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Sanctions Compliance Sanctions Measures & Trends - Cargo

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Sanctions measures and trends - Cargo

Quick quiz:

What types of sanctions impact transfers of goods?



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The compliance chain



Compliance action:

- ✓ Due Diligence
- ✓ KYC
- ✓ Verification
- ✓ Coordination
- ✓ Info Sharing
- ✓ Authorisation
- ✓ Licencing



WHICH LINK ARE YOU?

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Know Your Cargo (KYC)

Compliance measures :

Every compliance program to be implemented should be based on and incorporate at least **five essential components** of compliance:

- (1) Management commitment
- (2) Risk assessment
- (3) Internal controls
- (4) Testing and auditing
- (5) Training



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Know Your Cargo (KYC)

Compliance measures protect against the following malign practices:

- Manipulating location or identification data
- Falsifying cargo and vessel documents
- Complex ownership or management:
- Multiple, uneconomical transshipments
- Voyage irregularities and use of abnormal shipping routes
- Ship-to-ship transfers



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Know Your Cargo (KYC)

Compliance practices that help in identifying potential evasion efforts:

- ✓ Implementing and institutionalizing sanctions and export control compliance programs
- ✓ Establish location monitoring best practices and contractual requirements
- ✓ Know your customer
- ✓ Supply chain due diligence
- ✓ Industry information sharing and cooperation – eliminate the weakest links



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Sanctions circumvention typologies - Iran crude example:

Methods used to disguise origins of the cargo:

- **Fabricating shipping records and vessel logs** - that the tanker received 1,000,000 barrels of non-Iranian crude oil via STS transfer from a non-Iranian vessel – but only 4,000 barrels received
- **A second STS transfer** of nearly 1,000,000 barrels Iranian crude oil from another ship not reported in the vessel's logs
- Spoofing AIS transponder info - a false location while loading oil
- **Falsely exaggerating the draft** following transfer from non-Iranian vessel to make the tanker appear as if it were fully laden
- **Falsely declaring oil transfers** from the two ships as one loading operation received from the non-Iranian vessel
- **Falsely reporting location** of the vessel carrying Iranian oil during the STS transfers to make it appear as if it were not involved in the transfer

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Sanctions circumvention typologies - Iran crude:

- New customer places an unexpected and/or high-value order for sophisticated equipment.
- The customer is a reseller or distributor. Always inquire who the end-user is
- The customer has no website or social media and is not listed in online business directories.
- The customer's address is similar to a listed entity, or the address indicates the customer is located close to end-users of concern, including co-located with a listed entity
- Customer places an order & makes all shipping arrangements through a freight forwarding service



Cargo

What illegal sanctioned goods will you encounter?

❖ **Prohibited exports** from sanctioned jurisdictions

❖ **Proliferation** risks

- What's really in the container?

❖ **Deception** – what to look out for - circumvention methodologies

- Front companies & shell companies
- Complicit companies connected to networks
- Transshipment
- False Bill of Lading
- False certificates of Origin
- False port of loading



<p>CODE NAME: "GONGBEL" EDISON 194</p> <p>Shipper PT. BAKA MAKMUR SADAYANA</p> <p>Consignee TO ORDER</p> <p>Notify address EASTERN STEEL SDN. BHD LOT 4293 AND 4294, KAWASAN PERINDUSTRIAN TELUK KALONG, MUKIM TELUK KALONG, 24000 KEMAMAN TERENGGANU DARUL IMAN, MALAYSIA</p> <p>3rd party MY. DONG THANH VOY 83-49</p> <p>Part of discharge KEMAMAN PORT, MALAYSIA</p> <p>Shipper's description of goods INDONESIAN COAL</p> <p>FREIGHT PAYABLE AS PER CHARTER PARTY</p>	<p>Bill of Lading TO BE USED WITH CHARTER PARTY'S Release No.</p> <p>3rd ORIGINAL</p> <p>SAY TO WEIGHT 26,400 MTS</p>
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<p>1. Exporter (name, address, country): OPELE GOR, RU-SHA, KESHEROV OBLAST, KESHEROV KOSHMEY BENSAYA STREET BR 11-06 22 OFFICE 1</p>	<p>ORIGINAL No: 7000014541</p> <p>CERTIFICATE OF ORIGIN Issued in the Russian Federation</p>
<p>2. Consignee (name, address, country): PT BAKA MAKMUR SADAYANA, GEDUNG WISMA MONTEX 9TH FLOOR, ANSA AFRICA ROAD, NO 133-137, JAKARTA, INDONESIA.</p>	<p>4. For official use</p>
<p>3. Means of transport and route: Transport: WINE EKONEST Route: Loaded Nakhodka Russia Discharged Samudra Port in Indonesia</p>	<p>6. Supplementary details Bill of Lading No: 20180116 of 16.03.2018</p>
<p>5. Country of origin: Russian Federation</p>	<p>7. Item name (per bar)</p> <p>8. Description of goods: ANTRACITE COAL</p> <p>9. Number and kind of packages: IN BULK</p> <p>10. Gross weight or other quantity: 26 500 MTS</p>

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Is your cargo subject to sanctions?

How about these?

- Petroleum products
- Jet Fuel
- Aviation fuel
- Aviation-related oil & lubricants
- Bunker fuel
- Marine Diesel
- crude oil products falling under CN 2709 00 commingled with condensate
- Insuring and financing the transport, via maritime routes
- Payments for banned cargo and to designated banks
- Jurisdictions subject to petroleum product bans



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Is your cargo subject to sanctions?

Sanctions: WMD and Arms Ban related goods lists

mtrc.info/en



Missile Technology Control Regime

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- Trade
- News
- MTCR Guidelines
- MTCR Annex**
- Public Documents
- Press Releases
- FAQ

MISSILE TECHNOLOGY CONTROL REGIME

<https://www.mtrc.info/en>

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Is your cargo subject to sanctions?

WMD related goods lists

MTCR Item4 – Category II

- (1) Liquid
 - (a) Dinitrogen tetroxide;
 - (b) Nitrogen dioxide/dinitrogen tetroxide;
 - (c) Dinitrogen pentoxide;
 - (d) Inhibited Red Fuming Nitric Acid (IRFNA);
 - (e) Compounds composed of fluorine and one or more of

- Item 4 - Category II**
- Propellants and constituent chemicals for propellants as follows:
- (a) Composite Propellants
 - (1) Composite and composite modified double base propellants;
 - (b) Fuel Substances
 - (1) Hydrazine with concentration of more than 70 percent and its derivatives including monomethylhydrazine (MMH);
 - (2) Unsymmetric dimethylhydrazine (UDMH);
 - (3) Spherical aluminum powder with particles of uniform diameter of less than 500 x 10⁻⁶m (500 micrometer) and an aluminum content of 97 percent by weight or greater;
 - (4) Metal with particle sizes less than 500 x 10⁻⁶ m (500 micrometer), whether spherical, atomized, spheroidal, flaked or ground, consisting of 97 percent by weight or more of the following: beryllium, boron, magnesium, zirconium, and alloys of these;
 - (5) High energy density materials such as boron slurry, having an energy density of 40 x 10⁶ J/kg or greater.
 - (c) Oxidizers/Fuels
 - (1) Perchlorates, chlorates, or chromates mixed with powdered metals or other high energy fuel components.
 - (d) Oxidizer Substances

Sanctions measures and trends - Cargo

Is your cargo subject to sanctions?

Utilize the classifications in the WCO Harmonized Commodity Description and Coding System (HS Codes)

Annex 34 : HS Codes recommended by World Customs Organization for resolutions 2270 (2016) and 2321 (2016)

HS Codes	Description	Resolutions 2270 and 2321	
Coal	2701 Coal; briquettes, ovoids and similar solid fuels manufactured from coal	Para 26 of Res. 2321 applies cap on exports and conditions for procurements under the cap. Livelihood exemption remains for Iron and Iron ore	
Iron Ore	2601 Iron ores and concentrates, including roasted iron pyrites		
Iron and Steel products	Chapter 72 7301-7326 Iron and steel products		
Gold	261690 7108 710811 710812 710813 710820 Gold ores and concentrates Gold (incl put plated), unwrought, semi-manufactured forms or powder Gold Powder, Unwrought Gold in Other Unwrought Forms Gold in Other Semi-manufactured Forms Monetary Gold	All imports from DPRK prohibited	
Titanium	2614 Titanium ores and concentrates	Commodities added in para 28 of resolution 2321 (2016)	
Vanadium	2615 Vanadium ores and concentrates		
Rare Earth Minerals	2612 2617 2805 2844 Uranium or thorium ores and concentrates [261210 and 261220] ores and concentrates, [Nesoi code 261790 - Other Ores and Concentrates] alkali metals etc, rare-earth metals etc, mercury radioactive chemical elements & isotopes etc		
Copper	7401-7419 2603 Copper and articles thereof Copper ores and concentrates		
Zinc	7901-7907 2608 Zinc and articles thereof Zinc ores and concentrates		
Nickel	7501-7508 2604 Nickel and articles thereof Nickel ores and concentrates		
Silver	2616100 7106 7107 7114 Silver ores and concentrates Silver unwrought or semi manufactured forms, or in powdered forms; base metals clad with silver, not further worked than semi-manufactured articles of goldsmiths or silversmiths' wares or parts thereof, of silver, whether or not plated or clad with other precious metal		
Silver / gold	2616 Precious metal ores and concentrates		
			Combines prohibitions on gold and silver in resolutions 2270 (2016) and 2321 (2016) respectively

Source: S/2017/150, Annex 16-1 with technical corrections to HS code description for silver

Sanctions measures and trends - Cargo

Is your cargo subject to sanctions?

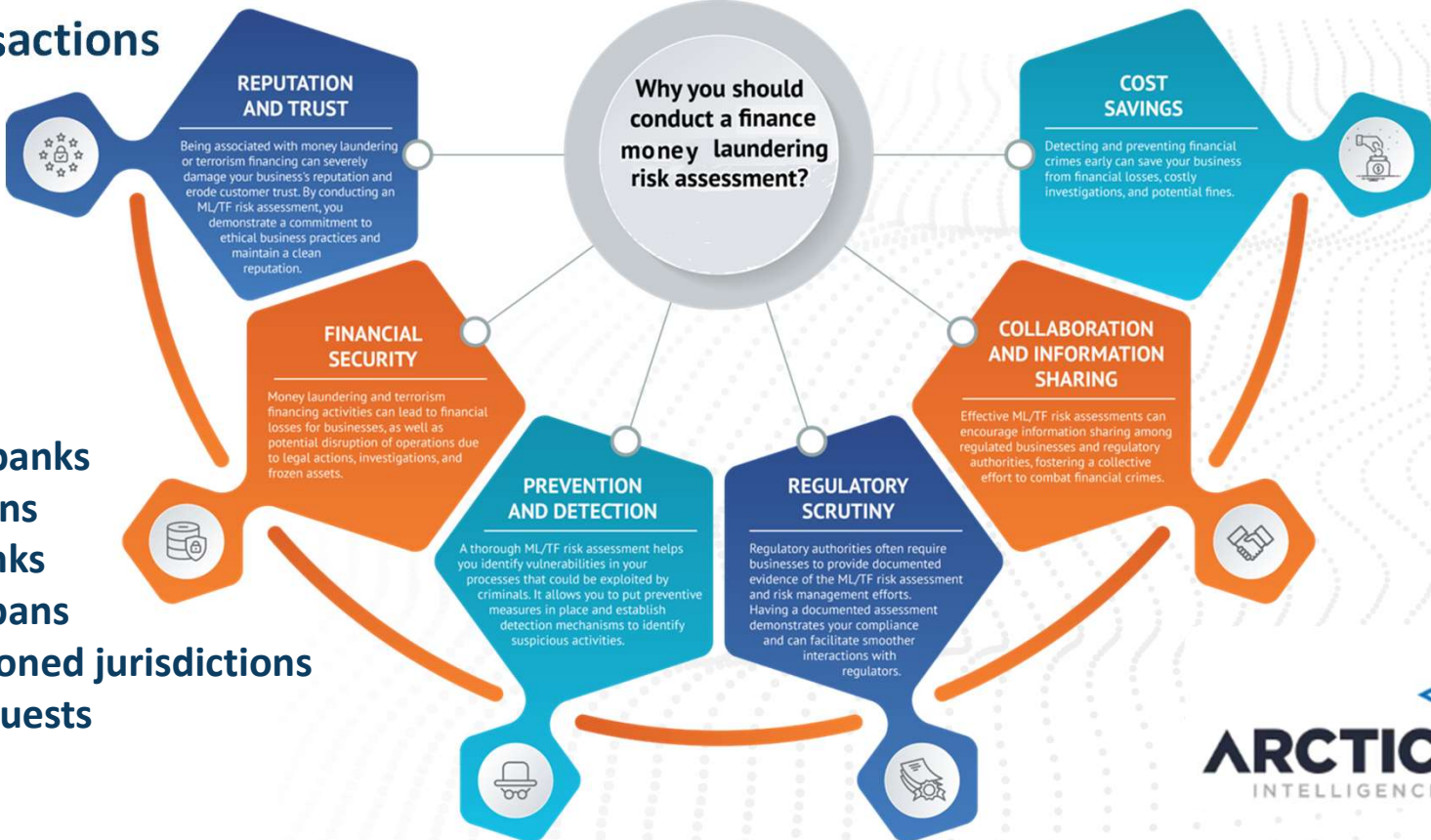
UN sanctions monitoring experts' (POE) reports on the UNSC website

Item	HS Codes	Description	Resolutions
Condensates and natural gas liquids	2709	Oils; petroleum oils and oils obtained from bituminous minerals	Para. 13 of res. 2375 (2017)
	2711	Petroleum gases and other gaseous hydrocarbons	
Industrial machinery	84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	Para. 7 of res. 2397 (2017)
	85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, parts and accessories of such articles	
Transportation vehicles ⁶¹	86	Railway, tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signaling equipment of all kinds	Para. 7 of res. 2397 (2017)
	87	Vehicles; other than railway or tramway rolling stock, and parts and accessories thereof	
	88	Aircraft, spacecraft and parts thereof ⁶²	
	89	Ships, boats and floating structures	

Sanctions measures and trends - Cargo

Is your cargo subject to sanctions?

Financial transactions

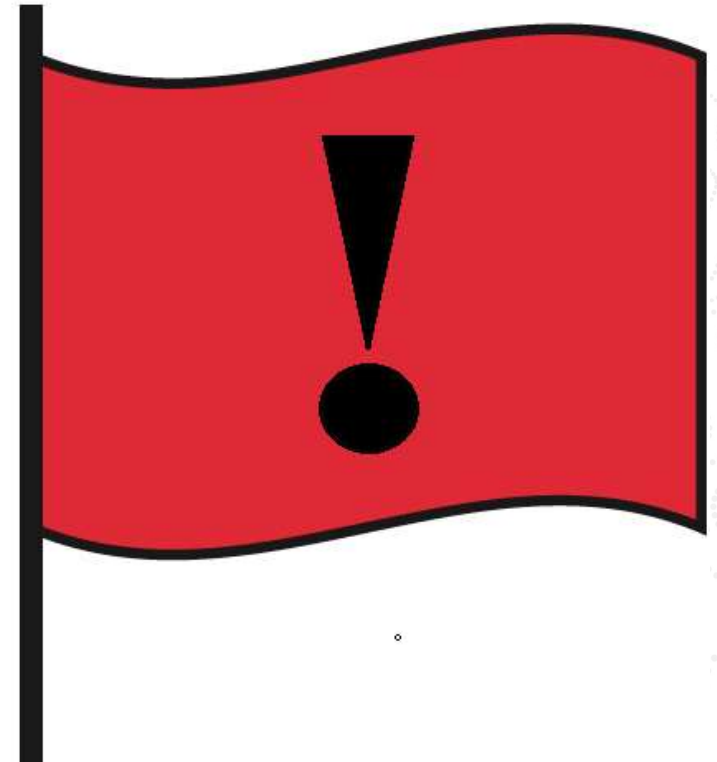


- **Conveyancing banks**
- **USD Transactions**
- **Designated Banks**
- **SWIFT system bans**
- **Banks in sanctioned jurisdictions**
- **“Smurfing” requests**
- **Insurance**



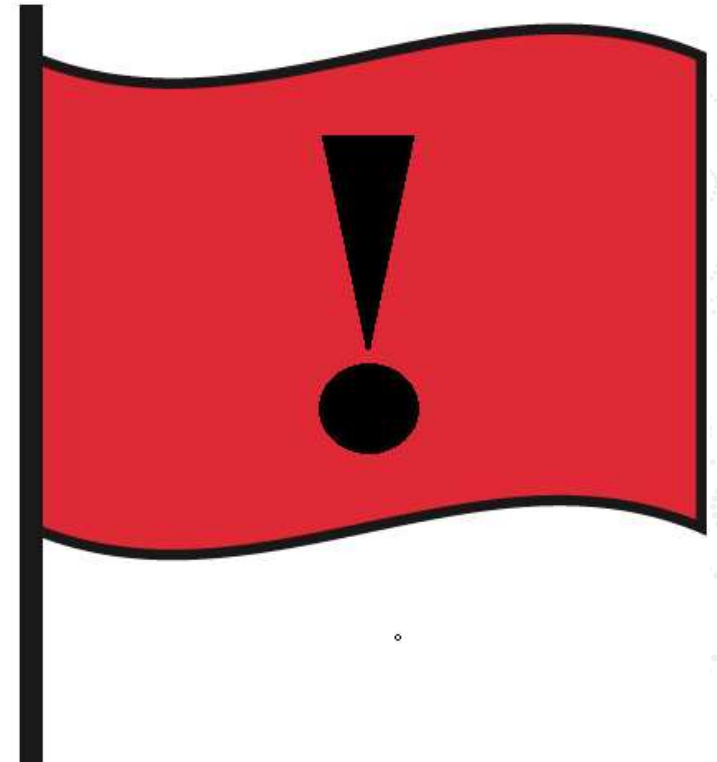
What Is a Red Flag?

- Indicator of suspicious activity related to an export of a **controlled commodity**
- May occur within different points of the **procurement process**
- Often serves as the **starting point** for an investigation



Where to Look for Red Flags

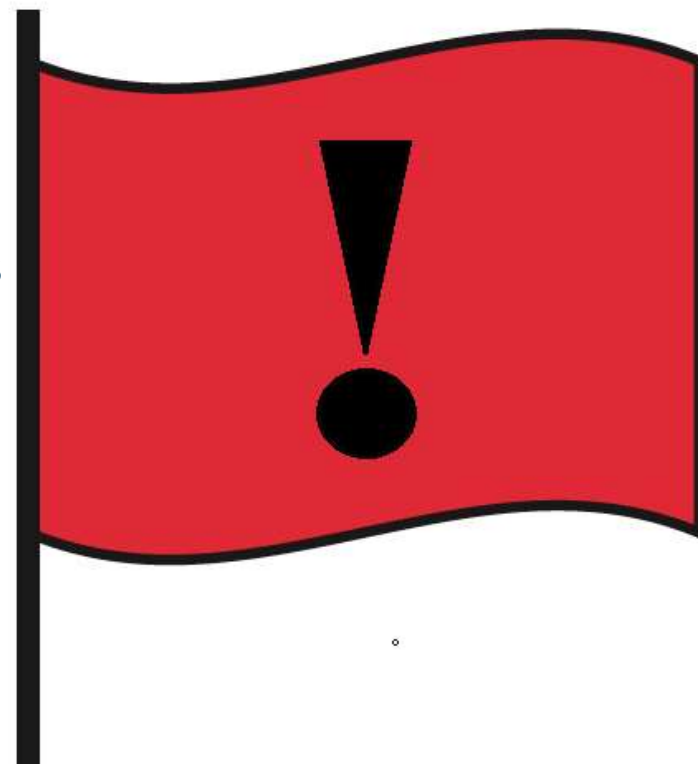
- **Customer information**
- **Product information**
- **Transaction information**
- **Shipping documentation**
- **Certificates of origin**
- **Lab tests**
- **End-user statements**
- **Post-sale follow-up**



Where to Look for Red Flags

The customer

- A new customer places an unexpected and/or high-value order for **sophisticated** equipment or exotic chemicals.
- The customer is a **reseller** or distributor - you should always inquire who the **end-user** is [no re-export clause].
- The customer has **no website or social media** presence and is not listed in online business directories
- The customer's **address** is similar to an entity on the CSL, or the address indicates the customer is located close to end-users of concern, including co-located with a listed entity
- Your customer places an order and makes all shipping arrangements through a **freight forwarding service** - request that the freight forwarder provide you a copy of the Export filing to ensure the information is accurate



Customer Information

- **Business identity, address, or experience**
- **Suspicious behavior**
- **Name or address similar to one on a denial list**
- **Reluctance to offer information about the end-use of the item**
- **Undetermined end-user**
- **Multiple requests for identical product or research**



Customer Information

- Little or no business background
- Unfamiliar with the product's performance characteristics but still wants the product
- Declines routine installation, training, or maintenance services for product
- E-mail solicitations from foreign applicant for employment / research on export-controlled project
- Provides personal e-mail account for procurement request



QUICK QUIZ

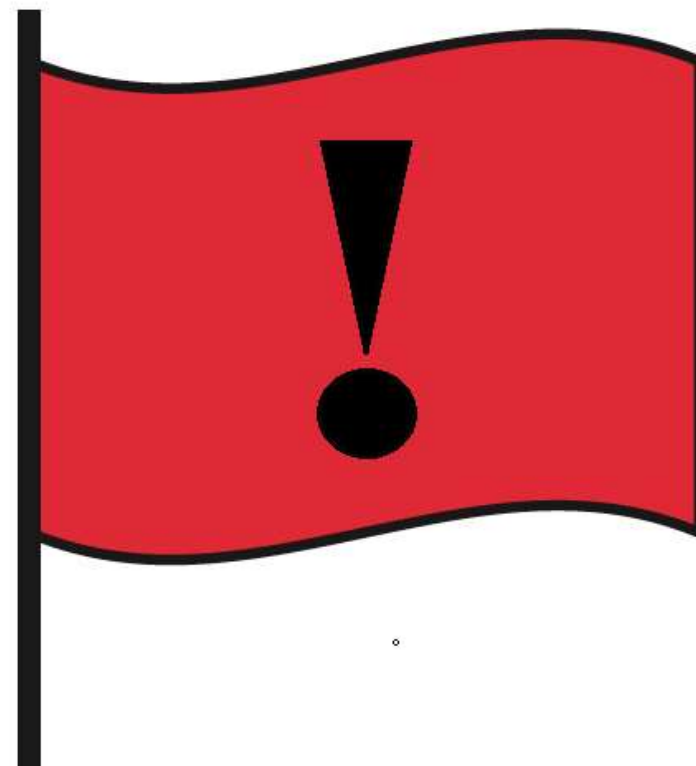
You should suspect a **dual-use violation** if the customer:

- (1) Is not dressed in business attire
- (2) Requests a line of credit to finance the purchase
- (3) Provides specific end-user information
- (4) Declines routine installation, training or maintenance services for product



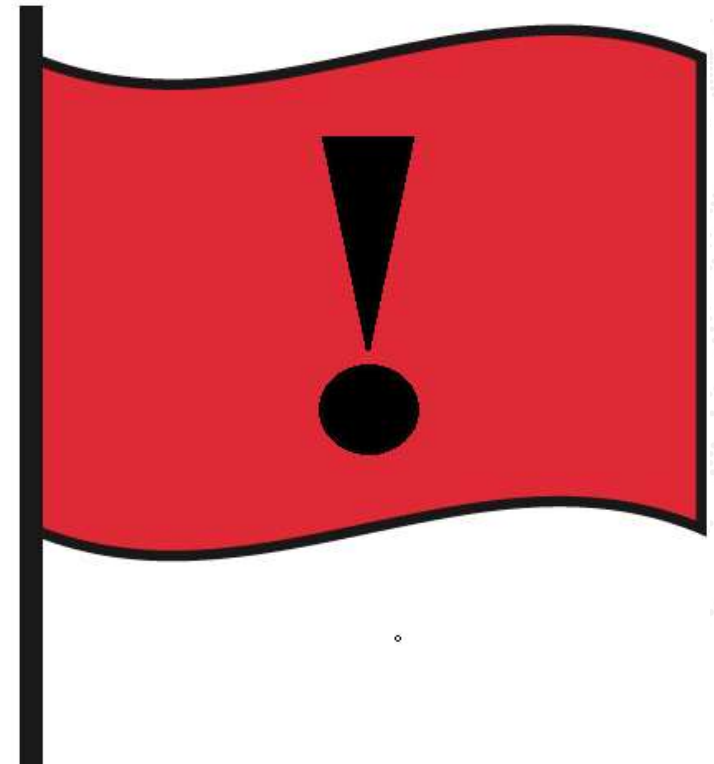
Red Flag Indicators – Product Information

- **The item ordered is incompatible with the technical level of the country to which it is being shipped**
- **The product's capabilities do not fit the buyer's line of business**



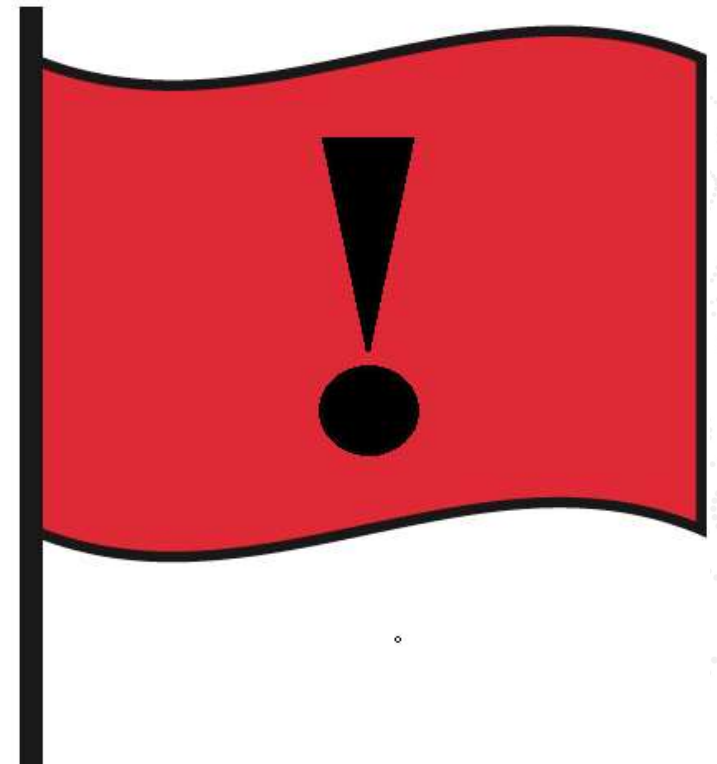
Red Flag Indicators – Transaction / Shipping Information

- Unusual payment terms
 - Willing to **pay cash** for a very expensive item when the terms of sale would normally call for financing
 - Willing to **pay more** than the market value of the item
- Changing **terms of contract** if export license is required
 - Illogical shipment **routing**
 - **Unique packaging** requests
 - Removal of **product label**
- **Disguising** true end-user identity to avoid licensing requirements



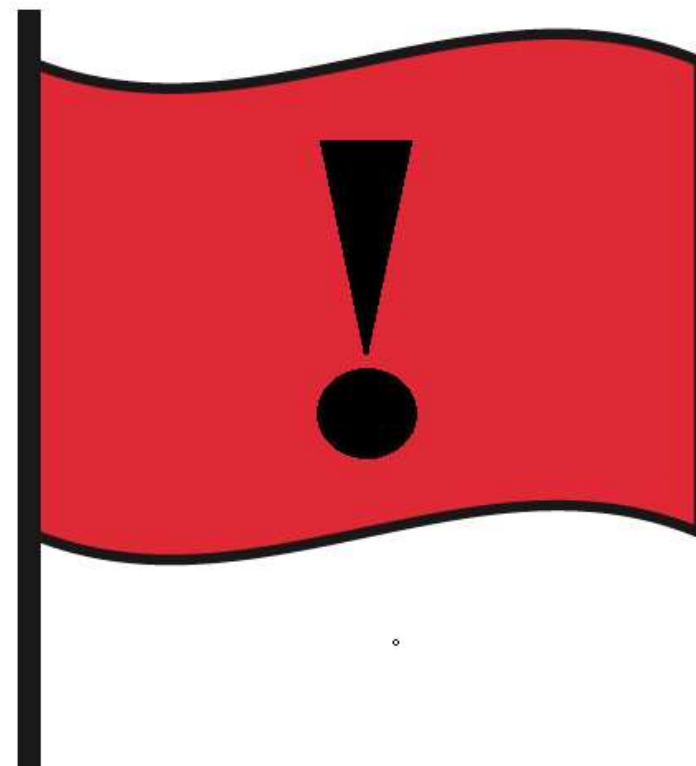
Red Flag Indicators – End User

- Suspect end-user located in **transshipment country**
- End-user listed is a trading company or **freight forwarder**
- Standard **installation** and service training declined



Red Flag Indicators – Post-Sale Follow-Up

- Troubleshooting inquiries from different end-user or in the wrong **language**
- Request for replacement parts or warranty service to wrong **customer location**
- End-user unwilling to cooperate with post-shipment **verification**
- Listed end-user concerns
 - **Never ordered** product (unfamiliar with transaction)
 - Ordered but **never received** product
 - Irregularities with **quantities**



Resolving Suspicious Indicators

- The exporter/end-user has no relevant business background

**New to business?
OR
shell company?**



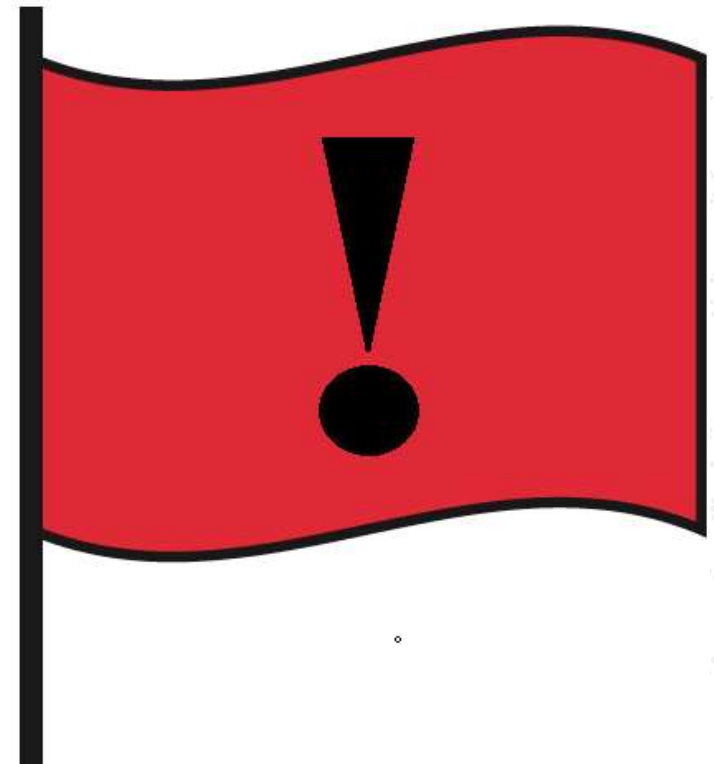
Resolving Suspicious Indicators

- **The customer declines to purchase installation or maintenance services for a sophisticated product**

**The customer has the expertise to install
and maintain the product?**

OR

**The customer is attempting to conceal the
real end user?**



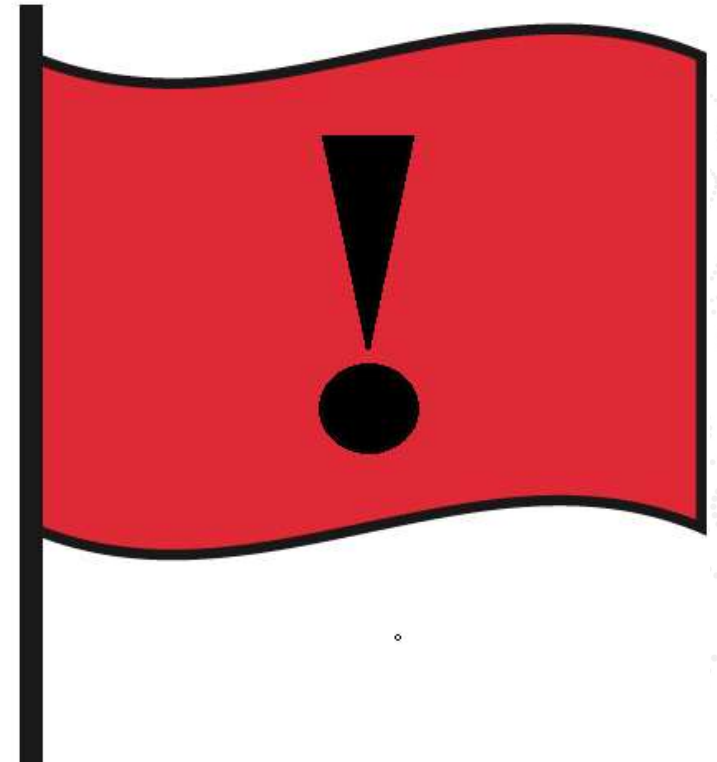
The Result of Red Flag Indicators

- **Re-evaluate** the information to determine if the red flags can be explained or justified
- What steps will you take - your **next course of action?**



Discussion

Can you share any incidents during which you have experienced any of these types of red flags?



Sanctions Compliance & Risk Mitigation Questions?

❖ **Thank You!**

Capt (Ret.) Neil Watts