



## Previously Sanctioned Iranian Entities Doing Business in China

***There is an increased need for scrutinizing Iranian procurements and stepping up enforcement efforts against Iran's illegal activities.***

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The Institute for Science and International Security has learned that many previously sanctioned Iranian entities are now very active in procuring goods in China. These entities experienced sanctions relief on Implementation Day, or January 16, 2016, of the Joint Comprehensive Plan of Action (JCPOA).<sup>1</sup> Those now active in China include Iranian entities that conducted at least some procurements for Iran's nuclear programs. They include for example companies involved in making or procuring aluminum, steel, or other raw materials. It is unknown which goods these entities are procuring or buying in China. Nonetheless, many of these formerly sanctioned entities are well versed in making illicit procurements and their resurgence in China warrants special scrutiny and concern.

Twenty-three individuals and 61 entities known to be directly affiliated with Iranian nuclear programs continue to face international sanctions under the JCPOA's implementing United Nations Security Council resolution, or UNSCR 2231.<sup>2</sup> The companies that remain sanctioned include explicitly nuclear entities, such as Kalaye Electric.

We have also learned that many Chinese company representatives have been traveling to Iran to make deals since Implementation Day. This information confirms that while Western companies and banks are being cautious, China and Chinese companies are not.

This uptick in activity in China corresponds to a reduced emphasis on enforcement in the United States over alleged illegal Iranian procurement activities. During the last two years, the Obama administration has inhibited federal investigations and prosecutions of alleged Iranian illegal procurement efforts. The stated reason has been concern about the impact on the Iran nuclear deal. However, the Iran deal has been negotiated and Implementation Day has long

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<sup>1</sup> See UN Security Council Resolution 2231 (2015), Annex II, Attachments 1-3, [http://www.un.org/ga/search/view\\_doc.asp?symbol=S/RES/2231\(2015\)](http://www.un.org/ga/search/view_doc.asp?symbol=S/RES/2231(2015))

<sup>2</sup> "The List established by resolution 2231 (2015) and maintained by the Security Council," Generated on January 17, 2016, [http://www.un.org/en/sc/2231/2231%20List\\_17%20Jan.pdf](http://www.un.org/en/sc/2231/2231%20List_17%20Jan.pdf)

passed, and this policy is counter-productive to the goal of strong enforcement of the JCPOA. Two key questions now are whether Iran is violating US export laws and whether it is complying with its procurement related commitments under the JCPOA and UNSCR 2231. The answer to both is in doubt.<sup>3</sup>

In addition to concerns about the goods Iran may seek illegally from the United States, goods sought by Iran in China have originated in the United States and Europe, and Japan and have been subsequently retransferred illegally to Iran via China. Iran has utilized that tactic many times in the past, based on well-documented Iranian illicit procurement cases involving China. It is likely still doing so, and a major concern is that these formerly sanctioned Iranian entities, with great experience in illicit procurement, are aiming to violate US and other supplier countries' bans on the transfer and retransfer of goods to Iran.

### **Chinese Enforcement Remains Problematic**

China is unlikely to prevent Iran's illicit procurements. China has a history of poor implementation and enforcement of its export and sanctions laws, as well as UN Security Council resolutions on Iran. As a result, these formerly sanctioned Iranian entities may seek to continue exploiting China's weak controls, and given their experience, they are well positioned to do so.

Some of the goods these formerly sanctioned companies seek may be for military or missile programs, which remain under embargo by UNSCR 2231 until year five and year eight of the JCPOA, respectively. The embargos could end sooner if the International Atomic Energy Agency reaches a broader conclusion that Iran's nuclear material is used only for peaceful purposes.

These formerly sanctioned entities may also be attempting to acquire nuclear-dual use goods in China. For these nuclear-related goods, China is required to submit a proposal on behalf of suppliers for licit exports to Iran. The JCPOA and UNSCR 2231 put in place a Procurement Channel, which is administered by the UN Security Council Affairs division, to oversee Iran's nuclear direct-use and dual-use procurements in order to ensure it is abiding by its JCPOA commitments. However, it remains unclear if China can or is willing to enforce the requirements of UNSCR 2231 and the Procurement Channel, in particular requirements to submit proposals to the Procurement Working Group of the Joint Commission for approval and to ensure that banned goods are not delivered to Iran. Some of these goods, as discussed above, could be Western in origin.

Adding to concerns about whether China will implement the requirements of the Procurement Channel, Iran overall is said to be unenthusiastic to use the JCPOA Procurement Channel. It took Iran four months to list the Economics Ministry instead of the Foreign Ministry as the entity that will

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<sup>3</sup> Please see also the simultaneously released report which brings into question Iran's compliance with its procurement related commitments: Albright and Stricker, "Iranian Atomic Energy Organization Attempted Carbon Fiber Procurement," Institute for Science and International Security, July 6, 2016.

provide end use authorizations to Iranian companies for JCPOA controlled goods. So far, only one proposal has been sent to the PWG, for a company that wanted to temporarily exhibit machine tools in Tehran. It was denied because the company did not realize it needed to include an end use statement from the Iranian government. Thus, there is a growing concern that Iran will decide to exploit companies that do not know their obligations or that it will seek goods illegally, particularly via China, rather than submit to the rules and obligations of the Procurement Channel.

## **Recommendations**

Governments and suppliers should be vigilant over illicit Chinese sales to Iran of nuclear, missile, or military goods and act to prevent Iran from receiving illicitly acquired goods via interdictions. If Iran makes such procurements, whether in violation of the ongoing UN embargo on military and missile goods, or in violation of the nuclear direct-use and dual-use Procurement Channel stipulations, governments should report the attempts to the JCPOA Joint Commission, the UN Security Council Affairs division, and the International Atomic Energy Agency. The Joint Commission should also raise the issue of whether formerly sanctioned Iranian companies are seeking goods in violation of national trade controls and UNSCR 2231. These violations should also be made public in order to educate companies and governments as well as the general public about Iran nuclear deal compliance issues.

Because Iran may seek to make procurements outside of the Procurement Channel, the Joint Commission and the UN Security Council should issue warnings to governments and suppliers and increase outreach via the UN Secretariat to UN member states alerting them to the real possibility of Iran making efforts toward illicit missile and nuclear-related procurements. They should also reiterate the obligations of UN member states under Resolution 2231.

Because goods sought by Iran in China may originate in other supplier countries and be illegally retransferred to Iran, prosecutors in all supplier states should boost their enforcement efforts against Iranian illicit procurement activities. In particular, the Obama administration and the next US President should reinstitute a policy of rigorous, well supported enforcement against Iran's illicit procurement activities. This policy is necessary to ensure that Iranian entities and agents are not violating US export laws and more generally that Iran is in compliance with both the JCPOA and UNSCR 2231.