

New York Daily News

FBI FEARED IRAN NUKE PLOT HERE FEELING BETRAYED, MOLE SPEAKS OUT

BY GENE MUSTAIN

Sunday, February 18th 1996, 1:95AM

An alleged Mafia moneyman says that one month after the World Trade Center bombing in 1993 the FBI enlisted him to bug a posh Park Ave. building and spy on Iranians suspected of plotting a nuclear terror attack on New York.

Dennis Pappas, then an electrical contractor, says FBI agents gave him eavesdropping equipment and a blueprint for installing it on all 21 floors of the building.

The building, 52 Park Ave., had been just secretly purchased by investors with ties to an Iranian foundation suspected of aiding terror groups in the U.S. and abroad.

Pappas at the time was under investigation by other FBI agents for helping a mob boss launder money and was ultimately charged last July with racketeering.

He says the FBI counter-intelligence agents who recruited him said the Iranians were "very bad people" conspiring to import "nuclear materials" for a devastating strike against the city.

"One of the agents said, 'These are very bad people. They're terrorists. They're the kind of people who blow up buildings and kill children.'"

Pappas, who also is a lawyer, says he agreed to cooperate with the agents after they promised to make the money-laundering case "go away."

Nine months later, he says, they broke the promise and threatened physical harm if he ever told his story.

Today, Pappas is behind bars, and his astounding saga is shrouded in secrecy. The Brooklyn U.S. attorney's office and a federal judge have imposed a national security blackout in a seemingly routine racketeering case, sealing documents and conducting secret proceedings.

Under a sweeping gag order, defense lawyers, prosecutors and Pappas have all been banned from speaking about Pappas' work for the FBI. On Thursday, a prosecutor ordered officials at the Metropolitan Correctional Center to cancel an interview the Daily News had scheduled with Pappas.

Pappas has been held there without bail since his indictment, even though he has never before been arrested or charged with a violent crime.

But in December, after he lost an appeal of his bail denial, Pappas began telling his story to a News reporter in interviews conducted before the gag order was imposed. He says he's afraid the government is invoking national security to cover up its mistakes.

His story opens a rare window on how the FBI, which is legally responsible for conducting domestic counter-intelligence operations, goes about its cloak-and-dagger business in a city teeming with foreign missions, consulates and undercover operatives.

The saga unfolded in the supercharged atmosphere of dread that followed the World Trade Center attack, and it came undone when Pappas after failing to get FBI supervisors in Washington to pay attention to his story decided to go public.

"My fear is they're going to keep all this secret so my jury never gets to hear my story, or that I die in prison before I get a chance to tell it," said Pappas, 48, who has a serious heart ailment and has had two bypass operations.

Court files show the gag order was imposed Jan. 4, a day after one of Pappas' lawyers, Ronald Kuby, wrote to the prosecutor and asked him to disclose which of "Mr. Pappas' `black-bag' jobs for the FBI" are classified secrets.

The order came two days after a second Pappas lawyer told the prosecutor he intended to seek dismissal of the case on grounds that Pappas had been promised he would not be prosecuted if he aided "a covert FBI operation."

"This motion will contain great detail about the project itself, the locations involved, the targets of the project and the agents who supervised Mr. Pappas," defense lawyer Judd Burstein wrote.

During its investigation of the case, The News independently corroborated many of the details of Pappas' story and learned much else he did not know when he agreed to help the FBI's Operation Gracenote in March 1993:

The FBI feared if terrorists gained control of even a small amount of nuclear material or waste, it could be used with a bomb like the one planted at the World Trade Center to throw a radioactive blanket across half of Manhattan.

"The panic that such a device would engender, that was the concern," said Oliver Revell, a former top FBI counter-intelligence official who retired after the Trade Center blast. "And it could make a large area unusable for a long time."

Two Iranians Pappas says he spied on are ex-presidents of the New York-based Alavi Foundation, which the FBI and other intelligence agencies say is controlled by Iran, which the U.S. calls a state sponsor of terrorism.

In 1992, one of the ex-presidents of the Alavi Foundation, Mohammad Hossein Mahallati, was questioned by federal agents about an alleged plot to export germ-warfare toxins to Iran; the other, Manoucher Shafie, was charged with conspiring to export prohibited U.S. technology to Iran.

In court papers detailing Shafie's arrest, he is identified as an agent of the Iranian mission. Charges in the case were later dropped.

Court records show that Mahallati, whose brother is a former Iranian ambassador to the United Nations, and Shafie, who headed the Alavi Foundation after a fundamentalist regime took power in Iran in 1979, retain close ties to the foundation.

Using rental payments it gets from a Fifth Ave. tower it owns, the foundation has given money to groups that federal investigators say are suspected of aiding terrorists.

Revell said the Alavi Foundation was "essentially an arm of the Iranian government operating through" the UN mission. He added that "it keeps track of Iranian nationals in the U.S. and funds groups loyal to" the Ayatollah Ali Khamenei, Iran's spiritual leader.

The start of Dennis Pappas' journey into this shadowy world actually began before Operation Gracenote did.

In 1991, he says, he was approached by two agents from the bureau's Colombo crime family squad and asked to cooperate in their investigation of Victor Orena, then the family's acting boss.

Pappas, who met Orena when he was a teenager working in his father's Long Island restaurant, says he had several business dealings with Orena during the 1980s, after he became a lawyer and built up a chain of companies involved in insurance, pension fund management and real estate development.

He says he told the agents he knew nothing about Orena's alleged crimes, but that they returned a month later and vowed to investigate him if he did not cooperate.

"I don't have anything to cooperate with," he says he said. "Do what you want."

In June 1992, in 10 separate raids, FBI agents swooped down on several companies and individuals with whom Pappas had business dealings and carted away 400 boxes of documents covering a complicated 15-year business career.

By then, having been told by doctors treating his heart ailments that he should ease his work load, Pappas had sold several companies and taken a sales job for an old pension fund client, Coyne Electrical Contractors in the Bronx, a major contractor.

As marketing director for Coyne, Pappas met an architect who had been hired by Miri Holding Corp., the new owner of 52 Park Ave., to oversee a \$5 million renovation of the building.

Through the architect, he met Mahallati, Shafie and others and began negotiating a contract for the electrical part of the job.

"Those people took a liking to me," he said.

"I ingratiated myself with them."

He says Shafie told him that if the job went well, the Iranians would give Coyne further business, including a contemplated expansion of the Iranian UN mission on Third Ave.

The stage was now set.

In March 1993, an FBI agent from the bureau's counter-intelligence division asked Pappas to meet him and another agent at a restaurant on E. 43d St.

He says the agents already knew he was negotiating a contract on 52 Park with the Iranians. "They said, 'We need you. We have to get into this building and put listening devices on all 21 floors.' "

Pappas says he told them that before they went any further they should know he was under investigation by the bureau's organized crime agents.

"They said, 'Nah, nah, don't worry about it. This is national security. It far takes precedence over anything that any mundane investigation of you could be about.' "

After the meeting, the agents asked Pappas to accompany them to an office on Second Ave., where he says they and other agents showed photos of Mahallati, Shafie and others.

Pappas says an agent told him if he cooperated, " 'You'll be able to look yourself in the mirror and know you are doing your country a tremendous favor.' "

The only provision, the agent added, was that Pappas could never talk about it.

Another agent, Pappas says, said the Iranians were an arm of the Iranian government and financed terrorist groups "but their main thrust here is to bring in very bad material, nuclear material."

The News determined the identities of the agents involved in the meetings with Pappas, but is voluntarily withholding their names.

The newspaper is also withholding the name of a company formerly located in a Second Ave. building where Pappas says he met with agents. Pappas says the company was an FBI front, and two employees of the building said a firm by that name had moved out last summer and left no forwarding information.

None of the Iranians whom Pappas spied on were ever officially implicated in such a scheme. They did not return calls for comment. The current president of the Alavi Foundation could not be reached.

But given the climate of fear unleashed by the Trade Center blast, whose perpetrators were identified early on as people sympathetic to Iranian-style religious fanaticism, it's logical that the FBI would want to keep an eye on the Alavi Foundation and its supporters.

Several experts also said the FBI was worried about nuclear terror because of reports that nuclear material or even nuclear waste products were secretly for sale on the Russian black market.

"With the proliferation of nuclear materials coming out of Russia, the fear was not a nuclear weapon but a nuclear-enriched conventional explosion," said Revell, the former FBI counter-intelligence official.

"You put 5 pounds of nuclear material in the size of the bomb used at the Trade Center and you are going to contaminate south of Manhattan for the foreseeable future," he added.

"As far as the nuclear terror threat is concerned, you don't even need a bomb that will create a chain reaction," said Frank Bolz, a former NYPD boss and terrorism expert. "You could mix nuclear waste with dynamite and create what we call a 'dirty bomb.' It would make a big area uninhabitable."

In joining Operation Gracenote, Pappas believed he was helping his country and his other "situation."

"That'll go away. We'll take care of that. We'll get rid of it. That's gone," Pappas says one of the agents promised. "There's no way we can expect you to risk your life and then at the same time prosecute you. Even if you're guilty of something, it's nothing compared to what this is."

Over the next six months, Pappas says he fed the agents information about the Iranians that he learned during social dinners and business meetings.

He says the agents showed him where they wanted listening devices installed, then produced samples of the actual equipment.

Pappas, who is married and has two adult children, says he told the agents he would not have agreed to help and expose himself and his family to potential reprisals unless he believed they could deliver on their promise.

At first, Pappas says, he heard fewer complaints from friends and former business associates that the FBI had come to question them about him.

But he says his contact agents soon reported that the assistant U.S. attorney on Long Island in charge of the organized crime case, and the assistant's superiors in Brooklyn U.S. Attorney Zachary Carter's office, were standing in the deal's way.

"You're getting f-----," one of the agents said, Pappas says.

At the end of a heated argument that followed, Pappas says one of the agents said, "Well, if you tell anybody about this, you're history. If the project doesn't go through because of you, you're history."

It was shortly after this exchange that Pappas says he quit spying for the FBI.

He says he doesn't know whether the eavesdropping installation was ever completed because he also retired from the electrical company, whose other officials did not know about the FBI project.

But Pappas' days of intrigue were far from over, and he would become the target of another operation, equally cloaked in mystery.