



U.S. Busts Iranian Smuggling Scheme Involving a Nuclear-Related Good

Because of Iran's extensive and persistent nuclear smuggling, Iran needs to accept additional provisions against this practice in the comprehensive solution to be negotiated with the P5+1 under the Joint Plan of Action.

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On June 26, 2013, a United States District Court in the Northern District of Illinois indicted Nicholas Kaiga, 36, of Brussels and London, on charges of attempting to transship a specialized U.S. aluminum metal usable in gas centrifuges and transshipping other U.S. metals and materials to Iran.^{1*} Kaiga was indicted and arrested as the result of a U.S. sting operation which involved an agent posing as an employee of a targeted Illinois company. The indictment alleges that between November 2010 and February 2012, Kaiga worked on behalf of an unnamed illicit procurement agent located in Iran to serve as a purported recipient of U.S. goods in Belgium. Kaiga would allegedly claim the goods brokered for sale by the unnamed Iranian would not leave Belgium. He would then allegedly transship or attempt to transship U.S. materials from Belgium to Malaysia, where the Iranian operated front companies, via freight forwarder, and they would go onward to Iran.² The Iranian individual used his front company or front companies in the United Arab Emirates to broker the deals.

Significantly, the Iranian attempted to arrange the purchase and shipment of 1,800 feet of U.S.-made 7075 T6 aluminum tubing, with an outside diameter of 4.125 inches and a tensile strength of 572 megapascals (MPa), for Kaiga to transship from Belgium to Malaysia.³ Aluminum tubing of this specification is controlled because of its application in nuclear and missile programs and requires a license for export to Malaysia; a license is not needed for exports to Belgium. U.S. law forbids shipments of any such metals to Iran due to its application in nuclear programs and its general embargo against Iran.

¹ Department of Justice Press Release, "Belgian Man Charged with Attempting to Illegally Export Aluminum Tubes to Malaysian Front for Individual in Iran," October 30, 2013.

http://www.justice.gov/usao/iln/pr/chicago/2013/pr1030_01.html

* ISIS gained valuable insight in the writing of this case study from Project Alpha, "Nicholas Kaiga and Transshipment of Aluminum Tubes Possibly Destined for Iran's Nuclear Programme," November 5, 2013.

<http://www.acsss.info/iran/item/281-nicholas-kaiga-and-transshipment-of-aluminium-tubes>

² United States District Court in the Northern District of Illinois, *Grand Jury Indictment: United States of America v. Nicholas Kaiga*, dated September 2012. http://www.justice.gov/usao/iln/pr/chicago/2013/pr1030_01a.pdf

³ United States District Court in the Northern District of Illinois, *Affidavit of Jennifer Green, Special Agent, Immigration and Customs Enforcement, United States of America v. Nicholas Kaiga*, Criminal Complaint (unnumbered), June 26, 2013.

http://www.justice.gov/usao/iln/pr/chicago/2013/pr1030_01b.pdf Each tube was 15 feet in length, or about 120 tubes.

Iran has sought high strength aluminum for use in outfitting its IR-1 gas centrifuges. Converting the 4.125 inches into metric units, the aluminum tube's diameter is 104.7 millimeters, which is slightly wider than the outer diameter of the rotor tube of the IR-1 centrifuge. Recognizing that these tubes could be only pre-forms for the final, thin-walled rotor tube and thus would be expected to be wider in diameter, these tubes are legitimately suspected of being intended for Iran's IR-1 centrifuges. A total of 1,800 feet would be enough for almost 1,400 rotor tubes, or enough for about 350 IR-1 rotor assemblies, where each assembly requires four rotor tubes. Although this amount is relatively small, there are indications that the Iranian wanted to place more than one order of this type of aluminum.

An undercover agent began posing as an employee of the company located in Schaumburg, Illinois in 2009 after the company received illicit procurement attempts in 2007 from a company in the United Arab Emirates run by the unnamed Iranian individual. During this time, the Iranian individual arranged for Kaiga to act as the purported recipient of the U.S.-origin aluminum tubing and other metals. In the case of the nuclear-usable aluminum, agents replaced the aluminum tubing with a non-controlled variety and followed Kaiga's alleged transshipment of the goods to Malaysia and then to Iran.

Kaiga was arrested on June 25, 2013 while in New York City under the pretense of a meeting with the undercover U.S. agent to discuss future deals. He pled not guilty on October 31, 2013.⁴ He faces several years in prison and hundreds of thousands of dollars in fines if convicted of one count of export control violations and two counts of making false statements on U.S. export license documents.

The Iranian remains at large. A priority is obtaining his arrest.

The Scheme

Attempted Purchase of 7075 Aluminum

In September 2007, the unnamed Iranian individual submitted a purchase order to the Illinois company for 1,800 feet of 7075 T6 aluminum tubing. He asked that the consignment be sent to his company Super Alloys LLC in the United Arab Emirates (UAE). The Iranian paid for the delivery via a wire transfer of \$30,000. In November, an employee of the Illinois company asked for end-user information for the goods because the information needed to comply with U.S. export control regulations. The Iranian individual stated that the 7075 Aluminum would be used "for oil companies here in the UAE and is used for low pressure steam transmission" and that the end-user was his company Super Alloys. Based on this information, the Illinois company applied for an export license. An export control officer from the U.S. Commerce Department subsequently contacted Super Alloys about the end-user information, and a representative of Super Alloys told the official that the General Manager of the company was unavailable due to being in Iran; subsequent attempts to reach him were not successful. The U.S. officer paid a visit to Super Alloys in the UAE to check the end-user information. The address ultimately led to the Iranian-owned company Sina Mountain General Trading, located in the UAE. In December 2007, the Illinois company began cooperating with law enforcement officials. In January 2008, the Commerce Department denied its export license application.

⁴ Andrew Harris, "Belgian Pleads Not Guilty to Shipping Tubes to Iran Front," Bloomberg. October 31, 2013.

In January 2008, U.S. authorities began using the Illinois company for a U.S. sting operation to catch the Iranian individual and his company Super Alloys, or any accomplices, in the act of seeking controlled goods for Iran's sanctioned nuclear program. The company notified Super Alloys that the 7075 Aluminum was in the process of being milled and would be ready by mid-March 2008. The company told them that it was having difficulty obtaining a U.S. export license and asked how to proceed in the event of a denial. The Illinois company made clear that a U.S. export license was required. The Iranian individual asked whether his freight forwarder could apply for the license. The company responded that the freight forwarder or "someone else in the United States" could apply for the license. In February, the U.S. Commerce Department officially denied the export license request. Other unregulated goods scheduled for purchase by the Iranian were also denied for export due to the fact that most U.S. goods are embargoed for sale to Iran and the end-user appeared to be Iranian. However, this did not end the Iranian's interest in procuring the high strength aluminum.

Exports of Steel to Iran via Malaysia in Violation of Iran Embargo

In November 2009, the undercover agent working at the Illinois company followed up with an e-mail to the Iranian individual at Super Alloys regarding a previous order for 138 kilograms of U.S.-origin 4130 Steel Tubes. The 4130 Steel "was originally ordered and paid for by Individual A (the Iranian) for shipment to Super Alloys in the UAE." But the Iranian notified the agent that the order should be shipped to Industrial Metals and Commodities (IMC) in Brussels and requested that all invoices be issued to IMC and its managing director, Nicholas Kaiga. The indictment notes that, in fact, the address listed for IMC, founded in 2009, was located in a residential neighborhood that appeared to be an apartment building "unsuitable for receiving, storing, or processing" metals commodities. In June 2010, the Illinois company nonetheless shipped the steel order to IMC in Brussels. Once the shipment arrived at IMC, it was re-sent to NBH Industries in Malaysia. In July 2010, an invoice was issued for the order to Emirates Alloys, LLC, and listed the address of NBH Industries in Malaysia.

In September 2010, the undercover agent at the Illinois company e-mailed the Iranian and informed him that his order of 7,985 kilograms of hot rolled steel round bars (9130 Steel) was being prepared for shipment to IMC in Belgium. Kaiga was again listed as the contact for the freight forwarding company. This order was shipped in January 2011 to IMC and paid for by Super Alloys in the UAE. In March, after it had arrived at IMC, Kaiga allegedly shipped the steel to NBH Industries in Malaysia.

In December 2010, the Iranian individual spoke with the undercover agent and discussed the original order for aluminum tubing from 2007. The agent said that the aluminum was still available and had already been milled. The Iranian said that he was "negotiating with Belgium companies that could find some customer for that, if they agree, I can uh, ship to that" to that company.

Attempted Export of Controlled 7075 Aluminum to Iran via Malaysia in Violation of Sanctions and Export Controls against Iran

In June 2011, the undercover agent at the Illinois company called the Iranian individual to discuss the 7075 Aluminum order. In July, the Iranian individual notified the Illinois company that IMC would receive this order. Kaiga allegedly followed up later that month with the company to ask for packing details. The undercover agent wrote in August that he would "need some end-user information" for the "export compliance people." The uncover agent asked if the product would be staying in Belgium

and the Iranian individual said yes. The Iranian asked the agent to undervalue the goods on shipping documents, a matter he wanted to discuss via his private e-mail. The indictment notes “individuals involved in the unlawful procurement of U.S.-origin goods commonly seek to undervalue the shipments, as lower-value shipments may receive less scrutiny during the customs process.”

On August 4, 2011, Kaiga allegedly completed a U.S. export declaration that stated IMC was the recipient of the materials. The form stated the materials would be re-sold within Belgium for final use in Belgium and the end-use would be AW-109 commercial helicopter parts. Later that month, the Iranian individual provided documentation to the Illinois company that IMC was the recipient of the goods; he sent the information from an IP address that authorities later determined was registered in Iran. In November 2011, U.S. authorities replaced the shipment of aluminum tubing with metal of a non-controlled specification, and the Illinois company gave it to a freight forwarder with warnings attached about diversion to another country. The value of the goods was listed as \$10,089.00.

In December 2011, despite the clear warnings on not doing so, the goods were re-shipped by IMC to Malaysia with IMC listed as the seller and NBH Industries as the buyer and final end-user. After conducting an August 2012 end-user inspection of NBH Industries unrelated to this procurement, U.S. authorities determined that the trading company was owned by the Iranian individual. Its office phone was managed by a virtual office service company located in Kuala Lumpur. The service told authorities that the director was unable to meet them because he was based in Iran, and they verified that NBH Industries was in fact a trading company.

In a surprising development, in October 2012, Kaiga phoned the undercover agent at the Illinois company notifying him that he had shipped the wrong product. The agent questioned Kaiga about how he determined it was not the correct product. Kaiga allegedly claimed that he sent the goods on to the Iranian individual who determined this. The Iranian individual later phoned the undercover agent to discuss the error and said he had received 6061 Aluminum and not 7075 Aluminum and that it was the wrong length. He sent a photo of the shipment from an IP address registered in Iran.

In June 2013, U.S. authorities lured Kaiga to New York City under the guise of a meeting with the undercover agent from the Illinois company. Kaiga allegedly thought he would be discussing the incorrect aluminum shipment and negotiating additional orders involving Iranian clients. During the meeting, which Kaiga allowed to be recorded, he allegedly admitted to regularly circumventing export controls using freight companies and to serving as a recipient of goods on behalf of the Iranian individual to be transshipped to Malaysia. The undercover agent pretended to be willing to conspire with Kaiga and told him that he should no longer hide the actual end-users and shipping destinations of goods from him. With this additional incriminating information, authorities arrested Kaiga.

Lessons and Observations

This case shows that end-user checks on suspicious foreign trading companies are highly successful. A simple visit to a UAE company by an export enforcement authority uncovered an illicit scheme that led to a successful sting operation against nuclear trafficking agents. Sting operations against nuclear traffickers continue to be successful. The United States’ sting operation aimed to identify Iran’s illicit procurement agents working inside the United States, but learned that that agent was actually in Belgium. The U.S. sting operation usefully continued internationally and authorities lured the Belgian broker to New York, where he was arrested.

This case shows that transshipment outposts such as Malaysia and the United Arab Emirates, which have taken steps to implement export control systems were still being exploited in 2012 by illicit procurement agents.

A mystery is why Kaiga would not have suspected a sting operation, but instead traveled to the United States to discuss the shipment of the wrong aluminum and future illicit purchases, while allowing the conversation to be tape recorded. Moreover, if Kaiga was such an expendable asset to the Iranians, other illicit procurement agents should take note.

Iran is openly and illicitly breaking export and sanctions laws of other countries. Those efforts likely continue today. Sanctions on these types of goods remain in force under the recent Joint Plan of Action between Iran and the P5+1. Authorities and companies must not relax efforts to catch these attempts.

Governments need to watch for illicit sales of aluminum tubing or other controlled equipment and materials made directly from North Korea to Iran or from other pariah countries to Iran. There are recent indications that North Korea may be a direct supplier and indigenous producer of aluminum capable of use in gas centrifuges and it has shown a past willingness to supply nuclear-related goods to sanctioned countries.

Finally, because of Iran's extensive and persistent nuclear smuggling, Iran needs to accept additional provisions against this practice in the comprehensive solution to be negotiated with the P5+1 under the Joint Plan of Action.⁵ These conditions would help ensure that Iran's smuggling efforts are ended in a way that is verifiable. If a long term solution is reached, Iran's limited, legitimate nuclear programs will require overseas supply, and the comprehensive solution will thus need to establish a legitimate procurement channel for such items.

⁵ For additional discussion on recommended provisions against nuclear smuggling and for legitimate nuclear and nuclear-related trade in a comprehensive agreement with Iran, see ISIS, "Defining Iranian Nuclear Programs in a Comprehensive Solution under the Joint Plan of Action," January 15, 2014. http://isis-online.org/uploads/isis-reports/documents/Elements_of_a_Comprehensive_Solution_20Jan2014_1.pdf