The diplomacy of imperialism: Iraq and US foreign policy

Part seven: US financial assistance for Hussein in the 1980s

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This is the seventh in a series of articles on the history of Iraq and its relationship with the US. The previous articles appeared on March 12, March 13, March 16, March 17, March 19 *and* March 24. *Parts five and six documented the increasingly close ties of the American government with the Saddam Hussein regime during the 1980s. This article examines ways in which the US sought to help finance Iraq's arms purchases. Unless otherwise noted, all citations are from documents publicly available in the Iraq section of the National Security Archive at* http://www.gwu.edu/~nsarchiv *or* http://nsarchive.chadwyck.com.

Having formally decided to covertly back the Hussein regime in the Iran-Iraq war, the Reagan administration had to plan how best to support Iraq's war effort. The Hussein government's existing arms purchasing programs—with the USSR, with European allies of the US such as Britain, France, and Italy, and with US-supplied Middle Eastern countries such as Egypt—guaranteed it technical military superiority over Iran.

However, this massive outlay for weapons completely undermined Iraq's public finances. A key element in the US program to bolster Hussein was therefore the search for ways to provide Hussein with funds. The Reagan administration explored two principal avenues: first, building an alternate oil pipeline from Iraq to the Mediterranean Sea, and second, providing credit, ostensibly for purchases of US produce, through the US Department of Agriculture's Commodity Credit Corporation (CCC). The latter means of support was continued by the first Bush administration up until the Iraqi invasion of Kuwait in 1990.

The Aqaba oil pipeline project

Although it never came to pass for lack of funding, the pipeline project was a favorite of high-level Reagan administration officials. It involved influence-peddling with US corporations and cold calculations concerning the US ruling elite's interests in the Middle East. The pipeline would have been largely situated in Jordan, a US ally, and would have ended at the Jordanian port of Aqaba.

It would have had the advantage not only of securing Iraqi export revenue and improving its position in the war, but also of undercutting other key countries in the Middle East. It would have cut out Syria, a key exporter of Iraqi oil not aligned with the US. It would also have reduced Saudi Arabia's bargaining power by providing the US with another source of cheap Middle Eastern oil.

The proposed pipeline's position left it in easy range of Israeli air strikes, causing the Iraqi government to insist on US corporate involvement to discourage Israeli attacks. This matched US officials' goals, which were to promote the US engineering firm Bechtel, whose former CEO George Shultz was then secretary of state. This firm was tabbed to build the pipeline.

Bechtel is now involved in Iraqi "reconstruction" and plans for such a pipeline have reemerged since the occupation of Iraq by American troops.

The undertaking to fund the pipeline started out under unfavorable circumstances, as the US government's Export-Import Bank (Eximbank) considered Iraq to be too risky to grant any long-term credit. A February 21, 1984 country assessment of Iraq by the bank stated: "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."

Underlining fears of anti-US forces coming to power in Iraq should the Hussein regime collapse, Eximbank continued: "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."

On April 5, 1984, Eximbank turned down financing for a thermal power plant in Iraq due to Iraq's fragile finances, dampening administration officials' hopes of getting Exim funding for the proposed pipeline. In response, then-vice president George Herbert Walker Bush (the father of the current president) requested and received a June 12, 1984 memo with talking points for a meeting with Eximbank Board Chairman William Draper. Bush was to try to convince Draper to fund the Aqaba pipeline, to be built by Bechtel, and a pipeline through Saudi Arabia to be constructed by Brown and Root, now a Halliburton subsidiary.

On June 25, 1984 Eximbank released a public statement: "The Board of Directors of the Export-Import Bank of the United States has offered financial support for US exports used in the building of an oil pipeline from Al Haditha in northwest Iraq to the port of Aqaba in Jordan. Eximbank offered to back financing for potential US exports in excess of $500 million for the project."

However, the $500 million figure was insufficient to fund the project, and over the following year Reagan administration officials sought further sources of credit—Citibank, Lloyds of London, OPIC (Overseas Private Investment Corporation, a US governmental agency), and AIG (the insurance giant American International Group), according to a September 25, 1985 memo by Bechtel lawyer E. Robert Wallach III to then-attorney general Edwin Meese, a close confidante of President Reagan.

Another memo of the same day between Wallach and Meese indicates that they, together with a Bechtel partner, Swiss businessman Bruce

Rappoport, planned a deal whereby Israel would agree not to attack the pipeline in exchange for receiving a portion of the revenues it generated. According to Wallach, Israeli Labor Prime Minister Shimon Peres wanted to use this funding to aid immigration of Soviet Jewry (more likely to vote for Labor) to balance the inflow of Sephardic Jews, who tended to vote for the conservative Israeli Likud party. In a letter to Meese, Rappoport indicated that though "it would be denied everywhere...a portion of these funds will go directly to Labor," that is, to the Labor Party.

Also involved in the negotiations to secure funding for the Aqaba pipeline were James Schlesinger and William Clark. Schlesinger was the secretary of defense under the Nixon and Ford administrations and Clark, up until his involvement in the negotiations, served in the Reagan administration as national security adviser and then secretary of the interior.

Ultimately, no adequate source of funding could be found, especially when Bechtel increased its cost estimate to $1.1 billion. On October 1, 1985, David Newton, the US ambassador in Baghdad wrote: "[name redacted] was noticeably downbeat on the Bechtel proposal for the Aqaba pipeline. [...] He particularly criticized the fact that Bechtel had raised the cost estimate, [noting that other projects] had been awarded for considerably less than initial estimates."

Newton concluded: "[He] is perhaps the key technical evaluator of the Bechtel proposal. The views he expressed [...] suggest that proposals for construction of the pipeline remain poor." This is the last mention of the Aqaba oil pipeline project in the series of declassified documents.

An investigation by Independent Counsel James McKay into the insider-dealing involved in the Aqaba project eventually forced the resignation of Meese, though no other officials faced recriminations.

"Agricultural credits" and the Banco Nazionale del Lavoro scandal

At the same time as the Aqaba negotiations, the Reagan administration organized loans to Iraq through the US Department of Agriculture's CCC program. The loans through this program, while generally provided by private firms, are guaranteed by the government with the understanding that the funds will be used for the purchase of agricultural products from American companies.

According to a February 7, 1991 briefing prepared for the Department of Agriculture, which was headed by Secretary Richard Crowder, the CCC loaned about $5 billion to cover Iraq's purchases from 1983 to 1990, in a curve whose trajectory broadly matches the US government's support for the Hussein regime. After the US declared war on Iraq in 1991, Iraq ceased repaying its CCC loans and defaulted on $2 billion of debt to the CCC.

The CCC program was operated fraudulently on all sides. On the one hand, it turned into a bonanza for US firms, which "blended" cheaper foreign products into shipments of US goods, thus violating requirements that CCC programs subsidize only US produce. More significantly, Agriculture Department investigators in the late 1980s discovered that the unusually high profits obtained through CCC-backed sales were being used to fund "after-sales" services to Iraq (such as the provision of armored vehicles, communications equipment, and other goods with military uses) and kickbacks to Iraqi officials.

The CCC program in Iraq was conducted despite objections from US Treasury and Federal Reserve officials, who consistently called throughout 1987-1990 for eliminating or scaling down the program, based on Iraq's likely inability to repay the loans. However, the State Department repeatedly intervened to push the credits through on the basis of an appeal to "US interests."

These interventions continued even after Banco Nazionale del Lavoro (BNL) scandal—directly implicating the CCC in funding the Iraqi war machine—broke in 1989.

Over the course of the 1980s, BNL, at the initiative of its Atlanta branch manager, Christopher Drogoul, became one of Iraq's major financers. Largely owned by the Italian government, BNL enjoyed an excellent credit rating, allowing it to make large loans to the Iraqi government. According to a 1992 investigation by US Representative Henry Gonzalez, BNL loaned Iraq around $4 billion during the 1980s.

According to a May 21, 1990 US Department of Agriculture report, of these $4 billion in loans, over $2 billion were "greybook" loans, i.e., illegal loans secretly made and kept off BNL's public records. These loans were hidden both from US banking authorities and BNL officials in Rome. Drogoul and other Atlanta officials also took some of the money for themselves.

A key political aspect of this situation was that roughly $750 million of the $2 billion loaned "off-book" to Iraq actually consisted of credit guarantees from the Agriculture Department's CCC program. Particularly explosive was the fact that about $2 billion of the total BNL loans were made to Iraq's Ministry of Industry and Military Industrialization (MIMI), headed by Hussein's son-in-law, Hussein Kamel. MIMI oversaw a variety of programs, civilian and military, including Iraq's nuclear and chemical weapons programs.

BNL helped the Iraqi government finance its acquisition and development of Matrix Churchill Limited (MCL), a British military toolmaker, and Matrix Churchill Corp. (MCC), its US branch. According to a Federation of American Scientists report, the Iraqi government sought to use its acquisition of MCL/MCC to learn about the use of glass fibers and carbon in nuclear missile design.

BNL's funding of Iraq's weapons programs became a public scandal in September 1989, when Italian regulatory officials began investigating the Atlanta branch's irregular finances. The US government responded by instructing its embassies to reply to press inquiries with "no comment." The CCC program was allowed to continue. Three months after an August 1989 raid on BNL by the FBI, $1 billion more in US government loan guarantees was approved for Iraq.

There is a massive amount of evidence demonstrating that the activities of BNL were carried out with the full knowledge of high-level officials in the American government, and that when the scandal broke, a cover-up was engineered. During the early 1990s, as the story emerged, it became clear, according to a 1992 piece by *Washington Post* columnist Jim Hoagland, that then-president George Bush "is tolerating a cover-up on Iraq conducted by others on his behalf...That Bush has lied about his knowledge of shipments of US arms to Iraq can no longer be seriously doubted."

The $1 billion approved in 1989 came after a top-secret National Security Decision Directive signed by Bush that ordered closer ties with Iraq. In October of that year, Secretary of State James Baker intervened personally to ensure the continuation of the CCC loan guarantees. According to BNL bankers, companies seeking to do business with Iraq were directed to BNL by then-vice president Dan Quayle, who, according to reports published in the early 1990s, had close personal ties with one of the companies involved in the scandal.

Moreover, BNL was advised in its operations by Kissinger Associates, the consulting firm headed by the Nixon-era secretary of state, Henry Kissinger. The consulting firm had previously employed several people who later held high government positions at the time of the loan program to Iraq, including both Secretary of State Lawrence Eagleburger and National Security Advisor Brent Scowcroft.

In spite of these high-level connections, only Drogoul and several other officials were indicted and convicted for their involvement in the scandal. The judge who oversaw the case, Marvin Shoob, said, "I've read all the secret documents, and I can't believe [Drogoul] was the sole actor or principal actor in the enterprise." The sentences of Drogoul and the others were reduced in light of "US and Italian policy" in favor of Iraq during the Iran-Iraq war, which the judge felt lessened their responsibility.

The purchase by Iraq of weapons-related material from the US was encouraged as part of the American government's general support for Saddam Hussein. There were also corporate interests involved. An October 12, 1992, article in the *Wall Street Journal* pointed out, "In the unfolding drama of how the US financed and supplied Saddam Hussein's Iraq, there's more than a walk-on part for corporate America." Many corporations "saw Iraq as a gusher of business—so long as credits were wrung out of government agencies," such as the USDA and the Eximbank, the *Journal* wrote.

Neither major corporate nor government officials were indicted in the case, which, since it first emerged, has entirely disappeared from the American press. Many of those who wrote about the scandal when it emerged, including Hoagland and *New York Times* columnist William Safire, enthusiastically backed the overthrow of the Hussein regime and the occupation of Iraq last year on the grounds of Iraq's alleged weapons of mass destruction stockpiles, while withholding from the American people their knowledge of the role of the US in arming Hussein's regime in the 1980s.

To be continued