



Shenyang Machine Tools Company

By David Albright

April 13, 2017

A relatively large Chinese company, Shenyang Machine Tools Company, allegedly supplied sophisticated machine tools to North Korea in violation of supplier country trade control laws, according to government sources. The exports allegedly occurred in 2015. Although Shenyang company officials have stated that the exports were inadvertent, other evidence suggests that the company did know or should have known about the end destination of the controlled goods being North Korea. The Chinese government has refused to cooperate with foreign criminal investigations to determine the actual situation, backing the company's claim that the exports were inadvertent or uncontrolled re-exports. Complicating matters, supplier countries are hesitant to supply China with details about potential illegal re-exports because of China's history of lax enforcement and cover-ups of such cases. As a result, legal options to investigate the company's exports are limited. However, this company should be considered a candidate for U.S. sanctions. In addition, the United States should take other measures to ensure that U.S. and other suppliers' goods will not be re-exported to North Korea, particularly in light of increased restrictions on exports mandated by recent UN Security Council resolutions on North Korea.

Shenyang Machine Tools Company, headquartered in the city of Shenyang in northeast China, is a large company that sells a wide range of machine tools, some highly sophisticated. The machine tools use a range of subcomponents imported from major Western supplier nations. It sells its machine tools in China and globally, including in Europe and the United States. It also supplies the Shenyang Aircraft Company, which builds both military and civilian aircraft.

Government officials gathered evidence that at least two 6-axis machine tools, containing controlled, imported subcomponents, were exported to North Korea in about 2015 without authorization from the supplier country, a requirement of the original supply of the goods. The re-export was allegedly banned under the laws of United Nations member states where the critical subcomponents originated. The exporting country decided to investigate the responsible individuals in the Shenyang company but this effort failed.

The subcomponents at issue were from a shipment of control units and software licenses for 6-axis machine tools. The goods are on the lists of the Nuclear Suppliers Group (NSG), Missile

Technology Control Regime (MTCR), and other control lists. These goods were supplied to Shenyang Machine Tools under the condition that they would not be retransferred to North Korea or other sanctioned states.

Shenyang Machine Tools has strong ties to North Korea. For example, it hosted a North Korean delegation in October 2013. Evidence indicates that at the time of the re-exports it employed a person whose sales area is stated to be North Korea.

Shenyang Machine Tools Company officials have claimed that the exports at issue were inadvertent. However, the statement is contradicted by evidence obtained by the exporting country.

It is true that Shenyang, located approximately 250 kilometers from North Korea, has a large North Korean population. As has happened in China before, North Koreans based in China seek goods for North Korean WMD, missile, and military programs, posing as legitimate buyers pretending to use the goods within China but instead smuggling them to North Korea. However, this case is different. The evidence indicates that company officials knew the end user of the controlled machine tools was North Korea. As such, this case needs further investigation and consideration for U.S. sanctions.

Shenyang Machine Tools Company and its sales agents also need to ensure that they have effective, robust internal compliance programs (ICPs) that can provide assurance to international suppliers that the machine tools of Shenyang Machine Tools are not being diverted to North Korea. This assurance is particularly important today because of the tightened UN Security Council resolutions that ban exports to North Korea's military, missile, and WMD programs. Whether or not a machine tool export to North Korea were deliberate or inadvertent, suppliers of major or controlled subcomponents risk civil or administrative penalties by sending parts to Shenyang Machine Tools in China. In sum, suppliers should refrain from exporting goods to China slated for Shenyang Machine Tools, pending an investigation of this case and this company's demonstration of a robust ICP.

Western governments should more carefully scrutinize exports to Shenyang Machine Tools Company. The governments should contact this company's major suppliers as part of industrial outreach programs to discuss methods to ensure that their goods are not re-exported to countries such as North Korea.

As this case highlights, China has been hesitant to enforce its own trade control laws or UN Security Council resolutions on North Korea. This non-compliance is a product of poor awareness among Chinese industries, underdeveloped domestic trade control and sanctions legislation, and a lack of political will in the government to enforce laws that could be detrimental to economic growth. If this situation is to change for the better, the United States will need to exert pressure on China. Initiating a sanctioning action against Shenyang Machine Tools Company is an important way to send a signal to China that it needs to do more.