



Case Study: Iranian Illicit Financing for Quds Force's Overseas Purchases

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December 17, 2014

Iran faces many difficulties in financing its illegal overseas procurement operations. A window into Iran's methods to free up funds internationally despite sanctions was provided recently by a November 18, 2014 [Reuters report](#).¹ It reported on Chinese private and financial companies linked to the Islamic Revolutionary Guards Quds Force, an elite group that supports pro-Iranian militant groups in the Middle East. Because Iran is expected to continue such violations of sanctions after a comprehensive nuclear agreement is achieved, U.S., EU, and United Nations Security Council sanctions will need to continue on certain financial activities and on proliferation sensitive goods. This case demonstrates that the removal of international, regional, and national sanctions on Iran will need to proceed with great caution.

According to the Reuters report, "A Western intelligence report reviewed by Reuters stated that Shenzhen Lanhao Electronic Technology Co Ltd is one of several companies in China that receives money from Iran through a Chinese bank".² These transfers reportedly help finance the Quds Force. The financial transactions are reportedly conducted through the Central Bank of Iran (CBI), which has accounts with a Chinese National Petroleum, Bank of Kunlun. The Quds initiate transfers to Chinese entities owned by the Quds, or to Chinese companies owed money by the Quds, such as Shenzhen Lanhao.³

According to the intelligence report reviewed by Reuters, once Kunlun transfers the money to other entities the Quds can use it for various covert acquisitions in other countries. These entities such as Shenzhen Lanhao seem to have inaccurate lists of staff and addresses. The business manager of Shenzhen Lanhao claimed to never have worked for the company. Furthermore, the company's address is located Shenzhen's western suburbs and the owners of the apartment complex told Reuters that they had never heard of Shenzhen Lanhao.⁴

¹ Louis Charbonneau, Jonathan Saul, and James Pomfret. "Iran Uses China Bank to Transfer Funds to Quds-linked Companies – Report." *Reuters*. Thomson Reuters, 18 Nov. 2014. Web. 18 Nov. 2014.

² Ibid.

³ Ibid.

⁴ Ibid.

Inside Iran, Bamdad Capital Development Co, a Quds-controlled Iranian company, initiates transfers from the accounts held with the Bank of Kunlun. Bamdad's website had listed the company as engaged in pharmaceutical and base metals trading. It had requested the CBI to transfer 1.45 million euros "from an account at Kunlun to Shenzhen Lanhao for a payment 'related to purchasing metals.'"⁵ According to Reuters, "While it was unclear how and whether the Quds Force received any funds through the transaction, it appeared to show the movement of funds as described in the [intelligence] report." The intelligence report, according to Reuters, stated that "other companies also initiate and receive transfers from the central bank's Kunlun accounts in this way."

The Bamdad Capital Development Company appears to be some type of phony trading company. According to Reuters, the Bamdad website listed an address in an Iranian province that does not exist. Following the release of the Reuters article, the current status of the company's [website](#) is under construction, but the site lists a number for contact. The phone line for this number appears to be active. When a cache search was conducted, the website as of July 22, 2014 stated that Bamdad Capital Development Co. will be "involved in commerce very soon." The website's history suggests Bamdad just recently popped up as a front company for some illegitimate purpose. Certainly, the Bank of Kunlun should have known that this company had questionable legitimacy. While the Bank of Kunlun may not have been aware that Bamdad Co. was controlled by the Quds force, this transaction demonstrates a need for due diligence by the Chinese bank.

The intelligence report also stated that millions of dollars have been moving from the Iranian Central Bank to Kunlun over the past years despite sanctions. On July 31, 2012, the U.S. Department of Treasury under the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA), sanctioned the Bank of Kunlun for providing "significant financial services to more than six Iranian banks."⁶ These Iranian banks were "designated by the United States in connection with Iran's weapons of mass destruction (WMD) programs or its support for international terrorism."⁷ Yet, Kunlun still provides funding which the U.S. states facilitates "the movement of millions of dollars' worth of international transactions for Iran."⁸ In one case, after the United States and European Union designated the Iranian Bank Tejara for involvement in illicit procurement, Kunlun continued to engage the bank in payments totaling to roughly \$100 million.

When approached by Reuters, Chinese Foreign Minister Hong Lei stated, "China maintains normal trade relations with relevant countries, including Iran," and this activity "does not harm the interests of other countries or the international community."⁹ Following U.S.-led sanctions, Beijing used Kunlun as its main bank to process oil payments to Iran to protect other banks

⁵ Ibid.

⁶ U.S. Dept. of Treasury, 31 July 2012. *Treasury Sanctions Kunlun Bank in China and Elaf Bank In Iraq For Business with Designated Iranian Banks*. <http://www.treasury.gov/press-center/press-releases/Pages/tg1661.aspx>.

⁷ Ibid.

⁸ U.S. Dept. of the Treasury, 31 July 2012. *Release of Iran Executive Order; Addition of Names to the List of Foreign Financial Institutions Subject to Part 561 (the "Part 561 List")*. <http://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20120731.aspx>

⁹ "Iran Uses China Bank to Transfer Funds to Quds-linked Companies." 18 Nov 2014.

from penalties. “Kunlun had assets of 246.5 billion yuan (\$40 billion) at the end of 2013, according to its annual report.” Again, the report does not claim that the Chinese government or the Bank of Kunlun was aware that these transactions support the Quds force. Reuter’s reporting would appear to have served to notify the Chinese government of these activities, however.

The continued violation of U.S. financial sanctions in China demonstrates the need to work to convince China to implement these sanctions. Some of the activities uncovered by Reuters may violate Chinese trade control and banking laws. These revelations highlight the nation’s inability to adequately enforce its own laws as well as U.N. Security Council sanctions on proliferation sensitive goods, as has been demonstrated multiple times in the case of illegal exports of proliferation sensitive goods to Iran. The United States and its allies must continue pressing China to correct these lapses and avoid them in the future.