

How Ahmed Chalabi conned the neocons

The hawks who launched the Iraq war believed the deal-making exile when he promised to build a secular democracy with close ties to Israel. Now the Israel deal is dead, he's cozying up to Iran—and his patrons look like they're on the way out. A Salon exclusive.

By John Dizard

When the definitive history of the current Iraq war is finally written, wealthy exile Ahmed Chalabi will be among those judged most responsible for the Bush administration's decision to invade Iraq and topple Saddam Hussein. More than a decade ago Chalabi teamed up with American neoconservatives to sell the war as the cornerstone of an energetic new policy to bring democracy to the Middle East—and after 9/11, as the crucial antidote to global terrorism. It was Chalabi who provided crucial intelligence on Iraqi weaponry to justify the invasion, almost all of which turned out to be false, and laid out a rosy scenario about the country's readiness for an American strike against Saddam that led the nation's leaders to predict—and apparently even believe—that they would be greeted as liberators. Chalabi also promised his neoconservative patrons that as leader of Iraq he would make peace with Israel, an issue of vital importance to them. A year ago, Chalabi was riding high, after Saddam Hussein fell with even less trouble than expected.

Now his power is slipping away, and some of his old neoconservative allies—whose own political survival is looking increasingly shaky as the U.S. occupation turns nightmarish—are beginning to turn on him. The U.S. reversed its policy of excluding former Baathists from the Iraqi army—a policy devised by Chalabi—and Marine commanders even empowered former Republican Guard officers to run the pacification of Fallujah. Last week United Nations envoy Lakhdar Brahimi delivered a devastating blow to Chalabi's future leadership hopes, recommending that the Iraqi Governing Council, of which he is finance chair, be accorded no governance role after the June 30 transition to sovereignty. Meanwhile, administration neoconservatives, once united behind Chalabi and the Iraqi National Congress he founded, are now split, as new doubts about his long-stated commitment to a secular Iraqi democracy with ties to Israel, and fears that he is cozying up to his Shiite co-religionists in Iran, begin to emerge. At least one key Pentagon neocon is said to be on his way out, a casualty of the battle over Chalabi and the increasing chaos in Iraq, and others could follow.

"Ahmed Chalabi is a treacherous, spineless turncoat," says L. Marc Zell, a former law partner of Douglas Feith, now the undersecretary of defense for policy, and a former friend and supporter of Chalabi and his aspirations to lead Iraq. "He had one set of friends before he was in power, and now he's got another." While Zell's disaffection with Chalabi has been a long time in the making, his remarks to Salon represent his first public break with the would-be Iraqi leader, and are likely to ripple throughout Washington in the days to come.

Zell, a Jerusalem attorney, continues to be a partner in the firm that Feith left in 2001 to take the Pentagon job. He also helped Ahmed Chalabi's nephew Salem set up a new law office in Baghdad in late 2003. Chalabi met with Zell and other neoconservatives many times from the mid-1990s on in London, Turkey, and the U.S. Zell outlines what Chalabi was promising the neocons before the Iraq war: "He said he would end Iraq's boycott of trade with Israel, and would allow Israeli companies to do business there. He said [the new Iraqi government] would agree to rebuild the pipeline from Mosul [in the northern Iraqi oil fields] to Haifa [the Israeli port, and the location of a major refinery]." But Chalabi, Zell says, has delivered on none of them. The bitter ex-Chalabi backer believes his former friend's moves were a deliberate bait and switch designed to win support for his designs to return to Iraq and run the country.

Chalabi's ties to Iran—Israel's most dangerous enemy—have also alarmed both his allies and his enemies in the Bush administration. Those ties were highlighted on Monday, when Newsweek reported that “U.S. officials say that electronic intercepts of discussions between Iranian leaders indicate that Chalabi and his entourage told Iranian contacts about American political plans in Iraq.” According to one government source, some of the information he gave Iran “could get people killed.” A Chalabi aide denied the allegation. According to Newsweek, the State Department and the CIA—Chalabi's long-time enemies—were behind the leak: “the State Department and the CIA are using the intelligence about his Iran ties to persuade the president to cut him loose once and for all.”

But the neocons have bigger problems than Chalabi. As the intellectual architects of an “easy” war gone bad, they stand to pay the price. The first to go may be Zell's old partner Douglas Feith. Military sources say Feith will resign his Defense Department post by mid-May. His removal was reportedly a precondition imposed by Ambassador to the U.N. John Negroponte when he agreed to take over from Paul Bremer as the top U.S. official in Iraq. “Feith is on the way out,” Iraqi defense minister (and Chalabi nephew) Ali Allawi says confidently, and other sources confirm it. Feith's boss, Undersecretary of Defense Paul Wolfowitz, may follow. Bush political mastermind Karl Rove is said to be determined that Wolfowitz move on before the November election, even if he comes back in a second Bush term. Sources say one of the positions being suggested is the director of Central Intelligence.

In part, the White House political crew is reacting to pressure from the uniformed military, which is becoming a quiet but effective enemy of the neocons. The White House seems to be performing triage to save the political capital of Defense Secretary Donald Rumsfeld and Vice President Dick Cheney, Iraq hawks who have close ties to the neocons. “Rumsfeld and Cheney stay,” says an Army officer. “Powell has his guy Negroponte in there. But the neocons are losing power day by day.”

Why did the neocons put such enormous faith in Ahmed Chalabi, an exile with a shady past and no standing with Iraqis? One word: Israel. They saw the invasion of Iraq as the precondition for a reorganization of the Middle East that would solve Israel's strategic problems, without the need for an accommodation with either the Palestinians or the existing Arab states. Chalabi assured them that the Iraqi democracy he would build would develop diplomatic and trade ties with Israel, and eschew Arab nationalism.

Now some influential allies believe those assurances were part of an elaborate con, and that Chalabi has betrayed his promises on Israel while cozying up to Iranian Shia leaders. Whether because of intentional deception or a realistic calculation of what the Iraqi people will accept, it's clear that Chalabi won't be delivering on his bright promises to ally a democratic Iraq with Israel. Had the neocons not been deluded by gross ignorance of the Arab world and blinded by wishful thinking, they would have realized that the chances that Chalabi or any other Iraqi leader could deliver on such promises were always remote. In fact, they need have looked no further than the Israeli media: A long piece in Israel's Jerusalem Report magazine published nine days before the war began last year featured Israelis who dismissed Chalabi's promises about Israel as a political ploy, “a means by which to appeal to the Jewish lobby and, in turn, the administration.”

“Chalabi has no use for Israel. He knew all along that this was a nonstarter,” says Robert Baer, a former CIA field officer who led covert U.S. operations inside Iraq in the mid-1990s aimed at toppling Saddam. “Chalabi knows exactly what Israel stands for in Iraq and in Iran, with or without Saddam. The idea of building the pipeline to Haifa, or rapprochement with Iran . . . I'm sure he told [the neocons] these things could happen, that he played to their prejudices and said, ‘This is the new Middle East,’ but he didn't believe any of it. That's the way Chalabi operates.”

“He was willing to ally with anyone to get where he is now, whether it was the neocons, the Israelis or the Iranians,” adds Baer. “He wanted back into Iraq and nothing was going to stop him.”

It could have been predicted that Chalabi would want to deal with Israel’s enemies in Iran. He and his relatives have made that clear. As Iraq’s defense minister, Ali Allawi, says, “We have a lot of problems in common with Iran. If we could involve them in a regional security agreement with us, that would be very fruitful.” Still, Chalabi’s visit to Iran last December and his repeated assertions that peace in Iraq requires peace with Iran first alarmed, then embittered, his old friends.

Chalabi’s neoconservative friends, however, seem to have looked away from evidence that the businessman has always allied himself with whomever can help him the most. In the 1980s, Chalabi’s scandal-plagued Petra Bank funneled money to Amal, a Shia militia allied with Iran in Lebanon. And according to a former CIA case officer who worked in Iraq, Chalabi had close ties to the Iranian regime when he was in Kurdish Northern Iraq in the mid-1990s trying to foment resistance to Saddam. He even dealt with Saddam himself when the price was right, and initiated a method to finance the dictator’s trade with Jordan in the 1980s through his Petra Bank.

Chalabi’s Arab admirers say they knew he’d never make good on his promises to ally with Israel. “I was worried that he was going to do business with the Zionists,” confesses Moh’d Asad, the managing director of the Amman, Jordan-based International Investment Arabian Group, an industrial and agricultural exporter, who is one of Chalabi’s Palestinian friends and business partners. “He told me not to worry, that he just needed the Jews in order to get what he wanted from Washington, and that he would turn on them after that.”

Ahmed Chalabi refused to speak to Salon. He has denounced U.N. envoy Brahimi as an “Arab nationalist” and compared the U.S. decision to bring back some former Iraqi soldiers to “allowing Nazis into the German government immediately after World War II.” Douglas Feith, Chalabi’s longtime ally and sponsor, also declined a request for an interview. Nevertheless, the outline of the new conflict between the Shiite former exile and his erstwhile sponsors is clear, based on interviews with Iraqi officials, U.S. military personnel and intelligence officers, and politically connected Israelis.

The crux of the conflict is Iran, and whether the U.S. should try to make a deal with the Islamic Republic to enlist its support for peace in Iraq. Before and immediately after the war, the neoconservative position was that U.S. empowerment of the long-disenfranchised Shia community would make possible an Iraqi government that would make a “warm peace” with Israel. This in turn would pressure the rest of the Arab world to make a similar peace, without the need to concede land to the Palestinians.

This was, of course, a pipe dream: The Shia community in Iraq, like the Sunni community, is overwhelmingly anti-Israel, and the entire range of its leadership has close ties with Iran. Belatedly realizing that Chalabi’s promise to build a secular, pro-Israel Shiite government is not going to come true, in the past couple of months the neocons in the Defense Department have tried to come up with a new plan. Feith, Wolfowitz and others are backing away from the Shia, due to their ties to Iran as well as Chalabi’s deceptions. They are trying to cobble together a coalition of rehabilitated Sunni Muslim Iraqi Army officers and Kurdish leaders backed by their militias that would have Shia participation, but in a reduced role. For proponents of this strategy, the front-runner to be prime minister of the next version of the transitional government is Kurdish leader Jalal Talabani, the founder and leader of the Patriotic Union of Kurdistan.

This policy has very little support. It’s opposed by those neocons who still back Ahmed Chalabi and his Shia allies—including influential former Defense Policy Board chair Richard Perle, along with neocon intellectuals Michael Ledeen, Bernard Lewis and Barbara Lerner. Although they like Talabani, they oppose the tilt toward the Sunnis, and some are still adamant that Chalabi play a role. “He’s effective in bringing groups of

Iraqis together, something he's done for many years," Perle said on CNN on March 28. "He believes in democracy. I have complete confidence in him, and I hope the people of Iraq are wise enough to see his benefits."

The shift in strategy toward Talabani is also being dismissed, for different reasons, by National Security Advisor Condoleezza Rice, Secretary of State Colin Powell, John Negroponte, the new ambassador to Iraq, and the uniformed military. They look at the Iraqi population statistics, which show a Shia majority; a map of the country, which shows a long, hard-to-defend border with Iran; and the U.S. military order of battle, which shows overstretched armed forces, and conclude there cannot be a stable Iraqi government that isn't led by the majority Shia.

Even the Kurds have their doubts about the new rise in their standing with the neocons. Richard Galustian, a British security contractor in Iraq who works closely with the Kurdish authorities, says, "The political elevation of the Kurds within Iraq will be very unpopular with other Iraqis, and will be treated with caution by the Kurdish leaders themselves. Many will be skeptical of the ability of the U.S. administration to sustain and remain consistent in any new relationships." If the Americans can turn on the Shia, the reasoning goes, why couldn't they later turn on the Kurds?

President Bush's ability to impose order on this mess is not obvious, and he doesn't have more than a couple of weeks to figure out a solution. With photographs of U.S. troops torturing and abusing Iraqi prisoners inflaming the Arab world, U.S. casualties soaring, the June 30 date to turn over sovereignty looming and no exit strategy in sight, Bush's Iraq adventure has turned into a deadly mess that seems certain to make the U.S. more at risk from terrorism, not less. Bush brought this trouble on himself by buying into the neocons' interpretation of the dynamics of the Middle East, and into Ahmed Chalabi's plans for Iraq—maybe most disastrously by buying Chalabi's assurances that a secular government dominated by Israel-friendly Shia was possible. If Bush and the neocons wanted to know about Chalabi's real deal-making nature, the signs were there for them to read. But they didn't want to know.

Chalabi appears to have recognized that the neocons, while ruthless, realistic and effective in bureaucratic politics, were remarkably ignorant about the situation in Iraq, and willing to buy a fantasy of how the country's politics worked. So he sold it to them.

Ahmed Chalabi's family, Shia Muslims from Kut in southern Iraq, has a tradition of working with occupation governments, starting with the regime of the Ottoman Turks in 1638. Chalabi's father, Abdul Haydi Chalabi, was a member of the council of ministers of King Faisal II, whose short-lived Hashemite dynasty was installed by the British in 1921. He was also president of the Iraqi Senate created by the Hashemites.

The Hashemites are Sunni Muslim nobility, originally from a region in today's Saudi Arabia. While they lost their leading position in the Arabian peninsula to the Al Sa'ud family, they were successfully installed as monarchs in both Jordan and Iraq with British support. The Jordanian Hashemites found a base of support in the local Bedouin tribes, and retain power to this day. The Iraqi Hashemite branch, though, was strongly opposed by the local Shia Muslim ayatollahs from the beginning. So in 1922 the Iraqi Shia religious leaders in Najaf issued a fatwa, or decree, forbidding observant Shia from supporting the Hashemites. The Chalabi family wasn't deterred, though. They were among the few Shia to defy the fatwa and support the British-imposed dynasty. They were rewarded with royal patronage, and wound up controlling the flour milling industry in Baghdad and Basra. The fatwa was finally lifted in 1937, and by then the Chalabis had made a fortune.

Ahmed Chalabi was born in 1944. His family reached the peak of its wealth and influence during his childhood. In 1958, though, the Hashemite royals were slaughtered during a military coup d'état, and the Chalabis fled, first to Jordan, then to Britain. Chalabi reportedly still has a British passport.

The highly intelligent Chalabi enrolled at MIT at 16, where he earned a degree in mathematics. He then took a Ph.D. in math at the University of Chicago in 1969. (His thesis was “On the Jacobson Radical of a Group Algebra.”) Despite these serious power-geek credentials, Chalabi has always been known as charming, worldly, and a skilled networker. While at Chicago, Chalabi met Albert Wohlstetter, an applied mathematician and one of the founders of the neoconservative movement. Wohlstetter introduced Chalabi to future movement leaders like Richard Perle and Paul Wolfowitz.

After earning his doctorate, Chalabi returned to the Middle East and became a math professor in Beirut. At the time Beirut was the peaceful financial center of the region, and in 1963 Chalabi’s family had, along with some local partners, started Mebco, or the Middle East Banking Corp. It was run by Chalabi’s brother Jawad. They had also established a Swiss financial company, Socofi, in 1954, as well as a Swiss subsidiary of MEBCO.

As Ahmed Chalabi has told the story, the Jordanian Hashemite crown prince, Hassan bin Talal, persuaded him to start the Petra Bank in Jordan in 1977. Chalabi’s associates say the family had given the Jordanian Hashemites some of the assassinated Iraqi Hashemites’ overseas assets after the 1958 coup, which no doubt helped smooth the way. The Chalabi family’s other banking and financial companies provided further support.

Just after the overthrow of the Shah of Iran, Chalabi seems to have first established his ties with the Iranian Shia theocracy. The new Islamic Republic turned on the shah’s former allies in Israel with a vengeance. The Iranian regime set up a substantial intelligence and political apparatus in Lebanon, among the oppressed local Shia.

One of the key Shia institutions in Lebanon was MEBCO in Beirut, which by the 1980s had become a banker for the Shia Amal militia. Amal and Hezbollah were the principal private armies in Lebanon tied to the regime in Iran. Chalabi was placing Petra depositors’ money with MEBCO in those years; by the time Petra collapsed in 1989, bank auditors found, the equivalent of \$41 million in transactions with MEBCO were on the books. “All the Lebanese banks were divided between political parties and factions,” says Hassan Abdul Aziz, a former director at Petra Bank. “MEBCO bank was no different. All the Shia were close to Iran emotionally or otherwise.” A former CIA case officer in Lebanon has a less sympathetic view. “This was basically funding a civil war, which meant murders, assassinations, and blowing up Israelis. MEBCO was putting their chips on every square.” Iran and the Shite militias were not the only violent elements destabilizing Lebanon in the ’70s and ’80s, of course. The bloody Israeli invasions of Lebanon, along with later punitive expeditions, inflamed the Shia and other Lebanese.

But Lebanon was not the only venue for the Chalabi family’s flexible and innovative approach to international finance. This may come as a surprise to some of Ahmed Chalabi’s newer friends, but he helped finance Saddam Hussein’s trade with Jordan during the 1980s. Specifically, Chalabi helped organize a special trading account for Iraq at the Jordanian central bank. Due to the problems created by the war with Iran, Saddam Hussein was unable to obtain credit on normal terms. The special account with the Jordanians allowed him to swap oil for necessary imports—at least Saddam thought they were necessary—without going through the international credit system. As Hassan Abdul Aziz explains, “Petra was the first to give letters of credit to Iraq, which they did for 23 months before Banco del Lavoro did in 1984. (The Banco del Lavoro scandal involved the provision of U.S. government commodities loans to buy arms for Saddam Hussein.) By 1986 Jordan had \$1 billion in annual trade with Iraq this way, and Petra Bank had 50

After Petra was seized by the Jordanian authorities in August 1989, Chalabi fled Jordan in the trunk of Crown Prince Hassan’s car. Chalabi and his family were still wealthy, despite the collapse of their banking empire, but his career in Middle East banking was over. He was now a double exile, from Jordan as well as Iraq, comfortably ensconced in London. Just a year after his fall, though, Saddam Hussein invaded Kuwait.

When the subsequent Gulf War weakened but did not topple Saddam, a new possibility beckoned: the return of the Chalabi family to power in Iraq.

Like many people in the Middle East, Ahmed Chalabi may have had the image of the CIA as an all-knowing organization of worldwide puppet masters. If so, he soon learned otherwise. But in the early 1990s the CIA looked like a good prospect to sponsor an anti-Saddam Iraqi exile movement. At the same time, though, Chalabi was also looking to the Islamic regime in Iran for help.

Chalabi and some fellow exiles founded the Iraqi National Congress in 1992. The INC was largely funded by the CIA, which provided part of its support through the Rendon Group, a Washington public relations company that also does international political work for the Department of Defense. The CIA's support for the INC paid for two radio stations, various propaganda operations, and training camps in northern Iraq for Iraqi army defectors. (Northern Iraq, controlled by various Kurdish factions and protected by U.S. air cover, was a safe haven for Iraqi dissidents along with U.S. and allied intelligence operators.)

While Chalabi was perfectly willing to take the CIA's money, he quickly learned that it had become an ineffectual, self-obsessed bureaucracy. "He had absolute, total disdain for D.C.," says one of his former case officers in northern Iraq. "He looked at the Agency, and Rendon, and they flashed incompetence."

The case officer doesn't know precisely when Chalabi developed a deep relationship with the Iranian clerical regime, but it was in place when Chalabi was in northern Iraq in the early '90s. As the case officer recounts it, "He was given safe houses and cars in northern Iraq, and was letting them be used by agents from the Iranian Ministry of Intelligence and Security [Vevak], and the Iranian Revolutionary Guard Corps. At one point he tried to broker a meeting between the CIA and the Iranians."

The same officer says from time to time Chalabi would offer him "intelligence," which the officer would turn down. "I knew it wasn't any good, and he knew I knew. He took the refusal in good humor. We had a good relationship. I like him."

The CIA's relationship with Chalabi came to an end after a failed offensive in March 1995 against Saddam's forces by the small group of INC exiles and the militia of the Patriotic Union of Kurdistan. The CIA had withdrawn the support it had initially offered for the offensive, in what looks like a classic conflict between field officers and desk officers. Chalabi left northern Iraq the next month, and the CIA cut off its funding for the INC. It was at this time that Chalabi turned his attention to the American neoconservatives. The neocons were deeply disturbed by the Israeli government's "land for peace" negotiations with the Palestinians. The usefulness of the West Bank for "defense in depth" was less important than it would have been from the '40s to the '70s, given the increase in Israel's relative technological and military advantage over the Arabs. However, the idea of giving up what Israel's right-wing Likud leaders and some of the neocons themselves believed to be Israel's God-given lands on the West Bank of the Jordan River was anathema to them. The solution to Israel's strategic dilemma, in their view, was to somehow change the Arab governments.

The neoconservative strategy for Israel was laid out in a 1996 paper called "A Clean Break: A New Strategy for Securing the Realm," issued by the Institute for Advanced Strategic and Political Studies in Jerusalem (but written by Americans). The principal authors for the paper were Douglas Feith, then a lawyer with the Washington and Jerusalem firm of Feith and Zell, and Richard Perle, who until last year was the chairman of the Defense Policy Board, an advisory committee for Defense Secretary Rumsfeld

In the section on Iraq, and the necessity of removing Saddam Hussein, there was telltale "intelligence" from Chalabi and his old Jordanian Hashemite patron, Prince Hassan: "The predominantly Shi'a population of southern Lebanon has been tied for centuries to the Shi'a leadership in Najaf, Iraq, rather than Iran. Were the Hashemites

to control Iraq, they could use their influence over Najaf to help Israel wean the south Lebanese Shi'a away from Hizbollah, Iran, and Syria. Shi'a retain strong ties to the Hashemites." Of course the Shia with "strong ties to the Hashemites" was the family of Ahmed Chalabi. Perle, Feith and other contributors to the "Clean Break" seemed not to recall the 15-year fatwa the clerics of Najaf proclaimed against the Iraqi Hashemites. Or the still more glaring fact, pointed out by Rashid Khalidi in his new book "Resurrecting Empire," that Shiites are loyal only to descendants of the prophet Muhammad's son-in-law, Ali, and reject all other lineages, including the Hashemites. As Khalidi caustically notes, "Perle and his colleagues were here proposing the complete restructuring of a region whose history and religion their suggestions reveal they know hardly anything about." In short, the Iraqi component of the neocons "new strategy" was based on an ignorant fantasy of prospective Shia support for ties with Israel.

For Ahmed Chalabi, the neoconservatives' support was the key to getting Washington on his side. And Chalabi's leadership, in turn, was key to the neocons' support for the INC. Perle and Feith, along with future Bush administration officials Paul Wolfowitz and Donald Rumsfeld, signed the February 1998 "open letter" to President Clinton, in which they listed nine policy steps that were in the "vital national interest" of the United States. The first of these was "Recognize a provisional government of Iraq based on the principles and leaders of the Iraqi National Congress (INC) that is representative of all the peoples of Iraq." In October 1998, under intense lobbying pressure from the neocons, Congress passed, and President Clinton signed, the "Iraqi Liberation Act," which provided money and U.S. legitimacy for Chalabi's INC, along with six other exile groups.

However, while Chalabi had proven himself as a lobbyist, if not a guerrilla leader, he had a continuous uphill battle with U.S. intelligence agencies, diplomats and the military, who never liked the INC's loose ways with the facts and taxpayer money. This meant that Chalabi had to constantly reinforce his countervailing support from the neoconservatives—at least until they took power in the Bush administration in 2001, and squashed all dissonant internal voices on Chalabi. That's when Chalabi and his allies stepped up their planning for an American overthrow of Saddam Hussein. Behind the scenes, Chalabi was also detailing for the neoconservatives and their Israeli allies in the Likud party how the INC would take care of Israel.

One of the key promises he made concerned the revival of the Iraq-Israel oil pipeline. The pipeline from the oilfields of Kirkuk and Mosul to Haifa had been built by the British in the late 1920s, and was one of the main targets of the Palestinian Arab revolt in 1936-38. The 8-inch line was finally cut after Israel's independence in 1948. The sections in Arab territory have mostly rusted away or been carted off for scrap. The Israeli section is used as an irrigation pipe. The fully surveyed right of way, though, remains. It could handle a modern, 42-inch pipe, sufficient to supply the Haifa refinery.

With Chalabi's encouragement, the Israeli Ministry of National Infrastructure, which is responsible for oil pipelines, dusted off and updated plans for a new pipeline from Iraq. "The pipeline would be a dream," says Joseph Paritzky, the minister of national infrastructures. "We'd have an additional source of supply, and could even export some of the crude through Haifa. If we could build it, a pipeline would give us stable transport prices. Compare that to tankers; this year their price has almost tripled. We could also avoid problems such as strikes in our ports, which I've had to deal with. But we'd need a treaty with Iraq, and a treaty with Jordan to build the pipeline."

With Chalabi in power in Iraq, either in front or behind the scenes, L. Marc Zell confirms, the neocons were told there would be such a treaty with Iraq. "He promised that. He promised a lot of things."

Just after the U.S. takeover of Iraq, but before the establishment of the Governing Council of which Chalabi would be finance chair, Paritzky was lobbied by INC representatives in a meeting at the Dead Sea Marriott Hotel resort in Jordan. "We had a chitchat

about it with the Iraqis, and with the Jordanians. But we couldn't go to the market and raise funds based on chitchat. We would have needed more to go on." Nevertheless, shortly afterward, on April 9, 2003, Paritzky announced a new technical appraisal of the pipeline.

The neocons in the Defense Department, such as Undersecretary of Defense for Policy Douglas Feith, were more optimistic about the pipeline project than Paritzky, who knew too much about the Middle East to be easily enthused by Chalabi's promises. The DOD neocons sent a telegram directly to the Israeli Foreign Ministry, violating protocol in bypassing the State Department, expressing interest and support for the pipeline project. The State Department had been told by the Jordanians that there would be no pipeline unless the Israelis reached a settlement with the Palestinians. The neocons didn't want to hear that. "If the government agreed to a pipeline without a Palestinian settlement," says a Jordanian official, "the monarchy would fall."

In the meantime, having used the neocons to get himself on the Governing Council, Chalabi appointed friends and relatives to key positions in the government. His nephew Salem (Sam) Chalabi, a lawyer, did much of the drafting of the interim constitution. Another nephew, Ali Allawi, was made minister of trade, with responsibility over foreign trade and investment in Iraq (he was later also named defense minister). Other Chalabi nominees went into the Central Bank, the Finance Ministry and the Oil Ministry.

But Chalabi had his eye on the bigger picture. The wealthy exile had visited Tehran before the war, in August 2002 and January 2003. On those trips he met with senior Iranian officials, and with Mohammed Bakr Al-Hakim, the leader of the Supreme Council for the Islamic Revolution in Iraq, the main Shia opposition group. The neoconservatives chose to overlook these visits to a member of the "Axis of Evil." It could be argued that there was no other way to liaise with Iraqi Shia leaders.

Then in December 2003, Chalabi went to Tehran to meet with Hasan Rohani, the head of Iran's Supreme National Security Council. At that meeting, Chalabi said, "The role of the Islamic Republic of Iran in supporting and guiding the opposition in their struggles against Saddam's regime in the past, and its assistance toward the establishment of security and stability in Iraq at present, are regarded highly by the people of Iraq."

U.S. intelligence agencies, along with leading neocons, began to look again at just who Chalabi's real friends might be, especially since Iranian intelligence agents from his old friends at Vevak were known to be active in Iraq. Also, the Israelis began to notice that Chalabi's old promises had been forgotten.

"I just got the bid papers for a \$145 million highway project that were put out by the Iraqis, and they had the Israeli boycott language in them," an Israeli in Baghdad told me in March. "Chalabi promised the boycott would be over."

Ali Allawi, the Chalabi nephew in charge of the Ministry of Trade, and now also the minister of defense, calls trade with Israel "a non-starter. We aren't plugged into that network, and as far as I'm concerned they sell things we don't need. As for the boycott. I don't care. What's the matter with it? The U.S. boycotts Cuba, and nobody says anything about it.

"Our future is more to the east, with Iran, and to the south, with the Gulf states. Iran has natural geographic ties to Iraq. I'm not interested in what those neoconservatives at the (Coalition Provisional Authority) have to say about Iran. We don't have sufficient port capacity, for example. We should use the Iranian ports and roads. Iraq should have fundamental economic and trade relations with Iran, and Turkey, as long as they reciprocate, and I think they will." He dismissed the Mosul-Haifa pipeline with a wave of his hand.

Nabil Al Moussa, the deputy minister of planning for the Oil Ministry, confirmed Allawi's position. Asked whether the ministry had any plans for rebuilding the pipeline

to Israel, his previous professional courtesy went out the window. “Absolutely not, and never! Don’t ever ask us if we will sell oil to Israel, because we never will!”

Told of Allawi’s and Al Moussa’s reaction, Joseph Paritzky was philosophical, and a little contemptuous of his would-be neocon benefactors. “How naive can these Americans be? What, they thought they had a deal? Didn’t they notice they were in the Middle East?” A neocon’s reaction to Paritzky was characteristic: “He’s a populist asshole who should have kept his mouth shut.” But Paritzky obviously understood Middle Eastern politics far better than the neocons.

While the neocons felt they could ignore negative reports on Chalabi from the CIA, the State Department and other bureaucratic enemies, they have a harder time dismissing what comrades like Marc Zell have to say. Nevertheless, for the time being, many are sticking to the Bush strategy of staying on message and never admitting to mistakes. For example, last week, Michael Ledeen, a leading neocon at the American Enterprise Institute, complained in the National Review Online about “the cascade of anti-Chalabi leaks from his many mortal enemies at the Department of State and the Central Intelligence Agency.” Changing the message is painful. As one neocon says: “The worst part of all this [Chalabi’s betrayal] is that it will be embarrassing to my friends in the Pentagon.”

Defense minister Allawi doubts that the neocons will be able to prevail in their plan to replace Shia dominance in the new Iraq with the Sunni-Kurdish coalition. “This is the last stand of the neocons, I think. The U.S. does have a new policy, which is to find a way to leave. That plan isn’t the way to do it. I hear Condi Rice’s office opposes the idea, and so does Ambassador Negroponte.”

“We really don’t have any choice,” says a former intelligence officer and West Pointer in Iraq. “We have to make a deal, though we probably don’t have to deal with Iran directly. We can make it through the Shia clergy in Iraq.”

Allawi dismisses Feith and the neocons and what he calls “their grandiose schemes,” but adds, “The neocons still have some influence, partly because they have good ties with the Kurds. And Sharon is still the 840-pound gorilla for U.S. policy.”

Clearly the neocons are now in the process of retreating and regrouping. The consensus they’d forged among themselves on Iraq policy has dissolved. The massive plans for the democratization of the Middle East are heading for the recycling bin. Meanwhile, Chalabi’s hopes for playing a leadership role in Iraq appear to be gone, although the crafty businessman’s ability to resurrect himself from the dead should not be underestimated. It should also be noted that Chalabi family members continue to wield power in Iraq, and will likely continue to. For example, defense minister Allawi insists that he is not “in my uncle’s entourage. Instead I travel alongside him.” The remark can be interpreted to mean that he doesn’t take orders from his uncle, and yet they are still close. Allawi has had a rather more conventional business career than that of his uncle, which has helped his political position in Iraq. While an early investor in Petra Bank, he soon parted company with his uncle and the other partners. He went on to become a successful and respectable portfolio manager in London before returning to Iraq last year.

In the end, despite the neocons’ best hopes, Iran has emerged as crucial to the administration’s desire for a political settlement in Iraq. Governments in the neighboring countries have taken notice of the neocons’ big blunder. “The Iranians have proven to be absolutely brilliant in all of this,” says a well-connected Jordanian. “They’re showing that they’re going to be the ones to win this one, and they’ll do it with American money and lives.”

For his part, Allawi praises what he sees as the U.S. military’s new realism about the need for what he calls “a cold peace” with Iran. “There is no way to have stability in Iraq without Iran,” he insists. “The U.S. military has been very correct in its contact with Iran at the border, and has never violated the unwritten agreement.”

The neocons' Iraq triumph of last year has turned to ashes. Their Likud allies in Israel are bitterly split over Prime Minister Ariel Sharon's plans for the settlements in the territories. They have a coldly hostile Iraqi government coming in the near future. The clerical regime they loathe in Iran has dramatically improved its strategic position. Some of them must be rueing the day they met Ahmed Chalabi, who told them the fairy tales they wanted to hear.

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