Illicit Nuclear & Missile Procurement Activities:
Case Study Analysis and Recommendations
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I. Introduction & Executive Summary Findings

This essay provides an overview and analysis of Iran’s nuclear and missile procurement activities and the efforts of the United States and its allies to detect, deter, and disrupt those activities. It also derives lessons learned and makes recommendations for how the U.S. and its allies can more effectively counter those Iranian activities.\(^1\)

Iran’s nuclear and missile programs remain heavily dependent on foreign suppliers. Since Iranian procurement of key nuclear and missile technology is prohibited by legally binding resolutions of the United Nations Security Council, Iran must procure this material illicitly.\(^2\) Over the past three decades, Iran has acquired more and more experience bypassing export regulations, hiding end users, and otherwise evading detection of its illicit trafficking activities.\(^3\) Iran’s nuclear program is rapidly

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\(^2\) Project co-chairs Orde Kittrie and Leonard Spector have separately co-authored a book titled U.S. Nonproliferation Strategy for the Changing Middle East. Portions of this report are adapted from that book.


\(^4\) David Albright, Paul Brannan, and Andrea Stricker, “Busting the Memb. Furthermore, this fact is corroborated based on a variety of reporting, as will be analyzed throughout the rest of this report. For more information on key suspect entities of nuclear-related procurement, see Iran Watch reporting, at http://www.iranwatch.org/suspect/enduser-list.asp. For a list of key suppliers to Iran’s nuclear program, see Iran Watch reporting at http://www.iranwatch.org/suppliers/suppliers-list.asp.
approaching a point of “critical capability” at which Iran could dash for a bomb before
the IAEA or Western intelligence could detect such a step.\(^5\)

To disrupt Iran’s illicit networks, the U.S. and its allies have worked together with
increasing frequency to share intelligence, extradite and prosecute complicit individuals,
and ultimately shut down Iranian trafficking rings.\(^6\) Although such collaborations have
resulted in a number of successful prosecutions, efforts to combat Iran’s procurement
network are too often slow and ineffective.\(^7\) The weak strategic trade controls of several
key countries continue to be a particularly significant obstacle.\(^8\)

With governments and firms worldwide on the lookout for illicit Iranian
government procurement efforts, Iran has increasingly turned to middlemen to serve as
key links in its nuclear and missile procurement networks.\(^9\) These middlemen smuggle
dual-use materials via front companies located in countries including China, Turkey,

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\(^5\) David Albright, Mark Dubowitz, and Orde Kittrie, “Stopping an Undetectable Iranian Bomb,” Wall

\(^6\) The case studies within this report underline this important fact and emphasize the necessity of cross-
country collaboration. When examined individually, each case provides its own insights regarding the
strengths and weaknesses of cooperation and indicates that assistance from America’s European partners
far exceeds the limited cooperation seen with those countries lacking both strong export controls and firm
judicial frameworks. Following the footnoted links for each particular case will provide greater insight into
these collaborative efforts. See also: David Albright and others, “Preventing Iran from Getting Nuclear
Weapons; Constraining its Future Nuclear Options”, Institute for Science and International Security, March
1.pdf

\(^7\) See, e.g., Kittrie, Orde F. "Emboldened by Impunity: The History and Consequences of Failure to

\(^8\) Supra note 1, p. 244. For more on each instance, follow the footnoted links provided for each
respective case.

\(^9\) Ibid. See also: David Albright, Mark Dubowitz, Orde Kittrie, Leonard Spector, and Michael Yaffe. “U.S.
Nonproliferation Strategy for the Changing Middle East.” The Project on U.S. Middle East
Nonproliferation Strategy, ISIS (January 2013). Web: http://isis-online.org/uploads/isis-
reports/documents/FinalReport.pdf
Malaysia, the United Arab Emirates (UAE), Hong Kong, Taiwan, and Singapore.\(^\text{10}\) Although many schemes involving middlemen have been very complex, comprising multilayered networks of individuals and trading companies, several other successful procurements have been remarkably simple.\(^\text{11}\) Through a variety of tactics, these middlemen have filled a critical void in Iran’s nuclear procurement activities, for which traditional methods such as direct state purchase and indigenous production are no longer possible or efficient.\(^\text{12}\)

This report’s Section Two details and analyzes Iran’s procurement activities. It includes a discussion of Iran’s nuclear and missile program (focusing on items that the regime seeks to procure), the middlemen involved in the schemes, the key countries through which transshipment occurs, and the tactics utilized. Section Three discusses the response to Iran’s nuclear program by the United States, the European Union, and several key countries of diversion concern, with a particular focus on responses to Iran’s use of middlemen. Section Four provides both lessons learned and several recommendations for more effectively combating Iran’s procurement networks.

II. Overview of Iran’s Nuclear and Missile Program Procurement Activities

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\(^{10}\) For more information on specific cases, see Illicit Trade: ISIS Reports at [http://isis-online.org/isis-reports/category/illicit-trade/#2013](http://isis-online.org/isis-reports/category/illicit-trade/#2013)

\(^{11}\) Middlemen tactics are analyzed based on ISIS Illicit Trade Reports, supra note 3. See also: Albright, Peddling Peril, supra note 1.

\(^{12}\) Supra note 1
A. Key Steps in Iran’s Nuclear Program

Iran began its nuclear program under the Shah in the 1950s, with cooperation from the United States. A nuclear research reactor provided by the United States began operation in Tehran in 1967. In 1968, Iran signed the Nuclear Nonproliferation Treaty. During the 1970s, a West German company signed a contract to construct two light water nuclear reactors for Iran at Bushehr.

Following the Shah’s overthrow during the Islamic Revolution of 1979, the Iranian government cancelled the contract for construction of two nuclear power plants at Bushehr and the United States stopped supplying enriched uranium for the Tehran research reactor. In 1984, in the midst of the Iran-Iraq war, Ayatollah Khomeini decided to restart Iran’s nuclear program.

In the late 1980s, Iran secretly purchased uranium enrichment technology from A.Q. Khan. In 1995, Russia agreed to complete construction on one of two light water reactors at Bushehr. In 2002, an Iranian dissident group obtained and publicized documents revealing various clandestine elements of Iran’s nuclear program. These included an enrichment plant at Natanz and a heavy water plant at Arak. Pierre Goldschmidt, a former IAEA Deputy Director General, later referred to this as uncovering “an 18-year pattern of noncompliance by Iran with its obligations to report all
its nuclear activities.” Over those eighteen years, Iran had built major nuclear facilities without telling the IAEA and without IAEA detection.¹³

In 2003, in the wake of the U.S. invasion of Iraq, and after IAEA inspectors found HEU traces at Natanz, Ayatollah Khamenei agreed to demands by Britain, France, and Germany that it suspend various aspects of Iran’s nuclear program including uranium enrichment. Iran also agreed to implement the Additional Protocol.

In November 2004, Iran violated the 2003 agreement, charging that the Europeans had reneged on their promises of political and economic incentives. A fresh round of negotiations resulted in the “Paris Agreement,” which led to a new suspension, of most of Iran’s enrichment activities.

In January 2006, Iran resumed uranium enrichment at Natanz. The next month, the IAEA Board of Governors reported Iran’s nuclear program to the Security Council, citing “the absence of confidence” that Iran’s nuclear program is “exclusively for peaceful purposes.” The Board said Iran had been found to be in possession of documents relating to “the fabrication of nuclear weapons components,” and that the IAEA had information regarding Iranian tests “which could have a military nuclear dimension.”

On December 23, 2006, in Resolution 1737, the Security Council imposed its first

sanctions on Iran for its nuclear nonproliferation violations. Resolution 1737 includes several decisions as to the measures that Iran must take to maintain international peace and security. Principally, Iran must:

- Suspend all enrichment-related and reprocessing activities. Iran previously insisted it had an “inalienable right” under NPT Article IV to “develop research, production and use of nuclear energy for peaceful purposes” and that neither the NPT nor the IAEA Statute provided a legal basis for requiring Iran to suspend these activities. Resolution 1737’s binding suspension conclusively undermines that argument because, as UN Charter Articles 25 and 103 specify, the obligation to comply with Security Council decisions prevails in case of conflict with rights under the NPT or any other treaty.
  - Suspend work on all heavy water-related projects.
  - Refrain from exporting certain specified nuclear and ballistic missile equipment and technology.
  - Provide “such access and cooperation as the IAEA requests to be able to verify” the suspensions and “resolve all outstanding issues, as identified in IAEA reports.” This provision makes clear that the full force of the Council’s authority stands behind the IAEA’s requests for access and cooperation, and gives the IAEA more access authority (as much additional authority as it “requests”) to resolve Iranian nuclear issues than it had under the NPT and Iran’s IAEA safeguards agreement.

Resolution 1737 also sets forth the Council’s decisions on several sanctions measures to be employed to give effect to its mandates. These measures principally

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include: 1) restrictions on the export to Iran of certain specified nuclear and ballistic
missile items, materials, equipment, and technology; and 2) a freeze of overseas assets of
several named officials and institutions associated with Iran’s proliferation-sensitive
nuclear activities or the development of nuclear weapon delivery systems.15

The key Resolution 1737 provisions directly applicable to combating Iran’s nuclear and missile procurement networks are the following:

• All UN member states are required to “take the necessary measures to
prevent the supply, sale or transfer directly or indirectly from their
territories, or by their nationals or using their flag vessels or aircraft to, or
for the use in or benefit of, Iran, and whether or not originating in their
territories, of all items, materials, equipment, goods and technology which
could contribute to Iran’s enrichment-related, reprocessing or heavy
water-related activities, or to the development of nuclear weapon delivery
systems, namely” those listed in particular specified U.N. documents.

• All UN member states are required to “take the necessary measures to
prevent the supply, sale or transfer directly or indirectly from their
territories, or by their nationals or using their flag vessels or aircraft to, or
for the use in or benefit of, Iran, and whether or not originating in their
territories, of the following items, materials, equipment, goods and

15 For a detailed analysis of the financial sanctions aspect of Resolution 1737 see Kittrie, Orde F.
technology:” those listed in a particular specified U.N. document, and any other items, if the State determines that they would contribute to enrichment-related, reprocessing or heavy water-related activities, or to the development of nuclear weapon delivery systems.

- All U.N. member states “shall also take the necessary measures to prevent the provision to Iran of any technical assistance or training, financial assistance, investment, brokering or other services, and the transfer of financial resources or services, related to the supply, sale, transfer, manufacture or use of the prohibited items, materials, equipment, goods and technology specified.”

UN Security Council Resolution 1747 of March 24, 2007 principally imposed on Iran an arms export embargo and imposed asset freezes on several additional named officials and institutions associated with Iran’s nuclear or ballistic missile activities. Resolution 1747 did not substantively tighten the nuclear and missile procurement restrictions relating to Iran.

UN Security Council Resolution 1803 of March 3, 2008 imposed travel bans on several named individuals involved with Iran’s nuclear and ballistic missile programs and imposed asset freezes on several additional named officials and institutions associated

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with Iran’s nuclear or ballistic missile activities. Resolution 1803 also removed from UN member states their discretion, with regard to items listed in a particular specified U.N. document, as to whether or not to prevent the supply, sale or transfer of those items to Iran.

UN Security Council Resolution 1929 of June 9, 2010 prohibited the transfer to Iran of heavy weapons. Resolution 1929 also imposed travel bans and asset freezes on various named individuals involved with Iran’s nuclear and ballistic missile programs. In addition, Resolution 1929 updated the lists of items that UN member states must prevent being supplied, sold, or transferred to Iran, and required all UN member states to seize and dispose of such items if they are intercepted on their way to Iran.

As of mid-July 2013, Iran remained in violation of numerous nuclear-related provisions of international law. For example, the IAEA Director General, in a report dated May 22, 2013, stated that “Contrary to the relevant resolutions of the Board of Governors and the Security Council, Iran has not suspended its enrichment related activities” and “Contrary to the relevant resolutions of the Board of Governors and the Security Council, Iran has not suspended work on all heavy water related projects.”

Iran’s nuclear and missile programs are reportedly not self-sufficient. For example, to advance its nuclear program, Iran continues to attempt to import a number of

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different types of items, most notably:\(^1^8\)

- Pressure transducers: dual-use equipment which has nuclear applications in measuring the gas pressure inside centrifuge cascades
- Vacuum pipes: used in uranium enrichment program
- Maraging steel for centrifuges
- Carbon fiber
- Ring magnets for IR-1 centrifuges
- Semiconductor equipment

\(^1^8\) This abbreviated list includes items that most middlemen have procured according to the case information related to those cases in the table below. However, the 2012 U.N. Panel of Experts Report provides a more comprehensive list, stating that the Islamic Republic of Iran is seeking the following materials: (a) nuclear-grade graphite, (b) high-strength aluminium, (c) aluminium powder, (d) specialized alloys (such as chrome and nickel), (e) maraging steel, (f) carbon fibre, (g) lubricants, (h) magnets, (i) control valves, (j) heat exchangers, (k) pressure transducers, (l) vacuum pumps, (m) gauges, (n) inverters, (o) turbines, (p) electrical switchboards, (q) helium gas detectors, and (r) sodium perchlorate. Web: http://wwwiranwatchorg/international/.../un-panelofexpertsreport-061212.pdf
B. Iran’s Procurement Activities

1. Middlemen

Several Iranian entities are typically responsible for both determining which goods Iran requires to complete its nuclear program and initiating efforts to procure the necessary materials.\textsuperscript{19} These Iranian entities include: Iran’s Defense Industries Organization (DIO), Aerospace Industries Organization, Aircraft Industries Group, Iran Electronics Industries, and the Atomic Energy Organization of Iran.\textsuperscript{20} In recent years, these entities have not typically directly procured materiel from foreign suppliers, but rather utilized extensive networks of domestic and foreign trading companies and non-Iranian middlemen to obtain the materiel from abroad despite increasingly strict trade controls.\textsuperscript{21} These networks often exploit loopholes in national and international trade control laws.\textsuperscript{22}

Sometimes, the nuclear program or its procurement organization may establish their own front companies, either domestically or off-shore. However, in many cases, Iranian government officials do not themselves reach out to non-Iranian middlemen. Instead, the relevant Iranian government agencies might offer money to anyone who can deliver the materials, issuing orders that Iran-based independent importers then try to

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\textsuperscript{20} Ibid.

\textsuperscript{21} Ibid.

\textsuperscript{22} Ibid.
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The independent importers are often domestic trading companies engaged in a range of legitimate business activities in addition to illegal ones. The independent importers will often themselves recruit agents abroad, identify suppliers, and dispatch operatives to buy and ship the needed goods. According to a Canadian investigator, there are “thousands, if not tens of thousands” of such Iran-based independent contractors involved in the high-risk, high-reward business of illicitly procuring and transferring items to Iran.

A single network of middlemen can be responsible for procuring a range of illicit items. In one case, “goods obtained by the network had ‘dual-use military and civilian capability and could be used in such systems as: nuclear weapons, missile guidance and development, secure tactical radio communications, offensive electronic warfare, military electronic countermeasures (radio jamming), and radar warning and surveillance systems.”

Most middlemen involved in the trafficking of proliferation-sensitive items are reportedly opportunistic businessmen looking to make a profit rather than hardened criminals working within a larger criminal organization. Middlemen are often affiliated with trading companies, which can be used as fronts to approach foreign suppliers. Whereas middlemen are sometimes aware of the true end-user of the equipment that they

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26 Indictment: USA v. Yip, Foomanie, and Ansari, p. 4.
27 See Albright, Brannan, and Scheeler, supra. According to Albright et al, Iranian agents seek out foreign businessmen and trading companies to approach foreign suppliers in order to conduct smuggling activities.
28 For more detailed information on specific cases, see the table below.
are asked to acquire, other times they are either willfully ignorant or actively misled into believing the destination is an acceptable one.\textsuperscript{29} Even when they are aware that Iran’s nuclear or missile program is the true destination, many middlemen are willing to certify that the end-user is civilian and that Iran is not the intended final destination.\textsuperscript{30}

Companies in Dubai, Malaysia, China, Taiwan, and Hong Kong are often claimed as final destinations when, in fact, they serve as transshipment points to transfer goods one step further to Iranian entities.\textsuperscript{31} Iran’s middlemen are typically used to target U.S. and European manufacturers, which produce the highest quality goods.\textsuperscript{32} For example, several key types of proliferation-sensitive goods -- vacuum pumps used in gas centrifuge programs, high quality carbon fiber, and pressure transducers -- are not currently produced by China in sufficient quality to attract proliferant state centrifuge programs.

In the face of increasingly restrictive sanctions and other trade controls, Iranian agents have further obscured their diversion schemes by adding additional layers, with networks routing procurements through several successive middlemen.\textsuperscript{33} The below analysis examines some of the more common tactics.

2. Tactics

\textsuperscript{29} See Albright, Brannan, and Scheeler, supra, p.2
\textsuperscript{30} Ibid.
\textsuperscript{31} Ibid.
\textsuperscript{32} Ibid.
\textsuperscript{33} Ibid. See also: Albright, supra note 1.
Iran’s procurement tactics for its nuclear program have changed over time. Prior to the implementation of increasingly restrictive economic sanctions and export controls targeting Iranian entities, Iran sometimes sought assistance for its nuclear program directly from foreign governments, most notably Russia and China. With this route increasingly closed, Iran has refined its methods for acquiring relevant components, expertise, and materiel via deceptive procurement techniques involving private sector middlemen, which serve as intermediaries between foreign suppliers and the regime’s nuclear program.

The Iranian regime has utilized “a transnational network of firms located throughout the world to successfully purchase and channel goods to Iran.” The vast majority of key middlemen have been of Iranian origin. In the key cases included in the attached table, seventeen middlemen have been of Iranian origin and three have been Chinese.

As the table indicates, these middlemen have successfully shipped sensitive items to Iran through countries including Turkey, China, Hong Kong, Malaysia, and the United Arab Emirates. Weak export controls, high volumes of international trade, and the


36 See Albright, Brannan, and Scheel, Supra note 18.
existence of plausible end users seem to be a more important factor than geographical proximity to Iran in determining the location of Iran’s middlemen.\(^\text{37}\)

Iranian procurement schemes vary in their complexity. For example, a scheme can involve a multi-company supply chain. The root supplier—that is, the company in which the dual-use product originates—may or may not know that the transaction is illegal.\(^\text{38}\) The scheme typically includes a middleman who places orders with supply companies and arranges the transportation of the ordered materials to the country chosen to act as a diversion conduit. The middleman may own legitimate trading companies that operate in key countries of transshipment or even in the United States. Many middlemen and trading companies are willing to certify that the end user is civilian and that the items procured are not intended for Iran.\(^\text{39}\) Instead, they specify other countries, such as the United Arab Emirates, Malaysia, or China, as the final destination.\(^\text{40}\) Iranian agents often operate companies in these diversion turntable countries.

The use of several successive layers of middlemen can help to both evade law enforcement and hide the actual end user from the supplier company.\(^\text{41}\) For example,


\(^{38}\) In fact, many private companies have trouble distinguishing between legitimate sales and illicit procurement attempts. A lack of intelligence sharing between the government and private companies has often been cited as a key weakness of the export control system. Yet, in the absence of structured cooperation, Iranian procurement networks are able to effectively exploit these weaknesses.


\(^{40}\) Ibid.

\(^{41}\) Ibid.
between October 2007 and June 2011, Susan Yip conspired with two Iranian businessmen, Mehrdad “Frank” Foomanie and Merdad Ansari, to place 599 orders with 63 U.S. companies and a number of additional orders in other countries. Yip was eventually convicted for her San Antonio-based smuggling activities, but not before “obtaining over 105,000 parts valued at some 2,630,000 USD and making more than 1,250 transactions.” Yip transshipped goods to Foomanie’s companies in Iran via her companies in Taiwan and Hong Kong. Yip also transshipped goods to Iran via Dubai using a company owned by Ansari.

Yip utilized at least seven distinct companies to complete the illicit transactions and regularly certified that the end-user was not Iran. Yip reportedly succeeded in deceiving numerous U.S. and European companies into believing that the goods were headed to a legitimate destination.

Iranian procurement schemes do sometimes involve simpler supply chains, in which a single front company or other entity operating remotely from Iran purchases items from the supplier and forwards them via a trusted diversion conduit to its final destination in Iran. By operating from within Iran, scheme participants avoid the arrest and extradition risks posed by travel outside of Iran.

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43 Ibid.
44 Ibid.
45 Ibid.
46 In many of the cases included in the table below, middlemen who were successfully arrested were those who left Iran – U.S. and other foreign authorities may have been waiting to execute a sting operation, or customs authorities were able to otherwise detain the individual. Likewise, the
Prior to Majid Kakavand’s arrest in France, he and his associates for several years operated a successful, yet remarkably simple proliferation network, whereby they ran their procurement activities via a front company in Malaysia without ever leaving Iran.\(^ {47} \) The scheme was highly successful and the company made at least thirty illegal procurements. Kakavand and his partners “routinely signed certifications for U.S. companies stipulating that items would not be transshipped to embargoed or sanctioned countries.”\(^ {48} \) However, once these goods arrived in Malaysia, Kakavand’s front company utilized an international freight forwarding company to receive and ship the items from Malaysia to Iran on IranAir.\(^ {49} \) This tactic is commonly utilized amongst smaller proliferation networks. If shipments become stalled at a point of transshipment, middlemen can sometimes pay bribes to unstick the goods and facilitate their passage to Iran.\(^ {50} \)

Regardless of the numbers of layers of middlemen, most Iranian procurement efforts use some or all of the following techniques:

- Arranging for false end-use statements

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\(^ {48} \) Ibid.

\(^ {49} \) Ibid.

\(^ {50} \) For example, Susan Yip claimed to have paid bribes to ensure the arrival of illicit goods.
• Seeking less than ideal goods, “just below” the level of quality or technical specifications of those on dual-use or direct use control lists, and then, once they have reached Iran, having technicians either upgrade them or use them notwithstanding their lesser efficacy

• Using aliases to obscure sanctioned or suspicious company names or locations from authorities, bank screening systems, or company compliance officials

• Altering customs and shipping labels to include phony product descriptions and undervalue contents

While schemes to transport procured goods may differ in complexity, almost all illicit procurements require payment. Rarely does a proliferator use suitcases full of cash. Most suppliers expect to be paid in a normal, legitimate manner. Most illicit Iranian procurements must therefore involve some abuses of the international financial system, including the use of aliases, fraudulent paperwork, and other methods of obscuring the country from which the payment originates.

Several Iranian procurement schemes have utilized the U.S. financial system, with the help of alias names and shell companies.\(^5\) For example, between September 2008 and January 2011, IRISL and affiliates Asia Marine (Singapore), Oasis Freight (United Arab Emirates), and Irinvestship (Britain) as well as seven other companies or aliases and five individuals “committed conspiracy to circumvent United States sanctions against Iran by illegally accessing New York banking institutions to send and receive more than

60 million USD in payments.\textsuperscript{52} Similarly, Li Fang Wei (also known as Karl Lee) has repeatedly utilized U.S. banking institutions to funnel funds for illicit procurement operations.\textsuperscript{53} In light of the particular risks of running afoul of U.S. law,\textsuperscript{54} such continued reliance on the U.S banking system is a remarkable testament to its primacy.

\textsuperscript{52} Ibid.


III. International Efforts to Counter Iranian Procurement Efforts

A. United Nations Security Council Resolutions

The foremost international legal obstacles to Iran’s procurement networks are the requirements contained in a series of UN Security Council Resolutions binding on all UN Member States. While a previous section provided a holistic overview of the resolutions, this one focuses on the specific provisions that target Iran’s procurement efforts.

On December 23, 2006, in Resolution 1737, the Security Council imposed: 1) restrictions on the export to Iran of certain specified nuclear and ballistic missile items, materials, equipment, and technology; and 2) a freeze of overseas assets of several named officials and institutions associated with Iran’s proliferation-sensitive nuclear activities or the development of nuclear weapon delivery systems. The key Resolution 1737 provisions directly applicable to combating Iran’s nuclear and missile procurement networks are the following:

- All UN member states are required to “take the necessary measures to prevent the supply, sale or transfer directly or indirectly from their territories, or by their nationals or using their flag vessels or aircraft to, or for the use in or benefit of, Iran, and whether or not originating in their territories, of all items, materials, equipment, goods and technology which
could contribute to Iran’s enrichment-related, reprocessing or heavy water-related activities, or to the development of nuclear weapon delivery systems, namely’’ those listed in particular specified U.N. documents.

- All UN member states are required to “take the necessary measures to prevent the supply, sale or transfer directly or indirectly from their territories, or by their nationals or using their flag vessels or aircraft to, or for the use in or benefit of, Iran, and whether or not originating in their territories, of the following items, materials, equipment, goods and technology:’’ those listed in a particular specified U.N. document, and any other items, if the State determines that they would contribute to enrichment-related, reprocessing or heavy water-related activities, or to the development of nuclear weapon delivery systems.

- All U.N. member states “shall also take the necessary measures to prevent the provision to Iran of any technical assistance or training, financial assistance, investment, brokering or other services, and the transfer of financial resources or services, related to the supply, sale, transfer, manufacture or use of the prohibited items, materials, equipment, goods and technology specified.”

UN Security Council Resolution 1747 of March 24, 2007 principally imposed on Iran an arms export embargo and imposed asset freezes on several additional named
officials and institutions associated with Iran’s nuclear or ballistic missile activities. Resolution 1747 did not substantively tighten the nuclear and missile procurement restrictions relating to Iran.

UN Security Council Resolution 1803 of March 3, 2008 imposed travel bans on several named individuals involved with Iran’s nuclear and ballistic missile programs and imposed asset freezes on several additional named officials and institutions associated with Iran’s nuclear or ballistic missile activities. Resolution 1803 also removed from UN member states their discretion, with regard to items listed in a particular specified U.N. document, as to whether or not to prevent the supply, sale or transfer of those items to Iran.

UN Security Council Resolution 1929 of June 9, 2010 imposed travel bans and asset freezes on various named individuals involved with Iran’s nuclear and ballistic missile programs. In addition, Resolution 1929 updated the lists of items that UN member states must prevent being supplied, sold, or transferred to Iran, and required all UN member states to seize and dispose of such items if they are intercepted on their way to Iran.

The lead UN body involved with implementation of these Security Council resolutions is a Security Council committee established pursuant to Resolution 1737, amended by subsequent resolutions, and commonly referred to as the “1737 Committee.” The 1737 Committee currently has a mandate to monitor implementation of the measures
imposed in resolutions 1737 (2006), 1747 (2007), 1803 (2008), and 1929 (2010) relating to the Islamic Republic of Iran, examine and take appropriate action on information regarding alleged violations of these measures, designate additional individuals and entities, and make recommendations to strengthen the effectiveness of the imposed measures.

The Security Council typically creates a new committee each time it imposes a new sanctions regime; there are currently thirteen such committees. The 1737 Committee consists of the same fifteen States that sit on the Security Council and makes decisions by consensus. The UN Secretariat assists the work of the Committee by providing substantive support and secretariat services.

Security Council resolution 1929 (2010) established a Panel of Experts to help the 1737 Committee carry out its mandate, including, under the direction of the Committee, to monitor and improve sanctions implementation. The Security Council typically creates such expert panels to support sanctions committees. These panels are mandated to provide neutral, fact-based assessment and analysis, as well as recommendations to improve implementation.

This Panel of Experts acts under the direction of the 1737 Committee, with certain administrative support provided by the Secretariat. The Security Council has mandated the Panel of Experts to perform a number of tasks, including to “gather, examine and analyse information from States, relevant United Nations bodies and other interested
parties regarding the implementation of the measures decided in resolutions 1737 (2006), 1747 (2007), 1803 (2008) and [1929 (2010)], in particular incidents of non-compliance.” The Panel is also required to provide the Council with periodic reports with findings and recommendations.

The Panel of Experts consists of eight members with specialized technical backgrounds in relevant fields, such as non-proliferation, export control/nuclear items, and missile technology. The Panel also supports other Committee efforts, including outreach to Member States on issues regarding sanctions implementation, monitoring of sanctions implementation, and analysis of trends and “best practices” regarding sanctions enforcement. The Security Council has urged “all States […] to cooperate fully with the Committee and the Panel of Experts, in particular by supplying any information at their disposal on the implementation of the measures decided in resolutions 1737 (2006), 1747 (2007), 1803 (2008) and [1929 (2010)], in particular incidents of non-compliance.”

Because the Panel includes experts from each of the five permanent members of the Security Council and operates on the basis of consensus, some of its findings and recommendations, including especially those which implicate the interests of China or Russia, have a least common denominator quality to them. The Panel’s findings nevertheless sometimes rise to the level of exceptionally useful specificity and its recommendations carry considerable weight.

B. Key U.S. Measures
The United States contributes in several major ways to combating Iran’s illicit nuclear and missile procurement efforts. For example:

- The U.S. invests considerable diplomatic capital in persuading international organizations, including the Security Council and the Financial Action Task Force, and foreign governments to adopt and implement restrictions on Iran’s procurement activity.
- Various U.S. government entities, including the Export Control and Border Security Office of the U.S. Department of State, help foreign governments to build their strategic trade control capacities.
- U.S. intelligence services monitor Iran’s procurement activities and regularly tip off foreign governments when such activities take place on their territory.
- As the world’s leading producer of proliferation-sensitive dual use goods, U.S. retransfer restrictions, prosecutions, and other efforts to prevent the diversion of such goods to Iran play a key role in hindering Iran’s procurement efforts.
- A high percentage of international financial transactions have a U.S. nexus (even if the purchased item or service does not itself have a U.S. nexus). U.S.

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56 *Ibid.* According to a 2012 Reuters article, “Of 260 major U.S. export cases since 2003, 83 involved Iran, the most of any nation. Sixty-one of the 83 Iranian cases can be categorized as military-related smuggling: they involve radar and night-vision gear, fighter jets, airplane components and missile technology. Eight of 83 cases included alleged attempts to acquire equipment with nuclear applications.” Mark Hosenball and John Shiffman, “US, European official probe Iran nuclear smuggling” 28 March 2012. Web: [http://www.reuters.com/article/2012/03/28/usa-iran-smuggling-idUSL2E8ERODR20120328](http://www.reuters.com/article/2012/03/28/usa-iran-smuggling-idUSL2E8ERODR20120328)
financial regulatory agencies often leverage this financial nexus to hinder illicit procurements that do not otherwise have a U.S. connection.\textsuperscript{57}

\section*{C. Key European Union Measures}

The European Union is a key player in the effort to halt Iranian procurement of proliferation-sensitive items. The European Union has adopted strong sanctions intended to persuade Iran to comply with its international obligations and to constrain Iran’s development of sensitive technologies in support of its nuclear and missile programs. The measures both implement UNSC resolutions and include additional autonomous EU measures. Key EU restrictions designed to counter Iran’s procurement efforts include:

- Export and import ban on goods and technology related to nuclear enrichment or nuclear weapon systems, including concerning nuclear materials and facilities, certain chemicals, electronics, sensors and lasers, navigation and avionics.

- Exports of a separate set of goods that could contribute to nuclear enrichment are subject to authorisation by national authorities and only permitted if they don't contribute to nuclear enrichment and weapons development.

• Ban on investment by Iranian nationals and entities in uranium mining and production of nuclear material and technology within the EU.

• Export and import ban on dual-use goods and technology, for instance telecommunication systems and equipment; information security systems and equipment; nuclear technology and low-enriched uranium.

• Enhanced monitoring over the activities of EU financial institutions with Iranian banks and their branches, including the Iranian central bank. Banks must require full information, keep records of all transactions and report transactions they suspect to concern proliferation financing to national authorities.

• Restrictions on financial transfers to and from Iran. Banks must notify transfers above 10,000 Euros to national authorities and request prior authorisation for transactions above 40,000 Euros (with humanitarian exemptions). Only permitted if it does not contribute to nuclear enrichment or weapons development.

• National customs authorities must require prior information about all cargo to and from Iran. Such cargo can be inspected to ensure that trade restrictions are respected. Prohibited goods can be seized by member states.

• Cargo flights operated by Iranian carriers or coming from Iran may not have access to EU airports (except mixed passenger and cargo flights). No maintenance services to Iranian cargo aircraft or servicing to Iranian vessels may be provided if there are suspicions that it carries prohibited goods.

• Visa bans on persons designated by the UN or associated with or providing support for Iran's proliferation-sensitive nuclear activities or for the development of nuclear weapon
delivery systems, for instance by acquiring prohibited goods and technology or by assisting listed persons or entities in violating UN and EU provisions; and other members of the IRGC. As of January 2012, visa bans apply to 116 persons - 41 of them have been designated by the UN, the others are autonomous EU designations.

- Asset freeze on entities associated with Iran's proliferation-sensitive nuclear activities or the development of nuclear weapon delivery systems, for instance by acquiring prohibited goods and technology or by assisting listed persons or entities in violating UN and EU provisions; and senior members and entities of IRGC and the IRISL.

The number of EU-listed entities amounts to 442, including the Iranian central bank. Seventy-five of them were designated by the UN, the others are autonomous EU designations. They include companies in the banking and insurance sectors, the nuclear technology industry and in the field of aviation, armament, electronics, shipping, chemical industry, metallurgy and the oil and gas industry as well as branches and subsidiaries of IRGC and IRISL.

D. Key Diversion Turntable Countries

A handful of countries – most prominently China, Hong Kong, Turkey, and the United Arab Emirates -- have repeatedly served as turntables where proliferation-sensitive items from the West have been illicitly diverted to Iran. These countries are characterized by weak export controls (or a lack of will to enforce them) and the existence of plausible end users for the diverted items. In several key cases, these countries have cracked down when provided by the U.S. or its allies with specific
evidence that U.S.-origin (or allied-origin) goods are being diverted through that country to Iran. However, even some of those cases have been marked by a refusal to extradite the perpetrators. For example, extradition requests have reportedly been unsuccessful in apprehending the brokers of Mac Aviation Group, Chinese smuggler and money launderer Li Fang Wei, and major players in the Mayrow procurement network based in Malaysia and Dubai.  

The following section provides a country-by-country overview of these key diversion turntables for Iran’s procurement network.

a. Turkey

Turkey is reportedly a key transshipment point for Iranian efforts to circumvent sanctions. According to a March 2012 article in Today’s Zaman, an English language Turkish newspaper:

> With Iran facing US and EU sanctions due to its nuclear program, Turkey has emerged as one of the few valuable outlets for Iranian companies willing to circumvent sanctions. Iranian companies thus seek partnership with or the acquisition of Turkish businesses. According to the Turkish Union of Chambers and Commodity Exchanges (TOBB), foreign companies financed by Iran in 2011 totaled 590, an increase of 41 percent compared to the previous year. That puts Iran on the top of the chart of new foreign companies established in 2011, not only in nominal numbers but percentage-wise as well.

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Several recent cases indicate that Iran uses Turkish companies to evade sanctions, including by acquisition and transshipment of a range of high-tech, dual use goods from U.S. or European companies. Evidence of Turkey as a hub for Iran’s illicit efforts to procure sensitive U.S.-origin goods is contained in the indictment, unsealed on February 1, 2011, “charging Milad Jafari, an Iranian citizen and resident, with illegally exporting and attempting to export specialized metals from the United States through companies in Turkey to several entities in Iran – including entities that have been sanctioned for their involvement in Iran’s ballistic missile activities.” The indictment “alleges that Jafari and his customers were successful in causing several shipments of…materials to be exported from the United States to Iran via Turkey.”

Additional evidence of Turkey as a hub for Iran’s illicit efforts to procure sensitive U.S.-origin goods is contained in the indictment, announced by federal prosecutors in December 2012, of Murat Taskiran, a Turkish citizen who was the managing director of a company in Turkey, and Hamid Reza Hashemi, a dual U.S. and Iranian citizen who resides in Iran. According to the U.S. Department of Justice, “Hashemi is alleged to have violated the International Emergency Economic Powers Act (“IEEPA”) by working with others, including Taskiran, to arrange for the export of carbon fiber from the U.S. to his company in Tehran, Iran.” For example, “in March and April 2008, Hashemi, Taskiran, and a Europe-based broker…successfully arranged for the shipment of carbon fiber from the U.S. to [an] Iranian Company.” Iran’s centrifuge program depends in part on imports of high quality carbon fiber, which are increasingly difficult for Iran’s smuggling networks to obtain.
Turkey has also reportedly served as a diversion turntable for sensitive exports from several European companies. For example, in 2012, Spanish authorities halted a scheme which used a shell company in Turkey to transfer items to Iran’s nuclear program in violation of UN Security Council sanctions.\(^{59}\) In early 2013, Germany halted a scheme which had successfully diverted over 900 items with nuclear applications to Iran through Turkey.\(^{60}\)

### b. China

There is considerable room for improvement in China’s implementation of Security Council sanctions and of its trade controls. China reportedly remains a key procurement and transshipment point used by Iranian smugglers. In October 2010, the \textit{Washington Post} reported that, “[t]he Obama administration has concluded that Chinese firms are helping Iran to improve its missile technology and develop nuclear weapons, and has asked China to stop such activity, a senior U.S. official said.”\(^{61}\) The \textit{Post} quoted a senior U.S. official explaining that “China so far has not devoted resources to crack

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down on violators.”62 “It's one thing to have a system that looks good on the books,” he said, “and it's another thing to have a system that they enforce conscientiously. . . . Where China's system is deficient is on the enforcement side.”63

Some two years later, there was little, if any, improvement. In August 2012, the Post reported that, “[a]lthough Iran has used Chinese go-betweens in the past, U.S. officials said sanctions have forced the isolated and besieged Iranian government to rely increasingly on China for economic help and access to restricted goods.”64 The article quoted a senior Justice Department official stating, “As some countries have retreated from the Iranian market with the imposition of increased sanctions, many Chinese companies appear to have moved into the void.”65

The August 2012 Post article provided as an example maraging steel, which “is a critical material in a new, highly efficient centrifuge that Iran has struggled for years to build.”66 “Barred by sanctions from buying the alloy legally, Iranian nuclear officials

have sought,” said the article, “to secretly acquire it from Western companies.”

According to the article, “In recent years, U.S. officials say, an increasing number of Chinese merchants have volunteered to help, serving as middlemen in elaborate schemes to obtain the steel and other forbidden material for Iran’s uranium enrichment plants as well as its missiles factories.”

“The flow of Western technology to Tehran is so persistent,” said the Post in August 2012, “that it has emerged as an irritant in relations between Beijing and Washington, prompting the Obama administration to dispatch two delegations to Beijing since 2010 to complain.” “Yet, despite repeated protests,” said the August 2012 article, “Chinese businessmen continue to offer crucial assistance to Iran’s procurement efforts without fear of punishment or censure, U.S. officials and nuclear experts say.” As of 2013, the U.S was still urging action against Karl Lee, a Chinese middleman who has since 2006 been publicly named and penalized by the U.S. but apparently continues to supply the Iranian missile program.

Several recent court cases provide specific, publicly available evidence that Iran

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71 http://www.reuters.com/article/2013/02/11/usa-china-sanctions-idUSL1N0BB79720130211
uses China as a place to acquire and transship a range of high-tech, dual-use goods from U.S. companies, sometimes through subsidiaries located in China. For example, evidence of China as a hub for Iran’s illicit procurement efforts is contained in the indictment, announced by federal prosecutors in July 2012, charging Parviz Khaki, a citizen of Iran, and Zongcheng Yi, a resident of China, “for their alleged efforts to obtain and illegally export to Iran U.S.-origin materials that can be used to construct, operate and maintain gas centrifuges to enrich uranium, including maraging steel, aluminum alloys, mass spectrometers, vacuum pumps and other items.” The indictment alleges that Yi and other conspirators purchased the goods in question from various U.S. companies and “had the goods exported from the United States through China and Hong Kong to Khaki and others in Iran.”

Additional evidence is provided by the case of Susan Yip, who in October 2012 was sentenced to two years in prison for her role in a conspiracy to obtain in the United States and illegally export to Iran parts that “could be used in such military systems as nuclear weaponry” and “missile guidance and development.” By “pleading guilty, Yip admitted that from 2007 to 2011, she acted as a broker and conduit” for Mehrdad Foomanie of Iran. According to the indictment, “Foomanie bought or attempted to buy items in the United States and arranged to have them unlawfully shipped to Iran through his companies in Iran, Hong Kong and China.”

Concerns are also raised by the case of Qiang Hu, who was “charged in a May 18, 2012 criminal complaint in the District of Massachusetts with conspiracy to illegally export from the United States to China and elsewhere dual-use pressure transducers in
violation of the International Emergency Economic Powers Act.” According to the complaint, “the pressure transducers in question, manufactured by MKS Instruments headquartered in Andover, Mass., are controlled for export by the Commerce Department because they can be used in gas centrifuges to enrich uranium and produce weapons-grade uranium.” According to the complaint, “Hu worked as a sales manager for a subsidiary of MKS Instruments in Shanghai.” Per the U.S. Department of Justice, “Hu and his co-conspirators allegedly caused thousands of MKS export-controlled pressure transducers, worth more than $6.5 million, to be illegally exported from the United States to unauthorized end-users in China and elsewhere using export licenses fraudulently obtained from the Department of Commerce.”

The complaint alleges that Hu and his co-conspirators “used licenses issued to legitimate MKS business customers to export the pressure transducers to China, and then caused the parts to be delivered to other end-users who were not themselves named on the export licenses or authorized to receive the parts.” Pressure transducers measure the gas pressure inside a centrifuge, and Iran uses a large quantity of them in its centrifuge plants. Because of the efforts of countries that do enforce Security Council sanctions, Iran has experienced great difficulty in acquiring pressure transducers.

In addition to these 2012 cases involving China as a diversion turntable for Iran, numerous cases from previous years are detailed in the “Summary of Major U.S. Export Enforcement, Economic Espionage, Trade Secret and Embargo-Related Criminal Cases,” which is regularly updated by the U.S. Department of Justice. This consistent pattern of cases indicates that Iran is a regular customer of critical dual-use goods and raw materials
that originate elsewhere, including the United States, but are acquired in China and then shipped to Iran. China has also served as a diversion turntable for proliferation-sensitive items going from the U.S. to Pakistan.\textsuperscript{72} These cases demonstrate that China poses a significant diversion concern.

Research and analysis by the Institute for Science and International Security (ISIS) indicates that the China diversion problem is posed primarily by private Chinese companies, rather than state-owned ones. These private companies procure goods for Iran and then transfer or transship them to Iranian entities.

According to ISIS, an example might involve an Iranian front company that is located in Iran. This Iranian-based company would contract with an Iranian-controlled entity in China, which in turn would contract with a Chinese private company to obtain sensitive goods that are widely known to be used in Iran’s nuclear program and thus banned for sale to Iran by U.N. Security Council sanctions. While China often itself manufactures the sought-after type of goods, the Chinese-manufactured goods may not be reliable or of high enough quality for centrifuge use. As a result, Iran seeks Western-manufactured goods available in China. The private Chinese company tells the Western suppliers’ subsidiaries that the goods will be used domestically in China, although they are in fact intended for export to Iran. Although this is not the only way Iran uses China to acquire sensitive goods, it is reportedly typical.

c. Hong Kong

Hong Kong is also a significant diversion concern. Hong Kong has been a special administrative region of China since it ceased being a colony of Great Britain in 1997. Consistent with the “sense of Congress” expressed in the U.S.-Hong Kong Policy Act of 1992, Hong Kong is treated as a separate destination under the U.S. Export Administration Regulations and in some circumstances is subject to more favorable licensing treatment than mainland China. However, there are increasing signs that Hong Kong is failing to effectively police the transshipment and illicit trade practices of the myriad trading and international companies on its territory. As a result, Hong Kong has become a growing diversion concern and hub for Iran’s illicit procurement efforts.

For example, the U.S. Government Accountability Office noted in 2012 that “some unlicensed items transshipped illicitly to Iran through Hong Kong were used to build improvised explosive devices used against Coalition troops in Iraq.” Concerns regarding Hong Kong as a hub for Iran’s illicit procurement efforts also are raised by several of the above-referenced cases involving China. For example, the case of Susan Yip, who pleaded guilty in 2012 to one count of conspiracy to violate Iranian Transaction Regulations. In her guilty plea, Yip admitted to using several companies in Hong Kong to carry out the fraudulent scheme.

Additional evidence of Hong Kong as a hub for Iran’s illicit procurement efforts is contained in the indictment, announced by federal prosecutors in July 2012, charging Parviz Khaki, a citizen of Iran, and Zongcheng Yi, a resident of China, “for their
alleged efforts to obtain and illegally export to Iran U.S.-origin materials that can be used to construct, operate and maintain gas centrifuges to enrich uranium, including maraging steel, aluminum alloys, mass spectrometers, vacuum pumps and other items.” The indictment alleges that Yi and other conspirators purchased the goods in question from various U.S. companies and “had the goods exported from the United States through China and Hong Kong to Khaki and others in Iran.” A law enforcement official told The New York Times that the case “illustrated an emerging trend of smugglers using Hong Kong as a transshipment hub,” in contrast with the past, when “it was more common for smuggling networks to use hubs like Malaysia, Singapore and the United Arab Emirates.”

d. United Arab Emirates

The United Arab Emirates (UAE) is often touted as a strategic trade controls success story. In the mid-1990s, the UAE reportedly had no strategic trade controls whatsoever.73 In 2007, after considerable pressure from the U.S. and others, the UAE adopted a strategic trade control law.74 The UAE is currently the only Arab League member state to have a comprehensive strategic trade control law.

However, both the UAE’s strategic trade control law and its implementation still leave room for improvement.75 As the below chart indicates, several important networks

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73 http://www.wisconsinproject.org/countries/dubai/entrepot.html
74 http://www.sipri.org/research/disarmament/eu-consortium/publications/dunne_eunpc12
75 http://www.sipri.org/research/disarmament/eu-consortium/publications/dunne_eunpc12
continued to successfully route illicit proliferation-sensitive transfers through the UAE for several years after the UAE adopted its strategic trade control law.

IV. Recommendations

Improved enforcement of U.N. Security Council sanctions across a broad spectrum of countries, and especially by countries that serve as key suppliers or transit points, would reduce Iran’s ability to acquire the goods it needs to advance its nuclear and missile programs. Sanctions, when enforced, have successfully prevented Iran from purchasing goods for its centrifuges, inhibited domestic production of centrifuges, and forced it to make undesirable design changes in its centrifuges. As a result of sanctions, Iran faces problems acquiring a wide range of vital nuclear dual-use goods, such as high-precision maraging steel, high-quality carbon fiber, vacuum pumps, and pressure transducers. Although Iran has tried to produce some advanced equipment domestically, it has found that it must still procure abroad some of the varied types of quality equipment that is necessary to operate a gas centrifuge plant.76 Better implementation and enforcement of export controls remain the foundation of this sanctions effort and their improvement is vital.

A. Designate Key Diversion Turntable Countries as “Destinations of Diversion Concern”

Title III of the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA), enacted in 2010, provides that “the President shall designate a country as

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a Destination of Diversion Concern if the President determines that the government of the country allows a substantial diversion of goods, services, or technologies described in section 302(b) through the country to Iranian end-users or Iranian intermediaries.” The provision defines the term “allow” to mean “the government of the country knows or has reason to know that the territory of the country is being used for such diversion.” Upon designating a country as a Destination of Diversion Concern, the President must submit to specified congressional committees a report 1) notifying those committees of the designation; and 2) “containing a list of the goods, services and technologies described in section 302(b) that the President determines are diverted through the country to Iranian end-users or Iranian intermediaries.”

Not later than 45 days after submitting such a report to Congress, the president must “require a license under the Export Administration Regulations or the International Traffic in Arms Regulations (whichever is applicable) to export to” the designated country a good, service, or technology on the list of items described in section 302(b) that the president has determined are being diverted through the country to Iranian end-users or Iranian intermediaries. Such license applications shall be reviewed “with the presumption that any application for such a license will be denied.” Items described in section 302(b) are goods, services, or technologies “(1) that (A) originated in the United States; (B) would make a material contribution to Iran’s— (i) development of nuclear, chemical, or biological weapons; (ii) ballistic missile or advanced conventional weapons capabilities; or (iii) support for international terrorism; and (C) are—(i) items on the Commerce Control List or services related to those items; or (ii) defense articles or
defense services on the United States Munitions List; or (2) that are prohibited for export to Iran under a resolution of the United Nations Security Council.”

Publicly available information indicates that China, Hong Kong, and Turkey fit this law’s definition of a “Destination of Diversion Concern.” However, no such designation has been made. The United States should designate each of these countries as a “Destination of Diversion Concern.”

Such a designation could reduce the supply to Iran of proliferation-sensitive goods, services, or technologies by 1) enhancing scrutiny by U.S. government licensing agencies of specific proliferation-sensitive exports from the United States to those countries; 2) increasing pressure on those countries’ governments to crack down on diversion through those countries to Iranian end-users and Iranian intermediaries; and 3) helping secure support from other countries who likewise face challenges in ensuring that sales to those countries do not end up in Iran.

The destination of diversion concern provision in CISADA should be both implemented and expanded. As presently written, it applies only to the diversion to Iran of U.S.-origin goods, services or technology. However, the U.S. sometimes learns that a country is a diversion concern, or gains public evidence of such concern, from diversions of goods, services, or technology originating in European or other developed countries. Such diversions should serve as a potential basis upon which to designate a country as a destination of diversion concern. It is also worth considering whether the provision
should be expanded so that a country is labeled a destination of diversion concern on the basis of the diversion of goods, services or technology to other countries of proliferation concern than only Iran. Such an expansion could provide the U.S. government with valuable leverage in pressuring diversion turntable countries to halt diversions to other countries of proliferation concern.

**B. Encourage More Countries to Adopt Comprehensive Strategic Trade Controls**

As a result of U.S. diplomatic pressure, the United Arab Emirates (UAE), once the predominant transshipment hub for nuclear and nuclear-dual use equipment going to Iran, tightened its controls and curtailed this activity beginning in 2007. Press reports indicate that Iran has been attempting to shift its illicit procurement efforts not only to China, Hong Kong, and Turkey but also Oman and other Gulf states.77 The UAE is currently the only Gulf (or indeed Arab) state to have in place comprehensive strategic trade controls.

The United States should place much greater priority on encouraging all countries of diversion concern, including those in the Gulf, to adopt and effectively implement comprehensive strategic trade controls. The United States should do so by taking steps including demonstrating a willingness to impose additional licensing requirements on countries that do not adopt or effectively implement such controls.

The requirements imposed on all UN member states by UN Security Council Resolution 1540 are a powerful tool for promoting the adoption of comprehensive strategic trade controls. However, many of the requirements in Resolution 1540 are quite generally phrased.

For example, on brokering, Resolution 1540 decides that all states shall “Develop and maintain appropriate effective border controls and law enforcement efforts to detect, deter, prevent and combat, including through international cooperation when necessary, the illicit trafficking and brokering in such items.” What does appropriate effective mean? What does brokering mean? It can be hard to hold a country accountable for complying with an ambiguous obligation. The Resolution 1540 Committee should promulgate guidance, for example model provisions, as to the meaning of the brokering and other requirements of the resolution. UN bodies have issued very specific, detailed guidance with regard to the optimal content of brokering laws in the conventional weapons context. It would not be difficult for the 1540 committee to adapt them into an elaboration of what UNSCR 1540 requires in the WMD context.
In addition, while the 1540 committee has a mandate to conduct state by state reviews of implementation of the resolution’s requirements, this review results in publication only of a bare bones checklist. Unfortunately, this checklist is currently the closest thing the international community has to an active or public peer review or other rating of the quality of national strategic trade control systems.

The Financial Action Task Force (FATF) provides one potentially useful model for promoting the broader adoption of comprehensive strategic trade controls. The FATF is an inter-governmental body, with a membership currently consisting of 34 countries and two regional organizations. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF therefore works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

The FATF has developed a series of Recommendations that are recognized as the international standard for combating of money laundering and the financing of terrorism and proliferation of weapons of mass destruction. First issued in 1990, the FATF Recommendations have been periodically revised to ensure that they remain up to date.

The FATF monitors the progress of its members in implementing necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures.
globally. With the aim of protecting the international financial system from misuse, the FATF also periodically publishes lists of jurisdictions that have strategic deficiencies with regard to the combating of money laundering and the financing of terrorism.

In comparison with the 1540 committee’s checklist, the FATF has a remarkably rigorous and effective peer review and rating process, in the form of the mutual evaluation programme used by the Financial Action Task Force to monitor progress made by member governments in implementing the FATF Recommendations.

The explicitness of the FATF mutual evaluations is exemplified by a recent evaluation, published on the FATF website, of Kuwait, the summary of which begins as follows: “The evaluation of anti-money laundering (AML) and combating the financing of terrorism (CFT) measures in place in the State of Kuwait concluded that their AML/CFT framework has many shortcomings.” The report itself is 245 pages long and contains detailed analysis of Kuwait’s laws and banking system, in the context of facts regarding its economy, and literally scores of specific recommendations for improvement. The fight against illicit nuclear and missile procurement networks would benefit significantly from the FATF level of detail being applied by an intergovernmental organization to strategic trade control country assessments.

Since that may not be politically feasible, at least in the short term, it is worth noting that such analyses and rankings have also been effectively promulgated by non-governmental organizations. For example, the global corruption assessments and rankings published by Transparency International have had a significant impact on many governments’ political will to combat corruption. A rigorous, well-researched global
strategic trade controls assessment and ranking, published by a reputable non-governmental organization, could make a significant contribution to promoting broader adoption of comprehensive strategic trade controls.

C. Promote Enhanced Government-Industry Cooperation on Strategic Trade Controls

Improved cooperation between governments and the private sector to detect Iranian proliferation attempts would better prevent Iran from illicitly outfitting its nuclear programs and enhance compliance with U.N. Security Council sanctions resolutions on Iran. Government/industry cooperation programs are already successful in Germany and Britain, where they have proven valuable in strengthening national export control and sanctions efforts. As part of such programs, governments inform companies about the latest procurement schemes used by Iran or other proliferators in order to help these firms avoid making accidental bad sales. In addition, governments receive from companies information about Iranian procurement attempts, which is useful in building intelligence assessments about Iran’s requirements, activities, and smuggling techniques.  

The United States, perhaps surprisingly given its focus on stopping Iran’s smuggling, has found it difficult to implement such a government/industry cooperation system because of regulatory and classification issues relating to this type of information sharing with companies. However, it should continue attempting to establish such a system through legislative or executive action resolving the classification and regulatory

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78 For additional information see, e.g., David Albright, Peddling Peril: How the Secret Nuclear Trade Arms America’s Enemies (New York: Free Press, 2010), pages 253-4.
issues. Meanwhile, countries, such as Great Britain and Germany, that already have close government/industry cooperation, should encourage and assist other countries, particularly China and Turkey, to institute such systems.

D. Promote Increased Use of Sting Operations

Sting operations have proven effective at catching and stopping both major and minor Iranian smugglers and should be expanded. The United States is the only country currently known to employ sting operations against Iranian efforts to procure proliferation-sensitive dual-use items. The United States should encourage and assist other countries to use sting operations to: prevent Iran from obtaining items for its nuclear program, put more Iranian smugglers out of commission, and send a stronger message about such countries’ unwillingness to tolerate violations of their export control laws.

E. Further restrictions on Iranian proliferators’ use of the international financial system

U.N. Security Council resolutions on Iran prohibit it from using the global financial system to finance its illicit nuclear trade. Nevertheless, Iran has become adept at using the global financial system to facilitate transactions for goods purchased in contravention of national laws and international sanctions. In response, governments

must more effectively leverage the financial system as a line of defense against illicit nuclear trade. The U.S. government should encourage and assist countries with insufficient financial controls to enact, strengthen, and implement such measures as are necessary to prevent Iran’s proliferation financing. In order to reduce Iran’s access to the international financial system and increase pressure on it to resolve the nuclear issue, the United States should continue on a unilateral basis to aggressively enforce recent laws sanctioning and fining foreign financial institutions that do significant proscribed business with Iran.\textsuperscript{80}

In addition, the FATF should increase its emphasis on nonproliferation. As described above, the FATF is an international, intergovernmental body which sets standards and promotes effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. FATF members include the United States, the European Commission, China, Russia, and most of the world’s other leading economies.\textsuperscript{81} FATF has played a pivotal role in the fight against the financing of terrorism. However, FATF’s work on combating the financing of proliferation is several steps behind. In February 2012, FATF recognized that “the proliferation of weapons of mass destruction is a significant security concern, and financial measures can be an effective way to combat this threat,” and adopted a new Recommendation aimed at


ensuring consistent and effective implementation of targeted financial sanctions when these are called for by the UN Security Council.\textsuperscript{82} Next steps for FATF on nonproliferation finance should include working towards a comprehensive set of best practices and capacity building mechanisms, and then holding FATF members to account for their implementation.

References


