



Germany and Yugoslavia: key transit points for arms to Iran.
The map shows one typical shipping route from Europe to Iran: The explosives, in this case 414 tons of gun powder from the Dutch company Muiden Chemic, are loaded on board the MS Bentota in the North German port of Nordenham, and shipped to Iran via the Belgrade, Yugoslavia company Federal Directorate of Supply and Procurement (FDSP).

*Translation of terms left to right:
 AFFAREN FDSP = THE YUGOSLAV FDSP
 AFFAIR MS BENTOTA Loads 414 tons of gun powder from Muiden Chemic, Netherlands*

Exchange of shipping documents

Dec. 28, 1984
 MS Bentota is passing the Suez

The Yugoslav deal and Karl-Erik Schmitz

by Göran Haglund

In parallel to the Tirrena contract with the European explosives cartel, the Iranians were buying masses of gunpowder from another supplier: South Africa. The deal was organized by a Swedish businessman, Karl-Erik Schmitz, who runs a trading company in Malmö, named Scandinavian Commodity AB. For at least a year, Schmitz had organized trade deals between Swedish companies and Iran, when in 1983 he received Iranian orders of about 4,700 tons of gunpowder. Schmitz placed those orders with South Africa.

But in September 1984, after some 3,000 tons had been delivered, the South Africans announced that they were unable to carry out more deliveries. Schmitz had to find another supplier for the remaining portion. The problem was that

while most Western European countries produce gunpowder, none would officially accept Iran as a buyer.

Here Schmitz and the "Gunpowder Club" met in common interest: The former had to find large amounts of gunpowder on behalf of Iran; the latter was already producing it, but had to find a new transfer country, through which deliveries could be channeled to Iran, after the Italian Tirrena deal had collapsed. In the fall of 1984, Schmitz received the ambitious Bofors marketing director, Mats Lundberg, in his Malmö Scandinavian Commodity office to discuss the matter.

Yugoslavia was to become the new transfer country, and Schmitz and Lundberg traveled together to Yugoslavia to work out the following deal: Schmitz placed his Iranian orders with Yugoslavia, which could deliver a small amount of domestically produced gunpowder. Then, Yugoslavia placed an order with Bofors for the remaining, bulk portion to be delivered to Iran. This order was then split by Bofors and other members of the "Gunpowder Club."

But new financial arrangements were necessary. As the South Africans discontinued their gunpowder deliveries to Iran, the flow of payments was going from the Iranians through their bank in London, Bank Melli, to South Africa, via their Luxembourg bank account. As the deliveries were taken over

by the European cartel, and transferred through Yugoslavia, another Western European bank was required to deal with Bank Melli in London.

Here Schmitz was assisted by an old friend of his, Erik Penser. One of the wealthiest Swedes, resident in England, Penser is on the board of directors of Bofors and happens to be the majority shareholder of the same company. Schmitz asked Penser for help to find a bank willing to deal with Bank Melli, and Penser said, according to Schmitz, that he would call Arbuthnot Latham Bank, Ltd., in London and tell them that "we know each other and that they should take care of you . . . what's interesting to Bofors is of course interesting to me, and therefore I am willing to do this introduction."

Both Schmitz and Lundberg had previously failed to establish a bank connection in London willing to carry out their deals with Iran; both Scandinavian Bank and Lloyds refused, saying they don't do that kind of business. Thanks to Penser's introduction, Schmitz and Lundberg were able to jointly visit Arbuthnot Latham Bank in London twice during March 1985, to work out the details, and Schmitz later began dealing with Arbuthnot Latham independently of Bofors. Showing his gratitude, Schmitz on April 15, 1985 wrote in a letter to Penser:

"I come back to our discussion in Malmö and as agreed I want to inform you of the result of my contact with Arbuthnot. It took a while before a meeting could occur and in the meantime we have had discussions with a couple of other banks. The result, however, was meager, and without prior references it is difficult to initiate transactions of the magnitude we deal with here.

"I have met representatives from Arbuthnot, and given the introduction we got through your help, it was easy to reach concrete results. . . . This week we will have another meeting and the bank agrees to the proposals we made. Participants in this meeting will be the financial director in Karlskoga [the site of Bofors] and Mats Lundberg from the explosives sector."

Schmitz also attacked another company of the Bofors group, Nitro Nobel, which refused to cooperate with the explosives sector and himself in a deal with Iran: "It may take a while to get the organization to think of what's best for the [Bofors] group, but one does get surprised, when deals with significant profits for the company do not interest Nitro the slightest. These distortions, however, you will maybe get straightened out in the future."

On June 13, 1985, two setbacks were registered by Schmitz and Lundberg. First, the customs service seized 50 tons of gunpowder returned to Bofors from Tirrena, after the Italian government had begun refusing export licenses for Iran. Second, the Swedish government's War Matériel Inspectorate (KMI), after being warned by the customs authorities, refused to grant Bofors four new export licenses for Pakistan, concerning a total of over 500 tons of explosives, at a value of over Skr 41 million.

00102	00104
329336	003314
END USER CERTIFICATE	END USER CERTIFICATE
TO WHOM IT MAY CONCERN	TO WHOM IT MAY CONCERN
CONTRACT N° [REDACTED]	CONTRACT N° [REDACTED]
DATED [REDACTED]	DATED [REDACTED]
THIS IS TO CERTIFY THAT THE FOLLOWING MATERIALS PURCHASED FROM [REDACTED] UNDER THE ABOVE CONTRACT ARE FOR OUR OWN USE AND WILL NOT BE REEXPORTED.	THIS IS TO CERTIFY THAT THE FOLLOWING MATERIALS PURCHASED FROM [REDACTED] UNDER THE ABOVE CONTRACT ARE FOR OUR OWN USE AND WILL NOT BE REEXPORTED.
250 000 KG FEIN MSP 46 (MSTARSDT 93/7)	
<i>Asghar Hussain</i>	<i>Asghar Hussain</i>
<i>Michael Ramzan</i>	<i>Michael Ramzan</i>

"Blank check" End User Certificates.

Although Bofors, to the application for export licenses filed in January with the KMI, had appended End User Certificates signed by a Pakistani official and stamped by the alleged buyer, Pakistan Ordnance Factories, the real buyer was Scandinavian Commodity on behalf of Iran. The evidence was accumulating for a raid on Schmitz's Malmö office, which finally occurred on Sept. 19, 1985.

Among the loads of documents seized by the customs service, there were the identical kinds of Pakistani End User Certificates to those filed by Bofors, although already signed and stamped *in blanco* by the same Pakistani official and alleged buyer! All Schmitz or Bofors had to do was to fill in the contract number, date, company name, and product.

According to a customs list of those transfer deals where Bofors employees are indicted for smuggling, the total value of the illegal Bofors deals is Skr 161,324,030, accumulated in 120 instances of smuggling of arms and explosives filling 192 railroad cars and 4 ships—counting only those deals between 1981 and 1985 which were already carried through before the customs raids disrupted further deliveries, which had been ordered but were now canceled.

While the screws were tightening on Bofors, and to a lesser degree on Schmitz, Scandinavian Commodity and its Swiss sister company Serfina SA continued their trade with Iran. Maybe more than from the Swedish authorities, Schmitz was coming under pressure from his impatient employers in Iran. The following telex, seized in the Malmö raid, was sent by Schmitz to the NDIO, the Iranian arms procurement agency, on Aug. 19, 1985, regarding the shipments to Iran via Yugoslavia:

"In reference to our previous telex we would like to inform you that we are now violating all existing laws and regulations to make it possible to deliver the goods to your organization. We explained to you the various problems caused by the authorities and most of the goods has been stored for you at great difficulty. The remaining quantities, however, will be shipped on our August ship. We are sorry for this delay, but please understand our problems and please recognize what we are doing to deliver the goods to your organization."