



September 2017 Indictment Alleges Charges of Illegal Procurement of U.S. Electronics

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In an increasingly global market, exporters need to remain diligent in monitoring both their supply chains and their customers for red flags associated with the diversion of products (especially those controlled for export on the Commerce Control List). The recent unsealing of a 2017 indictment highlights a group of alleged bad actors seeking to smuggle sophisticated dual-use items into Russia unlawfully.

In an indictment filed September 21, 2017, and unsealed March 20, 2019, Valery Kosmachov (Kosmachov) was charged with engineering a scheme to illegally procure sophisticated electronic components from the United States and smuggle them into the Russian Federation. According to the indictment, as [announced by the Department of Justice](#) earlier this year, Kosmachov is an Estonian national who served as owner of Adimir OU (Adimir) and co-owner of Eastline Technology OU (Eastline), along with co-defendant and Russian national Sergey Vetrov (Vetrov).

The indictment describes how Kosmachov and Vetrov used the Estonia-based companies as procurement “fronts” to obtain controlled U.S.-origin microelectronics, in part by misrepresenting that the end-users for the components were located in Estonia. The components included dual-use programmable computer chips capable of operating in austere environments, making them useful in both civilian and military applications. Once in possession of the chips in Estonia, the co-defendants allegedly smuggled them into the Russian Federation, in part by using laundered funds.

Under the 52-count indictment, Kosmachov, Vetrov, and their two companies are collectively charged with conspiracy to violate the International Emergency Economic Powers Act (IEEPA), conspiracy to commit international money laundering, and several substantive counts of violating the IEEPA, smuggling, and international money laundering.

Although the indictment was sealed until earlier this year, hints of Kosmachov’s and Vetrov’s behavior have previously been made public. For example, according to [a 2015 order](#) issued by the Bureau of Industry and Security (BIS), Adimir was known to have been involved in the transshipment and attempted transshipment of U.S.-origin items to Russia in apparent violation of U.S. Export Regulations. Additionally, on September 26, 2018, BIS [issued an order](#) temporarily denying the export privileges of Eastline, Adimir, Vetrov, and Kosmachov. Their export privileges were denied because BIS determined that Eastline, Adimir, Vetrov, and Kosmachov engaged in knowing violations of U.S. Export Regulations related to the procurement of U.S.-origin items for export to Russia, via transshipment

through Estonia and Finland, while providing false or misleading information regarding the ultimate consignee and final destination of the items to U.S. suppliers and/or the U.S. government. According to BIS, the export transactions appeared to have been structured to obscure the destinations, end-users, and/or end uses of the items in an attempt to avoid export control scrutiny and possible detection by U.S. law enforcement.

According to the DOJ press release related to these charges, Vetrov remains at large. Kosmachov is currently in legal proceedings in the Northern District of California. If convicted, Kosmachov could face a maximum 20-year term of imprisonment for each IEEPA and money laundering-related count, and a maximum 10-year sentence for each count of smuggling.

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