



Safeguarding America Through  
Financial Investigations

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Cornerstone is U.S. Immigration and Customs Enforcement’s (ICE) comprehensive investigative initiative for fighting financial crime.

The Cornerstone Report is a quarterly bulletin highlighting key issues related to ICE Homeland Security Investigations (HSI) financial, narcotics and special operations investigations.



U.S. Immigration  
and Customs  
Enforcement

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[www.ice.gov/cornerstone](http://www.ice.gov/cornerstone)

# Counter-Proliferation Investigations: Laws That Govern

The export control laws enforced by U.S. Immigration and Customs Enforcement (ICE) Homeland Security Investigations (HSI) primarily include, the Arms Export Control Act (AECA), the International Emergency Economic Powers Act (IEEPA) and the respective implementing regulations of both Acts.

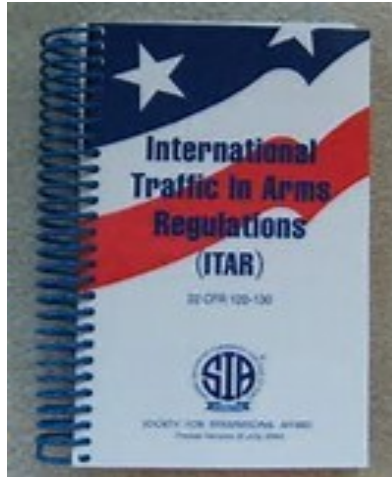
The AECA is implemented through the International Traffic in Arms Regulations (ITAR). Contained within the ITAR is the United States Munitions List (USML), which is a list of items that have been categorized as defense article, a defense service, or defense activity. The export of items or services designated on the USML is

regulated by the U.S. Department of State, Directorate of Defense Trade Controls (DDTC).

The IEEPA is implemented through the Export Administration Regulations (EAR). Contained within the EAR is the Commerce Control List (CCL). The CCL is a list of items that are considered to be dual-use in

nature. Items or services are considered dual-use if, although used in predominantly commercial applications, they may also be used in military applications. Examples of dual-use items including machine tools, electronic equipment, computers, telecommunications

equipment, sensors and radar, navigation equipment, and space and propulsion equipment.



**If you are aware of any possible violations of laws related to prohibited or restricted munitions and arms exports, please call HSI at: 1-202-312-9746**

Please feel free to send your questions and comments to the editors of the Cornerstone Report at: [cornerstone@ice.dhs.gov](mailto:cornerstone@ice.dhs.gov)

# Shield America—Building a Partnership

**S**hield America is an outreach initiative developed by ICE-HSI that seeks the partnership, cooperation, and assistance of private industry and the academic community to prevent the illegal procurement of export controlled U.S. munitions and strategic technology by terrorists, criminal organizations and foreign adversaries.

Working in partnership with U.S. Customs and Border Protection (CBP), U.S. companies, and academic institutions, Shield America is the first line of defense against those who seek to compromise U.S. national security by violating our export laws, sanctions, or embargoes.

**Shield America’s mission is to:**

- Increase public awareness of U.S. export laws, sanctions and embargoes;
- Assist private industry and the academic community to improve their export compliance best practices while avoiding issues that might affect legitimate business or scholarship;
- Provide aids in the recognition, detection, and resolution of illegal acquisition attempts; and
- Seek the cooperation of private industry, to include financial institutions and the academic community to prevent the illegal acquisition of export controlled items and data.



<https://www.ice.gov/project-shield-america>

## ICE-HSI Putting Shield America To Work

**S**hield America is a four-pronged program that involves the following outreach and enforcement measures:

**Industry Outreach** - ICE-HSI agents conduct outreach visits with industry officials to educate them about U.S. export laws and to solicit their assistance in preventing illegal foreign acquisition of their products.

**Inspection and Interdiction** - Specially trained CBP officers inspect outbound shipments for violations of U.S. export laws and report violations to ICE-HSI for investigation.



**Investigations** - ICE-HSI special agents investigate export violations, seize illegal shipments of controlled technology and

munitions, and pursue the arrest, prosecution, and conviction of violators. ICE-HSI special agents also seek to identify methods of payment for prohibited items and seek to seize those criminal assets.

**International Cooperation**—ICE-HSI attachés in foreign countries enlist the support of their host governments to initiate investigative leads and to develop information in support of ongoing domestic investigations.

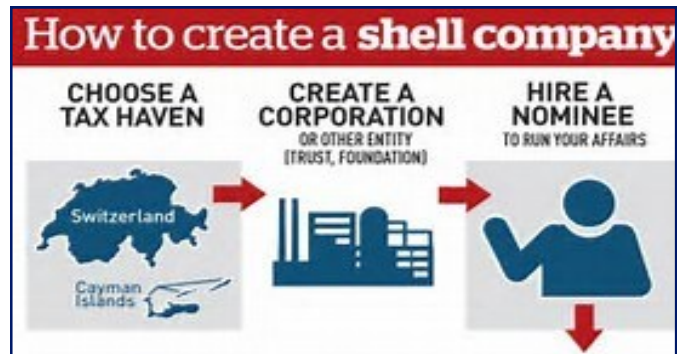
# Proliferation Procurement Networks - A Shell Game

Attempts to facilitate the procurement of prohibited export items can take many forms and oftentimes involves more than just a direct transaction between a buyer of such items and the seller. It can involve many different parties in what's known as a procurement network. A typical procurement network might include a manufacturer of the prohibited items, a supplier or seller, a broker, a buyer, and finally the end user of the items.

Because they are eventually so far removed from one another, the use of such a multi-layered procurement network helps insulate an end user of a prohibited item in a high-risk foreign country, such as Iran or North Korea, from a manufacturer or supplier in the United States. In addition to the movement of the actual prohibited item, financing these transactions can take an equally circuitous route, creating a limited, if not invisible, connection between the source of the payment (the end user) and those receiving payment for goods provided (manufacturer or seller).

The use of shell companies is one of the more commonplace techniques in the facilitation of payment for services related to procurement of prohibited items. The parties to a proliferation procurement transaction can be established importers/exporters and may have

a long history of moving legitimate goods internationally. As a result, proliferation procurement networks generally operate through legitimate avenues of international trade and therefore utilize the formal banking system. Either a buyer or a seller of prohibited items may create shell companies to facilitate the export of the prohibited items or the payment for such items. Having these transactions move through shell companies, often with innocuously general names, like



“Global Tech, Inc.” and “Worldwide Industries,” is a diversionary tactic allowing the connection between payment and prohibited item to be obscured.

Shell companies used in international procurement schemes are often domiciled in large international financial and trade centers in geographically centered locations like London, Singapore, Hong Kong and South Africa. Shell companies created by end users or buyers in these buffer zones create a layer of concealment while having reasonably easy geographic access to the companies.



# Offsetting Payments To Finance Proliferation: Obscuring Chain Of Payment

In the past, proliferation procurement networks have financed the purchase and sale of prohibited items using a variety of traditional methods such as simple cash transactions or the use of traditional “hawalas.” In the arena of modern international trade, these networks tend to adopt traditional methods over the formal use of the banking system.

A hawala is defined most simply as “money transfer without money movement.” It allows the transfer of funds from one location to another without physically moving cash or creating a paper trail of wire transfers. In lieu of using a traditional hawala, parties to procurement networks may use “offsetting” payments. These payments allow an end user company or individual to satisfy the debt for procuring prohibited items by allowing the owed party to satisfy an unrelated debt owed to the end-user.

For example, a procurement network may involve a manufacturer, supplier, broker, buyer, and an end-user of prohibited items. All parties in the network may have otherwise legitimate businesses that have frequent legitimate dealings in the world of international trade. A buyer and an end-user may have dealings with each other through their businesses having nothing to do with the prohibited items. The end-user may owe the buyer specifically for the procurement of prohibited item but arranges for the satisfaction of that debt or providing a credit with the end-user for future unrelated business dealings.

The use of such “offsetting” payments obscures the flow of purchase and payment for prohibited items by network participants. It allows for a break in the chain of financing making it difficult to map the movement of funds throughout the whole network from manufacturer to end-user.

## Proliferation Financing Red Flag Indicators

- ◆ Transaction involves financial institutions with known deficiencies in their AML/CFT controls.
- ◆ The declared value of the shipment obviously under valued vis-a-vis the shipping cost.
- ◆ Inconsistencies in information contained in trade documents and financial flows, such as names, companies, addresses, final destination.
- ◆ Customer activity does not match business profile, or end user information does not match end users business profile.
- ◆ Customer provides vague/incomplete information and is resistant to providing additional information when queried.
- ◆ Transaction involves individuals or entities in foreign country of proliferation concerns.
- ◆ Trade finance transaction involves shipment route through country with weak export control laws or weak enforcement of export control laws.
- ◆ Transaction involves shipment of goods inconsistent with normal geographic trade patterns.
- ◆ Transaction involves shipment of goods incompatible with the technical level of the country to which it is being shipped.
- ◆ The customer or counter party or its address is similar to one of the parties found on publically available lists of “denied persons” or has a history of export control violations.
- ◆ Circuitous route of shipment or circuitous route of financial transactions.
- ◆ Transaction involves possible shell companies.





# Proliferation Case Studies

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## Case #1: Shell Companies Help Finance Bomb Components

April 2016— In Washington, D.C., six individuals were indicted for their roles in a proliferation procurement network that moved 6,000 prohibited radio frequency components from the manufacturer in Minnesota through companies based in Singapore and Hong Kong to their end user in Iran. Some of these components were later found in sixteen Improvised Explosive Devices (IEDs) that were recovered by Coalition Forces on fields of combat in Iraq.

The scheme utilized shell companies based in Hong Kong to create distance between financial transactions and the illusion that the final beneficiary was not an Iranian entity. Furthermore, fifteen individuals as well as four companies that were involved in this procurement network were placed on the Commerce Department Entity List which prohibits them from doing business with entities of the United States.

## Case #2: High-Precision Machinery North Korea Using Shell Companies

October 2015 – In Chicago, IL, two individuals were indicted for their roles in a conspiracy to export machinery capable of creating high-precision components to entities of North Korea for use by their military. They were charged with conspiracy to violate the sanctions restricting business with North Korea under IEEPA and money laundering.

The defendants created a number of shell corporations held in various countries utilizing different names including multiple family members to facilitate and obscure both the payments for the prohibited items and the movement of the items themselves.

## Case #3: North Korean Company Uses Offset Payment To Purchase Rocket Components

2012 – Taiwan - A Taiwanese company exported rocket components, known as pressure transmitters, to North Korea that were later discovered in the debris of an exploded North Korean military rocket.

The North Korean company paid the supplying Taiwanese company for the transmitters by arranging to pay a fee for attendance at a North Korean trade fair for an associated Taiwanese company. The fee was comparable in cost to what was owed for the transmitters. The associated Taiwanese company later paid the supplier Taiwanese company the amount owed for the transmitters.

## HSI – A Diverse, Global Force

HSI is a critical investigative arm of the Department of Homeland Security and is a vital U.S. asset in combating criminal organizations illegally exploiting America's travel, trade, financial and immigration systems.

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