



Case Study: Two Arrested in Iranian Aircraft Parts Trafficking Scheme, Result of U.S. Sting Operation

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On October 28, 2016, the Department of Justice announced the arrest and indictment of two California men, Zavik Zargarian, 52, and Vache Nayirian, 57, accused of trafficking and attempting to traffic to Iran more than \$3 million worth of U.S. jet fighter aircraft parts and other equipment with military uses. The alleged violations occurred between 2009 and 2010 and were in violation of the International Emergency Economic Powers Act (IEEPA) and the Iranian Transactions and Sanctions Regulations (ITSR).¹ Investigators uncovered that the end user of the goods was likely the Iranian Air Force. Zargarian owned a company in California, ZNC Engineering Inc., which is also under indictment. Zargarian and Nayirian are naturalized U.S. citizens who were born in Iran. Nayirian owned Vana Building and Engineering, Inc. of California which served as a separate conduit for physically shipping goods and receiving monetary transfers from Iran. Zargarian would pay for the procurements from U.S. companies via check or cash. Zargarian and Nayirian have entered not guilty pleas and trial is set for December 20, 2016.

Two Iranian individuals, Hormoz Nowrouz, 56, and Hanri Terminassian, 55, are also indicted but remain at large in Iran. Nowrouz operated a company in Iran called Kalaye Sanaty Iran Co. (KSI) which appears to be an importing agent or trading company based in Tehran, and in this case, appeared to be filling orders for the Iranian Air Force.² Terminassian worked for him in some capacity. Terminassian is a legal permanent resident of the United States and citizen of Iran but resides in Iran. It is not known whether the United States sought to lure to a third country or otherwise arrest Terminassian and Nowrouz. The U.S. Attorney's office in the Central District of California declined to comment.

¹ Department of Justice, "Two California Men Among Those Charged in Scheme to Smuggle Military Aircraft Parts and Defense Items to Iran," Press Release, October 28, 2016, <https://www.justice.gov/opa/pr/two-california-men-among-those-charged-scheme-smuggle-military-aircraft-parts-and-defense> ; United States District Court for the Central District of California, *Indictment: United States of America v. Hormoz Nowrouz, Hanri Terminassian, Zavik Zargarian, ZNC Engineering, Inc., and Vache Nayirian*, CR No. 14-00598, Filed October 10, 2014. Available at www.Pacer.gov.

² "Kalaye Sanaty Iran Co," MachineTools.com, <https://www.machinetools.com/en/companies/47973-kalaye-sanaty-iran-co>

As part of the trafficking scheme, Nowrouz and Terminassian allegedly sent purchase orders originating with the Iranian Air Force to Zargarian and Nayirian for O-rings which were “intended for use in military and commercial hydraulic fluid applications,” according to the indictment. Zargarian would allegedly purchase these controlled items from a California supplier and then give them to Nayirian to ship to Iran via the United Arab Emirates (UAE) and Kuwait. The two allegedly falsified information on shipping documents, undervalued the items so they would not be inspected at customs or require detailed declarations, and stated end users in the UAE and Kuwait in order to avoid detection. After contacting a legitimate California company to obtain fighter jet parts, the company referred the traffickers to an undercover federal agent from the Department of Homeland Security’s Homeland Security Investigations (HSI) who then posed as a fighter jet parts supplier. The California men were arrested as part of a sting operation in which the federal agents gathered additional evidence against them. The men allegedly sought parts for the F-14, F-15, F-16, and F-18 fighter jets, which included pneumatic accumulators, liquid oxygen converters, and liquid oxygen tanks. On one occasion, Terminassian traveled from Iran to California to meet with Zargarian, Nayirian, and the undercover HSI special agent to discuss the sale, but was not detained or arrested. It is unclear why HSI did not attempt to arrest him and no information is provided about any later efforts to arrest, lure, or otherwise extradite Terminassian. The U.S. Attorney’s office declined to comment on the matter.

The long delay in making the arrests of Zargarian and Nayirian and in prosecuting the case is notable, a point underscored by Nayirian’s defense attorney to the media.³ The violations occurred in 2009 and 2010; a Grand Jury indicted the individuals and entity in June 2014, and the arrests did not occur until October 2016. The delay from 2014 to 2016 corresponds with information our Institute learned earlier this year about the Obama administration seeking to inhibit or delay Iran sanctions cases, including denying lure and extradition requests, in order to preserve the nuclear negotiations and the resulting Joint Comprehensive Plan of Action. When asked about this possibility, the U.S. Attorney’s office in the Central District of California declined to comment.

Aircraft Parts Trafficking Scheme

Beginning in August 2009 until at least June 2010, the four accused allegedly conspired to procure and transship aircraft parts and other equipment with military uses to Iran via third countries, such as the UAE and Kuwait.

O-Rings

In August 2009, Nowrouz sent an e-mail to Terminassian, both located in Tehran, regarding the type and quantity of O-rings sought from the United States. Zargarian in California then sought communication with and a price quotation from an entity referred to as U.S. Company 1 in the

³ Nancy Dillon, “Two California Men Busted in Plot to Ship More than \$3M Worth of Military Aircraft Parts to Iran,” *New York Daily News*, October 28, 2016.

indictment. U.S. Company 1 was a legitimate company in Los Angeles that sold O-rings. In September, Terminassian sent a request to Nayirian for bank account and wire transfer information. In October, he asked Zargarian to find out how many O-rings of different specified types could be exported in one week. Zargarian then sent information about delivery times and soon after sent bank wire transfer information. Terminassian notified Zargarian that he would send funds to Nayirian's account and that Nayirian would pay him.

Nowrouz then sent to Terminassian the address of "the transshipper in Dubai," according to the indictment, and instructions to use DHL Express shipping. In mid-October, Zargarian notified Terminassian that he "gave the O-rings to Vache (Nayirian) last night." Zargarian then delivered to U.S. Company 1 a check issued by ZNC Engineering for \$358.18 for the sale of 290 O-rings. Nayirian next shipped the O-rings to the address in Dubai and Terminassian confirmed receipt.

In November 2009, Terminassian in Iran sent an e-mail to Zargarian in California requesting the price and delivery time for quantities of four kinds of O-rings for a total of 7,000 of the items. He then contacted U.S. Company 1 regarding a purchase. Zargarian e-mailed Terminassian with the price and delivery information and added a 12% surcharge. Terminassian then requested five additional types of O-rings for a total of 4,500; Zargarian contacted U.S. Company 1. In December, Terminassian informed Zargarian that he had signed a contract for 7,000 O-rings and would transfer the money from Iran and noted "we can do lots of business together with Vache (Nayirian) with Iran (sic)." In January 2010, Terminassian transferred \$7,698.50 to the bank account of Vana Building and Engineering, Inc., or Nayirian's company. Terminassian then sent an e-mail to Nayirian instructing him to send the O-rings to a transshipper in Kuwait, to state the purchase price as \$1,000, and to pay Zargarian a fee of \$7,000. Zargarian sent an e-mail stating that he received the \$7,000 but that the purchase price was about \$8,500. Nayirian then shipped the 7,000 O-rings to Kuwait and declared their value as \$1,000. Terminassian later confirmed receipt in Iran.

Fighter Jet Military Aircraft Parts

In November 2009, Terminassian in Iran e-mailed to Zargarian a list of parts used in military aircraft that he wanted to obtain, including a pneumatic accumulator, a liquid oxygen converter, and a liquid oxygen tank. Terminassian then indicated familiarity with the uses of the parts in military aircraft. In December, Zargarian sent an e-mail regarding the parts to an unidentified company, called U.S. Company 2 in the indictment, which was apparently a distributor or middleman for obtaining military aircraft parts in California. U.S. Company 2 informed Zargarian that the parts were for the F-14 military aircraft and were heavily regulated. Zargarian stated that he would, on his own, contact a supplier suggested by the company. According to the indictment, the supplier suggested was actually an HSI law enforcement agent acting undercover and posing as a military aircraft part supplier.

Later in December, the undercover law enforcement agent sent an e-mail to Zargarian with a price quotation for the parts. Zargarian left voice mails regarding the price quotations and the two subsequently made contact by phone. During the call, Zargarian asked questions and

noted that the end user of the goods was located in the United States but stated that he did not know what the company planned to do with the parts. Zargarian informed Terminassian that he had located 10 each of the requested parts and Terminassian confirmed interest. Zargarian sent to Terminassian a price quotation of \$1,379,100 for 10 parts or \$3,615,930 for 30 units of the parts, prices which included Zargarian's profit. In January 2010, Zargarian met with the undercover agent to discuss the purchase and indicated that the end destination was Iran.

In February, Zargarian and the undercover agent met again at ZNC Engineering to discuss the sale. Zargarian inquired with the undercover agent about an additional part, an air conditioning unit for an F-5 jet, and also indicated Terminassian's interest in obtaining O-rings. In March, Zargarian met once again with the undercover agent at ZNC Engineering to discuss the sales. In April, Zargarian told the undercover agent that Terminassian wished to purchase all of the discussed items. In June, Zargarian stated to the agent that Terminassian had arrived in the United States to purchase everything but the air conditioning unit. Zargarian and Terminassian subsequently met with the undercover agent to discuss the transaction. A few days later, Zargarian met alone with the agent in the parking lot of a store during which the agent showed him a liquid oxygen tank and liquid oxygen converter in the trunk of his or her car. Following the meeting, Zargarian told the undercover agent that Terminassian was leaving the United States for Iran but would provide payment for the goods to someone known to Zargarian.

The accused are charged with conspiracy to violate the IEEPA, conspiracy to defraud and commit offenses against the United States, violation of the IEEPA, smuggling goods out of the United States, unlawful export information activities, and aiding and abetting a criminal act.

Lessons and Observations

This case provides an inside view into Iran's efforts to illicitly obtain military equipment. It shows the extent to which Iran's Air Force goes to obtain Western, and particularly U.S., equipment, including the high fees for middlemen that Iran is willing to pay. It also shows the complicated scheme and several personnel and country layers separating Iran's Air Force from legitimate suppliers.

This case shows the success of U.S. sting operations and close coordination with U.S. military parts suppliers in successfully bringing additional charges against military parts traffickers. The case also shows that the UAE likely remains a problematic transshipment point. It raises Kuwait as a transshipment point, a country that our Institute has not seen named as a transshipment or illicit trading outpost country in more recent cases.

The delay in arresting Zargarian and Nayirian will hopefully not negatively impact legal efforts to bring them to justice. This case will be a test of the potential impact of any Obama administration policy decision to delay or inhibit indictments and extraditions under Iran sanctions laws for the sake of the Iran deal.