

House Financial Services Committee  
*Subcommittee on Terrorism and Illicit Finance*

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# Countering the Financial Networks of Weapons Proliferation

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## INTRODUCTION

Chairman Pierce, Ranking Member Perlmutter, members of the subcommittee, on behalf of the Foundation for Defense of Democracies and its Center on Sanctions and Illicit Finance, I thank you for inviting me to testify.

The Islamic Republic of Iran has been under U.S. sanctions since late 1979. From 2006 to 2016, Iran's nuclear and ballistic missile programs were the target of a United Nations sanctions regime, which the United States, the European Union, and their Western allies (Australia, Canada, Japan, New Zealand, Norway, South Korea, and Switzerland) subsequently expanded with their own set of far-reaching measures. Initially designed to both punish and prevent proliferation attempts, these sanctions over time became wider in scope, eventually targeting Iran's energy industry, financial sector (including its Central Bank and most of its banking institutions), shipping, aviation, insurance, and oil exports.

Beginning in January 2016, the Joint Comprehensive Plan of Action, or JCPOA, granted Iran sanctions relief, though non-nuclear sanctions remained in force. Due to President Trump's May 2018 decision to withdraw from the JCPOA, Iran again faces U.S. sanctions, including secondary sanctions, which are already causing numerous international companies to withdraw from the Iranian market. Iran is therefore likely to ramp up its sanctions evasion efforts.<sup>1</sup>

Sanctions significantly inhibit Tehran's ability to trade with the world. Still, Iran has adapted, engaging sanctions enforcers in a complex and evolving cat-and-mouse game. With over three decades of experience eluding sanctions, Iran has displayed ingenuity and inventiveness to defy the embargo on its oil and petrochemical exports, bypass financial restrictions on its banking activities, and procure critical technology. Its responses to new sanctions have been quick and sophisticated. As a result, Iran has been able to mitigate sanctions' impact on its efforts to advance its nuclear and ballistic missile programs while keeping its economy afloat.

My testimony will outline how Iran evaded sanctions in the past, offering typologies as well as case studies in four areas of sanctions evasion: procurement, financial networks, fraudulent practices, and reliance on ancillary services.

## PROCUREMENT

The simplest example of Iranian procurement is a triangular structure of front companies operating overseas. Iranian proxies usually establish fronts in a foreign country to procure dual-use technologies. Once incorporated, companies buy locally or from a third country. The buyer then ships the procured goods to the final destination in Iran, or fictitiously sells them to another front company in another country before final delivery.

A key factor in these schemes is the existence of an intermediate jurisdiction that obfuscates the merchandise's final destination. Over the years, the Iranian regime has established companies in Armenia, Azerbaijan, Georgia, India, Malaysia, Malta, Turkey, and the UAE for this purpose.

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<sup>1</sup> See, for example: Stora Karimi, "Opportunities for Afghan money traders as sanctions loom," *Reuters*, June 30, 2018. (<https://af.reuters.com/article/worldNews/idAFKBN1JR137>)

Take, for example, the 2009 case of Majid Kakavand,<sup>2</sup> an Iranian citizen who established Evertop Services Sdn Bhd in the Malaysian capital of Kuala Lumpur to buy aerospace technology from Western suppliers for Iranian end-users.<sup>3</sup> Once the procured goods were delivered to Malaysia, Kakavand transferred them to Iran using an Iranian commercial cargo flight. Kakavand was arrested in France in March 2009 on charges of U.S. sanctions violations, though he successfully fought his extradition to the U.S.<sup>4</sup>

In a similar case, U.S. authorities accused Iranian national Hossein Tanideh of procuring technology on behalf of sanctioned Iranian nuclear procurement company MITEC,<sup>5</sup> through front companies he established in Turkey and Azerbaijan. Specifically, Tanideh sought to purchase valves for Arak's heavy water reactor from German manufacturers.<sup>6</sup> Locally based dual German-Iranian nationals facilitated the deal in Germany. When German officials grew suspicious, Tanideh turned to Indian manufacturers in his quest for a suitable alternative. Tanideh was added to OFAC's SDN list<sup>7</sup> and was sanctioned by the U.S. Department of State in July 2012 under Executive Order 13382 for proliferation.<sup>8</sup>

Such a scheme usually involves Iranian nationals opening companies abroad. But Tehran has also relied on Iranian expatriates who, as dual nationals, may raise less scrutiny, and foreign intermediaries, who act on their behalf. In a few cases, the intermediary works directly for the Iranian regime. More frequently, the proxy operates independently and works for a commission.

Mahan Air – an Iranian commercial airline under U.S. sanctions since 2011 – and its procurement efforts illustrate how a procurement scheme can adapt over time.<sup>9</sup> Initially, Mahan relied on overseas procurement companies to buy its planes and spare parts. These included Equipco UK

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<sup>2</sup> David Albright, Paul Brannan, and Andrea Scheel Stricker, "Case Study - Middleman Majid Kakavand Arrested for Malaysia-Based Iranian Illicit Procurement Scheme," Institute for Science and International Security, February 26, 2010. (<http://isis-online.org/isis-reports/detail/middleman-arrested-for-directing-malaysia-based-iranian-illicit-procurement/20>)

<sup>3</sup> "Providing Additional Information to the Gos on Activities of the Swiss Firm Quartzcom (S)," *WikiLeaks Cable: 08STATE132055\_a*, December 17, 2008. (<http://cables.mrkv.a.eu/cable.php?id=183498>); "Providing Belgium Additional Info on Malaysian Firm's Efforts to Purchase Data Acquisition Systems on Behalf of Iranian End-User (S)," *WikiLeaks Cable: 08STATE92637\_a*, August 28, 2013.

([https://www.wikileaks.org/plusd/cables/08STATE92637\\_a.html](https://www.wikileaks.org/plusd/cables/08STATE92637_a.html))

<sup>4</sup> Steve Erlanger and Nadim Audi, "France Won't Extradite Iranian Sought by U.S.," *The New York Times*, May 5, 2010. ([http://www.nytimes.com/2010/05/06/world/europe/06france.html?\\_r=0](http://www.nytimes.com/2010/05/06/world/europe/06france.html?_r=0))

<sup>5</sup> "Modern Industries Technique Company," *Iran Watch*, January 16, 2016. (<http://www.iranwatch.org/iranian-entities/modern-industries-technique-company>)

<sup>6</sup> Daniel Salisbury, "Illicit Procurement of German and Indian Valves for Iran's Arak Heavy Water Reactor," *Alpha*, June 20, 2013. (<https://www.acsss.info/proliferation/item/242-mitec-s-procurement-of-valves-for-arak-heavy-water-reactor>)

<sup>7</sup> U.S. Department of the Treasury, "Non-proliferation Designations; Non-proliferation Designation Removals; Iran Designations," July 12, 2012. (<http://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20120712.aspx>)

<sup>8</sup> U.S. Department of State, "Increasing Sanctions Against Iran," July 12, 2012. (<https://2009-2017.state.gov/r/pa/prs/ps/2012/07/194924.htm>)

<sup>9</sup> U.S. Department of the Treasury, Press Release, "Treasury Designates Iranian Commercial Airline Linked to Iran's Support for Terrorism," October 12, 2011. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1322.aspx>)

and Skyco UK in Great Britain, Kerman Aviation and Zarand Aviation in Paris, and Mahan Air General Trading and Sirjanco Trading in the United Arab Emirates – all run by Iranian nationals.<sup>10</sup> In the case of Turkey-based Pioneer Logistics, a Thai national who worked as a managing director for Mahan General Sales Agent in Bangkok appeared as a shareholder for the company, though he later admitted in a sworn affidavit that Mahan was the shares' real owner.<sup>11</sup>

When U.S. sanctions began to restrict Mahan Air procurement, Mahan again relied on proxies for its needs. Between 2006 and 2008, the airline sought the services of the British-based Balli Group to obtain Boeing aircraft. To conceal the end user for the planes, Mahan purchased the aircraft through UK-based subsidiaries and registered it with an Armenian subsidiary, Blue Airways.<sup>12</sup>

Using a similar scheme, in May 2015, Mahan took delivery of nine used Airbus aircraft<sup>13</sup> from Al-Naser Airlines, a small and privately owned Iraqi airline. Al-Naser bought eight planes from European companies and one smaller aircraft from a Chinese carrier, and then ferried them over to Iran after holding them in its custody for a short period. Treasury sanctioned Al-Naser shortly after the planes were delivered.<sup>14</sup>

More recently, Qeshm Fars Air, a carrier operating flights between Tehran and Damascus that are part of Iran's ongoing deliveries of military aid to Syria, procured two old Boeing 747 aircraft previously leased by a Georgian company and a now-defunct Armenian airline. The Iranian carrier began operating the aircraft in 2017.<sup>15</sup> Corporate records obtained by FDD suggest the aircraft owner was a Dubai-based company, at least until 2015, when the Armenian carrier took consignment of the aircraft.<sup>16</sup>

Such small triangular schemes are often temporary. Companies will typically shut down once they have accomplished their mission. For longer-term procurement and finance operations, Iran relies more on permanent corporate structures. Indeed, before sanctions forced Iran's procurement operations to go underground, large Iranian state companies had their own senior managers run their official procurement offices overseas. Some were eventually sanctioned, while others escaped designation even when their parent companies in Iran did not.<sup>17</sup>

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<sup>10</sup> U.S. Department of Commerce, Press Release, "BIS Adds Three Parties to Temporary Denial Order Against Iranian Airline," April 17, 2012. (<http://www.bis.doc.gov/index.php/component/content/article/98-about-bis/newsroom/press-releases/press-releases-2012/335-bis-adds-three-parties-to-temporary-denial-order-against-iranian-airline>)

<sup>11</sup> U.S. Department of Commerce, Bureau of Industry and Security (BIS), "Order Renewing Order Temporarily Denying Export Privileges," June 21, 2018. (<https://www.federalregister.gov/documents/2018/06/21/2018-13289/order-renewing-order-temporarily-denying-export-privileges>)

<sup>12</sup> Laura Rozen, "UK firm pleads guilty to selling U.S. 747 to Iran," *Politico*, February 5, 2010.

([https://www.politico.com/blogs/laurarozen/0210/UK\\_firm\\_pleads\\_guilty\\_to\\_selling\\_US\\_747s\\_to\\_Iran.html](https://www.politico.com/blogs/laurarozen/0210/UK_firm_pleads_guilty_to_selling_US_747s_to_Iran.html))

<sup>13</sup> Eli Lake, "With Plane Delivery, Sanctions Collapsing Already," *Bloomberg*, May 11, 2015.

(<http://www.bloombergview.com/articles/2015-05-11/with-plane-delivery-iran-sanctions-collapsing-already>)

<sup>14</sup> U.S. Department of the Treasury, Press Release, "Treasury Department Targets Those Involved in Iranian Scheme to Purchase Airplanes," May 21, 2015. (<http://www.treasury.gov/press-center/press-releases/Pages/j110061.aspx>)

<sup>15</sup> "Iran's Qeshm Fars Air begins B747 freighter ops," *Ch-Aviation*, April 1, 2017. (accessed via Ch-Aviation)

<sup>16</sup> "Aircraft Details – EP-FAA" *Ch-Aviation*, updated February 28, 2018, accessed July 5, 2018. (accessed via Ch-Aviation)

<sup>17</sup> For example, NIITCO GmbH, in Hamburg, Germany and its London subsidiary NIITCO (<http://www.niitco.co.uk/contact.htm>) belong to the Iranian Mines and Mining Industries Development and Renovation Organization (IMIDRO), a, Iranian government entity delisted by the JCPOA and therefore under U.S.

Iran has responded to sanctions by creating complex corporate structures across different jurisdictions, making the link with an Iranian parent entity less obvious. Iranian senior corporate managers often fictitiously resigned their government jobs to seek business ventures overseas on behalf of the regime, quickly emerging as proprietors of business empires with no formal ties with Iran. A regime proxy with no formal connection to past employers provides plausible deniability.

Former regime procurement agents interviewed by FDD confirm that Iranian state companies have increasingly entrusted their most capable senior management with significant sums to invest industrial assets abroad.<sup>18</sup> Ownership of Western factories gives Iran access to knowledge and technology. This was the case of MCS International GmbH – a gas cylinder factory in Germany formerly known as Mannesmann Cylinder Systems GmbH. Iranian interest in the factory derived from a dual-use flow-forming machine that MCS's production line used for carbon fiber and chromium molybdenum steel mixed products. Such machines are critical in the production of uranium enrichment centrifuges.

The story of how Tehran gained access to such sensitive dual use technology begins in 2003, when a group of Iranian investors purchased Mannesman Cylinder Systems in Dinslaken, Germany and renamed it MCS International GmbH. The company changed its name again in 2011 to MCS Technologies GmbH, and after a bankruptcy procedure, it was liquidated in April 2013. Corporate records show that from 2003 to 2011, MCS was owned by Reyco GmbH, a German subsidiary of Rey Investment Co. According to Treasury, Rey Investment Company was:

... formerly run by Ayatollah Mohammad Mohammadi Reyshahri, who previously served as the Iranian Minister of Intelligence and Security. Rey Investment Company collected and invested donations obtained from Iranian Shi'a shrines. However, amidst allegations of mismanagement and embezzlement of shrine donations from the company, the Iranian Government cut off its funding to the point of nearly bankrupting the company. In mid-to-late 2010, Reyshahri was removed and control of Rey Investment Company was transferred to EIKO [a conglomerate owned by the Supreme Leader of Iran] and its director. EIKO subsequently appointed a new Managing Director of Rey Investment Company.<sup>19</sup>

Rey Investment's mismanagement undermined the performance of its overseas holdings, including, critically, MCS International. But in 2011, Iranian assets in Europe operated under a new, more difficult business climate. The UN Security Council had passed four resolutions imposing sanctions against Iran's financial, commercial, and transportation sectors. The European Union had adopted expansive sanctions against the same sectors, as well as Iran's energy industry. The U.S. sanctions regime also included new executive and legislative measures. Rather than closing the factory and looking for new investments, Iran salvaged its German asset, obfuscating its ownership in the process. According to the June 4, 2013 Treasury designation:

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sanctions since the U.S. stopped enforcing the JCPOA. Evidence obtained from the German and British commercial registries.

<sup>18</sup> Michael Birnbaum and Joby Warrick, "A mysterious Iranian-run factory in Germany," *The Washington Post*, April 17, 2013. ([http://www.washingtonpost.com/world/europe/a-mysterious-iranian-run-factory-in-germany/2013/04/15/92259d7a-a29f-11e2-82bc-511538ae90a4\\_story.html](http://www.washingtonpost.com/world/europe/a-mysterious-iranian-run-factory-in-germany/2013/04/15/92259d7a-a29f-11e2-82bc-511538ae90a4_story.html))

<sup>19</sup> U.S. Department of the Treasury, Press Release, "Treasury Targets Assets of Iranian Leadership," April 4, 2013. (<https://www.treasury.gov/press-center/press-releases/Pages/j11968.aspx>)

MCS International was audited by [an EIKO subsidiary] in October 2010 and determined to be in poor financial standing. However, EIKO management rescued MCS International from bankruptcy and insisted on keeping the company open because it viewed MCS International as key to facilitating business in Europe. EIKO management viewed MCS International as being too important to EIKO's international plans to allow it to go bankrupt and believed that it would be easier to rescue MCS International from bankruptcy than to create or acquire new foreign companies on behalf of EIKO due to U.S. and international sanctions. EIKO subsequently ordered that responsibility for MCS International be transferred from EIKO-controlled TEACO to Iranian businessmen, who were sent to oversee the company. Following this transfer, the two individuals owned the shares for MCS International, but answered directly to EIKO.<sup>20</sup>

Commercial registry entries for MCS Technologies GmbH (aka MCS International) show that both registered owners were Iranian-Canadian dual nationals and Canadian residents.

<b>Berichtigte Liste der Gesellschafter der Kronen tausend674 GmbH, Berlin künftig: MCS Systems GmbH, Dinslaken, gemäß § 40 Abs. 2 GmbHG</b>			
<b>Nr.</b>	<b>Gesellschafter</b>	<b>Wohnort</b>	<b>Anteil mit Nr.</b>
1	Abdoulrasoul Dorri-Esfahani (geb. 04.04.1945) No. 130 b, Belsize Drive, Toronto, Ontario	No. 130 b, Belsize Drive, Toronto, Ontario M4S 1L8, Kanada	1 - 12.750 über je EUR 1,00
2	Eshagh Hajizadeh (geb. 03.11.1967)	1189 Shavington Street, North Vancouver, BC, V7L1L1, Kanada	12.751 - 25.000,00 über je EUR 1,00

Commercial Extract for MCS Technologies GmbH showing two owners as residents of Canada

Though unable to move the equipment to Iran because of tough U.S. and EU sanctions, the regime's proxies controlled the asset for 10 years and arranged for periodic visits by engineering delegations from Iran. Iranian engineers spent time familiarizing themselves with MCS technology used for the production of uranium enrichment centrifuges. Eventually, Rey Foundation established a replica of MCS (Pars MCS) in Iran.<sup>21</sup>

Another prominent example of a former Iranian official entrusted with significant assets and latitude to assist the regime's sanctions evasion schemes is Mehdi Shamszadeh, the former

<sup>20</sup> U.S. Department of the Treasury, Press Release, "Treasury Targets Assets of Iranian Leadership," April 4, 2013. (<https://www.treasury.gov/press-center/press-releases/Pages/j11968.aspx>)

<sup>21</sup> "Home: Pars Mcs," *Pars Mcs Website*, accessed June 22, 2015. (<http://www.parsmcs.com/contents/index/lang/en>)

commercial director for the Islamic Republic of Iran's Shipping Lines (IRISL).<sup>22</sup> Treasury sanctioned IRISL in 2008 for facilitating "shipments of military-related cargo destined for [Iran's Ministry of Defense Armed Forces and Logistics] and its subordinate entities, including organizations that have been designated by the United States pursuant to E.O. 13382 and listed by United Nations Security Council Resolutions 1737 and 1747."<sup>23</sup>

Shamszadeh moved to London in 2005 to serve as the local director of IRISL UK, a subsidiary of IRISL, and of IRINVESTSHIP Ltd, a financial holding company co-owned by IRISL. Treasury eventually sanctioned both in September 2008.<sup>24</sup> Shamszadeh, however, resigned both positions, launched his own businesses, acquired British nationality, and shortened his name to Shams.<sup>25</sup> He was never sanctioned, but Iranian authorities arrested him in 2015 upon entry into Iran and tried him for embezzling government money he acquired in the course of running a complex sanctions evasion scheme. Shamszadeh, who boasted of his contribution to the sanctions evasion effort during the trial proceedings,<sup>26</sup> was sentenced to death in early 2016. He appealed and his case is pending.<sup>27</sup>

## FINANCIAL EVASION

Iranian officials in 2011 admitted that sanctions on its banking sector were painful.<sup>28</sup> UN sanctions only listed a handful of Iranian banks. U.S. and EU sanctions added more banks to the list, including Iran's Central Bank, and targeted Iranian banking subsidiaries overseas. From 2012 to 2016, Iranian banks were also removed from SWIFT, the Belgian-based cooperative clearing platform for international banking transactions.<sup>29</sup> With U.S. financial sanctions now re-imposed, Iranian banks will likely, once again, be cut off from the international financial system.

Iran's evasion of financial sanctions follows the same playbook as commercial restrictions. The regime first established and then sought to purchase banks outside Iran to facilitate prohibited banking transactions, adding successive layers of obfuscation to cover its tracks. Over the years, large Iranian banks have incorporated subsidiaries overseas: Arian Bank in Afghanistan,<sup>30</sup> Bank

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<sup>22</sup> Cynthia Busuttill, "Iranian firm denies 'pressure' claims," *Times of Malta*, June 4, 2004.

(<http://www.timesofmalta.com/articles/view/20040604/local/iranian-firm-denies-pressure-claims.121313>)

<sup>23</sup> U.S. Department of the Treasury, Press Release, "Major Iranian Shipping Company Designated for Proliferation Activity," September 10, 2008. (<https://www.treasury.gov/press-center/press-releases/Pages/hp1130.aspx>)

<sup>24</sup> U.S. Department of the Treasury, Press Release, "Major Iranian Shipping Company Designated for Proliferation Activity," September 10, 2008. (<https://www.treasury.gov/press-center/press-releases/Pages/hp1130.aspx>)

<sup>25</sup> "Directors' Particulars of Change," *Company House*, Corporate entry for Global Holding Investments Ltd., July 16, 2011.

<sup>26</sup> Tom Coghlan and Sean O'Neill, "Britain pleads for life of confessed sanctions buster," *The Times* (UK), April 11, 2016. (<https://www.thetimes.co.uk/article/britain-pleads-for-life-of-confessed-sanctions-buster-n0ddjtcwg>)

<sup>27</sup> Michael O'Kane, "Mehdi Shams sentenced with Babak Zanjani for Iran sanctions evasion," *European Sanctions*, April 13, 2016. (<https://europeansanctions.com/2016/04/13/medhi-shams-sentenced-with-babak-zanjani-for-iran-sanctions-evasion/>)

<sup>28</sup> Rick Gladstone, "Iran Admits Western Sanctions Are Inflicting Damage," *The New York Times*, December 20, 2011. ([http://www.nytimes.com/2011/12/20/world/middleeast/iran-admits-western-sanctions-are-inflicting-damage.html?\\_r=0](http://www.nytimes.com/2011/12/20/world/middleeast/iran-admits-western-sanctions-are-inflicting-damage.html?_r=0))

<sup>29</sup> "Payments system SWIFT to expel Iranian banks Saturday," *Reuters*, March 15, 2012. (<http://www.reuters.com/article/2012/03/15/us-nuclear-iran-idUSBRE82E15M20120315>)

<sup>30</sup> "Arian Bank," *Iran Watch*, January 16, 2016. (<http://www.iranwatch.org/iranian-entities/arian-bank>)

Melli ZAO in Russia,<sup>31</sup> Future Bank in Bahrain,<sup>32</sup> Mellat Bank SB CJSC in Armenia,<sup>33</sup> Oner Bank ZAO in Belarus,<sup>34</sup> Persia International Bank PLC in Great Britain,<sup>35</sup> and Trade Capital Bank in Belarus.<sup>36</sup>

Iran also sought to facilitate Iranian financial activities by creating joint banking ventures in friendly jurisdictions.<sup>37</sup> Iranian banks established the European-Iranian Commercial Bank (EIH)<sup>38</sup> in Hamburg, Germany. In Venezuela, Iran created the Iran-Venezuelan Binational Bank<sup>39</sup> as a joint venture between the Export Development Bank of Iran and the Banco Industrial de Venezuela.

Once these were sanctioned,<sup>40</sup> Iranian strategy shifted from trying to establish banking institutions abroad to taking control of foreign banks. Iranian proxies did so at least twice.

In 2008, three Iranian businessmen, whom the U.S. Department of Treasury later sanctioned for acting on behalf of Iran, purchased a controlling stake in a small bank in Tbilisi, Georgia. The three incorporated a foundation in Liechtenstein, KSN Foundation, for the purpose of controlling Invest Bank JSC, as well as funds in Switzerland and New Zealand.<sup>41</sup> A December 2016 sanctions evasion case against a U.S.-Korean dual national acting on Iran's behalf revealed that the same three Iranians helped launder as much as \$1 billion and more than €1 billion in oil revenues through their network.<sup>42</sup>

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<sup>31</sup> "Bank Melli Iran Zao," *Iran Watch*, January 16, 2016. (<http://www.iranwatch.org/iranian-entities/bank-melli-iran-zao>)

<sup>32</sup> "Future Bank," *Iran Watch*, January 16, 2016. (<http://www.iranwatch.org/iranian-entities/future-bank>)

<sup>33</sup> "Mellat Bank SB CJSC," *Iran Watch*, January 16, 2016. (<http://www.iranwatch.org/iranian-entities/mellat-bank-sb-cjsc>)

<sup>34</sup> "Onerbank Zao," *Iran Watch*, January 16, 2016. (<http://www.iranwatch.org/iranian-entities/onerbank-zao>)

<sup>35</sup> "Persia International Bank PLC," *Iran Watch*, January 16, 2016. (<http://www.iranwatch.org/iranian-entities/persia-international-bank-plc>)

<sup>36</sup> "Trade Capital Bank," *Iran Watch*, January 16, 2016. (<http://www.iranwatch.org/iranian-entities/trade-capital-bank>)

<sup>37</sup> Douglas Farah, "Iran Moving Banking Operations to Latin America," *Douglas Farah Blog*, May 30, 2008. (<http://blog.douglasfarah.com/article/356/iran-moving-banking-operations-to-venezuela.com>)

<sup>38</sup> "Europaisch-Iranische Handelsbank AG," *Iran Watch*, January 16, 2016. (<http://www.iranwatch.org/iranian-entities/europaisch-iranische-handelsbank-ag>)

<sup>39</sup> "Inaugurado Banco Binacional Iran-Venezuela," *Partido Socialista Unido de Venezuela*, April 3, 2009. (<http://www.psuv.org.ve/temas/noticias/Inaugurado-banco-binacional-Iran-Venezuela/>)

<sup>40</sup> The U.S. Department of the Treasury targeted EIH in September 2010: U.S. Department of the Treasury, Press Release, "Treasury Department Targets Iranian-Owned Bank in Germany Facilitating Iran's Proliferation Activities," September 7, 2010. (<http://www.treasury.gov/press-center/press-releases/Pages/tg847.aspx>); The European Union followed suit in May 2011: Council Implementing Regulation (EU) No 503/2011 of 23 May 2011 Implementing Regulation (EU) No 961/2010 On Restrictive Measures Against Iran, *Official Journal of the European Union*, May 23, 2011. (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:136:0026:0044:EN:PDF>); The U.S. Treasury sanctioned the Iran-Venezuela Binational Bank in May 2013: U.S. Department of the Treasury, Press Release, "Treasury Targets Iranian Attempts to Evade Sanctions," May 9, 2013. (<http://www.treasury.gov/press-center/press-releases/Pages/jl1933.aspx>)

<sup>41</sup> Benoit Faucon, Jay Solomon, and Farnaz Fassihi, "As Sanctions Bite, Iranians Invest Big in Georgia," *The Wall Street Journal*, June 20, 2013. (<http://www.wsj.com/articles/SB10001424127887323864304578320754133982778>)

<sup>42</sup> *United States of America vs. Real Property Located at 11621 Alderwood Loop, Anchorage, Alaska et al.*, 3:14-cv-00065 (D. Alaska April 7, 2014), page 20. (accessed via PACER)



Control over Invest Bank was wrested from Iranian hands in June 2013. The U.S. Treasury subsequently sanctioned KSN and the Iranian proxies involved,<sup>43</sup> though they were all delisted in January 2016 pursuant to the JCPOA. Evidence suggests<sup>44</sup> that their Georgia-based network is fully reconstituted to include a money exchange business, a financial assets management company, a stake in a new bank, and other assets.

Iran has also evaded sanctions by moving its assets to foreign accounts. The simplest destination for such funds is overseas subsidiaries of Iranian companies not yet sanctioned. These entities bank locally. They also transact locally with business counterparts, purchasing merchandise that transits through the countries where the subsidiaries are incorporated. With all business conducted locally, usually no red flags are raised.

A good example of this mechanism is Mapna Group's overseas operations. Mapna<sup>45</sup> is one of the largest Iranian energy sector service companies, with high profile public projects both in Iran and abroad. Iran's supreme leader gave his 2014 "resistance economy" speech, extolling the virtues of enduring sanctions and engaging in sanctions evasion, from Mapna's headquarters.<sup>46</sup> Mapna has been repeatedly denied export licenses by the British government for WMD proliferation concerns.<sup>47</sup>

The company holds great importance for the Iranian regime. Mapna's current chairman, Abbas Aliabadi, was a faculty member and the deputy manager of Emam Hossein University – the defense college of Iran's Islamic Revolutionary Guard Corps (IRGC). Mousa Refan, the founder of the IRGC air force, previously sat on the company's board of directors. Mapna belongs to the Reza Shrine Foundation (*Astane Ghods Razavi*),<sup>48</sup> whose chairman, Ayatollah Ebrahim Raisi, was directly appointed by, and reports to, the supreme leader.

Despite its close connections to the regime and its possible past role in WMD procurement, Mapna was never designated by the EU, UN, or U.S. However, its 33 subsidiaries in Iran, like every other Iranian business, suffered (and are likely to suffer again) from financial sanctions against Iran's banking sector.

To service its financial transactions, Mapna built a network of overseas subsidiaries and companies. These include: Mapna International FZE in Dubai; Mapna Europe GmbH in Germany;

<sup>43</sup> U.S. Department of the Treasury, Press Release, "Treasury Targets Networks Linked to Iran," February 6, 2014. (<http://www.treasury.gov/press-center/press-releases/Pages/jl2287.aspx>)

<sup>44</sup> Emanuele Ottolenghi, "Snap-Back: A journey through Iranian sanctions evasion in Georgia," *Tablet Magazine*, July 1, 2015. (<https://www.tabletmag.com/jewish-news-and-politics/191903/iranian-sanctions-evasion>)

<sup>45</sup> "Fields of Activity," *MAPNA Group Website*, accessed June 22, 2015. (<http://www.mapnagroup.com/>)

<sup>46</sup> Grand Ayatollah Sayyid Ali Khamenei, "Supreme Leader's Speech in Meeting With Laborers of MAPNA Group," *The Center for Preserving and Publishing the Works of Grand Ayatollah Sayyid Ali Khamenei*, April 30, 2014. ([http://english.khamenei.ir//index.php?option=com\\_content&task=view&id=1903&Itemid=4](http://english.khamenei.ir//index.php?option=com_content&task=view&id=1903&Itemid=4))

<sup>47</sup> UK Department for Business Innovation & Skills, "Iran List (Last Amended 5 October 2015)," October 5, 2015. ([https://web.archive.org/web/20160409060415/https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/466147/iran-list-oct-15.pdf](https://web.archive.org/web/20160409060415/https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/466147/iran-list-oct-15.pdf))

<sup>48</sup> "پرتال جامع آستان قدس رضوی," *Astan Quds Razavi (Iran)*, accessed June 22, 2015. (<http://www.aqr.ir/Portal/Home/Default.aspx>)

Mapna Italia SRL in Italy; Mapna International Shanghai in China; Qarn Muscat LLC in Oman; MS Uluslararası Enerji Yatırım Anonim Şirketi, Özgüneş Elektrik Parçaları Ticaret Limited Şirketi, and Energy Trading Elektrik Sanayi Ve Ticaret Limited Şirketi in Turkey; and Kura Industrial Trading LLC in Tbilisi, Georgia. Corporate documents filed by some of these companies show that they lend each other funds. Documents leaked to FDD demonstrate that as of December 2011, both Mapna Europe GmbH and Mapna International FZE held an account at the Frankfurt branch of a major European financial institution.

Iran has also established opaque shell companies in offshore jurisdictions. By incorporating these entities, and often obfuscating their corporate link to their real owner, Iranian companies maintain access to reputable banking services. Local payments, as noted earlier, elicit less concern and will frequently stay under the radar of sanctions enforcement authorities.

## **EXPLOITING LOOPHOLES**

For Iran, sanctions are temporary roadblocks, not insurmountable obstacles. By building bypass roads, Iran turns crisis into opportunities. Iran's response to U.S. oil sanctions offers a case in point.

Section 1245 of the National Defense Authorization Act for Fiscal Year 2012<sup>49</sup> imposed secondary sanctions against Iran's oil exports. However, U.S. legislators made an exception for countries that would demonstrably reduce the purchase of Iranian oil over time. Iran's oil deliveries would then be purchased with local currency and placed in local escrow accounts, which Tehran could only access to purchase non-sanctioned goods from local companies. The money could not be repatriated.

Six countries adhered to this mechanism: China, India, Japan, South Korea, Turkey, and South Africa. Thus, Iran's oil revenues were locked in yuan, rupees, yen, won, lira, and rand, and only accessible for local purchases of approved goods.

These measures, while ensuring that the global oil markets remained stable, quickly depleted Iran's foreign currency reserves. Iran responded by establishing front companies in all six jurisdictions. Iran used these entities to circumvent Section 1245's provisions, and to serve as ATM machines. Classic money laundering techniques like over-invoicing and false invoicing enabled front companies to access the locked-up cash in local transactions. Payments to these companies could then be converted into foreign currency and moved to Iran, or made available to other Iranian overseas operations, as needed, for purchase of other goods.

A significant portion of the revenue was reinvested into gold and other precious metals and jewels, which are convenient substitutes for foreign currency. During 2012-2013, Turkey's sales of gold to Iran skyrocketed. The Iranians apparently recognized that gold sales to individual gold traders was authorized under the sanctions regime, so long as the stated destination was not the

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<sup>49</sup> National Defense Authorization Act For Fiscal Year 2012, Pub. L. 112-81, codified as amended at 112 U.S.C., §1245. ([http://www.treasury.gov/resource-center/sanctions/Programs/Documents/ndaa\\_publaw.pdf](http://www.treasury.gov/resource-center/sanctions/Programs/Documents/ndaa_publaw.pdf))

government of Iran. With Turkish help, Iran exploited this “golden loophole”<sup>50</sup> to the tune of \$12 billion in the first year.

The loophole was ultimately addressed when Congress prohibited gold exports to Iranian government entities in U.S. legislation that passed in January 2013. Curiously, the Obama administration delayed the enactment of the law until July 2013, enabling the “gas-for-gold” scheme to continue for six more months.<sup>51</sup>

Iran responded with sophistication to U.S. sanctions against its petroleum exports by leveraging its access to the Turkish market. Since the passage of Section 1245, the number of Iranian companies in Turkey has grown exponentially – from 2,300 in November 2012 to 4,624 in December 2017.<sup>52</sup> Among them are numerous regime-affiliated companies suspected of sanctions evasion schemes.<sup>53</sup>

Iran has also evaded financial sanctions through remittance networks and currency exchange providers. These services help Iran launder money before it is repatriated or transferred to accounts overseas that Iranian proxies access for procurement purposes.<sup>54</sup> Because they are small, they are often harder to track – making them essential tools for Iranian financial sanctions evasion. In her November 2013 testimony to Congress, then-Financial Crimes Enforcement Network Director Jennifer Shasky Calvery noted that such tools are an ideal money laundering method, and not just for Iran, because they offer anonymity and usually elude custom controls. Unlike banking transactions, they leave almost no digital footprint.<sup>55</sup>

Many of the aforementioned cases of sanctions evasion included remittance providers. The Iranian network in Tbilisi that took control of Invest Bank JSC included money exchange businesses

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<sup>50</sup> Gary Clark, Mark Dubowitz and Rachel Ziemba, “Iran’s Golden Loophole,” *Roubini Global Economics & Foundation for Defense of Democracies*, May 13, 2013.

([http://www.defenddemocracy.org/content/uploads/documents/FDD\\_RGE\\_Iran\\_Gol\\_Report\\_May\\_2013\\_FINAL\\_2.pdf](http://www.defenddemocracy.org/content/uploads/documents/FDD_RGE_Iran_Gol_Report_May_2013_FINAL_2.pdf))

<sup>51</sup> Mark Dubowitz and Jonathan Schanzer, “Iran’s Turkish Gold Rush,” *Foreign Policy*, December 26, 2013. (<http://foreignpolicy.com/2013/12/26/irans-turkish-gold-rush/>)

<sup>52</sup> Republic of Turkey, Ministry of Economy, “FDI” accessed June 28, 2018. (<https://www.economy.gov.tr/portal/content/conn/UCM/uuid/dDocName:EK-253303>)

<sup>53</sup> U.S. Department of the Treasury, Press Release, “Treasury Targets Procurement Networks and 31 Aircraft Associated with Mahan Air and Other Designated Iranian Airlines,” May 24, 2018. (<https://home.treasury.gov/index.php/news/press-releases/sm0395>)

<sup>54</sup> For an overview of these informal money networks and how money can be laundered through them, see: Financial Action Task Force, “Money Laundering Through Money Remittance and Currency Exchange Providers,” June 2010. (<http://www.fatf-gafi.org/media/fatf/ML%20through%20Remittance%20and%20Currency%20Exchange%20Providers.pdf>)

<sup>55</sup> Jennifer Shasky Calvery, “Statement of Jennifer Shasky Calvery, Director Financial Crimes Enforcement Network United States Department of the Treasury,” *Testimony before the Senate Committee on Banking, Housing, and Urban Affairs, Subcommittee on National Security and International Trade and Finance Subcommittee on Economic Policy*, November 19, 2013. (<https://www.fincen.gov/news/testimony/statement-jennifer-shasky-calvery-director-financial-crimes-enforcement-network>)

incorporated in Tbilisi, Dubai, Toronto, and Delaware;<sup>56</sup> three prepaid credit card companies<sup>57</sup> (one in Dubai, one in Tbilisi, and one both in Georgia and Iran);<sup>58</sup> an offshore online private banking company in New Zealand,<sup>59</sup> and another in Switzerland;<sup>60</sup> and a gold trader in Dubai.

According to a March 2015 Reuters report, over the course of several months in late 2014, money exchange businesses in Dubai helped Iran launder and exchange \$1 billion in Emirati dirhams that were ferried across the Gulf by money couriers.<sup>61</sup> These schemes continue. Last May, working with authorities in the United Arab Emirates, Treasury moved to designate a Dubai-based money exchange network that laundered money and procured bulk cash in dollar denominations to Iran's Revolutionary Guard.<sup>62</sup>

Prepaid cards – another business that Iranian regime proxies have embraced – are a more contemporary, convenient version of traveler's checks. A variety of card types allow for reloading of funds; card-to-account, account-to-card, and card-to-card transfers; and worldwide cash withdrawals through ATM machines.<sup>63</sup> Numerous Iranian financial cross-border operations have offered prepaid cards among their products for years.<sup>64</sup>

Iranian companies offering online trading and high-end investment services are also becoming more frequent, especially in offshore jurisdictions like the Cayman Islands, Malta, Switzerland, and Uruguay.

## FRAUDULENT PRACTICES

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<sup>56</sup> New York Exchange LLC was sanctioned on February 6, 2014:

U.S. Department of the Treasury, Press Release, "Treasury Targets Networks Linked to Iran," February 6, 2014. (<http://www.treasury.gov/press-center/press-releases/Pages/jl2287.aspx>)

<sup>57</sup> Orchidea Gulf Trading LLC and its Turkish subsidiary were sanctioned on February 6, 2014: U.S. Department of the Treasury, Press Release, "Treasury Targets Networks Linked to Iran," February 6, 2014.

(<http://www.treasury.gov/press-center/press-releases/Pages/jl2287.aspx>); Invest Bank Business Card Services Company LLC (<http://www.companyinfo.ge/en/corporations/404399806/>) was in all likelihood forcibly closed by Georgian authorities.

<sup>58</sup> "Travel Card FlyGeorgia," *Facebook*, accessed June 28, 2018.

(<https://www.facebook.com/TravelCardFlyGeorgia>)

<sup>59</sup> "New York Fund Limited," *OpenCorporates*, January 5, 2015.

(<https://opencorporates.com/companies/nz/4062438>); Corporate filings for New York Fund Ltd can be accessed at New Zealand's Companies Office website:

<http://www.business.govt.nz/companies/app/ui/pages/companies/4062438>.

<sup>60</sup> EOT European Oil Traders SA was sanctioned on February 6, 2014: U.S. Department of the Treasury, Press Center, "Treasury Targets Networks Linked To Iran," February 6, 2014. (<http://www.treasury.gov/press-center/press-releases/Pages/jl2287.aspx>)

<sup>61</sup> Jonathan Saul, Parisa Hafezi, and Louis Charbonneau, "Exclusive: Iran smuggles in \$1 billion of bank notes to skirt sanctions - sources," *Reuters*, February 24, 2015. (<http://www.reuters.com/article/2015/02/24/us-iran-dollars-exclusive-idUSKBN0LS1LV20150224>)

<sup>62</sup> U.S. Department of the Treasury, Press Release, "United States and United Arab Emirates Disrupt Large Scale Currency Exchange Network Transferring Millions of Dollars to IRGC-QF," May 10, 2018. (<https://home.treasury.gov/news/press-releases/sm0383>)

<sup>63</sup> See: Financial Action Task Force, "Guidance for a Risk-Based Approach: Prepaid Cards, Mobile Payments, and Internet-Based Payment Services," June 2013. (<http://www.fatf-gafi.org/media/fatf/documents/recommendations/guidance-rba-npps.pdf>)

<sup>64</sup> See, for example, Kiasun Card (<http://www.kiasuncard.com/>), and the associated Kiasun Exchange ([www.kiasunexchange.com](http://www.kiasunexchange.com)), which also trade in cryptocurrencies.

Iranian procurement and illicit finance activities face a 21<sup>st</sup>-century dilemma: how to disguise themselves in a digital world where information is difficult to conceal. The answer for them has been to hide in plain sight. Efforts by IRISL to elude sanctions are a case in point.

IRISL was sanctioned in 2010 under UN Security Council Resolution 1929.<sup>65</sup> Many of its subsidiaries had already been targeted by U.S. sanctions in 2008. To evade sanctions, IRISL incorporated a parallel structure of companies in Hamburg, all called “Ocean,” numbering them from First to Sixteenth. Each “Ocean” had an “Administration” – First Ocean GmbH & Co. KG, First Ocean Administration GmbH – and all could be traced back to an Ocean Capital Administration GmbH. The parent company, in turn, traced back to IRISL.

Once this corporate structure was established, each company took ownership of IRISL ships. Vessels kept changing names and flags to elude further detection. Once the network was exposed, the U.S. Treasury had to include the International Maritime Organization number of each ship to ensure that each burdensome new designation would not be deferred or neutralized by Iran simply painting its vessels’ names over the previous one.<sup>66</sup>

Transshipment (shipping goods to an intermediate destination, where new paperwork for the merchandise is produced before transporting it to another location) enables Iran to obfuscate the final destination of the merchandise it procures, especially via free zones. In 2014, for example, eight refrigerating units suitable for underground facilities were sold by an Italian subsidiary of a U.S. company to a Turkish contractor, ostensibly for a sport facility in Central Asia. Italian authorities, however, blocked the shipment at the port on suspicion that the machines were destined to Iran and constituted a WMD proliferation risk.<sup>67</sup>

Another case involved the aforementioned MCS International GmbH, which sent a shipment of gas cylinders to Golden Resources Trading Co., a Dubai-registered company. Authorities inspected the cargo, but – based on its documentation identifying the end user as a Dubai-based trading house – released it. The U.S. Treasury later sanctioned the trading house as part of a network of companies controlled by EIKO.<sup>68</sup> Golden Resources Trading’s main function was allegedly to take consignment of the merchandise, prepare new paperwork showing Dubai as its origin, and then transfer it to Iran.

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<sup>65</sup> United Nations Security Council, “Security Council Imposes Additional Sanctions on Iran, Voting 12 in Favour to 2 Against, with 1 Abstention,” June 9, 2010. (<https://www.un.org/press/en/2010/sc9948.doc.htm>)

<sup>66</sup> For further details of Iran’s shipping shell game, see: Claudia Rosett, “Iran Sanctions: A Tale of Two Fleets,” *Forbes*, February 27, 2012. (<http://www.forbes.com/sites/claudiarosett/2012/02/27/iran-sanctions-a-tale-of-two-fleets/>); Claudia Rosett, “How Iran Steams Past International Sanctions,” *The Wall Street Journal*, July 12, 2012. (<http://www.wsj.com/articles/SB10001424052702303919504577522431458614636>); Claudia Rosett, “Have Tehran Tankers hijacked Tanzania’s Flag?” *Forbes*, July 12, 2013. (<http://www.forbes.com/sites/claudiarosett/2013/07/12/have-tehrans-tankers-hijacked-the-tanzanian-flag/>)

<sup>67</sup> “Rapporti Tra Accesso C.D. Difensivo E Documenti Coperti Dal ‘Segreto’ A Tutela Di Interessi Pubblici,” *JUSforYou.it*, February 7, 2014. (<http://www.jusforyou.it/main/?MID=1.4707.4714.4857&b=25248>)

<sup>68</sup> U.S. Department of the Treasury, “The Execution of Imam Khomeini’s Order (EIKO) International Financial Network,” accessed June 22, 2015. ([http://www.treasury.gov/resource-center/sanctions/Programs/Documents/eiko\\_chart.pdf](http://www.treasury.gov/resource-center/sanctions/Programs/Documents/eiko_chart.pdf))

Iran also resorts to simple tricks. Iran's network in Georgia used similarly named companies to make them harder to track. Its companies included names such as "Invest Fund Management," "New York Exchange," "New York Fund," and "New York Shipping." Another set of companies used the "Merchants Savings and Loans" label, which came in multiple variations, such as "Offshore Financial Company" or "Group."

Brand appropriation is another common practice. Rather than burying their company records under millions of Google search entries bearing similar word combinations, Iranian fronts link themselves to names, logos, and branding of credible financial and commercial institutions. This enables them to boost their credibility and give an aura of legitimacy to their operations.

## ANCILLARY SERVICES

All of Iran's sanctions-busting activities rely on a service industry that enables Iranian agents, proxies, and intermediaries to conduct business in the most discreet way possible. This discretion can be achieved through the systematic acquisition of foreign passports. Iranian nationals routinely come under added scrutiny at border controls and financial institutions. Tehran's answer to this challenge has been to seek passports of convenience for its procurement agents, to enable undetected travel and, when needed, to relocate permanently to foreign jurisdictions to establish businesses that cannot be traced back to Iran.

The growing trend of citizenship-by-investment programs has created an opportunity for Iranians seeking to travel and conduct business overseas. There is now a growing number of available citizenship and permanent residency options available in return for real estate or business investments.<sup>69</sup>

The aforementioned case of Mehdi Shamszadeh is a good illustration: As reported by *Kayhan London*, Iranian officials instructed him to seek British citizenship to better facilitate his sanctions evasion activities.<sup>70</sup> Ali Sadr, the chairman of Malta's Pilatus Bank, who was recently arrested upon entry into the U.S. and indicted for money laundering and sanctions evasion,<sup>71</sup> held a St. Kitts and Nevis citizenship. So did the three Iranians implicated in the aforementioned Georgia network. And just recently, a Reuters investigation revealed that more than a hundred Iranians, many of them government officials, obtained Comoros Islands passports under a citizenship-by-investment scheme designed to attract foreign investment in the island nation.<sup>72</sup>

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<sup>69</sup> The Dubai-based, Iranian-owned Capital Immigration LLC is one of the most comprehensive platforms for permanent residency or citizenship-by-investment programs. "About Us," *Capital Immigration Website*, accessed June 29, 2018. ([http://www.capitalimmigration.net/ci\\_h.html](http://www.capitalimmigration.net/ci_h.html))

<sup>70</sup> Potkin Azarmehr, "On Trial in Iran: A Dual National Accused of Stealing \$40 Billion," *Kayhan London* (UK), July 10, 2017. (<https://kayhan.london/fa/1396/04/19/on-trial-in-iran-a-dual-national-accused-of-stealing-40-billion>)

<sup>71</sup> Nate Raymond, "U.S. arrests Iranian over alleged \$115 million sanctions evasion scheme," *Reuters*, March 20, 2018. (<https://www.reuters.com/article/us-usa-iran-crime/u-s-arrests-iranian-over-alleged-115-million-sanctions-evasion-scheme-idUSKBN1GW32E>)

<sup>72</sup> Bozorgmehr Sharafedin and David Lewis, "Special Report: As sanctions bit, Iranian executives bought African passports," *Reuters*, June 29, 2018. (<https://www.reuters.com/article/us-iran-passports-comoros-specialreport/special-report-as-sanctions-bit-iranian-executives-bought-african-passports-idUSKBN1JP14Y>)

Iranian front companies have used offshore jurisdictions such as Panama, Liechtenstein,<sup>73</sup> the Channel Islands<sup>74</sup> and the Isle of Man,<sup>75</sup> the British Virgin Islands,<sup>76</sup> and Malaysia's Labuan.<sup>77</sup> To avoid detection, Iranian fronts relied heavily on the principle of beneficial ownership. The purpose of such practices is to obfuscate the real ownership of businesses that, if directly linked to Iranian citizens, might attract scrutiny or denial of banking services or licenses.

Ownership transfer is also routinely used to evade sanctions. The case of Babak Zanjani, Shamszadeh's senior associate illustrates the practice. In 2010, Zanjani established Kont Group, a holding company in Turkey. Kont Group established a holding company in Dushanbe, Tajikistan, and bought a local bank. The bank, Kont Bank Investment,<sup>78</sup> controlled a bank in Labuan, Malaysia, which was renamed First Islamic Investment Bank.<sup>79</sup> According to the U.S. Treasury, the two financial institutions were used to facilitate financial transactions by Iran's oil industry. Eventually, the EU sanctioned Zanjani and his network of companies in December 2012.<sup>80</sup> The U.S. followed suit in April 2013.<sup>81</sup> However, twelve days after EU sanctions were imposed, Kont Group appointed Turkish national Merve Irmak as managing director and soon thereafter, Zanjani transferred all his shares to Irmak. The new ownership of Kont Group was extended to its subsidiaries. In May 2013, the Dushanbe-based Kont Investment Bank, now under the chairmanship of a former Iranian Bank Mellat official, issued a press release declaring U.S. sanctions "unfounded" due to the new ownership structure at Kont Group.<sup>82</sup>

## CONCLUSION

Mr. Chairman, Iranian attempts to obfuscate and conceal illicit procurement and sanctions evasion activity follow established patterns and share common features. Financial institutions and intelligence practitioners can use these typologies to identify actors and transactions that are

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<sup>73</sup> KSN Foundation, sanctioned by the U.S. Treasury on February 6, 2014, is a Liechtenstein-based foundation.

<sup>74</sup> Naftiran Intertrade Company LTD, under U.S. and EU sanctions, was originally registered in Jersey, Channel Islands, before being moved to Switzerland and, subsequently, to Labuan, Malaysia.

<sup>75</sup> IRISL registered vessels in the Isle of Man: Allan Urry, "Why did Iran register ships in the Isle of Man?" *BBC News* (UK), July 14, 2010. (<http://www.bbc.com/news/10604897>)

<sup>76</sup> Pearl Energy Company LTD, a front for Bank Mellat, was sanctioned in June 2010 by the European Union: The Council of the European Union, "Council Decision 2011/299/CFSP," *Official Journal of the European Union*, May 23, 2011. (<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32011D0299>)

<sup>77</sup> Pearl Energy Services LTD, a front for Bank Mellat, was sanctioned in June 2010 by the European Union: Council Decision 2011/299/CFSP of 23 May 2011 amending Decision 2010/413/CFSP concerning restrictive measures against Iran, *Official Journal of the European Union*, May 23, 2011. (<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32011D0299>)

<sup>78</sup> "Welcome to Kont Bank," *Kont Bank Investment Website*, accessed June 22, 2015. (<https://www.kontbank.tj/>)

<sup>79</sup> "First Islamic Services," *First Islamic Investment Website*, accessed June 22, 2015. (<http://www.first-islamic-bank.com/Default.aspx>)

<sup>80</sup> Council Implementing Regulation (EU) No 1264/2012 of 21 December 2012 Implementing Regulation (EU) No 267/2012 Concerning Restrictive Measures Against Iran, *Official Journal of the European Union*, December 21, 2012. (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:356:0055:0060:en:PDF>)

<sup>81</sup> U.S. Department of the Treasury, Press Release, "Treasury Targets Network Attempting to Evade Iran Sanctions," April 11, 2013. (<http://www.treasury.gov/press-center/press-releases/Pages/j11893.aspx>)

<sup>82</sup> Zarina Ergasheva, "Kont Investment Bank: U.S. Treasury Department's Actions Unfounded," *ASIA-Plus* (Tajikistan), February 5, 2013. (<http://news.tj/en/news/kont-investment-bank-us-treasury-department-s-actions-unfounded>)

potentially harmful to the integrity of the financial system or pose challenges to international security.

The Treasury Department plays a key role in this regard. Its sanctions and designations over the years have helped name and expose Iranian efforts to circumvent sanctions. But as my testimony indicates, this is a cat-and-mouse game, where one can never assume that countermeasures are the final word. Once designations are announced, we must assume that Iran will seek a way around them. **A constant update of sanctions and rigorous enforcement is therefore a key part of Treasury's ongoing effort.**

**Congress, for its part, should strongly consider updates to the Bank Secrecy Act (BSA), which requires reporting of suspicious activity and transactions.** The BSA legislation was first passed in 1970 and amended in title 111 of the USA PATRIOT Act. It needs to be updated to combat emerging trends in money laundering, including new forms of value transfer. With new and emerging payment systems, including virtual currency and mobile payment platforms, it is essential our regulatory regime keeps pace.

Iranian networks have always preferred procurement in Europe to Asia, and they have relied on Turkey and Gulf countries as transshipment points for their networks. **It is critical that Treasury leverages secondary sanctions to deter malfeasance in friendly jurisdictions.**

Europe needs to take a stronger stance against Iran and its proxies the IRGC and Hezbollah. The IRGC is reportedly involved in ballistic missile procurement throughout Europe and must be held accountable for this destabilizing behavior. The IRGC has gone so far as printing fake currency in order to finance their operations.<sup>83</sup> **Congress should encourage Europe to designate all of Hezbollah as a terrorist entity and continually investigate the IRGC and their investments.**

In the past year, the U.S. has sanctioned foreign banks, companies, exchange houses, shipping assets, and individuals for providing money and services to the IRGC and Hezbollah. The U.S. should continue these designations to put pressure on these terror proxies to limit their ability to use the formal financial sector. In addition, **law enforcement must continue to crack down on sanctions evaders that operate on the black market and in areas of high corruption.**

The most egregious money laundering networks feed off areas of low governance, such as the Tri-Border region between Argentina, Paraguay, and Brazil. **Congress should continue to resource the important work of the Drug Enforcement Administration, Department of Justice, the Coast Guard, and Treasury** as they take on this daunting task. Investigations of complex money laundering and sanctions evasion require significant time, and Congress should ensure that the resources provided match the scope of the problem.

**Better transparency laws and regulations are needed in the United States and worldwide.** Transparency is a powerful tool against Iranian efforts to procure technology and evade financial sanctions. The recent push by the United Kingdom and the European Union to require more transparency on the issue of beneficial ownership of companies is an important start. Jurisdictions

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<sup>83</sup> U.S. Department of Treasury, Press Release, "Treasury Designates Large-Scale IRGC-QF Counterfeiting Ring," November 20, 2017. (<https://www.treasury.gov/press-center/press-releases/Pages/sm0219.aspx>)



such as Delaware and the Marshall Islands regrettably lack the necessary transparency to reduce the risk for sanctions evasion.

Finally, **the United States should address Iran's abuse of foreign passports by denying access to the visa-waiver program to any country that sells its citizenship for investment.** Of course, exceptions can be made for countries that are willing to share, on an ongoing basis, updated lists of beneficiaries of these programs as well as their due diligence packages.

These are some of my recommendations, Mr. Chairman. Thank you for the opportunity to testify and I look forward to your questions.