



Case Study: Four Turkish Nationals Indicted in Iranian Import/Export Scheme for Making Illicit U.S. Financial Transactions

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On November 10, 2016, the Department of Justice announced a federal case against four Turkish individuals accused of illicitly facilitating Iranian financial transactions for raw metals via the United States.¹ The case is being prosecuted by the Southern District of New York (Manhattan) and indicts four Turkish nationals for efforts to illicitly facilitate some \$100 million in Iranian financial transactions through the U.S. financial system in violation of the International Economic Emergency Powers Act (IEEPA).² The violations allegedly occurred between 2014 and 2016 and involved five U.S. banks and include conspiracy to defraud the United States, conspiracy to violate the IEEPA, conspiracy to commit bank fraud, and conspiracy to commit money laundering. The four indicted individuals remain at large in Turkey.

UAE, Turkmenistan, and Russian financial institutions processed transactions with U.S. financial institutions but may have had difficulty detecting Iranian involvement since many of the funds likely originated in Turkey. Several unnamed entities and individuals, including Iranian ones, are discussed in the indictment and may still be under investigation; it is unclear whether authorities particularly in Turkey and Switzerland are cooperating with the U.S. effort and investigation. A Swiss company made U.S. financial transactions that it knew involved Iran.

The indictment does not provide the Iranian end users of the metal imported into Iran. One question is whether some of these imported steel coils could have been used in Iranian military programs or Iranian Revolutionary Guard Corps (IRGC)-controlled industries.

The indictment does not state whether the officials at the Iranian companies have been indicted. One of the Iranian companies, the National Iranian Copper Industries Company (NICICO), this year sent a delegation to Germany to deepen copper cooperation and signed a

¹ Department of Justice, U.S. Attorney's Office in the Southern District of New York, "Manhattan United States Attorney Announces Charges Against Turkish and Iranian Nationals for Conspiring to Evade U.S. Sanctions against Iran and Other Offenses," Press Release, November 10, 2016. <https://www.justice.gov/usao-sdny/pr/manhattan-united-states-attorney-announces-charges-against-turkish-and-iranian>

² United States District Court for the Southern District of New York, *Superseding Indictment: United States of America v. Bora Deniz, Nesteren Zarei Deniz, Habibollah Zarei, and Abdullah Evren Erdem*, Si-15-Cr. 833, Signed August 8, 2016, Available at www.Pacer.gov

memorandum of understanding with Mansfelder Kupfer und Messing to help Iran develop its copper industry.³ NICICO is freer to conduct licit business following the lifting of major U.S. and EU sanctions against Iran in January 2016 following the implementation of the Iran nuclear deal, or Joint Comprehensive Plan of Action (JCPOA). Yet Mansfelder Kupfer und Messing and other companies seeking investment in Iran's copper industry should be advised that they are doing business with an entity that violates U.S. financial sanctions and which could in fact be sanctioned by the U.S. Treasury, particularly by the new administration.

The indictment does not state whether the United States is seeking the extradition of the four individuals from Turkey or is further investigating the Iranian companies and individuals involved.

The indictment and the accompanying press release do not state whether the prosecutor had attempted to extradite any of the individuals prior to making the indictment public. The public affairs division of the U.S. Attorney's office in the Southern District of New York referred queries relating to such an extradition request to the State Department but was not sure that State would respond either. This leads to a question, however, whether there was a disagreement between U.S. prosecutors and the State Department over an extradition or lure request. We have learned that the State Department hesitated to grant extradition or lure requests on Iranian cases for fear of negatively affecting the negotiations of the Joint Comprehensive Plan of Action, known as the Iran nuclear deal.

The public affairs office also deferred to the Treasury Department over whether it would sanction companies or individuals involved in these schemes. In addition, it is unclear if the Turkish government is taking action against the indicted Turkish nationals.

Metals Import/Export Scheme

This case indicts four family members and Turkish import/exporters (two of which have dual Iranian nationality) who allegedly helped the Iranian government and other entities in Iran to export thousands of tons of electrolytic copper cathode⁴ to Turkish customers and possibly others, and helped Iran import hot rolled coil steel from Switzerland via Russia. They helped process transactions through New York financial institutions in violation of U.S. sanctions on Iran. The four indicted include Habibollah Zarei, Nesteren Zarei Deniz, Bora Deniz, and Abdullah Evren Erdem. Habibollah Zarei is 67 and a dual citizen of Turkey and Iran. He is the father of Nesteren Zarei Deniz, who is also of dual Turkish and Iranian citizenship, and is married to husband Bora Deniz. Zarei is also father-in-law to Abdullah Evren Erdem. Two of their companies used in the scheme were Taha Kiyemetli Madenler Ticareti A.S. or "Taha" and Z ve Z

³ John Lee, "German Firm to Invest 1 Billion Euros in Iran's Copper Industry," Iran Business News via IRNA, February 5, 2016, <http://www.iran-bn.com/2016/02/05/german-firm-to-invest-e1b-in-irans-copper-industry/>

⁴ Otherwise known as refined copper. For example, electrolytic copper cathode is the primary raw material used in the production of copper rod for the wire and cable industry. Copper is also used in the production of brass, copper tube, copper sheet products, and found in over 450 alloys (<http://www.kennecott.com/library/media/1-Copper.pdf>).

Teknologi Muhenduslik Ve Insaat Taah A.S. or “Z ve Z.” They also appear to have used a phony front company in Turkey called Evcan Medikal Urunleri Ticareti Ltd.

Electrolytic Copper Cathode Exports

The four accused allegedly helped facilitate shipping and temporary storage for copper cathode in Turkey in order to then facilitate Iranian sales to Turkish customers, while directing and arranging payment for the goods via foreign countries in order to conceal transactions made via the United States. Financial transactions which were cleared through the United States broke U.S. law because they involved Iran. Financial transactions for the copper cathode were made via Turkey, the UAE, and Turkmenistan.

From November 2014 until at least December 2015, after the JCPOA negotiations were finalized, the four individuals allegedly worked with a company in Iran, referred to in the indictment as Iranian Company-1, to export the copper cathode for storage in Turkey. It appears from the indictment that Iranian Company-1 may have been a middleman working on behalf of NICICO, or the National Iranian Copper Industries Company. Iranian Company-1 inquired about warehousing the cargo in Turkey. In December 2014, Zarei described to his alleged coconspirators communications with NICICO about storing the copper in Turkey. In January 2015, Zarei e-mailed his coconspirators a blank letterhead of a company called Molinari Holding S.A., purportedly located in Belize. Molinari appears to be a phony front company used by Iranian Company-1 to facilitate the sale. Deniz e-mailed Zarei Deniz an invoice on Molinari letterhead about a shipment of 10,065.15 metric tons of copper cathode with a price of \$65,280,663.06 for delivery to Turkey.

Also in December 2014, Deniz forwarded an e-mail discussion with Turkish shipping agency representatives about a commercial shipping vessel sending the copper cathode to Turkey. A representative of Iranian Company-1 e-mailed regarding power of attorney from Molinari Co. to Evcan Medikal Urunleri Ticareti Ltd., apparently a phony front company used by the four accused to arrange the purchase in Turkey. Meanwhile, the accused referred in e-mails to business expenses and costs incurred by their company Taha. In February 2015, Erdem e-mailed his associates 32 cargo manifests for several thousand tons of the copper cathode identifying Molinari as the shipper and consignee and Evcan Medikal as the party to be notified.

Also in February, Zarei Deniz sent an e-mail to her associates from another representative of Iranian Company-1 requesting an invoice to an unidentified entity in Turkey, referred to as Turkish Company-1. The invoice would be for the sale of 100 metric tons of copper cathode and needed to provide payment instructions for an entity in the UAE, referred to as UAE Company-1, to make a payment for the goods through a bank located in the United States. Next, Zarei Deniz e-mailed Turkish Company-1, Iranian Company-1, and the alleged coconspirators an invoice on Molinari letterhead for 105 metric tons of copper cathode for the price of \$604,060.89 for delivery in Turkey. Deniz then sent an e-mail to the four accused and Iranian Company-1 representatives regarding a SWIFT message about the transfer of the

\$604,060.89 from a Turkish company to a UAE company and identifying a U.S. bank for the transaction.

In March 2015, Deniz sent an e-mail to the accused and an Iranian Company-1 representative containing a SWIFT message for the transfer of \$1,448,250 from a second Turkish company, identified as Turkish Company-2, to Molinari at an account in Turkmenistan and identifying a U.S. corresponding account. That month, Deniz sent another e-mail attaching a different SWIFT message for the transfer of \$1,442,613.41 from Turkish Company-2 to Molinari at an account in Turkmenistan, again identifying a U.S. corresponding account. In June 2015, Zarei Deniz sent an e-mail to representatives of a Turkish bank regarding questions they had about Molinari. Zarei Deniz described Molinari as a company that deals in “wholesale iron, steel, and other metals and had stocks available in Turkey.” It did not disclose the involvement of Iranian Company-1.

Between February and November 2015, the indictment states, the Turkish coconspirators allegedly caused 79 U.S. dollar wire transfers from Turkish Company-2 to UAE Company-1 and Molinari totaling \$102.69 million, which were processed by U.S. banks.

Hot Rolled Steel Coil Imports

From December 2014 to January 2016, the alleged Turkish coconspirators worked to arrange the purchase and import by Iran of hundreds of tons of hot rolled steel coils from a Swiss company via shipment to a Russian location, where they were sent onward to Iran. The four accused allegedly caused U.S. banks to process hundreds of thousands of dollars in financial transactions on behalf of two unnamed Iranian companies, called Iranian Company-2 and Iranian Company-3 in the indictment. These financial transactions were made via Turkey and Russia.

In February 2015, Zarei Deniz e-mailed a representative of an unidentified Swiss company requesting a discount on the purchase of 500 metric tons of hot rolled steel coil for delivery to a location in Russia. Deniz soon confirmed acceptance of the Swiss company’s price. In March, the Swiss company sent a contract of sale between it and Z ve Z Teknoloji Muhenduslik Ve Insaat Taah A.S. for the steel and an invoice for 480 metric tons of steel priced at \$213,600. Payment instructions included information for payment to a U.S. bank. That month, Zarei Deniz sent an e-mail to representatives of a Turkish bank with instructions for making an international wire transfer to the Swiss company for \$64,080 and indicated the U.S. bank as the correspondent bank. The U.S. bank subsequently processed the wire transfer from a Z ve Z account at the Turkish bank to the Swiss company’s account in Russia.

In April 2015, the Swiss company informed Z ve Z that deliveries of the steel had begun at the Russian location. Zarei Deniz sent an e-mail to the Swiss company stating “...I will nominate you the importer in Iran and the shipping documents must be in the importer’s name.” Zarei Deniz then sent an e-mail to a shipping company regarding a shipment of 476 metric tons of steel from Russia and identifying a port in Iran as the destination. The accused requested a new quote for 500 metric tons of steel. Zarei Deniz sent an e-mail to the Swiss company about a

SWIFT wire transfer of \$147,740 from Z ve Z in Turkey to the Swiss company's account in Russia through the same U.S. bank.

In May 2015, Deniz sent an e-mail containing an invoice from Z ve Z to Iranian Company-2 for the sale of 476 metric tons of steel for a price of \$202,330. The Swiss company sent a draft bill of lading regarding the shipment of the steel to a port in Iran with Iranian Company-2 as the consignee. Zarei Deniz then sent an e-mail to the Swiss company for an additional purchase of 1,000 metric tons of steel for which the Swiss company provided an invoice for \$375,000 and specifications for delivery in Russia and payment via the U.S. bank. The U.S. bank then processed a wire transfer of \$112,485 from the Z ve Z account in Turkey to the Swiss company account in Russia. A shipping company then e-mailed Zarei Deniz and Deniz and attached an invoice for the delivery and instructed payment via another U.S. bank.

In July 2015, the month the JCPOA negotiations ended, Deniz e-mailed the Swiss company attaching a SWIFT confirmation of payment for \$264,806.25 to the company. Zarei Deniz sent an e-mail to the Swiss company regarding the 1,000 metric tons of steel and instructed that upon delivery in Iran, half would go to Iranian Company-2 and the other half to Iranian Company-3.

Zarei Deniz then received an e-mail from the Swiss company about an apparently new purchase of 480 metric tons of steel for delivery at a location in Russia and payment instructions noting a U.S. bank for payments.

Lessons and Observations

This case shows the methods for how Iran successfully imports and exports dual-use goods, which may or may not be covered by international, regional, or unilateral sanctions but involve major transactions in foreign currencies that must touch the U.S. financial system to be converted to dollars, and therefore violate U.S. laws. Iran carries out similar concealment efforts for these transactions as it uses for illicit procurements of nuclear, missile, and military goods. It uses foreign trading companies, circuitous shipping routes, and conceals the originator or end destination of financial transactions. This case also shows that Iran is again exploiting SWIFT for illicit international transactions involving U.S. banks after it was cut off from the Belgium-based network in 2012. It received access again in February 2016 as part of European Union sanctions relief under the Joint Comprehensive Plan of Action.⁵

This case shows that a number of countries remain problematic for efforts to detect and block illicit financial transactions. Turkish financial institutions' due diligence efforts in particular are questionable since they came into possession of Iranian funds that were later transferred to foreign countries via the United States. Turkey has been working to implement Financial Action Task Force (FATF) recommendations since it was found to be a problematic jurisdiction in 2007.

⁵ "Iranian Banks Reconnected to SWIFT Network After Four-Year Hiatus," Reuters. February 17, 2016, <http://www.reuters.com/article/us-iran-banks-swift-idUSKCN0VQ1FD>

It was judged overall as partially compliant with the 2007 recommendations in the FATF's most recent 2014 *Mutual Evaluation Report* on Turkey.⁶

This case also shows that Turkey remains a problem with respect to poor regulations over trading companies such as those operated by the four indicted individuals. It must do better at preventing such illicit activity since it continues to be exploited by Iran. If it has not done so already, Switzerland needs to take action against the company that facilitated steel shipments to Iran while knowingly processing financial transactions that violated U.S. law.

⁶ Financial Action Task Force, *15th Follow Up Report: Mutual Evaluation of Turkey*, October 2014, <http://www.fatf-gafi.org/media/fatf/documents/reports/mer/Turkey-FUR-2014.pdf>