



October 23, 2009

A Smuggler's Use of the U.S. Financial System to Receive Illegal Payments from Iran

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From November 2006 to September 2008, Li Fang Wei, a Chinese citizen and the owner of Limmt Economic and Trade Company, Ltd. located in Dalian, China, allegedly illegally procured for Iran equipment and materials usable in nuclear, ballistic missile, or conventional military programs. The New York District Attorney's office charged that his procurements were in violation of United Nations resolutions and Nuclear Supplier Group (NSG) and Missile Technology Control Regime (MTCR) export guidelines, and he used the United States financial system to receive payment for these illicit procurements. In June 2006, Limmt was sanctioned by the U.S. Treasury Department for activities relating to WMD procurement and blacklisted from accessing the U.S. financial system. Despite this, Limmt and its owner, using company aliases and phony names, allegedly continued to route payment transactions through New York state bank accounts for procurements made for Iran.

In April 2009, a New York State Grand Jury indicted Limmt and Li Fang Wei and charged them with conspiracy in the fifth degree and one hundred and eighteen counts of deception and fraud against United States financial institutions, eight of which involved Iranian customers.¹ In light of the fact that the United States and the People's Republic of China do not have an extradition treaty, Li will not face prosecution in the United States for his crimes.

The Case

International smugglers, like any other vendor, need to receive payments from their clients. The world's financial system is organized in such a way that these payments are often in dollars and as a result travel through banks in the United States, especially those in the state of New York. Major financial institutions often exceed standard levels of compliance set by national

¹ Supreme Court of the State of New York, *Indictment, The People of the State of New York against Li Fang Wei and Limmt Economic Trade Company (and aliases)* (called "indictment" in the text) April 7, 2009. See also: New York District Attorney Office Press Release, April 7, 2009. The accused have not been found guilty of any crimes.

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governments and employ advanced screenings systems and experts to ensure attempted illicit transactions are blocked or captured for investigation. These screening systems are useful tools for preventing transactions associated with sanctioned entities. However, due to the sheer amount of financial transactions conducted each day, screening systems are not able to catch all illicit transactions, especially when sophisticated smugglers take steps to obscure their true identities by using aliases and hiding payment origins.

Limmt Economic and Trade Company is a metallurgical production and trading firm which serves international customers in sales of metal alloys and minerals. It allegedly runs a side business in illicit procurement of dual-use materials for entities of the Iranian military establishment affiliated with the state's nuclear, missile, and conventional military programs. The Treasury Department's Office of Foreign Assets Control (OFAC) Specially Designated Nationals and Blocked Persons List (SDN List), to which Limmt was added in June 2006, bans it from accessing the U.S. financial system and prohibits U.S. companies from doing business with the firm. U.S. financial institutions blocked several attempted transactions associated with Limmt immediately after it was added to the SDN List. In August 2006, shortly after the Treasury Department sanctioned Limmt for its proliferation activities, Limmt allegedly attempted to complete a financial transaction in the amount of \$40,000 through Citibank in New York. Citibank's screening systems detected this transaction. Once Limmt became aware that U.S. banks were rejecting or freezing the company's transactions due to the sanctions, it allegedly began setting up bank accounts under phony company names, obscuring sales records, and attempting to hide the country origin of payments to its accounts.

Subsidiaries or entities acting on behalf of the Iran Defense Industries Organization (DIO) (known in Persian as "Sazemane Sanaye Defa" or "SSD"), allegedly purchased from Limmt a range of sensitive materials, including graphite, tungsten copper, tungsten powder, high strength aluminum alloys, and maraging steel.² These goods are controlled by international conventions and national export control regimes because of their potential application in nuclear, ballistic missile, and military programs. DIO directs many of the Iranian military establishment's overseas illicit procurement activities. It was sanctioned by the U.S. Treasury Department in March 2007 for engaging in WMD proliferation.

These subsidiaries or entities placed orders with Limmt for needed goods and paid for the purchases upon receipt of special account and payment instructions, in which Limmt would allegedly specify account details at New York banks held under aliases and provide instructions to Iranian entities on how to route payments undetected. Limmt allegedly sent banned goods to several companies linked to DIO including: Khorasan Metallurgy Industries, Amin Industrial Group, Shahid Sayyade Shirazi Industries, Yazd Metallurgy Industries, and Aban Commercial and Industrial Company.

² According to the May 2009 testimony before the Senate Foreign Relations committee of New York District Attorney Robert M. Morgenthau, whose office is prosecuting this case, Limmt and the DIO were also negotiating the sale of gyroscopes, accelerometers, and tantalum. Morgenthau stated, "gyroscopes and accelerometers are crucial technology for Iran's development of long range missiles, and tantalum in the form indicated can be used to manufacture armor-piercing projectiles of the sort found in improvised explosive devices (IEDs)." Testimony transcript is available at: <http://foreign.senate.gov/testimony/2009/MorgenthauTestimony090506a.pdf>

Eight procurements and associated financial transactions with Iranian entities are detailed in the indictment of Limmt and Li Fang Wei which involve illegal access to the U.S. financial system (See also Figure 1, which shows the routes of payments for procurements made on behalf of Iran). Li and Limmt are also under indictment for several dozen other illegal financial transactions involving non-Iranian clients, accounting for the total one hundred and eighteen fraud and deception charges.

Transactions with Iranian Entities

In November 2006, Li Fang Wei informed an Iranian customer that Limmt had been added to the “black lists of USA treasury ministry due to some business activities with your several large governmental organizations/companies.”³ He stipulated that in the future, Limmt would go by the name “Sino Metallurgy and Minmetals Industry Co., Ltd.” Limmt allegedly went on to use several other aliases to set up its bank accounts at New York financial institutions. According to the indictment, Limmt’s other aliases for financial transactions and phony company names for shipping to Iranian entities included: Blue Sky Industry Corporation, SC (Dalian) Industry and Trade Co., Ltd., Rwiot Steel Service; Sunny Minerals Company Limited, Wealthy Ocean Enterprises, Ltd., and Liaoning Industry and Trade Co., Ltd.

Khorasan Metallurgy Industries

On October 4, 2007, Li Feng Wei allegedly contacted a purchasing agent at the Khorasan Metallurgy Industries to provide account and payment information for an earlier sale of eight pieces of steel plates. Khorasan Metallurgy Industries was sanctioned in March 2008 under United Nations Security Council Resolution 1803 because of its role in the production of centrifuge components for the Iranian nuclear program.⁴ A workshop affiliated with Khorasan Metallurgy Industries, Kaveh Cutting Tools Complex, was previously involved in manufacturing P-1 gas centrifuge components.⁵ Khorasan Metallurgy Industries is a subsidiary of the Ammunition and Metallurgy Industries Group, which in turn is a DIO subsidiary.

Li allegedly specified to the Khorasan Metallurgy Industries agent that Limmt’s account at a Chinese bank, where account denominations were held in Euros (€), was under the name “Blue Sky Industry Corporation.” Li sent a note on company stationery with the letterhead “SC (Dalian) Industry and Trade Co., Ltd.” with the exact account information. About one month later, Li allegedly acknowledged receiving payment from Khorasan Metallurgy Industries for the eight pieces of steel plates (figure 1).

Amin Industrial Complex

³ *Indictment*, April 7, 2009, p. 8.

⁴ United Nations Security Council Resolution 1803 (2008): http://www.isisnucleariran.org/assets/pdf/unsc_res1803.pdf

⁵ *Can Military Strikes Destroy Iran’s Gas Centrifuge Program? Probably Not*. David Albright, Paul Brannan and Jacqueline Shire, Institute for Science and International Security, August 7, 2008: http://isis-online.org/uploads/isis-reports/documents/Centrifuge_Manufacturing_7August2008.pdf

On June 16, 2008, Li sent an invoice on SC (Dalian) Industry and Trade Co., Ltd. letterhead to a purchasing agent at Amin Industrial Complex, which has the same address and contact information as Khorasan Metallurgy Industries.⁶ According to the indictment, the invoice was allegedly for 24,500 kilograms of maraging steel rods, worth over €1,440,000, or about \$1,964,465. The maraging steel in the dimensions sought by Amin Industrial Complex is controlled by NSG export guidelines.⁷ Amin Industrial Complex later confirmed that it had paid fifty percent of the total sales price in advance for the shipment for the maraging steel rods (figure 1).

Shahid Sayyade Shirazi Industries and Yazd Metallurgy Industries

On December 22, 2006, a representative of Limmt contacted Shahid Sayyade Shirazi Industries with an invoice addressed to Yazd Metallurgy Industries, a DIO subsidiary. According to the indictment, Shahid Sayyade Shirazi Industries is linked to the DIO. The invoice was for 200 metric tons of high power graphite electrodes, worth €220,400, or about \$300,516. It was on company letterhead of SC (Dalian) Industry and Trade Co., Ltd. The invoice allegedly contained bank account information for Limmt's Chinese bank account held in Euro denominations under the name Blue Sky Industry Corporation. On January 10, 2007, Li forwarded a press release to Shahid Sayyade Shirazi Industries from the U.S. Treasury Department which designated the Iranian bank, Bank Sepah, a sanctioned entity barred from transacting with U.S. financial institutions. Bank Sepah's London branch had been used to establish a line of credit for the Shahid Sayyade Shirazi Industries/Yazd Metallurgy high power graphite electrode purchase, and Li allegedly worried that the transaction would now be blocked. Bank Sepah and its worldwide offices, including its London office, had been sanctioned by the United States and the United Kingdom. Nevertheless, the payment went through successfully on February 15 (figure 1).

On April 9, 2007, Li allegedly sent an invoice to Shahid Sayyade Shirazi Industries on SC (Dalian) Industry and Trade Co., Ltd. letterhead for the purchase of 450 metric tons of furnace electrodes with 4TPI nipples. In August, Li allegedly confirmed that part of the order and another unidentified order had been shipped to Iran by Limmt under the phony company name "Rwiot Steel Service." Li wrote to Shahid Sayyade Shirazi Industries, "Kindly be informed that Rwiot Steel Service is NOT a real company name, but a false name. If we mentioned your company name, we worried that the shipment might be blocked by USA." According to legal documents, in September, Li requested that Shahid Sayyade Shirazi Industries wait for new account information to pay for the sale because he believed their account at Bank Sepah under the name "Blue Sky Industry Corporation" may have been blocked (figure 1).

Aban Commercial and Industrial Company

In November 2006, Li allegedly requested payment from a representative of Aban Commercial and Industrial Company for 2,000 kg of tungsten metal powder, a raw material with applications in missile programs. Aban Commercial and Industrial Co. shares a P.O. Box number with Electro Sanam Company⁸, which is designated under U.N. Security Council Resolution 1803 as

⁶ *Indictment*, April 7, 2009, p. 12.

⁷ *Ibid.*

⁸ *Indictment*, April 7, 2009, p. 15.

a front company used by the Iranian Aerospace Industries Organization, which runs Iran's ballistic missile programs and is under DIO. Li allegedly stipulated that payment for the tungsten metal powder should be sent to a Chinese bank account under the name "Sunny Minerals Company Limited" (figure 1). In May 2007, Li reportedly asked for payment from a representative of Aban Commercial and Industrial Co. for an additional 15,000 kg of tungsten metal powder. Aban Commercial and Industrial Co. noted it had been satisfied with the previous purchase. Li allegedly said that the transaction should be sent to a Chinese bank account held in Euros, under the name "Wealthy Ocean Enterprises Ltd" (figure 1). The Aban Commercial and Industrial Company representative confirmed the company's request for tungsten metal powder with a purity of 99.97 percent and particle size of 5.5-6.5 μm .

In February 2007, an agent of Limmt allegedly sent to Aban Commercial and Industrial Co. an invoice for 200 pieces of graphite cylinders for an Electrical Discharge Machine, a machine which handles electrically conductive metals. According to the indictment, the invoice was sent on company letterhead of "Liaoning Industry & Trade Co., Ltd." for a shipment worth €89,000, or about \$125,793. In August, Li allegedly instructed Aban Commercial and Industrial Co. to submit payment for the graphite cylinders at its Chinese bank under the name Wealthy Ocean Enterprises Ltd (figure 1).

In May 2007, Li allegedly sent a new invoice on Liaoning Industry & Trade Co. letterhead to Aban Commercial and Industrial Co. for 400 pieces of tungsten-copper alloy plates, a dual-use material with many uses in missile programs worth €1,480,000, or about \$2,080,156 (figure 1). In September, Li reportedly told Aban Commercial to prepare to receive shipment of 100 of the 400 pieces of tungsten-copper alloy plates.

Observations and Lessons

This case study reveals much about the types of schemes employed by international smugglers as they attempt to receive payment for goods procured. Use of aliases on bank accounts, fraudulent paperwork that conceals information about the sale, and obscuring the country origin of illicit payments are common methods for hiding the business of smuggling. This case study illustrates that financial sanctions can be effective at hindering the activities of smugglers by forcing them to change their methods and work under constraint. Still, illicit trading companies can quickly change their identities and obscure information needed by screening systems for timely detection.

This case study shows that bank screening systems can be effective in the instances that they can detect illicit activity. At what point in time U.S. or British authorities caught on to Limmt's alleged scheme, ongoing for a year and a half after it was sanctioned by the United States, is not specified in the indictment. The millions of financial transactions made each day cannot possibly be screened efficiently and effectively enough by banks to result in stopping every illegal transaction made by international smugglers. This case may be an exception to the rule.

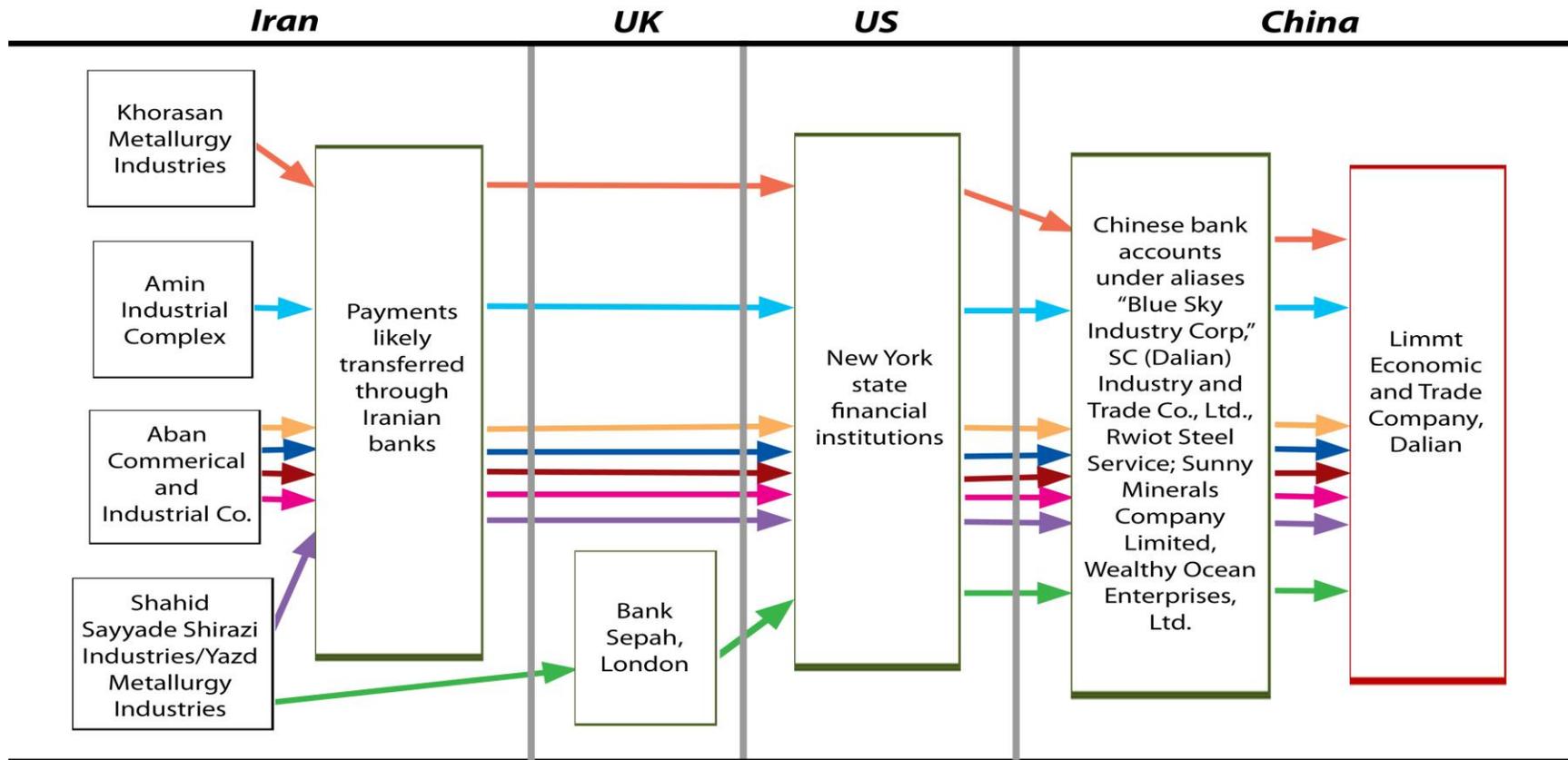
This case study illustrates that authorities cannot yet rely on international treaties and legal arrangements to facilitate the extradition and prosecution of persons suspected of violating financial sanctions. The United States and the People's Republic of China maintain a Mutual

Legal Assistance Treaty, allowing for the sharing of evidence pending approval by law enforcement agencies of a formal diplomatic request. Yet, without an extradition treaty, China will not allow the extradition and prosecution of one of its citizens in the United States.

This case study shows that China's export control laws still remain poorly enforced and that international smugglers continue to enjoy much freedom to engage in activities that break the laws of other countries. China has not yet signed the Missile Technology Control Regime, under which signatories pledge to prevent the proliferation of missile technology and know-how to other countries. In the event that U.S. pressure convinces China to prosecute Li and crack down on Limmt's activities, many other illicit trading companies will likely continue to operate unhindered by Chinese law enforcement, providing one-stop shopping for dual-use nuclear and military materials.

This case study reveals above all that smuggling must be stopped much earlier in the process—before equipment is sent to a proliferant state and payments for goods are made. Authorities cannot rely wholly on such late stage measures as bank screening systems, financial sanctions, and prosecutions to stop international smuggling.

Figure 1: Routes of Payments for Iranian Procurements Used by Limmt



Financial institution
 Procurement entity
 Military program

- ➔ Payment for 8 pieces steel plates, routed through Chinese bank acct under "Blue Sky Industry Corporation"
- ➔ Payment for 24,500 kg maraging steel rods, routed through Chinese bank acct under unspecified name
- ➔ Payment for 2,000 kg tungsten metal powder, routed through Chinese bank acct under "Sunny Minerals Company Limited"
- ➔ Payment for 15,000 kg tungsten metal powder, routed through Chinese bank acct under "Wealthy Ocean Enterprises Ltd"
- ➔ Payment for 200 pieces graphite cylinders, routed through Chinese bank acct under "Wealthy Ocean Enterprises Ltd"
- ➔ Payment for 400 pieces tungsten-copper alloy plates, routed through Chinese bank acct under unspecified name
- ➔ Payment for 200 metric tons high power graphite electrodes, routed through Bank Sepah, London
- ➔ Payment for 450 metric tons furnace electrodes, routed through Chinese bank acct under unspecified name