

# The Tirrena deal and the European 'Gunpowder Club'

by Göran Haglund

Among the documents seized during the two spring 1985 customs raids of the Swedish Bofors company, an internal memo was found, which was dated Aug. 25, 1981 and issued by Mats Lundberg, then the new sales chief, to his boss. The starting point of the memo was that business sector "NE" (explosives) wasn't going too well, and that the Bofors sales budget was far from being met:

"Where shall NE find its new clients? I have started to think about the criteria according to which we shall allocate our marketing efforts. As you will see, I am by no means ready, but I would like to have your opinion of the following before I proceed.

*"Proposed Criteria:*

"1. Markets where we don't have to compete with the usual suppliers, for example:

"a) politically sensitive areas (Eastern Europe, South Africa, the Mideast, etc.)

"Disadvantages: We are making illegality a method."

The memo goes on to discuss a few more criteria, but surely, this point 1a) proposed by Lundberg, the new, ambitious sales chief, who was soon to succeed his boss as marketing director, was deemed perfectly compatible with the new business strategy of the company, which called for "more active marketing efforts"—illegality or not. It was also becoming compatible with the political sympathies of the Social Democratic regime that returned to power in 1982, whose Premier Olof Palme was not ashamed publicly to express his admiration for the new "Iranian democracy" of Ayatollah Khomeini.

At this time, a new giant "market" had been created as a result of the Gulf war between Iran and Iraq. On Sept. 5, 1983, Lundberg paid a visit in Teheran, at the NDIO, the arms procurement agency of the Iranian defense ministry. The talks, which Lundberg in his travel report described as "very cordial," focused on the problem of finding "channels," i.e., third countries through which the Swedish law banning exports to war zones could be circumvented.

The German Democratic Republic was considered a safe possibility, but slow and costly. Pakistan Ordnance Factories had been used in the past, and worked well. The new project

was an Italian company, Tirrena Industriale SPA in Rome, to which very big NDIO contracts had already been granted in 1982, the credit organized, and the only thing still missing was an Italian export license for Iran. Itself a small company, Tirrena was merely going to be the transfer point through which large European arms producers unable to sell directly to Iran could channel their products.

The Iranians desperately needed ammunition for their artillery, 155-mm and 105-mm American howitzers. While the final production of such ammunition is technically trivial, the Iranians had to import the gunpowder for it. The amount ordered through Tirrena was a total of 5,300 tons, several times greater than the entire annual production capacity of a single large producer like Bofors. The only business partner large enough to meet the Iranian needs was the so-called "Gunpowder Club," the European explosives cartel of which Bofors is a founding member.

Named the European Association for Study of Safety Problems in Production and Use of Propellant Powders (EASSP), the cartel or club is officially registered and associated with SEPIC, the European Community organization for the chemical industry, in Brussels. Founded in 1975 by a handful of companies, its official function is to exchange information about accidents and to serve as a consultative body of the EC, via SEPIC, regarding safety rules for explosives production and transports, etc.

"Beyond the official part, there is also a group which meets for commercial interests," Lundberg told the Swedish customs investigators. "Then, of course, it is inevitable that we talk business." Although cautiously played down by Lundberg, the "Gunpowder Club" wields no less power than any other big cartel, in setting the prices, dividing the market, and splitting orders received.

In this case, five producers joined to fulfill the huge Iranian Tirrena contract: the French state-owned SNPE (1,800 tons), the Belgian PRB (850 tons), the Dutch Muiden Chemie (850 tons), Nobel Explosives in Scotland (900 tons), and Bofors Nobelkrut (900 tons), for a total order value of Skr 315,556,500. The contract was obtained by the cartel on March 15, 1984, and payments were to be made through the

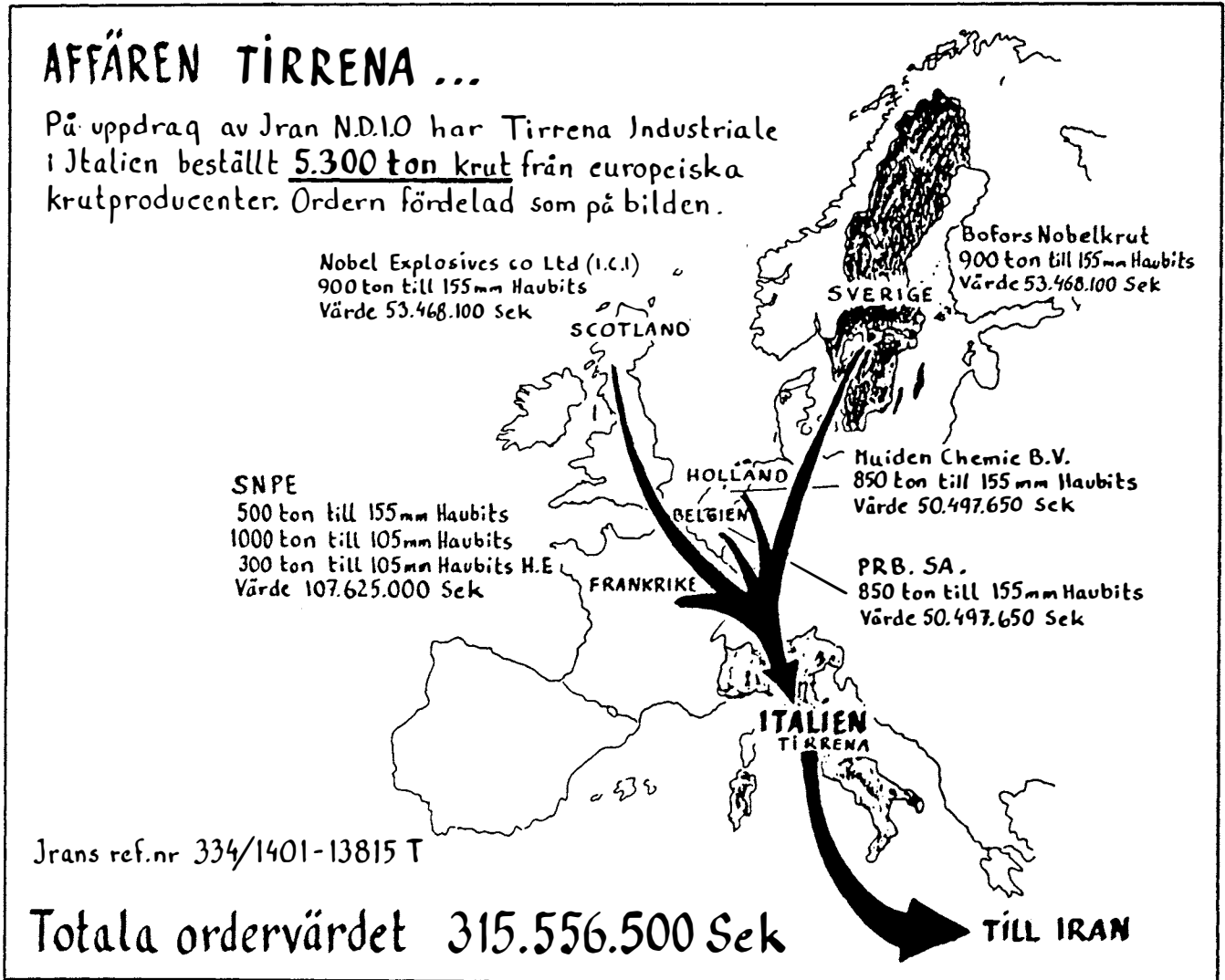
Italian Banca Nazionale del Lavoro. (See map.)

On Aug. 23, 1984, Bofors obtained its export license from the Swedish government for the first 100 tons of gunpowder, which during the month of September were shipped by railroad to Tirrena, c/o the military depot of Versegge, Italy. But political complications now intervened.

The Italian government, shortly after the cartel's gunpowder deliveries to Iran had begun, suddenly refused to grant Tirrena new export licenses for Iran. Italian companies

had received contracts worth billions from Iraq, on the precondition that all Italian trade with Iran was to be stopped.

While a small portion of the deliveries had already left Italy for Iran, most had not yet been shipped by the producers, and some got stuck in Versegge. As the contract included a delivery guarantee, so-called performance bonds of about 7% of the order value had been posted by the suppliers with the buyer, creating a crisis as the deliveries were halted. Something had to be done.



**How the European explosives cartel split the Iranian market.** The map shows the flow of gun powder shipments from the European explosives cartel, through the Tirrena company in Italy, to Iran. The shipments came to an abrupt halt in the fall of 1984, as the Italian government refused to grant new export licenses for Iran.

Translation of terms:

AFFAREN TIRRENA = THE TIRRENA AFFAIR

On behalf of Iran, Tirrena Industriale in Italy ordered 5,300 tons of gun powder from European producers. The order was divided as shown.

SCOTLAND

Nobel Explosives Co Ltd

900 tons for 155 mm Howitzers Value Skr 53,468,100 (analogous for Holland's Muiden Chemic B.V., Belgium's PRB, S.A., the SNPE of France (Frankrike), and Sweden's Bofors Nobelkrut)

Total Order Value Skr 315,556,500

TILL IRAN = TO IRAN