

Dan Rather Reports

Episode Number: 429

Episode Title: Iran's Manhattan Project

Description: Despite sanctions, Iran has been able to launder billions through western banks--enough to build nuclear weapons.

RATHER (ON CAMERA)

GOOD EVENING. ACCORDING TO NEW REPORTS, IRAN IS ON THE BRINK OF DEVELOPING A NUCLEAR BOMB, A NIGHTMARE SCENARIO FOR WASHINGTON AND A GAME-CHANGING ACCOMPLISHMENT FOR TEHRAN. AND NOT JUST BECAUSE THE ISLAMIC REPUBLIC BEAT THE ODDS TO GATHER THE ELLUSIVE KNOW-HOW AND RARE MATERIALS FROM AROUND THE WORLD. EVEN MORE SURPRISING IS HOW EASILY IRAN USED AMERICA'S FINANCIAL MARKETS TO PAY FOR THESE MATERIALS. BLACK MARKET SUPPLIERS WANT U.S. DOLLARS, WHICH ARE SUPPOSED TO BE NEARLY IMPOSSIBLE FOR THE IRANIANS TO GET SINCE WASHINGTON HAS LABELED TEHRAN THE WORLD'S TOP SPONSOR OF TERRORISM. SANCTIONS HAVE BEEN IN PLACE FOR DECADES TRYING TO ISOLATE THE IRANIANS. BUT AS YOU WILL SEE AND HEAR TONIGHT, THOSE SANCTIONS ARE NOT ONLY NOT WORKING, BUT ALSO WESTERN BANKS HAVE BEEN HELPING THE IRANIANS GET AROUND THE RULES AND GET THEIR HANDS OF ENORMOUS AMOUNTS OF MONEY, ENOUGH TO BUILD A NUCLEAR WEAPON THAT IT COULD HOLD OVER THE U.S. AND ITS ALLIES.

RATHER (VOICE OVER)

FEW BELIEVE IRAN WHEN IT SAYS IT'S NUCLEAR PROGRAM IS FOR CIVILIAN USE. PRESIDENT MAHMOUD AHMADINEJAD HAS MADE A PUBLIC SHOW OF TESTING LONG-RANGE MISSILES. AND EXPERTS SAY HIS GOVERNMENT MAY BE AS CLOSE AS A FEW MONTHS FROM ENRICHING WEAPONS-GRADE URANIUM. BUT HOW DID IRAN MANAGE TO GET AND SPEND BILLIONS OF DOLLARS IN U.S. CURRENCY ON THE MATERIALS IT NEEDED IN SPITE OF EVER-TIGHTENING SANCTIONS? IT HAPPENED RIGHT HERE IN NEW YORK, THE VERY HEART OF AMERICAN CAPITALISM. AND THAT DOESN'T SIT WELL WITH MANHATTAN'S DISTRICT ATTORNEY.

DAN RATHER

How much money are we talking?

ROBERT MORGENTHAU, MANHATTAN DISTRICT ATTORNEY

Well-- we're talking about \$340 million that, what they call, terminated in the-- the United States. But then, several billion went through New York banks and-- went elsewhere.

RATHER

Several billion?

MORGENTHAU

Yeah.

RATHER

Now, have you seen any correlation between this time period and Iran's alleged progress in its nuclear weapons program?

MORGENTHAU

Well, I mean, I-- you know, I think they coincide.

RATHER (VOICE OVER)

ROBERT MORGENTHAU IS THE 90-YEAR-OLD SOON-TO-RETIRE DISTRICT ATTORNEY OF MANHATTAN. OVER MORE THAN 30 YEARS IN THE POSITION, HE'S DEFINED HIS CAREER BY UNRAVELING SOPHISTICATED FINANCIAL CRIMES. BUT THIS CASE HAD SPECIAL IMPLICATIONS FOR THE LIVES OF NEW YORKERS.

MORGENTHAU

Going back to the lesson of 9/11. I mean-- New York is always going to be a prime target for terrorists. We've got to be on the alert here and make sure we're doing whatever we can to make it difficult.

RATHER (VOICE OVER)

MORGENTHAU FIRST PICKED UP THE BILLION-DOLLAR MONEY TRAIL AT THIS NONDESCRIPT OFFICE TOWER ON NEW YORK'S FAMED 5TH AVENUE. FOR YEARS, FEDERAL OFFICIALS SUSPECTED THE BUILDING'S OWNER HAD TIES TO TEHRAN, BUT THEY DID NOTHING... MORGENTHAU HAD HEARD THE SAME THING, BUT FELT HE COULDN'T AFFORD TO WAIT ANY LONGER...AND HIS INVESTIGATORS BEGAN DIGGING.

RATHER

You were looking into it and what did you find?

MORGENTHAU

Well, just basically that they were-- we thought an agent of the-- of the Iranian government.

RATHER

Well, in reporters' vernacular, that would be serving as a front organization?

MORGENTHAU

Right.

RATHER (VOICE OVER)

MORGENTHAU'S TEAM OF INVESTIGATORS DISCOVERED THE BUILDING'S REAL OWNER IS BANK MELLI. IT'S IRAN'S LARGEST BANK, OWNED BY THE IRANIAN GOVERNMENT AND ON A U.S. AND EUROPEAN WATCH-LIST FOR ALLEGEDLY PLAYING A PART IN FINANCING TERRORISM AND NUCLEAR PROLIFERATION.

FOR SOME 20 YEARS, THE BUILDING HAD BEEN A CASH BONANZA FOR IRAN. UNSUSPECTING TENANTS WERE PAYING MILLIONS TO THE FRONT COMPANY THAT RAN THE BUILDING. BUT FACED WITH A WALL OF SANCTIONS, THE IRANIAN BANK COULDN'T GET THE DOLLARS OUT OF NEW YORK WITHOUT HELP... AND MORGENTHAU DISCOVERED A SURPRISING ACCOMPLICE –THE VENERABLE BRITISH BANK, LLOYDS TSB. AND THAT WAS JUST ONE OF MANY SERVICES LLOYDS WAS PROVIDING THE IRANIAN GOVERNMENT.

RATHER

Let me just jump right in and say: What was Lloyds TSB doing for Iran?

MORGENTHAU

They were stripping the identification so that the New York banks did not know that this was Iranian money. They were just physically stripping the identification on the wire transfers. And they had-- a room with two people and their only job was to make sure that there was no connection with Iran on these wire transfers.

RATHER (VOICE OVER)

IT WAS CLASSIC MONEY LAUNDERING, MADE EASY IN THIS ERA OF COMPUTERIZED VIRTUAL TRANSACTIONS.

ADAM KAUFMAN, BUREAU CHIEF, INVESTIGATION DIVISION CENTRAL, MANHATTAN DISTRICT ATTORNEY'S OFFICE

Melli bank PLC has an account with Lloyds.

RATHER (VOICE OVER)

ADAM KAUFMAN, MORGENTHAU'S CHIEF INVESTIGATOR IN THE CASE, EXPLAINED HOW THE SCHEME WORKED.

KAUFMAN

This is something that we put together that represents the type of messages that we saw in the investigation. This is a message from Melli Bank PLC in London. And it's saying to Lloyds, 'Send this money to a US bank.' What's very significant, and this is what we see again and again and again, is at the bottom. What it says is, 'Please do not mention our name to any bank in the USA.'

RATHER (VOICE OVER)

LLOYDS TSB BRANCHES IN LONDON AND DUBAI WOULD ACCEPT DEPOSITS OF IRANIAN RIALS FROM BANK MELLI AND OTHER IRANIAN BANKS, DISGUISE OR REMOVE INFORMATION FROM ELECTRONIC RECORDS THAT INDICATED THAT THE SOURCE OF THE MONEY WAS IRAN, AND THEN TRANSFER THE MONEY ELECTRONICALLY TO NEW YORK. AND WHY WERE THE IRANIANS SO EAGER TO GET AMERICAN DOLLARS? THE THEORY DRIVING AN EVEN DEEPER INVESTIGATION IS THAT WHEN IRAN GOES SHOPPING ON THE INTERNATIONAL WEAPONS MARKET, THE BLACKMARKET SELLERS WANT TO DO DEALS IN GREENBACKS...NOT BRITISH POUNDS, NOT JAPANESE YEN...AND DEFINITELY NOT IRANIAN RIALS. FOR YEARS, LLOYDS HELPED IRAN LAUNDER BILLIONS OF DOLLARS... AND NOBODY NOTICED.

ANDREW MACKINLAY, MP, HOUSE OF COMMONS

It seemed to me that some people at the very least had been asleep on the job.

RATHER (VOICE OVER)

ANDREW MACKINLAY IS A MEMBER OF THE BRITISH PARLIAMENT. WE SPOKE NEAR HIS COUNTRY HOME OUTSIDE BELFAST. HE TOLD US THAT HE'S SURPRISED IT WAS AN AMERICAN DISTRICT ATTORNEY, AND NOT HIS OWN GOVERNMENT, THAT BROUGHT DOWN THE LLOYDS MONEY LAUNDERING OPERATION.

MACKINLAY

The British government are saying that there was not a breach in United Kingdom law. I'm frankly amazed by that.

RATHER (VOICE OVER)

EVEN MORE AMAZING TO MACKINLAY WAS HOW SEEMINGLY BRAZEN LLOYDS WAS IN HELPING IRAN. IT WAS A TOP-DOWN OPERATION, SO INGRAINED IN THE BANK'S ROUTINE THAT THERE WAS EVEN A STEP-BY-STEP MANUAL DESCRIBING HOW TO LAUNDER THE IRANIAN MONEY.

MACKINLAY

It wasn't some maverick, it was done with full knowledge and full consent at a very high level in Lloyds TSB. So well to put it quite frankly, it stinks.

RATHER (VOICE OVER)

MACKINLAY WAS OUTRAGED THAT THE BRITISH GOVERNMENT APPEARED TO BE LETTING THE POLITICALLY INFUENTIAL BANK OFF THE HOOK. HE LASHED OUT AT PRIME MINISTER GORDON BROWN ON THE FLOOR OF THE HOUSE OF COMMONS.

MACKINLAY IN PARLIAMENT

I think it's a pathetic response of the United Kingdom, and I say, I'm disappointed with

the Prime Minister. He should have told the Treasury, "Look, for once, you've really got to look into this. This will not do." You know, he, I'm not going to let him get away with the washing of hands on this issue. It's a very serious matter.

RATHER (VOICE OVER)

HE SAYS THAT EVEN YEARS INTO THE WAR ON TERROR, THE US AND ITS ALLIES HAVE MISSED A MAJOR GAP IN THEIR SECURITY.

MACKINLAY

Even in the United States, with all their sophisticated surveillance of the financial sector, or financial transactions, intelligence gathering, and so on, it seems that this scheme was rumbled almost by accident at a relatively low level in the justice administration. Now full marks to those who discovered it, but it does raise questions for us all, both in North America and in Europe as to how sophisticated our intelligence and security operations are. It seems to be they were seriously flawed in this area because it went on for so long.

RATHER (VOICE OVER)

IT WENT ON FOR 12 YEARS, ENDING IN 2004. BUT DESPITE THESE STARTLING REVELATIONS, MACKINLAY SAYS HIS GOVERNMENT HAS BEEN STRANGELY SATISFIED IN LETTING MORGENTHAU AND U.S. AUTHORITIES LEAD THE PROBE OF LLOYDS... A PASSIVITY HE ATTRIBUTES TO GREAT BRITAIN'S OWN FINANCIAL SITUATION.

MACKINLAY

I think there has been an element of sweeping this under the carpet or a decision "we will not go there" simply because of the wider banking crisis, which was hitting London very hard at the turn of the year.

RATHER (VOICE OVER)

BACK IN NEW YORK, MORGENTHAU SAYS EVEN U.S. OFFICIALS WERE WARY OF HIS INVESTIGATION.

RATHER

Well, going back a bit. When you first started working this case, did you get total, complete cooperation from the State Department, from the British Foreign Office, from the Treasury in both countries?

MORGENTHAU

It was a mixed bag. Mixed bag.

RATHER

Too aggressive to say-- that, in some cases, they were reluctant?

MORGENTHAU

I would say they were not enthusiastic--

RATHER

All right.

MORGENTHAU

About our bringing-- a criminal proceeding. They thought it ought to be left to-- to the civil process.

RATHER (VOICE OVER)

THE FEDERAL GOVERNMENT WASN'T THE ONLY ONE THAT PREFERRED BEHIND-THE-SCENES NEGOTIATIONS TO HEADLINE-GRABBING PROSECUTIONS. TO AVOID A POTENTIALLY EMBARRASSING TRIAL, LLOYDS ADMITTED WRONGDOING AND AGREED TO PAY A 350-MILLION DOLLAR FINE.

BACK ON FIFTH AVENUE, FEDERAL INVESTIGATORS FINALLY HAVE STEPPED IN TO TRY TO SEIZE THE IRANIAN-OWNED BUILDING, NABBING THE DIRECTOR OF THE ALLEGED FRONT COMPANY, A CHARITY KNOWN AS THE ALAVI FOUNDATION. HIS NAME IS FARSHEED JAHEDI, AND OUR CAMERAS CAUGHT UP WITH HIM OUTSIDE THE FEDERAL COURTHOUSE IN MANHATTAN. HE'S CHARGED WITH DESTROYING DOCUMENTS RELATED TO THE CASE... BUT HE MAINTAINS HIS INNOCENCE.

RATHER (ON CAMERA)

LLOYDS BANKERS WILL BE SPARED PERSONAL CRIMINAL CHARGES IN THE UNITED STATES, AT LEAST FOR NOW. THAT COULD CHANGE IF THE PROBE TIES THEIR MONEY LAUNDERING FINALLY AND DIRECTLY TO IRAN'S WEAPONS PROGRAMS. UNDER THE SETTLEMENT, THE BANK HAS OPENED ITS RECORDS TO INVESTIGATORS SEEKING TO UNRAVEL IRAN'S SECRET WEAPONS FINANCING ACTIVITIES.

BUT WHAT PREVENTS LLOYDS FROM LAUNDERING MONEY FOR IRAN AGAIN IN THE FUTURE, ESPECIALLY IN A RECESSION WHEN BANKS ARE DESPERATE FOR BUSINESS? WE ASKED LLOYDS FOR AN INTERVIEW, BUT THEY DECLINED. THROUGH A SPOKESMAN, LLOYDS SAID THEY HAVEQUOTE- "UNDERTAKEN A RANGE OF SIGNIFICANT STEPS TO FURTHER ENHANCE OUR COMPLIANCE PROGRAMS."

BUT IT'S NOT JUST LLOYDS. MORGENTHAU SAYS HE'S EXPANDED HIS INVESTIGATION OF IRANIAN MONEY LAUNDERING TO SEVERAL OTHER NEW YORK BANKS. HE SUSPECTS AND BELIEVES HE CAN PROVE THAT SOME OF THE BANKS --LIKE LLOYDS--MAY HAVE KNOWN WHAT THEY WERE DOING, WHILE OTHERS MAY HAVE BEEN FOOLED BY DUMMY COMPANIES WORKING FOR THE IRANIAN GOVERNMENT.

RATHER (VOICE OVER)

MR. MORGENTHAU SAID ONE NEW CASE WILL BE MADE PUBLIC WITHIN

DAYS THAT INVOLVES A BANK IN NEW YORK EVEN BIGGER THAN LLOYDS. AND A TOP ASSISTANT TO THE DISTRICT ATTORNEY TOLD US INVESTIGATORS WERE ALSO CLOSING IN ON ANOTHER CASE WITH DIRECT NATIONAL SECURITY IMPLICATIONS. THEY ARE PROBING AN IRANIAN COMPANY WITH ALLEGED TIES TO THE COUNTRY'S NUCLEAR WEAPONS PROGRAM. INVESTIGATORS SAY THEY BELIEVE THE SHAHID BAKERI INDUSTRIAL GROUP, A COMPANY BLACKLISTED BY THE U.S. GOVERNMENT, SET UP SHELL COMPANIES IN DUBAI AS A WAY OF STEALTHILY ACCESSING NEW YORK BANKS.

THROUGH THESE BANKS, SHAHID BAKERI ALLEGEDLY MADE PAYMENTS TO AN ASIAN MANUFACTURER OF ELECTRONICS USED IN CENTRIFUGES -- THE KIND OF CENTRIFUGES IRAN IS BUILDING TO ENRICH URANIUM. THESE SHELL COMPANIES ALSO ALLOWED SHAHID BAKERI TO SKIRT ASIAN EXPORT AUTHORITIES LOOKING TO CUT OFF BANNED SHIPMENTS TO IRAN.

IN THIS CASE, INVESTIGATORS TOLD US THEY BELIEVE THE AMERICAN BANKS WERE UNAWARE THAT THEY WERE HELPING IRAN. IF TRUE, THE SCHEME WOULD BE SIMILAR TO ANOTHER JARRING DISCOVERY THAT MORGENTHAU'S TEAM RECENTLY BROUGHT TO LIGHT.

IN AN INDICTMENT HANDED UP IN APRIL, MORGENTHAU CHARGED CHINESE ARMS TRADER LI FANG WEI WITH USING DUMMY COMPANIES IN NEW YORK TO PROCURE CRUCIAL BANNED MATERIALS FOR IRAN'S WEAPONS PROGRAM . LI'S COMPANY HAD BEEN ON A TREASURY DEPARTMENT WATCHLIST , BUT HE HAD USED MORE THAN A DOZEN OF ALIASES TO EVADE SANCTIONS.

MORGENTHAU

There were things that I had never heard of, like-- like maraging steel-- which is especially hard steel, suitable for use in-- in the long-range missiles and also in-- in the nuclear enrichment program. We found on the shopping list tantalum, which is especially hard metal. I'd never heard of it, frankly-- used in-- in roadside bombs 'cause it has an armor-piercing quality. Then, we found in our discussion of accelerometers, gyroscopes. gyroscopes-- used both in the uranium enrichment program, but also in long-range missiles.

RATHER

it sounds like there's a pretty long shopping list.

MORGENTHAU

It was.

RATHER (VOICE OVER)

MORGENTHAU SAYS THIS WAS ONE OF IRAN'S TOP COVERT WEAPONS PROCUREMENT OPERATIONS.

JOHN KERRY, U.S. SENATOR

Mr. District Attorney, thank you for being with us, sir.

RATHER (VOICE OVER)

AND NOW THE FEDERAL GOVERNMENT IS CALLING ON THE MANHATTAN DISTRICT ATTORNEY TO GUIDE THE COUNTRY'S STRATEGY ON IRAN.

MORGENTHAU AT HEARING

And we've got to intensify our efforts to embargo the shipment of WMDs, as it's called, to Iran.

JUAN ZARATE, FORMER GEORGE W. BUSH COUNTERTERRORISM ADVISOR

Iran is very good. They understand-- what these sanctions are about. They're smart. And they-- they are learning how to evade them.

RATHER (VOICE OVER)

MORGENTHAU WASN'T THE ONLY ONE FRUSTRATED BY AMERICA'S SINGLEMINDED RELIANCE ON DECADES-OLD SANCTIONS. AS COUNTERTERRORISM ADVISOR TO PRESIDENT GEORGE W. BUSH, JUAN ZARATE LED A QUIETER CHARGE TO FREEZE IRANIAN MONEY-FLOW. HE CALLS THE STRATEGY "SMART FINANCIAL POWER." AND OVER THE PAST TWO YEARS, IT HAS DRIVEN MORE THAN 80 FOREIGN BANKS TO DROP BUSINESS WITH IRAN.

RATHER

Part of the strategy involves publicly identifying international banks that knowingly or unknowingly help the Iranians. Describe some of the political difficulties in making this work, particularly when it comes to our allies.

ZARATE

I think, for the most part, the way the US government has handled this, is to handle this behind the scenes. To handle it quietly with governments and also to meet directly with the banks-- to express-- the concerns that the US government, in particular, the treasury department has about the types of transactions and financial activity that these banks are helping to facilitate, with respect to Iran.

RATHER (VOICE OVER)

LIKE MOST IRAN WATCHERS, ZARATE BELIEVES STRONGLY THAT IRANIAN BANKS ARE FUNDAMENTALLY TIED TO THE COUNTRY'S NUCLEAR WEAPONS PROGRAM, AND IRAN'S SUPPORT OF TERRORIST ORGANIZATIONS.

ZARATE

They are trying to support-- terrorist groups, like Hezbollah, Hamas, Palestinians, Islamic jihad around the world. And we know what they run businesses for precisely this reason. That they have-- front companies-- throughout the world-- not just in the region, but throughout the world, that are dedicated to just this. And so, the danger is you don't know what the Iranians are doing-- with some of these transactions.

RATHER (VOICE OVER)

A CRUCIAL PART OF THE NEW FEDERAL STRATEGY IS TO IDENTIFY IRANIAN FINANCIAL INSTITUTIONS AND FRONT COMPANIES AND FLAG THEM ON A PUBLIC BLACKLIST... A LIST THAT GROWS LONGER EACH MONTH.

THE LIST MAKES IT HARDER FOR PRIVATE FIRMS TO BE DUPED BY DUMMY COMPANIES TIED TO IRANIAN BANKS. AND THOSE WESTERN BANKS THAT HAVE BEEN ABLE TO FEIGN IGNORANCE IN THE PAST, NOW WILL HAVE TO PAY THE PRICE - WITH HITS TO THEIR REPUTATIONS AND POTENTIALLY WITH CRIMINAL CHARGES.

ZARATE

And that kind of soft silent-- swasion, as I call it, has actually been quite effective. Where you've had banks making decisions on their own without regulatory pressure. But understanding the full field of information available to it. Have decided to either shut down their transaction with Iran or to scale back to a large extent.

RATHER

Keeping in mind, you say that part of it is to keep it kind of below the radar screen. Can you give me an example of where this has been used?

ZARATE

Well, I-- I don't want to get into details as to some of the more sensitive meetings that have happened. But- I will tell you. For example, you've had some of the Swiss banks. UBS and Credit Suisse making decisions-- to stop doing business with Iran, precisely because they could not-- assure themselves that they understood the types of financial transactions and activities that the Iranians were engaged in. And so, made a decision on their own-- to cut off-- the-- financial ties they had with Iran.

RATHER (VOICE OVER)

AND FOR BANKS THAT DON'T GET THE MESSAGE, ZARATE BELIEVES HIGH PROFILE CRIMINAL CASES, LIKE THOSE IN NEW YORK, WILL SERVE AS AN IMPORTANT DETERRENT. AND THAT'S JUST WHAT MORGENTHAU WANTS.

RATHER

Mr. District Attorney, you have such a long record. Looking at your whole record, is this one of the most important cases you've ever prosecuted?

MORGENTHAU

I think it is. I think it's extremely important.

RATHER

And the reason?

MORGENTHAU

Because it's the safety of New Yorkers and the safety of U.S. troops in Afghanistan and Iraq and-- and-- the whole stability of the Middle East

RATHER (ON CAMERA)

WITH THE U.S. GOVERNMENT FINALLY CRACKING DOWN ON IRANIAN MONEY FLOWING THROUGH THE UNITED STATES AND EUROPE, THE IRANIAN REGIME IS LOOKING TO EXPLOIT OTHER WEAKNESSES IN GLOBAL TRADE. MR. MORGENTHAU RECENTLY SPOKE OUT ABOUT INCREASINGLY COZY TIES BETWEEN IRAN AND VENEZUELA, AND WARNED THAT VENEZUELAN PRESIDENT HUGO CHAVEZ COULD BE USING HIS COUNTRY'S BANKS TO HELP IRAN ACCESS THE U.S. FINANCIAL SYSTEM. NOW COMING UP NEXT, WE TAKE YOU TO ANOTHER COUNTRY WHERE YOU'LL SEE AMERICAN EFFORTS AGAINST IRAN OPENLY FLAUNTED. THAT STORY WHEN WE RETURN.

RATHER (ON CAMERA)

NOW, FROM THE DARK CORNERS OF THE WORLD'S FINANCIAL MARKETS TO THE BRIGHT DESERT LIGHT OF DUBAI, A KINGDOM WHERE IRANIAN MONEY ALSO FLOWS QUITE FREELY DESPITE AMERICA'S BEST EFFORTS.

RATHER (VOICE OVER)

OF THE SEVEN KINGDOMS THAT MAKE UP THE UNITED ARAB EMIRATES, DUBAI HAS SET ITSELF APART FROM THE OTHERS BY BECOMING A 21ST CENTURY MONUMENT TO CAPITALISM – AN OPPULENT OASIS OF HIGH-END HOTELS, LUXURY SHOPPING MALLS IN THE HEART OF THE RELIGIOUSLY CONSERVATIVE MIDDLE EAST. IN THE PAST DECADE, AN ORGY OF FOREIGN SPENDING FUELED ONE OF HISTORY'S BIGGEST CONSTRUCTION BOOMS – ONE THAT HAS INCLUDED THE WORLD'S TALLEST BUILDING, AND TWO OF THE WORLD'S LARGEST MALLS, WHICH HAVE FAMOUSLY DEFIED THE DESERT WITH EVERYTHING FROM AN INDOOR SKI SLOPE TO A 2.6 MILLION GALLON SHARK TANK. THERE'S EVEN AN ARCHIPELAGO OF ISLANDS, EACH UP FOR GRABS TO ANYONE WITH \$50 MILLION TO SPARE.

BUT THERE'S A DARK SIDE TO DUBAI'S EXPLOSION FROM A BACKWATER PEARLING VILLAGE INTO A MAJOR INTERNATIONAL COMMERCIAL HUB. AMERICAN COUNTER-TERRORISM OFFICIALS SAY THE KINGDOM'S FREEWHEELING BUSINESS CLIMATE HAS MADE IT ONE OF THE EASIEST PLACES ON EARTH TO LAUNDER MONEY-- AN UNREGULATED HAVEN

THAT IRAN HAS EXPLOITED FOR YEARS.

JOHN CASSARA, FORMER TREASURY INVESTIGATOR

As a criminal investigator, I would in effect, drool when I went out there, 'cause there was just so much work to do.

RATHER (VOICE OVER)

FORMER CIA OFFICER AND TREASURY INVESTIGATOR JOHN CASSARA IMMERSSED HIMSELF IN DUBAI'S UNDERWORLD, AND SPENT QUITE A BIT OF TIME AT ITS BUSY WHARF ON DUBAI CREEK, KNOWN LOCALLY AS "SMUGGLERS' CREEK."

IT'S THE POINT OF DEPARTURE FOR THE HUNDREDS OF RICKETY WOODEN BOATS, KNOWN AS DHOWS, THAT REGULARLY PLY THE NARROW CREASE OF PERSIAN GULF TO IRAN.

CASSARA

The sight is actually incredible. The-- the colors, the-- the smells-- the-- the hub of commerce-- it's-- it's an overwhelming sight. But, what concerns me again is there's very, very little inspection and control about what goes in and what goes out of these dhows. And it's very easy for the smuggling of yesteryear to continue today.

RATHER

Are you suggesting or not that with this kind of traffic there's very little, if any, inspection? Very little, if any, control? And if you're looking to smuggle in everything from explosive devices to nuclear weapons components that close to Iran with this ancient system of using the dhows, it would be pretty easy?

CASSARA

I-- I'm trying to be fair to the Emeriti authorities. But, yes, it's a concern.

RATHER (VOICE OVER)

JUST THIS PAST AUGUST, UNITED ARAB EMIRATES AUTHORITIES SEIZED A CARGO SHIP BOUND FOR IRAN THAT WAS REPORTEDLY LOADED WITH WEAPONS FROM NORTH KOREA.

IT'S EASY TO IMAGINE HOW MUCH DOESN'T GET CAUGHT. BECAUSE, ON ANY GIVEN DAY, THE WHARF IS LINED WITH HUNDREDS OF DHOWS HEAVY WITH EVERYTHING FROM REFRIGERATORS AND CARS TO FOOD TO SHAMPOO. THE CREWS ARE ALMOST ENTIRELY IRANIAN. BUT YOU DON'T HAVE TO WAIT LONG TO SPOT AMERICAN-MADE PRODUCTS BOUND FOR IRAN, GOODS FORBIDDEN FOR EXPORT TO IRAN UNDER A DECADES-OLD EMBARGO - LIKE THESE BLACK & DECKER KITCHEN APPLIANCES. NOTHING STOPS THIS FLEET OF DHOWS FROM CROSSING THE 100 MILES TO IRAN DAILY - IT'S DEEPLY TROUBLING FOR THOSE IN WASHINGTON INTENT ON ISOLATING THE BELLIGERENT

AHMADINEJAD REGIME.

IN A 2007 REPORT, THE GOVERNMENT ACCOUNTABILITY OFFICE DESCRIBED DUBAI'S FREIGHT FORWARDING TO IRAN AS A QUOTE "CONSIDERABLE PROBLEM" THAT UNDERCUT ATTEMPTS TO CUT OFF THE ISLAMIC REPUBLIC FROM THE REST OF THE WORLD.

RATHER

When it comes to smuggling and embargo busting, where does Dubai fit in?

CASSARA

Dubai is basically the Hong Kong of that area. Years ago, the-- the People's Republic of China, the communist Chinese, if you will, used Hong Kong kind of as a front to procure-- goods and services used basically as a way to deal with the west. The same thing is happening today with Dubai.

RATHER (VOICE OVER)

CASSARA, WHO WORKED UNDERCOVER AS AN ARMS TRADER FOR TWO YEARS, SAYS DUBAI'S LIVE AND LET LIVE BUSINESS CLIMATE HAS MADE THE KINGDOM A MAGNET FOR AN ASSORTMENT OF UNDERWORLD FIGURES -- EVERYONE FROM RUSSIAN MOBSTERS TO THE NOTORIOUS PAKISTANI SCIENTIST, A.Q. KHAN, WHO LED A NETWORK OF NUCLEAR ARMS TRADERS -TO THE TERRORISTS WHO PLANNED THE 9-11 ATTACKS. SINCE 9-11, ALL EYES IN WASHINGTON HAVE TURNED TO DUBAI, THOUGH THE HEIGHTENED VIGILANCE AND DIPLOMACY THERE HAS DONE LITTLE TO SLOW THE KINGDOM'S TRADE WITH IRAN.

CASSARA

Nothing has changed. And regarding sanctions, I remember speaking to an Iranian freight forwarder. I was following that proverbial money trail. And-- and-- commodity trail that went from the United States to Dubai, on to Iran. And we were talking about sanctions. And his direct quote to me was, "but Mr. John, those are your sanctions, not ours."

RATHER (VOICE OVER)

IRONICALLY, IT WAS THESE U.S. SANCTIONS THAT BROUGHT THE LATEST WAVE OF IRANIANS HERE, TO THE NEAREST POINT OF ACCESS TO THE WESTERN ECONOMY. IN THE SIX YEARS SINCE THE U.S. RAMPED UP SANCTIONS, THE POPULATION OF IRANIANS IN DUBAI HAS DOUBLED TO JUST UNDER A HALF- MILLION. AND THE VALUE OF IRANIAN ASSETS IN DUBAI HAS GROWN TO AS MUCH AS \$300 BILLION.

NASSER HASHEMPOUR, VICE PRESIDENT OF DUBAI'S IRANIAN BUSINESS COUNCIL

We have about 300 flights per week going back and forth from Iran to UAE and back.

RATHER (VOICE OVER)

NASSEER HASHEMPOUR REPRESENTS THOUSANDS OF IRANIAN BUSINESSMEN AS SPOKESMAN FOR DUBAI'S IRANIAN BUSINESS COUNCIL. HE SAYS FARSI-SPEAKING IRANIANS HAVE LONG FORMED A VISIBLE PART OF DUBAI'S SOCIETY. THROUGHOUT THE CITY, THERE ARE IRANIAN SHIITE MOSQUES, BAZAARS, RESTAURANTS, A HOSPITAL, EVEN DUBAI'S ROYAL FAMILY IS SAID TO HAVE SOME PERSIAN BLOOD.

WITH SUCH DEEP TIES, HASHEMPOUR SAYS DUBAI HAS NO REASON TO CAVE TO PRESSURE FROM THE UNITED STATES TO SEVER ITS TIES WITH THE IRANIAN BUSINESSES HE REPRESENTS.

HASHEMPOUR

Dubai is the hub of the business of the Middle East. And it's going to be the hub of the business for a long time. And I believe with the vision of the government that the government of UAE and Dubai has they are much better off than a lot of other countries. And I don't think that the pressure of the United States to be honest has made any company to be closed in here.

RATHER (VOICE OVER)

AMERICA HAS BEEN UNRELENTING IN ITS PRESSURE ON DUBAI TO CUT BACK ON TRADE WITH IRAN-- PRESIDENT BUSH PERSONALLY VISITED SHEIKH MOHAMMED BIN RASHID AL MAKTOUM IN 2006. AND TREASURY OFFICIALS HAVE TRAVELED TO THE KINGDOM MORE THAN 10 TIMES IN THE PAST TWO YEARS IN THEIR PUSH TO GET LOCAL BUSINESS PEOPLE TO CUT TIES WITH IRANIAN BANKS.

JOHN CASSARA SAYS IT'S LONG OVERDUE. IT TOOK THE ATTACKS OF 9-11 TO GET ANYONE IN WASHINGTON TO SEE THE KINGDOM FOR WHAT IT WAS: A HUB OF SHADOWY COMMERCE.

CASSARA

For four consecutive years, I personally wrote proposals to the hierarchy of the United States Customs Service, going up to the commissioner of Customs. We need to open up an office in the Middle East, specifically singling out Dubai as the very best location.

RATHER

Well, when you made these recommendations up the chain of command to the Customs-- division of the Treasury Department at that time, was it not?

CASSARA

Correct.

RATHER

When you made these recommendations, what-- what response did you get, or did you get any response?

CASSARA

The response that came back down unofficially is-- we just don't-- think Dubai is a priority for us right now.

RATHER (VOICE OVER)

THE FEDERAL GOVERNMENT HAS SINCE CAUGHT ON. IN 2006, PRESIDENT BUSH OPENED THE IRAN REGIONAL PRESENCE OFFICE IN THIS DUBAI OFFICE TOWER – A SMALL LISTENING POST WHERE DIPLOMATS MONITOR IRAN FROM THE NEXT BEST PLACE OUTSIDE TEHRAN, WHERE THE U.S. EMBASSY HAS BEEN CLOSED SINCE THE 1979 HOSTAGE CRISIS. DESPITE IMPROVED U.S. EFFORTS TO MONITOR IRANIAN MONEY IN DUBAI, THERE REMAIN MANY BLACK HOLES.

CASSARA

There are approximately seven or 8,000 Iranian businesses in Dubai. Now, a lot of these are the proverbial import-export concern, freight forwarding concern. A lot of them, quite candidly, are-- are front companies-- set up by the Iranian government in order to procure prohibited goods and technologies. And they're very effective.

RATHER (VOICE OVER)

BUT THAT'S NOT ALL. TUCKED AWAY IN DUBAI'S OLD QUARTER IS A SHADOW BANKING SYSTEM OPERATING COMPLETELY OFF THE INTERNATIONAL RADAR. THESE FAMILY-RUN, UNREGULATED MONEY TRANSFER SHOPS ARE KNOWN AS HAWALAS - SOME ARE WELL MARKED, OTHERS ARE SIMPLY RUN OUT OF RUG AND CLOTHING STORES. TERRORISM EXPERTS SAY THEY ARE DANGEROUS HAVENS FOR ILLICIT FINANCE -- AND INDEED, AL QAEDA MADE GOOD USE OF SHOPS LIKE THESE, SPIRITING MONEY THROUGH DUBAI TO FUND THE 9-11 ATTACKS. ABOUT EIGHT YEARS AGO, JOHN CASSARA TRAVELLED TO DUBAI WITH RANKING DEPARTMENT OF JUSTICE AND TREASURY OFFICIALS. THE GOAL OF THE TRIP WAS TO PUSH EMIRATI OFFICIALS TO BETTER REGULATE THE HAWALAS. HE SAID THE EMIRATIS SEEMED RECEPTIVE, BUT THAT THE MONEY-TRANSFER SHOPS EVEN TODAY REMAIN AN UNGOVERNED FINANCIAL WILDERNESS.

RATHER

And this is extremely hard to trace.

CASSARA

Yes, it is.

RATHER

With a bank, you have-- you have a paper trail.

CASSARA

Correct.

RATHER

With Western Union, you'd have a paper trail.

CASSARA

Correct.

RATHER

This system, you don't have it.

CASSARA

It's not like in the United States. You go into a financial institution and you can subpoena all these records, and it's made available for you. Hawala exists because of trust and basically, because of secrecy. It is also the proverbial crack in the western financial system, as Osama bin Laden self calls. Very difficult for law enforcement to penetrate these operations.

RATHER (VOICE OVER)

AND JUST AS DUBAI'S OPEN DOCKS ALLOW IRAN TO MOVE GOODS IN AND OUT OF THE COUNTRY, THE HAWALLAS PROVIDE ANOTHER AVENUE FOR IRANIAN CASH TO FLOW AROUND THE WORLD, AGAIN CIRCUMVENTING U.S. PRESSURE AND SANCTIONS.

ESFANDIAR RASHIDZADEH, IRANIAN BUSINESSMAN

There is always a way to counter this kind of embargo.

RATHER (VOICE OVER)

IRANIAN BUSINESSMAN ESFANDIAR RASHIDZADEH KNOWS. HE WAS VICE DIRECTOR OF IRAN'S CENTRAL BANK AT THE START OF THE REVOLUTIONARY GOVERNMENT, AND HE SAYS THAT SANCTIONS AND THE NEW PRESSURE CAMPAIGN AGAINST IRANIAN BANKS HAVE HURT ORDINARY BUSINESSMEN MORE THAN THEY'VE HURT THE REVOLUTIONARY GOVERNMENT. WE MET HIM AT ONE OF DUBAI'S MANY IRANIAN RESTAURANTS PACKED WITH LUNCHTIME DINERS.

RASHIDZADEH

Putting pressure on the Iranian banking sector. Who is dealing with them? The Iranian banking sector? Of course a part of it is the government of Iran. The other part are the people.

RATHER (VOICE OVER)

RASHIDZADEH MAY HAVE A BIT OF A CHIP ON HIS SHOULDER. THE U.S. TREASURY DEPARTMENT RECENTLY PLACED HIM AND HIS BUSINESS ON A BLACKLIST FOR ALLEGEDLY RUNNING A FRONT FOR BANK MELLI -- THE SAME IRANIAN BANK THAT ALLEGEDLY OWNS THE SKYSCRAPER IN NEW YORK. RASHIDZADEH SAYS HE HAS NOTHING TO DO WITH IRAN'S GOVERNMENT. BUT HIS PERSIA EQUITY FUND IS THE ONLY AGENCY

LICENSED TO REPRESENT FOREIGN INVESTORS IN IRAN'S STOCK MARKET. AND HE DEFIANTLY SAYS THAT DESPITE ALL THE PRESSURE FROM WASHINGTON, DUBAI REMAINS THE BEST PLACE TO FIND CLIENTS.

RASHIDZADEH

Dubai is the window to the rest of the world for Iran. Having said that, within this window there are different kind of activity, mine is I want to be a kind of platform for Iranian investment coming outside the country and international investment coming to Iran.

RATHER (VOICE OVER)

RASHIDZADEH TOLD US IRAN'S GOVERNMENT AND ITS SAVY BUSINESSMAN --WILL ALWAYS BE SEVERAL STEPS AHEAD OF U.S. SANCTIONS.

RASHIDZADEH

This embargo started in 79. Now after 30 years where are we?

RATHER

Do the sanctions work?

CASSARA

In my opinion, sanctions are a tool in the toolbox. I think they are prone to corruption. I think they hurt the wrong people. I think they hurt the common people and don't really punish the ruling elites they're designed to go after.

RATHER (VOICE OVER)

CASSARA TOLD ME HIS YEARS OF DIGGING IN DUBAI SHOW HIM SANCTIONS RAISE THE COST OF DOING BUSINESS FOR THE AVERAGE IRANIAN, BUT WHEN IT COMES TO THE IRANIAN GOVERNMENT, IT'S A DIFFERENT STORY.

CASSARA

If the point of sanctions and designations is to allow our politicians to posture, then there's nothing wrong with that. And that's fine. Then sanctions and designations, I applaud what's going on. But, Mr. Rather, the point of sanctions and designations is to foster a change of attitude or a change in way of doing business-- they simply don't work.

RATHER (VOICE OVER)

THE KINGDOM OF DUBAI HAS WORKED HARD TO REMAIN FRIENDLY WITH IRAN AND WASHINGTON – A TOUGH FEAT AS TENSION CONTINUES TO GROW BETWEEN THE TWO RIVALS. AND WITH DUBAI'S ECONOMY REELING FROM THE WORLD FINANCIAL CRISIS, IT'S UNLIKELY TO CUT OFF ITS LARGEST TRADE PARTNER, EVEN UNDER INTENSE PRESSURE FROM WASHINGTON.

CASSARA

So there's this balancing act, if you will, how far they can go in one direction or the other. That said, so many years now after 9/11, I think it's time for the Emiratis to actually take specific, concrete steps to back up what they say they're going to do. So far, they've done just enough to keep the west off their back.

RATHER (ON CAMERA)

THE WORLDWIDE RECESSION WE ARE EXPERIENCING HAS LEFT BANKS ACROSS THE WORLD STARVING FOR DEPOSITS. IT'S CONCEIVABLE SOME WILL BE SEDUCED BY IRAN'S CONSIDERABLE OIL MONEY, HEDGING THAT THEY WON'T GET CAUGHT. WITH STAKES AS HIGH AS A NUCLEAR-ARMED IRAN, YOU CAN BE SURE EVERYONE FROM FEDERAL INVESTIGATORS ON DOWN TO MANHATTAN'S NEXT DISTRICT ATTORNEY WILL BE WATCHING. AND SO WILL WE, SO PLEASE KEEP TUNING IN FOR UPDATES O N THIS IMPORTANT STORY.