

Maritime Compliance

The rapidly changing maritime sanctions
compliance landscape



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Introduction

Sanctions are ‘something more tremendous than war’ in the words of former US President Woodrow Wilson.¹ This description echoes the stark impacts that they can have. Imposing sanctions has now become commonplace. Particularly due to the severe ongoing military conflict between Russia and Ukraine, global awareness of the sanctions and compliance landscape has increased. Daily we are witnessing countless news reports, political discussions and enforcement action that have become the talking point throughout the start of 2022. This tool of political foreign policy has been implemented en masse, in an attempt to stop aggressive

actions and limit the devastating effects that are being reported.

The sanctions landscape is rapidly evolving with sanctions lists, entities, activities and even sectoral sanctions now in play. The dynamic nature in the way the changes are continual, coupled with the different organisations involved in sanctions implementation, as well as the deceptive tactics deployed to attempt avoidance are all components to be considered. This area is complex, to say the least. Despite the complexity, businesses and organisations are solely responsible for the protection and mitigation against attempted violations.

Global awareness of the sanctions and compliance landscape has recently increased.



¹ Yale University Press (2022) The History of Economic Sanctions as a Tool of War Retrieved from [click here](#) 

Sanctions violations is punishable by many means, with the highest severity being criminal prosecution.

Predominantly financial services have been focussed on sanctions compliance and screening, however these obligations extend to other sectors. Sanctions screening should not only cover customers but should cover third parties, and an organisation's extended supply chain. Effective screening can mitigate the risk of a sanctions violation.

The many intricacies of the sanctions landscape are not one to overlook. The different stances of the varying bodies, and the fast pace of changes with the addition of deliberate attempts to evade make it highly complex. If companies have an awareness of the evasion methods used and how to identify them, then procedures can be implemented to prevent any involvement in attempted wrongdoings. The

use of technology and innovative solutions can be a beneficial aid here.

This ebook provides information relating to sanction regimes and methods used in evasion attempts. It showcases real-world case studies to highlight the range of tactics that have been and are commonly being used.

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Understanding sanctions compliance

The use of sanctions as a tool for foreign policy governance and enforcement should not be regarded as a novel concept. This tool of diplomacy reportedly dates back to 432 BC, resulting in a long standing history originating from the ancient Greeks. The Megarian Decree is understood to be the first official sanction in history. Following a series of tension building events between the neighbouring states of Athens and Megara. Athens passed a decree denying Megara all access to the trading ports and marketplaces throughout Greece. The objective of passing this sanction was to force a surrender without the use of violence by either party.





This diplomacy tool has been mirrored throughout history and is still commonly used as an aid in forcing changes in certain areas as well as being considered ‘as part of a wider strategy that can encourage positive change’.² Sanctions are not a ‘one size fits all’ measure to change behaviour, they vary situationally, geographically and politically amongst a range of other factors. As a result, there are different types of sanctions that can be enforced, including but not limited to environmental, diplomatic, military and economic. Economic sanctions are often regarded as a common type due to their frequency of use.

Sanctions are not a ‘one size fits all’ measure to change behaviour, they vary situationally, geographically and politically amongst a range of other factors.

² HM Government (2017) Public consultation on the United Kingdom's future legal framework for imposing and implementing sanctions Retrieved from

What are sanctions?

‘Economic sanctions are defined as the withdrawal of customary trade and financial relations for foreign and security-policy purposes’.³ Sanctions can be imposed through the following ways:

- 
Tariff – a government-imposed tax on the import of goods and services from a country. This increase in price aims to make imports less desirable compared to domestic goods and services from other countries.
- 
Quotas – limiting the number of goods that can be imported or exported from a country.
- 
Asset freezes – the prevention of access to bank accounts and currency reserves, as well as the ability to block the sale of owned physical assets. This method is often associated with domestic inflation and currency devaluation when enforced on a large scale.
- 
Trade embargoes – often referred to as ‘the most severe form of sanction’.⁴ This measure involves an outright ban being enforced on specific trade with the sanctioned country. Prominent examples of embargo implementation include the 1962 United States embargo on Cuba that prohibited all imports and exports between the two countries. Despite small implementation updates to allow the transportation of medical and agricultural supplies that were introduced in 2000, the trade embargo is still in force decades later.

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³ Masters, J. (2019) What are economic sanctions? Retrieved from [click here](#)

⁴ Advocate commercial debt recovery (2022) Financial sanctions explained Retrieved from [click here](#)

Sanctions are imposed by global enforcement and regulatory bodies



The United States (US)

The Office of Financial Assets Control (OFAC) is responsible for the implementation and enforcement of sanctions in the United States. These sanctions require all individuals, financial services and other obligated institutions operating in this jurisdiction to comply. The primary and secondary sanctions within OFAC are divided into two distinct categories; comprehensive and non-comprehensive. Comprehensive sanctions forbid transactions with a specific geographical area, such as the ongoing embargo with Cuba. Whereas non-comprehensive sanctions focus on defined areas and activities as opposed to an entire area in the way comprehensive sanctions do.

'As part of its enforcement efforts, OFAC publishes a list of individuals and companies owned or controlled by, or acting on behalf of targeted countries.⁵ These individuals are termed as 'Specially Designated Nationals (SDN)'. OFAC regularly publishes and updates its SDN list to provide a reference tool for mitigating sanctions and compliance issues.

The United Kingdom (UK) *the Office of Sanctions Implementation*



Office of Financial Sanctions Implementation (OFSI) is the UK governing body responsible for sanction list enforcement. As a part of HM Treasury, OFSI works on enabling 'financial sanctions to make the fullest possible contribution to the UK's foreign policy and national security goals'.⁷ All individuals and financial institutions within the UK are expected to comply and act in accordance with the list.

The European Union (EU)



European Union sanctions are issued by the European Council once all members have unanimously agreed upon the proposed measures. The sanctions list consists of countries and individuals who are suspected of unlawful activities. It is important to note that 'while EU sanctions inherently have an effect in non-EU countries, as they are a foreign policy tool, the measures apply only within EU jurisdiction. The obligations they impose are binding on EU nationals or persons located in the EU or doing business here'.⁶



The United Nations (UN)

The UN security council can take action to maintain or restore international peace and security under Chapter VII of the United Nations Charter. Any sanctions introduced by the UN are added to the UN Security Council Consolidated Sanctions List. This list is one that all UN member states are required to comply with. Due to the way in which the UN does not have the legislative power to enforce sanctions, it is the responsibility of individual member states and their respective regulatory bodies to implement the sanctions themselves.

⁵ U.S Department of the Treasury (2022) Specially Designated Nationals And Blocked Persons List (SDN) Human Readable Lists Retrieved from [click here](#)

⁶ European Commission (2022) Overview of sanctions and related tools Retrieved from [click here](#)

⁷ Gov.UK (2022) About us Retrieved from [click here](#)

Why do you need an awareness of sanctions compliance?

Sanctions can be imposed unilaterally, by a single country or multilaterally by multiple countries or an international organisation. The majority of sanctions are multilateral, with the general view being that multilateral cooperation is necessary for an economic sanction to be effective.⁸ Once implemented, sanctions are commonly published in the form of a list, such as the SDN List and the UK Sanctions List. These lists are published online and you can sign-up to receive updates, including an OFSI email notification for the publishing of new notices. There are also several compliance tools and sanction checking and screening platforms.

Similarities to the sanctions imposed by global enforcement agencies above are often evident, the reasoning behind the sanctions and means of restriction are

recurrent. It is important to note that the list above is not exhaustive of the parties involved in the sanctions and compliance. There are numerous other global lists including the Australian 'Department of Foreign Affairs and Trade consolidated list' and China's Ministry of Commerce 'Unreliable Entity List'.

These lists contain individuals, entities, governments and countries that subject to sanctions. These lists allow the searching and identification of entities and individuals, to assist in protection from the consequences of a compliance breach. The onus of complying with sanctions is the responsibility of businesses and organisations and a breach can result in serious reprimands to varying extents.

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⁸ Territt, H (2010) Avoiding the pitfalls in compliance Retrieved from [click here](#) 

The impact of sanctions compliance on trade

Penalties for a sanction breach can range from monetary, to deferred prosecution agreements and can be as severe as criminal prosecution. Substantial financial penalties can be and have been issued and publicly disclosed. Enforcement penalties issued by OFAC in 2019 alone hit a record high of \$1.3 billion.⁹ The UK regulating body OFSI in 2021, issued their largest fine to date of £20.5 million to Standard Chartered Bank following their alleged breach of sanctions.

It was reported that the bank had provided more than 100 loans to a sanctioned entity, this highlighted that adequate compliance measures were not in place to prevent the breaches. Interestingly, this fine despite being the largest ever issued by OFSI was also reduced by 30%, following Standard Chartered's voluntary disclosure and their cooperation throughout the investigation.¹⁰ At the start of 2022 Airbnb agreed to reach a settlement with OFAC for \$91,172.29, following its 'potential civil liability for apparent violations of sanctions against Cuba administered by OFAC'.¹¹



⁹ O'Donnell, U (2020) The Standard Club US sanctions- OFAC Penalties Retrieved from >>>>>>> [click here](#) 

¹⁰ High, S (2020) Disputes Quick Read: UK's OFSI fines Standard Chartered Bank £20 million for sanctions breaches Retrieved from >>>>>>> [click here](#) 

¹¹ Department of the Treasury (2022) Enforcement release January 3rd 2022 Retrieved from >>>>>>> [click here](#) 

A deferred prosecution agreement (DPA) involves companies reaching an agreement with a prosecutor, where the company is charged with a criminal offence but proceedings are automatically suspended. These agreements see companies complying with a number of set conditions ranging from paying financial penalties, cooperation with all ongoing investigations and repairing damages caused. A notable example, unprecedented in scale, both in terms of the financial penalty obtained and the corruption is the case between the Serious Fraud Office (SFO) and Airbus in 2020. The DPA entered between the two parties was the result of extraordinary levels of bribery discovered within Airbus. The agreement resulted in a €984 million fine, full disclosure and assistance during the investigation saw more than 30 million documents were reviewed as well as full access to key personnel information involved.

The highest level of reprimand for breaching sanctions is treated as a criminal offence that can lead to prosecution and imprisonment. At the top end of the imprisonment scale, OFAC regards violations as a serious threat to national security that comes with up to 30 years of prison time as a punishment.

An awareness and understanding of sanctions compliance is critical to ensure that business practices are compliant with the constantly evolving changes. Needless to say, there is a substantially high level of risk associated with the lack of sanctions compliance mitigation measures. The risk of penalties, whether enforced financially or through imprisonment is a factor that should be seriously contemplated and considered by all organisations and businesses.



Export controls and sanctions compliance as a managed service

We deliver sanctions compliance as a manned back office service to our customers, supporting their in-house compliance team.

We combine shipping knowledge with a focused specialisation in sanctions compliance and utilise shipping-related data and applications in addition to regulatory-specific tools.

With MCaaS, you have a dedicated team focused on helping you reduce the administrative burden related to export controls and sanctions compliance for commodities, counterparties and vessels.

MCaaS services include a range of combination screenings, data and tools to reduce your overall risk.



Trading parties
Legal entities, UBOs, associated parties, suppliers, customers, crew, beneficiaries. + 400 lists



Traded commodities
Cargo description, HS codes, end-usage documentation. Dual, military, dangerous goods and 130+ lists



Vessel
Vessel name, flag, ownership chain, associated parties, historical movements



Trading route
Country-specific restrictions or prohibitions, loading and discharge port, UN Locodes



Origin point of commodities
Port of origin, manufactured by, US origin, end-user certificates, trade restrictions

The maritime sanctions landscape

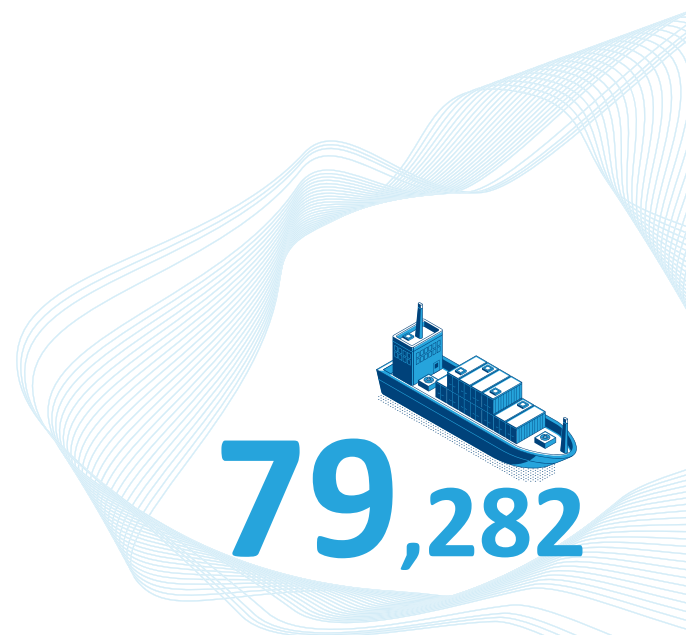
An understanding of the complexity of the maritime sanctions landscape

The complexity of maritime sanctions is not one to underestimate. Careful consideration needs to be taken by the entire maritime ecosystem due to the dynamic nature of the industry. With the trading world merchant fleet projected to reach 79,282 vessels by the end of 2025.¹² This vast number means we will see a further increase in a fleet that regularly operates in numerous countries, carries a range of cargoes and visits a considerable number of ports. The global operating area and convoluted company structures of the merchant fleet result in a complexity that unfortunately provides the

opportunity for wrongdoings. Concealing of identities, vessel identity laundering, exploiting disparities between countries and other deceptive tactics are used to evade sanctions.

The Sanctions and Anti-Money Laundering Act (SAMLA) 2018 defines 'disqualified ships' as:

"Ships that are owned, controlled, chartered, operated or crewed by designated persons. Persons connected with a prescribed country, or a prescribed description of



¹² Sand, P (2021) BIMCO World Fleet to grow by 6.4% over the coming five years down from 7.4% in previous 5 years Retrieved from [click here](#)

*persons connected with a prescribed country, registered in a prescribed country, flying the flag of a prescribed country or originating from a prescribed country”.*¹³

Unfortunately complex ownership structures means that the ownership, chartering party and cargo owners are often not obviously evident. The ownership information is important when taking into account the OFAC 50 Percent Rule which states that the property and interests in property of entities directly or indirectly owned 50 percent or more in the aggregate by one or more blocked persons are considered blocked.

*“This applies to entities owned 50 percent or more in aggregate by one or more blocked persons. Accordingly, if blocked person X owns 25 percent of Entity A, and Blocked Person Y owns another 25 percent of Entity A, Entity A is considered to be blocked”.*¹⁴



¹³ HM Government (2018) Sanctions and money laundering act 2018 Retrieved from >>>>>>> [click here](#)

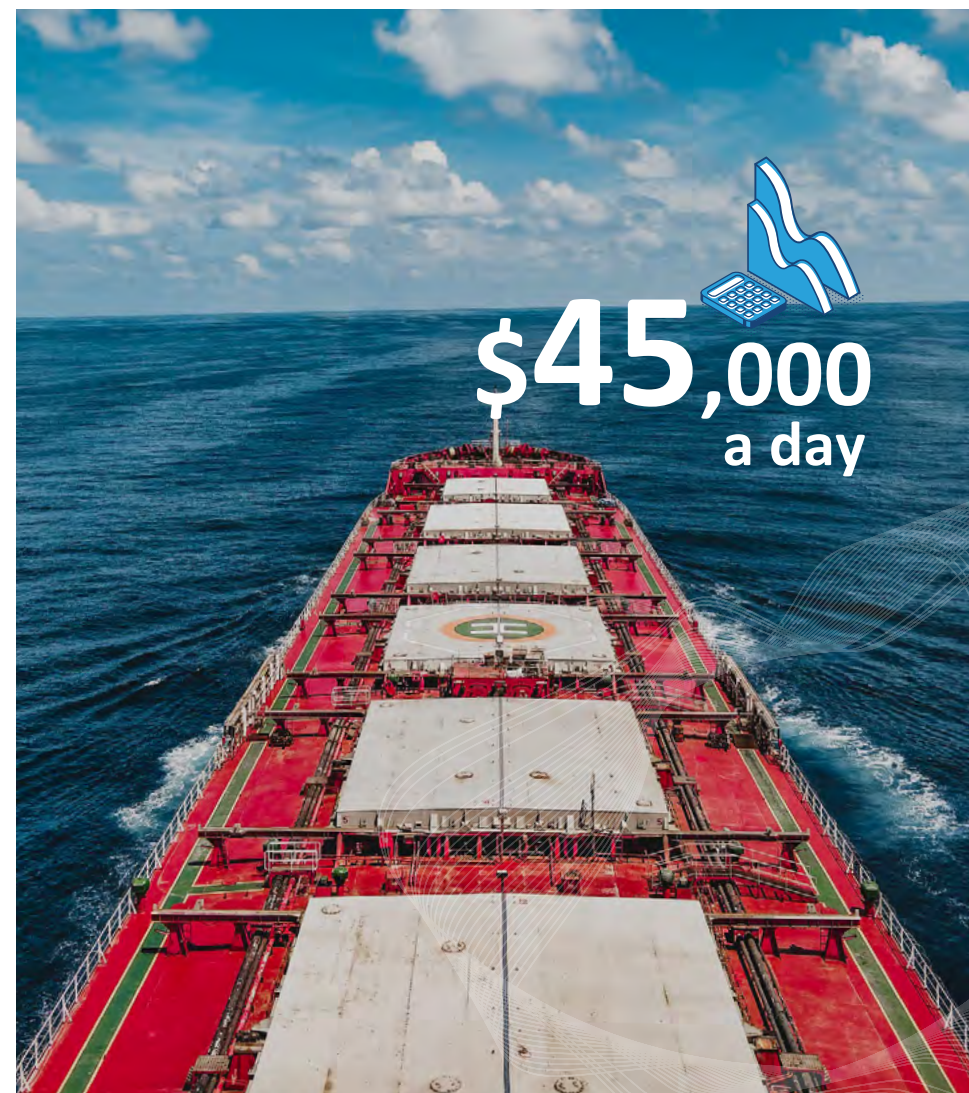
¹⁴ US Department of the Treasury (2014) Frequently asked questions Retrieved from >>>>>>> [click here](#)

Ranked as one of the largest conglomerates in 2019 container shipping, The China Ocean Shipping Company (known as “COSCO Shipping”) were subjected to OFAC enforced penalties.

COSCO Shipping Tanker (Dalian) along with other subsidiaries and affiliates were placed on the SDN List. With the imposed sanctions effective immediately the effects were felt industry-wide with all vessels under the ownership of the sanctioned parties blacklisted and nonoperational. The need for replacement vessels and operators saw daily rates for VLCCs at \$45,000 a day, up 18% in a week.¹⁵

The SDN List specified the entities that were to be subjected to the penalties, namely COSCO Tanker and COSCO Management amongst others. Under the “50 Percent Rule” any other wholly owned COSCO subsidiaries would be impacted by these sanctions.

During this time it was important for COSCO counterparties to ensure that any transaction with COSCO was carefully assessed and checked due to the high level of potential risk of violation.



¹⁵ Hong Laing, L (2019) COSCO shipping units hit by US sanctions, tanker rates spike Retrieved from >>>>>>> [click here](#) 

The role of deceptive practices in sanction evasion

AIS outages

The International Maritime Organisation (IMO) defines Automatic identification system (AIS) transponders as capable of providing position, identification and other information about the ship to other ships and to coastal authorities automatically. This legally required navigational aid however can be used deceptively; to mask location and positional information. Switching off AIS, and altering the outputs of transmitted information are deceptive practices sometimes used to circumvent sanctions.

Despite awareness of this issue being relatively high, along with existing charter clauses specifically on the matter such as the BIMCO (Baltic and International Maritime Council) 'Switch off' clause which works on addressing mismanagement of AIS and allowing the option of ceasing

operations with non compliant vessels. Continuing attempts are still being made to hide positions whilst undertaking actions that breach sanctions. *M/T Courageous* illegally stopped transmitting their AIS signal over four months in 2019 for this reason. Despite this attempt to hide its location, satellite images captured the vessel involved in the transfer of more than \$1.5 million worth of oil to an OFAC designated North Korean owned asset.

There are genuine instances where positional information can temporarily be switched off, such as transiting through high risk piracy areas.

Nonetheless, an awareness of this deceptive practice and understanding of the potential reasons behind a ceased transmission are important to identify illegal activities.

Switching off AIS, and altering the outputs of transmitted information are deceptive practices sometimes used to circumvent sanctions.



Vessel identity laundering

In connection with the red flag method above, *Billions 18* was subject to a UN Member states investigation following its impoundment in May 2021. Several attempts had been made to disguise the vessel's true identity, at its time of impounding *Billions 18* was sailing as Mongolian flagged vessel *Apex*. In further attempts to conceal their identity, their AIS information was being transmitted as if they were the *Shun Fa*. The IMO number noted at this time was that of the *Apex*, which had been deregistered from the Mongolian ship registry in June 2021. Upon further investigation to determine the true identity, the vessel's engine and other supporting factors revealed that it matched those of *Billions no 18*. These methods of altering and switching between various identities using deceptive tactics, allowed the sanctioned vessel to continue to operate undetected for nearly three years. Laundering operations jeopardise the

integrity of the IMO ship registration system, which the world relies on in order to identify, track and interact with ships that travel the world's oceans.¹⁶ This method sees ships deliberately alter aspects to misrepresent their identity. The means of identity laundering has significantly advanced from simply altering the physical state and appearance to adopting 'clean' AIS identities, name and official registration changes and a range of other misleading means to avoid identification.

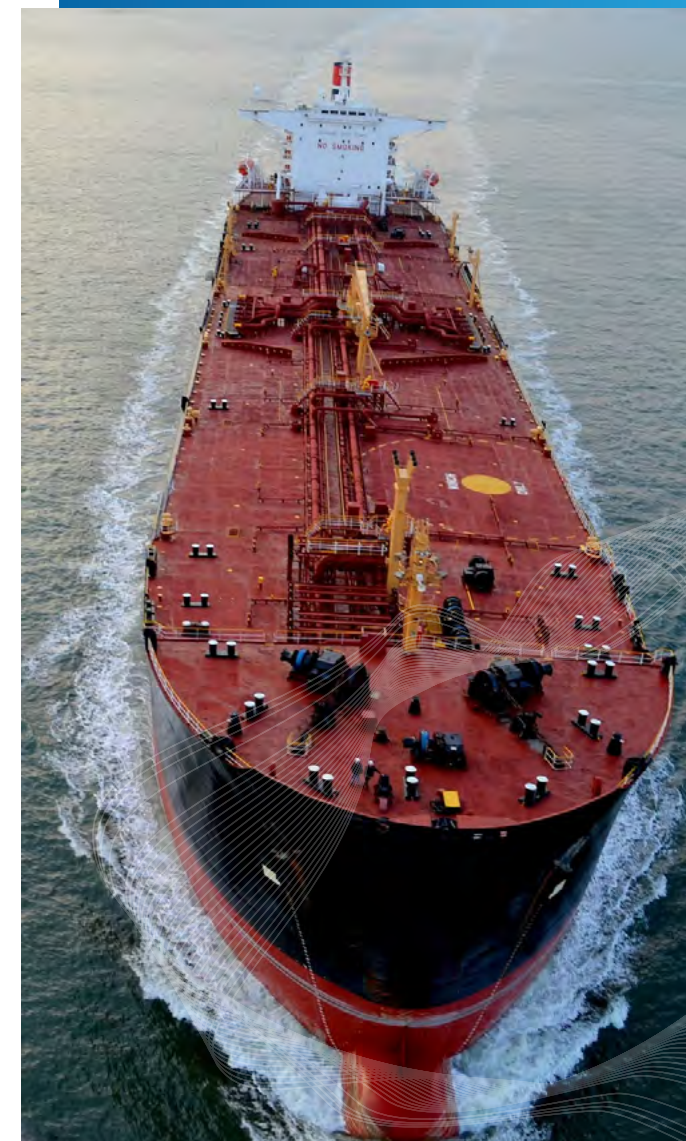


Counterparties and the wider supply chain



Complex ownership structures

The Swedish Group regards complex ownership structures as a common tactic of malign actors.¹⁷ This method sees complex structures including shell companies, varying levels of ownership



¹⁶ C4ADS (2021) Unmasked: Vessel identity laundering and North Korea's maritime sanctions evasion Retrieved from [click here](#)

¹⁷ The Swedish Club (2022) Guidance for Owners and Charterers on Sanctions Compliance Practices Retrieved from [click here](#)

and management as well as intertwined employees between organisations. A UN panel of experts report published in 2021, as well as a New York Times investigation coupled with findings from a Royal United Services Institute (RUSI) and Center for Advanced Defense Studies (C4ADS) uncovered the way in which North Korean sanctions evasion was being facilitated by Winson Group.

Winson Group, a Singapore based oil trading company have been the subject of several cases for the use of a range of direct and indirect evasions methods. The case of the *Diamond 8* highlighted the intricacies within company structures that can be used in attempts to circumvent sanctions. Between 2019 and 2020, *Diamond 8* was flagged by the UN for at least three deliveries of oil to North Korea. These deliveries on separate occasions involved Ship to Ship Transfers (STS) with the *Ever Grandeur* and *Superstar*, followed in one instance

by an AIS outage for 8 days whilst off the coast of North Korea. Expert approved satellite imagery has since confirmed the vessel alongside in a Korean Port.

Several attempts had been made to conceal the many connections between the three vessels involved. Winson Shipping at the time of the incidents was the registered owner of *Diamond 8*. Interestingly, the main company offices for Winson Shipping were also shared with the registered owners of the *Ever Grandeur* listed as 'Glory Sparkling'. Not only were the office spaces in close proximity but Winson Shipping were, at the time, the registered owners of both floors of offices that belonged to both companies. It is important to note that there were several layers of connections found between the two vessels; with the shared office space, employee connections such as the Glory Sparkling website register being a Winson Shipping employee and Winson Shipping owning the *Superstar* during this time.



Complex ownership structures can be used to conceal company and individual involvement in unlawful activities. The example above took months of investigation to uncover, with several layers of complexity used to attempt to hide activities. For the ease of reading the case has been described as above however the complexity of the case should not be overlooked.



Identity concealment

The concealment of the true identity of an owner is often a tactic used in attempts to deceive individuals involved at some stage in the supply chain of a sanctioned cargo. Malaysia Korea Partners (MKP) have been associated with this tactic due to their involvement in the use of multiple company layers for deceptive reasons.

Their involvement in acting as the front company for North Korean entity Kogen

(Korea General Corporation for External Construction) during the acquisition of hard currency through a range of construction projects has been the subject of several investigations. MKP was found to have used complicit foreign facilitators and dignitaries as directors of its affiliated companies to create plausible deniability.¹⁸

A UN investigation focusing on North Korean sanctions evasion also found a range of tactics had been used to hide the truth of those entities involved. Over the course of the investigation, it was uncovered that MKP had claimed that a North Korean based International Consortium Bank was one of its subsidiaries. Links were also found of MKP involvement in illegally importing North Korean coal into Malaysia. A North Korean individual who was working for MKP at the time was directing the proceeds of the sale of the illegal shipment of coal to a Hong Kong company, later

Complex ownership structures can be used to conceal company and individual involvement in unlawful activities.

¹⁸ RAND (2021) North Korean sanctions evasion techniques Retrieved from [click here](#)

discovered to be a front for a North Korean banking corporation.



Wider supply chain risks

The creation and use of false entities, whether an individual, company, charterer or even shipping registry are all areas that are exploited in the avoidance of sanctions. Fraudulent shipping registry activity, such as that reportedly experienced by Fiji and Samoa as well as other countries. Has seen governments, companies and individuals unknowingly conduct business transactions with entities that are involved or have ties and connections with disqualified parties.

Sovereign Ventures, a private company contracted by both Mongolia and Tuvalu to run their respective shipping registries was reported to have had ties to North Korea. The connections between the supply chain as a whole require in depth and

frequent assessment. It's not only the risks associated with those directly involved in a transaction but the wide supply chain that requires consideration to ensure a high level of compliance.

In 2014 the Government of Zanzibar publicly terminated their shipping registry management contract with Philtex (Belize Ltd) due to allegations that they also had sanctioned Iranian tankers under their operation. Mr Maalim the Zanzibar Maritime Authority Director at the time of the allegations asked port authorities worldwide to take evasive action against the company, in global protest of Philtex's support of the unauthorised and heavily contested Iranian nuclear program.



The importance of cargo screening



Ship To Ship (STS) transfers
This method involves moving cargo at sea as

The connections between the supply chain as a whole require in depth and frequent assessment.

opposed to in a port. The moving of cargo in this way allows for the origin, destination and even type of cargo to be concealed or at least attempted to be. In 2019 the US Department of State commented that North Korea operates a fleet of at least 28 tankers and 33 other ships which are capable of engaging in this red flag method.¹⁹ Evasion methods are often used in conjunction with others, as perpetrators try to circumvent sanctions. In 2017 as a result of UN violations the *Lighthouse Winmore*, a product tanker, was seized for playing a role in various STS transfers.

One of the four vessels designated for the transfers with the *Lighthouse Winmore* was *Billions No 18*. Not only has this vessel been sanctioned due to taking part in transferring fuel with a North Korean tanker, but they have also previously been identified by the UN as using identity laundering tactics. These tactics included

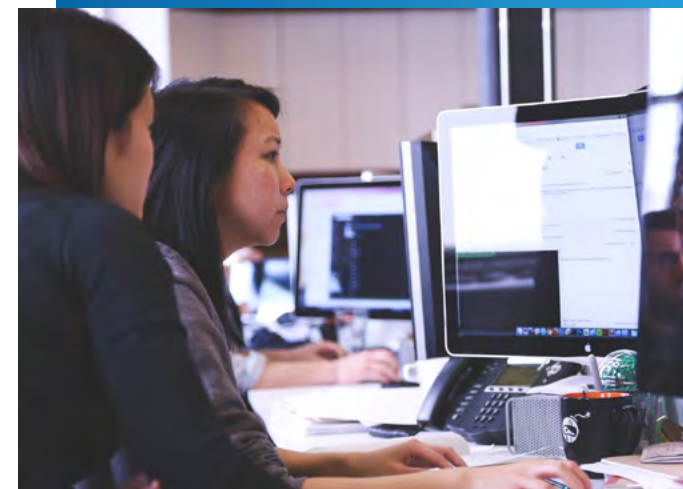
altering AIS transmissions to imply they were the Mongolian flagged vessel *Shun Fa*.



Falsifying documents

Legally, vessels are mandated to carry various documents and certificates onboard in order to operate nationally and internationally. Bills of Lading, proof of insurance, ship registration and operating invoices are but a few of those required. The altering of these documents is a frequent strategy used to circumvent sanctions. Altering these documents is another attempt used to obscure a vessel's intentions, goods, destination and at times origin. Information contained within these documents can be altered, impersonation techniques can be used as well as the documents themselves are forged to mislead.

Authentication checks are vital to ensure the validity of documents, with any inaccuracies or inconsistencies needing to



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¹⁹ U.S Department of State (2019) Updated Guidance on Addressing North Korea's Illicit Shipping Practices Retrieved from [click here](#)

be thoroughly checked. *M/V Wise Honest*, a bulk carrier found to be used in the illicit shipment of coal from North Korea over two years between 2016 and 2018. During this time it was also noted that the vessel played a key role in the shipment of machinery into North Korea. As the result of numerous infringements, the *M/V Wise Honest* was detained in Indonesia in 2018. The captain, a North Korean national, was charged on the count of violations of Indonesian maritime laws, notably related to improper documentation for the vessel. Bills of lading were found to have been falsified. One example indicated cargo was loaded at Nahkoda, Russia when the truth of the event was that the loading took place in Nampo, North Korea.



Covert transportation tactics

The lack of sufficient checks and screening in regards to cargo can be detrimental. In 2013 a North Korean owned and flagged

ship on passage from Cuba was discovered to be carrying an array of undeclared weapons of war. Several physical attempts to mislead authorities and conceal these weapons were made. However, when stopped by Panamanian customs officials and physically checked, the 20,000 loaded bags of sugar were found to be covering twenty-five shipping containers that held an arsenal of military grade weapons and systems including; six surface to air missile systems, and ammunition manufacturing equipment as well as disassembled fighter jets. The physical covering of the containers with sugar bags was one of many attempts made, with the creation of false stowage plans, falsified ship logs and the use of corrupt shipping agents all noted as playing a role.

Frieghtwaves, in 2019 reported that 25 million containers had entered the US. Of the containers that arrived by sea only 3% were physically inspected by United States



Customs and Border Protection (CBP).²⁰ Despite being a low percentage, this figure is understandable given the overwhelming amount of containers and traffic through the ports and terminals. Physical inspection of the individual containers could potentially cripple the supply chain in its entirety as well as drive up transportation costs. In lieu of individual physical inspection of goods, cargo screening is a strong additional option that can offer a means of inspection and checking goods. Cargo screening is a beneficial and enhanced validation process method to assist in effective compliance practices. This form of screening should be consulted and used in decision making processes to protect against attempts similar to those discussed.

These deceptive practices are only a select few of the malicious means that are used in attempts to evade sanctions. Flag hopping, routing inconsistencies, loitering in high

risk areas and physical alterations to mask identity are all strategies often deployed. Companies and organisations should take a proactive approach in monitoring these red flag methods used in evasions, due to the potential associated high risks. The impact of the dynamic, ever changing environment requires serious attention and consideration to ensure mitigative measures are embedded into workflows and become commonplace in business procedures.



25 million
containers

²⁰ Freightwaves (2019) Cargo screening Vs inspection Retrieved from >>>>>>> [click here](#) 

Sanctions compliance and the impact on the maritime industry

An understanding and up to date awareness is pivotal. Maritime sanctions are constantly evolving as a result of a myriad of factors. Geopolitical changes, diplomatically led coercive actions and even global pandemics have impacted these areas, and to varying extents could continue to do so. The Refinitiv 2021 risk report results concluded that 40% of organisations had said that COVID-19 made sanctions screening a greater priority.²¹ This report offered further stark statistics highlighting how the pandemic had led to a high percentage of organisations taking greater risks and shortcuts during due diligence checks, due to a heightened focus on increasing profits.

The maritime sanctions landscape has changed more in the last few months than in the past five years. The relationship between Russia and Ukraine has moved from a

political crisis to a military conflict. Western powers have taken unprecedented steps to politically, culturally and economically isolate Russia. Sanctions are a core part of a near-global strategy to put pressure on Russian leadership to back down. March 2022 saw the US issue an executive order that definitively bans the import of Russian oil and gas by the end of the year, more than 1000 Russian individuals and businesses have been sanctioned by the US, UK and the EU as well as dramatic shifts in Russian shipping trade as a result. Accounting for more than 2000 vessels of the merchant fleet, the sanctioning of Russian vessels has the potential to disrupt the industry in a similar way that the sanctioning of COSCO caused the tanker spot rates to substantially increase.

In what is believed to be an attempt to obscure identities, Russian vessels have

Maritime sanctions are constantly evolving as a result of a myriad of factors.

²¹ Refinitiv (2021) Global risk and compliance report 2021 Retrieved from [click here](#)

been changing their registered flag known as ‘flag hopping’. Reports on the flag hopping of these entities have seen more than three times the monthly average number of vessels re-registering elsewhere, 18 vessels including 11 from one fleet changed in March 2022 alone.²² The impact on the industry could see several businesses wanting to separate themselves from any Russian ties to protect against the reputational risk that it could bring. Resultantly the impact of the reduction in trade between many entities and Russia will result in disruption of the supply chain, with both imports and exports being scarce.

For the maritime industry, these new measures exist on top of an already complex sanctions environment that is difficult to navigate in normal times, let alone today. It is more important than ever to understand who you are doing business with. Sanctions compliance is not purely a risk and legal issue, it impacts every area of a business and is core to enabling efficient operations.



²² Bloomberg (2022) Russian Ships Switch Flags at Record Rate on Sanctions Scrutiny Retrieved from [click here](#) 

Sanctions compliance measures

Creating and maintaining a strong sanctions compliance programme

It is not just banks and financial institutions that need to ensure compliance with sanctions regimes. As sanctions have expanded, insurance companies, classification societies, ship owners, ship operators, charterers, and logistics companies, among others, all need a high level of awareness and a framework in place to protect themselves. Simultaneously, as sanctions implementation increase so do the tactics used to evade them, which in turn heightens the requirement even further for a strong compliance framework.

Numerous enforcement agencies and government bodies have published guidance documents and advisories on sanctions risks and compliance, along with regular recommendations to improve industry awareness in these areas. As the landscape is dynamic in its nature when it comes to sanctions, it is important to use a dynamic approach to sanctions compliance. Entities are constantly being added or removed to lists and political changes can drive new sanctions overnight; a static approach simply doesn't work anymore.

“Simultaneously, as sanctions implementation increase so do the tactics used to evade them, which in turn heightens the requirement even further for a strong compliance framework.”



A sanctions compliance framework that allows flexibility and can be consistently used in risk mitigation for both new and existing customers and counterparties is important.



Raise awareness in your organisation

An effective sanctions compliance programme (SCP) helps to ensure everyone in the organisation is aware of the sanctions compliance and their own responsibilities. This starts with a robust and documented SCP and operational procedures.

This documentation generally includes a standard method for assessing risk, checks to conduct when screening a new customer, monitoring steps for existing customers and methods of monitoring updates and changes.

It is important that everyone understands why compliance is important and how it is done effectively. A positive compliance culture and effective training is also important. All staff should be aware of their responsibilities and what compliance best practices should be adopted like through sharing of knowledge as well as up to date training that is in line with continual changes.



Embed sanctions compliance into commercial operations

It is no longer good enough for sanctions compliance to rest solely with the legal and compliance team. In many organisations, these teams simply do not have the capacity to deal with the level of due diligence required for every potential check. The responsibility of carrying out due diligence lies entirely on the party involved in the business transaction. Whether it is conducting cargo screening,

“A positive compliance culture and effective training is also important.”

third party screening on those involved, screening a vessel, or periodic reviews on existing partners, these checks must be carried out.

As the volume, range, and speed of sanctions implementation, it is becoming impossible even for large compliance teams to fully conduct the right due diligence checks fast enough for the needs of the organisation. It is therefore important to embed sanctions compliance into commercial operations and give operations and commercial team members the tools and decision making capacity to conduct basic due diligence themselves. With the right tools and training in place, only complex or ambiguous cases may require support from the compliance team, freeing them up to focus on other work and keeping commercial processes from being stopped without good reason.



Leverage technology to minimise cost and risk

Manually completing checks to a high standard is both time consuming and expensive. Beyond the costs, it is open to human error, with the risk of both false negatives and false positives being raised. The dynamic nature of sanctions also means that keeping abreast of constant changes is difficult to do manually. Thankfully, there are a range of tools available for compliance and operations teams to automate compliance processes including basic and enhanced due diligence and ongoing monitoring.

Products such as Marcura's MCaaS CORE, a fully cloud based self-service platform for managing compliance checks, remove the bulk of the manual work and minimise the risk of working with a sanctioned entity. Once an organisation has strong and repeatable processes in place for sanctions



compliance, digital tools can be used to automate many of the steps and decisions required as part of the process. As well as operating as a self-service platform, MCaaS CORE is available as an API, meaning it can be integrated directly into an organisation's systems and processes. Ultimately, this reduces costs while improving accuracy and making compliance checks a fast enabler of new relationships rather than a blocker. Compliance team members may choose to only get involved when there is an exception or a high risk entity to make a decision on.

“Ultimately, this reduces costs while improving accuracy and making compliance checks a fast enabler of new relationships rather than a blocker.”



Closing

The dynamic nature of sanctions means there are frequent changes and updates ranging from additional sanctioned entities to new embargoes and tariffs put in place. Accordingly, many new and evolving methods are being undertaken in an attempt to avoid being caught violating these sanctions. In order to mitigate against the potentially high level of risk that a violation can bring, it is vital that companies are taking proactive and protective measures. The severity of involvement in a sanctions breach can be costly, both financially and reputationally. The risks that come with overlooking the need to remain compliant are high and leaders should think carefully about implementing the right mitigation measures.

With the responsibility of ensuring compliance in businesses and organisations, it is paramount that the importance and complexity of sanctions compliance are also understood by team members at all levels. The implementation of a sanctions compliance framework is most effective when embedded directly into workflows and commercial processes. With a wide range of official guidance, supporting informational documents as well as technology driven solutions to assist businesses there are many options available to assist.

Involvement in a sanctions violation, whether knowingly or unknowingly, will have severe consequences and companies involved in the breach will subsequently be penalised.

The importance of the use of strong mitigative measures can not be stressed enough. At times, sanctions compliance can be overwhelming and may appear daunting due to the high volume of information being processed, coupled with deep complexity of the relevant regulations. Additional aids and tools can be extremely effective in easing these concerns and offering indispensable assistance. Services and tools that perform detailed screening of cargo, vessels, ownership chains, and counterparties, as well as other areas of the supply chain, are available to help the often overburdened compliance teams. There are several steps that can be taken to introduce a level of protection and nurture a positively compliance-based culture in this area including raising awareness within your organisation; embedding sanctions compliance into commercial operations; and leveraging technology to minimise both cost and risk.

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