



# PERSPECTIVES

THE BEGIN-SADAT CENTER FOR STRATEGIC STUDIES

## Iran's Deceptive Commercial Practices

*Emanuele Ottolenghi*

**Perspectives Papers No. 41, April 15, 2008**

<http://www.biu.ac.il/SOC/besa/perspectives41.html>

*Executive Summary: Sanctions against Iran focus on nuclear and ballistic missile technology, drawing a distinction between legitimate and illegitimate trade. But a closer look at Iran's commercial practices proves that Iran is systematically abusing its access to Western technology. Technology it is acquiring for civilian projects or for legitimate policing activities is being diverted in order to bolster Iran's Revolutionary Guard Corps and its overwhelming economic role in Iran; and also for the development of Iran's clandestine nuclear activities. In short, Western technology sold to Iran is being utilized in ways that Iran's Western suppliers have never dreamed of, even in their worst nightmares. The current reality is that for a healthy profit and without moral compunctions, Western companies are legally selling Iran tools to repress its own citizens, to bully its neighbors, and to destabilize the entire region.*

### **Iran's Human Rights Violations**

In the seven weeks since the UN called for an international moratorium of executions, in late December 2007, Iran hung more than 60 people, frequently in public. Recent pictures, which the Iranian regime has now ordered off the internet to avoid international embarrassment, show convicts hanging from cranes made by such Japanese companies as TADANO, KATO, and UNIC. Many European companies sell similar equipment to Iran. Nor do they necessarily sell these products knowing Iran will turn construction equipment into death machines. Accusing them of complicity is like accusing, say, Volkswagen, of complicity with bank robbers if they happen to drive a VW Golf while escaping the scene of the crime.

Of course, there is nothing illegal about selling cranes and thousands of other products to Iran. But when it comes to Iran, Western companies should know better: they are dealing with masters of deception. Iran has been executing tens of thousands of people, since its

1979 Islamic Revolution, by using cranes. Deal with Tehran and sooner or later your company's logo will experience an embarrassing moment of exposure.

### **Iran's Systematic Diversion of Technology**

Even if deals do not violate either UN sanctions or export controls over dual use technology, Iran is sure to divert perfectly legitimate products for sinister purposes. Legally, there is no complicity with Iran's behavior. But the legality of such transactions only highlights the inefficacy of the current sanctions' regime against Iran and the consequent lightness of the moral burden affecting western companies and their economic self-interest.

Examples abound. Wirth – a German producer of tunnel boring machinery – proudly boasts on its website that "When Barcelona receives a new metro system, a bridge is built over the Orinoco in Venezuela or a new water supply system is created in the Iranian mountains of Isfahan, Wirth machines are used." Indeed they are. The problem is that one of Wirth's project clients in Iran is Sahel Consulting Engineers – a company owned by the Iranian Revolutionary Guard Corps (IRGC). Wirth has so far declined to comment on the matter. BAFA, the German export controls' agency, has confirmed that the machines sold to Sahel are not subject to embargo – a perfectly transparent deal, with all the seals of approval, to be used in a harmless civilian project.

Seli – an Italian company in the same line of business – also provided machinery and technicians for the previous phase of the same tunnel project – which was done through a consortium of which Wirth was a partner. The deal, worth 8.5 million Euro, was completed in 2005. The client was Ghaem, another IRGC subsidiary. The deal was similarly not subject to any restrictions or embargoes. Seli is involved in other important projects in Iran.

Another, much bigger contract is the Kerman Water Tunnel Project, a five-year deal worth 134.6 million Euro signed in 2004 with the active involvement, again, of Sahel Consulting Engineers. Italian and German tunneling equipment was thus sold to the IRGC and made available, once the water tunnel was completed, for other projects the IRGC may wish to undertake. Intelligence reports have repeatedly suggested that much of Iran's clandestine nuclear program is being built deep underground, in bunkers that are accessible through tunnels – tunnels which only technology such as the one provided by Wirth and Seli can build. What guarantee did Western governments have that Wirth and Seli's IRGC clients would not later use their machinery to advance Iran's military ambitions?

### **Legitimate Business Projects – Illegitimate Business Partners**

In other cases, European companies sell advanced technology to IRGC companies for huge infrastructure projects in a no-bid context: Austrian Andritz VA Tech Hydro, Finnish Pojry, and German KTI-Plersch are all involved in different technical aspects of dam building in Iran – and all list IRGC companies as their clients. Not all deals involve

dual use technology – but by dealing with the IRGC, European companies help them flourish economically. Such examples are not confined to the civilian sector. IRGC units carrying RPG launchers for hit-and-run action routinely ride Japanese Honda and Austrian KTM motorbikes; Iran's military employs Italian-made IVECO trucks as missile launchers; the IRGC uses Mercedes trucks for its transports and mounts machine guns on Toyota Land Cruisers. Not the best flattery, for Western products.

### **Selling Weapons to Iran – At Our Own Peril**

Even when military equipment is supplied to Iran under tight controls, things go wrong. In 2003, Great Britain and Italy supplied night-imaging equipment to Iran's anti-drug units to fight drug smugglers in Iran's eastern provinces, under a United Nations Drug Control Office approved scheme. Israeli troops later found similar equipment inside Hizballah's headquarters in south Lebanon.

In 2005, Austria's arms manufacturer, Steyr-Mannlicher sold Iran 800 .50 caliber sniper rifles to be used by Iran's police drug fighting units in their war against drug smugglers. At the time, the US protested the deal and put sanctions on Steyr-Mannlicher – but the Austrian Minister of Defense called the deal "unimpeachable" and confirmed it. When 108 such guns were found in insurgents' safe houses in Baghdad by American troops, a small media storm ensued, but the Austrians – both company and diplomats – successfully challenged the initial media reports demanding evidence that those were the same weapons.

What eventually transpired was that the media were wrong – the weapons were perfect copies, made in Iran and China. Soon after the delivery, Iran's defense industries engaged in reverse engineering for the sniper rifles and quickly managed to produce its own version – which the IRGC is now busy distributing to insurgents across the Middle East. Once more, Western technology, sold under license and for ostensibly legitimate purposes, abetted Iran's sinister activities, given Iran's systematically fraudulent behavior.

### **"I Sold Boats, Not Weapons!"**

The same happened with the IRGC speedboats involved in the recent naval incident in the Straits of Hormuz – according to diplomatic sources the boats are made in Iran, but frame and design come from Italy's FB Design, a famous producer of racing boats that sold Iran its patrol boat "Levriero" along with frames and blueprints under a now revoked government license. The owner recently protested his innocence in an interview: "I sold boats, not weapons!"

With Iran, unfortunately, there is no such distinction. European and other Western companies sell Iran a variety of sophisticated technological tools which apparently fulfill harmless but profitable deals outside the purview of the UN sanctions' regime. Soon after the merchandise reaches Iran, the regime systematically diverts it from legitimate activities to illegitimate ones. A recent Financial Action Task Force statement encourages

its financial institutions to apply "enhanced due diligence" in dealing with Iran, due to its deceptive financial practices. This is because Western credit lines, which may well finance apparently legitimate operations, in fact involve money laundering and the financing of terrorism and Iran's ballistic and nuclear programs.

What the above examples prove is that the principle of enhanced due diligence must now be expanded by Europeans to apply to all trade with Iran. This is true even when Iranian interlocutors appear innocuous and well intentioned, and even when legally speaking there are no impediments to exporting certain products to Iran. The current reality is that for a healthy profit and without moral compunctions, Western companies are legally selling Iran tools to repress its own citizens, to bully its neighbors, and to destabilize the entire region.

*Dr. Emanuele Ottolenghi is the Director of the Transatlantic Institute, a Brussels-based think tank ([www.transatlanticinstitute.org](http://www.transatlanticinstitute.org)). This article is based on Dr. Ottolenghi's lecture at BESA as part of the Annual Leonard Wolinsky Lecture series.*

**BESA Perspectives is published through the generosity  
of the Littauer Foundation.**