



## Case Study: Two Plead Guilty in Pakistan Illicit Procurement Case

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On March 5, 2018, the Department of Justice and the U.S. Attorney's Office in the District of Connecticut announced the guilty pleas of two Pakistani men on one count of violating the International Emergency Economic Powers Act (IEEPA).<sup>1</sup> Between 2012 and 2013, Muhammed Ismail, 67, and Kamran Khan, 38, purchased U.S. goods on the Commerce Control List (CCL) and subject to the Export Administration Regulations (EAR) or EAR-99 status without a license on behalf of listed or sanctioned entities in Pakistan.<sup>2</sup> In one instance, they also used the United States as a turntable, or transshipment point, from which to receive goods from Lithuania. Another defendant, Imran Khan, 43, was involved in the scheme and pled guilty to export violations in a separate case. Muhammad Ismail is the father of Kamran and Imran Khan. The three carried out a scheme to use their businesses Kauser Enterprises LLC-USA, Brush Locker Tools, and North Haven Tools of Connecticut, and Kauser Enterprises in Karachi, Pakistan, to fulfill equipment requests sent by an unnamed co-conspirator residing in Pakistan. The defendants used the address of a Connecticut grocery store or one of the defendants' residence in Littleton, Massachusetts as the stated end destination for the goods, shipped under the name of their companies. Kamran Khan, and perhaps Muhammed Ismail, often resided in Karachi and operated the Kauser Enterprises, Pakistan location. The unnamed co-conspirator worked for his own company or companies and was an illicit procurement agent filling orders on behalf of the Pakistani Atomic Energy Commission (PAEC), Pakistan Space and Upper Atmosphere Research Commission (SUPARCO), and the National Institute of Lasers and Optonics (NILOP).

In all cases, the three men claimed to U.S. companies that requested goods would be used inside the United States, thus avoiding the requirement to obtain an export license for the exports or reveal the true end-users in Pakistan. They stated their own companies as the false end-users. Once they obtained the items, the three would arrange their export to Pakistan by undervaluing the goods at shipping and falsely stating the contents of the packages. To arrange payment for the goods, the unnamed conspirator in Pakistan would send payments via a company (potentially another front company operated by the Pakistani) located in the United Arab Emirates (UAE), in order to disguise the

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<sup>1</sup> U.S. Department of Justice, Press Release, "Connecticut Business Owners Admit to Profiting from Unlawful Exports to Pakistan," March 5, 2018, <https://www.justice.gov/usao-ct/pr/connecticut-business-owners-admit-profiting-unlawful-exports-pakistan>

<sup>2</sup> United States District Court in the District of Connecticut, *Indictment: United States of America v. Kamran Khan, Muhammed Ismail, Kauser Enterprises, USA, Kauser Enterprises, Brush Locker Tools Division, and North Haven Tools*, Filed June 14, 2017. Available at Pacer.gov.

Pakistani origin of transactions, and thereby reduce the chances that U.S. banks would devote additional scrutiny to them.

Muhammed Ismail and Kamran Khan were released on bond in December 2016. They face a maximum prison sentence of 20 years each for the IEEPA violation. Imran Khan pled guilty to one count of violating IEEPA in June 2017 and has also been released on bond pending sentencing.

### **The Scheme**

The Pakistani government and its military organizations seek controlled equipment and materials from Western countries that they are unable to make indigenously, or which are uneconomical to make. In some cases, they provide shopping lists to domestic companies or procurement agents, and in other cases, they put the requests up for public bid. Since the Pakistani entities are listed or sanctioned by the United States because of their involvement in Pakistan's nuclear, missile, or military programs, the organizations must conceal their identities as the true end-users of goods and turn to third parties operating abroad, or illicit procurement networks, to obtain the goods they need.

Some of the most successful illicit procurement networks operate from within the supplier state, thus avoiding the need to obtain licenses for exports. They claim to companies that the goods will be used inside the supplier state and then illicitly export them. The U.S. government obtained the e-mail records of the three Pakistani men and their communications with the unnamed conspirator. Those communications demonstrate knowledge of U.S. export laws, the fact that they were breaking U.S. laws, the true identity of the customers in Pakistan, and the need to avoid detection. The records indicate that the three garnered large profits for some of the procurements. They also indicate the names of the true Pakistani end-users.

In this scheme, the unnamed Pakistani conspirator would send equipment requests originating from the sanctioned Pakistani entities to Kamran Khan in Pakistan and/or Muhammed Ismail in Pakistan or Connecticut. Kamran and/or Ismail would either communicate the request to Imran in Connecticut, or at times, Ismail would contact U.S. suppliers on his own. The three family members cooperated to falsely state on end-user certification documents submitted to suppliers that the goods would stay in the United States. U.S. companies would send the items to Imran either at a residence or to a corner grocery store, under the name of the various companies owned by the three. The indictment does not indicate whether the men owned the grocery store. The three would cooperate to export the goods and conceal their nature and value. In one instance, the men imported goods from Lithuanian and then exported them to Pakistan once received in the United States. The unnamed Pakistani operated his own company or companies that would act as a recipient of some of the goods. The UAE entity used to clear payments may actually be operated by the Pakistani, as described below.

The indictment details four separate illicit procurement incidents occurring between August 2012 and October 2013. Each procurement was banned under U.S. law, being listed on the CCL or having EAR-99 status due to its intended end-user:

#### ***Procurement of Alpha Duo Spectrometer for the PAEC***

In August 2012, the unnamed Pakistani conspirator contacted Kamran Khan via e-mail with a Request for Quotation, or "RFQ," for several items. One of the items was an Alpha Duo Spectrometer. The indictment states that an Alpha Duo Spectrometer is "a benchtop spectrometer with two alpha

spectroscopy channels” that records and measures spectra. According to the website of the chief manufacturer of Alpha Duo spectrometers, Ortec<sup>3</sup>:

*Alpha spectroscopy is used to identify and quantify radionuclides based on the alpha particles emitted in the decay process. Similar to Gamma Spectroscopy, energy spectra are generated with high precision detectors and electronics and analyzed with special software. Typically, samples are measured following chemical separation to isolate the radionuclides of concern.*

Ortec indicates the potential applications for Alpha spectroscopy:

- Environmental Radioactivity Monitoring
- Health Physics Personnel Monitoring
- Nuclear Fuel Cycle processing
- Nuclear Forensics
- Materials Testing
- Geology and Minerology

Since the Pakistani end-user in this instance was the PAEC, a nuclear-related end use for the goods is probable. According to the CCL, mass spectrometers are controlled under Export Control Classification Number 3A999.b and for export to sanctioned or listed entities.<sup>4</sup>

A common alpha emitter is plutonium. The spectrometer may have been intended for the PAEC’s facilities to separate plutonium from irradiated fuel, an alpha emitter used in Pakistani nuclear weapons. In addition, the spectrometer may have been for nuclear weapons component fabrication facilities transforming separated plutonium into components for nuclear weapons.

The e-mail from the Pakistani contained a warning to Kamran to act with caution, to not mention Pakistan, and to not to purchase all the products at once. The RFQ along with the message was relayed to Imran in Connecticut. Imran contacted an unnamed U.S. company with an RFQ for the spectrometer. The supplier sent back an end-user form stating that the company supplies commodities listed on the CCL and therefore must “comply with the Export Administration Regulations (EAR) to ensure complete compliance with the U.S. export controls.” Imran provided false documentation of the end-user, listing Brush Locker Tools, in New Haven, CT as the end-user, which satisfied the supplier. It sent back a quote for the Alpha Duo Spectrometer and accompanying items at a cost of \$26,331.38. Next, Imran e-mailed the quote to Kamran, who sent it to the unnamed Pakistani. By October, the three proceeded to complete the purchase after an authorization by the Pakistani. The final invoice provided by Kamran to the Pakistani indicated a cost of \$35,549.66, or a profit of \$9,218.28, for the three family members.

The unnamed Pakistani e-mailed Kamran in November stating that \$35,549.66 would be transferred to Kauser Enterprises USA LLC at the address 128 Spectacle Pond Road, Littleton, MA. A web search for this address indicates it is a residence that was sold in December 2016, or the same month Ismail and Kamran Khan were arrested. On December 12, 2012, an advanced technology company, Sanco Middle East, in Sharjah, UAE, arranged or processed a wire transfer for \$35,549.66 to Kauser Enterprises USA LLC’s bank account at People’s Bank in Hamden, CT. Sanco Middle East, according to the indictment,

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<sup>3</sup> Ortec, “Products: Alpha Spectroscopy,” <http://www.ortec-online.com/products/radiochemistry-health-physics-research-industrial/alpha-spectroscopy>

<sup>4</sup> U.S. Department of Commerce, “Alphabetical Index to the Commerce Control List/Index 1 to Supplement No. 1 to part 774,” updated August 15, 2017, p. 40, <https://www.bis.doc.gov/index.php/forms-documents/regulations-docs/13-commerce-control-list-index/file>

claims to “provid[e] innovative and leading edge technology and advanced instrumentation for industry, research and educational institutions across the Middle East, Asia and Africa.” A separate web search by the Institute returned Sanco Me as having a Pakistani import address and a UAE export address.<sup>5</sup>

On December 12, 2012, the spectrometer and other goods were shipped from the supplier to Brush Locker Tools, to an address that was actually the location of a Connecticut grocery store, Cerda Market. Upon the delivery of the goods, Kamran relayed instructions to Imran from the unnamed Pakistani agent to ship the items to Nano Tech Solutions (NTS) in Islamabad, Pakistan. A web search for Nano Tech Solutions indicates it is an import/export entity in Pakistan; a separate web search indicates it has an import address in Lahore, Pakistan, and an export address in the UAE.<sup>6</sup> Interestingly, a Google search for Nano Tech Solutions also returns Sanco Me as a find.

The shipment labels show that the shipment originated from Kauser Enterprises-USA in Connecticut and was addressed to M/S Kauser Enterprises but actually sent to the address of Nano Tech Solutions, with false identification of the contents. Muhammed Ismail was the sender and he indicated the contents were a portable vacuum, surge protector, and other accessories, at a total value of \$470.

According to the indictment, in order for the goods to pass through customs, a statement was needed allowing the package to be imported by another entity on behalf of Kauser Enterprises. This was communicated to the unnamed Pakistani agent by Kamran, who supplied a statement on Kauser Enterprises letterhead authorizing the “Directorate of Technical Equipment,” a subdivision of the PAEC, to claim the shipment and clear it through customs.

### ***Procurement of Bagging Film for SUPARCO***

In January 2013, Kamran Khan received another RFQ email from the unnamed Pakistani procurement agent, for Capran 980 Bagging Film. He forwarded it to Imran and Muhammed. The indictment states that Capran 980 Bagging Film has military and commercial dual-uses and is, “a clear (low haze level) heat stabilized cast film produced from modified nylon 6 resin. It is recommended as bagging film for advanced composite fabrication and other high temperature applications where dimensional stability, adherence to sealant tapes and uniform film gage as essential.” This item has EAR-99 status for export to Pakistan, meaning it requires a license. The e-mail contained specifications of the film needed and iterated that the procurement was urgent.

Next, Imran discussed with a second, unidentified U.S. company a purchase price for two 100-pound rolls of bagging film. Kamran e-mailed the unnamed Pakistani agent a quote for one 100-pound roll for \$1,204. Kamran instructed Imran to buy two rolls. Imran then placed an order for two rolls of bagging film for \$1,808 to be shipped to Brush Locker Tools-USA in North Haven, CT. Around February 15, a charge of \$1,808 appeared on Imran’s business American Express card. Following the order, Imran arranged for the pickup of the goods from the supplier in California, to be delivered to Pakistan via UPS Freight Forwarding. The shipment was addressed to M/S Kauser Enterprises.

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<sup>5</sup> An internet search indicates Sanco may be Sanco Middle East LLC: <http://sanco-me.net/>; a separate search returned Sanco Me as having a Pakistani import address and a UAE export address: <https://pak.eximtradeinfo.com/items/sanco-me>

<sup>6</sup> <http://www.directoryforest.com/nts-nano-tech-solutions-islamabad/>; <https://pak.eximtradeinfo.com/items/nano-tech-solutions>

Similar to the first procurement, a statement of authorization for another entity to secure the package was needed at customs. A statement by Kauser Enterprises gave SUPARCO authorization to claim the shipment on behalf of the National Development Complex, a critical part of Pakistan's missile development program that was involved in redesigns of several models originally developed by SUPARCO. SUPARCO and NDC are barred from engaging in trade with the United States. As such, the items were probably used in Pakistan's missile program. Kamran later e-mailed a SUPARCO representative and copied the unnamed Pakistani agent with an invoice for \$2,408, indicating a \$600 profit from the purchase.

### ***Procurement of Hybrid Couplers for SUPARCO***

In February 2013, the unnamed Pakistani procurement agent sent another RFQ to Kamran Khan for two items including "twelve hybrid couplers" from SUPARCO. The indictment states that hybrid couplers are "passive" devices with dual commercial and military purposes and are used in radio and telecommunications. Specifically, they are a "type of directional coupler where the input power is equally divided between two output ports." This item has EAR-99 status for export to Pakistan, meaning it requires a license. Following a similar protocol to the previous procurements, Kamran sent an e-mail containing the RFQ to Ismail and Imran. Between February and April 2013, those two each sent the RFQ to multiple U.S. suppliers. It is important to note that Ismail, who resides in Pakistan, was involved in sending RFQs to vendors. One supplier in Wyoming denied the request from Ismail citing that it could not export the requested items.

A distributor located in Massachusetts responded to Ismail's RFQ providing a quote for the items at \$1,722 each, totaling \$18,942 for 11 couplers. The distributor also copied the main manufacturer of the items in the e-mail. Ismail then sent the quote to Imran who placed an order for ten hybrid couplers. Imran arranged for the hybrid couplers to be sent and billed to Brush Locker Tools-USA in Connecticut. After the distributor asked Imran if the items were going to be exported, Imran responded falsely that they would not be exported. The manufacturer of the items then responded with a statement which read, "I have reason to believe that these parts might be ultimately exported out of the US, due to the fact that I had several fairly recent inquiries for the same part, in the same quantity." The manufacturer asked Imran to relay to his end-user, allegedly in the United States, that the manufacturer, "is required to document any exports of our products with the country of ultimate destination, in order to comply with export regulations." Imran replied that he would obtain confirmation about the end-user, as he did not want he or the manufacturer "to get in any trouble." Five days later, Imran responded, falsely stating that the items would remain in the United States and increased the order to 11 hybrid couplers instead of the original ten.

In June, the manufacturer sent Imran a purchase order to be signed and returned, with a statement saying that the address to be billed would be held responsible for following all U.S. laws and regulations should the products be exported out of the country. Imran forwarded the purchase order to Kamran; it listed North Haven Tools as the billing address and Brush Locker Tools-USA as the shipping address. Around September 2013, the company shipped 10 hybrid couplers, and in October, it shipped the remaining one. Both shipments were delivered to the address of Cerda Market. Both shipments contained warnings regarding the unlawfulness of exporting the goods from the United States without a license.

Imran e-mailed Kamran a photo of the shipping details for the first shipment of goods, including a photo of a DHL shipping label. The label documents indicated the package would leave a sorting facility in New

York and go to Karachi, Pakistan. The documents indicated a weight of one pound and identified the contents as “a cable connector and flash light.”

Kamran e-mailed the unnamed Pakistani procurement agent with tracking information, from the TCS shipping service, which is located in Pakistan. It indicated that the package was shipped by Kauser Enterprises, picked up at the TCS facility in Karachi, and delivered to Rawalpindi, Pakistan. The consignee was “Value Addition PVT.” A web search did not uncover an address or other information for this entity.

Next, Kamran e-mailed the Pakistani agent regarding the costs of the purchase. He noted that the 11 hybrid couplers were purchased at a price of \$1,940 each, for a total of \$21,340. He indicated a shipping costs with insurance and a duty of \$600 and \$1,050, respectively. Kamran also sent shipping receipts from the manufacturer with Imran’s identity, address, phone number, and e-mail address redacted.

### ***Procurement of Aluminum Oxide Crystals for NILOP***

On about February 15, 2013, a representative of NILOP, known as Erum Mehboob, sent an RFQ to a representative at Nano Tech Solutions, Islamabad for Ti: Alzor (Titanium doped or "Sapphire Crystals" or "Aluminum Oxide Crystals"). According to the indictment, these goods are “used for making ultrashort pulse solid state or wavelength tunable lasers” and have dual commercial and military applications. This item has EAR-99 status for export to Pakistan and requires a license. Both NILOP and its representative, Mehboob, were included on the U.S. Entity List in 2014 for carrying out illicit procurements on behalf of the PAEC.<sup>7</sup> NILOP sent the RFQ to the Pakistani procurement agent, who then sent it to Kamran. Khan forwarded the RFQ to Imran and Ismail, in addition to web addresses of appropriate distributors. Imran next sent the RFQ to a distributor in Lithuania which proceeded to engage in negotiations about the price of the crystals and delivery to the United States.

On July 18, 2013, Imran e-mailed Ismail indicating he had paid for the goods. The e-mail indicated that one or more payments were made using Imran’s credit card. A few days later, Kamran e-mailed the Pakistani procurement agent and told him the items were in the United States and ready to be shipped. It also included an invoice for 10,696 euros for the crystals, signed by Imran. The invoice was addressed to NILOP in Islamabad and it was directed to make the payment to Brush Locker Tools. The Pakistani procurement agent then discussed with a representative of Sanco Middle East arranging the payment to Imran at Brush Locker Tools.

In September, Imran e-mailed Kamran indicating that the crystals were ready to be shipped, but that he had only received a partial payment for \$13,264, with about \$400 missing from the exchange rate. About a month later, Khan e-mailed Imran instructing that the crystals be shipped immediately to Kauser Enterprises in Islamabad. On the same day, Imran responded that he would send the crystals once Kamran received the “oxygen sensor.” No other detail is provided about this item. Soon after, Kamran e-mailed the Pakistani procurement agent with DHL shipping and tracking details for the crystals, indicating they originated from Brush Locker Tools and were being shipped to Kauser Enterprises in Islamabad.

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<sup>7</sup> U.S. Federal Register, “Additions and Modifications of Certain Persons on the Entity List,” September 18, 2014, <https://www.federalregister.gov/documents/2014/09/18/2014-22277/addition-and-modification-of-certain-persons-on-the-entity-list-and-removal-of-certain-persons-from>

## Lessons and Recommendations

This case shows that Pakistan's nuclear, missile, and military programs continue to shop in the United States for needed goods. It uses illicit procurement agents stationed in the United States to obtain goods and then receive them when they are illegally exported by those agents. This case also shows that Pakistan was able to use the United States as a turntable, or transshipment point, from which to receive goods from the Lithuanian supplier. This type of scheme is not seen as frequently in the Institute's previous illicit procurement case studies. The Pakistani illicit procurement agents were likely able to exploit the United States' positive identity as a sound recipient of controlled and sensitive goods and then send the goods onward. The United States needs to increase its efforts to counter Pakistan's efforts, increase detection capabilities, and augment outreach for education of companies about Pakistan's illicit procurement schemes. It is hardly the appropriate activity of a claimed U.S. ally to illicitly procure controlled goods and knowingly operate illicit networks on U.S. soil.

The U.S. government needs to make a higher priority of preventing Pakistan from illegally buying goods in the United States. It should more diligently apply economic and financial sanctions on the entities and individuals procuring these goods from Pakistan and abroad.

Suppliers are the first line of defense in preventing exports of sensitive U.S. goods to sanctioned countries. Yet many of the U.S. companies involved in making exports to this procurement network appeared to exercise egregiously poor due diligence in determining the *bona fides* of customers. For example, a quick internet search of the shipping addresses used would have shown a grocery store and a residence, which would certainly be red flags. One company sold hybrid couplers even after receiving several suspicious inquiries from Pakistan. It appeared to place the onus of the goods not being illegally exported from the United States entirely on the claimed buyer, which is not how U.S. export controls function. They can place civil and criminal blame on companies if they are found to have failed to perform due diligence on customers. The government should ensure that this company has reformed its sales processes. U.S. companies need to have basic internal compliance programs in place if they export goods with dual commercial and military uses, and those that sell advanced materials and technology need to be aware of EAR-99 status, or the need to obtain a license for goods if they have reason to suspect the actual end-users could be in sanctioned countries. The U.S. government and its enforcement entities should step up notifications to U.S. companies of Pakistan's efforts to obtain controlled equipment in the United States and the methods they utilize.