The European 'Irangate' cartel of Karl-Erik Schmitz

by William Engdahl

A sensational series of revelations which has filtered into leading Western European press outlets in recent months has exposed a vast European network that has been smuggling arms to Iran in conjunction with Oliver North's U.S. network. The original source of the European exposés was Sweden.

On Sept. 28, 1984, answering a call for assistance from the West German Customs Police, the Swedish Customs Service went to the Swedish company AB Bofors Nobelkrut. There, they inspected certain export documents regarding railroad cars carrying 80 tons of Pentyl explosives. The cars had arrived in Passau, Bavaria that March.

German police immediately became suspicious. According to the customs papers, the shipment was destined by rail to end-user Armaturen GmbH in Schwanenstadt, Austria, a few hundred kilometers across the Alps. The Swedish investigation confirmed that the shipment originated at Bofors, Karlskoga, Sweden, per a Telex order dated Nov. 29, 1983, by Armaturen, stipulating that the goods be specially prepared for sea transport. Obviously, that would not be necessary for land transport to Austria.

On Feb. 2, 1984, Bofors received an Export License from the Swedish Government's War Matériel Inspectorate of the Trade Department of the Swedish Foreign Ministry, then headed by Rear Adm. Carl Algernon.

On the basis of the Bofors inquiry, customs officials discovered documents indicating that the shipment had been given new freight documents by freight expediter Spedition Doubek of Passau, was then resent to the shipper Elbclearing in Stade/Elbe near Hamburg, and then reloaded on March 28, 1984 in Stade on board the MS Anneliese Oltmann. A second shipment was loaded on April 29, 1984 on board MS Nikiforos. Both shipments were destined for the Établissements industries de défense, in Damascus, Syria.

Armaturen GmbH had directed the illegal diversion by way of another company, Firma Panalpina of Hamburg and Linz, Austria. Using this preliminary discovery, the Swedish Customs Service obtained a warrant from County Prosecutor Stig L. Age, in Örebro, Sweden for a March 20, 1984 raid on AB Bofors
Nobelkrut. In that raid, customs officials found Iranian government purchase orders and a report of a Sept. 5, 1983 visit by company personnel to the Iranian defense ministry's in Teheran.

A second sweeping search of Bofors was authorized by Age on April 17, 1985. A large number of documents covering 1980-85 were found. On June 13, 1985, Customs Police seized 50 tons of gunpowder from Bofors destined for Iran via the Italian firm Tirrena Industriale SPA. That seizure led police to raid the Malmö, Sweden offices of Swedish company Scandinavian Commodity AB. This order, dated Aug. 11, 1983, includes 3,000 tons of gunpowder for over $26 million, which was divided among the member companies of the European explosives cartel.

This facsimile, together with the charts and maps used with this article, is reproduced from the Swedish Customs Service investigation, and translated into English, with explanatory captions added by EIR.

Most of Europe

The Swedish Customs Service also found in the raid on Schmitz's Malmö Scandinavian Commodity AB, extensive information relating to Schmitz's dealings with firms in Finland, Norway, the Netherlands, West Germany, Belgium, Austria, France, and Italy. To those countries, under standing mutual cooperation agreements, Swedish officials forwarded all relevant copies for prosecution.

Subsequent official prosecution has been launched in Belgium, Holland, Finland, Norway, and Italy. Until now, despite a legal action in Bremerhaven, West Germany by a group called Stop Arms Exports, which sued the German Dynamit Nobel in January 1987, the West German Foreign Ministry of Hans Dietrich Genscher is reportedly blocking official progress in that case. Nonetheless, despite possession of the relevant seized documents for well over 1½ years, Austrian and French authorities have yet to launch official prosecution.

Under Swedish law, once prosecution is initiated, prosecution documents are available to the press and public. On May 26, 1987, County Prosecutor Age issued indictments against eight Bofors employees and Karl-Erik Schmitz for violation of Swedish law. Trial in the criminal case is scheduled for Jan. 18, 1988. As a result of the indictment, EIR has been able to obtain copies of the original documents held by the Swedish Customs Service in their part of what has been dubbed the "European Explosives Cartel." The case of the obscure Swedish businessman Schmitz is central to unraveling this web of Western arms merchants to Ayatollah Khomeini's Iran.

The strange web of Mr. Schmitz

According to Swedish investigators, the then-
Malmö export-import trader, Schmitz, presented himself to Swedish business circles in 1982 claiming he had an agreement from the Iranian state oil company, NIOC, to sell Iranian oil. Businessmen reportedly regarded it as strange that such an unknown small businessman should be authorized to sell Iran’s oil. This was not the only strange aspect of Schmitz’s meteoric career over the past five years.

Largely because, to date, all major European “Irangate” investigations have been an outgrowth of the Swedish Customs Service raids on Bofors and Schmitz’s offices, revelations have portrayed Schmitz as the most important world “merchant of death” since perhaps Basil Zakharoff in the 1920s. While there is reason to suspect that Schmitz is presently being used as the “fall-guy” for far more important interests, the threads which have begun to unravel around his case are extremely revealing.

Following the September 1985 raid on his office, Schmitz was forbidden to travel outside of Sweden, managed to have the travel ban overturned two days later. According to reliable Swiss reports, as of October 1987, Schmitz was more active than ever, operating out of the haven of Switzerland, with its bank secrecy and laws under which exports to Iran are not forbidden, as they are in Sweden and several other European countries.

Schmitz ran the Iran side of his operations in concert with an Iranian national, Makhmoud Kaikhosrovi. They shared a front company, with an office in Fribourg, Switzerland, a well-known haven for “shell” companies. Richard Secord and Albert Hakim, of U.S. “Irangate” notoriety, maintained a number of such “briefcase” firms in Fribourg at the same time. Schmitz’s Fribourg firm, Scancom, listed Kaikhosrovi as a representative. Kaikhosrovi’s own Fribourg firm, INCOTRA, lists its head office in Isfahan, Iran. Schmitz frequently used this as his office when in Iran on business.

By his own admission, Karl-Erik Schmitz is also tied to Israeli Mossad interests, a significant controlling part of the

Victims of the Iranian arms procurement plan

“Olof Palme was murdered because he knew about, and wanted to investigate, Sweden’s weapons and gunpowder deals with Iran. That I’ve got from two reliable sources,” Iran’s former President Abolhassan Banisadr told the Swedish Social Democratic daily Aftonbladet, in an interview published Nov. 3. According to Banisadr, one of the sources is Iranian, and “very reliable.” The other source is European, and has the same exact story as the Iranian source. “Both say Palme was killed as a direct result of his knowledge about the arms deals between Sweden and Iran,” Banisadr said.

The same track was picked up by the Italian daily La Stampa on Nov. 6, connecting the murder of Palme to those of French General Audran and Italian General Giorgieri, because they had been informed of illegal arms sales to Iran. “If this track is confirmed,” La Stampa wrote, “a new chapter will be opened in the French Irangate, linked, as Banisadr said, to the assassination of Swedish Premier Olof Palme, since Sweden too is involved in the clandestine military supplies to Iran. And maybe to the assassination of General Licio Giorgieri [March 21, 1987 in Rome], who had close working relations with Audran...”

The Iranian determination to secure adequate supplies of arms and ammunition for the war against Iraq, undoubtedly has left a bloody trail of murders and suspicious deaths by “heart attack,” or the like. The efforts to cover up these murders are matched only by those to cover up the arms trade itself. The 10 cases listed below, while not necessarily complete, indicate the kind of “business” methods favored by Teheran.

- Engineer General René Audran, shot dead by terrorist killers on January 26, 1985. The attempt was claimed by the Direct Action terrorist group, known to execute murder contracts for Islamic fundamentalist causes. Audran was engineer of armaments and head of the international department at the French defense ministry. The just released “Barba Report” on the Luchaire-Iran arms deals asserts that Audran was knowledgeable about this arms traffic; some sources say he opposed it.
- Ambassador Herbert Amry, died of a “heart attack” in July 1985. Amry was Austria’s ambassador to Greece, and realized that cannons allegedly sold to Greece by Austria’s state arms industry, Voest-Alpina, never arrived in Greece. The cannons in fact were sold to Iran. After Amry exposed the fact in the spring of 1985, a commission of inquiry was set up in Vienna, but the ambassador never made it back to testify. He had no previous record of heart troubles, yet his body was quickly cremated, without an autopsy.
- Prime Minister Olof Palme, shot by a killer on Feb. 28, 1986. While the murder was covered up by a disinformation campaign, newspapers and other sources in several countries have pointed to Palme’s involvement in arms deals with Iran, including those of the Bofors company, as the only credible explanation. The official U.N. mediator in the Iran-Iraq war, Palme, although known
vast Iran weapons concession. Schmitz’s “Israeli connection” is run through the Brussels, Belgium firm, Distraco SA, listed as a “chemicals export-import” firm in the Belgian commercial directory. The two directors of Distraco are Alexandre Gourary and an Israeli national named Moshe Na­von.

Ollie North connection

Schmitz was also linked, apparently quite closely, with the entire illegal U.S. “Irangate” parallel government apparatus of Col. Oliver North. According to new revelations in the Swedish press of Nov. 8, Schmitz used airplanes hired from St. Lucia Airways, based in the West Indies, to smuggle illegal arms shipments to Iran. At least two instances of such shipments in 1985 via St. Lucia Airways on charter to Schmitz’s front company, Cekado AB, have come to light in Sweden. On July 24, 1985, Schmitz loaded one Boeing 707, at Lesquin Airport outside Lille in northern France, with gunpowder for Iran from Bofors/Nobel of Sweden. On Aug. 14, 1985, Schmitz again used a St. Lucia Airways charter, this time for gunpowder from PRB of Belgium. At least 33.1 tons of illegal war matériel were shipped by Schmitz from Lille via St. Lucia Airways in the two planes. Most came from PRB and the Dutch explosives company, Muiden Chemie.

St. Lucia Airways is formally owned by one Allison Lindo, a lawyer on the island of St. Lucia in the Caribbean. The managing director is a 40-year-old West German named Dietrich Reinhardt. According to the Tower Commission Report on “Irangate,” St. Lucia Airways is a CIA front company, and played an important role in facilitating the arms shipments of North, Secord, et al.

Other still unconfirmed reports are that Schmitz maintained a bank account someplace in the United States during this period. Kaikhosrovi reportedly fled to the U.S.A. following the Swedish revelations in 1985-86.

to be sympathetic toward Khomeini, reportedly moved to block arms shipments from Sweden to Iran during the last weeks of his life.

■ Cyrus Hashemi, assassinated through induced leukemia while on business in London in July 1986. An Iranian arms dealer working first for the Shah and then for Khomeini, Hashemi, beginning in December 1979, was employed as a mediator between Carter and Khomeini, and became the key arms middleman between the U.S. and Iran, working with the arms-running ring of Israeli General Bar-Am.

■ Rear Admiral Carl Algernon, “fell” before a Stockholm subway train on Jan. 15, 1987. The War Materiel Inspector of the Trade Department of the Swedish Foreign Ministry, Algernon was in charge of clearing all arms exports, which are in principle banned under Swedish law, unless a specific permission, or export license, is granted by his office. A few days after his death, Algernon was to have been interrogated regarding illegal Bofors arms shipments to Iran.

■ Heribert Apfalter, died of a “heart attack” on Aug. 26, 1987. In August, the Vienna commission of inquiry regarding the Voest-Alpina cannon exports to Iran had called for testimony from Apfalter, who was the general director of the state company during the period under investigation. Hours after reportedly meeting with an informant, who might have provided him with exculpatory evidence, and a few days before his scheduled testimony, Apfalter suddenly died.

■ Uwe Barschel, found dead in the bathtub of his hotel room on Oct. 11, 1987. After surviving a suspicious May plane crash, the state governor of Schleswig-Holstein was targeted for dirty tricks by the weeklies Stern and Spiegel, and dumped by his own Christian Democratic party. After a mysterious visit in the Canary Islands villa of Saudi Arabian arms merchant Adnan Khashoggi, Barschel traveled to Geneva’s Beau Rivage Hotel, a known meeting point for arms deals involving Iran. Reportedly, Barschel met an informer in Geneva, taking detailed notes on the encounter, which were not found by police in his hotel room. The autopsy showed that Barschel’s body had five different kinds of tranquilizers or sleeping pills in it.

■ Rashid al Jarrah, died of a “heart attack” in Lugano, Switzerland, on Oct. 12, 1987. Wanted for interrogation in Italy, the 25-year-old Saudi national was part of an arms-running ring operating between Italy, Yugoslavia, and Lebanon, smuggling large quantities of Kalashnikov rifles under cover of a toy factory owned by his father, Mohammed Najah al Jarrah, who was himself assassinated in August, 1985. Rashid al Jarrah collaborated in Switzerland with Swiss-Hungarian national Peter Je­ney, who is wanted for his role in the Borletti arms-to-Iran scandal that erupted in September.

■ Stefan Rüdell, reported dead by suicide on Oct. 29, 1987, due to depression caused by financial difficulties. Ruedell reportedly had been hired by the Christian Democrats in Schleswig-Holstein as a detective to tail state Social Democratic leader Björn Engholm, as part of the dirty tricks operation that forced Barschel’s resignation.

■ Hans-Joachim Knack, died of a heart attack on Nov. 9, 1987. The undersecretary of the Schleswig-Holstein state interior ministry, Knack, only hours after his death, was scheduled to appear before the state parliament committee investigating the Barschel affair.

Who’s next?
The bank connection
According to details of seized documents obtained by EIR from the Swedish Customs Service, the scale of financial guarantee required for the growing Iran arms traffic run through Schmitz required a major bank credit line. What bank was willing to finance arms traffic with the Iranian government?

In 1985, Schmitz met with Erik Penser, the majority shareholder of Nobel Industries of Sweden, the parent firm for both Bofors and Nobel. Penser is himself shrouded in mystery. He came out of obscure origins in the 1970s, alleged to have made a "fortune" in playing the Swedish stock market. It is more likely that he had good connections. In any case, Penser, in September 1984, completed the purchase of KemaNobel and merged it with his majority holding in the Swedish cannon and arms maker, Bofors, to form Nobel Industries. Penser's empire is run through his wholly owned London-based Yggdrasil. Penser lives in a mansion outside London named Compton House and commutes to Brussels, where he runs Nobel Industries and his other holdings from Nobel Finance of Brussels.

In 1985, according to the Swedish Customs Service records, Penser provided middle-man Schmitz with his "introduction" to a London bank willing to finance his risky Iran traffic. Arbuthnot Latham Bank, Ltd. of London agreed to finance Schmitz's arms traffic. Since 1982, that London bank has been majority owned by Dow Scandia Holdings, Ltd., an affiliate of Dow Chemical of Midland, Michigan. A significant minority share in the bank is held by Nordbanken, a Swedish-owned entity tied to Pehr Gyllenhammar's Volvo.

Very big business
Schmitz's Iran arms traffic expanded enormously up until the time of the raid in September 1985. He is reported to have continued a very active business from Switzerland since that time, but because official records are lacking, we can only document this through the time of the Malmo raid by the Customs Service.

Companies for which Schmitz is the documented representative in Iran include Bofors, Boliden, Leo, and Fermenta all of Sweden; Akzo of Holland; Celanese and PRB of Belgium; Dynamit Nobel and Silberkraft of West Germany. In addition, he had extensive dealings with the so-called European Explosives Cartel, formally known as the European Association to Study Safety Problems in Production and Use of Propellant Powders (EASSP), based in Brussels. Through this explosives cartel, as it has been called, arrangements to divide market share and profits for the immense Iranian explosives purchases of the last several years were worked out. Firms involved and working with Schmitz in this Explosives Cartel include Nobel Industries of Sweden, PRB of Belgium, SNPE of France, Nobel Explosives and ICI of Britain, Muiden Chemie of Holland, Dynamit Nobel of Austria, and Dynamit Nobel of West Germany, at that time a Flick family company.

Official records of the Swedish authorities confirm deals through Schmitz's companies totaling some $200 million as of September 1985. Iran is estimated to be spending more than $1 billion annually to import explosives alone. The Explosives Cartel is estimated to have supplied the lion's share, indicating that Schmitz's traffic could be well into the billions of dollars. In addition, he brokered the construction in Iran of an explosives factory built by Penser's Nobel In-
munitions and war supplies. In addition, Bofors laser-guided RA-70 surface-to-air missiles are said to be included, as well as untold other munitions and war supplies.

One of the most intriguing leads in the Schmitz-Iran investigation is the front firm, Scandinavian Medicin AG, through which it appears that Schmitz laundered at least a portion of the huge money flows from his illegal weapons sales. The member firms of Schmitz's Scandinavian Medicin AG included the scandal-plagued Fermenta, the Swedish chemicals and pharmaceuticals firm associated with Pehr Gyllenhammar of Volvo, Anders Wall of Beijer, and the Egyptian Refaat El Sayed, now under indictment for financial fraud and embezzlement. There is strong evidence that Fermenta, at the time of Gyllenhammar's merger discussions with El Sayed in late 1985, was to be a major part of illegal transactions with Iran involving Meshulam Riklis, New York-based financier of Israeli Industry Minister Ariel Sharon.

The other vital link in the Schmitz web of international weapons traffic is the critical role that Warsaw Pact countries played in knowingly conduiting Schmitz’s illegal shipments on to Iran. Available Swedish Customs Service records in possession of EIR reveal that a significant volume of the Schmitz Iran traffic was run through East Germany via IMES Import-Export of East Berlin, a division of the East German Foreign Trade Ministry. This did not take place without the witting knowledge of East German intelligence or the Soviets, giving a very interesting East bloc connection with the networks of former National Security Council aide, Lt. Col. Oliver North.

Karl-Erik Schmitz’s operation in West Germany

During late 1984, Swedish Customs and police were beginning to look into the role of Karl-Erik Schmitz’s Scandinavian Commodities AB in illegal arms sales to Iran. Coming under investigative pressure, Schmitz did not move out of the arms business, but only shifted part of his operation into Germany. Ample documentation on this affair is provided now, by sources based in London, and part of the story has already made headlines in various German newspapers, like Die Welt and Hamburger Abendblatt.

As proven by the documents, on Oct. 1, 1984, Schmitz informed his contracting partner in Teheran, Colonel M. Ansarian of the National Defense Industries Organization, on the changed situation: “I received your order No. 160143/1 for the delivery of 70,000 detonator units. Unfortunately, you drew the order on our bank in Sweden, which is not possible and can become very dangerous for us.”

Schmitz added: “For your information: We will carry out the order with material from Nobel in Germany now, but the same type of detonator can also be produced at Bofors in Sweden.” The Dynamite Nobel Germany Corporation in Troisdorf, near Bonn, is said to have supplied the material soon after, and upon a very urgent Iranian request, at least a major portion of the 70,000 detonators was brought into Teheran directly by normal Lufthansa air freight from Frankfurt in early December.

This brings up the question of a direct involvement of the government in Bonn, as the German Lufthansa, which is wholly government-owned, was the only Western airline then (and still is), to maintain a regular flight schedule into Teheran.

Apparently, the transfer by Lufthansa was far less risky for Schmitz than the usually-preferred transport by freighter, which is indicated by a telex Schmitz sent Teheran on Dec. 7, 1984, reporting that check-out procedures for the illegal cargo were “a delicate affair with German Customs present,” when the MS Bentota was loaded with gunpowder at the German port of Nordenham, on the mouth of the Weser River. This concerned an illegal cargo of 80 tons of gunpowder for Iran. Schmitz informed the Iranians that “to secure future business, we’ll have to be more cautious from now on.”

As also listed in the documents April 1985, the two German freighters Frauke and Katja, both run by the Paul Heinrich Ltd. in Steinkirchen (on the Elbe River, near Hamburg), transported each some 100 tons of gunpowder for Iran’s artillery. Other shipments of war material went via the Deutsche Seeverkehrs AG Midgard, based at the same port city of Nordenham which is also the base of another branch of Dynamite Nobel Germany Corporation. Also the Fritz Werner Industrieausrüstungen Ltd. (FWAR) in Geisenheim, on the Rhine River near Rüdesheim, is heavily involved in illegal supplies of arms and other war material to Iran.

From the FW AR, business connections reach into France and Belgium, from Dynamit Nobel to Muiden Chemie in the Netherlands. Studying the documents, one gets the impression that Karl-Erik Schmitz built up Germany as the core of an illegal arms-dealing network operating throughout Western Europe. Schmitz’s German operation was a big one, no doubt.

In the financing of these arms deals, the Iranian Bank Melli in Düsseldorf, apparently in cooperation with the bank’s leading branches in Frankfurt and London, was prominently involved. The volume of Karl-Erik Schmitz’s German operation is estimated at between 500 million and 2 billion deutschmarks.