Ecuador’s Role in Iran’s Latin American Financial Structure:
A Case Study of the Use of COFIEC Bank
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COFIEC: An Introduction

Since November 2008, when the Central Bank of Ecuador agreed to accept $120 million in deposits from the internationally sanctioned Export Development Bank of Iran (EDBI), the desire of Iran to use the Ecuadoran financial system to access the world banking system has been evident. In 2008, EDBI was sanctioned by the U.S. Treasury's Office of Foreign Assets Control (OFAC) for "providing financial services to Iran's Ministry of Defense and Armed Forces Logistics (MODAFL)," in an effort to "advance Iran's WMD programs."1

When this relatively straightforward plan was uncovered by investigative journalists in Ecuador, President Rafael Correa received a formal *demarche* from the U.S. Embassy and denied any deposits had been made, although the two banks maintained SWIFT communications capabilities for at least two years after the denial. It seemed the efforts had halted.

What has emerged since early 2012 is a far more sophisticated plan to use a little-known Ecuadoran bank in state receivership, known as COFIEC, to open correspondent accounts with sanctioned Iranian banking institutions through a state-owned Russian bank. There have also been serious discussions of clandestinely selling the Ecuadoran bank to sanctioned Iranian banks, talks which senior government officials have acknowledged are still underway.

If successful (and the record to date, while inconclusive suggests that at least parts have been), the impact of these new moves could be significant, opening up new and relatively easy ways for Iran's banks, largely shut out of the Western banking exchanges, to move large sums of money in ways that would be almost impossible to detect.

Notably, case studies on such activities -- which would enable an understanding of how Iran operates, what instruments are available for its use, what vulnerabilities and indicators may exist, and the consequences such activities could have -- are rarely compiled.

The COFIEC case offers a template for understanding how Iran is working around international banking sanctions which its leaders now publicly admit are badly hurting their economy. Given Iran's documented strategy of using the same sanctions busting methodology in different countries until those avenues are shut down, COFIEC is likely a methodology that is being repeated in multiple other venues.

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COFIEC itself is a variation of the sanctions evasion methodologies used in the case of the Banco Internacional de Desarrollo (BID) in Venezuela.\(^2\) It is safe to conclude, based on available evidence and past experience that the methodologies pioneered by Venezuela’s Hugo Chávez are being refined and replicated to varying degrees in that small cohort of self identified and stridently anti-U.S. “Bolivarian” nations which share his vision of an alliance of his 21\(^{st}\) Century Socialism and the Islamic Republic of Iran. The Bolivarian alliance, known by its Spanish acronym ALBA (for Bolivarian Alliance for the Peoples of our America) is led by Venezuela and includes Rafael Correa of Ecuador; Evo Morales of Bolivia, and Daniel Ortega of Nicaragua.

Figure 1: COFIEC Bank

COFIEC is an unusually good case study because many of the documents showing how the operation was planned and executed have come into the public domain and the Correa government has acknowledged their authenticity. In most cases such documentation is unavailable.

The COFIEC case illustrates (as the BID case in Venezuela did) that dealing with sanctioned Iranian banks, is far from being the work of a few rogue officials trying to engage in unauthorized activities without the knowledge of their superiors. Rather, the efforts at banking collaboration are part of multi-state coordinated and publicly articulated policy of helping Iran to break its international political and economic isolation.\(^3\)

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\(^3\) In a joint statement the foreign ministers of Venezuela, Bolivia, Ecuador, Nicaragua and other members of the Chávez-led ALBA alliance vowed to “continue and expand their economic ties with
Ecuador plays a unique and vital role in the Bolivarian structure, and in Iran's efforts in the Western Hemisphere, because it offers a singular advantage – it is a dollarized economy with the U.S. dollar being the official currency of the country. This means that any banking transactions are already in dollars, not a currency which needs to be converted to dollars for use on the international market. The process of conversion is both costly and a key point of vulnerability and detection in international transactions. It also gives any country or institution doing business there access to dollars, something Iran is desperate for.

The specific case of COFIEC shows that President Rafael Correa engaged directly with Iranian president Mahmoud Ahmadinejad on the banking issue and that, based on presidential conversations and authorization, the president of the Central Bank of Ecuador and other senior officials have:

- Systematically and repeatedly sought to engage with Iranian banks sanctioned by the United States, the European Union, and the United Nations to help blunt the impact of international trade sanctions regime on Iran;

- Met with the leadership of the Iranian banks despite clearly understanding that the banks were under international sanction; and, writing risk analysis reports before the meetings;

- Engaged in activities that would allow Iran to operate through state-owned Ecuadoran banks; and, explored ways of encrypting communications and other methods of hiding the relationship and communications;

- Worked with Iran to set up correspondent bank accounts in the same bank in a third country, so no activities between two accounts would be reported as an international transaction. In this case the bank was in Russia, one of the few countries that has banks that maintain correspondent relationships with Iranian banks.

Given the highly polarized nature of the discussion of Iran's intentions, goals and capabilities in the Western Hemisphere, cases such as this one are often dismissed as window dressing -- part of anti-U.S. showmanship or part of a kabuki dance with no serious intent behind. Yet a more careful analysis shows this plan was approved by the presidents of each country, carried out by senior officials in both countries with a clear plan and expenditure of resources, and that the intention was to aid and abet a state sponsor of terrorism in avoiding U.S., E.U., and U.N sanctions.

Iran. “We are confident that Iran can give a crushing response to the threats and sanctions imposed by the West and imperialism,” Venezuelan foreign minister David Velásquez said at a joint press conference in Tehran. See: “Venezuela/Iran ALBA Resolved to Continue Economic Ties with Iran,” Financial Times Information Service, July 15, 2010.
Working through its Latin American allies, Iran’s new banking alliances could allow (and may already have allowed) the Islamic republic to acquire and pay for a wide range of items that are sanctioned by the U.S., EU, and United Nations. This could include dual use equipment and the necessary parts for its nuclear program and developing missile systems.

One of the most significant impacts the global sanctions in general, and the U.S. and European Union sanctions in particular, have had is choking off Iran’s access to the world financial markets. The present, somewhat cumbersome, effort through Ecuador is likely a prototype of Iran’s regional and global efforts to break that economic chokehold.

The following report is based largely on open source reporting by the embattled remnants of Ecuador’s independent media, supplemented by the author’s interviews with knowledgeable sources in Ecuador, as well as copies of many of the official documents that chronicle the origin and execution of the plan. When some of these documents were made public by the Ecuadoran media, President Correa did not dispute their authenticity and acknowledged the broad outlines of the strategy. Correa defended the right of Ecuador, as a sovereign nation, to carry out banking relations with any country it pleased. He also systematically fired those banking officials believed to have leaked the initial information to the press.

The case has been largely ignored outside Ecuador, and inside Ecuador has been largely reported in a piecemeal fashion, while failing to capture the full scope of the relationship with Iran and its import. This is due in part to significant pressure on the independent media by the Correa government to stop reporting news critical of the government.

The Ecuadoran press has largely focused on the role of an Argentine scam artist who developed close ties to President Correa and his cousin, Pedro Delgado. Delgado was, until December 2012, simultaneously president of the Central Bank, head of the government corporation that administers the bank that is working with Iran, and leader of several delegations to Iran to discuss the project.

Delgado, a member of Correa’s most trusted inner circle, resigned when the press accurately reported that he had falsely claimed to have graduated with a degree in economics from the Catholic University in Quito, and maintained a luxury house and other undeclared assets in Miami. While Correa initially blasted the media and defended Delgado, Delgado finally quit just before Christmas.4

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The Current Expansion

President Correa seemed unprepared for the firestorm the revelations of his 2008 authorization of a Memorandum of Understanding between EDBI and Ecuador’s Central Bank would cause. While able to keep the related MOU of that transaction secret for a year, when it finally leaked to the press it drew widespread condemnation both internally and internationally. The importance and methodology of this initial agreement will be explained below, as it is fundamental to understanding the origins of the current scheme.

Correa publicly blamed Ecuador’s banking relationship with Iran for the 2010 decision by the Financial Action Task Force (FATF, is a global standard setting body for anti-money laundering and combating the financing of terrorism) to list Ecuador (along with three other nations – Angola, North Korea and Ethiopia) as jurisdictions with strategic financial deficiencies relating to AML/CFT. The only nation ranked worse than those four was Iran, which FATF identified as an “ongoing and substantial money laundering and terrorist financing risk.”

5 “FATF Public Statement,” Financial Action Task Force, February 18, 2010. See: http://www.fatf-gafi.org/countries/a-c/angola/documents/fatfpublicstatement-february2010.html. The Correa government reacted furiously to the FATF statement, and over the next two years took some steps to remedy the identified deficiencies. In its most recent report of June 2012, the FATF again listed Iran a “substantial risk,” but moved Ecuador to the less critical category of “Jurisdictions with Strategic
Yet the public reaction did not deter Correa from moving forward with financial ties to Iran. Rather, the experience seems to have taught him that more complex, less easy to monitor plans would better suit both him and his Iranian partners. One of the striking aspects of the financial ties is the direct and repeated involvement of the president and his closest confidants in the discussions and efforts, a pattern which has been repeated on the Iranian side. This indicates the high level of priority both governments place on building and strengthening those ties.

The COFIEC Plan Begins

The efforts by Correa to engage with the Iranian banking sector and COFIEC began with a January 12, 2012 meeting between the Ecuadoran president and his Iranian counterpart, Mahmoud Ahmadinejad, in Quito, Ecuador. A memorandum of the meeting, leaked to the press and obtained in its entirety by the author, lists numerous avenues to be undertaken to strengthen the ties between the two nations. (See Annex 1).

Figure 3: President Rafael Correa of Ecuador and Iranian President Mahmoud Ahmadinejad wave from the presidential balcony in Quito, Ecuador (Photo AFP)

The memorandum is full of unusual elements that, given the overall context and declared economic activity between the two nations, indicate it is likely the arrangement was not primarily one of mutual economic benefit but one to benefit Iran’s sanctions busting activities. Given the paltry and declining level of declared bilateral trade in recent years, as shown below, the notion of the necessity of having special banking arrangements to deal with hundreds of millions of dollars is particularly eye-catching. At the end of 2012 a local Ecuadoran newspaper ran the headline “Trade between Ecuador and Iran ceased to exist.”

The first item in the meeting summary is called “Financial and Banking Matters” in which several agreements that are highly unusual are summarized. The agreement stipulates that the Central Bank of Ecuador (CBE) will open an account in a third-country bank where Iran has a bank account in order to facilitate “commercial exchanges.” This move, in essence, opens a gaping hole in the financial sanctions regime by giving Iranian banking direct access to dollar and Euro accounts. The bank (in this case a Russian bank as discussed below) would simply move money between the two accounts without the financial activity being reported as Iranian commercial activity, but rather as internal bank transfers, not subject to outside scrutiny.

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**Why COFIEC?**

When Ecuador’s banking sector collapsed in the early 1990s, COFIEC, one of the nation’s oldest banking institutions, eventually emerged as a state-owned entity. In its current incarnation, 97 percent of the bank shares are owned by the state trust that took over failed banks, administered by Pedro Delgado. The bank has been plagued by irregularities, losses and bad loans. A 2012 audit by the Superintendence of Banks found COFIEC was the “petty cash box” of the trust that owned it, used at the discretion of Delgado and others. The trust had taken out more than $1 million in loans without proper paperwork or collateral. The audit found that in one trust loan application “90 percent of the questions were left blank.”

Given the bank’s relatively small size ($9.3 million total value), the closeness of its leadership to the country’s executive branch, and its history of bending the rule for favored government clients, it is not surprising the bank was chosen by the Correa government for its dealings with Iran. While inconspicuous in international banking circles and not readily identifiable as a state-owned bank, it could operate abroad while drawing little scrutiny.

These factors seem to have been in play when COFIEC was first tapped by the Correa government to deal with Iranian funds. On November 15 and 24, 2011 Iran’s ambassador in Ecuador made two cash deposits totaling $1.86 million, in stacks of $100 bills still wrapped in U.S. Treasury wrappers, in the bank without filling out the proper paperwork. The audit found that the bank “failed to follow its own internal policies” in accepting the deposits, as well as violated international anti-money laundering norms by failing to verify the legitimacy of the origin of the funds, and other irregularities. The Iranian ambassador, Majid Salehi later claimed the cash was to buy a diplomatic residence. The bank justified its actions by producing letters from the Iranian ambassador assuring the bank that Delgado and other senior officials had authorized the deposits.

On December 20, 2011 COFIEC approved an unsecured loan for $800,000 for Gastón Duzac, an Argentinian, who presented virtually no documentation before the cash was handed over. The audit found that Duzac did not provide proof of income for himself or his company “nor did he present financial statements that would indicate he could repay the debt.”

But it is the second item that is the focus of this report and raises the greatest possibilities for Iran’s use in avoiding international sanctions. The document states that
The Central Bank of Ecuador suggested that as an alternative, a government-owned private bank called COFIEC,7 be used, which would operate with Iranian banks that are not sanctioned by the United Nations. To finalize details of this arrangement, representatives of the Central Bank of Ecuador will travel to third countries and then to Tehran to finalize the details.

The document is careful to try not to run afoul of U.N. sanctions, while totally disregarding U.S. and E.U. sanctions. However, as noted, Ecuador’s dollarized economy means it is dependent on U.S. financial structure, and would in effect be moving Iranian money through entities under the jurisdiction of United States authorities. Later on, as it is clear, Ecuadoran officials knowingly dealt extensively with an Iranian bank blacklisted by the United Nations.

As documented below, that arrangement took place in mid-February, when the delegation visited Russia to open an account in Euros in Vnesheconombank Bank in Moscow, then traveled to Tehran to explore more banking options. Both COFIEC and the CBE have accounts in Russian banks now open to Iranian transactions. Russia is ideal because its banks have access to the world banking architecture but its government has made no secret of its disdain for U.S. and U.N. sanctions on Iran, has actively collaborated with Iran’s nuclear program, and sells large amounts of weapons and other products to Iran.

While the minutes of the meeting state that Iran and Ecuador decided not to establish a “bi-national bank” (as Iran has done in Venezuela), they do designate the Iranian Foreign Investment Company – IFIC and the National Financial Corporation of Ecuador to “coordinate investment opportunities.” IFIC has been identified by OFAC as wholly owned by the government of Iran, and therefore sanctioned.8

Irrational Economic Activities

The same clause contains the first mention of one of the more unusual but repeated threads of international trade that is discussed, and one that makes little economic sense. “Iran promised to review the disposability of petroleum derivates to sell to Ecuador for a value of $400 million.”

To put this sum in perspective, according to the Ecuadoran government’s Institute for the Promotion of Exports and Investments (Instituto de Promoción de Exportaciones e Inversiones), Ecuador and Iran engaged in the following amounts of trade in recent years:

7 COFIEC is the Spanish acronym for Coporación Financiera Ecuatoriana (Ecuadoran Financial Corporation).
Ecuador-Iran Trade (2012 Figures Not Available)

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<th>2011</th>
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<td>249,000</td>
<td>285,000</td>
</tr>
</tbody>
</table>

As shown, the greatest amount ever imported by Ecuador from Iran was $185 million (2008), when Ecuador claimed to purchase most of that amount in petroleum products. The following year trade fell by more than 99 percent and remains well below $1 million a year in 2010 and 2011. The most Ecuador exported to Iran was $8.3 million (2010), which tumbled to $1.1 million the next year. The order of magnitude change over the course of one year in one given product is not normal economic behavior.

Point 5 of the minutes offers a further wrinkle to the agreement. It states that both sides proposed using “the barter system for commercial exchanges” using the IFIC and an Ecuadorian corporation identified as EICA “or any of its associated companies” to channel the exchanges. Possible products to be bartered were listed as rice, bananas, urea and tractors. None is a particularly viable option for barter. Rather, the intent could be, as has been done in Venezuela, to create an architecture that could be used to move any number of people or goods around using pre-fabricated, fictitious companies and agreements to justify the activities.

Urea is a commonly found compound used in nitrogen-release fertilizer. Iran is a producer of urea fertilizer, and, while barely self-sufficient, is seeking to increase exports. Ecuador occasionally imports a few million dollars worth of the fertilizer. Both countries had previously (2008) agreed to jointly build a urea factory in Ecuador. The agreement was signed by Iran’s oil minister Gholam Hossein Nozari and Ecuador’s minister of mines and oil, Galo Chiriboga, indicating the production in both countries is under the control of the strategic petroleum sector. As with most such agreements, there is no indication it has been followed through on, or that urea is a significant factor in the miniscule bilateral trade.

Rice is a state-controlled export by the Ecuadorian government, and domestic production was estimated to have fallen 31 percent in 2011-2012, with a slight rebound expected in 2013. Its imports and exports are almost entirely to and from more economically rational players such as Colombia and Venezuela, not a partner.

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to whom shipping costs alone are significant.\textsuperscript{11} Iran is a rice importer and increasing economic sanctions have driven some major exporters to drop the Iranian market.\textsuperscript{12}

Ecuador is one of the world’s largest banana producers, but sells mostly to the United States, European Union, Russia and China. Iran, which imports several hundred million dollars worth of bananas a year, says Ecuador supplies only “a small portion of Iran’s market,”\textsuperscript{13} making it a less than ideal trading commodity.

The remainder of the 8-page document contains numerous other proposals that had already been discussed in previous meetings, and which had largely remained unfulfilled. The key points are largely promised Iranian investments that are not economically rational given the few sectors in which Iran enjoys a technological or competitive advantage.

Again the promised operation seem designed to either produce quick political points, or offer numerous justifications for large amounts of money and personnel to move between the two countries in ways that would be hard to verify or monitor, thus opening the door for illicit or undeclared activities. In almost every case the proposals were slated for official delegations to discuss at senior government levels in Iran in the following weeks.

These include, at President Correa’s request:

- Iran’s participation in two hydroelectric projects that could be carried out with Iranian contractors. It would be difficult to justify Iranian contractors in construction jobs in a nation of chronically high unemployment and poverty, not known for its hydroelectric capabilities;

- Iran’s participation in building the Pacific Oil Refinery. Again, Iran has struggled to maintain its own refineries and is not on the global cutting edge of refinery technology and know how;

- Iran’s participation in unspecified mineral explorations;

- Iranian investment in a cement factory (something that is promised in other countries, and one of the few agreements actually completed);

\textsuperscript{11} “Ecuadorian Rice Production to Plunge 31% in 2011-12, Says USDA,” Oryza Commodity News, April 5, 2012, accessed at: \url{http://oryza.com/Rice-News/14773.html#}


\textsuperscript{13} “Iran ’s Banana Imports Valued at $75 million in Q1,” Kabir News, August 26, 2012, accessed at: \url{http://kabirnews.com/irans-banana-imports-valued-at-75-million-in-q1/3088/}
The establishment of an Iranian auto factory in Ecuador, despite the fact that Iran’s auto plant in Venezuela produces less than 10 percent of the cars it was supposed to and has found almost no buyers in the region;

A development of a barter agreement in which unknown Ecuadoran projects would be traded for Iranian tractors, again despite the fact that a similar factory already operates in Venezuela and produces low quality tractors that have virtually no market share in the region.

Iranian construction of a dairy product plant. This is another perennial, and one that Iran often completes;

Iranian construction of an industrial slaughterhouse. This is similar to the offer Iran made to establish an industrial, refrigerated slaughterhouse in FARC-controlled territory in Colombia during the 2000 peace talks;

Iranian construction of housing for the military and national police, using 10-year bonds issued by the government of Iran and the Ecuadoran government paying 25 percent of the overall (undisclosed) value of the projects.

The Follow-up

The presidential summit set off an immediate flurry of activities. According to Memorandum PE-024-12, dated February 10, 2012 (See Annex 2), written by COFIEC’s executive president Gino Caicedo Urresta to the bank’s directorate, Caicedo met with the bank’s directorate in the city of Guayaquil on February 2. The purpose of the meeting was to “discuss the possibility of opening a correspondent relationship with an Iranian bank, in accordance with the decisions made at the January 12 meeting” between Correa and Ahmadinejad.

Caicedo wrote that he then contacted a senior foreign ministry official in Quito, who gave him the name of the appropriate person to contact at the Iranian embassy to start the discussions. The following day, February 3, an Iranian official named Mr. Farashpur gave Caicedo the name and email of Pasaragad Bank of Iran (PBI) in Tehran and its director. On February 4 Caicedo wrote an email to Mr. Majad Hasemi, director of PBI, requesting the information needed to open an account in PBI and form a correspondent relationship. Lacking an immediate response, Caicedo met on February 6 with Iran’s ambassador in Ecuador, Majad Salehi, who promised to use his good offices “to get in touch with that bank (PBI) in order to advance our project.”
Caicedo noted that PBI was not on the OFAC list of the U.S. Treasury Department or U.N. sanctions lists, but also noted that several international bodies such as the Financial Action Task Force recommended taking extra stringent due diligence when dealing with Iran. **It is important to note that PBI was added to the OFAC designation list on July 12, 2012.**

After offering a legal justification for initiating a relationship with PBI, Caicedo formally requested the COFIEC directors authorize opening a correspondent relationship and provide financing to send a delegation for a 5-day visit to Iran to “establish the necessary contacts to open a correspondent relationship.”

An official BCE form was filled out authorizing the trip (See Annex 3). The six-person delegation was led by Pedro Delgado, and included Gastón Duzac, the Argentine fraudster who eventually defrauded COFIEC out of $800,000 in an unsecured loan approved by Delgado. Duzac is listed as a member of the government oversight board of COFIEC.

The three purposes of the trip were listed as:

1) Fulfill the agenda agreed to during the visit of the president of Iran to Ecuador;
2) Open a correspondent account in Euros between the Central Bank of Ecuador and Vnesheconombank Bank of Moscow, Russia. Vnesheconombank ([http://www.idfc.org/Members/veb.aspx](http://www.idfc.org/Members/veb.aspx)) is the Bank for Development and Foreign Economic Affairs, a Russian state owned bank that invests in many things, including nuclear power; and
3) Coordinate the agendas to prepare a compensation system of transactions between Russia and Ecuador.

Documents on these meetings are not available but it is important to note that on June 7, 2012, Vnesheconombank and CBE signed an agreement to work together in a correspondent relationship. During the same visit, Delgado reportedly met with representatives of Bank Melli Iran ZAO, one of Iran’s most important and most sanctioned banking institutions. Its branch in Moscow is one of only four international offices it has.

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The group flew from Quito to Moscow via Miami and London on February 14, then departed Moscow for Tehran on February 18. On February 21 the group returned home. In another strange twist, Ecuador’s *El Comercio* newspaper reported that, on February 20, after the official delegation had left Moscow, an Ecuadoran using the name Miguel Delgado, through of a power of attorney left with a Russian citizen, rented large safe deposit boxes in a different Russian bank, VTB Group. One was for documents and one was for cash. The CBE president’s full name is Pedro Miguel Delgado. After the *El Comercio* newspaper produced the safe deposit contracts and numbers Delgado agreed to an interview to discuss the issues, but walked out after a few minutes without answering any questions.16

Figure 4: Iran-Ecuador Banking Relationship

The Iran Meetings

Three days after returning to Quito, Caicedo wrote a trip report to the board of directors of COFIEC to explain the results of the delegations’ visits to four Iranian banks (See Annex 4). As with the initial agreement, the memo is full of interesting and unusual anomalies.

The delegation met three times with the leadership of Pasargad Bank of Iran (PBI). At the first meeting, PBI and COFIEC officials “analyzed the possibility of selling COFIEC, either partially or totally” to PBI, and agreed to look into what the legal requirements for such a sale would be. This was not something that had previously been discussed, but if Iran were able to acquire an Ecuadoran bank it would open a world of possibilities for international transactions, as the sale would likely not be made public. As will be shown in subsequent meetings with other banks, such subterfuge is a common strategy.

It was also agreed that COFIEC would provide its SWIFT information so the two banks could exchange information. Demonstrating the need for secrecy regarding the relationship, the memo notes that “The embassy of Ecuador, in the person of Andrés Jauregui, will act as the direct intermediary in the receiving and sending of all information, so that it is not sent by other means, such as emails, telephone, etc.”

**It is worth noting that SWIFT information is more than just the identifying international code that a bank is assigned in the identifying architecture in order to send international wire transfers. Iran has been caught in the past stripping SWIFT code information in order to hide its transactions through Western banks. But SWIFT is an unmonitored communications system between and among banks that allows for the transmission of private, confidential and propriety information.** Such an unmonitored, private communications channel would be invaluable for moving resources and for international acquisitions.

Following the exchange of information, COFIEC “will open an account in any currency, for example Euros, in any country in Europe, Asia, etc., but not in dollars,” the memo says. “Once it is open, COFIEC will inform PBI of the currency in which the account was opened, and they will decide what types of transactions to carry out.”

Interestingly, the second meeting of the delegation was with the Export Development Bank of Iran (EDBI), a bank which is sanctioned both by the United States and United Nations as noted above, and one that had already received Correa’s permission to deposit $120 million in Ecuador’s Central Bank. President Correa had publicly stated he had decided not to proceed with a relationship with EDBI.

The memo states that in two meetings between the COFIEC delegation and EDBI executives the Iranians “expressed their desire to develop a correspondent relationship and their interest in the acquisition of COFIEC Bank.” The memo noted
vaguely (despite ample information available in a simple Internet search) that “extra officially it is said the bank is on the international blacklist.”

“Given that they (EDBI executives) knew the Central Bank of Ecuador had opened an account in a Russian bank, they said that bank could pay the compensation between EDBI and COFIEC “with the participation of the central banks.”

EDBI also suggested something that could only be explained by wanting any relationship between the banks to remain undetected by international banking authorities: “They (EDBI executives) suggested as an alternative (to central bank involvement) that we communicate by telex, using encrypted messages, in which they could provide the code for deposits, with the respective decryption device kept at the Iranian embassy in Ecuador. They said that if COFIEC were interested, EDBI was willing to send officials to Ecuador to support us and solve any problems that may arise. At the same time they expressed their interest in buying shares or the totality of COFIEC Bank, and need a statement of value to be presented as soon as possible.”

The delegation then had one meeting with Saman Bank, described as the largest private bank in Iran, a pioneer in electronic banking, and one that is not internationally blacklisted. Saman Bank was placed on the OFAC designation list on July 12, 2012, at the same time PBI was designated. Saman Bank said it was not going to be investing in foreign banks for the foreseeable future.

Finally, the delegation met with Parsian Bank, which expressed little interest in a relationship with COFIEC. Parsian Bank was designated by OFAC on July 12, 2012.

Caicedo finishes his memo noting that, in order to meet the commitments with PBI, “I have asked our operations department to send our SWIFT to initiate contact with said institution to continue the necessary steps needed in order establish a correspondent relationship.”
The Aftermath

A follow-up delegation from Petro Ecuador, the state oil company, and others, visited Iran February 25-27, 2012, to discuss a new set of initiatives built on the banking visit. The primary Iranian host was the National Iranian Oil Company (NIOC).

NIOC has long been sanctioned by OFAC. A recent report to the U.S. Congress by the Treasury Department described NIOC as being an “agent or affiliate” of Iran's powerful Islamic Revolutionary Guard Corps (IRGC), another sanctioned entity. The report noted that:

Recently, the IRGC has been coordinating a campaign to sell Iranian oil in an effort to evade international sanctions, specifically those imposed by the European Union that prohibit the import, shipping, and purchase of Iranian oil, which went into full effect on July 1, 2012. NIOC, which is owned by the Government of Iran through the Ministry of Petroleum, is responsible for the exploration, production, refining, and export of oil and petroleum products in Iran.
Under the current Iranian regime, the IRGC’s influence has grown within NIOC. For example, on August 3, 2011, Iran’s parliament approved the appointment of Rostam Qasemi, a Brigadier General in the IRGC, as Minister of Petroleum. Prior to his appointment, Qasemi was the commander of Khatam Al-Anbia, a construction and development wing of the IRGC that generates income and funds operations for the IRGC. Even in his new role as Minister of Petroleum, Qasemi has publicly stated his allegiance to the IRGC. As the IRGC has become increasingly influential in Iran’s energy sector, Khatam Al-Anbia has obtained billions of dollars worth of contracts with Iranian energy companies, including NIOC, often without participating in a competitive bidding process.17

The purpose of the visit to NIOC, according to the trip report (See Annex 5), was to obtain a line of credit to purchase Iranian petroleum derivatives to meet shortfalls generated by the closing of the Esmeraldas Refinery, to be carried out from August 2012 to April 2013. This money would, in essence, go directly to the IRGC.

The Ecuadorans also requested engineering help to upgrade the refinery. One of the reasons given for the necessity of purchasing the petroleum derivatives is the scarcity in the internal market that will result from the refinery’s shutdown for repairs. The reports noted that a representative of the sanctioned EDBI was present at the meeting and offered to open a line of credit for $400 million so Ecuador could complete the purchases.

The next day at a follow up meeting with NIOC, the Ecuadoran delegation asked for 4 million barrels of NAFTA RON 95 gasoline and USLD diesel fuel, to begin delivery in August 2012. This time, NIOC leaders explained that Iran did not have enough of either product to meet its own internal demand, and had already been forced to import the petroleum products from Venezuela to satisfy the internal market. While clearly disappointed, the delegation went to a second meeting with representatives of EDBI. EDBI representatives again offer a $400 million credit.

In May 2012, Ecuadoran Foreign Minister Ricardo Patiño visited Tehran. There he, along with senior Iranian officials, announced that Iran had agreed to loan Ecuador $400 million, and that, beginning in 2013, NIOC would be able to begin supplying Ecuador petroleum products.

The Past as Prologue

As noted above, the current attempts to build banking relationships with Iran, including sanctioned banks, dates back to at least 2008.

The primary banking relationship is between the Export Development Bank of Iran (EDBI) and the Central Bank of Ecuador, according to an agreement signed in November 2008, but not made public until almost a year later.

The heart of the deal is for EDBI to deposit some $120 million in Ecuador's state bank, to be used to foment export and import activity between the two countries.18 At the time the sum appeared to be unusually high for legitimate commercial activity, since total trade between the two nations has never exceeded $2.3 million, a sum reached in 2003. In 2006 and 2007, Ecuador registered zero exports to Iran, and imports of $27,000 and $16,000 in those years.19

This prompted particular concern because the month before reaching an agreement with Ecuador's central bank, EDBI was sanctioned by OFAC and designated a proliferator of weapons of mass destruction. The sanctions mean it is illegal for any U.S. citizen or entity to deal with the bank, denies the bank access to the U.S. banking infrastructure, and freezes all of its assets in the United States.

18 “Banco Irání Que Despierta Dudas se Asocia con el Central,” Hoy (Ecuador), Sept. 7, 2009.
19 Montúfar, op cit.
There is a further complication. According to the "Protocol of Cooperation" between the Central Bank of Ecuador and EDBI, Iran was also willing to take an unusual step in the agreement. Point 6 of the agreement states that:

*EDBI manifests its readiness to establish a branch of Banco Internacional de Desarrollo (BID) in the Republic of Ecuador.*

The BID is reportedly a Venezuelan bank, which the EDBI would have no influence over, including where it opened branches. In fact, BID, sanctioned at the same time as the EDBI, is wholly owned (all 40,000 shares) by Bank Saderat, an Iranian bank under U.S. and UN sanction. The BID was sanctioned because it was deemed by the Treasury Department to be acting on behalf of EDBI.

Sadarat Bank is also under U.S. and U.N. sanction. According to an OFAC statement:

*Bank Saderat has been a significant facilitator of Hizballah's financial activities and has served as a conduit between the Government of Iran and Hizballah, Hamas, the Popular Front for the Liberation of Palestine-General Command, and the Palestinian Islamic Jihad.*

**Lessons Learned**

These cases show several things about both Iran and Ecuador, and how the banking relationship operates. Among the lessons learned are:

- Ecuador fears no reprisals for engaging in business activities with sanctioned Iranian banks and entities. What is striking is that virtually every entity that Ecuador approached in this case, from investment companies to oil companies to banks, is on the OFAC sanctions list, and some are on the U.N. sanctions list. The brazenness with which senior government officials act -- including the head of the Central Bank -- indicates there is little fear of reprisals if discovered. So far, this has been good reasoning – there have been no consequences to the broader Ecuadoran economy or political leadership for engaging in this behavior other than the occasional demarche from the U.S. Ambassador, which is then turned into a propaganda victory for the Correa administration's anti-imperialism;

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20 Document in the possession of the author.
21 Documents of the founding of BID in Caracas are in the possession of the author.
The efforts to create alternative banking structures to aid Iran are not undertaken by rogue elements of the Ecuadoran government or the private banking sector. Rather, the moves are part of official Ecuadoran state policy and strategy to aid Iran;

The blanket state protection (Ecuador, Iran, Russia) is likely to attract other potential partners in schemes going forward. Private banks in Ecuador or elsewhere are likely to value, and need, their ability to operate through the U.S. and EU systems. This will likely make these banks more risk averse, if only for survival. However state institutions can draw on the full backing of the central bank and other resources to carry out business;

This presents a significant vulnerability if the United States were to choose to begin sanctioning (as it legally could) the central banks and other state entities involved in trading with Iran;

Ecuador’s unusual position as a dollarized nation with access to the international banking system makes it a key ally in Iran’s hemispheric efforts to blunt international sanctions. No other country willing to do business with Iran offers the same advantages that Ecuador does;

Iran is actively seeking partners in order to be able to gain access to hard currencies, particularly dollars and Euros; and, as the evolution from the EDBI/Banco Internacional de Desarrollo efforts to deposit money in the CBE to the current methodology shows, they are developing more complex schemes of operation that will be harder to detect;

While Ecuador offers some advantages, the Russian banking system clearly offers a safe haven for transactions originating with, or destined to, Iran. Russia maintains close ties with the regime in Tehran, while remaining one of the few countries left supporting Syria, who is Iran’s closest ally. The ability to use Russian banks, including, as in this case, a state-owned bank, to deal in the field of correspondent relationships adds a layer of protection that will make monitoring and cutting off Iranian transactions more difficult;

Finally, if the Ecuadoran behavior leads to no consequences that would lead to a reconsideration of their actions, it is not difficult to see that other countries, both in the region and elsewhere, could be persuaded with relative ease to participate in similar schemes.