



## U.S. Man Indicted in Money Laundering Scheme, Part of Larger Iranian Sanctions Busting Network

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On December 15, 2016, the Department of Justice and United States District Court for the District of Alaska announced the indictment of Kenneth Zong, 77, a U.S. citizen of Korean descent and business owner from Anchorage, Alaska, on charges of illegally funneling approximately \$1 billion in Iranian financial transactions through the United States via banks in the Republic of Korea (ROK) and onward to other countries.<sup>1</sup> The Iranian government and the Central Bank of Iran were the originators of the transactions. Beginning in at least January 2011 until around April 2014, Zong allegedly worked from South Korea, operating phony front companies and conspiring with four unnamed, unindicted co-conspirators, to funnel Iranian funds to the United States and other countries. A federal affidavit relating to a separate civil property forfeiture case against Zong identifies these individuals. One co-conspirator was a U.S. citizen, presumably his son Mitchell Sub Zong, and three were Iranians, located in Iran or potentially Georgia or other countries. The Iranians, Pourya Nayebi, Houshang Hosseinpour, and Houshang Farsoudeh, and several of their companies and entities, were sanctioned by the United States in 2014 for being part of a major Iranian government-backed, financial sanctions busting network. In this sense, Zong's efforts were but one branch of this larger network. Yet other Iranians are named in the federal affidavit who worked for the three Iranians.<sup>2</sup>

Zong allegedly earned a profit of between \$10 and \$17 million for laundering the Iranian government-linked funds. He is charged with 47 counts of violating the International Emergency Economic Powers Act (IEEPA), unlawful provision of services to Iran, money laundering, and conspiracy to commit money laundering.<sup>3</sup> Zong has already served a two-year prison sentence in South Korea, and upon his release, the United States sought to prosecute him for his alleged crimes committed between 2011 and 2014. It appears that the U.S.

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<sup>1</sup> Department of Justice, "Alaska Man Charged with Conspiring to Provide Unlawful Services to Iran and International Money Laundering Conspiracy," Press Release, December 15, 2016, <https://www.justice.gov/opa/pr/alaska-man-charged-conspiring-provide-unlawful-services-iran-and-international-money> ; United States District Court for the District of Alaska, *Indictment: United States of America vs. Kenneth Zong*, Case 3:16-cr-00142-SLG-DMS, Filed December 14, 2016. Available at Pacer.gov.

<sup>2</sup> United States District Court for the District of Alaska, *Amended Affidavit of Sue Chambers in support of verified complaint*, Case 3:14-cv-65-TMB, Filed May 2, 2014. Available at Pacer.gov.

<sup>3</sup> *Indictment: United States of America vs. Kenneth Zong*.

government pursued the civil property forfeiture case until he could be tried on criminal charges in the United States. An arraignment date for Zong has not yet been set.

Pursuant to IEEPA and executive orders, U.S. law prohibits dollar denominated transactions with Iran and between Iranians and U.S. citizens without a license from the Department of Treasury's Office of Foreign Assets Control (OFAC). OFAC listed Zong's three Iranian co-conspirators on its Foreign Sanctions Evaders (FSE) List in 2014. Specifically, the three helped sanctioned Iranian banks affiliated with payments for Iran's nuclear, missile, and terrorism related procurements and activities to process transactions around the world.<sup>4</sup> In 2016, the Iran nuclear deal removed the Iranians from the FSE List, although nothing would prevent the United States from prosecuting them today for past or ongoing financial law breaking.<sup>5</sup>

South Korean laws authorize payments to and from Iran for the purchase or sale of commodities following a "multi-step review process involving the Korean government, the Bank of Korea, and the participating bank. The review process includes examination of the applicable business documentation, such as contracts, import/export documents, purchase orders and bills of lading."<sup>6</sup> The conspirators in the scheme allegedly broke ROK laws, in particular the Korean Foreign Exchange Transactions Act and their customs law, by falsifying such documentation and bribed officials in order to conceal the efforts.<sup>7</sup> It is unclear whether Zong was extradited by South Korea following his release from prison or simply apprehended in the United States.

### **Larger Iranian Scheme to Bust Financial Sanctions**

As described, the federal affidavit in the separate civil forfeiture case against Kenneth Zong lists the identities of three of the major Iranian accomplices as Pourya Nayebi, Houshang Hosseinpour, and Houshang Farsoudeh.<sup>8</sup> The three lead a major illicit Iranian financial network designed to bust U.S. (and European Union) financial sanctions, according to the U.S. Department of Treasury, which stated in 2014 that the three were added to the FSE list because they "established companies and financial institutions in multiple countries, and have used these companies to facilitate deceptive transactions for or on behalf of persons subject to U.S. sanctions concerning Iran."<sup>9</sup> The Treasury Department also stated:

*In 2011, they acquired the majority shares in a licensed Georgian bank with direct correspondent ties to other international financial institutions through a Liechtenstein-based foundation they control. They then used the Georgian bank to facilitate transactions worth the equivalent of tens of millions of U.S. dollars for multiple*

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<sup>4</sup> Department of Treasury, "Treasury Targets Networks Linked to Iran," Press Release, February 6, 2014, <https://www.treasury.gov/press-center/press-releases/Pages/jl2287.aspx>

<sup>5</sup> *Joint Comprehensive Plan of Action (JCPOA), Annex II*, Vienna, July 14, 2015, <https://www.documentcloud.org/documents/2165388-iran-deal-text.html>

<sup>6</sup> *Indictment: United States of America vs. Kenneth Zong*, p. 7.

<sup>7</sup> *Amended Affidavit of Sue Chambers*.

<sup>8</sup> *Ibid.*

<sup>9</sup> "Treasury Targets Networks Linked to Iran."

*designated Iranian banks, including Bank Melli, Mir Business Bank, Bank Saderat, and Bank Tejarat.*

In 2011, the three Iranian conspirators were able to acquire 70 percent shareholder control of InvestBank in Georgia from which to facilitate larger Iranian money laundering schemes. Pourya Nayebi then became its chairman. They also established a private airline, FlyGeorgia, and several other companies located throughout the world. The Treasury Department's 2014 sanctions included their companies or entities: Caucasus Energy (Georgia), Orchidea Gulf Trading (UAE and/or Turkey), Georgian Business Development (Georgia and/or UAE), Great Business Deals (Georgia and/or UAE), KSN Foundation (Liechtenstein – and the aforementioned foundation used to acquire InvestBank), New York General Trading (UAE), New York Money Exchange (UAE and/or Georgia), and European Oil Traders (Switzerland). None of these entities are now subject to U.S. sanctions pursuant to the JCPOA's sanctions relief and the passage of its implementing resolution, United Nations Security Council Resolution 2231.<sup>10</sup>

At the urging of the Treasury Department, Georgia began cracking down on the Iranians' illicit activities in 2013. The Iranians had exploited the ease of obtaining passports and citizenship in the Caribbean nation, St. Kitts and Nevis, garnering dual nationality which further enabled their business ventures in Georgia and elsewhere. Georgia put an end to this visa allowance. The Georgian Central Bank also seized administrative control of InvestBank and sought to prevent the Iranian activities.<sup>11</sup> According to an in-depth investigation of the Georgia-based activities of the three Iranians by Emanuele Ottolenghi of the Foundation for Defense of Democracies, citing MoneyLaundering.com, "Georgian prosecutors subsequently obtained a court order to freeze Nayebi's assets, as well as the accounts of 18 companies and 16 individuals associated with the scheme."<sup>12</sup> Yet, the Iranians were able to sell their InvestBank shares just prior to Georgia revoking the visa-free regime, which allowed them to avoid asset seizure.<sup>13</sup>

According to a report in *The Wall Street Journal*, Georgia has been a target more broadly of the Iranian Islamic Revolutionary Guard Corps (IRCG) which "has some 150 front companies in Georgia for the purpose of evading sanctions and importing dual-use technology, according to two members of the Revolutionary Guard and to the head of a Tbilisi facilitator agency – who said he helped set up such firms registered under Georgians' names." An Iranian interviewed for the report stated, "Especially in the banking sector, Georgia has become a key place to evade sanctions."<sup>14</sup>

It appears that the three Iranians are well on their way to reconstituting their business activities in Georgia in the Poti Free Investment Zone (FIZ). Among their efforts, Ottolenghi found that:

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<sup>10</sup> JCPOA, Annex II.

<sup>11</sup> "InvestBank Placed Under Central Bank's Temporary Administration," *Civil Georgia*, November 1, 2013, <http://www.civil.ge/eng/article.php?id=26649>

<sup>12</sup> Emanuele Ottolenghi, "Snap-Back: A Journey Through Iranian Sanctions Evasion in Georgia," *Tablet Magazine*, July 1, 2015, <http://www.tabletmag.com/jewish-news-and-politics/191903/iranian-sanctions-evasion>

<sup>13</sup> Ibid.

<sup>14</sup> Benoit Faucon, Jay Solomon, and Farnaz Fassihi, "As Sanctions Bite, Iranians Invest Big in Georgia," *The Wall Street Journal*, June 20, 2013, <https://www.wsj.com/articles/SB10001424127887323864304578320754133982778>

*Commercial registry documents show that the trio incorporated some of their companies registered at Poti FIZ. Pourya Nayebi is listed as either owner, manager, or holding power of attorney over Georgian International Shipping, Georgia Business Development FIZ LLC, and Poti Free Zone Business Authority, among others. For his part, Houshang Hosseinpour owned Fly Georgia FIZ LLC. Georgia Business Development was sanctioned by Treasury. Fly Georgia FIZ LLC, Georgia International Shipping, and Poti Free Zone Business Authority are mentioned in the money-laundering case pending in the Tbilisi city court.<sup>15</sup>*

## **The Alleged Zong Arm**

Until 2001, Zong was an Anchorage businessman and owner of Koskimo Construction Inc. Around that time, Zong moved to South Korea and set up front companies and bank accounts. Allegedly, his primary front company was called Anchore, renamed from KSI Ejder, Inc., which allegedly acted as an intermediary for laundering the Iranian money. Other alleged front companies owned by Zong included Dynamic First, AutoPex Corporation, Topex Corporation, renamed Gem Art Corporation. The scheme was designed to transfer Iranian funds into dollars or Euros via accounts located at the South Korean Central Bank and onward to Alaska where the money could be dispersed to other countries. As stated, South Korean banking officials were involved in and received bribes to facilitate the transactions.<sup>16</sup>

According to the indictment, the Zong arm of the scheme allegedly worked under the direction of individuals, entities, and banks associated with the government of Iran and its Central Bank to arrange financial transactions from Iran to South Korea and then to the United States, where funds were dispersed to multiple countries, including the United States, Canada, the UAE, Bahrain, Switzerland, Germany, Austria, Italy, France, and the Netherlands. This included the three Iranians as well as other Iranians working for them. The accused accomplished their goals by creating false front companies and record trails. They laundered money by purporting to sell Italian-origin marble and other construction materials that they claimed were finished in the UAE at one of the Iranians' UAE front companies, MSL & Co, and finally transferred to Farsoodeh & Partnership on Kish Island. The transactions were arranged by Orchidea Gulf Trading (of the UAE, Turkey, and Iran), owned by the other Iranians, and later by the entities belong to the three Iranians. Orchidea was sanctioned as part of the 2014 sanctions against the three Iranians. There were no actual sales of marble or other construction materials, only payments made by Iran for phony sales.

As an illustration of the scheme, an e-mail from Zong to one of his other Iranian government-affiliated interlocutors and an employee of Orchidea Gulf Trading, Muneer J.M. AlShaikh, stated:

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<sup>15</sup> Ottolenghi, "Snap-Back."

<sup>16</sup> *Indictment: United States of America vs. Kenneth Zong; Amended Affidavit of Sue Chambers*, p. 35.

*Let's do this way. UAE company issues an offer sheet to KSI Ejder Korea Inc then I will issue a commercial invoice to Farsoodeh & Partnership Co. based on UAE offer sheet. Offer sheet must be back dated Jan 17, 2010 and description of commodity is various kinds of Italian marbel (sic) tile, finished in UAE (which country?) Offer sheet must be lower amount than invoice amount. Invoice amount shall be KRW 2,650,000,000 – offer price should be USD 2,303,347.80 (or similar). It shows KSJ Ejder makes a little profit. Again this is just paper works for to get (sic) approval from Korea Central Bank. Regards/Ken.*

Around 2011, the referenced Anchore/Orchidea/MSL & Co/Farsoodeh and Partnership scheme was dissolved. In December 2011, Zong wrote an e-mail to one of the three Iranians, Houshang Hosseinpour, stating that he had been courted by two South Korean banking officials who would assist with future transactions. Zong and the three Iranians, with assistance from Zong's son, then allegedly carried out additional millions in fraudulent transactions.

In 2013, South Korean banking regulators began to uncover the scheme, resulting in Nayebi's April 2013 decision to change MSL & Co's name to European Oil Traders and relocate the business to Switzerland.

According to the federal affidavit in the civil forfeiture case against Zong and reporting by the *Alaska Dispatch News*, sometime in 2013, Zong was arrested by South Korean authorities and sentenced to two years in prison, and forced to pay a \$20,000 fine and forfeit \$6 million.<sup>17</sup> In 2014, the U.S. government used a search warrant to obtain Zong and his accomplices' e-mail records. It then filed the federal affidavit and worked to achieve forfeiture of Zong's assets, including multiple properties, while he remained jailed in South Korea. The United States eventually sought the criminal indictment of Zong, as released in December 2016. No charges were filed against Zong's son, Mitchell Sub Zong, who allegedly worked from Alaska using bank accounts at the First National Bank of Alaska to bring the Iran-origin funds into the United States.

According to the federal affidavit, Zong's son in fact may have made earlier connections with an Iranian that were instrumental to the family's involvement in the scheme. Mitchell Sub Zong was college classmates with an Iranian, Majid Farsoudeh. It is not clear what his relation is to Houshang Farsoudeh. Majid Farsoudeh owned the trading company Farsoodeh & Partnership which was "linked to individuals working for the government of Iran in associated with Zong's case." But the largest originator of the financial transactions (some \$862 million of the \$1 billion) was committed under the name of Orchidea Gulf Trading.<sup>18</sup>

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<sup>17</sup> Jerzy Shedlock, "Government Aims to Seize Anchorage Properties of Man Allegedly Involved in \$1B International Laundering Scheme," *Alaska Dispatch News*, June 27, 2014, updated September 28, 2016, <https://www.adn.com/crime-justice/article/government-aims-seize-anchorage-properties-man-allegedly-involved-1b-international/2014/06/28/>; *Amended Affidavit of Sue Chambers*.

<sup>18</sup> *Ibid*.

Mitchell Sub Zong allegedly laundered and then spent profits from the alleged money laundering scheme in a lavish manner. The criminal indictment details some 44 counts of financial transaction violations apparently carried out by Zong's son in the form of transfers from the Alaskan bank for luxury property, yacht, jewelry, and vehicle related purchases, in addition to business investments.<sup>19</sup> It is unclear why the son was not charged.

## Lessons and Recommendations

This case shows that there are clear ramifications from the P5+1's and Obama administration's decision to lift sanctions on so many Iranians sanctioned by the United States for export control and financial sanctions violations. One clear lesson is that the dropping of the sanctions should not provide the Iranians with immunity from prosecution for violating U.S. financial laws and regulations in the past or present. The JCPOA does not render these individuals immune to prosecution for any of their past, non-nuclear related conduct. Moreover, post JCPOA-Implementation Day conduct, whether nuclear-related or non-nuclear-related, would be prosecutable. Trump administration should pursue these individuals vigorously, perhaps re-applying sanctions for their post-JCPOA Implementation Day activities.

The Obama administration also sought to delay or inhibit prosecutions and ongoing investigations against such traffickers.<sup>20</sup> It is in the United States' interest to evaluate how these actions, and the dropping of sanctions against active violators, have weakened U.S. counterproliferation objectives and security goals against Iran more broadly. As part of its Iran nuclear deal review, the Trump administration needs to clarify via guidance to the export enforcement community and the Department of Justice that it is making a priority of investigations and prosecutions of Iranian export and financial sanctions violators. It should encourage investigators to pick back up with cases that were put on hold or otherwise stymied under the Obama administration.

The United States needs to robustly prosecute financial sanctions violators as part of its efforts to enforce existing U.S. laws against Iran's illicit activities. The United States should send a message about its low tolerance for such activities by indicting the three Iranians and seeking their extradition for financial crimes. The United States and Georgia do not currently possess an extradition treaty but the Iranians could be arrested while traveling elsewhere. The financial crimes of the Iranians throughout the world are egregious enough to seek their arrest and prosecution.

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<sup>19</sup> *Indictment: United States of America vs. Kenneth Zong*, pp. 19-21.

<sup>20</sup> *Testimony of David Albright, President of the Institute for Science and International Security, before the House Subcommittee on National Security, Committee of Oversight and Government Reform, "Assessing the Iran Deal: Examining Iranian Non-Compliance with the Joint Comprehensive Plan of Action and United Nations Security Council Resolution 2231,"* April 5, 2017, [http://isis-online.org/uploads/conferences/documents/Albright\\_House\\_Oversight\\_Subcommittee\\_5Apr2017\\_Final.pdf](http://isis-online.org/uploads/conferences/documents/Albright_House_Oversight_Subcommittee_5Apr2017_Final.pdf)