



CULMEN
INTERNATIONAL

RISKY BUSINESS:

**NORTH KOREA BANNED COAL
EXPORTS**

INTRODUCTION



For most of the past decade anthracite coal has been one of North Korea's most profitable sources of foreign currency. It one of the first sectoral bans imposed by the United Nations when the cycle of nuclear and missile tests became more intense in late 2016 and 2017.

Since the ban, North Korea has used a number of techniques to try and obfuscate the presence of coal and continue to generate revenue through its export. These tactics, mainly centering around international shipping, include using flags of convenience, loitering outside foreign ports, and physically altering vessels.

Specifically, the UN Security Council Resolution 2371, has since August 2017, banned countries from buying coal that originates in North Korea,

since the revenue generated directly contributes to its nuclear and missile programs. Such illegal exports are controlled by military trading companies.

The attraction of this coal source is based on the fact that North Korea's coal is of exceptionally high quality, and low sulfur content. A ton of high-quality anthracite coal sourced from North Korea is pegged at around U.S. \$100, almost double the cost per ton just prior to the COVID period.

The prohibited coal exports are typically shipped from Nampo port in the Yellow Sea.

Vessel owners and operators, members of the maritime industry and those conducting any transportation or trade involving the maritime sector be vigilant against the following illegal practices to limit the risk of involvement with sanctionable or illicit activity, and that heightened due diligence be practiced concerning shipments that transit areas in proximity of North Korean ports.

An aerial, black and white photograph of a large cargo ship docked at a port. The ship is viewed from the side, showing its deck, masts, and various structures. The port infrastructure, including cranes and walkways, is visible on the left side of the frame. The water is dark, and the overall scene is industrial.

RISKS TO OWNERS/OPERATORS

The risks to ship owners and operators are serious. In April 2018 the bulk carrier *Wise Honest*, was seized for illegally transporting an estimated \$3 million of North Korean coal for sale in Southeast Asia. North Korea has resumed shipping coal after its COVID-19 lockdown to generate foreign currency despite these exports being prohibited by United Nations sanctions.

Safety Risks

The for the Safety of Life at Sea International Convention (SOLAS) requires that certain classes of vessels traveling on international voyages operate their AIS at all times.

Typical of vessels carrying illegal cargo from North Korea, the vessel *Wise Honest* had not broadcast any Automatic Identification System (AIS) broadcasts since August 2017 – even though ships of its size are mandated to continuously transmit their position via AIS by the IMO – for collision avoidance, thus also undermining international maritime safety regulations. A history of unexplained gaps in AIS transmissions during past voyages is similarly also an indicator of illicit activity.

Falsifying Origin

Vessels transporting North Korean coal have also been known to sail from North Korean ports to other international ports, but then, rather than offload their cargo, they sometimes remain at anchor outside the port for several days before continuing their voyage to another port. This type of obfuscation gives the false impression that the vessel is loaded in a different port rather than the one in North Korea. Notably, the vessels documents falsely claimed Russian origin.

RISKS TO OWNERS/OPERATORS

Where relevant and appropriate, exporters and entities at all stages of the maritime supply chain are encouraged to conduct effective due diligence to ensure that recipients and counterparties to a transaction are not sending or receiving commodities that may trigger sanctions, such as North Korea-origin coal.

Also consider implementing controls that allow for verification-of origin and recipient checks for ships that conduct ship-to-ship transfers, particularly in high-risk areas. Also consider requesting copies of certificates of origin and complete, accurate shipping documentation, including bills of lading that identify the origin or destination of the cargo.

Another best practice to mitigate risk, is for maritime companies to review the details of vessels' voyage, including the vessel, cargo, origin, destination, and parties to the transaction. In particular, and in line with their internal risk assessment, review the relevant documents in order to demonstrate that the underlying goods were delivered to the port listed in the documentation and not diverted in an effort to circumvent sanctions.





IRREGULAR FINANCIAL PRACTICES

Illegal ship-to-ship transfers (which are also prohibited by UN sanctions) are often utilized in an effort to avoid detection, and bypass formal shipping arrangements by alleviating the need to provide legal shipping documentation associated with coal imports and to cut out import taxation.

The sale of commodities in such a manner also enables North Korea to circumvent the international financial system. In many cases, rather than directly paying for the coal, some companies keep the payments in overseas bank accounts and then make purchases on behalf of sanctioned North Korean entities, acting as brokers and replenishing overseas accounts through illicit coal exports into markets such as South Korea, Vietnam, Malaysia, and Indonesia.

Lately, some trading companies are getting bolder and skip ship-to-ship transfers entirely and tap into organized crime and corruption to facilitate these illegal imports - utilizing bulk "cash payments on the spot," according to investigative sources. Such foreign currency generated by illegal coal exports is then not deposited into the Foreign Trade Bank of North Korea funneled directly to the party structure."

Human Rights Violations

Lastly, North Korea has also utilized political prisoners, including children, in its coal production to boost exports and thereby generate foreign currency for its nuclear and missile programs, redirecting scarce funding at the expense of its people enduring great hardship. The United Nations estimates up to 200,000 people are held in a network of prison camps located near mines. Quotas export products are met through the enslaved labor of men, women, and children in such detention camps.

QR Code below for more information



CULMEN CAN HELP

If you have questions regarding DPRK sanctions evasion, Culmen International can help. Contact us if you have questions regarding improving due diligence and compliance procedures.

Prepared by Culmen International

