e sulla natura dell'operazione sottostante. Da notare che l'"Option B" venne formalmente introdotta, ripetesì, solo con il III Agreement. Per contro, come dal prospetto allegato, il Drogoul ed i suoi collaboratori l'hanno applicata ampiamente anche per operazioni richieste da Bagdad a valere sul I e sul II Agreement;
- **"OPTION C"**: non prevedeva alcun riferimento, neppure formale, a sottostanti operazioni di esportazione verso l'Iraq; né era prevista da alcun accordo. Senza neppure una richiesta scritta la Filiale di Atlanta forniva fondi a CBI presso altre banche, indicate da CBI per le vie brevi. In pratica, pare su semplice richiesta telefonica del citato Sig. Taha, la Filiale di Atlanta ha complessivamente erogato ben 107 milioni di dollari (in sei diverse occasioni), a favore della CBI presso altre banche. In tal modo la nostra Filiale non aveva alcun mezzo per seguire nel tempo le vicende connesse ai suddetti finanziamenti.

Le annotazioni nei "grey books" riferite ai quattro "Agreements", garantiti dalla CENTRAL BANK OF IRAQ (CBI), portavano alle **seguenti consistenze al 4.8.89**:

- a) **Esposizioni per cassa**: \$ 1,016.5 milioni, di cui soltanto \$ 216,5 milioni risultavano erogati (21,3% del totale) a fronte di conferme di L/C, cioè riferite ad Option A; \$ 692.9 milioni si riferivano ad Option B e \$ 107 milioni ad Option C. In altri termini, la massima parte delle erogazioni per cassa sono state effettuate fraudolentemente dal Drogoul e dai suoi complici secondo le options B e C. Per queste ultime, le annotazioni rintracciate presso la Filiale possono non coincidere con l'effettivo beneficiario del

finanziamento, né con l'effettiva natura della merce che veniva, se veniva, esportata verso l'Iraq.

In allegato sono specificate per "Agreement" e per tipo di operazione, le **sudette esposizioni per cassa** (v. allegato).

- b) **Impegni:** \$ 553,3 milioni per importi ancora da erogare su Lettere di credito (L/C) già confermate dalla Filiale di Atlanta e dalla stessa notificate ai beneficiari, che alla suddetta data del 4.8.89, non le avevano ancora utilizzate per intero.

In relazione, dei \$ 2,155 milioni che il Drogoul aveva complessivamente messo a disposizione delle Autorità irachene, con i quattro Agreements, risultavano ancora disponibili per le stesse Autorità, sempre al 4.8.89, circa 585 milioni di US \$. A fronte di tale "disponibilità", nei documenti rinvenuti ad Atlanta risultavano, a quella stessa data:

\$ 127,7 milioni di L/C pervenute alla Filiale con richiesta di conferma, ma non ancora notificate ai beneficiari, nonché di richieste da parte di CBI di cosiddette Option B, per le quali non era stato ancora disposto il bonifico;

\$ 246,3 milioni di richieste pervenute alla Filiale di Atlanta da CBI e da beneficiari, sin dal 12.6.89, ancora in corso di esame. Queste richieste erano tutte riferite al IV Agreement.

In conseguenza di quanto precede, ove BNL fosse stata costretta dopo il 4.8.89 a dare esecuzione ai suddetti "impegni" e "sospesi" - per un totale di \$ 927 milioni - il margine ancora utilizzabile da parte irachena si sarebbe ridotto a soli \$ 211 milioni (un decimo dell'importo totale dei quattro Agreements).

C) ALTRE OPERAZIONI IRREGOLARI ANNOTATE SUI "GREY BOOKS" DI ATLANTA E RIGUARDANTI L'IRAQ

Oltre ai finanziamenti relativi alla CBI, di cui si è sin qui detto, i "grey books" portavano anche altre annotazioni di finanziamenti accordati e/o impegnati a favore dell'Iraq. Per la massima parte si tratta di operazioni riguardanti la **Rafidain Bank**, per lo più connesse con finanziamenti di esportazione di prodotti di origine

americana, assistiti dalla garanzia CCC. Le esposizioni per cassa verso la Rafidain erano annotate, al 4.8.89, per circa \$ 830 milioni, di cui:

- \$ 705,9 milioni per operazioni con garanzia CCC (l'importo è riferito all'intero finanziamento di cui fruiva il beneficiario e non solo alla parte - circa il 98% - di cui la CCC garantisce il rimborso);
- \$ 124,7 milioni per operazioni non garantite da CCC, compreso il finanziamento di eventuali noli relativi alle suddette esportazioni: noli, che fino al maggio '87 non potevano rientrare nella garanzia CCC.

In relazione, tenuto conto anche di finanziamenti non garantiti erogati a favore di una terza banca irachena, la Rasheed Bank, di \$ 13 milioni, il totale delle annotazioni dei "grey books", tutte riguardanti operazioni a favore dell'Iraq risultava di:

\$ 1,860 milioni di crediti per cassa, di cui:

a CBI, non garantiti (4 Accordi)	\$ 1,017 milioni
a Rafidain: non garantiti	\$ 125 milioni
garantiti	\$ 705 milioni
a Rasheed: non garantiti	\$ 13 milioni
	\$ 1,860 milioni
	=====

\$ 641 milioni di impegni, di cui a favore di:

- CBI	\$ 553 milioni
- Rafidain	\$ 24 milioni
- Rasheed	\$ 64 milioni
	\$ 641 milioni
	=====

In totale \$ 2,501 milioni, cui erano poi da aggiungere altri "impegni" per \$ 297 milioni riguardanti Paesi diversi dall'Iraq e \$ 226 milioni di "commitments", anch'essi relativi, per lo più, a Paesi diversi dall'Iraq.

E' da avvertire che le suddette cifre riproducono quelle inserite nella Relazione Petti, che, come emerge dall'allegato, differiscono lievemente dalle cifre fornite in altre informative (ad es. della Banca d'Italia: v. allegato), a causa sia di differenze nei raggruppamenti usati dalle diverse fonti, sia di variazioni, peraltro contenute,

verificatesi via via che si scoprivano maggiori dettagli sulle singole operazioni.

D) ALTRI CREDITI IRREGOLARI DI ATLANTA

Già si è avuto modo di ricordare che le erogazioni irregolari della Filiale di Atlanta non erano state effettuate soltanto a favore dell'Iraq, ma avevano riguardato anche altri Paesi.

Se ne era parlato già nelle relazioni presentate dall'allora Direttore Generale al Consiglio di Amministrazione il 30.8.89 (citando, indicativamente: Venezuela, Israele, Algeria, Giordania e Turchia, oltre agli Stati Uniti) ed il 27.9.89; ne fu data notizia anche nella riprodotta memoria presentata a codesta Commissione il 5.6.90, nonché nella successiva integrazione del 14.6.90.

In tutte le occasioni è stata sottolineata la irregolarità di molte delle posizioni verso Paesi diversi dall'Iraq, ma si è sempre affermato che, comunque, la loro consistenza era ben inferiore all'esposizione verso l'Iraq. Peraltro non mi risulta che i Servizi competenti siano stati incaricati di ricostruire l'entità dei finanziamenti complessivamente accordati dalla Filiale di Atlanta all'Iraq e ad altri Paesi, ancorché non più in essere.

Si aggiunge ora che al 4.8.89, come emerge dalla Relazione Petti, l'insieme delle esposizioni per cassa verso Paesi diversi dall'Iraq (contabilizzate ufficialmente, ancorché erogate in modo irregolare) - ricostruite dagli Ispettori BNL in base alla documentazione reperita nei mesi immediatamente successivi - ammontava a 747 milioni di \$, su un totale di circa \$ 2,673 milioni (compreso l'Iraq).

La tabella allegata indica la distribuzione per Paese beneficiario della suddetta esposizione complessiva. Da essa risulta che, dopo l'Iraq, sempre al 4.8.89, le esposizioni maggiori riguardavano Stati Uniti (\$ 254 milioni) e Algeria (\$ 227 milioni); con molto distacco seguivano: Giordania e Turchia (46 e 41 milioni di \$), Messico ed Egitto (36 e 34 milioni di \$), Venezuela e Russia (23 e 20 milioni di \$), Jugoslavia, Ungheria, Tunisia e Israele (ognuno con circa \$ 10 milioni) ed altri sei Paesi (con importi di gran lunga inferiori, come dall'allegato). Dallo stesso allegato risulta inoltre che al 30.6.91 la situazione verso Paesi diversi dall'Iraq si è notevolmente alleggerita.

E) LE OPERAZIONI IRREGOLARI DI "FUNDING"

E' evidente che gli accorgimenti messi in atto dai dipendenti infedeli di Atlanta, in complicità tra loro e con terzi, per occultare i finanziamenti accordati e gli impegni assunti senza le necessarie autorizzazioni, riguardavano anche l'approvvigionamento dei fondi necessari alle erogazioni stesse.

E' infatti emerso dall'esame dei "grey books" che, al 4.8.89, a fronte delle ricordate esposizioni per cassa di 1.860 milioni di \$, c'erano in essere passività verso banche per 1.861,6 milioni di \$: l'eccedenza, di \$ 1.6 milioni, era dovuta alla provvista dei fondi necessari per pagare gli interessi sui depositi già scaduti al 4.8.89.

Dagli accertamenti svolti in loco emerse che il suddetto "funding" era molto frazionato e tenuto ben distinto da quello utilizzato a copertura dell'attività ufficiale della Filiale.

In allegato alla Relazione Petti (n. 1/E) è fornito l'elenco dei circa 200 corrispondenti, americani e non, che al 4.8.89 finanziavano per

\$ 1,020.3 milioni i finanziamenti a favore di CBI e per
\$ 841.3 milioni i finanziamenti a favore della Rafidain;
 \$ 1,861.6 milioni, in totale.

=====

Al riguardo può essere interessante rilevare che dei suddetti 1.020,3 milioni di \$ di funding per i finanziamenti a favore di CBI, annotati sui grey books, soltanto 157 milioni risultavano ottenuti a brevissima scadenza ("overnight"); il resto (circa \$ 863 milioni) risultava invece con una scadenza residua compresa tra 21 e 186 giorni. Analogamente, dei suddetti 841.3 milioni di \$ che riguardavano il "funding" per le operazioni Rafidain dei grey books, solo 86 milioni di \$ erano riferiti ad operazioni "overnight", mentre il resto (circa \$ 755 milioni) aveva una scadenza residua compresa tra 167 e 334 giorni.

Tale funding risultava ottenuto quasi esclusivamente tramite i quattro brokers cui la Filiale ricorreva anche per il funding relativo ad operazioni connesse con la sua attività ufficiale.

A tale proposito, il Dr. D'Addosio ribadisce quanto affermato nell'audizione del 1° agosto 1991: le fatturazioni dei brokers avvenivano in modo chiaramente distinto a seconda che la fornitura dei fondi fosse utilizzata dalla Filiale per le operazioni contabilizzate ufficialmente, ovvero per quelle annotate nei "grey books"; nel conto economico ufficiale venivano contabilizzate soltanto le commissioni fatturate per il "funding" relativo alle operazioni iscritte nei libri ufficiali.

Il suddetto ricordo storico trova conferma nelle prove documentali esaminate dagli Ispettori della Direzione Centrale. La Relazione Petti riporta infatti in allegato:

a) il riepilogo delle commissioni pagate nel primo semestre 1989 ai quattro brokers:

LASSER (LMFD): \$ 8,476.12 per funding ufficiale e
\$ 31,032.27 per funding dei grey books;

FULTON PREBON: \$ 26,163.81 per funding ufficiale e
\$ 47,612.99 per funding dei grey books;

TRADITION

BERISFORD: \$ 12,549.86 per funding ufficiale e
\$ 81,376.04 per funding dei grey books;

EUROBROKERS : \$ 50,040.35 per funding ufficiale e
\$ 65,055.73 per funding dei grey books;

per un totale di \$ 97,230.14 relativamente al funding ufficiale e di \$ 225,077.03 per il funding riguardante il grey book: quest'ultimo importo è pari a 2,3 volte le commissioni pagate per il funding ufficiale;

b) le diverse codificazioni con le quali i suddetti quattro brokers contrassegnavano le proprie fatture che la Filiale di Atlanta chiedeva fossero emesse separatamente a seconda della destinazione che essa dava al funding:

Brokers: Codici con cui i brokers distinguevano le proprie fatture, che fino al 4.8.89 la Filiale di Atlanta ha attribuito:

	<u>alla contabilità ufficiale</u>	<u>ai grey books</u>
LASSER-LMFD	05-0430-007	05-0430-088, con la sigla "LAVATL"
FULTON PREBON	28407.2; 28407.3; 28407.8; 31000.1; 31005.3; 31005.8; 31006.3	28405.2; 28405.8; 31000.1; 31005.3; 31005.8; 31006.3; tutte con almeno una delle seguenti sigle: "IBF-A"; IBF-B"; "IBF" "A"
TRADITION BERISFORD	sigla "LAVY AT"	sigla "LAVO AT"
EUROBROKERS	WD 5092, con una delle sigle: "LAV AT"; "LAV AT ON"; "LAV2 AT"; "LAVI2 AT"	WD 5092 con la sigla "LAVI AT"

Sempre con riferimento al ricorso ai brokers, sembra inoltre opportuno ricordare che, in generale, quando ciò avviene:

- la scelta della banca alla quale chiedere il deposito è fatta dal broker. E' quindi presumibile che la Filiale di Atlanta non sapesse a priori a quali banche il broker aveva intenzione di ricorrere. Il nome del corrispondente che aveva fornito i fondi doveva poi essere segnalato dal broker alla Filiale, che avrebbe anche potuto non accettare il deposito. (La banca prenditrice non dovrebbe, di solito, accettare depositi da un corrispondente presso il quale essa non effettuerebbe un analogo deposito). Tutto l'importo procurato dal broker perveniva alla Filiale attraverso l'accredito effettuato tramite il conto di clearing con la Morgan; è in base a tali informazioni che la Filiale provvedeva, alla scadenza, sempre tramite il conto di clearing con la Morgan, al rimborso del deposito ottenuto ed al pagamento degli interessi dovuti;

- la congruità delle commissioni pagate ai broker può essere rilevata solo se si è a conoscenza dell'entità e della durata dei depositi assunti dal broker. Pertanto, solo in sede di controllo in filiale poteva essere rilevato se, in base ai documenti controllati, le commissioni che risultavano pagate ai brokers erano congrue, oppure non lo erano, poiché soltanto in quella sede sarebbe stato possibile accertare sia l'entità che la durata dei depositi assunti tramite brokers. E' peraltro da escludere che analoga indagine potesse essere fatta a Roma, in sede di riassunzione dei dati nella contabilità ufficiale. In questa sede, infatti, avrebbe potuto essere rilevato, attraverso l'analisi del conto economico della Filiale, soltanto l'ammontare delle commissioni passive pagate ai brokers dalla Filiale di Atlanta in un determinato periodo (ammontare che, peraltro, da verifiche fatte post 4.8.89, risulta di entità non rilevante, com'era del resto da attendersi, visto che si riferiva soltanto al funding ufficiale), ma non anche l'adeguatezza di tali commissioni, non essendoci la possibilità di rilevare né l'entità, né la durata del funding acquisito dalla Filiale attraverso i brokers.

Al riguardo è da precisare che la riassunzione dei dati contabili è affidata in BNL alla Ragioneria Generale ed a questo Servizio Centrale pervengono dalle Filiali all'estero soltanto:

- il totale dei movimenti contabilizzati in ciascuna giornata, in dare ed in avere di ognuna delle "voci di mastro", che notoriamente raggruppano un insieme di conti individuali. Nella fattispecie, le voci di mastro erano: "Conti correnti con corrispondenti in valuta locale" e/o "Conti correnti con corrispondenti in valuta estera", i cui movimenti giornalieri si riferivano, con un solo importo a debito e con un solo importo a credito, ai totali delle operazioni iscritte, in una giornata, per l'insieme dei corrispondenti i cui conti individuali erano stati movimentati in quella stessa giornata, compresi ovviamente sia il conto di clearing della Morgan, sia i rispettivi conti di contropartita. E' evidente che con queste procedure non è possibile distinguere a seconda che il funding sia acquisito direttamente o per il tramite di brokers;

- le consistenze di fine periodo delle singole "voci di situazione". Si trattava cioè dei saldi di fine periodo che, proprio perché saldi, non consentono la nozione dei movimenti da cui sono scaturiti. Neppure per tali consistenze globali, come si è detto per i movimenti delle voci di mastro, è possibile distinguere tra i depositi

acquisiti direttamente e quelli intermediati attraverso i brokers.

F) LE TECNICHE DI OCCULTAMENTO NELLA CONTABILITA' UFFICIALE DELLA FILIALE E QUINDI DELLA BANCA.

Nel giugno 1990 era sembrato sufficiente il richiamo anche alla relazione precedentemente presentata dal Ministro del Tesoro.

Ora la Commissione conosce nei particolari le suddette tecniche, avendo in seguito ricevuto, tra l'altro, le varie memorie predisposte dalla Banca anche per altri Organi inquirenti, nonché, da ultimo, la Relazione Petti.

Sembra comunque opportuno riepilogare in questa sede le informazioni fin qui rese, per chiarire ulteriormente il problema, ove necessario.

I.- E' stato acclarato (v. Relazione Petti) che fino all'agosto 1987 le esposizioni irregolari derivanti dalle operazioni a favore della RAFIDAIN BANK, garantite o meno dalla CCC, venivano eliminate ogni fine mese dalle evidenze della contabilita' ufficiale, per essere ripristinate all'inizio del mese successivo, via via che veniva a scadere il funding appositamente acquisito, di solito in overnight (cioe' con scadenza a 1-3 gg.).

In altri termini, è emerso che fino all'agosto 1987, i dipendenti infedeli di Atlanta erogavano crediti alla Rafidain Bank, durante il mese, anche per importi eccedenti i limiti ufficialmente autorizzati e si procuravano il relativo funding, effettuando le contabilizzazioni dovute. Per evitare però che tali posizioni potessero essere scoperte da uno dei destinatari delle situazioni mensili dei conti (Regional Management, Direzione Generale, Autorità di Vigilanza statunitensi e italiane), la Filiale di Atlanta provvedeva a fine mese a procurarsi depositi, soprattutto in overnight, che invece di contabilizzare, come avrebbe dovuto, a credito del(i) corrispondente(i) che li aveva(no) prestati, contabilizzava a credito del conto RAFIDAIN fino a ridurre il saldo debitore nei limiti del finanziamento autorizzato. Poiché questo(i) accredito(i) avveniva(no) in contropartita con il conto di clearing (la scrittura era: D: Morgan; C: Rafidain), lo stesso conto di clearing veniva pareggiato in contropartita con i corrispondenti che avevano fornito il funding nei giorni inframese, il cui credito veniva artificialmente ridotto a fine mese (la scrittura era: D: corrispondenti; C: Morgan).

In conseguenza di queste irregolari contabilizzazioni - come rileva anche la Relazione Petti - veniva falsificata con frode la situazione contabile di fine mese della Filiale e tutta la reportistica cui la stessa dava origine, sia negli Stati Uniti che in Italia. Veniva infatti falsamente ridotta sia l'effettiva esposizione verso la RAFIDAIN BANK, sia la reale consistenza delle passività verso i corrispondenti.

Questa tecnica avrebbe potuto essere scoperta se fosse stato effettuato un attento controllo sulle differenze tra i saldi inframese e quello di fine mese del(i) conto(i) della RAFIDAIN BANK e di altri corrispondenti (quelli che fornivano il funding, sia pure tramite brokers).

Secondo la Relazione Petti (p. 28), "adottando "tale sistema, la situazione contabile di fine mese di BNL "Atlanta, l'unica che per procedura veniva inviata a Roma, "non comprendeva né le passività (a nome dei corrispondenti "che avevano fornito il funding) né le attività "(rappresentate dal credito nei confronti di RAFIDAIN); "peraltro la situazione contabile giornaliera poteva essere "rilevata quotidianamente dal Regional Management".

I movimenti contabili giornalieri di Atlanta pervenivano anche alla Ragioneria Generale, per la riassunzione nel "giornale bollato". Ma, come si è già detto e fatto presente anche in altre relazioni, note a codesta Commissione, ai fini del giornale bollato viene segnalato alla Ragioneria Generale soltanto il totale dei movimenti giornalieri a debito ed a credito di ciascuna delle voci di mastro, di cui si è detto. La Ragioneria Generale, pertanto, anche se avesse voluto effettuare un qualche controllo, a causa del sistema delle procedure elaborative in uso non avrebbe avuto modo di rendersi conto della irregolarità, sia perché, come si è accennato, i movimenti venivano indicati solo nei loro totali giornalieri, a debito ed a credito di ciascuna voce di mastro, sia perché non poteva ricostruire i saldi di fine giornata dei singoli conti attraverso i movimenti globali di ciascuna giornata delle voci di mastro in cui i conti suddetti erano aggregati.

II.- Dall'agosto 1987, forse per la difficoltà - sottolinea la Relazione Petti - di continuare con il suddetto metodo in presenza di due sistemi contabili ufficiali funzionanti in parallelo, per la migrazione dal vecchio sistema BNL al nuovo MANTEC, la Filiale di Atlanta introdusse il cosiddetto "grey book", avvalendosi di un hardware, denominato CPT, che memorizzava un sofisticato "Word Processor", capace di eseguire anche le quattro operazioni aritmetiche. Tale word processor - apparentemente acquisito

come sistema di video scrittura - consentiva di predisporre elenchi dei finanziamenti da occultare e del relativo funding, con tutti i necessari riferimenti: al contratto cui si riferivano le singole operazioni, al nominativo del debitore e del beneficiario, alle scadenze dei finanziamenti e della provvista, alle relative condizioni, ecc.

Soltanto due delle numerose apparecchiature CPT presenti nella Filiale (ed anche a casa di dipendenti infedeli) erano munite di "hard disk", in cui erano inseriti i dati del grey book, ma esse non erano direttamente collegate con i sistemi contabili ufficiali. Tutti i CPT, per contro, erano direttamente collegati alle apparecchiature telex. In relazione, qualunque operatore capace di usare il CPT, con i suoi programmi, era in grado sia di modificare o anche distruggere i files ed i programmi presenti sulle due unità con hard disk, sia di predisporre e di lanciare messaggi telex per qualsiasi destinazione. Tutto ciò concorre a spiegare sia l'esistenza, acclarata post 4.8.89, di messaggi telex falsificati, sia la relativa facilità con cui le annotazioni relative ai grey books sparivano dai CPT all'arrivo, peraltro annunciato, degli auditors e ricomparivano ad allarme ultimato.

Non è forse superfluo sottolineare che le suddette tecniche di occultamento risultano introdotte (dall'agosto 1987) mentre la struttura della Direzione Generale ancora prevedeva il cosiddetto S.A.I. e non era entrata in vigore la ristrutturazione deliberata nel gennaio 1988, la cui applicazione negli Stati Uniti fu, peraltro, a lungo rinviata dal Dr. Sardelli.

Con l'introduzione dei "grey books" la Filiale di Atlanta modificò i criteri di contabilizzazione delle partite da mantenere occulte, avviando la tecnica del pareggio giornaliero delle scritture eseguite nel conto di clearing con la Morgan mediante scritturazione del conseguente sbilancio a credito, ovvero a debito (a seconda del segno) del conto di comodo della ENTRADE.

In altri termini, dopo aver diligentemente annotato nei grey books i singoli movimenti registrati in dare del conto MORGAN (per l'acquisizione di nuovo funding e/o per il pagamento da parte di RAFIDAIN di quanto scaduto per interessi e rimborso di capitale), nonché quelli registrati in avere dello stesso conto MORGAN (per il rimborso del funding scaduto, comprensivo degli interessi maturati, e/o per l'erogazione di crediti a favore di RAFIDAIN), la Filiale di Atlanta pareggiava i movimenti della giornata del conto Morgan, iscrivendo lo sbilancio tra dare e avere in contropartita con il conto di comodo della ENTRADE.

In relazione, le tracce che dall'agosto 1987 rimanevano nella situazione contabile ufficiale di fine mese della Filiale di Atlanta e quindi della Banca erano ancora più confuse di quanto si è detto sub I), e la Ragioneria Generale continuava a non essere in grado di accorgersi a Roma dell'irregolarità commessa ad Atlanta. Infatti, lo sbilancio giornaliero che affluiva a debito o a credito del conto ENTRADE - rilevato giornalmente, ma confuso nel maggiore movimento totale della voce di mastro "Conti correnti con clienti, in valuta locale" - compensava una pluralità di movimenti, in dare e in avere, di un'altra voce di mastro: "Conti correnti con corrispondenti, in valuta locale". A fine mese la voce di situazione dei conti con corrispondenti presentava un saldo che in parte era stato dolosamente modificato in contropartita con il saldo della voce conti correnti con clienti, per effetto dei continui sbilanci giornalieri contabilizzati come prima illustrato.

III.- Rileva ancora la Relazione Petti che, a partire dal 7.11.88 (cioè dopo la prima ispezione Messere), per l'attività fraudolenta riguardante la RAFIDAIN BANK, la Filiale cominciò ad operare, in contropartita sempre con il conto di clearing della MORGAN, con un conto di comodo intestato alla stessa RAFIDAIN, per il che fu anche costruito un falso telex contenente la richiesta del corrispondente iracheno di aprire un conto corrente a suo nome.

Analogamente, per le operazioni non autorizzate connesse con la CBI, la contropartita del conto Morgan era costituita da un conto di comodo acceso al nome della Central Bank of Iraq. Tale conto fu operativo dal 17.11.88 al 4.8.89.

Su entrambi i suddetti conti di comodo (RAFIDAIN e CBI) le operazioni erano iscritte singolarmente in contropartita con il conto MORGAN, ma ancora una volta i saldi dei suddetti conti compensavano addebiti ed accrediti irregolari.

Con questa terza e più recente tecnica di frode, infatti, la Filiale di Atlanta iscriveva in ciascuno dei conti di comodo Rafidain e CBI, in contropartita con il conto Morgan, ogni transazione di addebito e accredito pertinente l'attività fraudolenta di finanziamento e di funding, ma continuava a provocare irregolari compensazioni tra i crediti accordati ad un corrispondente (Rafidain o CBI, nella specie) ed i debiti conseguenti al funding ottenuto da diversi corrispondenti. In altri termini, il destituito management della Filiale di Atlanta incrociava le singole scritture del c/ Morgan, ma finiva col compensare impropriamente debiti e crediti vantati nei confronti di soggetti diversi in un unico conto di comodo acceso a nome del debitore; conto, che, a seguito della suddetta irregolare movimentazione, finiva col

risultare nella contabilità ufficiale con saldo a credito della Rafidain.

In particolare, ogni partita di grey book di competenza della RAFIDAIN (o di CBI) transitava per il conto di clearing della Morgan e veniva contabilizzata, in contropartita: a debito del nuovo conto RAFIDAIN (o CBI) quando si trattava di erogazione di credito a favore della banca irachena e/o di rimborso del funding scaduto; a credito del nuovo conto RAFIDAIN (o CBI) quando invece si trattava di nuovo funding per il finanziamento dei crediti occultati e/o del pagamento degli interessi da parte di Rafidain (o CBI) e/o delle rate scadute, relativamente a precedenti erogazioni.

Così operando, la Filiale aveva cura di far sì che entrambi i suddetti conti di comodo chiudessero ogni giorno in equilibrio o comunque con saldi creditori, al fine di evitare indesiderati rilievi da parte della Direzione Centrale e degli Organi di controllo e revisione.

Ancora una volta la traccia che le operazioni non autorizzate hanno lasciato nella contabilità ufficiale della Filiale e quindi della Banca è costituita dai movimenti giornalieri sui conti creditori accesi su richiesta (falsa) dei corrispondenti iracheni, oltre che sul noto conto di clearing con la Morgan, nonché dai saldi di fine periodo dei conti stessi, che per le ragioni su esposte continuavano a rendere falsa la situazione contabile di fine periodo, a causa delle citate compensazioni.

G) IL CONTO DI CLEARING CON LA MORGAN

Al riguardo sembra opportuno ricordare alcuni fatti posti in evidenza nella Relazione Petti:

- in base ad un'istruzione del 30.11.84 tutte le Filiali statunitensi dovevano operare per la gestione della loro tesoreria esclusivamente tramite la Filiale di New York (v. all.41 alla suddetta Relazione);
- questa disposizione venne confermata dal S.A.I. (Servizio Attività Internazionali) nel fascicolo "Riferimenti operativi per la tesoreria in valuta estera" (aggiornato al 31.12.1987), che con lettera del 12.1.88 venne inviata dalla Direzione Generale anche al Dr. Sardelli, allora Direttore dell'Area Nord e Centro America (v. all.40 alla ripetuta Relazione);

- ciò nonostante, con lettera 13.4.88 (v. all.42 alla stessa Relazione), il Dr. Sardelli autorizzò tutte le Filiali dell'Area ad approvvigionarsi direttamente sul mercato qualora le condizioni offerte fossero state migliori di quelle praticate dalla Filiale di New York. L'ispezione non ha ritrovato autorizzazioni verbali o scritte che avessero autorizzato il Dr. Sardelli ad emanare tale disposizione, che era in palese contrasto con la norma generale prima ricordata;

- il conto della Filiale BNL di Atlanta presso la MORGAN è risultato disciplinato da una convenzione che risaliva al 18.1.84, ancor prima cioè che il Drogoul assumesse l'incarico di direttore della Filiale, in contrasto con le norme allora vigenti. Durante l'ispezione non sono stati però rilevati né l'autorizzazione, né i motivi che ne giustificassero l'accensione. Peraltro, fino alla suddetta autorizzazione del Dr. Sardelli del 13.4.88, nessun auditing interno aveva rilevato l'irregolarità ed è stato accertato che l'esistenza del conto era nota al S.A.I., almeno dal maggio 1987. E' questo un altro segno evidente delle carenze dei controlli interni;

- il Sig. Di Manno, ex tesoriere della Filiale BNL di New York, avrebbe informato il Dr. Sardelli, ancor prima del 13.4.88, che le iniziative del Drogoul per acquisire fondi direttamente sul mercato o dai brokers creava spesso distorsioni onerose nei flussi di liquidità della tesoreria di New York. Ma la Relazione Petti rileva che nessuna iniziativa venne presa per acclarare ed eliminare l'irregolarità.

E' inoltre da precisare - tenuto anche conto di certe errate informazioni recentemente diffuse dalla stampa italiana - che il rapporto con la Morgan prevedeva per la Filiale di Atlanta soltanto il pagamento:

- degli interessi relativi all'eventuale scoperto di conto corrente. In genere l'addebito avveniva all'inizio di ciascun mese, con riferimento agli scoperti verificatisi nel mese precedente;
- di una commissione cosiddetta "Balance Shortfall Fee", dovuta cioè ogni qualvolta il saldo del conto risultava a credito della Filiale di Atlanta, ma per un importo inferiore al minimo convenuto (\$ 1 milione). Risulta che a questo titolo la Filiale di Atlanta ha corrisposto alla Morgan i seguenti importi: \$ 31,852 nel 1986; \$ 23,456 nel 1987; \$ 45,636 nel 1988; \$ 39,503 nei primi quattro mesi

1989. Tali commissioni non trovavano peraltro analitica appostazione nel conto economico della Filiale.

Da quanto precede emerge, comunque, che nessuna commissione veniva corrisposta dalla Filiale di Atlanta alla Morgan in relazione all'entità dei movimenti verificatisi sul conto della corrispondente.

* * *

A conclusione dell'integrazione di questo paragrafo, sembra opportuno ricordare quanto già rilevato nel pro-memoria del 3.11.89, già a mani di codesta Commissione.

Si precisava in quel documento, tra l'altro, che:

- "ciascuna Filiale all'estero ha un proprio piano dei conti ("general ledgers"), articolato in modo che ogni conto "elementare possa essere aggregato, al fine di comporre in "modo corretto non solo le situazioni periodiche dei conti "da rendere di dominio pubblico, ma anche quelle da inviare "agli Organi locali di Vigilanza e, tramite la Direzione "Centrale, all'Organo di Vigilanza italiano";
- l'insieme delle dieci Filiali all'estero accentrava, alla fine del 1988, il 60% della raccolta BNL da banche ed il 67% degli impieghi per cassa a favore di banche. La Filiale di Atlanta, da sola, incideva sul totale delle Filiali all'estero: per il 3% della raccolta da banche e per il 2,7% degli impieghi per cassa a banche. Estendendo il confronto all'intero bilancio BNL, la partecipazione di Atlanta si riduceva a circa l'1,8% sia della raccolta da banche, sia degli impieghi per cassa a favore di banche. Superfluo rilevare che tale confronto riguarda soltanto l'attività che Atlanta contabilizzava ufficialmente, a quella data;
- ancora meno rilevante l'incidenza sul totale BNL dei movimenti giornalieri contabilizzati da Atlanta, che pure riportavano tutto il movimento a debito ed a credito del conto Morgan: per l'intero 1988 il totale dei movimenti giornalieri di Atlanta è stato infatti pari solo allo 0,037% dell'importo relativo al totale dei movimenti BNL a livello mondo; per il primo semestre 1989, la stessa quota è risultata pari allo 0,043%. Oltre che del tutto trascurabile, l'incidenza dei movimenti di Atlanta, per la massima parte conseguente ai rapporti con corrispondenti, appare adeguata al peso che la Filiale aveva nel saldo di

fine anno dei rapporti di debito e credito con corrispondenti, di cui si è detto.

* * *

""INTESE RAGGIUNTE CON GLI IRACHENI

12) *""Subito dopo la scoperta delle irregolarità si è cercato di chiarire con le Autorità irachene le modalità delle operazioni, l'entità dell'esposizione e, soprattutto, di definire, nel quadro di un nuovo negoziato, i reciproci rapporti ed obblighi nascenti dalle transazioni condotte dalla Filiale di Atlanta. Si rammenta, infatti, che gli atti posti in essere nei confronti di terzi "in buona fede" da una Banca internazionale sono considerati validi e vincolanti, se rispondono a requisiti formali, ancorché posti in essere da funzionari privi di poteri di delibera e quindi irregolari ed illeciti all'interno della Banca.""*

* * *

12) I motivi che hanno spinto BNL ad un negoziato con le Autorità irachene furono dettagliatamente evidenziati nella relazione presentata al Consiglio di Amministrazione della Banca il 24.1.90 - già a mani di codesta Commissione - quando fu deliberata l'esecutività dell'accordo siglato a Ginevra il 20.1.90.

Si rilevava in quella sede che, dopo "approfondito esame", "alla stregua dei pareri resi dagli avvocati "statunitensi (i quattro Agreements erano soggetti alla "giurisdizione dello Stato della Georgia), pareri condivisi "dai legali italiani, ne è scaturito il convincimento che "un'azione tendente all'accertamento di responsabilità delle "controparti irachene avrebbe esposto la Banca, in difetto di "prove sufficienti in sede processuale (1), al rischio di "pesanti conseguenze di carattere risarcitorio nonché, in via "immediata, all'interruzione del pagamento degli interessi e,

(1) E' da sottolineare che all'epoca si era in attesa dell'"indictment" e che le presumibili prove in possesso della Banca non erano certamente tutte quelle di cui ha potuto disporre la Magistratura americana per rinviare a giudizio - come ha fatto il 28.2.91 - la RAFIDAIN BANK e alcuni alti funzionari iracheni.

"in prospettiva, a serie incertezze sullo stesso rimborso
"del capitale.

"Peraltro, quand'anche dovesse in futuro emergere
"la prova - o presunta tale - della complicità da parte
"irachena (rectius: di determinati funzionari iracheni) si è
"imposta all'attenzione della Banca la considerazione
"fondamentale che essa si trova ad avere già erogato o
"comunque irrevocabilmente impegnato verso terzi beneficiari
"una somma pari a circa il 72% dell'importo totale previsto
"dai quattro contratti in oggetto e che comunque la Banca,
"per la parte residua non impegnata, resta obbligata nei
"confronti della controparte irachena fino ad un'eventuale,
"peraltro improbabile, pronuncia di nullità dei contratti di
"finanziamento.

"In definitiva, l'apertura di un contenzioso con
"l'Iraq avrebbe comportato l'unico beneficio di evitare le
"ulteriori residuali erogazioni a valere sui contratti, ma in
"ogni caso avrebbe pregiudicato il rimborso di quanto già
"erogato, lasciando la Banca esposta alle azioni legali dei
"terzi beneficiari e degli stessi iracheni, con conseguenze
"patrimoniali, gestionali e d'immagine che si sarebbero
"ripercosse negativamente sulla Banca per un lungo periodo".

D'altra parte, come risulta dai conteggi di cui si
è detto al precedente punto n. 11, sub B e C, all'epoca delle
trattative con le Autorità irachene, l'esposizione globale di
BNL verso l'Iraq raggiungeva 1.925 milioni di \$ già erogati
per cassa, cui erano da aggiungere 716 milioni di \$ per
impegni già formalizzati. Oltre 2.640 milioni di \$ (pari ad
oltre 3.430 miliardi di lire), in totale, senza considerare
le promesse di affidamento (i cosiddetti "commitments"), che
sommavano a 226 milioni di \$ per la parte nota e non erano
valutabili per la parte ancora occulta (le cosiddette "silent
confirmation").

Si trattava quindi di un rischio eccezionalmente
elevato, che poteva ulteriormente crescere se la Magistratura
statunitense avesse rigettato - come sembrava quasi certo,
secondo il Collegio di difesa della Banca - tutti i tentativi
della Banca di non evadere le richieste di ulteriore
applicazione dei quattro Agreements, che da parte irachena
erano considerati assolutamente vincolanti per BNL.

Un irrigidimento da parte di BNL avrebbe inoltre
comportato immediatamente non solo l'interruzione del
pagamento degli interessi sui 1.020 milioni di \$ già erogati
alla CBI, ma anche la sospensione dei rimborsi, per capitale
e interessi, da parte di Rafidain Bank e Rasheed Bank, con

ulteriori pesanti ripercussioni sul conto economico della Banca e quindi sulla sua immagine, anche internazionale.

Non rimaneva pertanto altra strada che un accordo negoziale, tanto più che all'epoca (fine 1989) sembrava che l'economia irachena si stesse riprendendo e che altri Paesi, come Giappone e Germania, si affacciavano sul mercato in qualità di possibili finanziatori della ripresa economica dell'Iraq.

La definizione di un negoziato con gli iracheni - d'intesa, peraltro, con le Autorità italiane di Governo (i Ministri del Tesoro, degli Esteri e del Commercio Estero) e di Vigilanza - poteva, come di fatto è avvenuto, dare certezza ai limiti del contratto, limitandone gli effetti negativi e l'uso improprio.

Superfluo precisare che tutte le decisioni inerenti i rapporti con gli iracheni venivano collegialmente anche discusse con gli avvocati italiani e statunitensi; e che le decisioni erano unanimi da parte del Presidente, dell'allora Direttore Generale e dei tre Vice Direttori Generali (Croff, D'Addosio e Gallo).

* * *

13) "I primi approcci con le Autorità irachene non sono stati fruttuosi per il totale irrigidimento della controparte sul principio dell'obbligo di BNL di ottemperare agli accordi originari. Successivamente, dopo l'insediamento dei nuovi vertici della Banca, ed anche grazie all'opera della diplomazia italiana, sono stati aperti canali di trattativa che sono sfociati in due incontri, a Tunisi ed a Ginevra, durante i quali si sono poste le basi di un negoziato sfociato nel noto accordo del 20 gennaio 1990.

"Alla base dell'accordo vi è lo sforzo di BNL di ricondurre una parte delle operazioni impegnate ma non ancora allocate (per oltre 560 milioni di dollari) a forniture di imprese italiane e di dare certezza ai termini ed alle modalità di rimborso."

* * *

13) L'indicato irrigidimento della controparte irachena trova conferma anche nel ricordato "indictment" del Magistrato americano, il quale ha messo in evidenza che, dopo il 4.8.89, la "BNL avrebbe e di fatto ha continuato ad effettuare esborsi alla Repubblica dell'Iraq a valere sui quattro accordi di finanziamento non garantiti a medio

"termine della BNL di Atlanta e su altri impegni non
 "garantiti della BNL di Atlanta, a causa di dichiarazioni e
 "pretesti falsi e fraudolenti degli accusati Sadik Hasson
 "TAHA, Abdul Munim RASHEED e Raja Hassan ALI ed altri
 "dirigenti della CBI e del Ministero dell'Industria e della
 "Produzione Militare, ivi incluse dichiarazioni che:

"a) La Repubblica dell'Iraq aveva accordi di
 "prestiti a medio termine validi, impegnativi e legalmente
 "esecutivi con la BNL di Atlanta ammontanti a US \$ 2,155
 "milioni.

"b) I Ministeri, gli Enti e gli Organismi del
 "Governò dell'Iraq, ivi inclusi la CBI ed il Ministero
 "dell'Industria e della Produzione Militare non avevano
 "alcuna cognizione che l'accusato Christopher P. DROGOUL
 "fosse privo dei necessari poteri ed autorizzazioni per
 "questi accordi di credito.

"c) Tutti gli esborsi a valere sugli accordi di
 "prestiti a medio termine, passati e futuri, sono stati ed
 "avrebbero continuato ad essere relativi a prodotti, attività
 "e progetti di natura civile."

Il Magistrato americano prosegue affermando
 nell'"indictment" che, dopo il 4.8.89, "la BNL avrebbe e di
 "fatto ha continuato ad effettuare esborsi a valere sui
 "quattro accordi di credito a medio termine non garantiti con
 "la Repubblica dell'Iraq, in conseguenza delle dichiarazioni
 "degli accusati Abdul Munim RASHEED e Raja Hassan ALI e di
 "altri dirigenti della CBI e del MIMP che il rimborso da
 "parte dell'Iraq degli US \$ 1,016 milioni già erogati da BNL
 "di Atlanta - e gli oltre US \$ 500 milioni in lettere di
 "credito della CBI già confermate dalla BNL di Atlanta - era
 "subordinato all'erogazione da parte della BNL di ulteriori
 "US \$ 600 milioni circa, sebbene non confermati, a valere
 "sugli accordi di credito a medio termine tra l'Iraq e la BNL
 "di Atlanta".

* * *

14) *"Si è inoltre ottenuto l'impegno della Central Bank of Iraq a
 costituire depositi collaterali e cancellare le lettere di credito emesse dal
 Drogoul a favore di imprese possedute da iracheni."*

"La CBI ha puntualmente corrisposto gli interessi dovuti sugli utilizzi in essere relativamente ai quattro accordi; i rimborsi in linea capitale avranno inizio a partire dal 1995."

"Nel febbraio 1990 sono state riconciliate con le Autorità irachene tutte le posizioni CBI e gran parte di quelle con due banche commerciali governative (la Rafidain e la Rasheed)."

* * *

14) Il testo dell'accordo siglato a Ginevra il 20.1.90 è già noto a codesta Commissione.

Tuttavia sembra opportuno ricordare in questa sede taluni degli aspetti migliorativi della posizione della Banca, come emergono dalla citata relazione presentata al Consiglio di Amministrazione il 24.1.90:

a) riclassificazione degli impegni e dei residui:

- un importo pari a \$ 70 milioni, per lettere di credito confermate, ma ancora da utilizzare da parte della MATRIX CHURCHILL Ltd. e della MATRIX CHURCHILL Corp. è stato depennato. Un pari importo è stato considerato come residuo disponibile per CBI, con conseguente riduzione degli impegni già assunti da BNL;
- due L/C non ancora confermate da BNL per \$ 114 milioni, a favore della GENERAL MOTOR Corp. sono state eliminate dai "sospesi" e l'importo è tornato nel residuo disponibile per CBI;
- per il totale residuo (stimato in 435 milioni di \$ al 12.1.90, ma risultato poi pari a 566 milioni in sede di riconciliazione dei saldi successivamente effettuata a Bagdad) si è ottenuto l'impegno che gli iracheni lo avrebbero utilizzato per due terzi (almeno 240 milioni di \$) per il finanziamento di importazioni dall'Italia e per il residuo terzo per il finanziamento di importazioni dall'Italia e/o da altri Paesi;
- si è altresì ottenuto l'impegno che almeno 150 milioni di \$ della suddetta quota destinata al finanziamento delle esportazioni dall'Italia dev'essere utilizzata dall'Iraq solo per finanziare il 15% dei pagamenti anticipati relativi a contratti assicurati dalla SACE e finanziati da BNL, aventi un valore non inferiore ad un miliardo di \$. La parte dei 150 milioni che non venisse utilizzata ai suddetti fini entro il 31.12.1995 sarebbe stata eliminata dall'impegno residuo di BNL;

- b) mantenimento di un collaterale. Gli iracheni si sono impegnati a mantenere mediamente presso le filiali BNL depositi per un importo compreso tra 80 e 100 milioni di \$ a tutela del rimborso alla Banca. Ciò significava avere la copertura di circa sei mesi di interessi quando le erogazioni avessero raggiunto l'intero ammontare dei quattro accordi, cioè \$ 2,155 milioni;
- c) clausole migliorative sotto il profilo amministrativo e giuridico: definizione delle date di scadenza dei periodi di utilizzo e di ammortamento; razionalizzazione delle procedure contabili e accordi per la riconciliazione periodica dei saldi; soluzione dei problemi derivanti dalla difformità dei testi dei crediti documentari confermati da Atlanta ai beneficiari rispetto a quelli emessi da CBI; reciproca rinuncia a pretese per danni derivanti da eventi occorsi in relazione ai contratti di finanziamento, fino alla data dell'accordo.

E' altresì da ricordare che nel febbraio 1990 è stata effettuata a Bagdad la riconciliazione dei saldi con la CBI. Ne è risultata un'esposizione complessiva per cassa, al 31 gennaio 1990, di \$ 1,135 milioni, oltre a impegni già formalizzati (L/C confermate ancora da utilizzare in tutto o in parte) per \$ 454 milioni. Come emerge dalla tabella allegata si trattava di soli \$ 20 milioni in più rispetto alla nostra ricostruzione al 4.8.89; differenza dovuta alle poche erogazioni autorizzate dalla Direzione Centrale nel periodo fino al 31 gennaio 1990. Ben diversa però la distribuzione per "Agreement", con slittamento verso quelli a interessi più bassi, soprattutto per gli importi già erogati.

E' infine da precisare che l'indicazione del 1995 come epoca di avvio dei "rimborsi in linea capitale" si riferiva al fatto che da allora avranno luogo i rimborsi più significativi sui quattro agreements; prima sono previste scadenze per ammontari relativamente molto meno importanti.

* * *

15) "Come precisato nella relazione al bilancio BNL per il 1989, dopo l'indicato accordo di Ginevra e tenuto conto delle pratiche in essere, non è stato ritenuto necessario costituire accantonamenti specifici a fronte delle posizioni fin qui indicate. Peraltro sono stati adeguatamente rafforzati i fondi rischi che non hanno specifica allocazione e quindi fronteggiano il rischio generico d'impresa, incluso il cosiddetto "Rischio Paese" che ovviamente

comprende anche l'Iraq: tali fondi, e quelli specifici ammontano attualmente, nell'insieme, a 1.470 miliardi di lire."

* * *

15) Nel bilancio BNL per il 1990 si è dato anche notizia delle conseguenze del conflitto del Golfo e dei mancati pagamenti da parte irachena, sottolineando che al 31.12.90 gli interessi impagati dall'Iraq, tra scaduti e maturati dopo il 2 agosto, ammontavano a: "L. 84.347.580.000 per la C.B.I.; L. 12.903.599.019 per la Rafidain Bank; e L. 3.886.738.245 per la Rasheed Bank; per un totale di 101,1 miliardi di lire, interamente accantonati al Fondo rischi su crediti per interessi di mora".

"Dopo il cessate il fuoco di fine febbraio 1991 - continua la Relazione al bilancio BNL per il 1990 - la situazione politico-economica in Iraq appare in fase di profonda trasformazione. Solo la definitiva soluzione della crisi del Golfo, il ripristino dell'ordine interno e l'avvio del processo di ricostruzione del Paese consentiranno valutazioni e previsioni sul futuro dell'Iraq. Alla luce di queste considerazioni, pure in presenza di un rischio sovrano e della garanzia della Banca centrale, e nonostante la non avvenuta scadenza del debito per la parte capitale, BNL ha proseguito negli accantonamenti che, alla fine del 1990, raggiungono per il Gruppo un totale di 1.230 miliardi e rappresentano quindi il 51% delle esposizioni totali non garantite verso i Paesi in via di sviluppo (PVS), compreso l'Iraq".

o o

""PROVVEDIMENTI STRETTAMENTE CORRELATI CON I FATTI DI ATLANTA, PRESI DOPO IL 4 AGOSTO 1989 O IN CORSO DI ATTUAZIONE.

16) *"La vicenda di Atlanta ha comunque evidenziato lacune nelle maglie dei controlli dell'organizzazione estera della Banca, cresciuta molto rapidamente rispetto alle risorse disponibili. Si è pertanto deciso di adottare tutta una serie di provvedimenti anche di rafforzamento strutturale, già ricordati dal Ministro del Tesoro nella sua relazione del 22 maggio 1990 a codesta Commissione.*

"Il Ministro ha ricordato infatti

"- sia l'invito che la Banca d'Italia ha rivolto a BNL "nel settembre 1989 ad assumere tempestivamente iniziative volte a recuperare il completo governo della rete estera", nonchè l'applicazione, "quale misura prudenziale di carattere immediato, di un coefficiente patrimoniale collegato al rischio aziendale più restrittivo di quello vigente per la generalità delle banche", in quanto "esso prevede una ponderazione doppia delle attività facenti capo alle dipendenze estere e delle attività detenute dall'azienda madre nei confronti delle partecipate estere";

"- sia talune delle "misure correttive" già avviate da BNL, in risposta al suddetto invito e per "migliorare le condizioni di sicurezza operativa" anche cambiando la struttura organizzativa (tra l'altro, modifica dello Statuto)."

* * *

16) Al riguardo sembra opportuno puntualizzare che, come osservato da alcuni autorevoli Membri di codesta Commissione, la Banca d'Italia, già il 9.7.1986, in sede di presentazione del rapporto sull'ispezione generale condotta in BNL dal 19.4.1985 al 4.4.1986, aveva sollevato "costatazioni in merito a carenze del sistema informativo aziendale".

Tali "costatazioni", dopo aver sottolineato che le operazioni in valuta "erano riassunte nel corso del mese "nella contabilità generale in scritture che - essendo mere "sommatorie delle singole valute nei rispettivi importi "originari, non espressi quindi nei pertinenti controvalori "in lire - risultavano in concreto scarsamente "significative", rilevavano che "le scritture riepilogative "delle Filiali all'estero si presentavano di peculiare "difficoltà, attesa la mancata uniformità dei dati elementari "derivante dalla non ancora attuata unificazione dei sistemi "di rilevazione automatica dei dati all'interno delle aree "estere".

Rispondendo alle suddette costatazioni, la Banca aveva precisato, all'epoca, che:

- a) le "sommatorie delle singole valute" nel corso del mese erano da riferire soltanto ai movimenti giornalieri riportati per movimento totale di ciascuna voce di mastro sul "libro giornale" bollato della Banca. Fu questa una scelta del 1976, all'epoca dell'introduzione in BNL del

libro giornale generale bollato, allorché fu stabilito che i movimenti giornalieri di ogni valuta estera fossero convenzionalmente rivalutati al cambio di 100 lire italiane per ogni unità di valuta, con l'obbligo di registrare a fine mese le scritture di congruaggio necessarie a pareggiare le rimanenze delle singole valute al controvalore in lire, calcolato in base ai cambi ufficiali (valutazione richiesta, tra l'altro, per le segnalazioni statistiche di Vigilanza).

Ciò non impediva peraltro che, a fini gestionali, la rivalutazione in lire delle rimanenze avvenisse anche con frequenza inferiore a quella mensile (ad es., decadale).

E' ora previsto che, con il completamento dei programmi di automazione, sarà avviato anche in Italia (come già accade per Filiali all'estero) la conversione in lire di ciascuna operazione in valuta estera, con i necessari accorgimenti per evitare implicazioni d'ordine fiscale;

- b) era già operante un apposito "gruppo di lavoro" per l'attuazione delle nuove segnalazioni di Vigilanza, il cosiddetto "Puma 2", puntualmente attivato dal 1989 per le unità operanti in Italia e dal 1990 per le Filiali all'estero. Tale gruppo ha avuto cura, tra l'altro, del coordinamento delle rilevazioni automatiche delle Filiali all'estero, e quindi dell'omogeneizzazione delle scritture elementari.

Il suddetto coordinamento ha seguito due direttrici di interventi, scelte in base alle peculiarità operative ed organizzative delle varie Aree dell'estero. Da un lato le filiali statunitensi, con New York capo zona; dall'altro lato le rimanenti filiali all'estero, con prevalenza per Londra.

A Londra, in particolare, già dal 1984 era in fase di studio e realizzazione un progetto di automazione, denominato "IBS", basato su un piano dei conti multivalutario. Nel 1987 il sistema IBS fu gestito presso Londra in parallelo con la vecchia procedura BNL e dal gennaio 1988 esso è andato a regime.

In seguito, il sistema IBS fu esteso alle Filiali di Hong Kong e Singapore.

Per le filiali statunitensi fu prescelto un progetto di automazione denominato "Mantec" (molto simile al "MIDAS"), anch'esso basato su un piano di conti multivalutario. Non si fece ricorso all'IBS, non solo perché la personalizzazione sarebbe stata troppo lunga ed onerosa,

ma anche perché il sistema IBS mal si presta ad un insieme di filiali come quello della BNL negli Stati Uniti.

Il sistema "MANTEC" cominciò ad essere impiantato nel 1986 e dal maggio 1987 ha cominciato ad essere gestito in parallelo con le vecchie procedure BNL e via via implementato. In particolare, nel marzo 1989 il "gruppo Mantec" avviò in effettivo il "package" relativo alle lettere di credito e altri conti d'impegno, caricando nel sistema centrale di New York le lettere di credito segnalate dalle singole Filiali statunitensi (Atlanta inclusa).

Il 2 maggio 1989 il vecchio sistema BNL venne completamente disattivato e tutte le filiali statunitensi dovettero lavorare solo con il sistema MANTEC.

* * *

17) *"Qui si ritiene opportuno integrare tali informazioni, segnalando in particolare i provvedimenti adottati o in corso di attuazione strettamente correlati con i fatti di Atlanta, senza trascurare che, sin dall'agosto 1989, per tutelare il suo buon nome, la Banca ha provveduto a richiedere per le nuove erogazioni e per le nuove conferme il rilascio di "affidavit" da parte dei beneficiari, attestanti la liceità delle forniture ai sensi delle norme vigenti nei rispettivi Paesi."*

"Assistenza legale

"Per affrontare le complesse e rilevanti problematiche giuridiche scaturenti dalla vicenda Atlanta, si è proceduto alla costituzione in Italia di un collegio di consulenti legali di indiscusso prestigio e valore professionale, formato da specialisti nel campo civile, commerciale, bancario, penale e internazionale.

"Altrettanto è stato fatto negli Stati Uniti in relazione sia ai rapporti con le Autorità giudiziarie e amministrative locali, sia alla necessità di valutazione degli aspetti giuridici afferenti ai rapporti con i beneficiari delle lettere di credito, soggetti alle leggi statunitensi.

"Nella conduzione della vicenda Atlanta e, in particolare, nelle decisioni più significative, BNL è stata costantemente assistita dai consulenti legali italiani e americani."

* * *

17) Si ricorda che il collegio di difesa della Banca è così costituito:

in Italia

Prof. Elio Fazzalari
 Studio Chiomenti
 Prof. Paolo Ferro Luzzi
 Prof. Giovanni M. Flick
 Prof. Cesare Pedrazzi
 Avv. Luigi Pedretti

negli Stati Uniti

Studio King & Spalding, di Atlanta - Avv. Driver ed altri
 Studio Rogers & Wells, di Washington - Avv. Rogers ed altri
 Studio Shearman & Starling, di New York - Avv. Newcomb
 (soprattutto nella fase iniziale)
 Studio MEALS, KIRWAN, GOGER, WINTER & PARKS. P.C., di Atlanta - Avv. Kirwan.

Si ricorda inoltre che, sin dal 6.9.89, BNL presentò un esposto denuncia alla Procura della Repubblica di Roma contro Drogoul e quanti altri dovessero risultare responsabili dei fatti di Atlanta e che, ancor prima dell'emissione dell'"indictment", BNL - non potendosi costituire parte civile nella procedura penale instaurata negli Stati Uniti - aveva proposto azione civile per risarcimento danni nei confronti di Drogoul e di Von Wedel. Tale azione è stata sospesa dalla Magistratura americana - come di solito accade in casi come quello che ci occupa - in attesa della definizione del procedimento penale.

Dopo l'emissione dell'"indictment" la Banca ha allo studio la opportunità di intraprendere nuove azioni civili negli Stati Uniti, nei confronti dei singoli soggetti rinviati a giudizio, nelle more del dibattimento e della sentenza finale. Al riguardo si nota che tra i rinviati a giudizio manca il Von Wedel, il quale avrebbe finora evitato l'incriminazione penale, avendo patteggiato una collaborazione con l'Autorità giudiziaria, come del resto hanno fatto anche altri ex dipendenti della Filiale BNL di Atlanta.

Intanto BNL ha anche iniziato negli Stati Uniti un'azione civile nei confronti di ENTRADE INTERNATIONAL, Ltd. e della controllante ENKA HOLDING YATIRIM, A.S..

Inoltre, sono attualmente in corso negli Stati Uniti altre otto azioni civili tra BNL e clienti, in relazione al caso Atlanta:

a) Cause promosse da BNL contro:

- XYZ OPTIONS, Inc. per ottenere il riconoscimento che a tale ditta non sono dovuti ulteriori importi. (L'azienda reclama l'inadempienza per una L/C di circa \$ 3 milioni)
- ARBED INTERNATIONAL TRADING, S.A. e RAFIDAIN BANK per ottenere il riconoscimento che alla ARBED non sono dovuti ulteriori importi. (L'azienda cerca di recuperare \$ 12.415.000 ed a tal fine ha avviato in Svizzera una procedura contro BNL).
- RD & D INTERNATIONAL, Inc. per ottenere il recupero di \$ 360,000 più interessi e spese legali. (La controparte respinge la richiesta e chiede danni per \$ 500,000)
- FLAVIO ACCORNERO WINERIES (USA), Inc. e FLAVIO ACCORNERO (come persona fisica) per ottenere il pagamento di danni per \$ 446,000 più interessi e spese legali.

b) Cause promosse contro BNL da:

- DANTZLER LUMBUR & EXPORT Co., che chiede un'ingiunzione che proibisca a BNL di effettuare qualsiasi pagamento in favore della RAFIDAIN BANK in base a una L/C emessa dalla Filiale BNL di Atlanta, per circa \$ 1.5 milioni.
- BIBRELL BROTHERS INTERNATIONAL S.A., che chiede i danni per il mancato riconoscimento di L/C che sarebbero state confermate per circa \$ 6.4 milioni. La richiesta danni è pari a tre volte l'importo non riconosciuto, più oneri e spese legali.
- W.A. ADAMS Co., Inc., che chiede l'applicazione di una L/C che sarebbe stata confermata per \$ 3,4 milioni.
- SMS HASENCLEVER GMBH, per ottenere i danni di circa \$ 6,695,000 e DM 19.920.000, più interessi e spese legali, in conseguenza del mancato adempimento per i pagamenti previsti da due L/C che sarebbero state confermate da Atlanta.

18) Revisione delle autonomie operative

""- Obbligo per tutte le filiali all'estero di subordinare alla Direzione Centrale la scelta della propria "banca tesoriera" ed alle filiali statunitensi di accentrare solo presso la Filiale di New York tutte le operazioni di provvista interbancaria (procedura che per Atlanta fu avviata sin dall'agosto 1989).

""- Dimezzati gli importi massimi che ciascuna dipendenza all'estero ed Area regionale estera possono concedere alla clientela senza la preventiva autorizzazione della Direzione Centrale. ""

19) Controlli

""- Disposizioni tendenti ad accentuare il controllo della Direzione Centrale sui seguenti rischi:

- a) rischio riveniente da attività creditizia
- b) rischio Paese
- c) rischio posizione in cambi
- d) rischio posizione di liquidità
- e) rischio posizione in tassi d'interesse
- f) limite di posizione interbancaria

""- Potenziamento numerico e qualitativo dell'Ispettorato Centrale e formalizzazione dell'apposito nucleo destinato ai controlli sulle dipendenze all'estero, secondo un piano da portare a regime in tempi relativamente brevi.

""- Passaggio degli Internal Auditors operanti all'estero alle dirette dipendenze gerarchiche e funzionali dell'Ispettorato Centrale.

""- Rilascio di una prima serie di suggerimenti operativi per lo svolgimento sistematico delle ispezioni che gli Auditors devono eseguire presso le varie dipendenze all'estero, informandone l'Ispettorato Centrale.

""- Rafforzamento dell'Organico dell'Internal Auditing Department dell'Area Nordamericana.

""- Sostituzione della Società internazionale di revisione e certificazione delle dipendenze Nordamericane, sin dal bilancio relativo all'esercizio 1989.

""- Approntamento da parte di una società internazionale di consulenza, delle norme procedurali e dei manuali operativi riguardanti l'intera rete americana.

* * *

19) Il Dr. D'Addosio osserva preliminarmente che la suddetta affermazione riguardante il "rilascio di una prima serie di suggerimenti operativi per lo svolgimento sistematico delle ispezioni che gli Auditors devono eseguire presso le varie dipendenze all'estero, informandone l'Ispettorato Centrale" si riferiva, per sintesi, al contenuto della lettera che in data 14.2.90 l'Ispettorato Centrale ha inviato al Capo dell'Auditing Department della Filiale di New York e per conoscenza al Regional Manager dell'Area Nord e Centro America ed al Direttore della Filiale di New York.

In tale lettera, già a mani di codesta Commissione, sono tra l'altro dettate norme tendenti ad eliminare tutte e tre le carenze cui il Dr. D'Addosio ha fatto prima riferimento, integrando le dichiarazioni di cui al precedente punto n. 8, sub F). Si legge infatti nella lettera che:

"7) dovranno essere effettuate richieste di conferma complete, o a campione esteso e significativo, stabilendo il principio che la richiesta va sempre rivolta agli intestatari di tutte le posizioni in essere a fronte di "operazioni in cambi, money market, commercial loans, impegni di firma ecc." (la cosiddetta "circularizzazione dei saldi, n.d.r.) "...omissis"

"9) dovrà essere effettuato un esame accurato della corrispondenza in arrivo e in partenza, dei messaggi telex e di quelli SWIFT. Per il telex e lo SWIFT dovrà inoltre essere accertata l'esistenza di adeguate norme di utilizzo e di controllo, nonché il costante rispetto delle stesse".

E' da aggiungere che, con la stessa disposizione del 14.2.90, l'obbligo della circularizzazione dei saldi è stato integrato con disposizioni riguardanti la verifica anche dei movimenti dei conti. Viene infatti prescritto, con la citata lettera, che:

"3) dovranno essere effettuate verifiche approfondite sull'attività di trading e cambi, accertando la corretta contabilizzazione delle operazioni prese in esame. Tali verifiche dovranno essere effettuate anche ricostruendo completamente l'attività di trading e cambi di alcune giornate prese a campione;"

"...omissis ..."

"5) dovrà essere verificato il movimento degli ultimi tre mesi dei conti "nostro" (cioè dei conti con altre banche,

per i quali BNL fa la rendicontazione periodica e deve autorizzare le operazioni, che può stornare se non intende riconoscerle, n.d.r.) "e conti "loro" (quelli cioè per i quali sono i corrispondenti di BNL a svolgere i predetti compiti, n.d.r.) "più significativi, effettuando "accertamenti su un campione significativo dei relativi movimenti, stabilendone la correttezza e l'esatta registrazione nella contabilità".

E' poi da aggiungere che: "il nucleo destinato ai "controlli sulle dipendenze all'estero" è numericamente cresciuto da 7 a 17 elementi; è stato approvato il piano globale di ristrutturazione dell'attività di controllo, affidata al nuovo Servizio Centrale "Controlli Tecnico Operativi" (istituito con delibera consiliare del 29.8.90), con una prospettiva temporale di tre anni (settembre 1990 - settembre 1993); sono stati intanto attuati interventi "tamponi", tendenti all'immediato presidio degli aspetti di maggiore pericolosità.

Quanto al piano globale di ristrutturazione dell'attività di controllo, con particolare riferimento alla rete dell'estero:

- Sono state istituite "Postazioni decentrate", con rafforzamento quali-quantitativo dell'organico, salito a 14 unità. In particolare sono stati sostituiti i responsabili delle postazioni di Madrid (a seguito delle dimissioni presentate il 10.6.90) e di New York (per la sostituzione del Sig. Messere, che dal 18.12.90 è stato destinato ad altro incarico), attualmente affidata ad un ispettore della Direzione Centrale.
- Alle Postazioni decentrate sono stati attribuiti compiti differenziati rispetto a quelli dell'"Ispettorato Estero Centrale" (v. istruzioni del 4.10.90 ed 8.1.91). In particolare, agli ispettori locali ("internal auditors") è stato affidato il compito di vigilare sull'affidabilità di "ambiente", attraverso:
 - * la verifica del rispetto dei controlli di linea;
 - * la verifica dell'attendibilità della base informativa, ovvero della significatività dei dati contabili trasmessi al Management locale ed alla Direzione Centrale;
 - * la valutazione, per un campione definito, del rischio insito nelle transazioni di ciascuna Filiale.
- Sono in corso di attuazione:

- * l'approntamento del manuale operativo per gli "internal auditors", avviato nel giugno 1990 e di cui è prevista l'ultimazione entro dicembre 1991, nel quale saranno anche determinati gli standards di reporting delle ispezioni;
- * la revisione e omogeneizzazione degli strumenti di analisi ("audit programs") che rispondono a criteri di uniformità metodologica. Avviata nel settembre 1990, ne è prevista l'ultimazione in dicembre 1991;
- * la realizzazione dello schedario dei controlli di linea presenti in ciascuna Filiale all'estero, di cui è prevista l'ultimazione nel giugno 1992. Ciò consentirà di rilevare in automatico i suddetti controlli di linea, permettendo verifiche a distanza da parte della Direzione Centrale;
- * l'implementazione della base informativa disponibile in Direzione Centrale attraverso l'arricchimento di contenuti del cosiddetto PUMA 2 estero (sigla delle nuove informazioni periodiche dovute all'Organo di Vigilanza), che, come previsto dalla Banca d'Italia, è andato a regime dal 1990;
- * la realizzazione del Manuale dei contenuti del piano dei conti delle Filiali all'estero, nonché del Manuale di omogeneizzazione delle tipologie di credito alla clientela ordinaria presso le Filiali stesse.

Quanto al piano di "interventi tampone", l'Ispettorato Centrale ha realizzato il primo piano tampone previsto per il periodo settembre 1990/giugno 1991, che prevedeva accertamenti ispettivi presso 10 delle 11 Filiali all'estero, con la sola eccezione di New York.

Per il secondo piano tampone, che copre il periodo luglio 1991/marzo 1992, sono state previste altrettante visite ispettive a 10 Filiali all'estero, in un più ristretto arco temporale, oltre ad un aumento dell'organico del Nucleo Estero.

Com'era programmato, nel quadro del piano tampone sono iniziati interventi dell'Ispettorato Centrale anche presso Filiazioni all'estero del Gruppo BNL. Il primo, dal 10.11.90 al 22.3.91, è stato svolto presso la BNL S.A. di Buenos Aires (Argentina); il secondo intervento, iniziato il 10.9.91, è in corso presso la BNL OF CANADA di Toronto (Canada).

E' infine da ricordare che, come si è accennato, un Ispettore della Direzione Centrale sta temporaneamente presidiando l'Area del Nord America, con il compito di:

sostituire il Chief Internal Auditor, in attesa di reperire sul mercato locale un nuovo elemento idoneo; condurre, in tale veste, accertamenti ispettivi sulle Filiali Nordamericane; aggiornare gli addetti alle Postazioni Decentrate sui nuovi orientamenti metodologici; definire un programma di addestramento esterno per gli auditors, nel rispetto delle prescrizioni delle locali Autorità di Vigilanza; collaborare all'integrazione delle norme procedurali e dei manuali operativi approntati da una Società internazionale di consulenza (la Price Waterhouse, n.d.r.).

20) Organizzazione

"- Decisione di assicurare che in tutte le dipendenze e le filiazioni all'estero i ruoli di Direttore e di responsabili dei comparti amministrativo e segreteria fidi debbano essere ricoperti soltanto da dipendenti che abbiano maturato una lunga e provata esperienza nella rete italiana.

"- Ribadito il divieto a tutte le filiali all'estero di avvalersi di procedure informatiche o di automazione non integrate e compatibili con il sistema informativo della Direzione Centrale, anche per i programmi installati su personal computers.

"- Sviluppo e attivazione di un sistema informatico per la riconciliazione automatica dei conti intrattenuti con i corrispondenti, in particolare dell'estero.

"- Messa a punto presso la Direzione Centrale del "Progetto per la ristrutturazione del sistema informativo delle filiali estere", con lo scopo di armonizzare tutti i flussi informativi provenienti dalle dipendenze estere alla Direzione Centrale, con particolare riguardo ai rischi delle operazioni internazionali creditizie e finanziarie.

* * *

20) Al suddetto "Progetto", in fase di studio e progressiva attuazione, anche avvalendosi di società di consulenza di standing internazionale, sono da collegare le recenti realizzazioni:

- della RETE BNL: cioè di una rete di comunicazione fonia e dati fra le Filiale all'estero ed il Centro Elaborazione Dati di Roma. E' stata così snellita la gestione delle segnalazioni da e verso la Direzione Centrale e sono state migliorate l'assistenza e la distribuzione del software per la rete periferica all'estero;

- del cosiddetto "GAP REPORT": un report elaborato in Direzione Centrale, che è in grado di fornire un'analisi degli scostamenti di tesoreria per fasi temporali. La procedura - in via di ultimazione - prevede un flusso da e verso la Direzione Centrale e le Filiali all'estero e permette al competente Servizio Centrale di ottenere una situazione consolidata giornaliera relativa alle sale cambi operanti nelle Filiali all'estero;
- dell'introduzione automatica nel sistema informativo centrale della Banca dei dati riguardanti le facilitazioni e le relative garanzie deliberate dalle Filiali all'estero (sia nei loro limiti di autonomia, sia in quelli deliberati dall'Area competente e/o dalla Direzione Centrale) a favore di banche;
- dei flussi in automatico (tranne che per Parigi e Madrid) di dati relativi alle posizioni di rischio delle Filiali all'estero per la formazione della Centrale dei Rischi del Gruppo BNL, che dal 30.6.91 è già operante per oltre 80.000 posizioni che rappresentano circa l'85% della clientela dell'intero Gruppo BNL, avente affidamenti singoli superiori a 200 milioni. Allo stato, affluiscono alla nuova Centrale Rischi di Gruppo le segnalazioni riguardanti: l'intera rete BNL, in Italia e all'estero; le sette Sezioni di Credito speciale; altre 5 delle aziende controllate italiane. Ulteriori utenti sono in via di collegamento.

Sotto l'aspetto organizzativo delle Filiali Nordamericane è altresì da ricordare che in data 8.3.91 la Banca ha concordato con la **Federal Reserve** il cosiddetto "Cease and Desist Order" che il Board of Governors del **Federal Reserve System** ha emesso in data 9.3.91.

Si tratta, in sostanza, di un impegno da parte della Banca a seguire certe regole di comportamento, concordate con le Autorità di Vigilanza. L'accordo prevede tra l'altro che BNL ha l'obbligo di comunicare trimestralmente, tramite la **Federal Reserve Bank** di New York, lo stato di avanzamento del Programma. Adempimenti cui la Banca ha già provveduto in data 30.4.91 e 30.7.91, comunicando i seguenti progressi riguardo alle disposizioni previste dal citato "Cease and Desist Order":

- completamento dei manuali relativi a:

- * "Credit Policies and Procedures", già distribuito alle cinque Filiali Nordamericane;
- * "Compliance function project plan", di cui è in corso

di preparazione apposito manuale di istruzioni;

* "Records Management", di cui è in fase di perfezionamento il piano di tenuta degli archivi;

- completamento della revisione e dell'integrazione del manuale "EDP Operations Control" e dell'"EDP Audit Plan" da parte degli Auditors interni, che prevede la riduzione del ciclo di ispezioni da 33 a 24 mesi.

Sono state inoltre inviate le richieste informazioni su:

* ammontare delle riserve a copertura dei cosiddetti "transfer risks". E' stato precisato al riguardo che nel bilancio 1990 la Banca ha evidenziato 850 miliardi di lire di riserve a copertura del generico rischio d'impresa, incluso il "rischio Paese"; e che tale importo era pari al 36,50% dei crediti non garantiti verso i Paesi in via di sviluppo (i cosiddetti PVS), compreso l'Iraq. Tale percentuale di copertura raggiungeva il 51% a livello Gruppo BNL.

* la possibilità di decentrare negli Stati Uniti parte delle riserve a fronte del "rischio Paese", specificando che l'accentramento presso la Direzione Centrale della gestione del "rischio Paese" consente alla Banca un maggiore controllo; e che, ovviamente, la Direzione Centrale è pronta a fornire al FED tutte le informazioni e assicurazioni che dovessero rendersi necessarie.

E' infine da aggiungere che in data 21.3.91 la Banca ha raggiunto un accordo con la FED in merito alla pretesa applicazione della riserva obbligatoria sui depositi acquisiti fraudolentemente dal destituito management della Filiale di Atlanta, ancorché tali depositi non risultassero dai reports ufficiali e la loro provenienza annotata sui "grey books" li avrebbe dovuti far considerare esenti dall'obbligo di riserva se fossero stati ufficializzati. A seguito di tale accordo, la Banca ha dovuto effettuare presso la Federal Reserve Bank di Atlanta un deposito di US \$ 41,123,076.92, infruttifero per il periodo dal 21.3.91 al 16.9.92.

* * *

21) Provvedimenti disciplinari

"A partire dal 7 agosto 1989 fu nominato direttore della Filiale di Atlanta un Ispettore Superiore della Banca, con particolare esperienza, in sostituzione del precedente Direttore, Mr. Christopher Drogoul."

"Sempre a partire dal 7 agosto 1989 gli altri 18 dipendenti della Filiale di Atlanta - 8 funzionari e 10 impiegati ed ausiliari, tutti di ruolo estero - furono affiancati e strettamente controllati dai 18 funzionari ed impiegati via via inviati dalla Direzione Centrale e da altre filiali italiane per fronteggiare le esigenze operative, in aggiunta al nucleo ispettivo (5-8 elementi) ed a dipendenti (3-5) delle altre filiali americane, che si sono avvicendati in missioni di durata prolungata. Un così consistente numero di addetti è stato indispensabile per il riordino amministrativo contabile della Filiale e per collaborare alle laboriose ricerche necessarie anche alle Autorità inquirenti, compresi gli Organi di Vigilanza italiani e statunitensi."

"La Banca ha adottato provvedimenti di sospensione dal rapporto di lavoro nei confronti, oltre che di Mr. Drogoul anche degli altri sette funzionari e di due degli impiegati di Atlanta, non appena, secondo il parere dei consulenti legali, poteva considerarsi cessata la necessità di trattenerli in servizio, ovvero emergevano presunzioni di responsabilità tali da consentirne l'allontanamento."

"Tali provvedimenti sono sfociati tutti in successivi licenziamenti o dimissioni, sempre concordati con il Collegio dei consulenti legali della Banca."

"A carico dei rimanenti nove dipendenti di Atlanta (impiegati e personale d'ordine, di ruolo estero) non sono finora emersi fatti di rilievo, per quanto a conoscenza della Banca."

* * *

21) Al riguardo sembra opportuno ricordare che nella serata del 6 agosto 1989, nel corso di una lunga riunione tenutasi in Atlanta con esponenti delle varie Autorità americane, su conforme parere dei legali e del Magistrato locali - avuto riguardo alla necessità di riaprire la Filiale il successivo lunedì 7 agosto 1989, per non creare turbativa sul mercato, e considerate le difficoltà che si prospettavano per una completa valutazione dell'accaduto ed in particolare per ricostruire con urgenza la situazione contabile della Filiale - fu presa la decisione di mantenere in servizio tutto il personale, con esclusione solo del Sig. Drogoul, che, quando si presentò, il pomeriggio del 7 agosto, venne immediatamente sospeso e quindi in breve tempo licenziato, come si è detto.

Non appena si ritenne che le informazioni raccolte potessero consentire alla nuova forza operativa, di cui si è detto, di procedere autonomamente e si appurò che la presenza dei vecchi dipendenti infedeli non era più richiesta dagli avvocati e/o dal Magistrato americani, si provvide a rendere esecutivi i provvedimenti di sospensione dall'attività, senza corresponsione del trattamento economico, per gli altri dipendenti che in qualunque modo fossero stati coinvolti nella vicenda. Tali dipendenti sono tutti successivamente cessati dal servizio, per licenziamento o dimissioni, come di seguito precisato:

- Mela MAGGI e Jean LOVEDAY in IVEY, Funzionarie, dimissionarie dal 12.10.1989
- Paul VON WEDEL, Funzionario, licenziato con lettera consegnata il 16.10.89
- Thomas FIEBELKORN e Robert POST, Funzionari, licenziati con lettere consegnate il 4.1.1990
- Leigh Ann NEW, Impiegata, licenziata con lettera consegnata il 4.1.1990
- Amedeo DE CAROLIS, Impiegato, licenziato con lettera consegnata il 6.1.1990
- Therese BARDEN, Funzionario, licenziata con lettera consegnata l'8.1.1990
- Brenda Lee Forrest, Funzionario, licenziata con lettera consegnata il 13.1.1990

E' da precisare che per Von Wedel, De Carolis e New, l'allora Direttore Generale aveva disposto già dai primi di settembre 1989 "la sospensione dal servizio, senza corresponsione del trattamento economico, ... dando mandato al Vice Direttore Generale Dr. D'Addosio di provvedere ad attuare i singoli provvedimenti allorquando non sarà più richiesta la presenza dei predetti dipendenti presso la Filiale di Atlanta in relazione agli accertamenti in corso". (v. Relazione al Comitato Esecutivo del 6.9.89). Ciò spiega l'esistente intervallo tra le date di deliberazione dei provvedimenti da parte degli Organi competenti e le date di formalizzazione dei singoli provvedimenti, come meglio precisato in allegato.

Il rimanente personale presente in Filiale il 4 agosto 1989 (tutti impiegati), rimase in servizio su espressa richiesta del Magistrato americano. Questi, peraltro, il 5 marzo 1991, attraverso l'avv. Kirwan, consulente penale della Banca ad Atlanta, ha espresso l'avviso che, a seguito dell'avvenuta pubblicazione, in data 28 febbraio 1991, dell'atto di rinvio a giudizio dei responsabili del "caso Atlanta", fosse necessario liberare la Filiale di tutti i dipendenti assunti dal sig. Drogoul. In conseguenza, poichè nel frattempo si erano dimesse le Sigg.re LEWIS (9.1.90), ZIMMERMAN (8.8.90) e BROWN (14.12.90), si è provveduto nel

giugno 1991 a formalizzare il licenziamento delle rimanenti sei impiegate, e precisamente le Sigg.re:

- Patricia DOMENICUCCI in SCUDELLARI
- Julie VAUGHN DANIEL
- Tracey BELL in BROWN
- Glinnis M. SICHKO SLATEN
- Susan MULLINAX JACKSON
- Dana DICKENS

Per maggiori dettagli sul ruolo e sui provvedimenti che hanno riguardato i singoli dipendenti della Filiale di Atlanta, in servizio il 4.8.89, si rinvia al citato allegato.

* * *

22) ""Attualmente l'organico della Filiale è di 26 persone, a cui si aggiunge il nucleo ispettivo tuttora in missione (7/9 persone) per completare le indagini e continuare la collaborazione alle Autorità locali.""

* * *

22) Tenuto conto degli ultimi licenziamenti, di cui si è prima fatto cenno, e del completamento dell'ispezione Petti, al 31.7.91 l'organico della Filiale di Atlanta si è ridotto ad undici persone (un dirigente, sei funzionari e quattro impiegati), a cui si aggiungono ancora un paio di Ispettori della Direzione Centrale, che continuano a collaborare con le Autorità inquirenti locali ed italiane, compresa codesta Commissione.

* * *

23) ""Alla luce delle complesse e approfondite indagini effettuate non sono finora emersi elementi tali da legittimare il licenziamento di altri dipendenti di ruolo Italia o in servizio in altre filiali all'estero, per circostanze connesse con il caso di Atlanta.



"Tuttavia la Banca ha ritenuto opportuno procedere ad avvicendamento di incarico per taluni funzionari o impiegati in Italia e all'estero, nonchè alla sospensione dal servizio di un funzionario che nel 1987-88 era stato in organico presso la Filiale di Atlanta, per il quale sono tuttora in corso accertamenti."

* * *

23) Sono già noti a codesta Commissione i risultati cui sono finora pervenuti gli Organi collegiali della Banca in merito alle azioni disciplinari riguardanti i dipendenti che, secondo la Relazione Petti, hanno commesso infrazioni tali ai regolamenti interni dell'Istituto da sollecitare l'eventuale adozione di provvedimenti disciplinari nei loro confronti. Gli accertamenti dell'apposita Commissione di disciplina sono in corso e potranno essere definiti soltanto dopo gli ulteriori approfondimenti che, come noto a codesta Commissione, sono ancora in atto.

* * *

24) *"E' da aggiungere infine che la Banca ha presentato denuncia all'Autorità Giudiziaria italiana nei confronti di Mr. Drogoul, di Mr. Von Wedel e di quanti altri dipendenti infedeli risultassero coinvolti nel caso Atlanta ed ha promosso negli Stati Uniti un'azione di risarcimento danni nei confronti dei medesimi."*

* * *

24) Al riguardo sembrano opportune due precisazioni, in aggiunta a quanto già detto:

a) Nell'"indictment" sulla vicenda della Filiale di Atlanta, il Magistrato penale americano ha rinviato a giudizio soltanto tre dei dipendenti infedeli che, come innanzi precisato, sono stati sospesi e poi licenziati dalla Banca: Drogoul, Barden e De Carolis. Per gli altri sembra sia scattata la norma della non processabilità per la collaborazione assicurata alla Giustizia.

Di fatto, in data 12.9.91, la Magistratura penale americana ha reso noto - con documento già a mani di codesta Commissione - l'elenco di 29 nomi di "unindicted co-conspirators", che ha trasmesso agli avvocati di difesa di

quattro dei nominativi rinviati a giudizio il 28.2.91 (Drogoul, De Carolis, Barden ed "Entrade International Ltd."). E' da sottolineare che in quest'ultimo elenco figurano altri nove ex dipendenti della Filiale di Atlanta, tre dei quali si sono dichiarati colpevoli ed hanno patteggiato per la riduzione della pena. Questi ultimi sono: Von Wedel, Fiebelkorn e New; gli altri sei sono: Daniels, Forrest, Ivey, Maggi, Post e Scudellari.

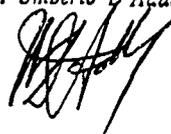
Nell'insieme, quindi, secondo il Magistrato americano, ben 11 dei 18 ex dipendenti della Filiale di Atlanta avrebbero attivamente collaborato con il Drogoul in danno, oltre che degli Stati Uniti, anche della Banca Nazionale del Lavoro. E non va trascurato che si tratta, in sostanza, della totalità degli ex dipendenti che all'interno della Filiale avevano responsabilità operativa, oltre al Drogoul ed alla sua segretaria particolare (la New):

- il responsabile dei crediti (il Fiebelkorn) e le sue dirette collaboratrici (la Ivey e la Scudellari);
- il responsabile del comparto "lettere di credito" (Von Wedel) e le sue collaboratrici (la Brenda Forrest e la Daniel);
- i responsabili della contabilità (la Barden ed il Post);
- la responsabile della tesoreria (la Maggi);
- l'impiegato della contabilità (il De Carolis) esperto dei programmi "occulti" che giravano sui CPT.

b) L'ordinamento giuridico americano non prevede, nella procedura penale, l'istituto della "costituzione di parte civile" a vantaggio della vittima. Colui che ritiene di aver subito un danno in conseguenza del reato commesso ha soltanto il diritto di citare in giudizio il presumibile colpevole per richiedere il risarcimento del danno in sede civile.

Quest'ultimo procedimento può essere instaurato anche in pendenza del giudizio penale. Accade però di norma, ed è questo il caso che ci riguarda, che il Magistrato civile dispone la sospensione del giudizio in attesa dell'esito del procedimento penale.

Amministratore Delegato
Dr. Umberto D'Addosio



Roma, 5 giugno 1990
Roma, 8 ottobre 1991

Allegato n. 1

ANALISI PER AGREEMENT E PER TIPO DI OPTION DEI CREDITI PER CASSA A FAVORE DI CBI AL 4.8.89

I \$ 1,016.5 milioni di crediti per cassa accertati al 4.8.89 a favore della Central Bank of Iraq, così si ripartivano per "Agreement" e per tipo di erogazione:

- \$ 205.2 milioni sul I Agreement, di cui \$ 126.4 milioni sotto forma di **Option A** e \$ 78.7 milioni sotto forma di **Option B**. Rispetto ai 200 milioni di \$ convenuti per il I Accordo risultava quindi un supero di \$ 5.2 milioni. Secondo le iniziali dichiarazioni del Drogoul, tale supero era da attribuire agli "amendments" d'importo richiesti da C.B.I. sulle singole lettere di credito, che per accordi verbali con le autorità irachene sarebbero stati previsti nell'ordine del 10-20% in più rispetto all'importo dell'accordo. Secondo dichiarazioni del Von Wedel e della New, i superi potevano anche dipendere da voluti "errori d'imputazione", tenuto conto che le condizioni del I Agreement erano più favorevoli per la Filiale. Da notare inoltre che l'Option B trova già applicazione nel I Agreement, ancorchè essa fosse stata formalmente prevista soltanto con il III Agreement;

- \$ 174.2 milioni sul II Agreement, di cui \$ 58.8 milioni sotto forma di **Option A** e \$ 115.4 milioni sotto forma di **Option B**. L'importo convenuto per il II Accordo era di \$ 300 milioni. Da notare che la massima parte di questi utilizzi sono già attribuiti alla Option B, che pure, ripetesì, era prevista soltanto con il III Agreement;

- \$ 461.8 milioni sul III Agreement, di cui \$ 31.3 sotto forma di **Option A**, \$ 343.5 milioni circa sotto forma di **Option B** e \$ 87 milioni sotto forma di **Option C**. L'importo convenuto per il III Accordo era di \$ 500 milioni. E' da sottolineare la presenza delle Option C che, come si è accennato, non sono formalmente previste da nessuno dei quattro Agreements in riferimento;

- \$ 175.3 milioni sul IV Agreement, di cui 155.3 milioni sotto forma di **Option B** e \$ 20 milioni sotto forma di **Option C**.

E' forse il caso di ricordare che per alcuni mesi questo quarto Agreement ha suscitato le maggiori perplessità.

Per qualche settimana, come si è detto, non è stato possibile prenderne visione, neppure in copia.

All'inizio venne segnalato un importo di \$ 1,165 milioni che, secondo il Drogoul, avrebbe dovuto però essere ridotto in seguito, in base a presunti accordi verbali con gli iracheni, dell'importo del finanziamento alla Danieli che avesse ottenuto la garanzia della nostra SACE (si parlava di una riduzione di almeno DM 550 milioni, pari a \$ 350 milioni circa, per il finanziamento dell'impianto di Bassora, per il quale sembrava imminente la concessione della garanzia SACE). In seguito, l'importo dell'agreement venne precisato in \$ 1,155 milioni e non si parlò più di eventuali riduzioni, anche perché secondo gli iracheni l'importo doveva ritenersi tutto impegnato, sommando al già erogato le lettere di credito confermate, gli impegni assunti e quelli per i quali erano giacenti presso la Filiale le domande inviate da Bagdad prima e dopo il 4 agosto 1989.



Allegato n. 2

EX DIPENDENTI DELLA FILIALE DI ATLANTA ALLONTANATI E CESSATI DAL SERVIZIO

CHRISTOPHER DROGOUL

cittadino americano (e francese), nato 9.7.49
dipendente di ruolo locale
assunto 1.12.1981, con circa 7 anni di esperienza presso la Barclays Bank di New York, Londra e Atlanta
acting manager di Atlanta della Filiale BNL di Atlanta dal 2.4.84 al 28.2.85;
direttore della Filiale di Atlanta dal 1.3.85;
in ferie dal 4.8.89, venne richiamato e si presentò in Filiale la sera del 7.8.89;
fu immediatamente sospeso dal servizio, con provvedimento reso formale l'11.8.89, senza assegno, con lettera consegnatagli il 14.8.89; licenziato il 6.9.89 con lettera del 7.9.89, consegnata il 15.9.89.

PAUL VON WEDEL

cittadino americano, nato 19.3.38
dipendente di ruolo locale
assunto il 16.2.1982, dopo circa 27 anni di esperienza presso due banche americane;
lending officer (settorista); di fatto preposto all'Uff.lettere di credito;
sospeso dal servizio, senza assegno, con delibera del 1°.9.1989, formalizzata con lettera del 19.9.89;
licenziato il 13.9.89 con lettera del 12.10.89, consegnata il 16.10.89.

(Ha ammesso, dice la Relazione Petti, di aver incassato a titolo di elargizione, dalla Entrade, \$ 279mila. Vi sono forti indizi - e lo chiarirà la Magistratura americana - che il suddetto importo provenga dalla somma di \$957mila girati, senza alcuna autorizzazione, alla LHM ADVISORS di Lussemburgo con prelevamento da un cash collateral presumibilmente falso, a nome della ENKA (la casa madre della ENTRADE). Se ciò risultasse vero, l'importo elargito al Von Wedel deriverebbe da profitti di pertinenza BNL, fraudolentemente dirottati sul conto ENKA.

LEIGH ANN NEW

cittadina americana, nata 29.3.63
dipendente ruolo locale

impiegata di segreteria; di fatto segretaria di Drogoul
assunta il 29.12.86; sospesa, senza assegno con delibera del
1°.9.89, formalizzata con lettera del 19.9.89; licenziata il
13.9.89, con lettera del 28.12.89, consegnata il 4.1.90.

Ha fatto un viaggio a Bagdad dal 24.2 al 2.3.89 (con De
Carolus) per riconciliare la posizione CBI; teneva su cpt
l'aggiornamento delle Option B e Option C e della relativa
corrispondenza.

AMEDEO DE CAROLIS

cittadino americano, nato 13.9.55
dipendente di ruolo locale
impiegato addetto alla contabilità
assunto 1.6.84; sospeso, senza assegno, con delibera del
1°.9.89, formalizzata con lettera del 19.9.89; licenziato il
13.9.89, con lettera del 28.12.89, consegnata il 6.1.90.

Ha impiantato e gestito tutti i programmi dei grey books,
seguendone le relative posizioni di debito e credito.
Ha accompagnato la NEW nel viaggio a Bagdad per la
riconciliazione delle posizioni irregolari CBI.
Esperto di informatica potrebbe aver concorso ai falsi
documentali prodotti agli auditors. Con POST e BARDEN ha
curato le segnalazioni non veritiere indirizzate dalla
Filiale di Atlanta a Roma ed agli Organi di Vigilanza
italiani e americani.

THOMAS M. FIEBELKORN

cittadino americano, nato 3.3.45
dipendente di ruolo locale
lending officer (settorista)
assunto 3.1.84; sospeso il 12.9.89, senza assegno, con
lettera del 19.9.89; licenziato il 13.9.89, con lettera del
28.12.1989, consegnata il 4.1.90.

E' coinvolto soprattutto per le pratiche di finanziamento non
autorizzate, erogate sotto forma diversa dalle lettere di
credito ed a favore di non iracheni.

THERESE M. BARDEN

cittadina francese, nata 3.10.26
dipendente di ruolo locale
responsabile della contabilità
assunta 1.5.84; sospesa, senza assegno, con delibera del
12.9.89, formalizzata con lettera del 19.9.89; licenziata il
13.9.89, con lettera del 28.12.89, consegnata l'8.1.90.

Era a conoscenza delle irregolarità contabili ed amministrative della gestione DROGOUL.

JEAN LOVEDAY in IVEY
cittadina americana, nata 25.12.52
dipendente di ruolo locale
lending officer
assunta 17.5.82; sospesa, senza assegno, con provvedimento del 12.9.89, formalizzato con lettera del 19.9.89; dimessasi il 12.10.89.

La stampa italiana ed americana la indica, insieme a Mela Maggi, come la persona che con le sue rivelazioni avrebbe mosso le indagini su Atlanta da parte del FBI.

BRENDA LEE FORREST
cittadina americana, nata 19.4.59
dipendente di ruolo locale
officer, aiuto settorista, sostituta di fatto di Von Wedel
assunta 16.5.83; sospesa, senza assegno, con delibera del 12.9.89, formalizzata con lettera del 19.9.89; licenziata il 13.9.89, con lettera del 28.12.89, consegnata il 13.1.90.

Svolgeva un doppio lavoro; collaborava con la FOODLINE, cliente affidata dalla Banca che operava in prevalenza mediante lettere di credito, che la stessa dipendente gestiva.

MELA MAGGI
cittadina americana, nata 28.7.56
dipendente di ruolo locale
tesoriere
assunta 13.10.81; sospesa, senza assegno, con delibera del 12.9.89, formalizzata con lettera del 19.9.89; dimessasi il 12.10.90.

Nella sua qualità di tesoriere, a fronte di assets ufficiali per 7/800 milioni di \$ ha amministrato un funding di 2.550/3.000 milioni di \$, e non per un breve periodo; funding che con la sua collaborazione veniva smistato tra grey books e libri ufficiali.

ROBERT POST
cittadino americano, nato 9.4.58
dipendente di ruolo locale



vice del responsabile della contabilità
 assunto il 15.8.83; sospeso, senza assegno, con delibera del
 12.9.89, formalizzata con lettera del 19.9.89; licenziato il
 13.9.89 con lettera del 28.12.89, consegnata il 4.1.90.

Funzionario coinvolto come la Barden, suo superiore diretto.

* * *

I rimanenti nove impiegati - tutti cittadini americani e dipendenti di ruolo locale - che erano in servizio presso la Filiale di Atlanta alla data del 4 agosto 1989 sono stati mantenuti in servizio non essendo emersi a loro carico fatti di rilievo e per esplicita richiesta degli avvocati e del Magistrato statunitensi (del 16.10.90). Come dal seguente riepilogo, tre si sono dimessi nel corso del 1990 e per gli altri sei il licenziamento è stato deliberato dal Comitato Esecutivo del 12 giugno 1991 dopo che lo stesso Magistrato e gli avvocati statunitensi hanno dichiarato di non averne più bisogno per le loro indagini.

In particolare:

SHERRY LEWIS

cittadina americana

impiegata, assunta 1.11.88; dimessasi 9.1.90

J. LEA WILSON in ZIMMERMAN

cittadina americana

impiegata, assunta 17.7.89; dimessasi 8.8.90

PENNY COOKE

cittadina americana, nata 23.9.60

impiegata, assunta 29.12.86; dimessasi 14.12.90

TRACEY BELL in BROWN

cittadina americana

impiegata, assunta 29.6.87; licenziata 12.6.91

PATRICIA DOMENICUCCI in SCUDELLARI

cittadina americana, nata 16.11.60

impiegata, assunta 20.10.86; licenziata 12.6.91

JULIE DANIEL VAUGHN

cittadina americana, nata 16.11.50

impiegata, assunta 9.3.87; licenziata 12.6.91

GLYNNIS MARIE SICHKO SLATEN

cittadina americana, nata 16.6.68

impiegata, assunta 5.8.87; licenziata 12.6.91

DANA DICKENS

cittadina americana, nata 24.2.68

impiegata, assunta 3.10.88; licenziata 12.6.91

SUSAN MULLINAX JACKSON

cittadina americana, nata 10.10.67

impiegata, assunta 4.1.88; licenziata 12.6.91, ma nelle more della formalizzazione del licenziamenti si è dimessa in data 17.6.91.



Allegato n. 3

ALTRI DIPENDENTI BNL ALLONTANATI DAL SERVIZIO O DESTINATI AD ALTRO INCARICO**ANTONIO COSTA**

già ad Atlanta dall'1.9.86 al 21.11.88.

Essendo emersa la sussistenza di suoi diritti e personali interessi in fatti e con persone coinvolte nel caso Atlanta è stato allontanato dal servizio il 27.9.89 e, dopo essere stato riammesso il 30.10.89, è stato di nuovo allontanato dal 17.1.90 (delibera Direttore Generale dell'8.1.90).

E' stato riaperto a suo carico un provvedimento disciplinare. Licenziato il 6.9.90 (con lettera del 10.9.90), perché a conoscenza delle irregolarità verificatesi ad Atlanta, senza averne dato notizia alla Banca, ma traendone personalmente profitto.

VITO CANNITO

di ruolo locale a New York

fino all'ottobre 1988 Auditor interno del Gruppo Nord America, ha effettuato vari audits ad Atlanta, tenendo comportamenti che hanno determinato gravi perplessità sulla correttezza del suo operato, donde la sua sospensione dal servizio, senza assegno, il 9.7.90 ed il licenziamento in data 6.9.90, con lettera consegnata l'11.9.90.

TEODORO MONACO

Condirettore addetto all'Area Finanza

in data 9.1.90 è stato destinato alla Funzione Studi e Relazioni Esterne per motivi di opportunità connessi alle notizie di stampa in merito ad un suo presunto coinvolgimento nel caso Atlanta.

rag2

AGREEMENTS (M.T.L.) CON CENTRAL BANK OF IRAQ
(in \$ USA)

	Option A	Option B	Option C	Totale
Esposizioni per cassa al 4.8.89 (rilevazione BNL)				
I Agreement	126.440.015,45	78.722.732,47	,00	205.162.747,92
II Agreement	58.826.352,41	115.366.189,98	,00	174.192.542,39
III Agreement	31.283.442,75	343.522.665,86	87.000.000,00	461.806.108,61
IV Agreement	,00	155.337.947,45	20.000.000,00	175.337.947,45
Totale	216.549.810,61	692.949.535,76	107.000.000,00	1.016.499.346,37

Esposizioni per cassa al 4.8.89 (rilevazione Banca d'Italia)

I Agreement	126.446.925,17	78.722.732,47	,00	205.169.657,64
II Agreement	58.826.352,41	115.366.189,98	,00	174.192.542,39
III Agreement	31.283.442,75	339.977.715,94	87.000.000,00	458.261.158,69
IV Agreement	,00	158.882.897,37	20.000.000,00	178.882.897,37
Totale	216.556.720,33	692.949.535,76	107.000.000,00	1.016.506.256,09
Fuori agreement (garantito da Eximbank)				3.777.845,81
Totale dichiarati da Banca d'Italia				1.020.284.101,90

rag3

AGREEMENTS (M.T.L.) CON CENTRAL BANK OF IRAQ
(in milioni di \$ USA)

	Esposizione per cassa	Impegni di firma	Totale	Impegno contrattuale	Disponibil./ eccedenza
Situazione al 4.8.89 (rilevazione BNL)					
I Agreement	205	123	328	200	-128
II Agreement	174	81	255	300	45
III Agreement	458	94	552	500	-52
IV Agreement	179	255	434	1.155	721
	-----	-----	-----	-----	-----
Totali	1.016	553	1.569	2.155	586

Situazione a fine gennaio 1990, concordata con CBI

I Agreement	119	84	203	200	-3
II Agreement	239	82	321	300	-21
III Agreement	381	41	422	500	78
IV Agreement	396	247	643	1.155	512
	-----	-----	-----	-----	-----
	1.135	454	1.589	2.155	566

TOTALE OPERAZIONI PER CASSA PER PAESE, IN ESSERE AL 4.8.89
CONTABILIZZATE UFFICIALMENTE E/O ANNOTATE NEI GREY BOOKS
(in US \$)

TOTALE OPERAZIONI PER CASSA PER PAESE,
IN ESSERE AL 30.6.91 (IN \$ USA)

Paese	Con garanzia	Senza garanzia	Totale	Con garanzia	Senza garanzia	Totale
ALGERIA	214.925.754	12.925.754	227.851.508	45.918.722,19	1.391.499,66	47.310.221,85
ARGENTINA	0	794.815	794.815	,00	,00	,00
AUSTRIA	0	0	0	,00	360.000,00	360.000,00
COREA	0	1.411.559	1.411.559	,00	,00	,00
EGITTO	34.603.282	0	34.603.282	11.604.372,03	,00	11.604.372,03
FRANCIA	0	2.129.844	2.129.844	,00	,00	,00
GERMANIA	0	0	0	,00	8.843,70	8.843,70
GIORDANIA	46.202.328	0	46.202.328	38.478.444,00	5.273.965,00	43.752.409,00
ISRAELE	0	9.443.771	9.443.771	,00	,00	,00
ITALIA	0	522.789	522.789	,00	553.040,70	553.040,70
JUGOSLAVIA	8.187.804	8.206.771	16.394.575	,00	,00	,00
MAROCCO	1.337.279	0	1.337.279	,00	,00	,00
MESSICO	36.770.184	0	36.770.184	11.021.205,44	,00	11.021.205,44
OLANDA	0	0	0	,00	1.357,00	1.357,00
RUSSIA	0	20.358.253	20.358.253	,00	,00	,00
SPAGNA	0	33.502	33.502	,00	,00	,00
SVIZZERA	0	0	0	,00	15.678,68	15.678,68
TUNISIA	14.720.011	0	14.720.011	4.304.012,94	,00	4.304.012,94
TURCHIA	30.406.975	11.109.606	41.516.581	14.806.364,84	,00	14.806.364,84
UNGHERIA	15.365.027	0	15.365.027	592.879,68	,00	592.879,68
VENEZUELA	10.485.000	12.705.080	23.190.080	,00	,00	,00
Sub totale	413.003.644	79.641.744	492.645.388	126.726.001,12	7.604.384,74	134.330.385,86
STATI UNITI	1.000.000	253.715.673	254.715.673	,00	60.951.609,21	60.951.609,21
IRAQ	414.003.644	333.357.417	747.361.061	126.726.001,12	68.555.993,95	195.281.995,07
IRAQ	770.117.897	1.154.920.686	1.925.038.583	401.455.053,19	1.500.874.861,56	1.902.329.914,75
TOTALE PER CA	1.184.121.541	1.488.278.103	2.672.399.644	528.181.054,31	1.569.430.855,51	2.097.611.909,82
IRAQ						
"UFFICIALE"						
CBI ,Eximbank	3.777.845	0	3.777.845	,00	1.339.194.335,12	1.339.194.335,12
RAFIDAIN, CCC	42.459.827	0	42.459.827	401.455.053,19	116.135.558,80	517.590.611,99
RAFIDAIN,Eximb.	18.456.081	0	18.456.081			
RASHEED BANK				,00	45.544.967,64	45.544.967,64
	64.693.753			401.455.053,19	1.500.874.861,56	1.902.329.914,75
"NON UFFICIALE"						
RAFIDAIN, CCC	705.424.144	125.087.953	830.512.097			
CBI	0	1.016.832.733	1.016.832.733			
RASHEED	0	13.000.000	13.000.000			
Totale IRAQ	770.117.897	1.154.920.686	1.925.038.583			

Documentazione BNL inviata dall'avv. Garone in data 15 ottobre 1991:

a) la composizione del Consiglio di amministrazione del Lavoro Bank - Zurigo dall'inizio 1986 al 4 ottobre 1991 e la normativa federale svizzera a cui il Consiglio di amministrazione deve attenersi;

b) copia delle disposizioni interne di trasferimento dei fondi depositati a Londra a nome Newman su vari conti dello stesso Newman presso altre banche.

Documento n. 307/a/b

Avv. GIOVANNI GARONE
DIRETTORE DEL SERVIZIO LEGALE E CONTENZIOSO

Roma, 15 ottobre 1991

Prot. n. 241-91

Egregio Dottor Laurenzano,

in relazione alla documentazione richiesta dall'On.le Commissione al nostro Ispettore Guarracino durante la missione negli USA dal 24 settembre al 9 ottobre 1991, trasmetto quanto segue:

- la composizione del Consiglio di Amministrazione della Lavoro Bank - Zurigo dall'inizio del 1986 al 4/10/1991 e la normativa federale svizzera a cui il CDA deve attenersi;
- copie delle disposizioni interne di trasferimento dei fondi depositati a Londra a nome Newman su vari conti dello stesso Newman presso altre banche;
- copie dei fogli contabili interni inerenti accrediti a Cargill e Continental Grain come evidenziato negli stralci della relazione Petti all'oggetto "Tradax Gestione S.A." e "Continental Grain".

Distinti saluti.



all. cit.

Egregio Signor
Dr. Ettore Laurenzano
Segreteria della Commissione Parlamentare
di Inchiesta sul caso della Filiale di Atlanta
della Banca Nazionale del Lavoro
Largo dei Chiavari, 79
ROMA

307-0

11 ottobre 1991

Dr. Umberto D'Addosio
Amministratore Delegato
Banca Nazionale del Lavoro
Direzione Centrale

Roma

per telefax

A seguito nostro messaggio telex di ieri:

Composizione del Consiglio di Amministrazione della Lavoro Bank AG all'inizio del 1986

- 1) **Dr. Alfred Hartmann, Presidente**
(entrato nel consiglio quale presidente nell'assemblea generale ordinaria del 21/2/1972)

breve curriculum degli incarichi esecutivi del Dr. A. Hartmann

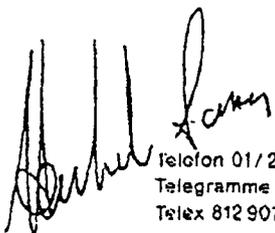
- dal 1952 al 1969 presso Unione di Banche Svizzere - Zurigo
(nell'ultimo periodo quale Direttore Generale)
- dal 1969 al 1982 presso Hoffmann-La Roche quale Amministratore Delegato ed alla fine quale Vice Presidente
- dal 1982 Direttore Generale della Rothschild Bank di Zurigo

- 2) **Dr. Joseph Dach, Vice Presidente** (nel consiglio dalla fondazione)

Il Dr. Joseph Dach proveniva dalla T.I.E.C. - New York

- 3) **Dr. Silvio de Capitani** (nel consiglio dalla fondazione)
Avvocato con proprio studio legale a Zurigo già consigliere nazionale
a Berna e dall'1/1/1987 membro della Commissione federale delle banche.

- 4) **Dr. Peter Duft**, (nominato nel consiglio nel corso dell'assemblea generale ordinaria
del 17/3/1978 in sostituzione del dimissionario Prof. Alberto Ferrari (Designato
direttamente dall'azionista)
Avvocato con proprio studio a Zurigo - già Consigliere di Stato nel Canton Zurigo



Telefon 01/2213787
Telegramme Lavorobank
Telex 812907

310

Talacker 21 - 8001 Zürich
Postadresse: P.O. Box 8039 Zürich

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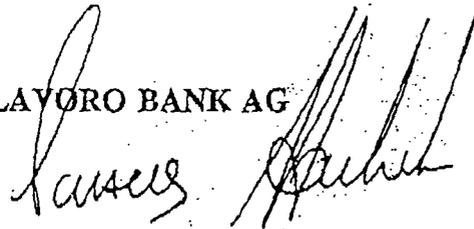
- 5) **Sig. Pierre Girsberger** (nel consiglio dalla fondazione)
già Direttore della sede di Zurigo del Credito Svizzero

- 6) **Sig. Hans Hartung** (nominato nel consiglio dell'assemblea generale ordinaria del 21/3/83)
Ex Direttore Generale del Credito Svizzero di Zurigo (tra l'altro responsabile dei paesi europei nel settore estero) e membro della Commissione federale delle banche fino al 31/12/1986. Designato direttamente dall'azionista.

- 7) **Ing. Ettore Lolli** (nel consiglio dal 1959 anno della fondazione al 1965 quale Amministratore Delegato, Rientrato nel consiglio con l'assemblea del 27/3/1984)
Ex Vice Direttore Generale della Banca Nazionale del Lavoro ed ex Presidente della R.A.S. Designato direttamente dall'azionista.

Distinti saluti.

LAVORO BANK AG



10 ottobre 1991

Dr. Umberto D'Addosio
Amministratore Delegato
Banca Nazionale del Lavoro
Direzione Centrale

Roma

per telefax

Riferimento Sua richiesta odierna:

- 1) La normativa relativa alla cittadinanza e domicilio degli amministratori di una società svizzera è stabilita dall'articolo n. 711 del Codice delle Obligazioni che qui di seguito trascriviamo

" "

Art. 711

¹ Se l'amministrazione è affidata ad una sola persona, questa dev'essere domiciliata nella Svizzera ed avere la cittadinanza svizzera.

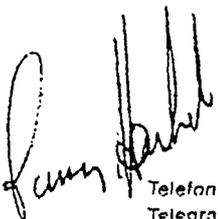
² Se l'amministrazione si compone di più membri, questi devono essere in maggioranza persone che sono domiciliate nella Svizzera ed hanno la cittadinanza svizzera. Il Consiglio federale può tuttavia consentire eccezioni a questa norma in favore di società il cui scopo consiste soprattutto nella partecipazione ad altre imprese (società holding), se la maggior parte di queste si trovano all'estero.

³ Almeno uno degli amministratori autorizzati a rappresentare la società dev'essere domiciliato nella Svizzera.

⁴ Qualora queste norme non siano più osservate, l'ufficiale del registro di commercio assegna alla società un termine entro il quale essa deve porsi in consonanza alla legge; se la società non vi provvede nel termine assegnatole, l'ufficiale la dichiara sciolta d'ufficio.

" "

- 2) La legge bancaria o il codice delle obbligazioni non prescrivono che il presidente del consiglio sia cittadino svizzero o residente svizzero. La Commissione federale delle banche (organo supremo di vigilanza) non entra nel merito delle nomine nei Consigli di amministrazione. Tuttavia attualmente (ed anche tradizionalmente) tutte le banche svizzere di proprietà italiana hanno in carica presidenti di nazionalità svizzera residenti in Svizzera.



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3) Variazioni nel Consiglio di Amministrazione della Lavoro Bank AG dal 1986 ad oggi:

a) nell'assemblea generale straordinaria del 9/12/1986 vengono effettuati i seguenti cambiamenti:

- il Dr. Joseph Dach viene nominato Presidente onorario e lascia la carica di Vice Presidente del Consiglio
- l'Ing. Ettore Lolli diventa Vice Presidente (già consigliere)
- entra a far parte del consiglio il Dr. Franz Schmitz

3

b) nell'assemblea generale ordinaria del 23/1/1987 dà le dimissioni per ragioni di età il Dr. Pierre Girsberger da membro del consiglio.

c) Con decorrenza 31/12/1987 dà le dimissioni dal consiglio per motivi di età il Signor Hans Hartung.

d) nell'assemblea generale ordinaria del 20/3/1989 vengono effettuate le seguenti nomine:

- Dr. Luigi Sarro a consigliere
- Dr. Pasquale Cardarelli a consigliere

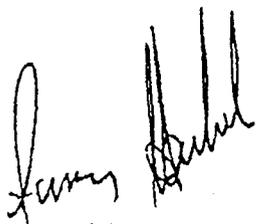
e) in data 11/4/1989 moriva il presidente onorario Dr. Joseph Dach

f) nell'assemblea generale ordinaria del 26/3/1991 entrava a far parte del consiglio di amministrazione il Dr. Ademaro Lanzara in sostituzione del Dr. Pasquale Cardarelli, dimissionario per ragioni professionali.

g) nel corso della seduta del consiglio di amministrazione Alfred Hartmann dà le dimissioni da presidente e da membro del consiglio.

r.

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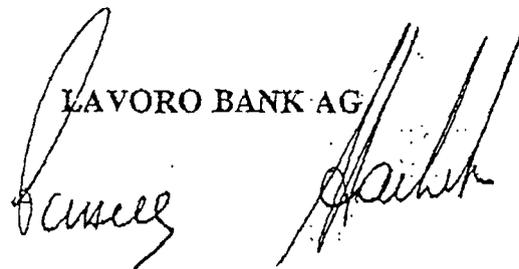
h) nell'assemblea generale straordinaria del 4/10/1991 vengono nominati:

- il Dr. Franz Schmitz a Presidente (già consigliere)
- a nuovo consigliere di amministrazione l'Avv. Mario Kronauer

Le nomine nel consiglio dei signori Dr. Franz Schmitz, Dr. Luigi Sarro, Dr. Pasquale Cardarelli e Dr. Ademaro Lanzara sono avvenute per diretta designazione dell'azionista.

La recente nomina a consigliere dell'Avv. Mario Kronauer (necessaria e urgente per ristabilire la maggioranza svizzera) ci è stata suggerita dall'Avv. de Capitani membro del nostro consiglio dalla fondazione, e membro della Commissione federale della banche. Tale suggerimento ha incontrato la piena approvazione della casa madre.

Distinti saluti.

LAVORO BANK AG


IVEY

307-6

MORCOM FREEFORM

DATE: July 31, 1989

TO: MORGAN GUARANTY BANK

FROM: LAVOROBANK ATLANTA

AUTHORIZED BY: [Signature]

TOTAL AMOUNT 1,068,088.41

CHARGE OUR ACCOUNT 631-00-954 FOR TRANSFER THRU FRB SYSTEM:

CSN NO. 6485

Barclays Bank PLC, NY

CONTROL NO.

TO:

FOR CREDIT TO:

REF.:

*Nassau, Shirley Street Branch
Attn: Doreen Gibson for D. Newman*

PAY USDLRS

TEST 85-383

BARBEN 650,000.00

CSN NO. 6521

First American Bank of NY, NY

CONTROL NO.

TO:

Bank of Credit & Commerce International, Nassau

FOR CREDIT TO:

a/c No. 10941810

REF.:

Attn: T. Green Fowler for Newman

PAY USDLRS

TEST 86-304

BARBEN 200,000.00

CSN NO. 6576

Manufacturers Hanover Trust Co., NY

CONTROL NO.

TO:

Royal Bank of Scotland (Nassau) Ltd

FOR CREDIT TO:

a/c No. 544-7-03599

REF.:

Attn: Reno Brown for Newman

PAY USDLRS

TEST 87-286

BARBEN 200,000.00

CSN NO. 6620

Bank of the South, Atlanta, Georgia

CONTROL NO.

TO:

D. Newman

FOR CREDIT TO:

57-200-444

REF.:

PAY USDLRS

TEST 88-495

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DATE 7-31-89

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BNL London
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Matured Deposit w/ BNL London Ref: O. Newman	1669,870.93
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ATLANTA BRANCH

DEBIT

DATE 7-31-89

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BNL London

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4411-007501-18

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BNL London
Ref: D. Newman

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ATLANTA BRANCH

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DATE 7-31-89

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Department of O. Newman
Deposit 669,870.93

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DATE 7-31-89

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