



JANUARY 19, 2024

CIRCULAR NO. 02/24

TO MEMBERS OF THE ASSOCIATION

Dear Member:

QUINT-SEAL COMPLIANCE NOTE: KNOW YOUR CARGO

On December 11, 2023, five US agencies – the Department of Justice, the Commerce Department’s Bureau of Industry and Security, the Department of Homeland Security’s Homeland Security Investigations, the State Department’s Directorate of Defense Trade Controls, and the Treasury Department’s Office of Foreign Assets Control (OFAC) – released a joint compliance note [Know Your Cargo: Reinforcing Best Practices to Ensure the Safe and Compliant Transport of Goods in Maritime and Other Forms of Transportation](#) (*Compliance Note*), highlighting tactics commonly deployed by malign actors in the transportation sector and best practices for the maritime and other transportation industries as well as examples of enforcement actions.

The *Compliance Note* provides guidance for all companies in the maritime sector – vessel owners, charterers, exporters, managers, brokers, shipping companies, freight forwarders, commodities traders and financial institutions, including (re)insurers.

Best Practices

The *Compliance Note* builds further on previous guidance from OFAC relating to sanctions evasion in the maritime industry, including the [Sanctions Advisory for the Maritime Industry, Energy and Metals Sectors, and Related Communities](#) published on May 14, 2020 and the [Price Cap Coalition Advisory for the Maritime Oil Industry and Related Sectors](#) published on October 12, 2023.

It reiterates best practices including:

- Develop, implement, and adhere to written, risk-based operational compliance policies, procedures, standards of conduct, and safeguards;
- Conduct risk-based due diligence on the location history of vessels or vehicles, to identify prior manipulation or disabling of location or identification tracking data;
- Implement robust know your customer due diligence;
- Exercise of risk-based supply chain due diligence to verify “the true nature, origin, and destination of the cargo they are involved in transporting”; and
- Share information across industries and supply chains, as appropriate.

Red Flags

The *Compliance Note* identifies several red flags that may indicate attempts to evade sanctions and export controls:

- Manipulation of location or vessel identification data;
- Falsification of cargo and vessel documents;
- Ship-to-ship transfers at night or conducted in high-risk areas;
- Voyage irregularities and use of abnormal shipping routes that appear to be done without a legitimate reason;
- Frequent registration updates (flag hopping); and
- Obscure ownership structures or frequent changes in ownership.

It also provides examples of the US government's increased monitoring of, and enforcement against, sanctions and export control evasion.

The *Compliance Note* concludes by advising all actors that:

“Companies operating in the maritime and other transportation industries should be vigilant in their compliance efforts and be on the lookout for efforts to disguise the nature, origin, or destination of cargo being transported,” the note concluded. “These entities are strongly advised to assess their sanctions and export risks; implement rigorous compliance controls to address those risks; and, ultimately, verify the true nature, origin, and destination of the cargo they are involved in transporting.”

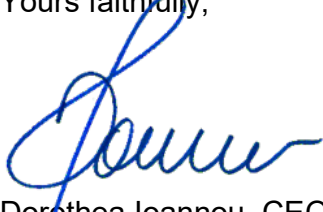
Entities and individuals – both US and non-US – involved in global transportation industries should therefore carefully consider their exposure to US sanctions. Recent enforcement actions demonstrated that non-US persons can face potential civil or criminal liability when their transactions involve a US nexus under the theory that they are “causing” US persons to violate sanctions. Furthermore, even where their transaction has no US nexus whatsoever, non-US companies transacting directly or indirectly with sanctions targets can be exposed to the risk of designation pursuant to executive orders that authorize sanctions for providing material support to blocked persons.

The *Compliance Note* provides a reminder that the maritime industry is not just responsible for adhering to the price cap on Russian oil, but also detecting and preventing deceptive maritime practices relating to Iran, North Korea, and other sanctions programs.

Members are reminded that cover is not available for any trade that breaches applicable sanctions and are advised to conduct thorough due diligence on the parties, cargoes, vessels and trade involved before engaging in trade in high-risk sanctions jurisdictions.

We also refer Members to [Circular No. 03/23 of February 14, 2023](#), *The Price Cap on Russian Oil: an Update*, [Circular No. 22/20 of May 22, 2020](#), *United States Issues Global Advisory Providing Guidance to Maritime Sector to Preclude Illicit Shipping and Sanctions Evasion*, and [Circular No. 20/20 of May 15, 2020](#), *Vessel Monitoring and P&I Insurance*.

Yours faithfully,



Dorothea Ioannou, CEO
Shipowners Claims Bureau, Inc., Managers for
THE AMERICAN CLUB

All clubs in the International Group have issued similar circulars.