

# Ahmadinejad's Bank

**Germany has to make up its mind about calling a halt to the activities of Hamburg-based EIH bank**

**By Matthias Küntzel**

At the beginning of September 2010, the US administration issued an unprecedented rebuke to the German authorities by blacklisting the Hamburg-based European-Iranian Trade Bank (Europäisch-Iranische Handelsbank - EIH), a company within the jurisdiction of the German banking oversight agency, BaFin.

Such mistrust of an ally is unusual. The response of Norbert Eisenmenger, a manager of the targeted bank, was even less conventional. I asked him whether he still felt optimistic about the bank's future. Seemingly unperturbed by the US measure, his reply was, "Of course, why not?"

EIH misleadingly describes itself as a "German bank" and a "German stock corporation". It is in fact a hybrid. Although subject to the German regulators, it is owned by the Islamic Republic of Iran. Its shareholders are four state-owned Iranian banks. Over the past few years EIH has turned into a loophole in the sanctions system through which over a billion dollars are being funneled to firms involved in the Iranian nuclear weapons program. As a result the bank's volume of business rose by 133% between 2005 and 2009.

Over the summer, the US, France and the UK tried to convince the German government to act against EIH, but to no avail. At the end of July, however, the European Union increased the pressure.

On 26 July, a Council decision put two of EIH's owner-banks - Bank Mellat and Bank Refah - on the EU sanctions list because they "support and facilitate Iran's nuclear and ballistic missile programs". Bank Mellat owns 26% of EIH; Bank Refah 2.5%.

Also on the list is Ali Davandari, the CEO of Bank Mellat who is simultaneously a long serving member of EIH's supervisory board. Placing Bank Mellat and its CEO on the sanctions list is a clear recognition of the shady nature of EIH.

EIH defended itself with the argument that it had been subject to regular inspections by the German authorities. But how far can we trust the German banking oversight agency? As late as May 2010 BaFin had agreed to Ali Davandari's new appointment as deputy head of the EIH's supervisory board although Bank Mellat's role in the Iranian nuclear program was already well known by then.

Following the EU sanctions decision, BaFin did the minimum necessary to comply with the letter of the European law. The shares of the banks explicitly named in the Council decision, Banks Mellat and Refah, were frozen and a travel ban imposed on Mr. Davandari. Otherwise the EIH was allowed to continue business as normal.

A regulatory agency that prohibits at little as possible and permits as much as possible is not necessarily part of the solution. Could it be that the regulators are biased because they believe EIH serves German interests, as defined by the German government?

This suspicion is strengthened by an episode from June 2008, when the EU imposed sanctions on another Iranian bank, Bank Melli, that had been involved in financing European-Iran trade. Was it an accident that EIH opened an Teheran branch office in the very same month and that the German Economics Ministry at once pointed German business in the direction of the new source of finance for Iranian trade? According to a statement published by the Economics Ministry on 27 June 2008, the establishment of the EIH branch office "should be seen as a reaction to the economic sanctions and withdrawal of international banks". "Owing to the economic sanctions, Iran is stepping up its economic relations with states that want to continue trading with Iran." This explicitly refers to one of EIH's tasks: to offset the impact of international sanctions and "continue to" promote trade with Iran.

So back in June 2008, while the German foreign minister was pledging support for sanctions against Bank Melli, his colleague in the Economics Ministry was endeavoring to limit the damage to Iranian-German trade with the aid of EIH. One minister was responsible for the special relationship with Iran, the other for harmony with the West. Two years ago, this Janus-faced strategy was still feasible, but no longer. This is the message of the American blacklisting of EIH: Germany must choose.

The U.S. Treasury has done the right thing by blacklisting EIH. It is not, however, enough. So far this transatlantic dispute has been taking place behind the scenes. It is time now to bring it into the light of day.

**Colin Meade translated this article from the German.**

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