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TRACKING IRAN'S NUCLEAR MONEY TRAIL TO TURKEY

IRANIAN BANK UNDER U.S. AND EU SANCTIONS OPERATES FREELY IN TURKEY, FRUSTRATING WEST

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SPECIAL REPORT

WEST WORRIES THAT TURKEY IS IRAN'S FINANCIAL GATEWAY

As Turkey draws closer to Iran economically, the relationship is sparking concern. By allowing an Iranian bank to operate within its borders, Ankara may even be undermining Western efforts to pressure Iran to halt its nuclear program. So far, the U.S. has been unable to persuade its ally to take a harder line on Tehran.

BY LOUIS CHARBONNEAU
UNITED NATIONS

TURKEY and other U.S. allies have been allowing Iranian banks with suspected links to Tehran's nuclear program to do business within their borders, frustrating Western countries trying to put a financial squeeze on the Islamic Republic, Reuters has learned.

An examination of classified reports and interviews with Western diplomats, government and intelligence officials underscore that Turkey and others have resisted international pressure to make it harder for Iran to finance its uranium enrichment program.

"Turkey's blossoming financial-economic relationship with Iran provides Iran with a gateway to the entire European financial system," according to an intelligence report on Turkey and Iran provided to Reuters by a diplomat. "The fact that Turkey is allowing itself to be used as a conduit for Iranian activity via Turkish banks and the Turkish lira is making it possible for Iranian funds in Turkish guise to make their way into Europe."

Turkey, a NATO member that looks to join the European Union, has enjoyed growing economic and financial relations with neighboring Iran. Trade between the two nations reached \$10 billion in 2008 and could triple in five years, Turkish Prime Minister Tayyip Erdogan told a group of businessmen he met together with Iran's First Vice President Mohammad Reza Rahimi last week.

Much of that trade is legitimate, but if Turkey becomes a virtual safe haven for Iranian banking activities, it will be easier for Tehran to dodge sanctions, according to diplomats.



BANKING ON TURKEY: Iran's Bank Mellat has branches in Istanbul (seen here August 18, 2010) and two other Turkish cities. **REUTERS/MURAD SEZER**

Ankara's move closer to its eastern neighbor, which is a major energy supplier to Turkey, comes at a time of growing international isolation for Tehran. Iran has been stepping up its uranium enrichment program, which the West fears is aimed at building a nuclear bomb and Tehran says is purely peaceful.

Even so, persuading Turkey to overlook its own economic interests and restrict the activities of the more than a dozen Iranian banks the United States and EU have sanctioned won't be easy. Ankara is obligated to implement just the U.N. measures, and only Turkish banks with business in the United States could face U.S. penalties for dealing with Iranian companies blacklisted by Washington.

BLACKLISTED

Earlier this year in the United States, Britain and others pushed the U.N. to blacklist Iran's central bank, the Export Development Bank of Iran, Bank Mellat and other Iranian financial institutions. But they met with fierce resistance from China, which has close business ties with and imports much of its crude oil from Iran.

Those banks, U.S. and EU officials argued, have turned to Europe, the Middle East, Asia and Africa to finance Iran's illicit procurement activities for its nuclear and missile programs, sometimes covering up the fact that they were working on behalf of other blacklisted Iranian banks.



DOING BUSINESS: Turkey's Prime Minister Recep Tayyip Erdogan (R) and Iran's First Vice President Mohammad Reza Rahimi shake hands before a meeting to promote trade ties in Istanbul September 16, 2010. **REUTERS/MURAD SEZER**

In the end, the U.N. Security Council only added one bank -- a subsidiary of Mellat called First East Export Bank -- to its blacklist. Although Mellat itself avoided any sanctions, resolution 1929 noted that over the last seven years it has "facilitated hundreds of millions of dollars in transactions for Iranian nuclear, missile and defense entities."

The U.S. and EU, for their part, slapped Mellat, Iran's second largest bank, with sanctions on their own. But the bank continues to operate branches in three Turkish cities -- Istanbul, Ankara and Izmir -- without any visible interference from the Turkish government.

This has irked the United States and EU, which have grown frustrated with what they see as Turkey's conciliatory approach to Iran -- and simultaneous cooling of relations with Tehran's arch enemy Israel, a longtime Turkish ally.

Turkey and fellow rotating Security Council member Brazil became the first two nations to vote against a U.N. sanctions resolution on Iran in June. In the past, the few dissenting members have abstained.

The two nations attributed their move to the dismissive response by the U.S. and EU to a Turkish-Brazilian plan to revive a stalled nuclear-fuel-swap deal with Iran. They had hoped the proposal would help resolve the standoff with Iran, eliminating the need for new sanctions -- a view Washington, London and Paris did not share.

Turkey has said it does not want any atomic weapons in the region -- which could apply to Israel (which has a widely known but officially unacknowledged nuclear weapons capability) as well as Tehran. But it is also worried that a more confrontational approach to Iran's nuclear program could lead to another war in the Middle East.

Turkey's finance and economy ministries as well as individual banks refused to comment for this story. But Turkish officials sometimes complain privately that the nation gets beaten up by Western media

because of Ankara's criticism of Israel's stance toward the Palestinians as well as its position on Iran's nuclear program. Western officials say they are only trying to encourage Ankara, a candidate for European Union entry, to assume a more cautious approach toward Iran.

Apart from First East Export Bank, the only Iranian bank blacklisted by the four U.N. Security Council sanctions resolutions passed during the past four years is Bank Sepah. But U.N. warnings about two other banks, Bank Melli and Bank Saderat, have also led to their de facto blacklisting, while the United States and EU have identified many more Iranian banks to be shunned.

The U.S. Treasury Department alone has blacklisted 17 Iranian banks to date, making it illegal for any bank that does business in the United States to have contact with those institutions. Individuals and firms sanctioned by the Security Council face global travel bans and asset freezes.

HIGH-LEVEL VISIT

A senior official at the U.S. Treasury Department told Reuters that Deputy Assistant Secretary for Terrorist Financing and Financial Crimes Daniel Glaser recently went to Turkey to brief local officials on the tough new U.S. sanctions, adopted in the wake of the latest U.N. measures on Iran.

"They (Turkey) are a matter of concern," the Treasury official said on condition of anonymity. "They are not a unique concern, but they are a matter of concern. We will go everywhere, but there is a reason why we also went to Turkey."

He added that other Treasury officials have visited Bahrain, United Arab Emirates, Lebanon, Brazil, Ecuador and other countries to get the message out.



PRESIDENTS: Turkey's President Abdullah Gul (R) shakes hands with Iran's President Mahmoud Ahmadinejad during their meeting in Istanbul June 7, 2010. Ahmadinejad was in Turkey to attend a Eurasian security summit. **REUTERS/MURAD SEZER**



ON U.S. BLACKLIST: Germany recently cracked down on the European-Iranian Trade Bank AG einbank (Europäisch-Iranische Handelsbank) in the northern German town of Hamburg, seen here on September 8, 2010. **REUTERS/CHRISTIAN CHARISIUS**

The Export Development Bank of Iran and Eximbank of Turkey, Western diplomats said, agreed earlier this year to cooperate on trade in the two nations' local currencies. Bank Mellat, they said, now operates a Turkish lira bank account at its Istanbul branch.

Turkey's Erdogan and Iran's Rahimi oversaw a meeting last week which brought together over 100 businessmen, including Turkish investors eager to put their money into Iran's mostly government-owned textile, machinery and automotive industries. At the meeting, some Turkish businessmen were enthusiastic about the idea of closer economic ties to Iran, while others backed away.

"This is a big opportunity for Turkey," said Mehmet Koca, member of the executive board of the Turkey-Iran business group. "Finance and trade that was carried out by Dubai and the United Arab Emirates before the sanctions can be taken over by Turkey," said Koca, who is also the general manager of Turkish fertilizer company Gubretas.

For this reason, Western diplomats fear, Turkey could become a gaping hole in the international sanctions regime. "Turkey is seen by Iran as a convenient arena for activity aimed at bypassing international sanctions to enable Iranian financial activity in Europe and the rest of the world," the intelligence report said.

Some Turkish banks have curtailed business with Iran. Younes Hormozi, chairman of Bank Mellat's Turkish unit, told Reuters that Bank Mellat Turkey had dealt with a higher number of transactions since some Turkish banks halted activities with Iran. He said several Turkish banks with close ties to the EU and United States have halted financial trade with Iran due to U.N. sanctions.

Hormozi confirmed that an American delegation visiting Turkey had warned banks about taking sides, prompting some banks to pull out of Iranian transactions. He said there had been no pressure placed on banks from the Turkish government and the banks had acted independently to cut trade with Iran.

SOUTH KOREA AND OTHERS

Until recently, envoys and intelligence officials say, there were similar problems in another country that has historically been a close ally of the United States -- South Korea.

In Seoul, where for months the U.S. Treasury Department had been pressing authorities to shut down the operations of Bank Mellat, the Finance Ministry recently announced that it was blacklisting Mellat and 101 other companies and 24 individuals for aiding Iran's nuclear program.

But South Korean authorities simultaneously asked the Central Bank of Iran to set up a South Korean won-denominated account. Seoul's finance ministry said last week Iran's central bank had agreed to open won accounts at two South Korean state-owned banks to avert disruption in bilateral trade from the sanctions.

Western diplomats said they would keep an eye on South Korea, which was slow to act against Bank Mellat and continues to trade heavily with Tehran. South Korea was Iran's sixth biggest trading partner in 2009.

Turkey and South Korea are not alone. "Many (financial) institutions continue to do business with the Islamic Republic, essentially undermining the overall sanctions effort," Avi Jorisch, a U.S. financial intelligence expert and head of the Red Cell Intelligence Group consultancy told a recent U.S. congressional committee hearing.

There are also concerns about at least one EU bank. The intelligence report on Turkey and Iran obtained by Reuters said that Austria's Oberbank maintains a euro account at the Turkish state-owned bank Halk Bankasi, possibly "to help its Iranian customers trade and transfer funds via the Turkish bank to a European third party."

In a statement to Reuters, Oberbank insisted that it was not violating the U.N. or EU sanctions and was only engaging in Iran-related transactions with "customers it has known for many years." It noted that such transactions are carefully screened, and any that raise suspicions must be vetted by the bank's compliance officer.

**"MANY
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SEOUL SHUT DOWN: South Korea has shut down operations of Iran's Bank Mellat, seen here on September 8, 2010. **REUTERS/JO YONG-HAK**



“SUBSIDIARIES OR BRANCHES OF IRANIAN BANKS ARE NOT CONDUCTING ANY BUSINESS IN GERMANY.”

It acknowledged that Oberbank has a euro account at Halk Bankasi to make life easier for its Turkish clients but said that account had been in existence for many years.

“Oberbank has worked with Halk Bankasi and many other Turkish banks on customer transactions for decades without problems,” Oberbank said.

A senior official at Halk Bank rejected the suggestion that his institution has been involved in any improper transactions. “We as Halk Bank have never executed or accommodated any transaction regarded or considered as illegitimate,” Mehmet Hakan Atilla of Halk Bank told Reuters in an email. “We are fully committed to international regulations and we share concerns of (the) international community regarding illegal activity of any country or institution.”

Security Council member Austria, unlike Turkey, voted for the new U.N. sanctions against Iran in June.

Germany is among the EU countries that have recently cracked down on Iranian banking activities on their territory. Earlier this month the United States slapped sanctions on European-Iranian Trade Bank (EIH)

in Hamburg, which the U.S. Treasury Department said had facilitated millions of dollars in transactions for Iranian missile companies and other blacklisted firms, sometimes in cooperation with Bank Mellat.

Although the EU has not officially sanctioned EIH yet, a spokesman for Germany’s Finance Ministry made clear that restrictive measures were being applied to all Iranian banks in the EU’s largest economy: “Subsidiaries or branches of Iranian banks are not conducting any business activity in Germany.”

CENTRAL BANK

The United States, Britain and some other European countries have also considered the possibility of sanctioning the Central Bank of Iran (CBI), which one Western diplomat described as the “kingpin” of Iran’s efforts to conceal banned transactions outside Iran.

But the idea lacked sufficient support on the Security Council for inclusion in the latest round of sanctions. China and Russia, which have close economic ties with Tehran and fought to dilute all four U.N. sanctions resolutions before adoption, rejected it.

IRAN SANCTIONS

Key areas affected by sanctions imposed by the United Nations, additional sanctions by the European Union, the U.S. and Japan

	U.N. sanctions 	EU sanctions 	U.S. sanctions 	Japan sanctions 
 Banking/financial	<ul style="list-style-type: none"> Asset freeze of individuals and companies linked with nuclear or missile programmes Banks abroad with suspected links to nuclear or missile programme Financial curbs on individuals and companies 	<ul style="list-style-type: none"> Funds transfer over 40,000 euros or 10,000 euros if not related to foodstuffs, healthcare or medical Public bonds by Iran government or banks Provision of insurance and reinsurance to Iranian government and its entities 	<ul style="list-style-type: none"> Foreign firms investing over \$20mln in five years in Iranian energy sector International banking institutions involved with Islamic Revolutionary Guard Corps or nuclear programme 17 Iranian banks 	<ul style="list-style-type: none"> Terminate banking activities with 15 designated Iranian banks Insurance/reinsurance services and brokering of securities if they could contribute to nuclear activities Branches of Iranian financial institutions in Japan
 Trade	<ul style="list-style-type: none"> Sale of all items and technology with both civilian and military uses (dual use) 	<ul style="list-style-type: none"> Access to airports under member state jurisdiction of all cargo flights 	<ul style="list-style-type: none"> All U.S.-Iran trade with some exceptions – gifts valued below \$100, foodstuffs, carpets, among others 	<ul style="list-style-type: none"> No new medium to long-term (2 years or over) export credit commitment for trade with Iran
 Oil and gas		<ul style="list-style-type: none"> Trade or transfer of equipment and technology for refining liquefied natural gas, exploration or production 	<ul style="list-style-type: none"> All oil products trade Companies supplying Iran with refined petroleum products 	<ul style="list-style-type: none"> Effectively ban all new oil and gas-related investment by not providing export credit
 Travel	<ul style="list-style-type: none"> Travel curbs on certain individuals 	<ul style="list-style-type: none"> Visa ban on certain senior officials, top nuclear and ballistic experts 		<ul style="list-style-type: none"> Designated entities and individuals that could contribute to Iran’s nuclear activities
 Arms	<ul style="list-style-type: none"> Arms embargo 	<ul style="list-style-type: none"> Import and export of arms, all equipment, materials and technology that could contribute to uranium enrichment 		
 Others	<ul style="list-style-type: none"> Setting up of cargo inspection regime similar to one in place for North Korea 	<ul style="list-style-type: none"> Freezing by Britain of business ties with Bank Mellat and Islamic Republic of Iran Shipping Lines 	<ul style="list-style-type: none"> Washington has sought to cut 16 banks off from the international financial system 	<ul style="list-style-type: none"> Asset freeze for designated entities and individuals

Key  Ban  Sanctions imposed

Sanctions timeline

- 1979** U.S. bans Iranian imports
- 1995** U.S. bans energy investment, trading in Iran. Sanctions foreign firms investing in Iranian energy sector
- Dec 2006** U.N. freezes assets of those linked with nuclear programme
- Mar 2007** U.N. imposes arms, financial sanctions, extends asset freeze
- Oct 2007** U.S. sanctions Bank Mellat, Bank Mellat and Bank Saderat
- Mar 2008** U.N. imposes travel and financial curbs, trade ban
- Oct 2009** U.S. sanctions Bank Mellat in Malaysia and its chairman
- June 9, 2010** U.N. to sanction banks with suspected links to nuclear or missile programmes, expand arms embargo and set up cargo inspection regime
- June 24** U.S. to sanction companies supplying petroleum products to Iran, banks involved with Revolutionary Guards
- July** U.S. sanctions Post Bank of Iran, 20 petrochemical companies
- Sep 3** Japan slaps additional sanctions on Iran over its nuclear programme
- Sep 8** South Korea announces additional sanctions on Iran

Full sanctions decisions are available from these websites:
 U.S. – <http://www.treas.gov/offices/enforcement/ofac/programs/iran/iran.shtml> and <http://www.opencongress.org/bill/111-h2194/text>
 EU – <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:195:0039:0073:EN:PDF>

Source: Reuters Graphic: Fabian Chan, Jim Peet REUTERS

The United States and EU have also decided not to blacklist the CBI, which could make it difficult for Iran to engage in any foreign trade, though they persuaded other Security Council members to urge U.N. member states to be vigilant regarding all transactions linked to the CBI.

The CBI has been helping sanctioned Iranian banks cover their tracks by arranging for alternate institutions to carry out transactions on their behalf, U.S. and EU officials say. The CBI then settles accounts back in Tehran, away from the prying eyes of Western authorities.

Western officials say that Dubai also remains a key financial center for Iran. Dubai was Iran's fifth biggest trading partner in 2009.

Authorities in Dubai say that they have been cracking down on Iranian activities and are complying with the U.N. sanctions, but Western diplomats voiced skepticism. "I haven't seen anything to indicate that Dubai has changed in any fundamental way," a Western envoy said.

Even though Iran has pressed ahead with its nuclear program, and is enriching uranium to levels much closer to those needed for weapons than ever before, Western officials insist that the international sanctions have slowed down Tehran's progress on its atomic program.

"The four U.N. sanctions resolutions have had an impact," a senior Western diplomat told Reuters. "It's not easy to quantify, but we estimate that the sanctions have delayed Iran's nuclear program by 18 months to two years."

They add that the setback would be more severe if all countries implemented the sanctions as aggressively as they could.



ENRICHING: Iranian President Mahmoud Ahmadinejad visits the Natanz nuclear enrichment facility, 350 km (217 miles) south of Tehran, April 8, 2008. **REUTERS/HANDOUT**

COVER PHOTO: A vendor counts money in a shop in Tehran's Grand Bazaar January 19, 2009. **REUTERS/RAHEB HOMAVANDI**

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