

Training Materials

Financial Dimensions of Tsai Case Study

***James Martin Center for Nonproliferation Studies,
Middlebury Institute of International Studies at Monterey***

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Past Activities of Alex

- In 2008, Taiwan convicted Taiwanese father Alex Tsai and Trans Merits for
 - forging shipping invoices and
 - illegally shipping restricted materials to North Korea
- In 2009, US sanctioned Alex, his wife, his Taiwan-based companies Trans Merits and Global Interface Company for
 - supplying prohibited goods to previously sanctioned KOMID since the late 1990s and
 - engaged in shipping goods that could be used in North Korea's prohibited activities
- Despite designation, Alex continued illicit activities through his son Gary Tsai resided in US

Companies in the Case

- **Gary and Alex are associated with**
 - three Taiwan-based companies,
 - Global Interface Company, Inc. (designated by US in 2009)
 - Trans Merits Co., Ltd. (designated by US in 2009)
 - Trans Multi Mechanics Co., Ltd (Established by Alex after his conviction by Taiwan)
 - one US-based company
 - Factory Direct Machine Tools (Established by Gary for sanctions evasions-facilitate his father's activities)

Purchase of US Machinery

- In 2013, Alex's new company in Taiwan purchased a dual-use machine tool in US and shipped to Taiwan through Gary
- Gary falsely declared Taiwanese company Trans Multi-Mechanics as the ultimate end-user
- Machinery was believed to be ultimately shipped to North Korea, considering the past activities of Alex

Deceptive Techniques

- Son Gary Tsai facilitated machine transactions by
 - setting up a US-based company, Factory Direct Machine Tools
 - preparing a false bill of lading by falsely identifying the consignee of the shipment of the US origin machinery to Taiwan
 - using different banks for receiving money from Taiwan and transferring money to US companies

Indictment for the Case

- FBI conducted investigation
- Indictment revealed many past procurement activities believed to be shipped to North Korea
 - Bryant hole grinder
 - LED road lights
 - Oil pump

Red Flags for US (for Gary)

- Was the son of a designated couple
- Distributed business cards to the US companies (possibly to the US banks) bearing the names of designated companies (Trans Merits and Global Interface), instead of new Taiwanese company or his US company
- Used e-mail account of designated companies in his business correspondence (possibly gave this e-mail to the US banks as his contact details)
- Gave out the address of the designated Taiwanese company for use on invoices although representing his father's new company

Red Flags for Taiwan

- Alex set up a new company, Trans Multi Mechanics in his name in Taiwan after conviction by Taiwanese authorities
- Alex was designated one year after Taiwan's convictions for the similar acquisition to North Korea
- Alex transferred money from his new company's account to Gary's personal account in US

Missing Financial Controls

- Taiwanese banks should have
 - Subjected Alex to enhanced due diligence after his conviction in Taiwan
 - Been alerted after Alex set up a new company in Taiwan
 - Monitored account activities of his new company,
 - Alerted if his new company was not in the US business but transfers money to US
 - Raised red flags for his transferring money to US, considering North Korea's reliance on high-technology items obtained from US, Europe, and Japan
 - Informed their US correspondent accounts about Alex US dealings
 - Advised US banks about possible risks posed by Alex and his company

Missing Financial Controls

- US banks should have
 - Identified that Gary was the son of a designated couple
 - Subjected Gary to enhanced due diligence considering his parents' situation
 - Checked the documentation (business card, e-mail address) related to Gary's business from open sources

Difficulty in Detection by the US Banks

- The price of the machinery was not high (\$7,200, \$36,500, \$12,000, \$10,500), so money transfers Gary conducted were not high enough to be suspicious
- Gary was not designated
- Gary's company in the US, Factory Direct Machine Tool, was in the business of importation and exportation of machine tools, parts and other items to and from the US
 - So, Gary's purchase of machinery from the US and exportation to Taiwan did not raise the attention of either US banks or US companies

Legal Consequences of Their Actions

- United States indicted Taiwanese father Alex Tsai and son Gary Tsai for violating US laws against WMD proliferation
- Both indicted for conspiring
 - to defraud the US in its enforcement of laws and regulations prohibiting the WMD proliferation
 - to violate IEEPA by conspiring to evade the prohibitions and restrictions imposed on Alex and his companies, which were previously designated
 - to launder money

Takeaways from the Case

- Financial controls by banks still lag behind...They still don't detect suspicious patterns and prevent the flow of items before goods are shipped.
- North Korea uses Taiwanese middlemen, among others, to obtain required items for its prohibited programs
- Designated individuals can effectively use their immediate relatives, having the same surname, to pay for controlled items

Key Recommendation

- Authorities should monitor the designated persons activities
- Relatives and close associates of the designated persons must be subject to enhanced due diligence measures by banks
- US & Taiwanese banks should analyze Alex and Gary's past transactions
 - to better understand their deceptive techniques
 - to detect other facilitators
- This experience would allow them to detect other future schemes

Thank you...



James Martin Center for Nonproliferation Studies