



## Serial Proliferator Karl Li:

*China refuses to take action against notorious smuggler Li despite strong evidence he violates U.S. laws, UN Security Council sanctions, and likely Chinese laws. Faced with continual Chinese obduracy, the U.S. government has offered a \$5 million reward for information leading to Li's arrest.*

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On April 28, 2014, the United States District Court in the Southern District of New York filed a grand jury indictment against Chinese national Li Fang-wei, aka, Karl Li, owner and operator of the previously indicted company Limmt and its many associated trading companies and aliases. Li is suspected of selling to Iran controlled and dual-use missile and nuclear related goods and materials. The indictment alleges that over many years, his sales contributed to the substantial outfitting of the Iranian ballistic missile program.<sup>1</sup> He is accused of seeking and selling dual-use goods made in the United States on behalf of Iran and other countries and of using the U.S. financial system to make and receive illegal payments. Li is a "long-time supplier to Iran's Defense Industries Organization and Aerospace Industries Organization."<sup>2</sup>

In 2006 the United States sanctioned Limmt and in 2009 the New York District Attorney indicted both Li and Limmt, imposing significant sanctions and restricting him from requesting a license for U.S. goods or making financial transactions using U.S. banks. The U.S. Justice Department notes that these restrictions led Li to "operate much of his business covertly," using subterfuge such as building "an outsized network of front companies – to conceal his continuing participation, and Limmt's continuing participation, in sanctioned activities." The indictment lists 26 different company names used by Li to conduct his illicit business.<sup>3</sup> Since 2006, Li has made "more than 165 separate U.S. dollar transactions, with a total value in excess of approximately \$8.5 million."<sup>4</sup>

Leaked U.S. State Department cables dating back to 2007 show intensive, high-level U.S. efforts to convince China to take action to close down Li's operations. These diplomatic efforts failed as reports

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<sup>1</sup> United States District Court in the Southern District of New York, *Grand Jury Indictment: United States of America v. Li Fangwei and aliases*, Filed April 28, 2014, p. 3.

<sup>2</sup> *USA v. Li Fangwei*, p. 2.

<sup>3</sup> *USA v. Li Fangwei*, Exhibit A, pp. A-1-A-3.

<sup>4</sup> *USA v. Li Fangwei*, p. 3; Exhibit B, pp. B-1-B-6; Department of Justice Press Release, "'Karl Lee' Charged in Manhattan Federal Court with Using a Web of Front Companies to Evade U.S. Sanctions," April 29, 2014.

<http://www.justice.gov/opa/pr/2014/April/14-nsd-450.html>

have surfaced that Li is protected by senior Chinese officials. Obviously frustrated by China's refusal to rein in Li, the State Department has offered a \$5 million anti-transnational crime reward for information leading to his arrest. The newest indictment charges Li with an additional seven offenses.

## **New Charges Filed**

The seven new charges against Li, as described in the indictment, include:

- **Count One: Conspiracy to violate the International Emergency Economic Powers Act (IEEPA):**

- ***Export control related violations:***

- From December 2010 to February 2013, Li "used two separate front companies, Sinotech (Dalian) Carbon & Graphite Manufacturing Corporation and Dalian Zhongchuang Char-White Co., Ltd, to send at least 23 shipments to Iran." Some appear to have included various samples using invoices issued by still other additional front companies.
    - During late 2011, Li "visited a manufacturing plant in China...with several Iranians." The purpose of the visit was to inspect the facilities "in connection with a completed transaction involving machinery used to produce aramid fiber." The indictment states that "aramid fibers are used in, among other things, ballistic missiles and gas centrifuges used in uranium enrichment." The UN Security Council banned the export of "fibrous or filamentary materials" to Iran in 2010.
    - In February 2010, Li sent invoices to an Iranian company for "20,000 kilograms of cold-drawn seamless steel pipes." In January 2008, Li sent an invoice to another Iranian company for "1,300 aluminum alloy tubes." In June 2008, he sent an invoice to an Iranian procurement agent for "24,500 kilograms of maraging steel rods...a special class of high-strength steel that can be used in the development of gas centrifuges and uranium enrichment." The invoices were issued in the names of various front companies owned by Li.

- ***Financial transaction related violations:***

- From 2007 to 2012, Li used five different front companies- Wealthy Ocean Enterprises Ltd., Ansi Metallurgy Industry Co., Ltd., ABC Metallurgy Limited, Sinotech Industry Co., Ltd., and Success Move Limited to covertly deal with a single customer. Li made extensive use of Sinotech Metallurgy & Minmetals Industry Co., Ltd. evading sanctions in 35 separate U.S.-dollar transactions totaling more than \$2,400,000. After banks became suspicious of Sinotech Metallurgy & Minmetals Industry Co., Ltd., Li directed companies to use a second set of front companies to make financial transactions with new banks, causing additional millions to be illegally pushed through the U.S. banking system.
    - During 2010 and 2011, Li engaged in at least four transactions with an Iran-based company, which made payment for these transactions to two different front companies. Li successfully used the U.S. financial system in order to obtain goods for Iran making

transactions amounting to more than \$208,300. The money flowed through multiple New York banks to a Chinese bank account ultimately controlled by Li. He arranged for the Iranian payments to appear to originate from somewhere other than Iran by using an exchange house, “i.e., an entity operating outside of Iran on behalf of an Iran-based entity.”

**Specific Overt Acts:**

- From February 2012 to February 2013, Li caused four electronic wire transfers through U.S. financial institutions to Li’s accounts in China. The first was in the amount of \$71,374.18 to Li’s account in the name of “MTTO Industry Trade Ltd.” The second of \$34,644.27 was to Li’s account in the name of “Karat Industry Co.” The third for approximately \$400,000.00 was to an account in the name of “Tereal Industry and Trade Limited.”
  - In January 2013, Li caused a company located in the United Arab Emirates to issue an invoice to Sinotech (Dalian) Carbon and Graphite Manufacturing Corporation for a purchase of “graphite electrodes” in exchange for \$1,145,000.00.
  - In January 2012, Li caused approximately 20 metric tons of graphite to be sold to a U.S. company and imported into the United States. In February 2012, Li caused over 600 graphite rods to be sold to a U.S. company and imported.
  - In December 2011, Li caused a U.S. company to issue a price quote for 5 kilograms of Hafnium Diboride 325 Mesh powder. In October 2011, Li initiated a contract with a U.S. company in the name of MTTO Industry & Trade.
  - In July and August of 2011, Li caused wire transfers of \$60,725.00 and \$52,443.63 to be transferred through U.S. financial institutions in the name of Success Move Limited. In March 2011, Li caused an electronic wire transfer of \$16,062.50 through an unnamed financial institution in the name of Success Move Limited to a bank account in China controlled by China North Chemical Industries Co., Ltd.
  - In August 2010 and February 2011, Li caused electronic wire transfers of \$31,914.00 and \$55,605.00, respectively, to be transferred from an Iranian company through U.S.-based financial institutions in New York to a bank account controlled by Li in China in order to facilitate the provision of goods to the Iranian customer.
  - From 2010 to 2013, Li repeatedly traveled to Iran for extended periods of time to confer with Iranian individuals/entities for business-related purposes.
  - In April 2009, Li caused an electronic wire transfer of \$52,443.63 through a U.S. financial institution in New York to a bank account controlled by Li in China in the name of ABC Metallurgy Limited.
- **Count Two: First Substantive IEEPA Violation:**

- Li caused approximately 20 metric tons of graphite to be sold to a U.S. company and imported into the United States, without prior authorization from OFAC. (Li is prohibited from doing business in the United States by the sanctions against him).
- **Count Three: Substantive IEEPA Violation:**
  - In February 2012, Li engaged in transactions that evaded and avoided the prohibitions contained in Executive Order 13382 and regulations imposed by OFAC on LIMMT, on Li Fangwei and several of Li's front companies, as proliferators of weapons of mass destruction. Li caused over 600 graphite rods to be sold to a U.S. company and imported into the United States.
- **Count Four: Money Laundering Conspiracy:**
  - From 2006 through 2014, Li and his associates conspired to transfer funds to places in the United States through places outside the United States, with the intent to promote and carry on unlawful activity with individuals and entities placed on the Specially Designated Nationals List by OFAC. Li and his associates engaged in monetary transactions of a value greater than \$10,000 to provide goods and services to customers in Iran.
- **Count Five: Wire and Bank Fraud Conspiracy:**
  - From 2006 to 2014, Li and his associates conspired to use false and fraudulent pretenses to obtain money and property. Li used a network of front companies to conduct U.S. dollar transactions through financial institutions in U.S.-based correspondent banks and caused more than \$8.5 million to be illegally transferred from outside the United States through financial institutions in New York.
  - Li entered into multiple transactions with a U.S. company in contravention of IEEPA and the WMD Sanctions Regulations imposed against him, by concealing the true nature of his involvement in the transaction, resulting in approximately \$128,978.28 to be transferred using front companies.
  - Li engaged in a scheme with an Iranian company to hide the true nature of the company and Li's involvement in the transactions through U.S. financial institutions.
- **Count Six: First Substantive Count of Wire Fraud:**
  - Li engaged in a scheme to use aliases and front companies to conduct transactions in U.S. currency through U.S.-based financial institutions, in contravention of IEEPA and the WMD Sanctions imposed against him, by concealing the true nature of his involvement from the financial institutions and U.S. regulators.
- **Count Seven: Second Substantive Count of Wire Fraud:**

- From October 2011 to April 2012, Li used the MTTO Industry & Trade Limited front company to collect approximately \$128,978.28 in U.S. currency from the U.S. Company in contravention of IEEPA and the WMD Sanctions Regulations imposed against him, by concealing the true nature of his involvement in the transaction from the company and U.S. regulators.

## **Lessons and Observations**

Karl Li continues to operate his illicit business from China unimpeded. Apparently apart from an inability to travel to a U.S.-friendly extradition country, Li can maneuver and even visit Iran with ease. China's lack of action over the years to shut down Li's operations shows that it is willing to tolerate high levels of criminal behavior in violation of UN sanctions on Iran and the international export control regimes to which it belongs. Until China takes action, the United States and other countries will be forced to attempt to stay ahead of Li's ever-changing front company aliases, efforts to deceive U.S. financial institutions, and even his deals with U.S. companies.

Actions such as the \$5 million bounty offered by the United States toward Li's arrest are a necessary step. But the U.S. government should also designate China a "destination of diversion concern" under U.S. sanctions legislation. Imposing additional licensing conditions on certain U.S. dual-use goods bound for China would help ensure the goods do not end up in Iran (or North Korea for that matter) and would send a stronger message about the United States' unwillingness to tolerate China's support for this ongoing criminal activity, which contributes importantly to Iran's missile and nuclear proliferation.

The financial industry is faced with a daunting task, to say the least, in attempting to detect and stop illicit transactions by seasoned proliferators such as Li who know how to conceal the origin of payments of transactions and obscure the nature of the true companies and end-users of goods involved. Bank screening systems will continue to rely on the efforts of law enforcement and intelligence to stay ahead of illicit financial transaction and procurement schemes. They will rely on these efforts to help them quickly add new front company names to their databases so they can freeze, report, and investigate suspicious transactions. In that effort, they deserve the full support of all responsible nations.