

# Red Flags! Tips For Protecting Yourself and Your Business!

ASA/AFRA Annual Conference

Jared Knights and Lisa Matos

June 25<sup>th</sup>, 2024

# DISCLAIMER

- The material in this portion of the presentation is meant to give you tools to be used in order to make your own decisions.
- This material is not intended to classify activity as a violation or to tell you or your company what you must or must not do.
- This is intended to provide awareness, insight on possible best practices, tools, resources, and methods for you to evaluate possible risks and information related to your exports and customers.
- The material in this slideshow has been redacted where necessary to preserve privacy of people and companies whose identities were used in suspected attempts to commit fraud.
- We are using this to give examples for training purposes only.

# Steps to Compliance

- Check OFAC and BIS lists for party restrictions
- Identify whether the article is controlled through DDTC or BIS
- Determine if article has a specific ECCN or should be designated EAR99
- Review the Commerce Country Chart and determine if there are any license requirements
- Obtain licenses if necessary
- Identify other regulatory issues
- Document your analysis

Remember that as the exporter, you are ultimately responsible for obtaining any necessary licenses.

# Red Flags

- Red Flags are warning signs that may indicate a potential violation or that an export may be destined for an inappropriate end-use, end-user, or destination
- A crucial part of Compliance is identifying and clearing red flags in transactions
- Bad actors mimic real companies and real transactions
  - Not all red flags lead to violations
  - Clear red flags as you find them
  - If you can't clear a red flag – reassess the transaction
- Your compliance tolerance may be different than someone else's

# Common Red Flags

- **The customer or purchasing agent is reluctant to offer information about the end-use of a product.**
- **The customer requests unusual levels of confidentiality about the final destination or end-use of the product.**
- **The product's capabilities do not match or fit the buyer's line of business or technical ability;** for example, a small bakery places an order for several sophisticated components.
- **The customer has little or no business background, or in our case, aviation background.**
- **The customer is willing to pay cash for a very expensive item when the terms of the sale call for financing.**
- The customer is unfamiliar with the product's performance characteristics or abilities but still wants the product.
- Routine installation, training or maintenance services are declined by the customer.
- The dates of the delivery vague, or an approximation, or deliveries are planned for out-of-the-way destinations.
- **A freight forwarding firm is listed as the product's final destination.**
- The shipping route is abnormal for the product and destination ; similarly, **if the route uses trade corridors known to serve as possible transshipment points for exports to countries of concern.**
- Packaging is inconsistent with the stated method of shipment or destination.
- **When questioned, the buyer is evasive or unclear about whether the purchased product is for domestic use or export.**
- **The customer or its address is similar to one of the parties found on the BIS or OFAC lists or is located in an embargoed country**
- An Internet search of a customer reveals lines of business that may require an export license (e.g., WMD, cruise missiles) or are entirely different than the claimed end-use
- **An internet search of a customer yields little to no footprint**
- **Shipping instructions change at the last minute or frequently**
- Payment comes from a third country or a business not listed on the End-User Statement
- **The customer is conducting a transaction via the Internet and does not provide adequate information on the physical location(s) or the operation of the business.**
- You receive unsolicited requests from unknown individuals, especially those who seem to be affiliated with academia or research institutions, asking for information or assistance with items that could have military applications

# Settlement Agreement between the U.S. Department of the Treasury's Office of Foreign Assets Control and American Express National Bank

## **Background**

- Walter Alexander Del Nogal Marquez (“Marquez”), an American Express Card holder, was placed on the SDN List on May 7, 2018
- American Express internal sanctions screening system generated a “high confidence” alert
- An operations analyst responsible for conducting the alert review, erroneously closed the alert without reviewing
- On June 26, 2018 an internal audit identified and escalated Marquez, and the following day his account was suspended
- On June 28, 2018 the a customer service representative received a call enquiring about the status of the card, and released the hold

## Settlement Agreement between the U.S. Department of the Treasury's Office of Foreign Assets Control and American Express National Bank

- The following day, the error was caught, and the account was suspended, however an incorrect suspension code was applied and 7 additional transactions were allowed before the account was officially closed on July 6, 2018
- Between May 7, 2018 and July 6, 2018, 214 transactions totaling \$155,189.42 were allowed

# Settlement Agreement between the U.S. Department of the Treasury's Office of Foreign Assets Control and American Express National Bank

## **Settlement**

- The maximum statutory civil monetary penalty applicable in this matter is \$331,228,050.00.
- Due to American Express's cooperation with OFAC's investigation and undertaking of additional compliance measures and training, OFAC settlement amount was \$430,500.00

# Settlement Agreement between the U.S. Department of the Treasury's Office of Foreign Assets Control and American Express National Bank

## **Takeaways**

- This settlement highlights the importance of:
  - Enterprise-wide compliance programs and ensuring they are followed
  - Properly training employees on compliance
  - Preventing other department personnel from overriding compliance alerts or decisions

For the full Settlement please see

<https://ofac.treasury.gov/media/924406/download?inline>

# 15 CFR 736 - General Prohibitions

- Prohibitions against activities that are not allowed without authorization from the BIS
- Apply to all items subject to the EAR unless otherwise specified
- Items subject to the EAR
  - Items of U.S. Origin or physically located in the United States
    - EAR99 – Consumer Goods
    - ECCN – Dual-Use
    - ITAR/USML
  - Foreign manufactured goods are exempt from EAR export requirements if they contain less than a “de minimis” level of U.S. content by value

# 15 CFR 736 - General Prohibitions

## ***General Prohibition Eight—In transit shipments and items to be unladen from vessels or aircraft (Intransit) —***

(i) ***Unlading and shipping in transit.*** You may not export or reexport an item through, or transit through a country listed in paragraph (b)(8)(ii) of this section, unless a license exception or license authorizes such an export or reexport directly to or transit through such a country of transit, or unless such an export or reexport is eligible to such a country of transit without a license.

(ii) ***Country scope.*** This General Prohibition Eight applies to Armenia, Azerbaijan, Belarus, Cambodia, Cuba, Georgia, Kazakhstan, Kyrgyzstan, Laos, Mongolia, North Korea, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, Vietnam.

# 15 CFR 736 - General Prohibition Eight

- Restricts export or reexport of items through countries specified in General Prohibition Eight without a license or license exception or NLR
  - License may be required for sale to broker/MRO
  - License may not be required to End-User
    - Specialized End-Use statements that cover 744.7 requirements are advisable
- Country Scope
  - Armenia, Azerbaijan, Belarus, Cambodia, Cuba, Georgia, Kazakhstan, Kyrgyzstan, Laos, Mongolia, North Korea, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, Vietnam

# General Prohibition Ten

## 15 C.F.R. § 736.2(b)(10)

***General Prohibition Ten—Proceeding with transactions with knowledge that a violation has occurred or is about to occur (Knowledge Violation to Occur).*** You may not sell, transfer, export, reexport, finance, order, buy, remove, conceal, store, use, loan, dispose of, transport, forward, or otherwise service, in whole or in part, any item subject to the EAR and exported, reexported, or transferred (in-country) or to be exported, reexported, or transferred (in-country) with knowledge that a violation of the Export Administration Regulations, the Export Control Reform Act of 2018, or any order, license, license exception, or other authorization issued thereunder has occurred, is about to occur, or is intended to occur in connection with the item. Nor may you rely upon any license or license exception after notice to you of the suspension or revocation of that license or exception. There are no license exceptions to this General Prohibition Ten in part 740 of the EAR.

# 15 CFR 736 - General Prohibition Ten

- Proceeding with transactions with knowledge that a violation has occurred, is about to occur, or is intended to occur
  - If you suspect a violation will occur in the future regarding a specific transaction, proceeding may violate General Prohibition Ten
  - If you know a violation has occurred in the past, proceeding further with the transaction may violate General Prohibition Ten
  - There are no license exceptions applicable
  - Encourages asking deeper questions
    - Who is involved in the transaction – customer, freight forwarder, end user, tail number, ship to location
    - Are there red flags
      - Can the red flags be cleared or are they indicators of a potential violation

# General Prohibition Ten Example

- Company X wants to purchase an IRU from Company A for \$450,000 (higher than average for this unit)
  - Company X is a new customer and incorporated after Feb 2022
  - Company X is purchasing for stock
  - Company X prepaid quickly in full
  - Company X wants the article shipped to a freight forwarder
- Red Flags 
  - Per the BIS Red Flag Indicators <https://www.bis.gov/articles/red-flag-indicators>, <https://www.bis.gov/identify-red-flags>
    - The customer or purchasing agent is reluctant to offer information about the end-use of the item.
    - A freight forwarding firm is listed as the product's final destination.
    - The customer is willing to pay cash for a very expensive item when the terms of sale would normally call for financing.
    - The customer is significantly overpaying for a commodity based on known market prices.
    - A new customer whose line of business is in trade of products associated with the nine HS codes, is based in a non-GECC country, and was incorporated after February 24, 2022. \*\*\* the nine HS codes have grown since this red flag was released, and you should also consider the Commodities of Concern list\*\*\*
- General Prohibition Ten applies to this transaction

## Commodities of Concern

Based upon historical information and current developments, BIS has identified the following commodities as presenting special concern because of their potential diversion to and end use by Russia and Belarus to further their military and defense capabilities:

Item	Export Control Classification Number <sup>12</sup>	Item	Export Control Classification Number
Aircraft Parts/Equipment	9A991	Sonar Systems	6A991
Antennas	7A994	Spectrophotometers	3A999
Breathing Systems	8A992	Test Equipment	3B992
Cameras	6A993	Thrusters	8A992
GPS System	7A994	Underwater Communications	5A991
Inertial Measurement Units	7A994	Vacuum Pumps	2B999
Integrated Circuits	3A001, 3A991, 5A991	Wafer Fabrication Equipment	3B001, 3B991
Oil Field Equipment	EAR99	Wafer Substrates	3C00x

# License Exceptions – Civil Aircraft Parts Only

- Licenses take time, which is inconsistent with AOG's
- License exceptions may be applicable to certain transactions, allowing you to sidestep the license
- Two most applicable to civil aviation industry are AVS and RPL
  - Important to note TMP may be useful in repair scenarios
- Missile Technology (MT) controlled parts restrict exception-use
  - Except that parts under ECCNs 6A008, 7A001, 7A002, 7A004, 7A101, 7A102, 7A103, 7A104, 7A105, or 9A515, may be exported as part of a manned aircraft, or a replacement part for such an aircraft, under license exceptions RPL, AVS, and TMP
    - Civil aircraft ADIRUs may be under 7A103
- No license exceptions to sanctioned nations: Cuba, Iran, North Korea, Syria, Crimea/Donetsk/Luhansk, or Russia (if the limited sanctions apply) *unless* a license exception is specifically listed in the country provisions in 15 CFR part 746
- Remember all license exceptions have limitations. Know the limitations prior to using the exception!

# Department of Commerce Licenses

## Reminder!

- BIS licenses are issued to specific addresses and Companies.
- If the company and address are not referenced on the licenses, you need another license or license exception to ship the article to the next destination.
- Many licenses are being issued with Conditions and Riders. Make sure you and your customer are aware and will abide by them.

**APPLICANT: S720030**  
STRATTON AVIATION  
1 TIGAN ST. SUITE 103  
WINOOSKI, VT 05404  
United States

**ULTIMATE CONSIGNEE:**

Company X  
Address 123  
City, Country

**PURCHASER:**

Company X  
Address 123  
City, Country

**INTERMEDIATE CONSIGNEE:**

Company Y  
Address 123  
City, Country

# License Exception – 15 CFR 740.10

## Replacement of Parts (RPL)

- (a)(2) One-for-one replacement of parts, components, accessories, or attachments
  - (i) The terms *replacement parts, components, accessories, or attachments* as used in this section mean parts, components, accessories, or attachments needed for the immediate repair of equipment or other end items, including replacement of defective or worn parts or components. Items that improve or change the basic design characteristics, e.g., as to accuracy, capability, performance or productivity, of the equipment or other end item upon which they are installed, are not deemed to be replacement parts, components, accessories, or attachments.
- SAME Part number – no improvements or upgrades
  - Watch those SB's!

# License Exception – 15 CFR 740.10

## Replacement of Parts (RPL)

- (a)(2) One-for-one replacement of parts, components, accessories, or attachments
  - (ii) Parts, components, accessories, and attachments may be exported only to replace, on a one-for-one basis, parts, components, accessories, or attachments, respectively, contained in commodities that were: **Lawfully exported from the United States; lawfully reexported**; or made in a foreign country incorporating authorized parts, components, accessories, or attachments “subject to the EAR”
- Aircraft/part must have been legally exported in the first place – you must confirm the appropriate authority for the original transaction if you were not the exporter
  - Check original license to make sure there were no restrictions on replacement part exports.

# License Exception – 15 CFR 740.10

## Replacement of Parts (RPL)

- (b)(1) Servicing and replacement
  - If an item is returned to the US for inspection, testing, calibration or repair (including overhaul and reconditioning)
    - No improvements or changes to basic characteristics
    - Only applies to group D:1 nations if you were the original licensed exporter and end-use has not changed
    - Does not apply to group E:1 nations
    - See country group listings at: <https://www.bis.gov/ear/title-15/subtitle-b/chapter-vii/subchapter-c/part-740/supplement-no-1-part-740-country-groups>
    - RPL: <https://www.ecfr.gov/current/title-15/subtitle-B/chapter-VII/subchapter-C/part-740/section-740.10>

# License Exception – 15 CFR 740.15

## Aircraft, vessels, and spacecraft (AVS)

- (b)(2) Aircraft
  - (i) Equipment and spare parts, for permanent use on an aircraft, when necessary for the proper operation of such aircraft, may be exported or reexported for use on board an aircraft of any registry, except an aircraft registered in, owned or controlled by, or under charter or lease to a country included in Country Group D:1, Cuba, or a national of any of these countries.
- The specific aircraft must be identified so you can verify its eligibility
- Forbidden countries are Cuba and those in group D:1
- **Yes you need to know who owns the aircraft!**

# License Exception – 15 CFR 740.15 Aircraft, vessels, and spacecraft (AVS)

- (b)(2) Aircraft
  - This [paragraph \(b\)\(2\)\(ii\)](#) authorizes exports, reexports, and transfers (in-country) to any country that is identified in Country Group A:2 and supplement no. 3 to part 746 of ECCNs 7A101 through 7A103 when the commodities are for use in or for the “production” of civil manned aircraft.
- Allows for shipments of 7A103 (some civil aircraft IRUs) for stock to companies in countries that are both Country Group A:2 and supplement no. 3 to part 746
  - Country Groups: <https://www.bis.gov/ear/title-15/subtitle-b/chapter-vii/subchapter-c/part-740/supplement-no-1-part-740-country-groups>
  - Supplement 3 to part 746: <https://www.ecfr.gov/current/title-15/subtitle-B/chapter-VII/subchapter-C/part-746/appendix-Supplement%20No.%203%20to%20Part%20746>
- Do not skip your due diligence!

# License Exception – 15 CFR 740.15 Aircraft, vessels, and spacecraft (AVS)

- Company X wants to purchase IRU HG2030BE04

- Part Details:

- HG2030BE04
- ECCN 7A103.a
- 7A103 is MT and AT controlled

**7A103** Instrumentation, navigation equipment and systems, other than those controlled by 7A003, and “specially designed” “parts” and “components” therefor, as follows (see List of Items Controlled). License Requirements Reason for Control: MT, AT

Control(s)	Country Chart (See Supp. No. 1 to part 738)
MT applies to entire entry	MT Column 1
AT applies to entire entry	AT Column 1

List Based License Exceptions (See Part 740 for a description of all license exceptions) LVS: N/A GBS: N/A List of Items Controlled Related Controls: (1) See ECCN 7A003 and 7A994. (2) Inertial navigation systems and inertial equipment, and “specially designed” “parts” and “components” therefor specifically designed, modified or configured for military use are “subject to the ITAR” (see 22 CFR parts 120 through 130). Related Definitions: “Inertial measurement equipment or systems” specified in 7A103.a. incorporate accelerometers or gyros to measure changes in velocity and orientation in order to determine or maintain heading or position without requiring an external reference once aligned. Items: a. “Inertial measurement equipment or systems” using accelerometers or gyros controlled by 7A001, 7A002, 7A101 or 7A102, and “specially designed” “parts” and “components” therefor; Note 1:

**7A103.a** does not control equipment containing accelerometers “specially designed” and developed as MWD (Measurement While Drilling) sensors for use in down-hole well services operations.

Note 2:

**7A103.a** does not control inertial or other equipment using accelerometers or gyros controlled by 7A001 or 7A002 that are only NS controlled.

Note 3:

**7A103.a** includes Attitude and Heading Reference Systems (AHRs), gyrocompasses, Inertial Measurement Units (IMUs), Inertial Navigation Systems (INSs), Inertial Reference Systems (IRSs), and Inertial Reference Units (IRUs).

[Reason for control]

Countries	Chemical and biological weapons			Nuclear nonproliferation		National security		Missile tech	Regional stability		Firearms convention	Crime control			Anti-terrorism	
	CB 1	CB 2	CB 3	NP 1	NP 2	NS 1	NS 2	MT 1	RS 1	RS 2	FC 1	CC 1	CC 2	CC 3	AT 1	AT 2
Mongolia	X	X	X	X		X	X	X	X	X		X	X			
United Arab Emirates	X	X	X	X		X	X	X	X	X		X	X	X		

# License Exception – 15 CFR 740.15 Aircraft, vessels, and spacecraft (AVS)

- Company X wants to purchase IRU HG2030BE04
  - Company and Aircraft Details:
    - Aircraft Tail Number: XX-XXX
    - Company X is a United Arab Emirates Airline
    - Aircraft is leased by Company X
    - Aircraft is registered in United Arab Emirates
    - Aircraft is located in United Arab Emirates
    - Aircraft is owned by Company Y in Mongolia

# License Exception – 15 CFR 740.15 Aircraft, vessels, and spacecraft (AVS)

- Company X wants to purchase IRU HG2030BE04
  - Company X is not on any BIS or OFAC lists
  - Company X is a United Arab Emirates Company. United Arab Emirates is not a D:1 Country.
- Aircraft XX-XXX is not a sanctioned aircraft per OFAC
- Aircraft XX-XXX is not located in a D:1 Country
- Aircraft XX-XXX is not registered in a D:1 Country
- Aircraft XX-XXX is owned by Company Y. Company Y based in Mongolia. Mongolia is a D:1 Country
- Company Y is not on any BIS or OFAC lists
- Company Y based in Mongolia. Mongolia is a D:1 Country

Country Group D

Country	[D:1] National Security
Mongolia	X
United Arab Emirates	

# License Exception – 15 CFR 740.15 Aircraft, vessels, and spacecraft (AVS)

Can you use the AVS exception to fill Company X's AOG requirement?

- Unfortunately, no
  - Since Aircraft XX-XXX is OWNED by a company in a D:1 Country, you cannot use the AVS exception

# Sapphire Havacilik San Ltd.

- BIS imposed a civil penalty of \$285,000 against Sapphire, an aviation company headquartered in Ankara, Türkiye, to resolve violations of the Export Control Reform Act of 2018 (ECRA) alleged in BIS's Proposed Charging Letter.
- In October 2023 and in January 2024, Sapphire flew private charter flights involving a U.S.-origin Gulfstream aircraft into Russia.
- Russian national passengers provided payment to Sapphire through third-party non-Russian charter brokers, such flights into Russia—which were arranged for the benefit of the Russian national or nationals on board—were nevertheless controlled by or under charter or lease by a Russian national.

# Sapphire Havacilik San Ltd.

- Any U.S.-origin aircraft or foreign aircraft that includes more than 25% controlled U.S.-origin content, and that is registered in, owned by, controlled by, or under charter or lease by Russia or a national of Russia, is subject to a license requirement before it can be exported or reexported to Russia.

# Eight New Addresses

- BIS is adding eight addresses in Hong Kong to the Entity List and, going forward, any company that uses the addresses identified in this new rule as a Purchaser, Intermediate Consignee, Ultimate Consignee, or End-User will be faced with restrictions on their ability to engage in transactions subject to the Export Administration Regulations (EAR).
  - Address 01: Unit D, 16/F One Capital Place, 18 Luard Rd, Wan Chai, Hong Kong.
  - Address 02: Unit 04, 7/F Bright Way Tower, No. 33 Mong Kok Road, Kowloon, Hong Kong.
  - Address 03: Room 19C Lockhart Centre 301-307, Lockhart Rd. Wan Chai, Hong Kong.
  - Address 04: Room 803, Chevalier House 45-51, Chatham Road South, Tsim Sha Tsui, Hong Kong.
  - Address 05: Flat/RM 2309, 23/F, Ho King Commercial Centre, 2-16 Fa Yuen Street, Mong Kok, Kowloon, Hong Kong.
  - Address 06: Office 4, 16/F Ho King Commercial Centre, 2-16 Fayuen Street, Hong Kong.
  - Address 07: Room 1318-19, 13F, Hollywood Plaza, 610 Nathan Road, Mong Kok, Kowloon, Hong Kong.
  - Address 08: Room 1318-20, 13F, Hollywood Plaza, 610 Nathan Road, Mong Kok Kowloon, Hong Kong.

# License Exception – 15 CFR 740.9

## Temporary imports, exports, reexports, and transfers (in-country) (TMP)

### ***(a) Temporary exports, reexports, and transfers (in-country).***

- License Exception TMP authorizes exports, reexports, and transfers (in-country) of items for temporary use abroad (including use in or above international waters) subject to the conditions specified in this paragraph (a). **No item may be exported, reexported, or transferred (in-country) under this paragraph (a) if an order to acquire the item, such as a purchase order, has been received before shipment; with prior knowledge that the item will stay abroad beyond the terms of this License Exception; or when the item is for subsequent lease or rental abroad.**
  - ***(a)(6) Inspection, test, calibration, and repair.***
    - Commodities to be inspected, tested, calibrated, or repaired abroad may be exported, reexported, and transferred (in-country) under this paragraph (a)(6) to all destinations except Country Group E:1.

TMP Does not have the same restrictions as RPL! You can have a IRU modified to a different part number under the TMP. You cannot under RPL.

# Update to BIS Commerce Country Chart

- BIS updated the Commerce Country Chart in 2024 to remove United Kingdom and Australia from the Missile Tech (MT 1) Column
  - A license or license exception is no longer required to ship 7A103 to either country
    - BIS Commerce Country Chart - <https://www.bis.gov/ear/title-15/subtitle-b/chapter-vii/subchapter-c/part-738/supplement-no-1-part-738-commerce-country>
- Do not skip your due diligence!

# Willfull Blindness and Culpability

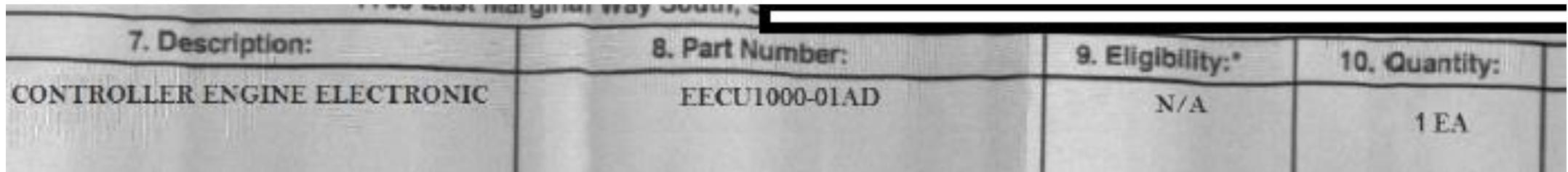
Jason Dickstein – General Counsel

# Aviation Spare Parts AV – April 2024

- What is known:
- Illegal use of ASA accredited logo
- Attempted to collect \$299k from distributor in EU
- Altered documents from a 2020 AvAir transaction
- Altered EASA F1 and FAA 8130 were used
- All companies involved were contacted and confirmed all documents and information were fraudulent

# Aviation Spare Parts AV – April 2024

- What was seen – Red Flags!
- Address was not real – Google search could not locate address in UK
- Misspelling of city, and invalid postal code
- Terrible document quality – obvious edits



7. Description:	8. Part Number:	9. Eligibility:*	10. Quantity:
CONTROLLER ENGINE ELECTRONIC	FECU1000-01AD	N/A	1 EA



6877 W. FRYE ROAD  
CHANDLER, AZ 85226  
USA



# Packing Slip

Invoice #: 134195

Invoice Date: 2/11/2020

Time: 10:42:26 AM

Page: 1 of 1

AVAIR.AERO

PHONE: 480.763.8200

FAX: 480.763.8212

## Ship To:

Cust. PO#: P20582

Terms: NET 30

Ship Via: PICK UP

Ship Via Acc:

Order Date: 1/7/2020

# of Items: 1

# of Boxes:

Weight:

Prepared By: Ismael Salazar

Sales Order: 128468

Ship Log #: 0

Ship Order: 42719

Customer #: OCA11

VAT #:

Cust VAT #:

Ship Date: 0

Buyer:

IncoTerms: ExW

AWB:

Shipment:

Item	Part Number/Description	Shipped	BackOrd	CD		Unit Price	UOM	Total Amt
1	380428-10-1 GTCP85-129H APU Serial #: P100633 Loc/Whse: REC-2 BLDG1	1.00	0.00	AR			EA	

6877 W. FRYE ROAD  
CHANDLER, AZ 85226  
USA



# Packing Slip

Invoice #: 134195

Invoice Date: 11/11/2022

Time: 10:42:26 AM

Page: 1 of 1

AVAIR.AERO

To:

Aviation Spare parts AV,  
Unit 14 Westlink Romsey  
Hampshire SO81 4EE  
England

Ship To:

Aviation Spare parts AV,  
Unit 14 Westlink Romsey  
Hampshire SO81 4EE  
England

Cust. PO#: P20582

Order Date: 1/01/2022

Prepared By: Ismael Salazar

Customer #: OCA13

Buyer: Aviation Spare parts AV, Inc

Terms:

# of Items: 1

Sales Order: 128468

VAT #:

Incoterms: ExW

Ship Via: DHL

# of Boxes:

Ship Log #: 0

Cust VAT #:

AWB: 4271999846

Ship Via Acc:

Weight:

Ship Order: 42719

Ship Date: 11/11/2022

Shipment:

Item	Part Number/Description	Shipped	BackOrd	CD	Unit Price	UOM	Total Amt
1	EECU1000-01AD / EECU	DHL	N/A	NEW	\$299,000		\$299,000

1. Approving Competent Authority/Country <b>EASA</b>		2. <b>AUTHORISED RELEASE CERTIFICATE</b> EASA FORM 1			3. Form Tracking Number Redacted Page 1 of	
4. Organisation Name and Address: Redacted				5. Work Order/Contract/Invoice RO-8309		
6. Item	7. Description	8. Part No.	9. Qty.	10. Serial No.	11. Status/Work Order	
01	BR710 SEE GX	EECU1000-01AD	1 EA	E0064288	NEW	
12. Remarks REF: CMM 73-25-16 ISSUE 1 JUN 14/13 AND APPROVED DESIGN DATA. SOFTWARE STD: X2.0. TSN/CSN: NOT KNOWN. NMSB: EECU1000-73-102 INITIAL ISSUE SEP 26/08 SATISFIED.						
13a. Certifies that the items identified above were manufactured in conformity to:  <input checked="" type="checkbox"/> approved design data and are in a condition for safe operation <input type="checkbox"/> non-approved design data specified in block 1				14a. <input type="checkbox"/> Part-145.A.50 Release to Service <input type="checkbox"/> Other regulation specified in block 12  Certifies that unless otherwise specified in block 12, the work identified in block 11 and described in block 12, was accomplished in accordance with Part 145 and in respect to that work the items are considered ready for release to service.		
13b. Authorised Signature Redacted		13c. Approval / Authorisation Number Redacted	14b. Authorised Signature		14c. Certificate / Approval Ref. No.	
13d. Name Redacted		13e. Date (dd mmm yyyy) 22 JAN 2024	14d. Name NEW		14e. Date (dd mmm yyyy)	
<b>USER / INSTALLER RESPONSIBILITIES</b>						
This certificate does not automatically constitute authority to install the item(s).						
Where the user/installer performs work in accordance with regulations of an airworthiness authority different than the airworthiness authority specified in block 1, it is essential that the user/installer ensures that his/her airworthiness authority accepts items from the airworthiness authority specified in block 1.						
Statements in blocks 13a and 14a do not constitute installation certification. In all cases aircraft maintenance records must contain an installation certification issued in accordance with the national regulations by the user/installer before the aircraft may be flown.						

# Lessons Learned in 2022

## Aman Khan – California Aircraft and Avionics Corp

- Convicted of Fraud Involving Aircraft Parts in Interstate and Foreign Commerce - 18 U.S.C. § 38(a)(1)(C)\*
- Court Docs show parts sold to NATO, NASA, Private Traders and Airlines
- “Khan manufactured various parts – including wheel assemblies”
- “submitted documents that falsely certified the provenance of the equipment and conformity to approved design data”

# Lessons Learned in 2022

## Aman Khan – California Aircraft and Avionics Corp

- Penalties:
  - Ordered to pay \$1.5Mil in restitution –
  - Original complaint “approximately \$3.5 million in incoming checks and wires...”
  - 26-Sep-2022 Sentenced to 46 months in Federal Prison

Red Flag!  
 Tag provided to  
 Customer by  
 Aman Khan  
 2003 tag on  
 02-2014 rev

1. Approving Civil Aviation Authority/Country: FAA/United States		<b>AUTHORIZED RELEASE CERTIFICATE</b> FAA Form 8130-3, AIRWORTHINESS APPROVAL TAG			3. Form Tracking Number: 8439258793	
4. Organization Name and Address: Redacted					5. Work Order/Contract/Invoice Number: J-386921/122	
		8. Part Number:	9. Quantity:	10. Serial Number:	11. Status/Work:	
1	NOZZLE TURBINE	804351CL22	742	N/A	NEW/TESTED	
12. Remarks: Manufacturing Date: 08/08 Acceptance test date: 07/05 TSN 00.00 / TSO- Shelf Life: NA Modification: NA UTC CORPORATION - PRATT WHITNEY - SPARE PARTS DIVISION						
13a. Certifies the items identified above were manufactured in conformity to:  <input checked="" type="checkbox"/> Approved design data and are in a condition for safe operation. <input type="checkbox"/> Non-approved design data specified in Block 12.				14a. <input checked="" type="checkbox"/> 14 CFR 43.9 Return to Service <input type="checkbox"/> Other regulation specified in Block 12 Certifies that unless otherwise specified in Block 12, the work identified in Block 11 and described in Block 12 was accomplished in accordance with Title 14, Code of Federal Regulations, part 43 and in respect to that work, the items are approved for return to service.		
13b. Authorized Signature: Redacted		13c. Approval/Authorization No.: Redacted		14b. Authorized Signature:		14c. Approval/Certificate No.:
13d. Name (Typed or Printed): Redacted		13e. Date (dd/mm/yyyy): 23-OCT-2003		14d. Name (Typed or Printed):		14e. Date (dd/mm/yyyy):
<b>User/Installer Responsibilities</b>						
<p>It is important to understand that the existence of this document alone does not automatically constitute authority to install the aircraft engine/propeller/article.</p> <p>Where the user/installer performs work in accordance with the national regulations of an airworthiness authority different than the airworthiness authority of the country specified in Block 1, it is essential that the user/installer ensures that his/her airworthiness authority accepts aircraft engine(s)/propeller(s)/article(s) from the airworthiness authority of the country specified in Block 1.</p> <p>Statements in Blocks 13a and 14a do not constitute installation certification. In all cases, aircraft maintenance records must contain an installation certification issued in accordance with the national regulations by the user/installer before the aircraft may be flown.</p>						

FAA Form 8130-3 (02-14)

NSN: 0052-00-012-9005

# Riverside Man Ordered to Spend 46 Months in Federal Prison in His Second Federal Case Stemming from Sale of Bogus Aircraft Parts



Monday, September 26, 2022

Share



**For Immediate Release**

U.S. Attorney's Office, Central District of California

*LOS ANGELES* – A Riverside man who previously served a lengthy prison sentence in two aircraft-related cases was sentenced today to nearly four years in federal prison for selling bogus aircraft parts and for falsifying related documents.

Aman Khan, who is also known as Amanullah Khan, 73, of Riverside, was ordered to serve 46 months in prison by United States District Judge R. Gary Klausner. In addition to the prison term, Judge Klausner ordered Khan to pay \$1,538,054 in restitution and further ordered the forfeiture of all aircraft components seized from Khan's former business.

Khan pleaded guilty on June 6 to two counts of fraud involving aircraft parts in interstate and foreign commerce, admitting that he sold fraudulent, counterfeit and unapproved aircraft parts from his Riverside-based company, California Aircraft and Avionics Corporation.

TOP

# Lessons Learned in 2022

## Kyle Wine - JetPro, Nexus, Turbotech Partners

- Convicted of wire fraud 18 U.S.C. § 1343, and two counts of money laundering 18 U.S.C. § 1957
  - Initial complaint shows multiple types of fraudulent transactions.
  - Purchased an aircraft with investors money and sold parts, while hiding sales from the investor.
  - Used funds for more purchases of aircraft parts.
  - Defrauded multiple victims with undelivered aircraft parts.

# Lessons Learned in 2022

## Kyle Wine - JetPro, Nexus, Turbotech Partners

- Penalties:
  - Ordered to pay \$7.15Mil in restitution
  - While on bond awaiting sentencing - Attempted to purchase a Cadillac using fraudulent bank statements
  - Bond was revoked prior to sentencing
  - 11 Years in federal prison

# Lessons Learned in 2022

## Kyle Wine - JetPro, Nexus, Turbotech Partners

- Red Flags!
  - Existing Vendor started asking for pre-payment where they had previously provided parts on credit
  - Record of aircraft sale found by investor

# Operator of Aircraft Supply Businesses Sentenced to 11 Years in Federal Prison for \$7 Million Fraud Scheme

Wednesday, February 8, 2023

Share



**For Immediate Release**

U.S. Attorney's Office, District of Connecticut

Vanessa Roberts Avery, United States Attorney for the District of Connecticut, announced that KYLE J. WINE, 42, of Lee's Summit, Missouri, was sentenced today by U.S. District Judge Omar A. Williams in Hartford to 132 months of imprisonment, followed by three years of supervised release, for fraud and money laundering offenses stemming from a \$7 million scheme related to his commercial aircraft supply businesses.

According to court documents and statements made in court, Wine owned and operated various companies engaged in the business of commercial aircraft supply, including JetPro International, LLC ("JetPro"), Nexus Aviation, and Turbotech Partners. From at least 2018 through 2021, Wine defrauded investors in aircraft-related transactions. Wine used victims' money to purchase aircraft airframes and engines, sold the aircraft airframes and engines, hid the resulting profits from his investors, and diverted invested funds for his personal use.

# Lessons Learned 2023

## Oleg Patsulya and Vasili Besedin – MIC P&I LLC

**Oleg Patsulya** - Convicted of 50 U.S.C. § 4819(multiple) and 18 U.S.C. § 1956 – Conspiracy to export without license and International Money Launderign. (2 counts)

**Vasili Besedin** - Convicted of 50 U.S.C. § 4819(multiple) (1 count)

**Each count carries a potential sentence of 20 years**

**Intermodal Maldives** – Frieght forwarder also received a TDO as a result.

# Lessons Learned 2023

## Oleg Patsulya and Vasili Besedin – MIC P&I LLC

### **How did they do it?**

- Established shell companies in Turkey and Florida
- Purchased parts as a domestic business
- Gave false end users – including to federal agents
- Attempted shipping through Turkey and Maldives via third party
  - This example is a group of textbook red flags!

# What were they buying?

- Everything!! Bill of goods confiscated had a total of 73 line items
- Batteries, Brakes, Power Units, Consumables, Hardware, Seals, Smoke Hoods, Squibs, pitot tubes and Generators.
- Multiple aircraft types – Boeing, Airbus, and Embraer plus universal TSO material
- This is another reason to review ALL orders.

# Lessons Learned 2023

## Oleg Patsulya and Vasili Besedin – MIC P&I LLC

- Red Flags!
- MIC was not a known Aviation company – they also owned a pool coating service.
- No End Users involved
- Freight forwarders in countries with no sanctions in place

# Russian Nationals Admit to Illegally Sending Controlled Aviation Technology to Russia



Thursday, April 4, 2024



**For Immediate Release**

Office of Public Affairs

## Defendants Orchestrated More Than \$4.5 Million in Unlawful Transactions, Sold Sensitive Aircraft Parts to Russian Companies

Two Russian nationals pleaded guilty this week to conspiracy to violate the Export Control Reform Act (ECRA) in connection with a scheme to acquire and unlawfully export controlled aviation technology to Russian end users. One of the defendants, Oleg Sergeyevich Patsulya, also pleaded guilty to conspiracy to commit international money laundering.

# WHAT DO THEY ALL HAVE IN COMMON?

- **Aman Khan – Multiple Prior Convictions**
- 1996 – Sentenced to 4.5 Years in Prison for “selling bogus aircraft parts” - LA Times
- 2005 – Sentenced to 16 Years in prison for selling “subpar flight critical aircraft parts” – DOJ
  
- **Kyle Wine – 2010 Mortgage Fraud**
- 2010 – Convicted of Conspiracy to Commit Interstate Transportation of Money Obtained by Fraud and Money Laundering
- 3 years probation and ordered to pay \$566k restitution

# WHAT DO THEY ALL HAVE IN COMMON?

- **Oleg Patsulya** (not as public)
- Publicly accused in Russian Media of multiple types of fraud.
- “In 2012, Patsulya was detained at the Kursk railway station in Moscow on suspicion of fraud in the supply of turbine blades.” - *rucriminal.info*
- Accused of accepting payment for Covid Masks and not delivering during pandemic - *rucriminal.info*

# Changing Landscape and Moving Targets

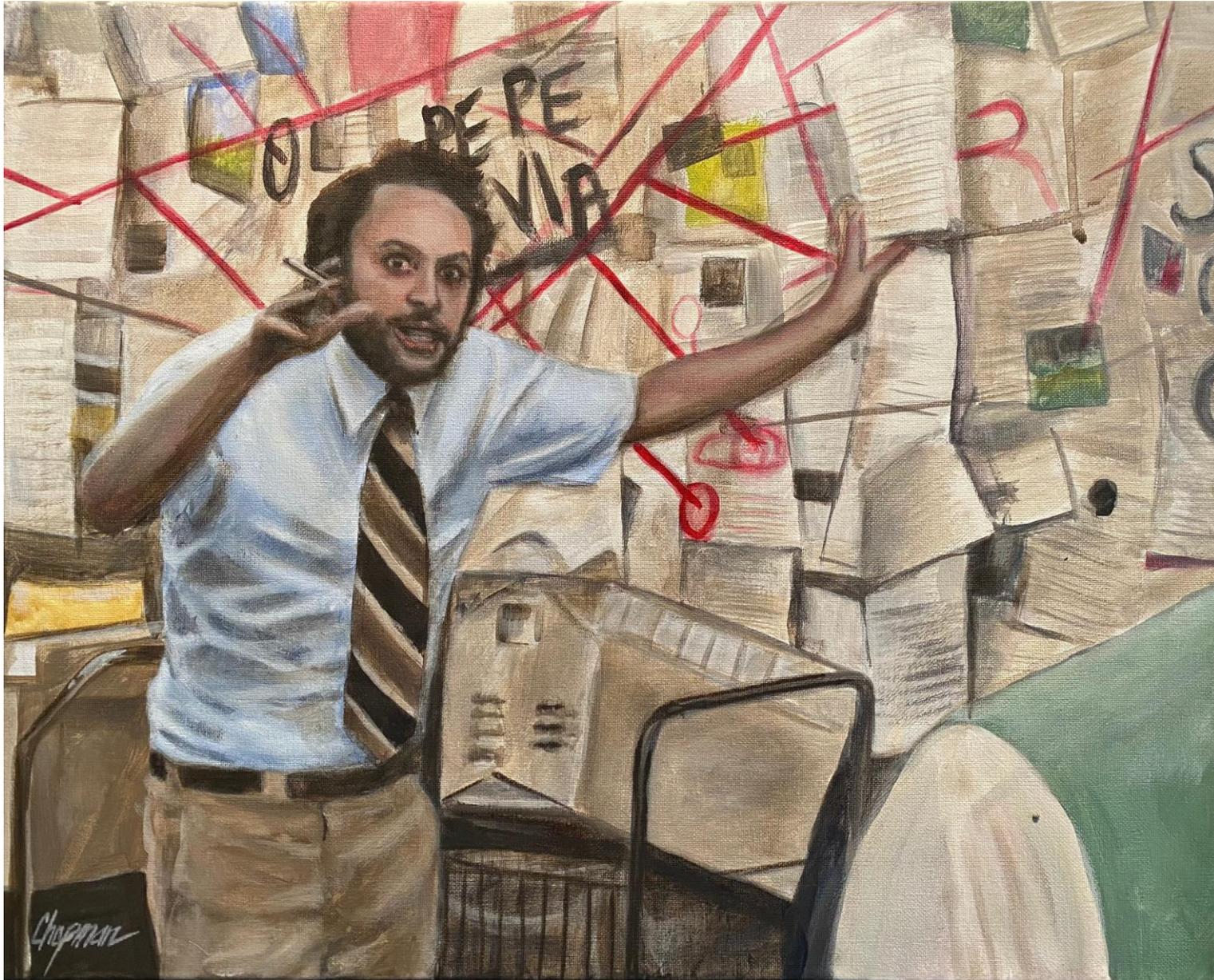
- Training and arrests guide criminals to learn new tactics
- We see different strategies now than we did a year ago, and the year before that
- End user verification becoming harder to obtain – but still the same requirement
- Long-time distributors Sanctioned recently – Wright Aero Components

# Changing Landscape and Moving Targets

std at GML 3 Dec 2021

Incident Feb 2022 at GML after being damaged by Russian armed forces during invasion of Ukraine

- Aircraft listed as damage
- Fake Tail Numbers that cannot be verified or offer conflicting results
- Airlines names being used – News articles all show the airline was shut down years ago
- Aircraft being named as one end user, and the next month a different end user.



Red Flags! Protecting your company!

# Who's on our side?

- Disruptive Technology Strike Force (DTSF)
  - Comprised of:
    - FBI
    - DOJ
    - Bureau of Industry and Security (BIS)
    - Defense Criminal Investigative Service (DCIS)
    - Homeland Security Investigations (HSI)

These agencies are actively investigating multiple cases around the world!

# Develop Training and Awareness Programs

- Awareness of current global situation and sanctions
  - DON'T ASSUME PEOPLE KNOW – ANYTHING
  - Document trainings
  - History of reasons for sanctions like Iran and GP 8 countries
- Awareness of consequences for violations
  - Case studies and real-world examples
  - “Don't let this happen to you” is useful and there have been multiple editions.
  - These have been published for years, read the old ones. Just because it happened a long time ago, we should still learn from it.

# Checklist or Decision Tree

- For customer vetting **AND** individual order vetting – **Separate the two**
- Establish your own criteria for reviewing a customer
- Document it! –
  - Decisions – Individuals or Companies
  - Refusal or Acceptance of an individual orders
- Follow it every time!
- Record your actions and decisions including your reason for denying or accepting an order
  - If you are doing business with Company A in China, you should be able to show how you arrived at the decision to do business with them

# BASIC Customer Vetting Checklist

	A	B	C
1	Company Name:		
2	Date Reviewed:		
3	Reviewed by:		
4		OK	NOT OK
5	EUC Compliance form on file?		
6	KYC form on file?		
7	Owners ID on file?		
8	Other required Docs?		
9	Consolidated Screening list/OFAC/SDN list?		
10	Shipment Records search / Import Genius or Panjiva?		
11	Is this a drop shipment to another customer/ Shipping to a third party?		
12	Check third party against all of the above?		
13	Item related restrictions ECCN vs All of the above!		
14	<b>FINAL DECISION</b>		

# Export End Use Compliance Form Options

- A basic Export Compliance/End Use Compliance form
  - A signed, possibly stamped pledge from the customer or end user that they understand and will comply with all applicable export laws.
  - Consult counsel if you are not sure what it should contain. Showing that you had legal guidance adds to credibility.
  - Can be created as a blanket statement for all orders, if you decide you this is safe, rather than every order.

# Know Your Customers - FORM

- The purpose is to identify red flags or lack thereof in your transaction
- We recommend a simple form to collect information for review
  - There are examples out available
- Picture ID for owners - Its OK to ask – but be mindful of GDPR!
- Is one company owned by another?
  - This can be used to shield true identities – DIG IN!
  - Copy of business licenses, tax exempt certificate
  - Search sites like Florida’s Sunbiz to confirm information where possible. Many states publish this information.
- For BIS KYC guidance, see Supplement No. 3 to 15 C.F.R. Part 732

# Keep a Compiled List!

- List of denied/blocked companies
- Include Owners names where possible
- On your list I suggest you record at minimum
  - Reasons
  - Contacts
  - Emails
  - Web Domain
  - Location
  - Notes

# Keep a Compiled List! (continued)

You are creating a database to continually use and review against similar fact patterns where you already decided something.

- Using a simple “highlight duplicates” function can show you that someone you dealt with previously is trying again under a new company.
- Don’t be afraid to ask questions to clarify information – Answers provided may be very telling, or SCARY.

# Compare and Look for Consistency!!

- Check emails vs Websites vs Information provided on forms!
  - Email domains different from website domains ( samename.com/.aero)
  - Website listed on KYC different from email domain or website in signature
  - Websites or Domains hosted in multiple countries
- Owners names vs Business filings
  - Check recent filing changes
- Tail Numbers given vs tail numbers as listed in the Registry
- Fact Patterns similar to previously denied orders!
- Communication to/from other domains or companies – Same as a SUP red flag

# Use Your ERP System Controls

- Remove permissions
  - Block companies
  - Don't allow every employee to create new accounts
  - If they can create accounts, don't allow sales orders until vetting can be complete
- Quantum, AvSight, and others have functionality that will not allow your staff to place orders where companies should be blocked
- Some systems will allow you to put a review step in place

# Resources – Free

- Whois Database ([whois.com/whois](http://whois.com/whois))
  - Shows website hosting information including host **city and country**
  - When site was originally registered
  - Question to ask: *Is this information consistent with what I have been told?*
- Wayback Machine – Internet Archive ([archive.org/web](http://archive.org/web))
  - Shows years of previously saved images of websites
  - Possible Question to ask: *“I remember this company had more locations, but now they have only one on their site”*
  - Look at pre-2014 versions of the website (before the US started the current round of Russia sanctions)
- BIS Online Training Room ([bis.doc.gov](http://bis.doc.gov))
  - Online Training Room with multiple videos

# Resources – Free (continued)

- API's for linking to lists like the CSL, OFAC SDN, and SSI lists
- Import Genius (limited access) – Named in NYT article 3/15
- Google and Facebook – Be careful - but this is available
  - A simple google search can stumble across something unknown or conflicting with previously given information
- Government notifications – U.S. Government, DOT, FAA, EASA, TCCA and the ASA Blog that you already subscribe to!
- BIS Counselors – They will call you back

# Resources - Paid

- Maxmind.com – Cost is pennies per search (\$)
  - IP addresses for emails – use Maxmind.com to identify the source of that IP address (note that this can be fooled by VPNs)
- Import Genius – Paid version (\$\$)
  - More Detailed information
- Visual Compliance – Professional Consolidator(\$\$\$)
  - Searches multiple lists at once
  - Can compare destination and ECCN as well
  - Can integrate with many systems
  - Keeps Auditable records
  - Multiple options and packages available

# Example

- You get a purchase order from a company called NAME WITHHELD
- You check them out on Import Genius
- You find out that they have 100+ imports into Russia
- Their top two Russian clients are
  - Северный Ветер
  - Ао Авиакомпания Россия
- Most recent import into Russia was October 2022

# Example

- You get a purchase order from a customer with the name **WITHHELD**
- You check them out
- You find out that they have 100+ imports into Russia
- Their top two Russian clients are
  - Северный Ветер
  - Ао Авиакомпания Россия
- Most recent import into Russia was October 2022

Nordwind Airlines  
TDO issued June 24, 2022

Rossiya Airlines  
TDO issued May 20, 2022

# Example

- Their top two Russian clients are
  - Северный Ветер
  - Ао Авиакомпания Россия
- Most recent import into Russia was October 2022
- This apparent violation is enough to create a red flag that must be investigated and cleared before transacting business, to make sure your own export to this entity is not diverted to Russia

# Observations

Companies will try to convince you in every way possible that what you are seeing on Import Genius or Visual Compliance is incorrect, or that they are not the person listed on the Screening List.

- If you have seen information from one of these systems that matches your transaction you are already blocked by GP-10 Don't Do it.
- If you are leery of someone or don't trust them, you reserve the right to refuse
- Foreign Actors don't care about you, or your company, and they don't care about U.S. laws because you will be the one paying the price for their manipulation.
- Their current tactic to flood the market with requests and new companies has put us in a position of having limited resources. Make unilateral decisions where necessary to protect yourselves.

# Promoting compliance to your management and colleagues

- Provide case studies that show what went wrong and the fines and/or imprisonment that have been handed down to others
- Provide training for better understanding of why compliance is important
- Ensure your team knows that the US can bring enforcement actions against non-US Citizens, even if they are not located in the US. If you are working for a US company, you must comply with US export laws.

# Promoting compliance to your management and colleagues

- Find what motivates your staff – some may be motivated by the need to comply for the sake of complying
- Others may be more motivated by knowing the consequences of non-compliance (civil and criminal penalties, incarceration, loss of right to export, etc)

# Promoting compliance to your management and colleagues

- Max Civil Penalties are available at:  
<https://www.bis.doc.gov/index.php/documents/pdfs/1567-administrative-enforcement-guidelines/file>
- Other Laws and Regs that are useful tools for compliance:
  - 13 USC 305 – Penalties for unlawful export information (false or misleading export information through AES or SED) <https://www.govinfo.gov/content/pkg/USCODE-2021-title13/pdf/USCODE-2021-title13-chap9-sec305.pdf>
  - 50 USC 4801 - Export Control Reform Act of 2018 (ECRA) <https://www.govinfo.gov/content/pkg/USCODE-2021-title50/pdf/USCODE-2021-title50-chap58-sec4801.pdf>
  - 18 USC 554 – Smuggling goods from the United States <https://www.govinfo.gov/content/pkg/USCODE-2013-title18/pdf/USCODE-2013-title18-partI-chap27-sec554.pdf>

# Thank You!

Lisa Matos

Jared Knights

With guidance from Jason Dickstein