Maritime compliance: the KYCs of cargo screening

MCaaS®

MARITIME COMPLIANCE SPECIALISTS

What is cargo screening and why is it important?

Cargo screening is a crucial process that ensures the safety, security and legality of goods being transported across the globe. In most cases, cargo is subject to multiple levels of screening, such as at the point of origin, during transit and at the destination.

The aim is to prevent the transportation of dangerous or illegal goods which could pose a threat to people, property or even the countries involved.

At MCaaS, we understand the significance of cargo screening and have developed an extensive database and enhanced validation process for trade compliance.
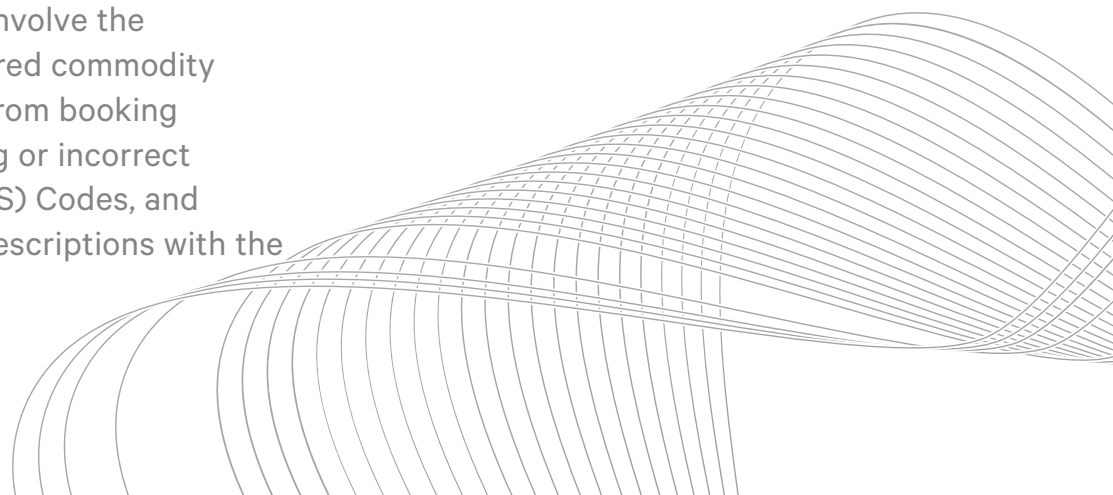
Our unique processes involve the extraction of unstructured commodity descriptions and data from booking files, flagging of missing or incorrect Harmonised System (HS) Codes, and matching commodity descriptions with the proper codes.

We screen cargo against dual items, military and US/UN/EU lists, among others, to comply with applicable laws and regulations.

The process of cargo screening includes data cleansing, data validation and screening against commodities and counterparties involved in the booking files.

This involves comparing the information obtained from various sources, including the bills of lading, packing lists, commercial invoices and purchase orders.

This process helps to validate that the information is accurate and complete.

Knowing your cargo

There are six KYCs for cargo screening:

1. Know Your Controls

Export controls refer to government regulations that restrict or prohibit the export of certain goods e.g. military and dual-use goods i.e. goods that have both civilian and military applications, technology (e.g. encryption software) or information for foreign countries or entities.

The goal of export controls is to protect national security, advance foreign policy interests and prevent the proliferation of weapons of mass destruction (WMD).

Export controls vary by country and can be administered by different government agencies e.g. the US Departments of Commerce, State and Defence.

Companies that export controlled items are required to obtain export licenses or other approvals from the relevant government agency before exporting items.

2. Know Your Codes

"Knowing Your Codes" is an essential aspect of international trade.

Accurately identifying the correct HS Codes for the goods being traded is critical for proper screening.

The HS Code is a six-digit standardised code system developed by the World Customs Organisation (WCO) to classify goods and is used by customs officials worldwide to assess applicable duties and taxes.

Incorrectly classifying goods can result in delays, penalties or even seizure of the cargo.

3. Know Your Countries

"Knowing Your Countries" involves verifying information about the country of origin, country of loading, and country of destination for the goods being exported – including the relevant ports and terminals.

This process is crucial in ensuring compliance with trade regulations and sanctions imposed by international bodies.

In cases where certain export licenses are required, additional checks must be carried out to determine if the destination country is high risk.

This is to prevent the trade of restricted or dangerous goods and to ensure proper cargo screening, which is important for maintaining the legality, security and safety of the goods being transported.

4. Know Your Counterparties

"Knowing Your Counterparties" involves verifying the identities of all parties involved in a transaction, including shippers and other entities mentioned in the booking files.

However, this extends beyond just identifying the direct counterparties as it may also involve knowing the parties' complex relationships and ownership structures as well as the people and entities they do business with, a process known as "Knowing Your Counterparty's Counterparties" (KYCC).

Financial institutions and various intermediaries are now required to implement KYCC procedures by regulators like OFAC.

Proper implementation of KYC/KYCC procedures can help prevent fraud, money laundering and other illegal activities in the shipping and related industries.

5. Know Your Consignees

"Knowing Your Consignees" is a subset of KYCC and procedurally intended to identify and verify the receivers of goods and those required to be notified when the shipment arrives at its destination.

The primary objective is to collect important information (e.g. complete name and address, business registration number) to screen the consignee against potential relationships with sanctioned entities or those associated with money laundering, terrorism financing and other criminal activities.

6. Know Your Caps

"Knowing Your Caps" is a recent phenomenon and refers to the price caps on the trade of Russian oil and petrochemical products under recent sanctions regulations imposed by the US, EU and UK due to the war in Ukraine.

The anti-Russia coalition will only allow services facilitating the maritime transport of refined oil products originating in Russia if the goods are traded at or beneath the agreed cap levels (currently set at $100 for high-value products like diesel and $45 for low-value products like fuel oil, but subject to regular review).

Companies will need to ensure compliance with the new regulations in line with the guidance published by the regulators.

In summary

The aforementioned KYCs of cargo screening need to be implemented by companies engaged in the maritime trade to prevent violations and protect the integrity of the global chain.

Violations of export controls and related regulations can result in severe penalties, including fines and imprisonment.

Since the accuracy and completeness of data sit at the base of the cargo screening process, it needs to incorporate data governance as a key foundation of the entire procedural framework.

This guide is part of our maritime compliance guide series. You can read our first guide, **Maritime compliance: key regulations and best practices**.

To access all of our resources, please visit www.mcaas.com/resources

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