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Sanctions Compliance Sanctions measures and trends - Cargo

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By Captain Retd. Neil Watts

A leader in International Security, Logistics, Humanitarian Assistance, and Technology solutions

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Sanctions measures and trends - Cargo

Quick quiz:

What types of sanctions impact transfers of goods?



Sanctions measures and trends - Cargo

The compliance chain



Compliance action:

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



WHICH LINK ARE YOU?

Sanctions measures and trends - Cargo

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



Sanctions measures and trends - Cargo

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



Sanctions measures and trends - Cargo

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

Sanctions measures and trends - Cargo

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

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



Bill of Lading document. Key details include:

- Code Name: 'TONGONBEL' EDISON 194
- Shipper: PT. BAKA MAKMUR SADAYANA
- Consignee: EASTERN STEEL SDN. BHD. LOT 4293 AND 4294, KAWASAN PERINDUSTRIAN TELUK KALONG, MUKIM TELUK KALONG, 24000 KEMAMAN TERENGGANU DARUL IMAN, MALAYSIA
- Port of loading: TELUK BALAKPAPAN, INDONESIA
- Weight: SAID TO WEIGHT 26,400 MTS
- Goods description: **INDONESIAN COAL** (highlighted in red)
- Freight payable as per charter party

Certificate of Origin document. Key details include:

- Country of origin: **Russian Federation** (highlighted in red)
- Goods description: ANTHRACITE COAL
- Weight: 26,500 MTS

Sanctions measures and trends - Cargo

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



Sanctions measures and trends - Cargo

Is your cargo subject to sanctions?

Sanctions: WMD and Arms Ban related goods lists

mtrc.info/en



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MISSILE TECHNOLOGY CONTROL REGIME

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

Sanctions measures and trends - Cargo

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	Chapter 72 Iron and steel products (7201-7229)	All imports from DPRK prohibited
Iron and Steel products	7301-7326 Iron and steel products	
Gold	261690 Gold ores and concentrates 7108 Gold (incl put plated), unwrought, semi-manufactured forms or powder 710811 Gold Powder, Unwrought 710812 Gold in Other Unwrought Forms 710813 Gold in Other Semi-manufactured Forms 710820 Monetary Gold	Commodities added in para 28 of resolution 2321 (2016)
Titanium	2614 Titanium ores and concentrates	
Vanadium	2615 Vanadium ores and concentrates	Commodities added in para 28 of resolution 2321 (2016)
Rare Earth Minerals	2612 Uranium or thorium ores and concentrates [261210 and 261220] ores and concentrates, [Nesoi code 261790 - Other Ores and Concentrates] 2805 alkali metals etc, rare-earth metals etc, mercury 2844 radioactive chemical elements & isotopes etc	
Copper	7401-7419 Copper and articles thereof 2603 Copper ores and concentrates	
Zinc	7901-7907 Zinc and articles thereof 2608 Zinc ores and concentrates	
Nickel	7501-7508 Nickel and articles thereof 2604 Nickel ores and concentrates	Commodities added in para 28 of resolution 2321 (2016)
Silver	2616100 Silver ores and concentrates 7106 Silver unwrought or semi manufactured forms, or in powdered forms; base metals clad with silver, not further worked than semi-manufactured 7107 articles of goldsmiths or silversmiths' wares or parts thereof, of silver, whether or not plated or clad with other precious metal 7114	
Silver / gold	2616 Precious metal ores and concentrates	

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?

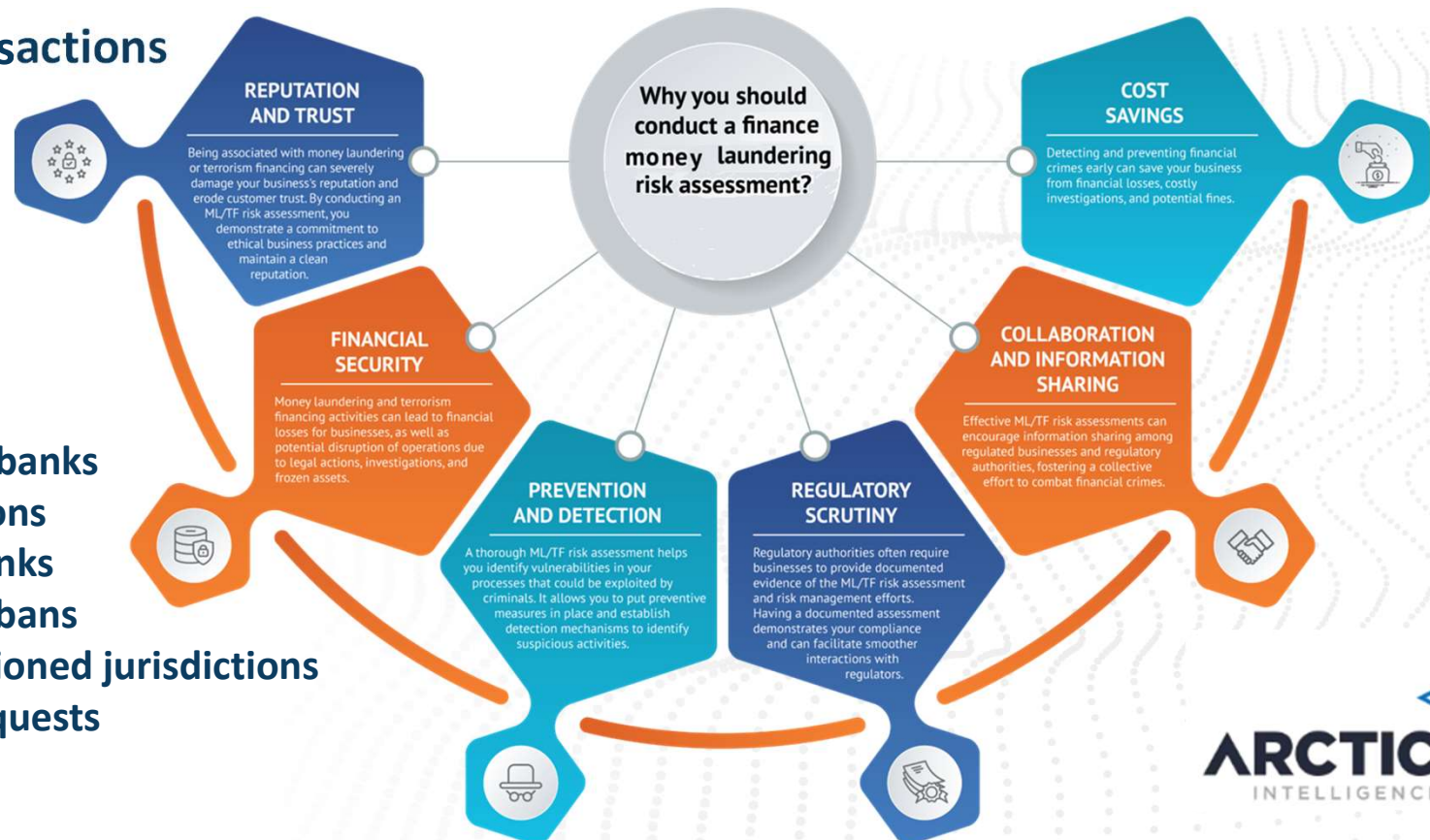
UN sanctions monitoring experts' (POE) reports on the UNSC website

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

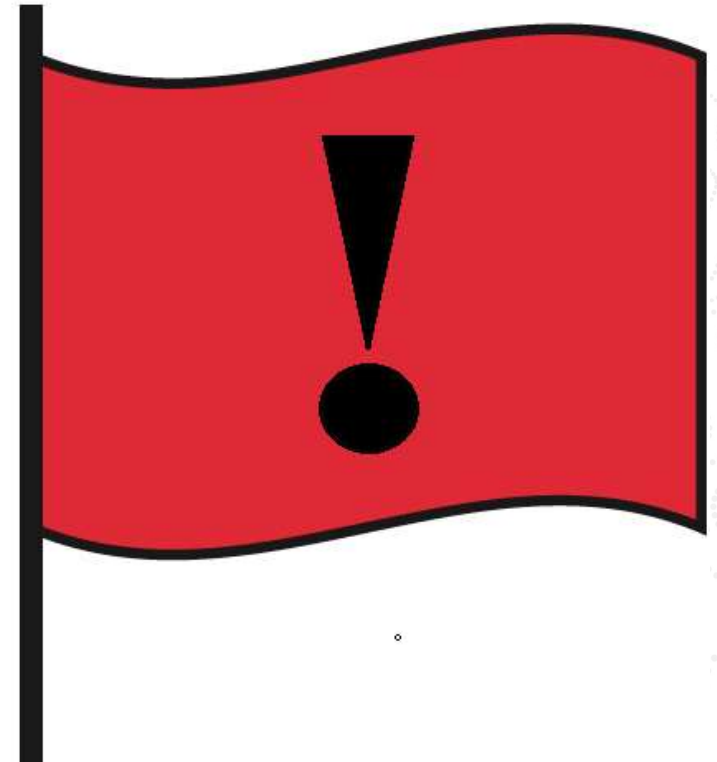
What Is a Red Flag?

- 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



Cargo Red flags

- 1. Improper Documentation:** Missing, incomplete, or incorrect documentation - potential issues with cargo, e.g. misdeclared goods or smuggling
- 2. Inconsistent Weight:** Significant discrepancies between the declared and actual weight of cargo - hidden or undeclared items
- 3. Tampered Seals:** Broken or tampered seals on containers - unauthorized access or tampering
- 4. Non-compliance with Regulations:** Cargo that does not meet international or local shipping regulations can pose safety and legal risks



Cargo Red flags

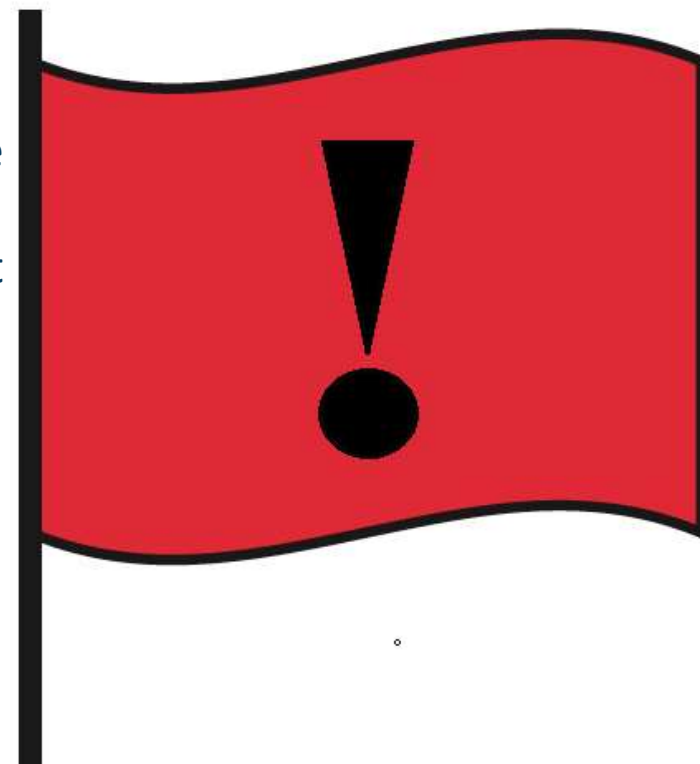
Key documents required for shipping most likely to be manipulated, forged or falsified

- Purchase invoice
 - Bill of lading
 - Packing list
 - Import permit (if applicable)
 - Certificate of origin
-
- ✓ Items requiring an import permit - Malaysian Customs website
 - ✓ Shipping companies typically provide these documents

Where to Look for Red Flags

The customer

- Customer places high-value order for **sophisticated** equipment or exotic chemicals.
- Customer is a **reseller** or distributor - always inquire who the **end-user** is [no re-export clause].
- Customer has **no website or social media** presence and is not listed in online business directories
- 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
- Customer places an order and makes all shipping arrangements through a **freight forwarding service** - request freight forwarder provide 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**



QUICK QUIZ

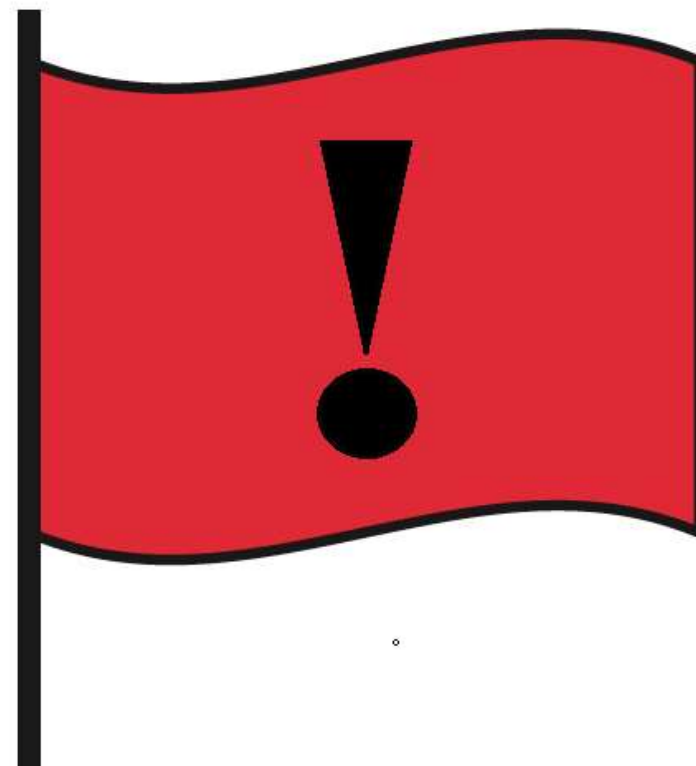
You should suspect a **dual-use violation** if the customer:

- (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



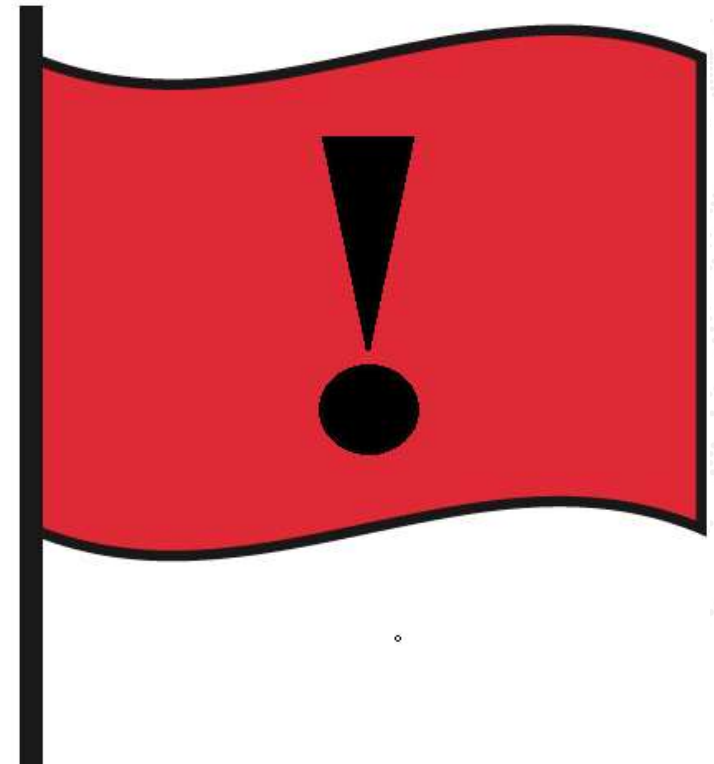
Red Flag Indicators – Product Information

- **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**



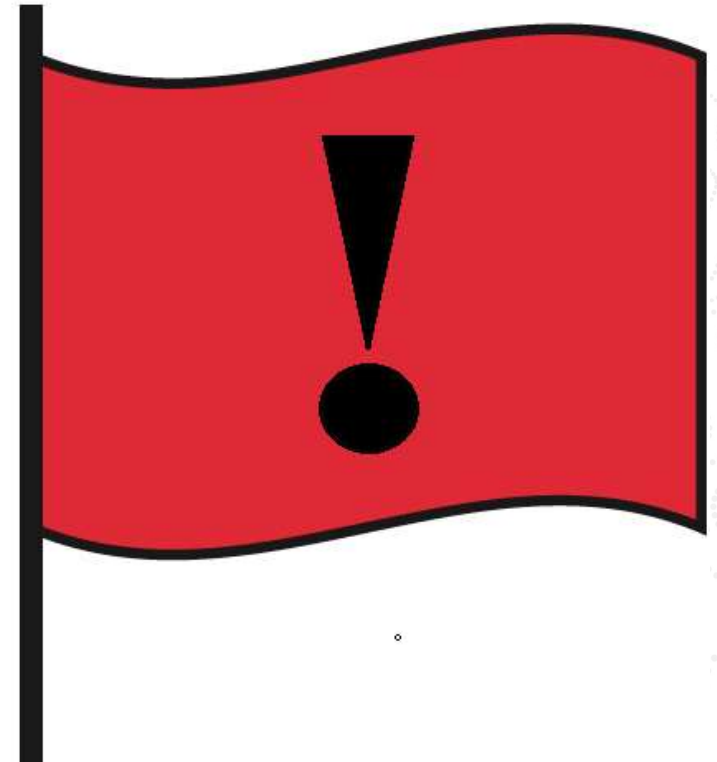
Red Flag Indicators – Transaction / Shipping Information

- 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



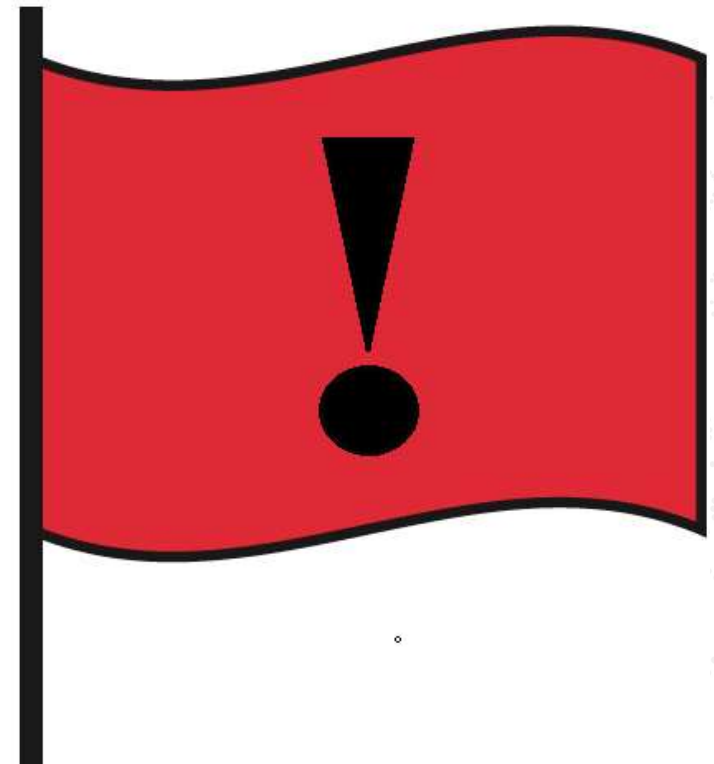
Red Flag Indicators – End User

- Suspect end-user located in **transshipment country**
- End-user listed is a trading company or **freight forwarder**
- End-user listed is in or in close proximity to a sanctioned jurisdiction



Red Flag Indicators – Post-Sale Follow-Up

- Troubleshooting inquiries from different end-user or in the wrong **language**
- 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

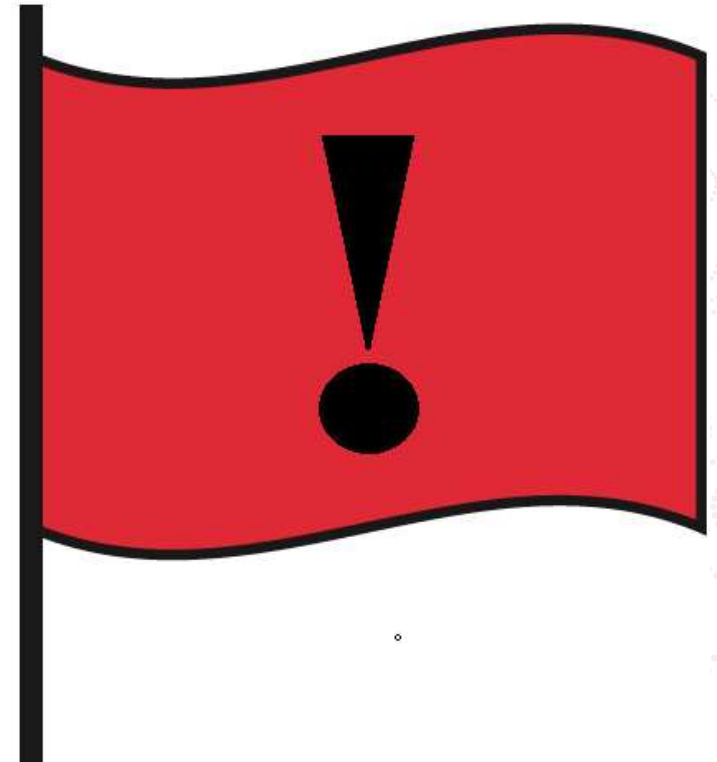
- The exporter/end-user has no relevant business background

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



The Result of Red Flag Indicators

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



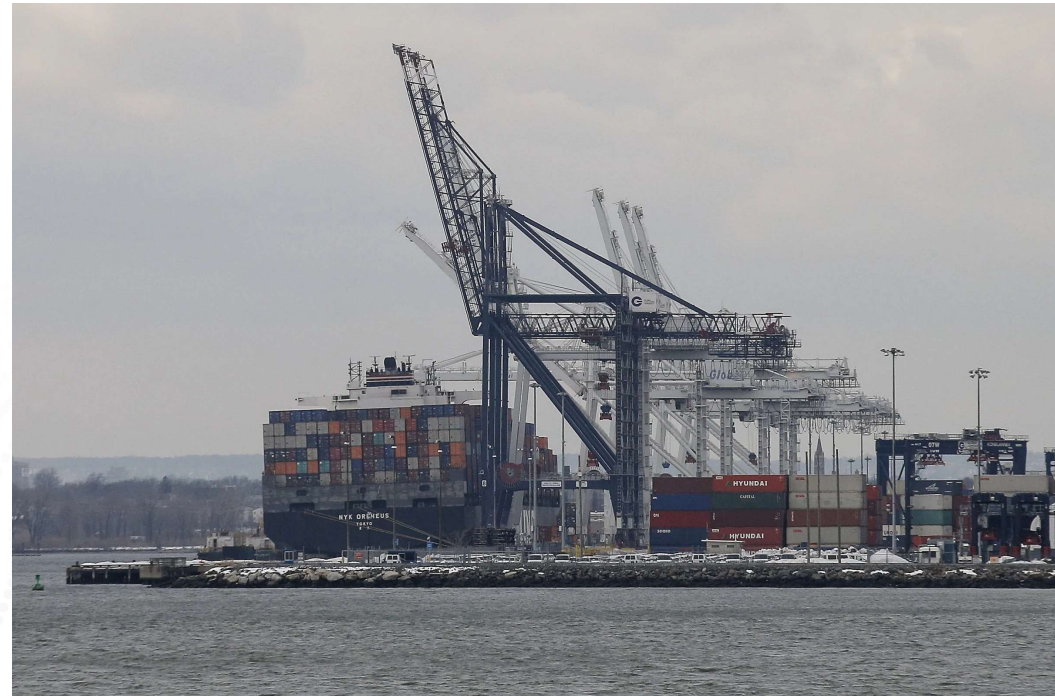
Discussion

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

Sanctions Compliance & Risk Mitigation

Cyber vulnerabilities

- Access systems
- Wi-Fi or wide area network (WAN)
- Cargo and tracking system
- Port equipment:
 - Detection systems
 - Cranes



Sanctions Compliance & Risk Mitigation

Cyber vulnerabilities

- **IMO's Cyber Guidelines** adopted in 2017 and put into effect in 2021
- Guidelines - IMO members relied on International Safety Management (ISM) Code
- Circular was released on June 2022 (MSC-FAL.1/Circ.3/Rev.2 7) - high-level cyber security guidance
- **The International Ship and Port Facility Security (ISPS) Code** focuses primarily on physical security. Part B, paragraph 15.3.5 relevant - port facility security assessment
- UK Office of Financial Sanctions Implementation (OFSI) financial sanctions guidance - advisory on **North Korean IT workers**
- **Cargo shipping deceptions – impersonate reputable companies - counterfeit websites**

Sanctions Compliance & Risk Mitigation Questions?

❖ **Thank You!**

Capt (Ret.) Neil Watts