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*The President
of the United States of America*

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STATEMENT OF
THE HONORABLE LAWRENCE S. EAGLEBURGER
DEPUTY SECRETARY OF STATE
BEFORE
THE HOUSE COMMITTEE ON BANKING,
FINANCE AND URBAN AFFAIRS
MAY 21, 1992

Larry
Outstanding
CPB
6-8-92

Mr. Chairman and Members of the Committee:

I plan this morning to do my best to set the record straight on the U.S. Government's policy toward Iraq during the latter half of the 1980s and in 1990, and to place in context the role of the Commodity Credit Corporation (CCC) program. I intend to make clear that the Administration followed a prudent policy toward Iraq at the time -- including the management of the CCC program -- even though we, and other governments, were ultimately unable to restrain Saddam Hussein.

In explaining U.S. policy, I also plan to address many of the factual and legal misstatements currently being put forth by Members of this Committee. Quite frankly, the selective disclosure -- out of context -- of classified documents has led -- knowingly or otherwise -- to distortions of the record, half truths, and outright falsehoods, all combined into spurious

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conspiracy theories and charges of a "cover up." For those interested in the truth, let me make the following ten points:

- First, the Agriculture Department's Office of the Inspector General, which has investigated Iraq's conduct with regard to the Commodity Credit Corporation (CCC) program and is participating in the U.S. Attorney's investigation of BNL-Atlanta, has not, to date, established diversion to third countries of commodities sold to Iraq.
- Second, those same investigations have not, to date, established that Iraq misused the CCC program to purchase military weapons.
- Third, neither the criminal indictment handed down in Atlanta in February 1991, nor the May 1992 plea agreement of a U.S. exporter to Iraq, contain evidence of or allegations that CCC-guaranteed commodities for Iraq were diverted to other countries or used for military purposes.
- Fourth, approximately 90 percent of the \$5 billion in credit guarantees extended to Iraq between 1983 and 1990 for the purchase of U.S. agricultural exports was provided prior to Fiscal Year 1990 and received broad support among Members of Congress and by American farmers and commodity groups.
- Fifth, CCC extended only one tranche of \$500 million in credit guarantees to Iraq in Fiscal Year 1990. Of this \$500 million, over 20 percent of it did not become effective because of the Gulf War. Moreover, the remaining \$392 million represents an official liability of the Government of Iraq. U.N. Security Council Resolution 687 provides that Iraq's repudiation of its foreign debts is null and void, and demands that Iraq adhere to all of its obligations. The Administration intends to assert claims against Iraq for any amounts that the U.S. Government is required to pay on CCC guarantees.
- Sixth, shortly after the U.S. Attorney's office in Atlanta initiated its investigation of Banca Nazionale del Lavoro (BNL), Agriculture reached an agreement with BNL that BNL would not participate in the CCC program for Fiscal Year 1990. Accordingly, BNL was not assigned

any of the \$392 million in CCC credit guarantees extended for agricultural exports to Iraq in Fiscal Year 1990, and will not receive one cent in U.S. taxpayer money for the payment of claims against those guarantees.

- Seventh, during the period that the CCC extended the \$392 million in credit guarantees, Iraq actually made hard currency payments of approximately \$847 million. Thus, despite concerns about Iraq's creditworthiness, there was a net reduction in CCC's exposure of about \$455 million.
- Eighth, the October 13, 1989 memorandum, to which Members of this Committee have repeatedly referred in making certain charges, merely speculates about allegations on Iraq's use of CCC guarantees. Most of the allegations in that memorandum have not, to date, been established.
- Ninth, the suggestion that the Administration has sought to "cover up" its policy toward Iraq is simply not true. Few U.S. government policies have been so carefully and so extensively examined by the Congress and by the media as this one. To this Committee alone, the State Department has provided over 4,000 pages of documents at a cost of over \$100,000 in employee hours. Other agencies have provided large quantities of documents as well.
- Finally, the State Department has been prepared to turn over additional documents. However, in light of the knowing and unauthorized disclosure of classified materials by Members of this Committee, the Administration determined last week, in accordance with its obligations under Executive Order 12356, not to permit further release of documents until it receives appropriate assurances from this Committee regarding the storage and protection of such materials. Failing such assurances from the Chairman, the Administration is prepared to make available appropriate documents to the Speaker of the House or to members or committees that he might designate.

I will now turn to a discussion of U.S. policy toward Iraq, the role of the CCC program, and the specific questions posed by this Committee.

I. U.S. Policy Toward Iraq

During Iraq's eight-year conflict with Iran, there was broad bipartisan consensus in this country that an Iraqi defeat at the hands of an extremist Iran would be disastrous for our interests in the region. Many of our allies, as well as the Gulf states themselves, shared this view. Although U.S. policy on the war was neutral, there was a subtle leaning toward Iraq, in public statements as well as in selected other actions, but without any provision of weapons or weapons systems to Iraqi government.

With the end of the Iran-Iraq War in the summer of 1988, and by the time President Bush took office, Iraq had emerged as the preeminent military power in the Persian Gulf. The Administration promptly undertook an extensive review of U.S. policy in that region, including U.S. policy toward Iraq. The key issue was whether U.S. interests in the Persian Gulf remained vital in view of the changed strategic environment there, and, if so, whether the existing investment of American power and diplomatic influence in the region reflected that importance. We concluded that access to Persian Gulf oil and the security of key friendly states in the area were, in fact, vital to U.S. national security, and that we were committed to defending those interests, hopefully with the support and participation of our friends in the region, Western allies, and Japan.

With regard to Iraq, the Administration recognized the difficulty of developing a clear cut policy. On the one hand, it appeared that Iraq had made a conscious decision to moderate its behavior since we had normalized relations in 1984. Iraq had, for example, reduced its support for terrorist groups and had, in fact, expelled the Abu Nidal Organization from its soil. Moreover, Iraq possessed significant oil reserves, was a major oil producer, and was increasing its supply of oil to this country. Post-war Iraq also appeared seriously interested in economic reconstruction and in expanding commercial ties with the West.

On the other hand, we fully recognized that there were still important issues that stood in the way of close relations. These included Iraq's human rights abuses, its chemical weapons program, our suspicions that Iraq might be developing biological and nuclear weapons, Iraq's efforts to build long-range missiles, and its involvement in Lebanon. Still, Iraqi membership in the Arab Cooperation Council, alongside close American friends such as Egypt and Jordan, appeared to offer the prospect of moderating Iraqi behavior. We also hoped that Iraq could play a helpful role -- or at least not play an unhelpful role -- in the Middle East peace process.

Recognizing these competing concerns, the Administration considered three major options in dealing with a post-war Iraq. First, we could expand our relations and try to embrace the Iraqis. Second, we could maintain our slow and steady course, seeking to probe, test, and encourage the Iraqis while being wary of their intentions. Or third, we could seek to isolate the Iraqis by punishing them for behavior we did not condone.

Given the unpredictability of Saddam's behavior and the uncertainty about his regional aspirations, we rejected the first option of expanding relations rapidly. We also recognized that we could not effectively isolate Iraq by acting unilaterally and that there would be no support from either our European allies or our friends in the Arab world for confrontation with Iraq. The third option, therefore, offered us little leverage over Iraqi behavior while potentially undercutting our broader interests in the Persian Gulf. We thus determined that these broader interests -- including continued access to the region's oil, stability of friendly area states, and deterrence of Soviet intervention and influence -- required a policy that sought, if possible, to engage Iraq and to offer the Iraqis a mix of incentives and disincentives, but without any illusions.

In adopting this policy, we decided to make clear to the Iraqi leadership that any use of chemical or biological weapons, or violations of IAEA nuclear safeguards, would lead to economic and political sanctions, for which we would seek the broadest possible support from our allies and friends. We also agreed that Iraq's human rights record and its meddling in internal affairs of others would continue to weigh heavily on our policy. At the same time, we would encourage Iraq to play a constructive role in the peace process, and we agreed to support the efforts of American companies to participate in Iraq's economic reconstruction and in the development of its energy sector.

In short, the Administration concluded that the evolution of normal relations with Iraq -- something that would require more constructive Iraqi behavior in a number of areas -- was in the U.S. national interest. Toward this end, we determined that it was worth trying to build on our successful diplomatic cooperation with Iraq during its war with Iran, and attempting to develop a modest economic relationship. However, our policy also included maintaining a capable military presence nearby, providing arms and other support to friendly states in the region, and expanding our dialogue with the Soviet Union.

For a period of time, we saw some movement by Iraq in the right direction on several matters. For example, Kurds

were allowed to farm again and they received compensation for seized property; Iraq agreed to pay personal injury claims relating to the crew of the USS Stark; FAA advice on airport security was welcomed by Baghdad airport; a first ever DEA visit to Iraq led to agreement to cooperate against narcotics trafficking; and we had opened a new cultural center in Baghdad that was successfully reaching out to ordinary Iraqis. Moreover, at a time when Iraq was forcing other Western creditors to accept bilateral debt rescheduling, it continued to repay U.S.-guaranteed loans.

Soon, however, a number of Iraqi statements and actions demonstrated that Iraq was not prepared to adopt a more responsible approach to relations with its neighbors or ourselves. As a result, we began to adjust even our modest efforts downwards. We heavily criticized Iraq's human rights record before the U.N. Human Rights Commission and in the State Department's Human Rights Country Report. We also expelled an Iraqi U.N. diplomat for involvement in a murder plot. In March 1990, U.S. Customs, working with the British, successfully interdicted an attempt to smuggle capacitors with possible missile and nuclear applications into Iraq. We also consulted with the British about the confiscation of materials for Iraq's development of the so-called "super gun." And we continued against Iraq a strict policy of denial for sales of weapons and

weapons systems, and intensified our efforts with other countries to tighten existing export controls, focusing on proliferation concerns.

What little remained of the U.S.-Iraqi relationship came to an abrupt end with Iraq's brutal invasion and occupation of Kuwait in August 1990. As it turned out, the fact that the United States had followed a measured policy toward Iraq rather than having sought unilaterally to isolate the Iraqis proved to be a critical factor in our ability to assemble a coalition -- which included Arab countries -- to expel Saddam from Kuwait and, ultimately, to devastate his military capabilities.

II. The CCC Program for Iraq

The Commodity Credit Corporation (CCC) of the Department of Agriculture had first made available credit guarantees in connection with export sales to Iraq in 1983, shortly before we resumed diplomatic relations with the Iraqis in 1984. As Under Secretary Crowder will explain in greater detail, the CCC program is designed to assist U.S. agricultural exporters and producers by developing foreign markets for U.S. commodities. It is, in the first instance, an export promotion and market development program. The CCC guarantee covers the risk of non-payment by a foreign bank under a letter of credit opened to finance the purchase of U.S. agricultural exports. Iraq was

one of more than 40 countries participating in this program, which served to provide benefits for over 80 different types of U.S. agricultural commodities.

In many respects, our trade balance with Iraq during the latter half of the 1980s was governed by the level of U.S.-guaranteed financing available to Iraq. As U.S. imports of Iraqi oil rapidly expanded toward an estimated \$2.5 billion by 1990, the CCC program helped lessen a growing trade deficit with Iraq. Throughout the period in question and despite its economic difficulties, Iraq maintained a record of consistently and fully meeting financial obligations incurred under the CCC program.

Iraq requested \$1.03 billion in CCC credit guarantees for Fiscal Year 1990. As the Administration began to consider this request, it learned that the U.S. Attorney in Atlanta was investigating the Atlanta branch of Banca Nazionale del Lavoro (BNL) for allegedly conducting a clandestine "greybook" loan operation to Iraq. While much of the money involved in the loan operation was not directly related to the CCC program, the Agriculture Department found that approximately \$720 million of BNL-Atlanta's loan portfolio consisted of assigned obligations that were backed by CCC export credit guarantees. Accordingly, as Under Secretary Crowder will explain, investigators with Agriculture's Office of the Inspector General began assisting the U.S. Attorney's investigation in early September 1989.

The Administration took the BNL allegations seriously, even though at the time no wrongdoing on the part of Iraq had been established. Because of the allegations, the Administration initially postponed any decision on Iraq's request for CCC guarantees for Fiscal Year 1990. Moreover, in Secretary Baker's October 6 meeting with then Iraqi Foreign Minister Tariq Aziz, the Secretary raised the BNL issue, emphasizing the importance of Iraqi cooperation with this investigation, and seeking assurances from the Government of Iraq that it would assist in the investigation. Aziz gave these assurances and Iraq did cooperate when a team from the Departments of Agriculture and State travelled to Baghdad several months later.

In November 1989, the National Advisory Council on International Monetary and Financial Policies (NAC) met at a senior level to consider Iraq's CCC request. As Deputy Secretary Robson will describe further, there was a full exchange on all relevant points regarding the CCC program for Iraq. The Deputy Secretary of Agriculture specifically reported that the BNL investigation had only resulted, to date, in allegations of violations. He further reported that Agriculture's Office of the Inspector General had stated in writing that there was no evidentiary basis for withholding approval of new CCC guarantees for Iraq.

In addition to discussion of the BNL investigation, representatives at the NAC meeting also discussed Iraq's creditworthiness, the importance of Iraq as an agricultural export market, and the Administration's efforts to manage the bilateral relationship in a way that might moderate Iraqi behavior. I might note as well that at this time Members of Congress, along with various agricultural trade interests, were urging the Administration to provide the full amount of credit guarantees requested by Iraq.

After a careful balancing of the risks and benefits, the NAC supported the Agriculture Department's recommendation to establish a tiered approach to the CCC program rather than to grant Iraq's request outright. Under this approach, Agriculture decided to extend a first tranche of \$500 million in credit guarantees, with additional guarantees for the year to depend on the results of Agriculture's own administrative review as well as the investigations by its Office of the Inspector General and the U.S. Attorney in Atlanta. The Administration indicated to the Iraqis that the CCC program would be terminated if abuses were discovered.

The Agriculture Department continued to monitor the BNL investigation and consistently received word from the Office of the Inspector General that there was no reason to recommend

that the CCC program not go forward. At the same time, however, Agriculture's own administrative review of Iraq's CCC program indicated a pattern of unexpectedly high prices for certain commodities. Accordingly, by February 1990, without investigations yet completed, the Administration deferred a decision on the second tranche of \$500 million of credit guarantees for Iraq.

During this time, the State Department cooperated with the Justice Department in the Atlanta investigation. This is reflected in correspondence between the two Departments in March 1990, in which the State Department offered to work with Justice attorneys to develop a plan to interview Iraqi officials in connection with the BNL investigation.

The State Department also facilitated Agriculture's administrative review of the CCC program for Iraq. In mid-April 1990, a delegation from Agriculture, with a representative from the State Department's Office of Legal Adviser, travelled to Baghdad for approximately four days to meet with the Iraqis and to review their records regarding CCC-guaranteed purchases. The officials were granted extensive access to Iraq's records relating to these purchases. Agriculture issued a report in May on the results of this visit. The report did, in fact, find violations by Iraq of CCC program requirements.

Accordingly, as Under Secretary Crowder will describe, he asked his Inspector General for a complete investigation of Iraqi commodity sales. While that investigation is ongoing, it is my understanding that it has not, to date, established diversion to third countries of commodities sold to Iraq, or misuse of the CCC program by Iraq to purchase military weapons. This is in contrast to the speculation contained in a memorandum of October 13, 1989, which Members of this Committee and others have frequently cited as fact to support allegations against the Administration of wrongdoing and a "cover up."

After the Agriculture Department had released its report, the Administration chose not to proceed with the second tranche of CCC credit guarantees for Iraq. Indeed, the Administration never granted any further credit guarantees to Iraq beyond those announced in November 1989.

When the United States imposed sanctions against Iraq in August 1990, there were approximately \$1.9 billion in outstanding credit guarantees. Of course, the major portion of those obligations had accumulated during the 1980s. In that regard, it is worth noting that all sanctions legislation against Iraq that the Congress had proposed in the first half of 1990, except for the Inouye-Kasten bill, exempted the CCC program from whatever sanctions might be imposed.

It should also be noted that, of the \$500 million in CCC credit guarantees authorized for Fiscal Year 1990, only about \$392 million actually became effective prior to the imposition of sanctions. Moreover, during the same period, Iraq actually made hard currency payments under the CCC program of approximately \$847 million. Thus, despite concerns about Iraq's creditworthiness, there was a net reduction in CCC's exposure of about \$455 million. In light of the affirmation in U.N. Security Council Resolution 687 of Iraq's continued liability for outstanding debts, as well as our own freezing of Iraqi assets, we should expect that CCC claims against Iraq will eventually be settled.

III. The Committee's Questions

Within this context, let me turn to the Committee's questions on the Fiscal Year 1990 CCC program. As noted above, the State Department, acting in accordance with Administration policy, viewed the CCC program as one of the positive elements in our effort to develop a constructive bilateral relationship with Iraq. The State Department believed in November 1989 that continuation of CCC-supported trade offered the possibility of expanding and improving that bilateral relationship. This would hopefully have had the additional benefit of moderating Iraq's conduct in areas of concern to us, such as human rights. By April 1990, however, the State Department no longer supported additional CCC credit guarantees for Iraq.

On the issue of creditworthiness, the State Department viewed Iraq's record of repayment of CCC obligations as excellent, even though there were minor delays from time to time. Indeed, during the period in question, Iraq actually made payments to CCC of more than twice the amount it received in new guarantees.

As for the BNL scandal, that issue, of course, had considerable influence on the course of events. It contributed to the initial delay in considering Iraq's request for \$1.03 billion in CCC credit guarantees. It led Secretary Baker to request of Foreign Minister Aziz that Iraq cooperate in the investigation. And it contributed to the decision to apply a tiered approach to Iraq's CCC request, granting only a first tranche of \$500 million while the investigation proceeded.

Finally, the Administration remained highly critical of Iraq's human rights record, even though consideration of that record did not specifically affect the State Department's views on the CCC program.

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Mr. Chairman, that is the end of my remarks in response to the questions that you posed. However, I feel compelled in

conclusion to comment on the nature of this inquiry. As I prepared for this hearing, I could not but reflect on how the conduct of our government has changed since I began my career with the State Department more than 30 years ago. We now seem to work in an environment of distrust rather than trust, of confrontation rather than cooperation, of accusation rather than fair inquiry. What has been done by the selective disclosure -- out of context -- of classified documents, by the distortions of truth, and by the raising of innuendoes where no facts exist to support them is to make exceedingly difficult our ability to engage in the deliberative process necessary to formulate policy. No longer can responsible officials voice differences of opinion, provide candid advice to their superiors, or engage in open discussion and debate on an issue without the constant worry that at some point in the future someone will seek to condemn and vilify them for having done no more than perform their duties honestly and to the best of their abilities. I submit that such a situation is in no one's interest and is a disservice to the good governance of this nation.