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Guidance to Address Illicit Shipping and Sanctions Evasions Practices

On 14 May 2020, the Treasury and State Departments, along with the US Coast Guard issued a joint [Guidance to Address Illicit Shipping and Sanctions Evasions Practices](#). This document provides updated sanctions guidance for maritime, energy, metals, and related industries and identifies US compliance expectations for firms in these fields.

The guidance outlines seven deceptive shipping practices—or red flags—the US government expects firms to monitor in their compliance efforts:

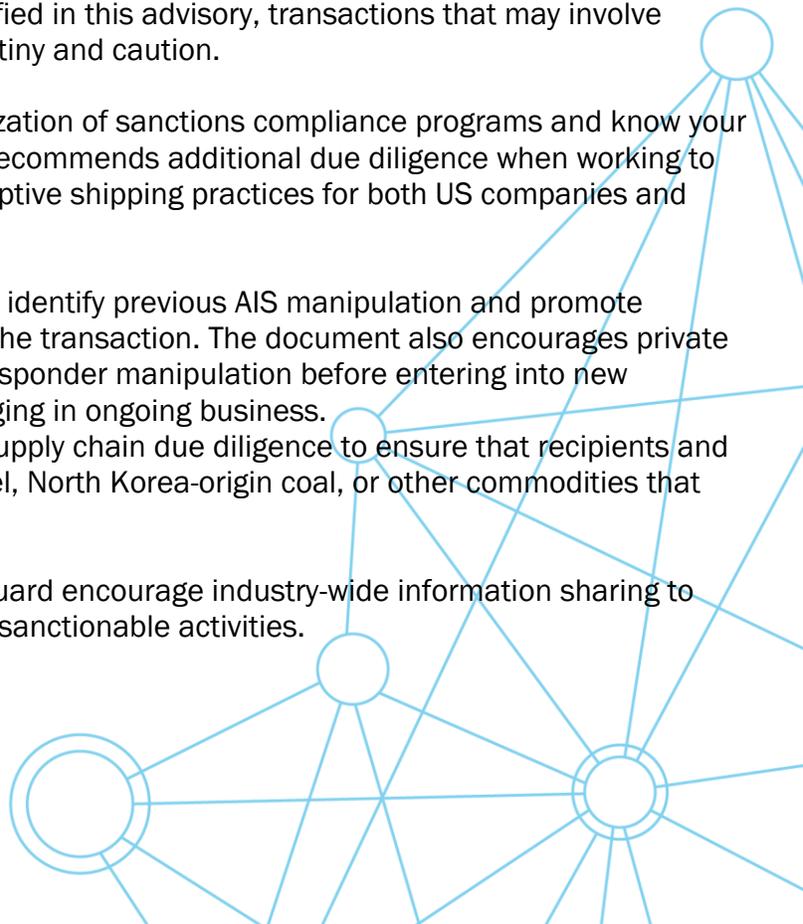
- Disabling automatic identifications systems (AIS);
- Physically altering vessel identifications;
- Falsifying cargo or vessel documents;
- Engaging in ship-to-ship transfers;
- Displaying voyage irregularities;
- Using false flags and flag hopping to mask illicit trade and avoid detection; and
- Using complex ownership or management of vessels to disguise the ultimate beneficial ownership of the cargo.

US authorities also advise companies to monitor vessel activity in risky jurisdictions, especially those that may involve North Korea, Iran, or Syria. Although not identified in this advisory, transactions that may involve Venezuela and its resources should entail similar scrutiny and caution.

In addition to best practices, such as the institutionalization of sanctions compliance programs and know your customer and counterparty programs, the document recommends additional due diligence when working to minimize exposure to sanctions risk and counter deceptive shipping practices for both US companies and foreign firms.

One recommendation is to research a ship's history to identify previous AIS manipulation and promote continuous broadcasting of AIS throughout the life of the transaction. The document also encourages private companies to investigate signs and reports of AIS transponder manipulation before entering into new contracts involving problematic vessels or when engaging in ongoing business. The document also recommends that firms exercise supply chain due diligence to ensure that recipients and counterparties are not sending or receiving Iranian fuel, North Korea-origin coal, or other commodities that may trigger sanctions.

In addition, OFAC, State Department, and the Coast Guard encourage industry-wide information sharing to mitigate the risk of unknowingly becoming involved in sanctionable activities.



Annex A of the advisory provides specific guidance for maritime insurance companies, flag registry managers, port state control authorities, shipping industry associations, regional and global commodity traders, suppliers, and brokers, financial institutions, ship owners, operators, and charterers, classification societies, vessel captains, and crewing companies. The advisory specifies that each organization should assess its own risk and adopt the provided guidance as appropriate. The recommendations are tailored toward each specified sector, providing individual lists of due diligence and compliance best practices to address the most prominent sanctions and illegal activity risks.

Annex B provides detailed information on prohibited maritime interactions with North Korea, Iran, and Syria, prohibited commodities, as well as deceptive shipping practices of which maritime companies should be aware.

- The advisory outlines North Korean sanctions evasion practices, including exports of coal and sand via ship-to-ship transfers from North Korea-flagged vessels to local barges in Chinese territorial waters. Self-propelled barges, likely delivering to China, constitute the second-largest method of North Korean sanctions evasion, including direct deliveries originating from North Korea to three ports in Hangzhou Bay, China. Acquisition of old vessels and the use of non-ocean-going barges are also popular evasion techniques.
- Iran and Syria are both engaged in common maritime sanctions evasion techniques listed above, and the advisory also highlights deceptive shipping practices, such as attempts by the Islamic Revolutionary Guard Corps (IRGC) to obfuscate oil shipment information, payment-offsetting arrangements between Syria and Iran, and the delivery of jet fuel to Russian military forces operating in Syria.

In total, this guidance should be recognized as a clear set of expectations for firms directly and indirectly involved in maritime shipping. The recent designation of more than [120 Iranian shipping entities](#), indicates that the United States will more vigorously enforce its sanctions policy against adversaries who rely heavily on the transshipment of commodities and weapons. Companies not directly affected by the enhanced focus on the maritime industry should also pay close attention to these recommendations, because OFAC is likely to proffer similar directives for industries, such as chip manufacturing and information technology, that are closely associated with other high-priority US sanctions regimes.

