



CULMEN
INTERNATIONAL

RISKS IN THE SHADOWS

SHIP-TO-SHIP
TRANSFERS AT SEA

SHIP-TO-SHIP TRANSFERS ARE NOT ILLEGAL

BUT THOSE INVOLVING NORTH KOREA CERTAINLY ARE

The maritime industry, and those active in the petroleum export products and commodity import sectors, engaged in foreign trade need to be aware and vigilant to the deceptive shipping practices used to undermine legitimate trade in order to evade sanctions concerning North Korea.

Below are some examples highlighting common deceptive shipping practices utilized for sanctions evasion and recommendations derived from best practices for the shipping sector to consider adopting to mitigate exposure to sanctions risk.

The United Nations resolutions specifically prohibit facilitating or engaging in ship-to-ship transfers, to or from North Korean vessels, of any goods or items that are being supplied, sold, or transferred to or from North Korea. A ship-to-ship transfer involves a vessel going alongside another, to transfer its cargo at sea, without having to disembark the cargo in a port.

Such transfers are intended to circumvent sanctions compliance controls at ports and to conceal the destination or origin of the transferred cargo.

North Korea has been illegally exporting coal, sand and obtaining petroleum products illegally through such ship-to-ship transfers. Vessels conducting illicit ship-to-ship transfers with North Korean vessels will typically switch off their AIS to evade detection and mask their movements.





MONITORING VESSEL MOVEMENTS AND BEHAVIOUR

Consistent with effective risk management, it is recommended that vessel owners, operators, and charter companies are encouraged to continuously monitor their vessels, including those under lease to third parties. The most effective means to do this is with software tracking using the vessels Automatic Identification System (AIS) that has been mandated by the IMO.

This system can be augmented with Long Range Identification and Tracking (LRIT) systems, the frequency of which it transmits regularly can be based on a frequency informed by the company's risk assessment of the area that the vessel is transiting through. Common deceptive STS transfers in areas determined to be high-risk can be found in UN Panel of Expert reports or US coastguard advisories.

The seizure of the Singapore owned tanker *Courageous* by Cambodia in 2021 for illicit transfers to North Korean vessels, is an example of the risks faced by owners and operators in this regard.

Prior to any such ship-to-ship transfer, vessel operators should consider verifying the receiving vessel's identity: its name, IMO number, and flag, and confirm whether the other vessel is also transmitting its AIS.

RISK MITIGATION THROUGH EFFECTIVE DUE DILIGENCE

As appropriate, private sector maritime entities are encouraged to review the details of the underlying voyage, including the vessel, cargo, origin, destination, and parties to the transaction. In particular, and in line with their internal risk assessment, parties are encouraged to review the relevant.

Risk mitigation efforts can be supplemented by identifying red flags, in particular where the ownership of a vessel is transferred frequently over a short period or between companies that are controlled by the same beneficial owner and where there is no discernable legitimate purpose for the transfer.

As a matter of continuous improvement, companies in the maritime sector engaged in international commerce, could also have their sanctions compliance programs audited by qualified third parties, including information sharing and alerting counterparts, including ship owners, managers, charterers, and operators, to support their internal risk assessments.

In addition, to build trust and confidence between international partners, make it known on websites and social media that clearly indicate:

- international trade activities and supply chains are managed in a manner consistent with United Nations (UN) sanctions and bi-lateral international sanctions such as those in Australia, Japan and United States, as applicable;
- sufficient resources are devoted to ensure compliance with applicable sanctions measures by company personnel;
- trade partners, subsidiaries and affiliates in the supply chain are also compliant;
- internal controls and procedures have been adopted to monitor/check vessels' AIS transmissions company with the IMO standards;
- cargo emanating or going to areas known to be high risk regarding illicit sanctions activities, is screened and assessed when onboarding or offloading cargo; and
- processes capable of verifying the authenticity of bills of lading are in place.

VERIFY THE VERACITY OF SHIPPING DOCUMENTATION

Exporters and entities across the maritime supply chain are also encouraged to conduct appropriate due diligence as relevant to international transactions, to ensure that recipients and counterparties to such transactions are not sending or receiving commodities that may trigger sanctions, such as importing North Korea-origin coal or exporting petroleum products to North Korea.

It would also be prudent to consider implementing checks that allow for verification of the documentation indicating origin and recipient checks for ships that conduct ship-to-ship transfers, particularly in high-risk areas. As necessary, consider requesting copies of export licenses (where relevant) and for complete, accurate shipping documentation, including bills of lading that identify the cargo.

Lastly, to enhance compliance and adherence to legitimate international business practices, effective compliance best practice should include a mechanism where company employees who alert their company of any illicit behavior can be protected from retaliation and that their disclosures of suspected or actual illicit or sanctionable activity remain confidential.

In addition, there are also reward incentives available when information is shared concerning suspected or actual illicit or sanctionable activities such as the U.S. Rewards for Justice Program that offers rewards of up to \$5 million for information that leads to the disruption of illicit activities related to efforts to evade sanctions involving North Korea, including illicit shipping activities. More information is available at the link below:

[:https://rewardsforjustice.net/english/about-rfj/north_korea.html](https://rewardsforjustice.net/english/about-rfj/north_korea.html).

Scan the 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

