

ARTICLE APPEARED
ON PAGE 18U.S. NEWS & WORLD REPORT
30 March 1987**The Iranians planted a phony story of a dying leader and a bitter**

THE AYATOLLAH'S BIG STING

■ It began sincerely enough. Because of Iran's enormous strategic importance in the Persian Gulf, and because of the uncertainty of Soviet intentions there, many American foreign-policy planners believed that an attempt to open a dialogue with leaders of the Islamic Republic would improve the chances of the United States gaining some influence after the death of Ayatollah Khomeini. Through intermediaries, the opening was established—only to go terribly awry when an effort to reach Iranian "moderates" deteriorated into an arms-for-hostages deal and the diversion of money to the Contra forces fighting the Sandinista regime in Nicaragua.

Those have been the central assumptions of the Iran-Contra affair that has so damaged the Reagan Presidency. But are they true? New information provided by sources in the Middle East, and specifically in Teheran, seems to indicate a far more troubling scenario. It was not the United States that made overtures to Iran, but the reverse, these sources say. And the Iranians had no real interest in strategic relations with America. Their goal was simple: They wanted weapons to prosecute their war with Iraq. In fact, the sources explain, the Ayatollah and his men devised what one U.S. investigator calls "a giant sting" that resulted not only in substantial sums of arms and money flowing to Iran but much, much more.

The sting duped not only the Americans but the Israelis, the middlemen arms dealers and even the Soviets, and its effectiveness is all the more remark-

able for the simplicity of its conception. Essentially, the sources say, it worked like this: Through carefully selected go-betweens, the Iranians put out detailed reports of Khomeini's failing health and alluded to an intense factional struggle that was already taking shape. Among the factions, the Iranians said, was a group that favored ties with the West. In exchange

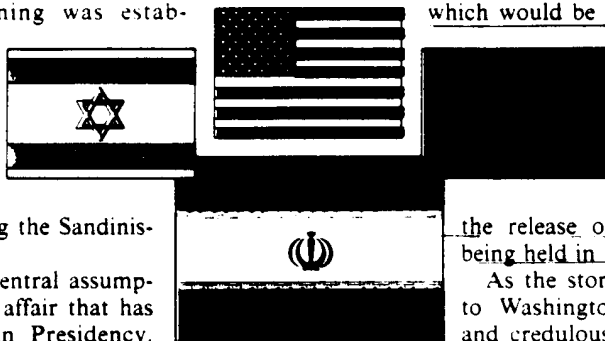
for weapons and intelligence information, which would be regarded as signs of good faith, the West, and specifically the United States, would achieve a measure of influence in the new Iranian leadership and perhaps some help in obtaining

the release of the American hostages being held in Beirut.

As the story was being passed along to Washington through arms dealers and credulous Israeli interlocutors, the Iranians made it known to Soviet oper-

atives within Iran that an opening to the United States was being considered. The hope was that, at some point, the Soviet operatives would show their hand and that the Iranian authorities would then be able to identify the network of spies and arrest them. In fact, the sources say, this is precisely what happened—thereby seriously damaging Moscow's position in Iran.

The following special report is based on extensive research by a team of reporters and analysts in the Middle East working with *U.S. News*, the magazine's own reporting and the public record. Where there are conflicts between U.S. officials and those in the Middle East, particularly Iran, they are noted in the text. ■



Continued

MASTERS OF DECEIT

How the Iranians manipulated the U.S., Israel and the Soviet Union

■ Friday-morning prayers had ended just a short time ago on the broad greensward in front of Teheran University when an aide to Ayatollah Khomeini summoned the most powerful men of the Islamic Republic. From different quarters of the city, the clerics, in their robes and turbans, hurried to the Ayatollah's heavily guarded home in Jamaran, in the foothills just north of Teheran. It was a rare summons; the Ayatollah was accustomed to making almost all decisions alone. As the clerics waited in an outer room to be admitted to the inner court where Khomeini lives, they realized something was afoot. The date was Jan. 25, 1985.

Ushered into the private chamber, with its whitewashed walls and bright, woven rugs, the visitors quickly took seats. According to Iranian sources, they were Hashemi Rafsanjani, Speaker of the Iranian parliament, or Majlis, and head of the Iranian War Council; Mir Hossein Moussavi, the Prime Minister; Mohsen Rafiq-Doust, minister of the feared Pazararan, or Revolutionary Guards; Mohammad Rey-Shahri, head of internal security, and Foreign Minister Akbar Velayati. Ahmed Khomeini, the Ayatollah's son and closest confidant, completed the group. These were the men that Khomeini trusted most; several are thought to be related to the ruler. In time, the old man spoke. Iran desperately needed weapons and military spare parts, he said, but only the United States could provide the amounts required for a knockout blow against Iraq. But Khomeini, the cunning manipulator despite his advanced years, could not reach out to America—the "Great Satan." Instead, a trap must be laid to draw the U.S. to him. And the ruler would settle for nothing less than a direct link to the White House.

JANUARY, 1985

AN AMBITIOUS PLAN

Jamaran is a small village that squats uncomfortably in the lee of a hulking mountain called Tupal. In 1980, a wealthy admirer made a gift of his villa to Khomeini, and since then he has spent almost all his time there. Now, on this freezing night in January, in the shadow of Tupal, Khomeini and his aides plotted. Reports of his impending death and an incipient power struggle must be planted among Iranian exiles in the United States and Europe. Then the hook would be set.

To entice the Americans still further, three pieces of bait would be dangled. Well-placed American authorities would be supplied with the names of officials in the one faction said to be interested in establishing better ties with the West, leading them to believe that they might establish their first small toehold in Iran since the overthrow of the Shah in 1979. In exchange for weapons and perhaps more-extensive cooperation on military and intelligence matters, particularly in the war against Iraq, the officials in the so-called moderate group would help the U.S. supply Afghan rebels through openings in the long Iran-Afghan border. Further, as a token of their willingness to work with the West, the "moderates" would endeavor to obtain the release of the

few U.S. hostages held in Lebanon at the time. It was assumed that the Americans knew too little about internal Iranian politics to spot the deception.

It was an ambitious plan, particularly considering its multiple goals. It is obvious that the Iranians sorely needed the spare parts for the U.S.-built weapons purchased under the Shah. At one point in 1985, 300 American-made aircraft—roughly 85 percent of the entire Iranian fleet—were reportedly grounded for lack of replacement parts. As dire as the need was for weaponry and air defenses for Iranian



The parliament's Speaker, Rafsanjani, may have made huge profits on the deals



The Ayatollah's son, Ahmed, was present at key meetings where sting was discussed

cities, however, sources in Teheran with knowledge of the Jamaran conversations say that the procurement of arms and antimissile defenses was only one of the goals of the Ayatollah; another was to strike at the Soviet Union, patron and No. 1 armorer of Iraq. The ultimate goal, of course, was to defeat Iraq.

Khomeini has long feared an effort by Moscow to undermine his own regime. In 1983, nearly 200 KGB operatives were executed and the Communist Tudeh Party was disbanded after the U.S. Central Intelligence Agency secretly provided the Khomeini regime with information obtained from British sources on the KGB's spy network in Iran. The operation was a big setback for the KGB, but it did not result in the loss of all its agents in Teheran. And since then, according to the sources in Teheran and intelligence officials elsewhere in the Middle East, the KGB had begun to reinfiltate an undetermined number of new agents into Iran, especially within the Air Force. How far the infiltration proceeded is a matter of dispute in the West. The CIA

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and most academic experts doubt there is a significant KGB presence in Iran today, although as recently as the spring of 1985 many assessed the Soviet threat as serious. Both American and key Iranian officials believe, however, that the downfall of the Ayatollah could result in a Soviet power grab in Iran. Khomeini hoped that by luring the United States into providing weapons, he could simultaneously effect a "double sting," drawing KGB operatives out into the open and rolling up the Soviet spy network.

But would such a plan work? And who would carry it out? Quietly, as his senior aides sat around him in Jamaran, Khomeini uttered a name: Mohammed Karubi. All around, there was general agreement. For weeks, the Iranian leadership had been abuzz with speculation about Karubi, an eminent member of the Majlis widely regarded as one of the most brilliant men in Teheran. Also, through his brother, Mehdi Karubi, who has been linked to the hijacking of TWA 847 and a 1983 attempt to seize Mecca, he was allied with figures in Iranian terrorist organizations. For the two weeks before the January 25 meeting, Karubi

into two days of violent street demonstrations after a soccer match in Teheran. Air defenses for the cities were clearly a pressing need.

These were just some of the concerns among the Iranian leaders as they left Khomeini's home in Jamaran that cold January night. They could not have known it as they passed through the electronic gate outside the Ayatollah's residence and back down the poplar-lined road to Teheran, but these top officials, who were entrusted with carrying out the ambitious double sting, would find an unusually receptive audience in Washington, where interest in opening up a channel to Iran had already been kindled. Only a few months before the Jamaran meeting, a member of the White House National Security Council staff, Howard Teicher, had prepared a long interagency memorandum exploring the possibilities and the strategic potential of re-establishing relations with Iran, possibly using the sale of arms as an opening gambit. At the time, the proposal went nowhere. However, the germ of the idea expressed in the memorandum had been planted.

Because of its enormous oil reserves, its long border with the Soviet Union and the potential impact of its Islamic fundamentalism on neighboring Afghanistan, Pakistan and the Moslem republics of the U.S.S.R., Iran looms large in any calculation of U.S. interests in that part of the world. Since the fall of the Shah in 1979, U.S. intelligence agencies have lost valuable listening posts from which to spy on the Soviet Union. The fall of the Shah also left the United States without a reliable ally in the region, as well as a gaping hole in its human intelligence-gathering network. Under the Shah, Iranian and U.S. intelligence operatives had shared valuable information on Afghanistan, the Soviet Union and a host of other subjects.

Israel, too, had a keen appreciation for the importance of Iran. As was the case in the U.S., there was great interest on the part of the Israelis in the future of Iran after Khomeini, as well as in the outcome of the Iran-Iraq War. Israel deeply feared a victory by Iraq and historically had maintained cordial business relations with Iran, which is not an Arab country. Moreover, the Israelis were concerned about the fate of an estimated 25,000 Iranian Jews.

In early 1985, however, it was not all that difficult to stir fears of Khomeini's faltering health. In Washington, as well as in Jerusalem, the intelligence agencies had been receiving periodic health bulletins on Khomeini almost since the very day the Shah fled. The information was almost always sketchy, though. Most often, it was reported that the Ayatollah was suffering from degenerative heart disease, but at least one report speculated about intestinal cancer. Middle East sources now say that Khomeini was diagnosed in 1984 as having prostate cancer, not uncommon in a man his age.

FEBRUARY, 1985

ENTER THE MIDDLEMAN

Whatever the true state of Khomeini's health, the plan set in motion at Jamaran began to evolve through a series of unusual meetings and diplomatic gambits. Before long, the Americans, the Israelis and even the Soviets were being drawn into the Iranian snare. Just a few weeks after the Jamaran meeting, in the middle of February, 1985, Prime Minister Moussavi invited a man named Manucher Ghorbanifar to Teheran for talks. Ghorbanifar is a wealthy Iranian arms dealer who has a wide network of contacts in



Prime Minister Moussavi asked Ghorbanifar to Iran, setting plan in motion



Khomeini was reported near death; in fact, he was healthy for an elderly man

had been invited to Friday prayers in Khomeini's private mosque, a rare honor. On the morning of the meeting, Karubi received the ultimate honor—Khomeini invited him to conduct part of the service. Karubi, the Ayatollah said, would be the lure for the U.S., traveling from Iran to meet with foreign emissaries. As one Iranian source put it later, Karubi was to be "the cheese in the trap."

Though it was Khomeini who announced the selection of Karubi for the key role, Rafsanjani may well have been the original architect of the plan. As far back as 1984, he had spoken publicly of his willingness to purchase arms from the United States. And in 1985, he turned up in Japan and later Kuwait, dropping broad hints of Iran's willingness to restore some form of relations with the United States. The war with Iraq was taking an increasingly heavy toll on the Iranian economy. But according to intelligence officials in the Middle East, Iraqi bombings on civilian-population centers were creating even greater problems for the government, with unrest erupting at one point

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the United States and Israel. He also has a well-refined instinct for money. So when Moussavi began telling Ghorbanifar of the Iranians' interest in an arms deal worth somewhere in the neighborhood of \$2.5 billion, the arms dealer shifted his thinking into high gear. He explained that his good friend, another arms dealer named Adnan Khashoggi, also had very good contacts that could be useful in developing interest on the part of the Israelis and the Americans. Moussavi approved, and even offered Ghorbanifar the use of an Iranian office in Hamburg.

Ghorbanifar left Teheran immediately for West Germany, and through March and April he and Khashoggi worked on a plan to begin talks directly with the United States. Ghorbanifar had tried in the past to deal directly with U.S. officials in a variety of negotiations, but he was not trusted and so had little success. This time, Ghorbanifar asked Khashoggi what tack should be taken, and Khashoggi advised that an overture be made to the Americans through the Israelis. "Having failed to reach us at the front door," Michael Ledeen, a consultant to the National Security Council staff, told the Tower review board, "Ghorbanifar went around to the side door." He also asked Khashoggi to forward a memorandum on the situation in Iran, dated July 1, 1985, directly to Robert McFarlane, the White House national-security adviser. Then, the two arms dealers sat back to see what would happen. They would not have long to wait.

JULY, 1985

A MULLAH IN HAMBURG

At 7 p.m. on July 8, 1985, an unusual party began to assemble in a luxury suite of the Hotel Vier Jahreszeiten in Hamburg. The two arms dealers had not yet achieved their goal of direct talks with the United States. But they had succeeded in bringing Iranians and Israelis together—no small feat—and they had set the stage for direct involvement of the U.S. and, ultimately, the shipments of the weapons Teheran so desperately needed.

Present at the meeting were three Israelis: David Kimche, then director general of the Foreign Ministry; Al Schwimmer, an arms dealer, and Yaacov Nimrodi, another arms dealer and former Israeli intelligence official. On the Saudi

side were Khashoggi, his son and an unidentified business associate. A Lebanese named Nael Assad, a member of one of the leading Shiite families who is married to Khashoggi's sister, also was in attendance. Representing the Iranians were Ghorbanifar and a bearded cleric, whom no one seemed to know. After the usual pleasantries were exchanged, the talk turned quickly to the machinations of Iranian revolutionary politics. As the debate ebbed and flowed around him, the cleric in the black robe and white turban sat impassively, without speaking. Obviously a mullah of high rank, the man was thin, of medium height, with sharp features; his beard was scanty and deep black. At length, Khashoggi explained to the others that the cleric had come from Teheran and had firsthand knowledge of the factional disputes there. The man's name, Khashoggi said, was Mohammed Karubi—the Ayatollah's designated point man in the big sting.

With Ghorbanifar translating when needed, Karubi, speaking Farsi and sometimes lapsing into Arabic, talked for 3½ hours, outlining his view of Iran after Khomeini. There are, he said, three factions within Iran, each desperately angling against the other. The first, said Karubi, is a radical group that favors ties with the Soviet Union. It is led by the President, Ali Khamenei, and Prime Minister Moussavi. The second group, Karubi told his listeners, is led by Majlis Speaker Rafsanjani, and it favors Marxist-oriented domestic policies, but believes Iran should not cut off relations with the West. The third faction is the most

moderate, Karubi said, and it holds that Iran's most dangerous enemy is the Soviet Union. At this point in his talk, Karubi reached into his robe and pulled out a sheet of paper with the names of 50 religious and military leaders who belong to the latter faction. Other sources with knowledge of the meeting in Hamburg say that the document was actually 30 pages long, "raw data" containing names and affiliations of many Iranian politicians. Some form of the document was turned over to the Middle East section of the CIA for analysis; it was deemed to be accurate.

Karubi also described Iran's terror network in Western Europe and the Middle East, strengthening his bona fides with his audience. And before the meeting in the Hamburg hotel broke up late in the evening, he provided his views of the prospects for Iran, hinting cryptically that it was he who led the third faction. Once Khomeini was gone, Karubi warned, it would be "every politician, mullah and gen-

eral for himself." If the struggle was not resolved quickly, Karubi said, Iran would disintegrate. "We are here to discuss the Soviet threat," he said, according to a participant in the meeting. "If you don't help, Iran will turn into a second Lebanon. [And] if it does, it will be a lot worse." Karubi's conclusion: The West, specifically the United States, must intervene; it must come to the aid of the moderates, supplying both arms and money. The meeting finally ended sometime near midnight. And within 24 hours, a summary had been carried to Washington by one of the Israelis, probably Schwimmer, sources say. The bait was now in place.

Things then began to move quickly. Less than a week after the Hamburg meeting, Israel received an "all clear" from the United States to keep talking with the Iranians. A three-cornered dialogue now began among the Iranians, U.S. officials and the Israelis. A few weeks after that O.K. from the United States, Ronald Reagan, as a gesture of good faith, approved the first shipment of arms to Iran by the Israelis, according to the Tower Commission report. And sometime during the last week of August, 1985—Iranian sources say August 25, not August 30, as in the Tower report—Manucher Ghorbanifar flew from Israel to the Iranian city of Tabriz with 100 U.S.-made TOW anti-tank missiles. The arms dealer was greeted with kisses and given what might have passed for a hero's welcome. He was flown on Prime Minister Moussavi's Falcon jet back to Teheran. And less than 24 hours after landing in Tabriz, he found himself sitting in the Ayatollah Khomeini's concrete encampment at Jamaran. The next mark in the Ayatollah's big sting was about to be ensnared.

AUGUST, 1985

THE SEDUCTION

At 11 a.m. on August 26, with only an olive-green door separating him from the private quarters of the Ayatollah, Ghorbanifar sat facing two of the most powerful men in the Islamic leadership—Rafsanjani, the Majlis Speaker, who may be a cousin of Khomeini, according to Middle East sources, and Moussavi, the Prime Minister. Also present was a man named Mohammed Kangarlou, Moussavi's chief deputy, and, as always, Ahmed Khomeini, the Ayatollah's son and confidant. How had the arms been delivered? Who authorized the sale? Was it possible to get more? The men were full of questions. And Ghorbanifar, pleased at their deference and blandishments, was only too happy to reply, recounting his talks in Hamburg and Israel, and taking few pains to conceal his role as deft and daring intermediary. Why had the Americans agreed to the arms sale, Rafsanjani

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and the others asked. According to sources in Teheran, Ghorbanifar replied briefly: "The Russians." The Americans and the Israelis were fearful, Ghorbanifar explained, that after Khomeini's death the Soviet Union would gain influence in Iran and perhaps take it over.

Professing astonishment at this axiomatic information, Rafsanjani, Mousavi and the others asked that Ghorbanifar put his thoughts on paper,

according to an Iranian source with information about the events of that day. The report completed, the four Iranians debated its merits for 2 hours as Ghorbanifar sat silently in their midst. By 3 p.m., Ghorbanifar told others later, the four men had reached a conclusion: They would present Khomeini with a plan by which he could obtain arms from Israel and the United States. But would the Ayatollah approve it? Would he deal with the Great Satan and the hated Israelis?

With much trepidation, Ghorbanifar recounted to sources afterward, the four Iranian leaders went in to see Khomeini. The arms dealer, left sitting outside the green door, settled in for a long wait. However, within 15 minutes, he said, the four were back, and they were in high good humor. The Ayatollah, they said, had given his blessing to the enterprise. Ghorbanifar, no doubt with delusions that he personally had convinced the old man to buy arms from the Great Satan, was dismissed from the residence at Jamaran, praise still ringing in his ears. And apparently, as he returned to deal for more arms for Iran, he had no idea that his entire interview had been staged from the first moment to the last. The Iranians, it seems, wanted Ghorbanifar to go back to the Americans and the Israelis convinced that Khomeini was now behind the plan.

AUTUMN, 1985

EXPANDING LOOP

If Ghorbanifar was taken in, as the Iranian sources say, he can take some solace in the fact that he was not alone. Even as he was preparing for his visit to Teheran in early August, 1985, key officials in the U.S. were scrambling to take advantage of what they viewed as the "Iranian opportunity." According to the report of the Tower Commission, David Kimche, who had by then resigned as director general of Israel's Foreign Ministry, told Robert McFarlane, the national-security adviser, of three new meetings in which "the Iranians said Iran was in shambles and a new government was inevitable." The Iranian people, Kimche reportedly said, are "still pro-American" and "want a dialogue with America." As it turned out, all they really wanted were arms and money.

But because McFarlane, Marine Lt. Col. Oliver North and Ledeen (who once posed as an Israeli in a meeting with the Iranians) were relying on the likes of Ghorbanifar and his misleading information from the Iranians, the United States was easily played for a fool. In a

hectic sequence of meetings in Europe and Israel (*U.S. News* has learned some Iranian clerics traveled secretly to Tel Aviv to discuss the arms shipments). North, Ledeen and others attempted, through the fall of 1985, to arrange further discussions with Iran of their mutual strategic interests. But even as

they scrambled from one meeting to the next, the U.S. officials had no idea that Khomeini was in no danger of dying; in fact, he was in good shape for a man who was then 85 years old.

If the White House was misled over the prospects for a post-Khomeini Iran in the fall of 1985, the Kremlin was equally convinced of the Ayatollah's rapidly failing health. Not only that, but according to sources in Teheran and intelligence officials elsewhere in the Middle East, the KGB had learned, through a source in the Iranian leadership, that Iran had been negotiating through intermediaries to obtain arms from the United States. The Soviet source is identified as Abbas Zamani, a former ambassador to Pakistan in the early 1980s who is currently the deputy head of Iranian intelligence: his reputed alias is Abu Sharif, and Middle Eastern sources describe him as the Soviet "resident" in Teheran, a term that refers to the position of KGB station chief. The information regarding Zamani's KGB rank could not be confirmed by Western intelligence agencies, but his politics appear to be markedly pro-Soviet. In any event, the sources say, Zamani was brought in to assist with "technical" aspects of the arms-procurement effort discussed at the Ayatollah's residence in Jamaran, with the expectation that eventually, when the arms arrived in Iran, he would activate other KGB operatives, at which time they would be identified, arrested and executed. In effect, these sources say, the Iranians were erecting the architecture of a grand sting, in which Zamani would become yet another mark.

As the events of the arms negotiations played themselves out in the fall of 1985, it is clear that the Iranians were succeeding in changing the terms of the talks, at least partially because of the increasing preoccupation on the part of President Reagan with the fate of the American hostages in Lebanon. No longer was the U.S. speaking as much and as often about strategic interests; McFarlane had effectively lost the battle. In many ways, it had come down to a crude bargain of arms for hostages.

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Only more hostages had been taken. There were some tactical foul-ups that may have caused the negotiations to fall through. On Sept. 14, 1985, the Israelis, with the blessing of the United States, sent a second shipment of TOW missiles to Iran. But the Iranians wanted more, and the Americans and the Israelis hastened to respond. In late November, however, two senior Israeli defense officials in Tel Aviv took it upon themselves, without consulting their superiors, to fill a third Iranian order with 18 outdated Hawk ground-to-air defense systems. The Iranians, architects of their own big sting, would not be taken in by others. They were furious and threatened to break off all talks with the U.S. and Israel.

To salvage the negotiations, U.S. officials blamed the Israelis for the foul-up and dispatched McFarlane to London to meet with the representatives of Iran and Israel. On Dec. 8, 1985, McFarlane and the others sat down in the London office of the Israeli arms dealer Yaacov Nimrodi. The former national-security adviser told the Tower board—and other U.S. officials have insisted—that no promise of weapons was made. But one of the Iranians and another person who attended the meeting insist that, in pleading for release of the U.S. hostages, McFarlane upped the arms ante, offering Iran "far-more-advanced systems and spare parts."

Whatever the case, four more American hostages had been kidnapped in Beirut since January, 1985. One of the hostages, Benjamin Weir, had recently been released, but the U.S. was pressing hard for the freedom of the others, and the feeling among some U.S. officials was that more arms would finally free the hostages. In February, 1986, two shipments totaling 1,000 TOW missiles were sent from the United States to Iran. It was the first direct shipment by the Americans. The Iranian sting, at least as it was being applied to the U.S., was working very well indeed.

But finally the Americans were beginning to get wise. They had never fully trusted Ghorbanifar, who had failed at least two CIA-administered lie-detector tests. Now, they were growing leery of Karubi, the dignified cleric. At one point, the Middle East sources say, Karubi was disguised and brought to Washington, where he was sharply questioned by unidentified U.S. officials. Apparently, he gave the right answers because the flow of arms and money continued.

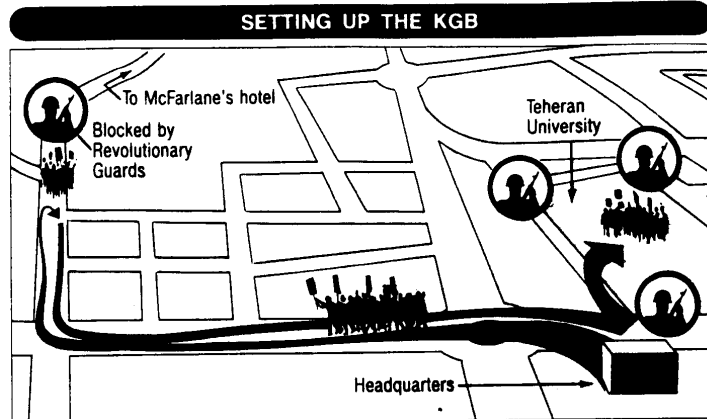
EARLY 1986

PRELUDE TO TEHRAN

The money trail is still the most confusing part of the Iran-Contra scandal, but it is now clear that, in addition to their interest in arms, some of the Iranians involved were at least as interested in money. Sources with knowledge of the negotiations say that, from the very beginning, the Iranian representatives had expressed a desire that money be sent back to Iran, suggesting that a portion of the huge profits from the arms sales be returned to the putative pro-Western factions. It may have been this unseemly interest in money, particularly by the seemingly otherworldly Karubi, that caused the Americans to tighten the purse strings.

Unfortunately, they never actually closed the purse. And when Karubi and Ghorbanifar passed along fresh reports in March of 1986, saying the pro-Western faction in Iran was growing, U.S. interest was piqued once again. If the United States could provide 80 Hawk missiles, the Iranians said, it was very likely a delegation of American officials could be received in Teheran to begin talks with ministerial-level people. The stage was now set for McFarlane's May, 1986, visit to Teheran.

The visit was an utter failure. With the ludicrous stage props of a Bible and a cake shaped like a key, McFarlane's Boeing 707 touched down in Teheran on May 25. McFarlane had undertaken the mission at the request of his successor in the White House, Vice Adm. John Poindexter. Ghorbanifar had taken care of preliminary arrangements for the



As McFarlane prepared to leave Teheran after three days of unsuccessful negotiations, demonstrators massed about 3 kilometers away in preparation for storming the hotel. Revolutionary Guards turned back the crowd, arrested most near Teheran University.

visit, and they were woefully inadequate. Despite U.S. expectations that Rafsanjani himself would show up, no Iranians met McFarlane and his party at the airport. And within a few minutes of their arrival, Soviet informers among the airport personnel had identified the passengers as American. When an Iranian delegation did show up at the airport, 90 minutes late, no ministerial-level officials were present. And when McFarlane and the others were finally installed on the top floor of the Esteghal Hotel (formerly the Teheran Hilton), their movements were circumscribed and their activities monitored by informers on the cleaning and maintenance staff.

Nothing was accomplished. The Americans never succeeded in meeting with Rafsanjani or any other high-level Iranian official. When they raised the issue of the hostages in Lebanon, their hosts strung out the negotiations as if they were in a rug shop in downtown Teheran. And McFarlane received no reaction whatsoever when he dropped hints about how useful it would be for the U.S. and Iran "to exchange information about Soviet intentions and capabilities in the Middle East." In short, when it came to reestablishment of the once intimate intelligence links between Washington and Teheran, the Iranians stonewalled.

For their part, the Iranians griped that McFarlane had failed to bring the full complement of military spare parts he had promised, as well as radar elements essential to their

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operation. Even more trying from Teheran's point of view, he did not come with the computer-software catalog for the military-parts warehouse. It had been missing since American technicians fled Iran after the fall of the Shah.

MAY, 1986

DANGEROUS INTRIGUE

McFarlane had arrived in Teheran with Colonel North; Howard Teicher, the NSC staff member; George Cave, a former CIA officer who is fluent in Farsi, and Amiram Nir, a counterterrorism adviser to the Israeli government. All were traveling with Irish passports. Iranian sources say that the passports were provided by the Irish Republican Army (IRA), with whom Iran maintains warm ties. U.S. sources flatly deny it, saying that the CIA came up with the phony Irish passports. Those in the McFarlane party had a good view of the surrounding streets from their top-floor suites in the hotel, but it is possible that they never fully realized the potential danger they were in during their brief stay in Teheran.

Iranians familiar with the details of the McFarlane mission say that, within 3 kilometers of their hotel, inspired by Zamani, Hashemi and other pro-Soviet leaders, demonstrators were massing near Teheran University in preparation for an attack on the group. Had McFarlane and his party been taken into custody, as the demonstrators apparently planned, it could have seriously weakened the Khomeini government, and almost surely it would have led to the ouster of some members of the regime's leadership.

The demonstration, according to Iranian sources, began at a heavily guarded seven-story building that serves as the headquarters for a group called the Followers of the Imam's Line. An influential student organization that is described by some as a front for the KGB, the group is said to have been instrumental in the storming of the U.S. Embassy in Teheran in 1979. Whatever its motivation, the group's public demonstration seemed to jibe with the second part of the Ayatollah's grand sting—to expose Soviet sympathizers within Iran.

In the early hours of May 28, McFarlane and his party prepared to leave Teheran after a series of frustrating and inconclusive meetings in which the Iranians failed to provide ministerial-level negotiators or secure the release of hostages. A few hours earlier, about 400 or 500 demonstrators were marching toward the hotel along a street called Enghelab Avenue to the corner of Shahid Chamran, formerly John F. Kennedy Avenue. Approximately 1½ kilometers from the hotel, the demonstrators were stopped by the troops of the Revolutionary Guards (who had received the weapons shipments, instead of the Army). It was the Guards who forced the demonstrators back down a street called 16 Azar Avenue and cordoned them off on the broad front lawn of the university, where the Friday prayers are held. Rafsanjani spoke to the group. Then, one by one, Iranian sources say, the demonstrators were taken into custo-

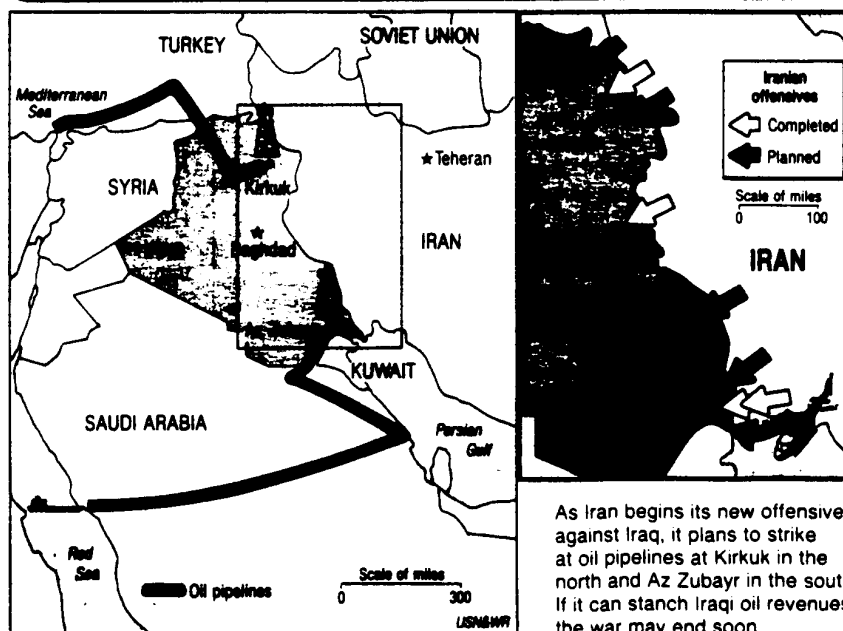


The final indignity: The Iranians ridicule the U.S. after

dy. Later, the Iranian authorities arrested 58 other people identified as KGB operatives or Soviet sympathizers. A large part of the Soviet spy network appeared to have been smashed. And within hours of the aborted demonstration, McFarlane, North, Teicher, Cave and Nir had left Iran, empty-handed.

Word of the visit later leaked out in a strange fashion. Mehdi Hashemi, 42, was exiled from Teheran on Sept. 2,

FIELDS OF FIRE



Continued



the McFarlane visit was exposed by a Lebanese magazine

1986, and placed under house arrest in the holy city of Qom. The charge against him was building a "cult of personality." Hashemi is an ambitious man who had run Iranian terror operations and who sometimes neutralized domestic rivals by distributing lurid leaflets about them. Within days of his exile, leaflets began turning up in Teheran exposing the visit to a wide audience and blaming it on Rafsanjani. Eventually, the leaflets found their way to the Bekaa Valley of Lebanon, where they were reprinted in a newsletter of the Iranian-backed Hezbollah movement known as the Party of God. It was from this crude sheet, essentially a house organ for the Hezbollah, that the Lebanese magazine *Al-Shiraa* learned of the visit and publicized it to the world. It was an unfortunate development for Rafsanjani and Khomeini. But even so, their grand sting had worked splendidly.

It may seem incredible in hindsight, but the Iranians were still unprepared to give up the operation. After all, their need for enormous quantities of arms and spare parts, for the long-awaited "final offensive" against Iraq, was still unmet. They still needed the United States. According to the Tower Commission's report, a so-called second channel between the Iranians and the U.S. was opened up in the summer of 1986. The second channel, unidentified in the Tower report, was Rafsanjani, the Majlis Speaker. Tentative contacts appear to have begun in July of 1986. But by September, Iranian sources say, direct contact had been made with U.S. officials by Rafsanjani; his son, Ahmed; and brother, Mahmoud. It is likely, according to authorities in the U.S. and the Middle East, that Rafsanjani or some members of his family received commissions or some of the profits from the weapons sales.

That line of inquiry is one of many being pursued by independent counsel Lawrence Walsh. The staffs of the select House and Senate committees also are delving into the penitralia of the affair, and already have decided to

grant limited immunity from prosecution to key players like Poindexter, the former national-security adviser. The committees have delayed a decision on immunity for North until June, and Poindexter is unlikely to testify publicly until after that. The decision to delay public testimony of the key figures in the affair was the result of an agreement between Walsh and the committees. The agreement will have the effect of delaying public testimony of the principal figures until midsummer, allowing Walsh and his staff of investigators to proceed with questioning of other witnesses before those witnesses can be apprised of the testimony of figures such as North and Poindexter.

Still unclear, as the investigations proceed and Ronald Reagan attempts to rebound politically from the affair, is what responsibility remains in the White House, or among some of the senior aides like former Chief of Staff Donald Regan, who have recently resigned. What is quite clear to investigators in the Congress and the independent counsel's office is that, in the minds of the most important figures in the affair, such as McFarlane and Ghorbanifar, there was a sting that was worked by the Iranians and that they were among the key victims. It is perhaps significant that none of the self-described victims can agree on exactly how the sting was perpetrated.

JANUARY, 1987

THE MONEY TRAIL

Where *did* the money go? The question frustrates even the President, who at his press conference last week confessed: "I am still waiting to find out the source of extra money, the bank accounts and where that money went." While unraveling all the complexities of the Byzantine financial arrangements surrounding the Iranian arms deal may be all but impossible, some clues have emerged. Last week, for example, *U.S. News* learned that Iranian intermediaries agreed to overcharges—which totaled \$85 million—for the U.S. and Israeli weapons so that various factions and groups could receive kickbacks. And while investigators have no idea how much went to which group in Iran, the *New York Times* reported last week that \$2 million to \$3 million was allegedly deposited into the Swiss accounts of the Iranian Global Islamic Movement, known to have provided financial support for terrorists who have kidnapped American hostages. The investigators from the congressional panels and Walsh's office are still a long way from sorting out the complex transactions, but it is already evident that the money trail is far more complicated—and the money managers far more sophisticated—than was first thought. For instance, some of the missing money went into slush funds—first reported by *U.S. News* (Dec. 8, 1986)—in secret accounts in Switzerland to finance a variety of covert operations. The handlers of the so-called "black ops" funds pooled money from U.S. and Israeli arms profits and from contributions made by Saudi Arabian sources, and the funds were deposited in banks like Credit Suisse in Geneva. It was from these accounts and others that money was secretly funneled to help finance U.S. covert operations against various targets, including Libya's Col. Muammar Qadhafi, and to support the Contras against the Sandinistas. Money also was used to help support exiled Iranian dissidents.

The biggest hindrance to learning the truth about all the money is the inability of investigators to gain access to the Swiss bank accounts. Last week, the Senate began contempt proceedings against retired Air Force Maj. Gen. Richard

Continued

Secord for refusing to release records of Swiss accounts under his control. Secord was a close associate of Colonel North and is one of several key figures in the Iran-Contra affair who have refused to testify by taking the Fifth Amendment. Senate investigators contend that records in the possession of banks are not protected under that constitutional provision. Several federal appeals courts have supported such claims in tax cases but have yet to rule on a congressional order. Secord's silence, however, is not the only hindrance. *U.S. News* has learned that some of the Swiss accounts may have been emptied, perhaps as recently as the past week, before U.S. officials could identify the accounts or those to whom they were registered. The frustrating delays further complicate the mystery of the Iranian money trail—and they make it far more likely that the Iran-Contra affair will remain front and center, at least in terms of the perception of official Washington, through the summer, and probably the fall.

Almost lost in all the dense smoke and rhetoric surrounding the scandal, as investigators and reporters pursue each new wrinkle in the bizarre tale, is the larger question of the outcome of the war between Iran and Iraq and the more emotionally wrenching question of the fate of the hostages. *U.S. News* reported last month that some of the American hostages in Lebanon are controlled by a man named Immad Mughniye, the head of a Shiite terrorist group called Islamic Jihad.

The Tower Commission's report confirms that Mughniye is regarded by the CIA as the leader of a violent terrorist group in Lebanon, but Middle East intelligence sources recently have told the magazine that Mughniye had broken with his Iranian overlords and disappeared from Beirut, along with the hostages in his control. Earlier this month, an Iranian delegation arrived in Beirut to attempt to patch up relations with the Hezbollah, to which Mughniye pledges allegiance. But at the weekend, Iranian representatives still had not managed to establish contact with Mughniye. The Syrian forces within Lebanon also had failed to locate the terrorist leader. A special team of elite Syrian troops, based in Beirut's Beau Rivage hotel, was assigned responsibility for determining the whereabouts of the Western hostages, but they, too, had failed to come up with any hard information. The fate of Anglican Church envoy Terry Waite, who had attempted to secure the release of the Western hostages, is also uncertain. Although he was reported to have been seen in the past two weeks by sources in Beirut, he has not been heard from in several weeks.

With regard to the tortuous war between Iran and Iraq, the picture is somewhat less confused. After 6½ years in the seesaw conflict, Iran finally has taken a decisive edge. Earlier this month, the Iranians seized a small slice of mountainous terrain within northern Iraq, although its strategic importance remains unclear. The Iranians nevertheless are moving ever closer to the vital oil pipelines within Iraqi borders that are the key to the country's ability to continue

the war. Sources in Teheran say that the Iranians, with the arms provided by the U.S. and, more recently, private arms merchants, are likely to confound Western assumptions and begin in a matter of days a new offensive aimed at the Kirkuk oil region in the north, toward the city of Missan across the relatively unprotected midsection of the Iraqi border and at the village of Az Zubayr in the south. Az Zubayr is a strategic oil center. If the Iranian Army can somehow take it and the pipeline at Kirkuk, it would stanch the flow of Iraqi oil to the Mediterranean and the Red Sea. Should that happen, Iraqi oil revenues would quickly dry up, and the war would soon be over.

In Teheran itself, the situation remains as uncertain as ever. Even if Iran prevails in the war against Iraq, and the prospects of that seem better with each passing week, the leadership question is a jumble. The Ayatollah may not be at death's door, but he is, after all, now 86 years old and, with cancer now

in one kidney and the possible prostate cancer, his health has plainly deteriorated since 1985. And while he may be able to hold together the country for the moment, it is abundantly clear that factional disputes are inevitable after Khomeini goes. Even now, to judge from the overheated rumor mill, the factional fight is well advanced. How it is likely to be resolved in the end is, at least for now, anyone's guess.

For Iran, that may be the bottom line on the big sting that has humbled the super-

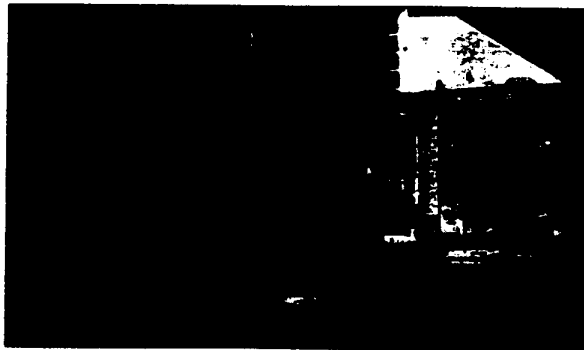
powers while hamstringing yet another American President. As satisfying as the results of the sting must be for the mullahs in Teheran who so hate the powers in the White House and the Kremlin, it is ultimately an insubstantial victory that does little or nothing to resolve the deep-seated and difficult problems facing Iran in that troubled region of the world.

MARCH, 1987

THE NEXT CHAPTER

For all their crowing among themselves now, the Iranians still have to contend with a fearsome Soviet presence close at hand, a still contentious war with Iraq, a deep distrust among their Arab neighbors, and an economy and populace shackled with a leadership that is beset by shortsightedness and paranoia.

Obviously, problems as deep and abiding as those are not resolved in a few weeks or months. And as painful as it may be to consider, the Iranian leadership that emerges after Khomeini is gone may well come to the conclusion that its best hope for the future may lie with the United States, its main target in the big sting launched at Jamaran. If that's the case, and it well may be, the Iranians will still probably find a partner willing to come to some kind of strategic accommodation. Only this time, one hopes, the parties doing the bidding of the United States will be a bit more circumspect. ■



In the bank: Credit Suisse holds key to the slush funds



Secord: In contempt?