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INTERNATIONAL

A black and white photograph of several luxury watches. One watch in the foreground is in sharp focus, showing its dial with sub-dials and a metal link bracelet. The other watches in the background are blurred, creating a bokeh effect.

North Korea:

Luxury Goods Ban

INTRODUCTION

The North Korean leadership has a long history of rewarding the North Korean circle of elites with luxury housing, designer brand goods, vehicles, watches and such.

The unquestioned loyalty to the country's leader demonstrated by the circle of elites and highly placed public officials, is rewarded with high-end luxury goods and much better living conditions than the long-suffering ordinary public who are regularly called upon to make sacrifices and endure hardship. Videos released by the state media demonstrates that the acquisition and distribution of luxury goods, including opulent properties, is a preferred method used by the leader to reward its loyal, devoted elites – despite prohibitions imposed by international sanctions – intended to impact elites rather than the general populace.

The United Nations (UN) Security Council banned the supply, sale or transfer of luxury goods to North Korea in 2006, such as cars, yachts, jewellery, lead crystal, luxury watches, recreational sports equipment, watercraft, snowmobiles, rugs and tapestries (valued higher than \$500), and porcelain or bone china. Furthermore, any activities related to the transport or facilitation of any such goods to North Korea, is also banned. North Korea, using its smuggling networks, has been evading sanctions by shipping of luxury goods through two or more countries to disguise their ultimate destination and take advantage of variations in export control practices.

RISKS TO THE SHIPPING INDUSTRY

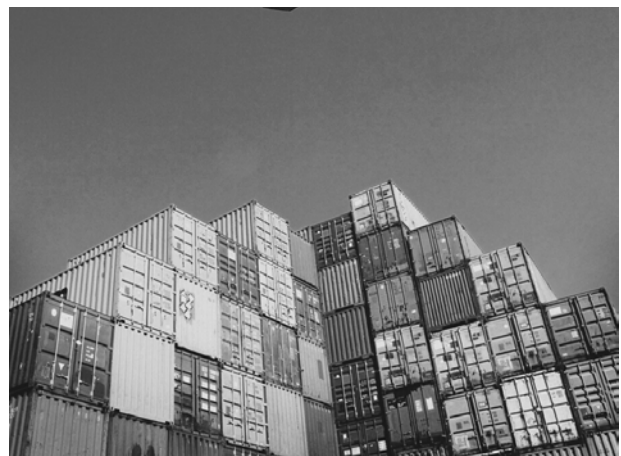
Unlike commercial goods adaptable for military use (dual-use goods), luxury products like armoured Mercedes limousines and luxury yachts are relatively easily identifiable on official media, parades and publicly are often from trade records and at ports. Luxury goods illegally exported to North Korea between 2015 to 2017, were estimated to be worth at least \$5.1bn USD. As many as 90 countries have been identified as the sources of luxury goods for the North Korean elites.

High-end luxury goods make their way to North Korea's elite through a complex system of port transfers, secret high-seas shipping and shadowy front companies. North Korea has developed a complex, constantly evolving series of third parties to circumvent sanctions restrictions and global export controls to obtain these luxury goods - much like the leader's cars and luxury brands.

North Korea acquires high-end luxury goods through the same overseas smuggling networks as other illicit goods, so it is an integral part of the country's core procurement operations - understanding how North Korea smuggles luxury goods can also provide useful information on

the modus operandi of these networks can help companies and their supply chains from the risk of unwittingly being caught up in North Korea's illicit smuggling operations involving dangerous dual-use items or foreign components for its nuclear weapons programs.

Companies found to be involved in these transactions are at risk of being named in reports, incurring reputational damage and may become blacklisted or subject to targeted sanctions through designation. These risks can be mitigated with heightened awareness and vigilance and through sound due diligence practices concerning luxury goods going to North Korea, directly or indirectly via transhipments or third parties,





SANCTIONS EVASION

SMUGGLING LUXURY CARS

North Korea has been using luxury limousines frequently since such luxury goods were banned. In one case in 2019, North Korea illegally obtained prominent luxury vehicles, including two armored Mercedes. Flown in on a cargo plane from Pyongyang, these vehicles carried North Korea's leader through the streets of Singapore and Hanoi during summit meetings.

At a purchase price of \$500,000 to \$1.6 million respectively, these vehicles are top-of-the-range Mercedes-Benzes - the Maybach S62 and Maybach S600 Pullman Guard. When it comes to sanctions evasion, North Korea relies on a sophisticated but small group of trusted individuals that move any goods required by the state, whether it's luxury goods or components for missiles, or whether it's arranging for trade of resources.

The circuitous shipping route undertaken by the two of armored Mercedes sedans, just three months before their appearance, coming from Europe to East Asia, demonstrates how one of the luxury-goods transportation networks smuggles goods. Supply chain data was used to track the two cargo shipments of the vehicles transported through a suspected procurement route from Rotterdam Port in the Netherlands to Asia, including via Japan, South Korea, and Russia, where they were taken by Air Koryo cargo jets on their last leg to Pyongyang.

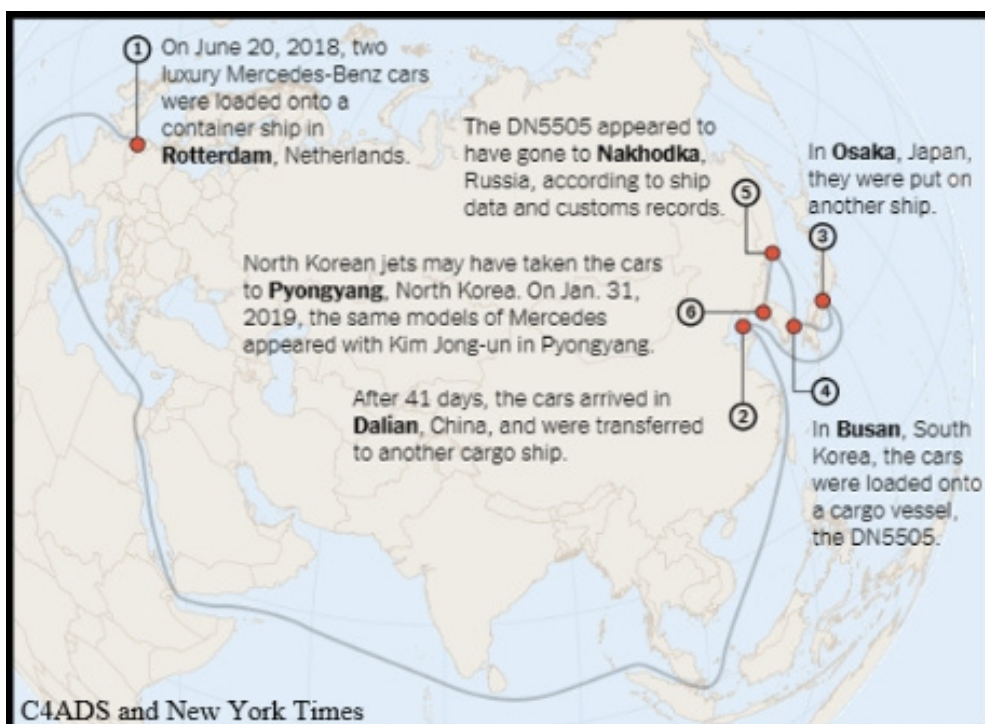


SANCTIONS EVASION

SMUGGLING LUXURY CARS

Their journey started in June 2018 - two sealed shipping containers, each containing one vehicle, were brought by truck into a shipping terminal in Rotterdam, as revealed by cargo tracking records. The vehicles originated in Germany, the Netherlands and Thailand before being transshipped. The two containers, transported by a Chinese shipping company from Rotterdam to Dalian for 41 days at sea.

But the Dalian port authorities refused to approve the transshipment of the vehicles onboard a break bulk vessel, so the shipper, supposedly at the request of the “receiving party”, sent an official request to the shipping company to change to a new consignee, (also using falsified documents), and a new bill of lading from the transporting company.



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They were then off-loaded from the vessel upon arrival on July 31, remaining in the port until August 26.

Both containers were then transshipped again onto a ship bound for Osaka

,Japan - then transshipped again for a three-day voyage to Busan, South Korea, arriving on September 30.

Within one day of arrival the containers were loaded onto a cargo vessel registered under the flag of Togo, West Africa, the DN5505.

The vessel then sailed to the port of Nakhodka, Russia. For the final leg of the journey, the vehicles were consigned to Do Young Shipping, a Marshall Islands company that owned the DN5505. Documents reveal that Do Young was linked to a Russian businessman, the owner of the vessel.

The vessel was originally named the Xiang Jin, but renamed the DN5505 after its ownership was transferred from a Hong Kong-registered company to Do Young on July 27, only a few days before the two luxury vehicles arrived in Dalian. The vessel left Busan on October 1 with the two containers and switched off its automatic identification system for the remainder of the voyage - a common tactic for vessels evading sanctions..

GENERAL LIST OF LUXURY GOODS

Jewelry:

- Jewelry with pearls
- Gems
- Precious and semi-precious stones (including diamonds, sapphires, rubies, and emeralds)
- Jewelry of precious metal or of metal clad with precious metal

Transportation items

- Yachts
- Luxury automobiles (and motor vehicles): automobiles and other motor vehicles to transport people (other than public transport), including station wagons
- Racing cars

Luxury Goods

- Luxury watches: wrist, pocket, and other with a case of precious metal or of metal clad with precious metal
- Transportation items, as follows:
- aquatic recreational vehicles (such as personal watercraft)
- snowmobiles (valued greater than \$2,000)
- Items of lead crystal
- Recreational sports equipment
- Rugs and tapestries (valued greater than \$500)
- Tableware of porcelain or bone china (valued greater than \$100)

UN Resolutions

Banned luxury goods lists (those included but not limited to) according to the following UN security Council resolutions:

- Paragraph 8 (a) (iii) of resolution 1718 (2006)
- Annex IV of resolution 2094(2013)
- Paragraph 39 of resolution 2270 (2016)
- Annex IV of resolution 2270 (2016)
- Annex IV of resolution 2321(2016)

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

