

Candidate Clinton vowed to get to the bottom of the Iraqgate scandal. Was it swept under the rug because of the CIA—or Hillary? BY KENNETH R. TIMMERMAN

WHATEVER HAPPENED TO

IRAQGATE?

As the 1992 presidential race reached its final days, Bill Clinton promised that, if elected, he would appoint an independent prosecutor to investigate allegations by congressional Democrats that the U.S. government had secretly been aiding the Iraqi weapons buildup—and perhaps even its nuclear weapons effort—and then engaging in a cover-up to hide its handiwork. Repeatedly challenging President Bush for the Republican “tilt” toward Iraq in the 1980’s, Clinton vowed that no political considerations would cloud the investigation. The Clinton team took the issue so seriously that vice-presidential candidate Al Gore, in a landmark speech, called the Iraq scandal “worse than Watergate.”

The story had all the ingredients for a political potboiler: official letters from the director of the CIA and the attorney general to House Banking Committee Chairman Henry Gonzalez (D-Tex.), warning him to drop his investigation of an obscure bank in Atlanta, Georgia, because of unspecified “national security” implications; highly publicized allegations by Gonzalez of a White House cover-up; a corporate whistleblower who claimed her life had been threatened; and tales of Iraqi agents cozying up to CIA operatives, and buying up U.S. companies to establish the covert arms pipeline to Saddam.

The focus of Gonzalez’s investigation was a massive \$5.5 billion bank fraud that the Justice Department pinned on Christopher Drogoul, the lowly Atlanta branch manager of Italy’s state-owned Banca Nazionale del Lavoro (BNL). Benefiting from U.S. government export credit guarantees, the Atlanta bank lent the money to companies all over the world that were supplying Saddam Hussein with weapons manufacturing gear and other goods. In his defense, Drogoul—backed by Gonzalez—claimed he was merely the instrument of a secret U.S. policy to aid Saddam Hussein. Rejecting that notion, the Justice Department indicted Drogoul on 347 counts of fraud and related charges in 1991.

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As the presidential campaign heated up, Gonzalez bombarded the White House, the State Department, and the intelligence agencies with subpoenas, obtaining reams of sensitive diplomatic cables and internal memos documenting the U.S. “tilt” toward Iraq. It was these documents (as well as Brent Scowcroft’s secret trip to China only weeks after the Tiananmen massacre in June 1989) that prompted Bill Clinton to charge, during the final days of the campaign, that President Bush had been “coddling dictators.”

Nearly four years and several grand juries later, however, the Clinton administration has swept its “Iraqgate” investigation under the rug. *The Final Report*, issued by attorney general Janet Reno on January 17, 1995, and written by Reno deputy John Hogan, amounts to little more than a whitewash of the entire affair. In every case it examined, the report concluded there had been no violations of law. And in a classified addendum, subsequently rendered public, the intelligence community and the executive branch were exonerated of having “illegally armed Iraq,” despite extensive evidence of intelligence community involvement unearthed by the Gonzalez investigation and the U.S. Customs Service.

Jack Blum, a Washington attorney who served as an Iran-contra investigator for the Democrats, and who has been representing a key witness in one of the cases that Hogan reviewed, calls the addendum “the most incredible document I’ve seen in all my years doing intelligence and foreign policy issues in this town.” In his introduction to the classified addendum, Hogan complimented the CIA for its cooperation, yet seemed to backpedal almost immediately. “The CIA’s ability to retrieve information is limited,” he wrote. “In the course of our work, we learned of ‘sensitive compartments’ of information not normally retrievable and of specialized offices that previously were unknown to the CIA personnel who were assisting us.” Translated, says Blum, that meant that Hogan “stepped into a hornets’ nest, and still can’t say whether the CIA was involved in the buildup of Saddam Hussein’s war machine, or not.”

One could easily attribute the reluctance to pursue the investigation vigorously as simply another case of Bill Clinton failing to keep his word. And, too, virtually all the sources con-



sulted for this story agreed that the desire to conceal a long and uneasy relationship between the U.S. intelligence community and Saddam Hussein—a goal that transcends presidential politics—probably lies at the bottom of the Justice Department's lack of investigatory zeal. Yet with such an explosive political weapon at their fingertips, why did Janet Reno and the Clinton administration back down?

A former employee of one of the firms exonerated by the Justice Department report now tells *The American Spectator* that the inquiry may have been papered over for an unsuspected reason. "It wasn't just a Republican scandal," says Marianne Gasior, a lawyer who worked for Kennametal Inc., a machine-tools manufacturer located in Latrobe, Pennsylvania. "Hillary Rodham Clinton was directly linked to the network that was involved in a clandestine CIA arms export ring."

Sound incredible? Certainly, the White House thinks so. When we suggested that it sounded a bit odd for an Arkansas governor's wife to be invited in 1990 to join the board of a company that had ties to an alleged arms export network, spokesman Neel Lattimore retorted: "Everything *The American Spectator* says about Mrs. Clinton is a bit odd, but I'll see if I can get an answer for you." He never did.

Marianne Gasior maintains that the Lafarge Corporation, the U.S. subsidiary of a French multinational chemicals concern, provided key services for the covert arms export network that supplied Saddam Hussein. To prevent exposure of that secret supply line, and collateral damage to Hillary Clinton—who joined the Lafarge board in 1990, just as the arms pipeline was being shut down—Gasior alleges that the Justice Department was told to bury the investigation. John Hogan hotly denies this. But investigators from other U.S. government agencies who worked on the case say they were "waved off" whenever they got too close to exposing the direct involvement of the intelligence community in the Iraq export scheme.

Lafarge owns 2,600 acres on Marblehead Peninsula, along Lake Erie in Ohio, that have been the subject of intense speculation by local residents for a number of years. That property has been used on occasion by nearby Camp Perry for special military training exercises, and it also houses a munitions plant known as the "Ordnance Center." (To add a touch of the bizarre, the National Rifle Association hosts an annual shooting contest there, giving rise to tales of men in camouflage battle fatigues committing unexplained acts of violence under the cover of darkness.)

Gasior claims that the Marblehead property was used as a transshipment point for secret CIA shipments of weapons components and manufacturing gear to Iraq during the 1980's, and

"It wasn't just a Republican scandal," says Marianne Gasior. "Hillary Rodham Clinton was directly linked to the network that was involved in a clandestine CIA arms export ring."

possibly even after the U.S. embargo on Iraq went into effect on August 5, 1990. The equipment included tungsten-carbide armor penetrators, and specially machined parts needed to make cluster bombs and other weapons. Munitions items such as these could not have been shipped to Iraq legally without a special presidential waiver.

The Iraqis placed their orders through the Technology Development Group (TDG), a London company run by Sefa Habobi, a trusted associate of Saddam Hussein. (Although he was indicted along with Drogoul in 1991 and remains a fugitive from U.S. justice, Habobi continues to travel around the world in his current incarnation as Iraqi oil minister.) TDG farmed out the orders to Iraqi-owned front companies such as Matrix Churchill Ltd., Associated Instrument Distributors of Norcross, Georgia, and Tigris Trading of Pittsburgh, Pennsylvania, who then signed

contracts with willing suppliers and turned to BNL-Atlanta to pay the bills. Many Iraqi front companies were closed down by U.S. Customs following Saddam Hussein's August 1990 invasion of Kuwait, although none were formally indicted.

Equipment for the Iraqis that could not be exported through normal channels was collected at the Solon, Ohio warehouse of Matrix Churchill Corporation from nearby manufacturers—Kennametal (where Gasior worked), Teledyne, and Manesman-Demag. It was then trucked up to a long-time U.S. government munitions manufacturer called Allied, which operated a facility on the Lafarge property on Lake Erie. Allied's Marblehead plant, referred to in U.S. government archives as the "Ordnance Center," had at one time functioned as a steel foundry making armor for U.S. tanks during World War II.¹

From Marblehead the equipment was carried on cargo ships up the St. Lawrence River to Canada and eventually to Britain, Gasior alleges, where Kennametal's U.K. subsidiary relabeled some of the goods as manufactured in the European Community. They were then exported to Iraq.

Kenametal vigorously denies any wrongdoing, noting that the Justice Department "completed its investigations of Kennametal years ago...and concluded there was 'no evidence that Kennametal committed any export violations.'" (The investigation, of course, was completed only last year.)

¹Allied may in fact be one of the oldest national security "front" companies operated by the U.S. government. National Archive documents show that it was established in 1942, and has frequently changed names and ballooned in size to correspond to the needs of the intelligence community. Its most recent incarnation, according to corporate records reviewed by TAS, was as Illuminati Equipment Corporation, based in Cleveland, Ohio. Dun & Bradstreet lists the company as an "unscheduled air passenger carrier."

But a Lafarge quarry master confirmed that freighters frequently picked up shipments at Marblehead bound for Canada. One British Customs document obtained by TAS shows that Kennametal shipped carbide tool bits to its Canadian subsidiary, and from there on to Iraq. Documents obtained by congressional investigators show that Kennametal exported large numbers of tungsten-carbide machine tool bits from its European subsidiaries to Iraq for use in weapons production.

Never once, according to Gasior, did these shipments attract the attention of U.S. border controls. **"It was all a CIA operation," Gasior asserts.** "It's certainly true that we never inspected exports from Marblehead," says a former Customs Special Agent who worked the area in the late 1980's. The manufacturing facility at the Lafarge property on Marblehead "was on the State Department's list of licensed munitions exporters. **We were warned off of our investigation because of U.S. government — i.e., CIA — involvement.** We used to get word at Customs that the CIA had lines into Main Justice, and so we were always careful to make sure we weren't stepping on somebody's toes. Clearly, there was something going on." Other Customs agents who still work for the government have told TAS similar stories of investigations they were forced to drop because of high-level CIA involvement in the Justice Department.

Asked whether Marblehead and Allied were CIA fronts for clandestine weapons shipments overseas, former CIA Director Robert Gates says, "I hear a distant bell tinkling." But he claims he doubts that CIA involvement alone would have deterred an investigation by the Justice Department. "In this day and age, fear of exposing an ongoing intelligence operation wouldn't stop the FBI or the Justice Department from an investigation."

Said one former senior CIA officer when asked about Allied, "I know nothing about CIA proprietaries — except those I was personally involved in — but I've forgotten their names."

Gasior, however, believes the investigation was quashed because of Hillary Rodham Clinton's involvement with Lafarge, both as a member of the Board of Directors from 1990-1992 — for which the soon-to-be-first lady earned \$31,000 per year plus expenses — and possibly earlier, when sources say she did legal work for the company through the Rose Law Firm in Little Rock. Evidence of her ties to Lafarge appears on the billing records from the Rose Law Firm that mysteriously "reappeared" two years after congressional investigators had subpoenaed them. They are now under scrutiny by Independent Counsel Kenneth Starr, sources told TAS. Starr's office wouldn't confirm or deny that it was investigating the First Lady's ties to Lafarge, and the White House has repeatedly refused to answer questions about this matter.

But Gasior claims John Hogan — the Reno deputy who

Virtually every source contacted for this story agreed that the desire to conceal the uneasy relationship between U.S. intelligence and Saddam lies at the bottom of it all.

wrote the final Iraqgate report — told her in August 1995 that the Kennametal case had been referred to Starr, "because anything involving the First Lady or Vincent Foster has to be referred to the Office of the Independent Counsel." Hogan told TAS it would be "inappropriate for me to comment." He did note, however, that the investigator who had worked the Kennametal case for him was subsequently detailed to Starr's operation. That investigator also refused to comment, "because that would indicate it has been referred here."

Gasior claims that Senate investigator Jack Blum — who represented her when she testified on Kennametal before Hogan's task force in 1993 and 1994 — phoned then-White House Counsel Abner Mikva in August 1995, and then warned Gasior **not to talk to Kenneth Starr or congressional Republicans, "or else I would get hurt."** Gasior says that

her car was broken into that weekend in Washington, D.C., and documents stolen, and that when she returned to her home in a small rural community after Mikva's warning she found an 18-wheel truck in her driveway discharging a stream of diesel fuel in what may have been an arson attempt. Asked about Gasior's allegations, Mikva told TAS, "I have no knowledge of any of this. I don't know any of these people. Gasior? Jack Blum? I'm not even sure I know him." But Blum says the two were in frequent contact, and acknowledges that he told Gasior to drop the case — not for reasons of safety, but to "get on with her life." Asked about Kennametal and Lafarge, Mikva quipped: "I've heard of a Madame Lafarge, but that's about it."

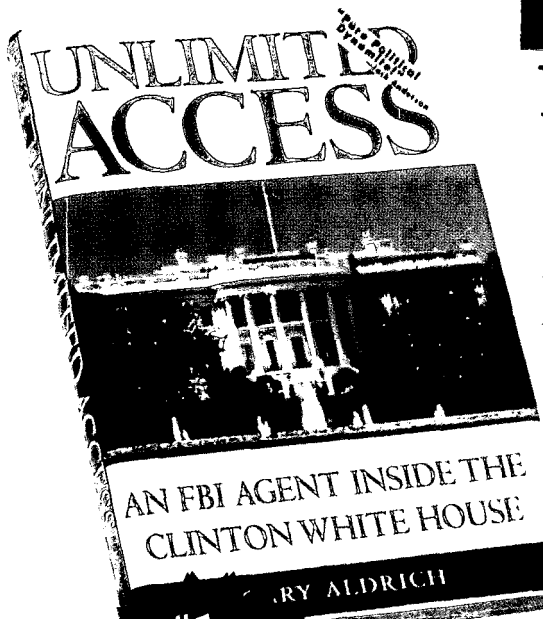
One thing is certain: If Kenneth Starr *isn't* investigating Hillary Clinton's ties to Lafarge, somebody is going to an awful lot of trouble to make sure the story of her involvement is consistent. When asked how she came to join the Lafarge board, a company spokesperson said **Mrs. Clinton was recommended by Lafarge board member Edward H. Tuck, who had worked with her on a report on the state-run child-care system in France while he was president of the French-American Foundation.** Tuck repeated the same story almost word for word. He added that the company "regretted" Mrs. Clinton's decision to resign from the board, because of the "valuable contributions" she had made as a director, and her "active involvement" in Lafarge. A *Business Week* reporter who queried the White House was told the same story, including the bit about child care.

Tuck, who is now with the New York law firm of Shearman & Sterling, declined to be more specific about that "active involvement." (His firm was retained by the Rome headquarters of BNL, shortly before Hillary Clinton joined the Lafarge board, to represent the bank before federal regulators once the scandal hit the fan in August 1989.) But Jack Blum believes the allegations regarding the first

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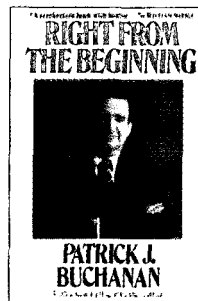
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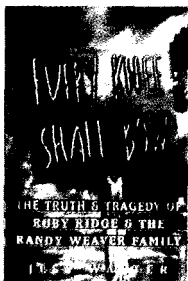
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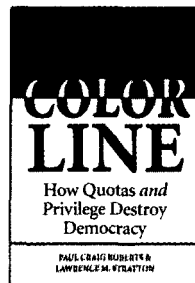
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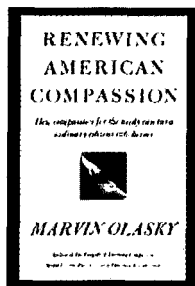
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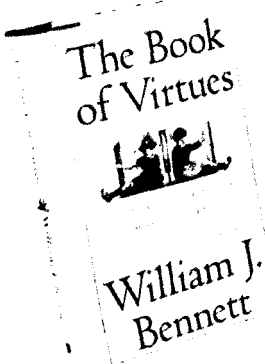
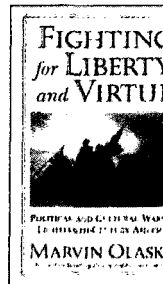
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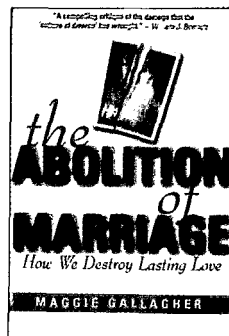
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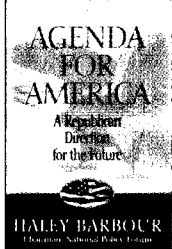
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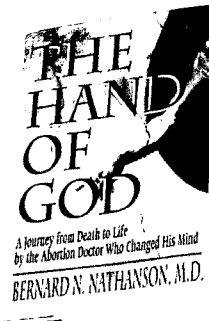
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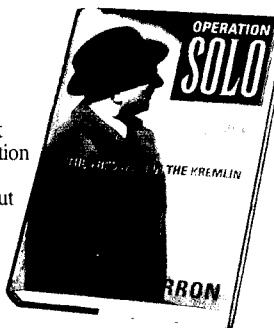
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lady's involvement with Lafarge border on the absurd.

"If you were Hillary Rodham Clinton," he says, "and Lafarge were actually involved in a clandestine arms export operation, would you want to protect them? On the contrary, if you became aware of such information you would have every interest in exposing them. What does she get out of covering-up?" Besides, he argues, "Would anybody involved in such an operation be so stupid as to inform members of a board of directors that such things were going on?"

Blum also maintains that the Clintons have had "absolutely no relationship to the intelligence community," either while in Arkansas or in Washington. As evidence he cites President Clinton's first two years in the White House: "During that entire time, Bill Clinton met with Jim Woolsey, his Director of Central Intelligence, exactly once. Bill Clinton pays no attention to these things, and has done nothing to take control of the national security establishment. He didn't care. He zoomed out."

For its part, Lafarge says that it "has never been involved with anything related to arms. Any conclusion to the contrary is erroneous."

If Clinton was paying no attention to the intelligence community, however, his Justice Department was demonstrating remarkable sensitivity to cases involving intelligence operations. As congressional investigators have repeatedly noted, almost every time there was strong evidence of CIA involvement, the Justice Department either dropped the prosecution or bungled the case. Asked why House Banking Committee Chairman Henry Gonzalez abandoned his BNL crusade, for example, a senior staff investigator remarked: "We had won the election, and there was a consensus to declare victory and move on to other things. Besides, if we had wanted to get to the bottom of the BNL case, we would have had to take on the intelligence agencies. And none of the committee members had the stomach for that."

Another Democratic congressional aide, who investigated whether Iraq used U.S.-government export credits to buy foodstuffs that it subsequently traded for arms, agrees. "We saw case after case where companies shipping hi-tech goods to the Iraqi military establishment were also working on behalf of U.S. intelligence agencies," the staffer says. "The CIA knew what the Iraqis were buying, and that it was helping their military machine, but turned a blind eye because it allowed them to gather intelligence."

When the odd case did come to prosecution, the intelligence community resorted to other techniques. In 1991, when the head of International Signals Corp., James Guerin, first tried using the CIA connection as a defense, "former gov-

Asked whether they were CIA fronts for clandestine weapons shipments overseas, former CIA director Robert Gates says, "I hear a distant bell tinkling."

ernment officials" started talking to reporters in an effort to destroy Guerin's credibility. He was eventually given a 15-year jail term.

Ironically, it was a similar case that finally went to trial four years later that broke open the story of the CIA's involvement in arming Iraq. The government leaned so hard on Teledyne Industries, which supplied military-grade zirconium to Chilean arms manufacturer Industrias Cardoen, that the company agreed to plead guilty to export violations and pay several million dollars in fines, to avoid a public trial that most likely would have exonerated it from any wrong-doing.

But the plea did not stop a separate trial of two former Teledyne employees in Miami. On January 31, 1995, just two weeks after Teledyne's guilty plea, former Reagan administration National Security Council official Howard

Teicher filed an affidavit on behalf of the employees, spelling out the secret U.S. policy in great detail. Teicher stated that he was in a position to know about U.S. military assistance to Saddam because he personally helped draft a still-classified National Security Decision Directive, signed by President Reagan in 1982, that authorized the United States to "do whatever was necessary and legal to prevent Iraq from losing the war with Iran."

With the new instructions in hand, Teicher says, CIA Director William Casey "personally spearheaded the effort to ensure that Iraq had sufficient military weapons, ammunition and vehicles to avoid losing the Iran-Iraq war." While the bulk of Iraq's arsenal consisted of Soviet and French weapons, making it impractical for the U.S. to ship main weapons systems or even spare parts to Iraq, the CIA identified one key need the U.S. could fulfill: cluster bombs and anti-armor penetrators.

"When I joined the NSC staff in early 1982," Teicher said, "CIA Director Casey was adamant that cluster bombs were a perfect 'force multiplier' that would allow the Iraqis to defend against the 'human waves' of Iranian attackers. I recorded these comments in the minutes of National Security Planning Group meetings in which Casey or [Deputy CIA Director Robert] Gates participated."

Carlos Cardoen, head of Chile's Industrias Cardoen, alleges that he was approached by the U.S. to sell the cluster bombs to Iraq in the early 1980's, and received U.S. assistance to produce the weapons in Chile. His company was given access to U.S. blueprints of the "Rockeye" cluster bomb, made by James Guerin's International Signals Corp. Cardoen also received highly sensitive raw materials from the United States, such as military-grade zirconium from a Teledyne subsidiary.

By controlling Cardoen's supplies, the CIA may have thought the U.S. could regulate the flow of weapons to Iraq, increasing

it in time of need and reducing it to a trickle in slack times. That may well have been true during the Iran-Iraq war. But when Iraq emerged victorious against Iran in June 1988, Saddam Hussein decided to produce the cluster bombs locally, and turned to Cardoen to build a plant to produce them in Iraq. Much of the equipment for the plant was purchased by Matrix Churchill Ltd., House Banking Committee investigators found, financed by BNL-Atlanta. The U.S. Customs Service raided Cardoen's Florida office in 1991, and he was indicted in May 1993 along with Teledyne.

But once again the Justice Department never brought the case to court. In a February 8, 1995 interview with the Chilean newspaper *La Segunda*, Cardoen himself explained: "We had nothing and have nothing to hide from the CIA, nor the United States government, nor anyone." The U.S., he insisted, had been behind him "all the way" in his dealings with Iraq.

The Justice Department also declined to prosecute Kennametal—a key supplier to the Cardoen cluster bomb plant in Iraq and Marianne Gasior's former employer—referring the matter instead to the Treasury Department's Office of Foreign Assets Control, where it languishes to this day. (A Treasury spokesman says, rather defensively, "There has been no effort to bury this investigation.")

Internal corporate documents obtained by congressional investigators and U.S. Customs reveal that Kennametal's British subsidiary continued to ship tungsten-carbide parts to an Iraqi front company after the United Nations embargo on Iraq, fully aware that the equipment was to be used in an Iraqi weapons plant. "That," says Gasior, "is a clear violation of the Trading with the Enemy Act."

Of all the neglected investigations, though, it is the burying of the BNL scandal that remains the most tantalizing. The final report exonerated virtually every company that sold high technology to Iraq during the 1980's. In some cases, the report concluded, the companies had legally obtained export licenses for the sales. In others, the statute of limitations had run out. In still others, the violations were so technical that the Justice Department declined to prosecute because of the high cost, or because "a prosecution, even if successful, would have little if any deterrent effect."

Perhaps, as John Hogan and Jack Blum conclude, U.S. export control laws were so lax that no prosecutable offenses were ever committed—or if they were committed, the slight penalties render prosecution disproportionately expensive. Or perhaps, as a former investigator for Congressman Henry Gonza-

Stephanopoulos faxed a memo to campaign staffers in Nashville—after Al Gore had called the BNL scandal "worse than Watergate"—telling them to lay off the Iraq charges.

lez now admits, the whole BNL affair was merely a political witch hunt aimed at discrediting George Bush during the 1992 campaign.

If so, the Clinton campaign seems to have been aware just how risky a gambit it was. Top campaign adviser George Stephanopoulos faxed a brief memo to staffers in Nashville—after Gore had called the BNL scandal "worse than Watergate"—telling them to lay off the Iraq charges. The memo, made available to Marianne Gasior and a reporter by a former campaign worker who accidentally received a copy, was dated October 14, 1992, and began by praising the Gore staff for making Iraqgate a "very strong campaign issue [which] has gained votes and a great deal of attention for the Democratic Party."

Then it continued:

At this point in time, though, the Clinton staff in Little Rock, Arkansas believes that this situation has [addressed] itself, and no longer needs attention.

In fact, it has done enough damage to the Republican party and campaign that we now can sit on the fact that we have made it clear to the Bush people that they were involved in subterfuge vis-a-vis Saddam Hussein and Iraq.... Please refrain from any more talk about Iraqgate...

Stephanopoulos had reason for concern: As governor of Arkansas, Clinton had been a vocal supporter of U.S. exports to Iraq. He had also opposed Operation Desert Storm. Or perhaps Stephanopoulos may have been worried that Hillary's involvement with Lafarge would come out.

Whatever the reason, Clinton's campaign staff seems to have been especially sensitive to the Iraq matter—in a way strikingly analogous to his Justice Department's tip-toe fashion of pursuing the BNL scandal. Despite Jack Blum's assertions to the contrary, might Bill Clinton's ties to the intelligence community run deeper than previously imagined?

Such unsuspected connections to Bill Clinton could account for at least some of Janet Reno's reluctance to pursue the BNL scandal vigorously. If the report was indeed a cover-up to protect the intelligence community, then the CIA's influence over the Justice Department is more powerful than anybody outside the Clinton administration might have suspected. Nobody but William Safire of the *New York Times* seems to have paid much attention, but just three weeks after the BNL report was released, Reno decided to pay the bank more than \$400 million—of U.S. taxpayer money—to compensate the losses of its Atlanta branch in Iraq. "Mr. Clinton's BNL bailout," Safire scolded, "makes him a \$400 million participant in Iraqgate." That pay-off may yet turn out to be the least of the Clintons' connections to the scandal. ❁



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