

# Giving Teeth to the Iran Sanctions:

## Targeting Re-Export Loopholes

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Brief Analysis

**T**estifying before the Senate Foreign Relations Committee this week, Undersecretary of State William Burns and Undersecretary of the Treasury Stuart Levey laid out the administration's game plan for leveraging the sanctions mandate created by UN Security Council Resolution 1929, adopted earlier this month. Central to this strategy is "vigorous" implementation, in part through a monitoring committee. The resolution, Burns noted, includes "new platforms" and "new tools," including a tough cargo inspection regime to detect and prevent Iranian smuggling efforts aimed at circumventing the sanctions. Now that these measures have been passed, he emphasized, we "need to make the maximum use of them." One key area that would benefit from greater attention and enforcement is closing the re-export loopholes through which Iran has successfully evaded sanctions in the past.

### Deceptive Trade Practices

Mirroring the Iranian banking sector's deceptive financial practices -- which the Treasury Department has studiously exposed over the past few years -- procurement agents, businesses, and transporters in Iran have developed a network of front companies and willing partners as a means of procuring controlled military and dual-use technologies. Some of these fronts are aware of the deception, while others are not.

Resolution 1929 highlighted such conduct by both Islamic Republic of Iran Shipping Lines (IRISL) and IranAir's cargo division. For example, since Treasury designated IRISL in 2008, the company has sought to evade sanctions by not only establishing new front companies, but also renaming and repainting its vessels.

The just-released annual report of the Czech Security Information Service (BIS) offers similar findings. In 2009, Iran used "mediating firms" in the Czech Republic to procure items that could facilitate the production of weapons of mass destruction. According to the report, Iran orchestrates "complex business channels in which companies from various countries fulfill only partial tasks without knowing the whole chain of suppliers and customers."

Iranian procurement agents have been active within the United States as well. For example, Iranian national Omid Khalili pled guilty this week in an Alabama district court for attempting to illegally procure American fighter jet or other military aircraft parts. According to documents associated with the case, he and his Iranian conspirator actively worked with Tehran to procure military items. The suspects reportedly told an undercover agent that because the aircraft parts were destined for Iran, they would need to be shipped through a third country.

Such cases -- where Iran obtains banned items by re-exporting them through an intermediary country -- have become commonplace. Dubai may be the most infamous re-export hub, but Tehran has also benefited from extensive networks in Malaysia, Hong Kong, Thailand, Singapore, and even Europe.

According to a June 21 Financial Times article, however, Dubai and the rest of the United Arab Emirates (UAE) have begun to tackle the problem, shuttering more than forty companies tied to illicit Iranian trade over the past two years. Some 400 Iranian-owned businesses in the emirates have closed as well, likely the result of both sanctions and Dubai's real estate crash. In addition, the UAE has reportedly canceled the work permits of Iranians found to be involved in such illicit trade. Some 8,000 Iranian businesses and 100,000-400,000 Iranian nationals are reportedly based in the emirates. Inevitably, contending with the front companies hiding in plain sight among these businesses is complicated, particularly when the illicit traders "are always doing new things, always trying to open new front companies."

### Beating Iran at the Re-Export Game

Curbing Iran's re-export shell game will require increased awareness of current enforcement loopholes, coupled with some practical enforcement mechanisms. The newly created Resolution 1929 monitoring committee should consider the following ideas:

End-use verification programs. States must insist that all shipments of high-risk dual-use goods and technology only be approved for export once the consignee's legitimacy can be verified. To be effective, the verification process must involve physical inspections in the recipient country, in addition to checking lists of known proliferators and other public information available via the internet. This would require deploying U.S. law enforcement personnel to work with host-country counterparts; together, they would conduct in-person visits to ensure that end-users do in fact have a legitimate need for the goods in question. An expanded version of the State Department's "Blue Lantern" program -- under which U.S. authorities conduct pre- and post-license and post-shipping checks on foreign transactions involving key dual-use items -- would be a good start.

Practically speaking, the fact that there are hundreds of dual-use goods means that comprehensive physical verification would be unfeasible due to resource constraints, not to mention the hindrance it would pose to global commerce. The solution is to focus inspections on the highest-risk goods that Iran seeks for its nuclear program. This list would be regularly updated, and all items therein would be subject to full inspection.

In addition, legislative amendments to U.S. export laws now under consideration could lessen the licensing burden on American manufactured goods bound for the European Union. Accordingly, the administration should take steps to strengthen EU export enforcement regimes. Such efforts should focus on conducting physical end-use verifications in third countries to help the United States and EU members ensure compliance with relevant laws and sanctions.

Pressure on transshipment hubs. The UAE, Malaysia, and Singapore are three of Iran's most important transshipment hubs. Accordingly, the international community must pressure these countries into exercising greater vigilance on all re-exported goods and technology. Specifically, they should be required to obtain approval from the originating country before permitting re-export shipments to Iran. Moreover, countries that export to these three hubs should consider implementing an inspection regime to ensure that goods are not mismarked or improperly declared. For example, measures should be taken against any shipment whose contents do not match its bill of lading.

Penalties. Businesses and individuals (e.g., freight forwarders and customs brokers) who knowingly violate export laws and sanctions must be prosecuted and face heavy penalties if convicted, including lengthy prison sentences. Currently, this is not the case outside the United States -- in most jurisdictions, illicit exporters remain undeterred because they have no reason to fear prosecution for such activity.

Private-sector outreach in Europe. The United States should press the EU to consider implementing a uniform, union-wide private-sector outreach program to ensure that member states engage manufacturers, freight forwarders, and customs brokers. The Department of Homeland Security's Immigration and Customs Enforcement agency (ICE) has such a program, called

"Shield America," which could offer training and assistance to the EU as it develops similar programs of its own.

Compilation of known proliferators. The U.S. practice of maintaining publicly available lists of known or suspected illicit traders should be a requirement for all UN member states. Such lists should be compiled and disseminated in a single, central location as a service to manufacturers of high-risk goods. Giving companies a single set of lists would be a marked improvement on the status quo.

Anti-tamper products. U.S. and EU manufacturers should be encouraged to produce more anti-tamper technology in goods and software to prevent unauthorized use if they are illegally diverted to Iran.

#### Conclusion

With the formation of a monitoring committee that will include a panel of experts, Resolution 1929 has created a mechanism for seriously enforcing sanctions. Beyond "naming and shaming," the expert panel will be most effective if it proactively recommends ways to close existing loopholes through which Iran evades sanctions. The key to making that happen is placing export-control and dual-use experts on the panel. Borrowing personnel from the Department of Homeland Security's ICE, the Justice Department's Export Control Initiative, the Commerce Department's Bureau of Industry and Security, and Treasury's Office of Foreign Assets Control could make all the difference.

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