



Case Study: United States Levies Civil Suits Against Chinese and Russian Entities for Helping North Korea Bust Financial and Nonproliferation Sanctions

By Andrea Stricker

September 7, 2017

On August 22, 2017, the United States Department of Justice announced two law suits against financial and nonproliferation sanctions busting rings in China and Singapore (the latter involving Russian-owned entities and individuals). The law suits allege the rings are working to help North Korea buy or sell goods internationally and then launder the money for its nuclear, missile, and military programs. The accused allegedly violated U.S. laws when funds passed through U.S. correspondent banking accounts. The two rings even cooperated on financial transaction schemes, according to legal documents. The United States designated North Korea a jurisdiction of primary money laundering concern in 2016, rendering “all North Korean financial institutions – and entities acting on their behalf – [cut] off from any trade in U.S. dollar transactions via correspondent banking.”¹ The U.S. government has frozen millions of dollars in assets of both rings and has asked for their forfeiture *in rem*.^{*} The U.S. government at times uses civil action to go after the financial assets of alleged lawbreakers located outside of U.S. jurisdiction. The law suits were announced alongside a broader set of Treasury Department sanctions against Chinese and Russian companies and individuals for their support to North Korea’s industries that fund its weapons of mass destruction programs.²

These cases show that North Korea continues to circumvent U.S. and international sanctions by concealing the origin of goods and payments and exploiting international financial mechanisms using willing front companies and partners. Alongside its efforts to sanction those illicit partners, the United States needs to sanction banks in China and Russia that do business with North Korea until they prove they have taken steps to curtail such activities. Enforcement officials also need to constantly stay on top of new North Korean schemes as they emerge and study new opportunities for sanctioning vulnerable North Korean imports.

¹ United States District Court for the District of Columbia, *Complaint: United States of America vs. \$4,083.935.00 of funds associated with Dandong Chengtai Trading Co., Ltd, Defendant in Rem, aliases and associated entities, and Chi Yupeng*, Case 1:17-cv-01706, Filed August 22, 2017, Available at Pacer.gov.

^{*} *In Rem*, as defined by the Law.com legal dictionary, means: “Against or about a thing,” referring to a lawsuit or other legal action directed toward property, rather than toward a particular person. Thus, if title to property is the issue, the action is “in rem.” The term is important since the location of the property determines which court has jurisdiction and enforcement of a judgment must be upon the property and does not follow a person. “In rem” is different from “in personam,” which is directed toward a particular person.

² Carol Morello and Peter Whoriskey, “U.S. Hits Chinese and Russian Companies, Individuals with Sanctions for Doing Business with North Korea,” *The Washington Post*, August 22, 2017, https://www.washingtonpost.com/world/national-security/us-sanctions-chinese-and-russian-companies-and-individuals-for-conducting-business-with-north-korea/2017/08/22/78992312-8743-11e7-961d-2f373b3977ee_story.html?utm_term=.82503b92f0d6

Case 1: Dandong Chengtai et al. of China

On August 22, 2017, the United States District Court for the District of Columbia filed a civil suit against Dandong Chengtai Trading Limited of China, its aliases and associated names, and its owner, Chi Yupeng. The suit asks for the forfeiture of \$4,083,935 in Dandong Chengtai assets that have been frozen by the U.S. government. The U.S. Complaint arises out of a Federal Bureau of Investigation (FBI) investigation and alleges that Dandong Chengtai and its aliases, such as Dandong Zhicheng, Rambo Resources, Ruizhi Resources, Shun Mao Mining, Maison Trading, and its owner Chi Yupeng, schemed to “launder U.S. dollars through the United States on behalf of sanctioned entities in the Democratic People’s Republic of Korea (“DPRK” or “North Korea”) via the sale of coal.”³ According to information obtained from defectors cited in the case, coal funds are routed through North Korea’s Office 39, an organization that maintains foreign currency and reserve funds for Kim Jong Un, the Worker’s Party, and the military. Kim uses the funds almost entirely (the defector claimed 95 percent) to pay for North Korean nuclear, missile, and other weapons programs. The funds in this case appear to have been used by the Chinese entities to purchase other items on behalf of North Korea, including dual-use nuclear and missile components and luxury items, in order to avoid sending dollars back to the DPRK. The entities and individuals named in this case are located in China, apart from Maison Trading, which is “purportedly headquartered in the Marshall Islands.” The more than \$4 million in funds were frozen after Dandong Chengtai wired money to Maison Trading, where the funds were routed through the U.S. correspondent banking accounts.

Four alleged counts described in the Complaint are violations of the United States’ International Emergency Economic Powers Act (IEEPA), the North Korea Sanctions and Policy Enhancement Act (NKSPEA) of 2016, its conspiracy statute, and its money laundering statute. The actions also violate United Nations sanctions on North Korea which prohibit money laundering activities particularly for the benefit of North Korean weapons programs.

The Scheme

A U.S. Treasury Department Financial Crimes Enforcement Network (FinCen) finding included in the Complaint well summarizes the alleged scheme: North Korea makes “extensive use of deceptive financial practices, including the use of shell and front companies to obfuscate the true originator, beneficiary, and purpose behind its transactions,” in part “to evade international sanctions.”⁴ In this case, the North Koreans schemed to export vast amounts of coal and other goods to Chinese entities, which then re-sold the coal and used the profits to fulfill shopping lists of items for North Korea. At times, various debts were canceled among entities as payment. In this way, the Chinese entities were largely able to avoid paying North Korea in dollars.

The so-called Chi Yupeng Network of Companies, which includes the aliases and alternate names in the law suit, was responsible for importing nearly \$700,000,000 worth of coal from North Korea between January 2013 and February 2017. It is worth noting that China suspended North Korean coal imports in February 2017.⁵ Financial records cited in the Complaint reveal that the network wired out at least

³ Ibid.

⁴ Ibid, p. 9.

⁵ Chen Aizhu, “Exclusive: China’s CNPC Suspends Fuel Sales to North Korea as Risks Mount – Sources,” Reuters. June 28, 2017, <https://finance.yahoo.com/news/exclusive-chinas-cnpc-suspends-fuel-012344827.html>

\$60,000,000 in U.S. dollars since NKSPEA's enactment in 2016 alone. Chi Yupeng was purportedly one person trusted by Office 39 among a close cadre of reliable middlemen who exploit the international financial system on behalf of North Korea, according to a defector. The Complaint also notes that Dandong Chengtai "allegedly used the foreign exchange received from the end users of the North Korean coal to purchase other items for North Korea, including nuclear and missile components." The Complaint does not further describe these items or activity except to indicate a general scheme to move military related items into North Korea. It also lists other items sought by North Korea such as luxury items, cell phones, sugar, rubber, petroleum products, and soybean oil.

The Complaint notes that this coal for weapons scheme gave rise to a UN sanctions resolution in August 2017 that further restricts North Korea's ability to export coal. The Complaint states, "in particular, coal trade has generated over \$1 billion in revenue per year for North Korea, activity which prompted the UN Security Council to seek to sharply curtail such exports in November 30, 2016, and then to fully ban them in August 5, 2017."⁶ The Treasury Department Office of Foreign Assets Control (OFAC) designated Dandong Chengtai and its aliases on August 22, 2017, along with two other Chinese coal companies. Dandong Chengtai, the largest importer of North Korean coal, has also been involved with other sanctioned entities, such as the North Korean Koryo Credit Development Bank and Korea Ocean Shipping Agency, and the Chinese telecommunications company recently fined by the United States, ZTE Corporation, along with its front companies.

Case 2: Velmur Management and Transatlantic Partners (both Russian-owned) of Singapore

On August 22, 2017, the Department of Justice also announced a civil suit by the U.S. District Court in the District of Columbia against two front companies, Velmur Management and Transatlantic Partners, of Singapore. The United States has frozen \$6,999,925 in assets of Velmur Management, which is partly Russian-owned; Transatlantic is also partly Russian-owned. The Complaint arises out of an FBI investigation that found that Velmur and Transatlantic schemed with a Russian company, JSC Independent Petroleum Company (IPC), and a North Korean bank, the North Korean Foreign Trade Bank (FTB), to launder millions of dollars through U.S. correspondent accounts for North Korean purchases of IPC gasoil.⁷ The Complaint explains that gasoil is "a distilled petroleum product such as gasoline and/or diesel fuel," and that North Korea became highly dependent on Russia gasoil imports in 2017. Other front companies were also involved in the scheme, such as additional entities registered in Singapore and Hong Kong and/or China. At least two illicit transactions tracked by the investigation allegedly involved Dandong Chengtai of China and its aliases, described in Case 1 above. The law suit alleges that Velmur was involved in seven wire transfers made from FTB via Transatlantic and others, to the Russian company IPC, representing the nearly \$7 million in frozen assets. FTB and IPC were sanctioned by the Treasury Department in 2013 and June 2017, respectively. The Complaint found that Velmur and Transatlantic schemed to wire at least \$20 million in U.S. dollars in recent years.

The Complaint found, "These opaque U.S. dollar transactions by front companies promote IEEPA and NKSPEA violations, by preventing the imposition of sanctions."⁸ Much like the Dandong Chengtai case, four alleged counts described in the Complaint are violations of IEEPA, NKSPEA, the conspiracy statute,

⁶ Ibid, p. 14.

⁷ United States District Court for the District of Columbia, *Complaint: United States of America vs. \$6,999,925.00 of funds associated with Velmur Management Pte Ltd, Defendant in Rem, and Velmur Management Pte Ltd and Transatlantic Partners Pte Ltd*, Case 1:17-cv-01705-RC, Filed August 22, 2017, Available at Pacer.gov.

⁸ Ibid, p. 10.

and the money laundering statute. The actions also violate UN sanctions on North Korea which prohibit money laundering activities.

The Scheme

The Complaint discusses the scheme by highlighting the findings of a FinCen report on North Korea's money laundering techniques. The report found, "North Korea conducts almost no banking in true name in the formal financial system given that many of its outward facing agencies and financial institutions have been sanctioned by the United States, the United Nations, or both." However, FinCen notes, "North Korea does have access to the U.S. financial system through a system of front companies, business arrangements, and representatives that obfuscate the true originator, beneficiary, and purpose of transactions," which has allowed North Korea to launder millions of dollars through the U.S. correspondent accounts.⁹ In this case, it used those illicit partners, located in Singapore and Hong Kong and/or China, to access the U.S. financial system.

In 2013, according to the Complaint, FTB "developed and instituted an inter-bank clearing system in North Korea." After this system was put in place, North Korean banks needed to maintain currency clearing accounts at FTB, and FTB became responsible for setting currency exchange rates. This reform, "in effect, channeled transactions from North Korea's arms exports and luxury goods imports through FTB."¹⁰ OFAC noted in its 2013 designation that FTB is used "to facilitate millions of dollars in transactions on behalf of actors linked to [North Korea's] proliferation network." FTB used the front company Transatlantic and other front companies to send U.S. dollars to Velmur. Velmur then transferred the funds to IPC, the Russian petroleum products supplier. IPC would then ship gasoil to North Korea.

The Complaint notes that Velmur was registered in Singapore in 2014 and describes itself as a commercial and industrial real estate management company. A source told investigators that it is operated in part by a Russian national, Irina Huish. Huish was added to OFAC designations on August 22, 2017. Velmur "bears the hallmarks of a front company." It has no website and may not actually use its registered address. The Complaint states that, in fact, numerous companies are registered at its address.

Transatlantic is also apparently a front company that was registered in Singapore in May 2016 and operates on behalf of North Korea's financial schemes. It was added to OFAC sanctions on August 22. A source told investigators that Transatlantic is operated in part by Andrei Serbin, a Russian national who was also designated on August 22. Transatlantic reached a contract with Daesong Credit Development Bank in the past, which has been under U.S. sanction since 2016. OFAC also designated Mikhail Pisklin, a Russian national, who worked to conclude the contract between Transatlantic and Daesong Credit Development Bank. Daesong Credit Development Bank has laundered millions of dollars through the U.S. financial system. The Complaint describes how Velmur's operator Irina Huish, and Serbin, worked together for the gasoil deliveries to North Korea.

One of the investigation's confidential sources revealed that Transatlantic contracted with Velmur on December 6, 2016 for the purchase by Transatlantic of 5,000 metric tons of gasoil. An addendum to the contract was added on May 11, 2017.

⁹ Ibid, p. 13.

¹⁰ Ibid, p. 15.

The Complaint describes three other unnamed companies that worked closely with Velmur on sending illicit payments on behalf of North Korea. The first company (Company 1) was registered in Hong Kong as of 2008 but bank records show an address in Qingdao City, China. The second company (Company 2) was registered in Singapore in October 2016. It apparently has no actual physical office space but its address is listed as being in the same building as Transatlantic. The third company (Company 3) was registered in Singapore in May 2014; its website was registered in 2016 using an anonymization service, and it identifies itself as a petrochemical company on its website but as a logistics provider and trader in corporate registry records. It does not appear to have an actual physical office space but shares a virtual office address used by many companies.

JSC Independent Petroleum Company, or IPC, was designated by OFAC in June 2017. It has contracted with North Korea for oil sales and has shipped over \$1 million in petroleum products to North Korea.

Illicit Financial Transactions, including cooperation with Dandong Chengtai and aliases

The Complaint states that in September 2016, Dandong Chengtai of China wired \$230,000 to Velmur. Dandong Chengtai is also known to have made payments on behalf of FTB. In July 2016, Ruizhi Resources, one of Dandong Chengtai's front company aliases or affiliates, also wired \$189,980 to Velmur.

In 2016, the Complaint states, an FTB front company wired two payments to Velmur totaling more than \$250,000. A confidential source told investigators that this front company worked for FTB and it had previously made payments to third parties for FTB.

In 2017, another FTB front company made two payments to Velmur totaling more than \$500,000. The aforementioned source stated to investigators that this front company had previously made payments on behalf of FTB.

Assets Frozen under law suit

The Complaint tracks each of the seven wire transfers made from Velmur to IPC via Transatlantic and others. Another confidential source to the investigation provided a bill of lading for May 2017 shipments of diesel fuel by IPC to North Korea, departing from Port Vladivostok, Russia. The port is "a known waypoint for Russian transshipments to North Korea." Shipping data gathered by investigators showed a steady stream of oil tanker traffic between Vladivostok and North Korea at the time.

The Complaint describes how Transatlantic and other front companies wired North Korean money through Velmur. The funds described below make up portions of the assets frozen by the U.S. government.

An undated payment confirmed by a source, in the amount of \$1.09 million, was made from a "clandestine FTB branch located outside North Korea" via an FTB front company, to Velmur.

On May 5, 2017, Company 1, described above, wired Velmur \$1,199,975 for gasoil. Two additional payments were made. U.S. or foreign banks appear to have frozen those transactions.

Company 2, also described above, has previously wired funds to Company 1. It wired \$350,000 to Company 1 on May 2, 2017. Three days later, Company 1 wired Velmur the \$1,199,975 for gasoil. On May 12, after U.S. or foreign banks appear to have frozen the transactions described above, Company 2 attempted to wire Velmur a payment in the amount of \$1,200,000. This transaction was apparently also frozen.

Two additional companies then attempted payments to Velmur. On May 12, Transatlantic wired \$1,510,000 to Velmur for gasoil. This transaction was frozen. On May 24, Company 3 (described above) wired \$500,000 to Velmur for gasoil. This transaction was apparently frozen. On June 1, Transatlantic wired \$490,000 to Velmur for gasoil. This transaction was also frozen.

Lessons and Observations

The Dandong Chengtai case shows that recent UN resolution 2371 to prohibit coal trade with North Korea may temporarily restrict its ability to acquire needed dual-use goods for its nuclear, missile, and military programs. It is unclear how quickly North Korea will be able to regroup and create a new scheme to supply its needs. It is notable that U.S. law enforcement efforts must rely heavily on information from defectors to inform them about the pariah state's inner workings and efforts to circumvent U.S. and international sanctions. The United States and its allies should stay abreast of new efforts to replace this lucrative channel as North Korea's coal exports are curtailed.

The Velmur/Transatlantic case shows that Singapore has a front company problem and potentially an illicit financial transactions problem, although transactions through Singaporean financial institutions are not described in the Complaint. Entities are registering under phony pretenses and using false addresses to operate on behalf of Russia and North Korea. Singapore should investigate and crack down on front companies using its territory for sanctions circumvention activities. It should also work with financial institutions to better prevent any illicit financial transfers using Singaporean banks. This case also shows that North Korea is vulnerable to having its gasoil imports curtailed. As part of a broader effort to ban exports of oil to North Korea, halting gasoil exports to North Korea could be another area for policymakers to implement in new UN or U.S. sanctions if they seek to significantly increase pressure on North Korea to limit and eventually disable its nuclear and ballistic missile programs. Getting China on board with such an effort would be critical.¹¹

The Trump administration's efforts to sanction Chinese and Russia-owned companies and individuals that significantly support North Korea's weapons programs are a positive step. But it should go further and sanction major Chinese and Russian banks (and companies) for any illicit North Korea dealings. Both countries have gotten away for far too long and have faced too few consequences for turning a blind eye to the sanctions-busting business activities of their citizens and those of North Korea in using their economies for nefarious purposes. Moreover, there is much evidence that both governments actively facilitate and encourage certain economic relationships with North Korea, even if they violate UN and U.S. sanctions, such as the Russians working from Singapore to facilitate payments to IPC for gasoil. The administration should continue to increase pressure on China and Russia to take actions to close down North Korea's illicit trade and financing activity within their territories and abroad.

¹¹ Tony Munroe and Jane Chung, "For North Korea, Cutting Off Oil Supplies Would be Devastating," Reuters. April 13, 2017, <http://www.reuters.com/article/us-northkorea-nuclear-china-oil-idUSKBN17F17L>