



**MAY 1, 2020**

**CIRCULAR NO. 18/20**

**TO MEMBERS OF THE ASSOCIATION**

**Dear Member:**

**DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA (DPRK) (NORTH KOREA) – ENFORCEMENT OF SANCTIONS**

Reference is made to [Circular No. 03/19](#) of January 11, 2019 concerning the enforcement of sanctions against the DPRK. This Circular updates that enforcement information in consequence of the recent UN Panel of Experts on North Korea's Sanctions Report (see [Report](#)).

**Background**

The Report notes that the DPRK has not taken steps to end its nuclear program, which continues in violation of UN Security Council resolutions. Stringent sanctions measures have therefore remained in force. According to the Panel of Experts, the DPRK has continued to raise revenue for its ballistic missile program through the illicit import of refined petroleum and export of commodities such as sand and coal. Maritime activities have been identified as facilitating this revenue stream for the DPRK.

The message from the UN and national enforcement agencies is clear. Shipowners are strongly advised to note that sanctions monitoring and surveillance continue vigorously. Through the cooperation of UN member states, more evidence is being collated and reported where there has been a breach of sanctions.

**Evidence of use of non-DPRK vessels**

The Report notes the continuing use of non-DPRK flagged vessels that are used to perform illicit ship-to-ship (STS) cargo transfers at sea. The Report also says that the DPRK has changed its methods to evade detection by STS transfers between non-DPRK flagged vessels in international waters and thereafter delivering such unlawful cargo direct to Nampo. Such vessels often have conducted such operations several times before they are detected. These operations have entailed the DPRK receiving almost three times the UN specified total cap of 500,000 barrels of refined petroleum (paragraph 5 of resolution 2397 (2017)).

With the assistance of a UN member state, 14 vessels were designated, though none is entered with an International Group club. To conceal the true identity of the ownership and financial interests behind the vessels carrying out these activities, it was reported that most of the vessels' registered owners were dissolved or struck off company registers or were operating under false or fraudulent flags.

The Panel noted the need for regulators, enforcement agencies and the maritime industry to remain vigilant and maintain proper and effective due diligence. Tanker operators in particular should make every effort to identify and confirm the true destination of cargoes carried on board. STS transfers frequently take place at night with automatic identification systems (AIS) disabled. Subsequent transfers of cargo are often made to smaller vessels without IMO numbers.

The Report notes that the DPRK continuously innovates and adapts its methods to avoid detection of its activities. A further trend reported by the Panel was the exploitation of the scrap vessel market where the onward sale of larger bulk carriers (originally destined for scrap) was being organized to facilitate the transfer of coal, as opposed to the earlier use of smaller vessels.

### Exercise caution when fixing contracts

On May 3, 2019, the United States Treasury Department's Office of Foreign Assets Control (OFAC) published a "[Framework for OFAC Compliance Commitments](#)", which sets out OFAC's views of the essential elements of an effective sanctions compliance program.

In common with all clubs in the International Group, the American Club issued a Circular at the time drawing attention to its publication ([Circular No. 14/19](#) of May 6, 2019) and emphasizing the importance for any shipowner, charterer or trader to adopt measures to avoid the risk of breaking sanctions.

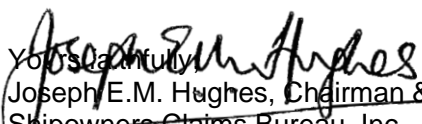
In the light of the most recent UN report, the American Club once again advises all Members to continue to apply the highest level of due diligence to avoid the risk of performing activities with a DPRK nexus. The penalties for doing so could result in designation, asset freezing and listing by the UN, OFAC and other enforcement agencies.

Any trade with a DPRK nexus will be subject to surveillance and scrutiny by monitoring agencies, including vessel movements, using AIS and long-range identification tracking, satellite imagery and other capabilities. Vessels that are suspected of breaching sanctions against the DPRK may be listed by national authorities and/or subject to search and detention at ports while investigations are carried out.

### Implications for Club cover

Any activity considered to be in breach of sanctions will result in the withdrawal of cover. Even if it were possible to undertake legitimate trade with North Korea and North Korean interests, Members should be aware that no International Group club is likely to be able to support vessels trading to North Korean ports, with payment of claims and fees, and the provision of security, liable to be delayed and very likely completely prohibited.

Members are therefore strongly urged to avoid undertaking any business with North Korea including, but not limited to, through engaging in STS operations. They must also exercise the fullest possible due diligence to ensure that they do not knowingly or inadvertently perform prohibited activities with North Korean entities.

  
Yours faithfully,  
Joseph E.M. Hughes, Chairman & CEO  
Shipowners Claims Bureau, Inc., Managers for  
**THE AMERICAN CLUB**

*All clubs in the International Group have issued similar circulars.*