



"Iran and the Supernotes"

**Testimony on S.277 before Congressman Spencer Bachus
Chairman, Subcommittee on General Oversight and Investigations
of the Committee on Banking and Financial Services**

Feb. 27, 1996

by

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The Iran Brief is an independent monthly newsletter devoted to strategy and trade, established in December 1994 as a tool for policy-makers and business leaders in their dealings with Iran. Prior to launching The Iran Brief, Kenneth Timmerman served on the professional staff of the House Foreign Affairs Committee, and was the editor of Middle East Defense News (Mednews) in Paris from 1987-1993.

My name is Kenneth Timmerman, and I publish a monthly investigative newsletter called The Iran Brief. I have written extensively on Iranian foreign terrorist networks in Time Magazine, the Wall Street Journal and elsewhere, and have done in-depth research on Iranian programs of weapons of mass destruction, including a study that was published by the Simon Wiesenthal Center in 1992. I have also traveled widely in the Middle East and Europe, where in fact I was posted until 1993 when I returned to Washington to work on proliferation and arms control issues for the House Foreign Affairs Committee during the previous Congress.

The U.S. dollar has long been the most widely accepted currency in the Middle East. Israel came close to adopting it as official tender during its hyper-inflation crisis in the mid-1980s; Lebanon and Syria use it as unofficial tender for government to government transactions. I can't tell you with any certainty whether I have ever handled a supernote. But I can say this: the moneychangers in the Old City of Jerusalem, on Hamra Street in Beirut, and in the Damascus souk scrutinized the \$100 bills I presented them on trips last year with an attention I had never experienced before. Either I have become more suspicious-looking in middle-age, or else we are talking about a problem which has become so widespread that even these non-institutional currency traders are aware of it, and are attempting to take their own precautions against losing money to fraud.

When an independent television producer whose investigation into the supernotes will be airing on the A&E network on March 2, called contacts in Beirut to see whether they could obtain samples of counterfeit \$100 bills, their only question was: "Do you want one, or a thousand?"

In this light, the fears we have been hearing in recent months from Russia are symptomatic. In an unclassified cable which I have appended to my testimony, the U.S. Embassy in Moscow relates a Sept. 13, 1995 meeting with Viktor Melnikov, the director of foreign currency regulation for the Russian Central Bank, during which Melnikov "expressed great concern about the Russian banking system, citing estimates that anywhere from 50 to 80 percent of Russian banks were under the control of organized crime." Melnikov also warned that of the "15-20 billion dollars of U.S. currency in Russia (more, he added, than the entire value of ruble notes in circulation), 15-20 percent is counterfeit."

I have no way of authenticating the figures presented by Mr. Melnikov. Indeed, one European intelligence source recently told me that the amount of counterfeits in Russia could be fully one-third of the U.S. bills in circulation. I certainly don't believe, however, that we can dismiss these reports as lightly as the Secret Service might want us to do. Evidence gathered by independent researchers and journalists suggests that the supernotes are in fact widely present in the Middle East and in Europe, and may be causing harm to U.S. credibility in subtle ways.

Trail to Tehran

The most credible theory currently circulating about the origin of the supernotes leads to Tehran. As other witnesses have explained today, the Shah purchased intaglio printing presses that were identical to those used by the U.S. Treasury in the late 1970s, and with U.S. approval installed them in the Tehran mint. These presses are far too large and heavy for them to have been transported without detection to Lebanon's Bekaa Valley or even to Syria, as some have maintained. The Shah initially intended to build a special currency paper mill as well, but sources at the British company he contacted, Portals-Delarue, say they never got beyond the earliest phases of a feasibility study for the project.

Some sources in the highly secretive currency paper industry have discreetly been pointing fingers at a West German firm, although there is no independent corroboration that this company has completed contracts in Iran, either directly or through their Swiss subsidiary. This is clearly a matter for the intelligence agencies to pursue. However, I would simply point out that Germany has consistently topped the list of Iran's trading partners over the past fifteen years, with sales to Iran averaging in the \$2 billion range per year. It is certainly not inconceivable that Iran would have used its outstanding relationship with the German government - or its contacts within other European governments - to purchase currency paper illicitly.

A European intelligence official I contacted recently waved off my inquiries about other possible sources of the supernotes. "Everybody knows it's Iran," he said. "Interpol has set up a special unit in Lyons (France) devoted to tracking the supernotes. Langley knows it's Iran. The U.S. government knows it's Iran. They just don't want to admit it publicly." This official said he had seen evidence to indicate that Iran was getting currency paper from Russia.

Another key element investigators need to establish is how Iran gained the expertise to engrave the plates for the supernotes. Some of the intelligence sources I have queried on this subject believe the plates were etched by Iranian engravers trained by the U.S. Treasury in the 1970s. Others speculate that the Islamic Republic used its extensive intelligence relationship with the East German STASI in the mid and late 1980s to recruit master engravers from Germany.

While I cannot tell you today what evidence the United States government may have in classified form to corroborate this theory, my own examination of STASI documents, which I conducted two years ago with assistance from German government researchers in Bonn, establishes that from the first days of its existence the Islamic Republic had forged an intimate working relationship with the East German intelligence services, making this type of cooperation entirely feasible. The East German government sold the Islamic Republic millions of rounds of conventional munitions for everything from Kalashnikov assault rifles to 122 mm field guns all during the Iran-Iraq war. They procured electronics equipment, advanced machine-tools, and other military production gear for Iran through the extensive network of relationships they had established with large West German industrial concerns and from Toshiba in Japan, STASI documents show. One of the most ironic arms deals was the sale to Iran of 12 MiG-23 fighter bombers in 1988 or 1989, just as East Germany was collapsing. STASI may also have played an intermediary role in some of the Iran-contra contacts between the Iranian government and Reagan administration officials. A German parliamentary investigator who has personally examined more than 1 million pages of previously classified STASI documents has told me in confidence he is convinced that STASI was involved in the still unexplained death of former German political leader Uwe Barschel, who was found drugged in a hotel bathtub in Geneva on the night of Nov. 12-13, 1987, just after he had met with Iranian Revolutionary Guards Minister Mohsen Rafiq Doust and a mysterious intelligence contact identified only as ROLOF.

State-sponsored counterfeiting?

I must emphasize again that this entire presentation is hypothetical at this point. As far as I am aware, the U.S. government has never accused Iran of

state-sponsored counterfeiting, at least not in public. Such an accusation would be tantamount to a declaration of war. Because this is such a sensitive issue, I am afraid we will have to content ourselves for the moment with intelligent speculation.

We might start by turning the question around: What if the Iranian government did not have access to the super-notes? Would Iran find it so easy to allocate \$20 million out of a tight budget, as they recently have done, to counter "covert" operations against Iran by the U.S. government? Would Iran find it so easy to allocate, as they have since the mid-1980s, nearly \$100 million per year to support Hezbollah in Lebanon, and a variety of Palestinian groups (Hamas, Islamic Jihad, the Popular Front for the Liberation of Palestine-General Command of Ahmed Jibril) which indulge in terrorist attacks against Israel and against American citizens in the Middle East?

If Iran were compelled to rely on the \$15.5 billion per year it earns from exporting its oil, and the additional \$2 billion to \$4 billion it earns from carpets, pistachios, and light industrial exports, would it find it so easy to maintain its current arms procurement program?

In 1989, Iran embarked on a \$10 billion program over five years to renew the major weapons systems in its armed forces. It signed three successive arms protocols with the Soviet Union, worth an estimated \$8.6 billion, to purchase Su-24 and Su-25 fighters, T-72 tanks, Kilo-class submarines, SA-10 missiles, MiG-29s, and a vast array of military production equipment (including an assembly plant for the MiG-29) . By 1992, however, collapsing oil prices led Iran to cancel most of these purchases, and most estimates now put its arms imports at around \$500 million per year during this period - and not \$2 to \$3 billion initially planned.

And then, something happened. Last year, despite U.S. sanctions which have taken a real hit on the Iranian economy, Iran suddenly had money to reopen the arms pipeline with Russia. They revisited those earlier protocols - which Russia considers as "existing" contracts and therefore unaffected by Boris Yeltsin's commitment to President Clinton at the Moscow summit in May 1995; in some cases they even expanded them. And late last year, Iran and Russia finally resolved the dispute over how Iran would pay the \$800 million Busheir nuclear power plant project.

Also late last year, Iran announced that it would henceforth conduct all trade with the Central Asian republics in U.S. dollars, and in cash. This announcement, which was carried by Iran's official state news agency, IRNA, went unreported here in the West. But I feel it is significant, since it indicates a surplus of cash which Iran cannot use in other state-to-state transactions.

One more example of the same type: North Korea. Iran appears to have been paid North Korea as much as \$2.4 billion in cash for SCUD-B missiles at the end of the Iran-Iraq war, but for reasons that were never explained, in 1993 North Korea suddenly reversed its long-standing refusal to take payment in oil and in fact refused to take any more cash from Iran. This became apparent when a Member of the Iranian Majlis complained about the cash payments in an open session of the Iranian Majlis . One can only speculate that perhaps the North Koreans feared they had been getting bilked.

Iran's goals

We should not confuse the Islamic Republic with a thuggish regime such as that of Saddam Hussein. The mullahs ruling Tehran are relatively sophisticated. They have a love of intrigue, and a penchant for conspiracies. They have a horror of laying their cards face-up on the table, but love to exchange them behind their backs.

Iran knows that if it floods the market with counterfeit U.S. currency, no matter how good the fakes are, sooner or later the U.S. will react. In the current

case, clear evidence that Iran was engaged in state-sponsored counterfeiting would justify a vigorous response - perhaps starting with a Tomahawk missile attack on the Tehran mint. While I am sure Iran's ruling clerics are gleeful at the thought of tweaking the Great Satan's nose by almost perfectly imitating the imperialist lucre, I do not believe they are actively seeking martyrdom at the hands of the U.S. Navy or the Marines. If past practice is any guide, they will seek the limits of what they can do with impunity, and carefully stay behind those red lines in the hopes they don't get caught.

If what I have been hearing from various intelligence sources is right and Iran is behind the supernotes, then I see three direct benefits motivating their behavior:

- printing supernotes alleviates pressure on the Iranian treasury, at a time when Iran's export earnings are dwindling and its thirst for weapons of all sorts is growing;
- having a supply of ready cash gives the regime greater flexibility in supporting terrorist and intelligence operations abroad. The supernotes give them the possibility to finance such operations without having to dip into official government budgets which are subject to some form of monitoring by the Iranian parliament;
- large amounts of supernotes allow Iranian agents to bribe their way into Russian and Central Asian nuclear facilities, to purchase material and equipment for their nuclear weapons program.

The most dramatic instance of this that has come out on the public record was an apparent Iranian attempt to purchase 600 kilograms of weapons-grade uranium from the Ulbinskiy Metallurgy plant outside of Ust-Kamenogorsk in Kazakhstan. Alerted by Kazakh officials of the Iranian interest, the Department of Energy airlifted the material to the United States in November 1994 - only to discover in the room next to where the HEU was being stored a number of empty canisters with Tehran addresses. The CIA had learned of visits to the Ulbinskiy plant by Iranian procurement teams in August 1992, and apparent purchases of a nuclear weapons triggering element - beryllium - in 1992 and 1993. Several months after the airlift, U.S. intelligence sources reported that up to 300 kilograms of HEU remained behind at the facility, although Kazakh officials insisted it had already been diluted into civilian reactor fuel and would not be transferred to Iran.

Secret Service reluctance to cooperate with Interpol

Several European judicial and intelligence sources have complained privately to me of their efforts to elicit help from the U.S. Secret Service in tracking down the laundering networks for the supernotes in Europe.

One network several intelligence services were tracking was apparently set up by the Syrian businessman Monzer al Qassar, who has been called "the godfather of terrorism" because of his links to Abu Nidal and other Palestinian terrorist groups.

The Spanish authorities arrested Monzer al Qassar on June 2, 1992 on charges relating to the Achille Lauro terrorist attack, jailing him for two years. As they were preparing to release him for lack of evidence, the Spanish judge was called to Washington. The Secret Service was seeking his cooperation in a new investigation tying Monzer al Qassar to the supernotes. Monzer's brother Ghassan al Qassar, who was expelled from Argentina on a variety of charges including drug smuggling and money-laundering, was believed to be one of the main contacts for obtaining the counterfeit notes. Ghassan, in

turn, was in contact with an Iraqi Consul in Vienna, Austria, who was also believed to be passing the supernotes to procure technology on the black market for Iraq's weapons programs. The bills have turned up all over Europe, but especially in Spain and Austria; and I am told that Interpol is increasingly frustrated at the lack of cooperation they have received from the Secret Service.

After an initial meeting in Washington with the Spanish judge in July 1994, the Secret Service went to Spain to pursue its own leads. According to my sources, the Spanish judge has complained that he is "still waiting" for the Secret Service to inform him of the result of its investigation tying Monzer al Qassar to the supernotes. His investigation into supernote laundering networks - which Spanish intelligence sources say are widespread in Spain - has been shelved because of the lack of cooperation from the Secret Service.