

SEPTEMBER 25, 2017

CIRCULAR NO. 27/17

TO MEMBERS OF THE ASSOCIATION

Dear Member:

THE UNITED NATIONS AND THE UNITED STATES IMPOSE NEW, ADDITIONAL SANCTIONS ON NORTH KOREA

On September 10, 2017, the United Nations Security Council adopted a resolution (UNSCR 2375) requiring the imposition of additional economic sanctions against North Korea.

This Circular briefly summarizes these new sanctions. It should be read in conjunction with earlier Circulars on this subject issued by the Club.

The new UN sanctions

The new sanctions under UNSCR 2375 are designed to accomplish six major goals: cap North Korea's oil imports, ban its textile exports, end additional overseas labor contracts, suppress smuggling efforts, stop joint ventures with other nations, and impose sanctions on additional designated North Korean government entities.

Member states of the UN are required to implement and enforce UNSCR 2375. Where required, and where UN resolutions are not directly applicable as a matter of national law, member states are expected to take implementing action through the enactment of national laws and the promulgation of relevant regulations.

The new UN sanctions include the following items:

- A complete ban on selling natural gas to North Korea;
- A complete ban on purchasing North Korean textiles;
- A quota for selling oil to North Korea (an estimated 30% reduction from current levels);
- The limitation on the supply of refined petroleum: 500,000 barrels during an initial period of three months — beginning on October 1, 2017 and ending on December 31, 2017 — and two million barrels per year during a period of twelve months beginning on January 1, 2018 and annually thereafter;
- A limit of crude oil sales to North Korea not exceeding the amount supplied by each state in the period prior to the adoption the resolution;
- A limit on twelve month visas provided to North Korean laborers overseas. Existing visas are allowed to continue until expired, but no new visas are allowed to be issued.

- A requirement that all member states inspect ships going in and out of North Korea's ports (a provision put in place by the Security Council in 2009). It should be noted that the use of force is not authorized for ships that do not comply;
 - o If flag states refuse to allow inspections of suspicious vessels, then the flag state is required to redirect the vessels to a port for inspection; and
 - o If a flag state or vessel does not cooperate with inspections, then the vessel can be designated for an asset freeze, denied port access, de-registered, and suffer other penalties.
- A ban on joint ventures. This is aimed at further reducing foreign income, as well as technology transfers. However, there are some exemptions for some border projects that involve China and Russia.

Among other things, member states are to report to the Security Council within ninety days of the adoption of this resolution, and thereafter upon request by the Council, on concrete measures they have taken in order to implement effectively the provisions of this resolution. The Panel of Experts, in cooperation with other UN sanctions monitoring groups are to continue its efforts to assist member states in preparing and submitting such reports in a timely manner.

The new UN North Korea sanctions resolution also requires that the measures specified in paragraph 8(d) of UNSCR 1718 (2006) apply also to the individual and entities listed in Annex I and II attached, and to any individuals or entities acting on their behalf or at their direction, and to entities owned or controlled by them, including through illicit means, and further that the measures specified in paragraph 8(e) of UNSCR 1718 (2006) shall also apply to the individual listed in Annex I as attached and to individuals acting on their behalf or at their direction.

The new US sanctions

Prior to September 20, 2017 the United States already maintained comprehensive sanctions against North Korea pursuant to various Executive Orders and the North Korean Sanctions Regulations.

On September 20, 2017, the United States implemented UNSCR 2375 and added to existing US sanctions against North Korea by the issuance of an Executive Order. The previous US sanctions against North Korea have been and continue in force and they are now augmented by the sanctions imposed under the September 20 Executive Order.

The September 20 Executive Order provides additional tools to disrupt North Korea's ability to fund its weapons of mass destruction (WMD) and ballistic missile programs.

Specifically, the September 20 Executive order:

- (1) establishes several new designation/targeting criteria;



- (2) prohibits vessels and aircraft that have called or landed at a port or place in North Korea in the previous 180 days, and vessels that engaged in a ship-to-ship transfer with such a vessel in the previous 180 days, from entering the United States;¹
- (3) provides authority to block any funds transiting accounts linked to North Korea that come within the United States or possession of a United States person; and
- (4) provides authority to impose sanctions on a foreign financial institution that knowingly conducted or facilitated, on or after the date of the order
 - (i) any significant transaction on behalf of certain blocked persons or
 - (ii) any significant transaction in connection with trade with North Korea.

The sanctions applicable to foreign financial institutions, a form of secondary sanctions, can be restrictions on correspondent or payable-through accounts or full blocking sanctions.

American Club cover for vessels trading to or with North Korea

In compliance with the prohibitions of existing U.S. sanctions against North Korea, the September 20 Executive Order, and its rules, the American Club does not provide any P&I or other insurance coverage for any vessels trading with North Korea.

Questions and further guidance

Members are reminded that pursuant to American Club rules there is no cover for voyages where the extension of cover would violate or pose a risk of violating sanctions prohibitions and also that causing a violation could entail the imposition of sanctions or penalties. Members are accordingly reminded to proceed with extreme caution in dealing with or involving North Korea and to conduct additional sanctions compliance due diligence to ensure their own and the American Club's compliance with sanctions prohibitions.

Should Members wish to discuss any questions or need additional guidance regarding any aspect of the foregoing or other sanctions in general or for confirmations as to the availability of cover for voyages involving countries (Iran, Syria, Cuba, North Korea, Russia, Crimea region of Ukraine, Venezuela (presently only SDNs)) or entities or individuals subject to US economic sanctions (e.g., OFAC SDN List), please contact: Charles J. Cuccia, Senior Vice President - Compliance & Enterprise Risk Management, ph +1 212 847 4539, mob +1 917 215 2883, <mailto:charles.cuccia@american-club.com>.

Yours faithfully,

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

¹ An exception to this prohibition applies to vessels in distress to call at a port and aircraft to make emergency landings in the United States.



Annex I
(attached to Circular No. 27/17 of September 25, 2017)

Travel Ban/Asset Freeze (Individuals)

1. PAK YONG SIK

- a. *Description:* Pak Yong Sik is a member of the Workers' Party of Korea Central Military Commission, which is responsible for the development and implementation of the Workers' Party of Korea military policies, commands and controls the DPRK's military, and helps direct the country's military defense industries.
- b. *AKA:* n/a
- c. *Identifiers:* YOB: 1950; Nationality: DPRK



Annex II
(attached to Circular No. 27/17 of September 25, 2017)

Asset Freeze (Entities)

1. CENTRAL MILITARY COMMISSION OF THE WORKERS' PARTY OF KOREA (CMC)
 - a. *Description:* The Central Military Commission is responsible for the development and implementation of the Workers' Party of Korea's military policies, commands and controls the DPRK's military, and directs the country's military defense industries in coordination with the State Affairs Commission.
 - b. *AKA:* n/a
 - c. *Location:* Pyongyang, DPRK

2. ORGANIZATION AND GUIDANCE DEPARTMENT (OGD)
 - a. *Description:* The Organization and Guidance Department is a very powerful body of the Worker's Party of Korea. It directs key personnel appointments for the Workers' Party of Korea, the DPRK's military, and the DPRK's government administration. It also purports to control the political affairs of all of the DPRK and is instrumental in implementing the DPRK's censorship policies.
 - b. *AKA:* N/A
 - c. *Location:* DPRK

3. PROPAGANDA AND AGITATION DEPARTMENT (PAD)
 - a. *Description:* The Propaganda and Agitation Department has full control over the media, which it uses as a tool to control the public on behalf of the DPRK leadership. The Propaganda and Agitation Department also engages in or is responsible for censorship by the Government of the DPRK, including newspaper and broadcast censorship.
 - b. *AKA:* N/A
 - c. *Location:* Pyongyang, DPRK