



# EIB World Trade Headlines

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## Treasury Releases CAATSA Reports, Including on Senior Foreign Political Figures and Oligarchs in the Russian Federation **NO SANCTIONS IMPOSED**

WASHINGTON – Today, pursuant to the Countering America's Adversaries Through Sanctions Act of 2017 (CAATSA), the U.S. Department of the Treasury delivered the following five reports to appropriate Congressional committees:

- Section 241: Report on Senior Foreign Political Figures and Oligarchs in the Russian Federation;
- Section 104(e): Report on Contributions to Iran's Ballistic Missile Program;
- Section 242: Report on Effects of Expanding Sanctions to Include Sovereign Debt and Derivative Products;
- Section 273: Examining the Counter-Terror Financing Role of the Department of the Treasury in Embassies; and,
- Section 311(d): Designation of Additional Persons Related to North Korea.

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### NEWSLETTER NOTES

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**Additional background on senior foreign political figures and oligarchs in the Russian Federation report:**

- Under CAATSA Section 241, Congress required Treasury, in consultation with the Department of State and the Director of National Intelligence, to provide a report regarding senior political figures and oligarchs in the Russian Federation and Russian parastatal entities. Treasury worked closely with State and the intelligence community in drafting this report.
- This report is not a sanctions list. The inclusion of individuals or entities in any portion of the report does not impose sanctions on those individuals or entities. Nor does it create any other restrictions, prohibitions, or limitations on dealings with such persons by either U.S. or foreign persons.
- The names of senior political figures and oligarchs in the unclassified version of the report were selected based on objective criteria drawn from publically available sources.
- The classified version of the report includes other items required by CAATSA Section 241.



**Q: What was the methodology for including:**

- Senior political figures: The report included individuals who are: i) senior members of the Russian Presidential Administration; ii) members of the Russian Cabinet, Cabinet-rank ministers, and heads of other major executive agencies; iii) other senior political leaders, including the leadership of the State Duma and Federation Council, other members of the Russian Security Council, and senior executives at state-owned enterprises.
- Oligarchs: The report included Russian individuals with an estimated net worth of \$1 billion or more.
- Parastatals: The report analyzed entities that are at least 25% owned by the Government of Russia and that had about \$2 billion or more in revenues in 2016.

**Q: Will the individuals on the list be subject to sanctions?**

- **As noted above, this report is not a sanctions list. The inclusion of individuals or entities in any portion of the report does not impose sanctions on those individuals or entities. Nor does it create any other restrictions, prohibitions, or limitations on dealings with such persons by either U.S. or foreign persons.**
- **Furthermore, inclusion in the report does not constitute the determination by any agency that any of those individuals or entities meet the criteria for designation under any sanctions program.**
- **The Treasury Department will rely on all available sources of information, including the classified version of the CAATSA report when making determinations about additional sanctions.**

## 2 Los Angeles-Area Men Charged with Conspiring to Illegally Obtain Technology and Computer Chips that Were Sent to China

LOS ANGELES – Federal authorities this morning arrested two local men on federal charges that allege a scheme to illegally obtain technology and integrated circuits with military applications that were exported to a Chinese company without the required export license.

Yi-Chi Shih, 62, an electrical engineer who is a part-time Los Angeles resident, and Kiet Ahn Mai, 63, of Pasadena, were arrested this morning without incident by federal agents.

Shih and Mai, who previously worked together at two different companies, are named in a criminal complaint unsealed this morning that charges them with conspiracy. Shih is also charged with violating the International Emergency Economic Powers Act (IEEPA), a federal law that makes illegal, among other things, certain unauthorized exports.

The complaint alleges that Shih and Mai conspired to illegally provide Shih with unauthorized access to a protected computer of a United States company that manufactured specialized, high-speed computer chips known as monolithic microwave integrated circuits (MMICs). The conspiracy count also alleges that the two men engaged in mail fraud, wire fraud and international money laundering to further the scheme.

According to the affidavit in support of the criminal complaint, Shih and Mai executed a scheme to defraud the U.S. company out of its proprietary, export-controlled items, including technology associated with its design services for MMICs. As part of the scheme, Shih and Mai accessed the victim company's computer systems via its web portal after Mai obtained that access by posing as a domestic customer seeking to obtain custom-designed MMICs that would be used solely in the United States. Shih and Mai allegedly concealed Shih's true intent to transfer the U.S. company's technology and products to the People's Republic of China.

"This case outlines a scheme to secure proprietary technology, some of which was allegedly sent to China, where it could be used to provide companies there with significant advantages that would compromise U.S. business interests," said United States Attorney Nicola T. Hanna. "The very sensitive information would also benefit foreign adversaries who could use the technology to further or develop military applications that would be detrimental to our national security."

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"According to the complaint, the defendants allegedly schemed to illegally export semiconductors having military and civilian applications to a Chinese company," said Acting Assistant Attorney General Boente. "Protecting this type of technology and preventing its illegal acquisition by our adversaries remains a key priority in preserving our national security."

The victim company's proprietary semiconductor technology has a number of commercial and military applications, and its customers include the Air Force, Navy and the Defense Advanced Research Projects Agency. MMICs are used in electronic warfare, electronic warfare countermeasures and radar applications.

"The FBI, working jointly with our law enforcement partners, remains committed to bringing to justice those who seek to illegally export some of our nation's most sensitive technologies to the detriment of our national security and hard-working United States companies," said Paul Delacourt, Assistant Director in Charge of the FBI's Los Angeles Field Office. "Rest assured, the FBI will continue to diligently pursue any and all leads that involve the illegal exportation of U.S. technology which will cause harm to our long-term national security interests."

The computer chips at the heart of this case allegedly were shipped to Chengdu GaStone Technology Company (CGTC), a Chinese company that established a MMIC manufacturing facility in Chengdu. Shih was the president of CGTC, which in 2014 was placed on the Commerce Department's Entity List, according to the affidavit, "due to its involvement in activities contrary to the national security and foreign policy interest of the United States – specifically, that it had been involved in the illicit procurement of commodities and technologies for unauthorized military end use in China." Because it was on the Entity List, a license from the Commerce Department was required to export U.S.-origin MMICs to CGTC, and there was a "presumption of denial" of a license.

The complaint outlines a scheme in which Shih used a Los Angeles-based company he controlled – Pullman Lane Productions, LLC – to funnel funds provided by Chinese entities to finance the manufacturing of MMICs by the victim company. The complaint affidavit alleges that Pullman Lane received financing from a Beijing-based company that was placed on the Entity List the same day as CGTC "on the basis of its involvement in activities contrary to the national security and foreign policy interests of the United States."

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Mai acted as the middleman by using his Los Angeles company – MicroEx Engineering – to pose as a legitimate domestic customer that ordered and paid for the manufacturing of MMICs that Shih illegally exported to CGTC in China, according to the complaint. It is the export of the MMICs that forms the basis of the IEEPA violation alleged against Shih. The specific exported MMICs also required a license from the Commerce Department before being exported to China, and a license was never sought or obtained for this export.

“Today’s actions serve as a reminder that the government will hold individuals accountable who fraudulently procure and export unlawfully protected United States technology and attempt to conceal their criminal activity through international money laundering,” stated Special Agent in Charge R. Damon Rowe with IRS Criminal Investigation. “The IRS plays an important role in tracing illicit funds through both domestic and international financial intuitions. The IRS is proud to partner with the FBI and Department of Commerce and share its world-renowned financial investigative expertise in this investigation.”

“Today’s arrests demonstrate the Office of Export Enforcement’s strong commitment to enforcing our nation’s export control and public safety laws,” said Richard Weir, Special Agent in Charge of the U.S. Department of Commerce, Bureau of Industry and Security, Office of Export Enforcement, Los Angeles Field Office. “We will continue to work with our law enforcement partners to identify, deter, and keep the most sensitive U.S. origin goods and technology out of the most dangerous hands.”

Shih and Mai are expected to make their first court appearances this afternoon in United States District Court in downtown Los Angeles.

A criminal complaint contains allegations that a defendant has committed a crime. Every defendant is presumed to be innocent until and unless proven guilty in court.

If they were to be convicted of the charges in the criminal complaint, Mai would face a statutory maximum sentence of five years in federal prison, and Shih could be sentenced to as much as 25 years in prison.

This case is being investigated by the Federal Bureau of Investigation; the U.S. Department of Commerce, Bureau of Industry and Security, Office of Export Enforcement; and IRS Criminal Investigation.

The case against Shih and Mai is being prosecuted by Assistant United States Attorneys Judith A. Heinz, Melanie Sartoris and Khaldoun Shobaki of the National Security Division, and Trial Attorney Matthew Walczewski of the Department of Justice’s National Security Division.

## Designers of Autonomous Vehicle Electronics Need to Change Their Test Strategies

Automotive engineers will need to adopt a design-for-compliance policy for autonomous vehicles, otherwise they will compromise safety, an expert will tell attendees at the upcoming DesignCon Conference in Santa Clara, CA.

“We can’t continue designing automotive electronics the way we have been,” Todd Hubing, Michelin Professor of Vehicle Electronics at Clemson University, told Design News. “That’s just not going to work going forward, especially as we move into autonomous vehicles.”

Todd Hubing of Clemson University: “We need to do better design, so that the testing is just a confirmation of the design.” (Source: Clemson University)

Today, many auto industry engineers employ a process in which they design, build, test, fail the test, and then modify the electronic design to pass the test. The problem with that strategy, Hubing said, is that the tests aren’t comprehensive. They don’t test for every potential error.

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“Right now in the auto industry, a lot of products get tested on the bench and look great,” Hubing explained. “But then they get put in the vehicle and the vehicle fails due to a failure of a system that already passed the test.”

Eventually, automotive engineers are going to have to adopt a methodology similar to that used by consumer electronics engineers – that is, design from the outset for compliance. Consumer electronics designers are forced to do it that way because their tight product introduction schedules compel them to get it right the first time.

Hubing believes that the advent of vehicle autonomy will force the auto industry to do the same. “Even if a vehicle is not fully autonomous, it has computers that are making decisions about when to apply the brakes and turn the steering wheel, so the electronics have to be extremely reliable,” he said. “And this process of build, test, and fix-to-pass-the-test is not going to make them more reliable.”

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To promote electronic safety in autonomous cars, Hubing recommends four distinct strategies. First and foremost, he said, engineers need to design for compliance. Second, they need to reduce analog communication. Analog systems with long cables present more opportunity for reliability issues, he said. Third, auto industry engineers need to write software in a manner similar to that of commercial aircraft industry. Fourth, engineers will need to promote part redundancy. "I don't think anyone wants one microcontroller to be completely responsible for vehicle safety," he said.

Hubing acknowledged that the auto industry will never have the time or wherewithal to test and validate electronic systems in the way that, say, Boeing or NASA does. Such extensive testing is too costly and incompatible with consumer product development, he said.

But automotive engineers could adopt the "design-for-compliance" strategy of the consumer electronics industry, and improve their product safety in the process, he said. "It's not that we need to do more testing," Hubing told us. "We need to do better design, so that the testing is just a confirmation of the design."

Todd Hubing will present a keynote speech, *How Do We Make Autonomous Vehicles Safe Enough?*, at DesignCon in Santa Clara, Calif., on Wednesday, January 31, 2018.



## Trump Slaps Tariffs On Imported Solar Panels And Washing Machines

Originally published on January 22, 2018 9:18 pm  
Pledging to defend American businesses and workers, President Trump imposed tariffs on imported solar panel components and large residential washing machines on Monday.

In a statement, U.S. Trade Representative Robert Lighthizer said that, after consulting with the interagency Trade Policy Committee and the bipartisan U.S. International Trade Commission, the president decided that "increased foreign imports of washers and solar cells and modules are a substantial cause of serious injury to domestic manufacturers."

The administration approved tariffs of 20 percent on the first 1.2 million washers and 50 percent of all subsequent imported washers in the following two years.

A 30 percent tariff will be imposed on solar panel components, with the rate declining over four years.

The move against imported solar components splits the solar panel industry with manufacturers favoring the tariffs as a necessary step to save domestic subsidiary companies, while installers oppose them as job-killers.

Two domestic manufacturers, Georgia-based Suniva and Oregon-based Solar-World, who have complained about competing with cheaper panels produced in Asia, stand to benefit from the tariffs. According to Bloomberg, Suniva has a Chinese majority owner and Solar-World is a unit of the German manufacturer SolarWorld AG.

As NPR's Jeff Brady reported:

"SolarWorld laid off much of its workforce and Suniva was forced into bankruptcy, even as U.S. solar panel installations grew dramatically in recent years. That growth was largely attributed to the cheaper panels from overseas. Solar panel prices have fallen by more than 70 percent since 2010, according to the Solar Energy Industries Association. For many homeowners installing solar panels has become more affordable, but now the industry's main trade group worries that if prices go up the installation boom could come to a halt."

The CEO and President of SolarWorld Americas Inc., Juergen Stein, praised the administration's action in a statement:

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"SolarWorld Americas appreciates the hard work of President Trump, the U.S. Trade Representative, and this administration in reaching today's decision, and the President's recognition of the importance of solar manufacturing to America's economic and national security. We are still reviewing these remedies, and are hopeful they will be enough to address the import surge and to rebuild solar manufacturing in the United States." But representatives for the sector of the industry that actually installs solar panels criticized the move, saying that making imported solar components more costly will likely dampen demand for solar panels.

The President and CEO of the Solar Energy Industries Association, Abigail Ross Hopper, predicted the tariffs lead to the loss of roughly 23,000 American jobs this year.

"While tariffs in this case will not create adequate cell or module manufacturing to meet U.S. demand, or keep foreign-owned Suniva and SolarWorld afloat, they will create a crisis in a part of our economy that has been thriving, which will ultimately cost tens of thousands of hard-working, blue-collar Americans their jobs."

## TEXAS MAN SENTENCED FOR CONSPIRING TO ILLEGALLY EXPORT RADIATION HARDENED INTEGRATED CIRCUITS TO RUSSIA AND CHINA

SHERMAN, Texas - Peter Zuccarelli, 62, of Plano, Texas was sentenced today to 46 months in prison for conspiring to smuggle and illegally export from the U.S. in violation of the International Emergency Economic Powers Act (IEEPA), radiation hardened integrated circuits (RHICs) for use in the space programs of China and Russia. Zuccarelli was also sentenced to three years supervised release and a \$50,000 fine.

Acting Assistant Attorney General for National Security Dana J. Boente and U.S. Attorney for the Eastern District of Texas Alan R. Jackson made the announcement after Zuccarelli was sentenced by U.S. District Judge Amos Mazzant.

"The United States rightfully restricts, as a national security concern, the exportation of technological equipment that can, if not controlled, be put to improper use," said U.S. Attorney Alan R. Jackson. "This prosecution confirms the resolve of the Eastern District of Texas, working with its law enforcement partners, to enforce those restrictions for the safety of our citizens."

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*"Be the Game Changer."*

According to the plea agreement, between approximately June 2015 and March 2016, Zuccarelli and his co-conspirators agreed to illegally export RHICs to China and Russia. RHICs have military and space applications, and their export is strictly controlled. In furtherance of the conspiracy, Zuccarelli's co-conspirator received purchase orders from customers seeking to purchase RHICs for use in China's and Russia's space programs. Zuccarelli received these orders from his co-conspirator, as well as payment of approximately \$1.5 million to purchase the RHICs for the Chinese and Russian customers. Zuccarelli placed orders with U.S. suppliers, and used the money received from his co-conspirator to pay the U.S. suppliers. In communications with the U.S. suppliers, Zuccarelli certified that his company, American Coating Technologies, was the end user of the RHICs, knowing that this was false. Zuccarelli received the RHICs he ordered from U.S. suppliers, removed them from their original packaging, repackaged them, falsely declared them as "touch screen parts," and shipped them out of the U.S. without the required licenses. He also attempted to export what he believed to be RHICs. In an attempt to hide the conspiracy from the U.S. government, he created false paperwork and made false statements.

This case was investigated by the Dallas and Denver Offices of the Department of Homeland Security, Homeland Security Investigations; the FBI; the Department of Commerce, Bureau of Industry and Security, Office of Export Enforcement; the Department of Defense, Defense Criminal Investigative Service; and the U.S. Postal Inspection Service. This case was prosecuted by the U.S. Attorney's Office for the Eastern District of Texas and the Counterintelligence and Export Control Section of the Justice Department's National Security Division.

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