6TH GREEK-BRITISH SHIPPING FORUM

Wednesday, 16 June 2021

MARITIME LONDON

Department for International Trade

MANAGING SANCTIONS RISK

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SHIPPING

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GREEK BRITISH SHIPPING FORUM
16 JUNE 2021

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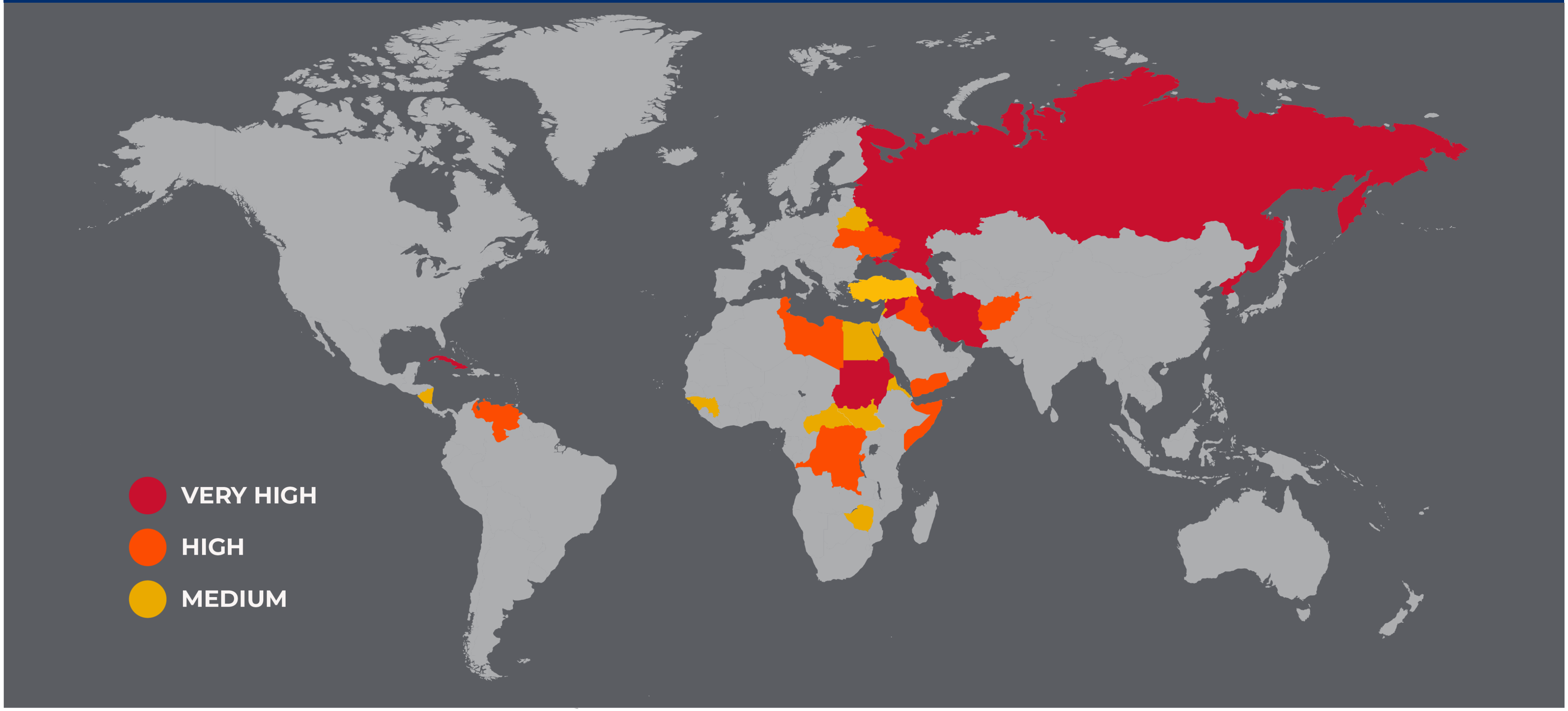
CURRENT ISSUES

- Continuing changes in the sanctions landscape
- Focus by the US and the UK on shipping and trade
- Need for diligence and legal advice

GLOBAL SANCTIONS RISK



US FOCUS ON SHIPPING

Department of the Treasury **Department of State** **United States Coast Guard**

Sanctions Advisory for the Maritime Industry, Energy and Metals Sectors, and Related Communities

Issued: **May 14, 2020**

Title: **Guidance to Address Illicit Shipping and Sanctions Evasion Practices**

The U.S. Department of State, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC), and the U.S. Coast Guard are issuing this advisory to provide those engaged or involved in trade in the maritime industry and energy and metals sectors with further information and tools to counter current and emerging trends related to illicit shipping and sanctions evasion. This advisory reflects the U.S. government's commitment to work with the private sector to prevent sanctions evasion, smuggling, criminal activity, facilitation of terrorist activities, and proliferation of weapons of mass destruction (WMD), with a focus on Iran, North Korea, and Syria. Combined with Annexes A and B, this advisory updates and expands on the North Korea-related shipping advisories OFAC issued on February 23, 2018, and March 21, 2019; the Iran-related shipping advisory OFAC issued on September 4, 2019; and the Syria-related shipping advisories OFAC issued on November 20, 2018, and March 25, 2019. At a later date, OFAC may issue further updates to this advisory, including with respect to the vessel lists that have appeared in previous shipping advisories.

This advisory discusses sanctions risks and contains information on common deceptive shipping practices and general approaches to aid in further tailoring due diligence and sanctions compliance policies and procedures. It is intended primarily to provide guidance to the following: ship owners, managers, operators, brokers, ship chandlers, flag registries, port operators, shipping companies, freight forwarders, classification service providers, commodity traders, insurance companies, and financial institutions.[1,2] This advisory includes both updated information on the deceptive practices used to evade sanctions and policies and procedures that entities operating in the specific maritime sectors enumerated above may wish to consider adopting as part of a risk-based sanctions compliance program.

It is critical that private sector entities appropriately assess their sanctions risk and, as necessary, implement compliance controls to address any identified gaps in their compliance programs. This is especially important when operating near or in areas they determine to be high-risk, which may include areas frequently used for potentially sanctionable transportation-related activities. The United States also

[1] While this advisory primarily addresses sanctions risks, U.S. financial institutions should also be aware that, consistent with suspicious activity reporting requirements in 31 CFR Chapter X, if a financial institution knows, suspects, or has reason to suspect that a transaction has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the financial institution knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction, the financial institution should file a Suspicious Activity Report (SAR). See 31 CFR §§ 1020.320, 1021.320, 1022.320, 1023.320, 1024.320, 1025.320, 1026.320, 1029.320, and 1030.320.

[2] The guidance in this document is not intended to be, nor should it be interpreted as, comprehensive or as imposing requirements under U.S. law or otherwise addressing any particular requirements under applicable laws or regulations.

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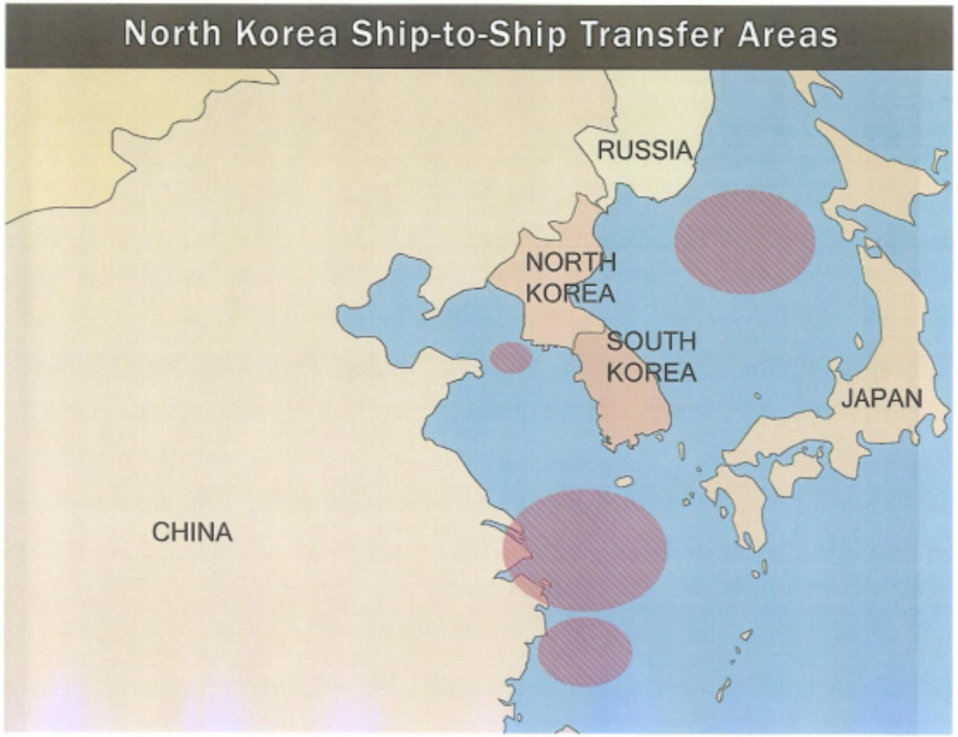
"… I really do think there's much more space for improvement in the private sector. It seems like much of the shipping sector is a generational business that has been handed down from generation to generation and business was conducted in a certain way maybe 50 years ago or 30 years ago or even 10 years ago. The world has changed quite dramatically in the last 10 years. The use of US sanctions I think has escalated and I think we've shown that we're ready to undertake strategic targeting."

- David Peyman, March 2020

DECEPTIVE PRACTICES

- Disabling or Manipulating AIS
- Physically Altering Vessel Identification
- Falsifying Cargo and Vessel Documents
- Ship-to-Ship (STS) Transfers
- Voyage Irregularities
- False Flags and Flag Hopping
- Complex Ownership or Management



Source: OFAC (etc) Guidance to Address Illicit Shipping and Sanctions Evasion Practices

US DESIGNATIONS

- ATHENS VOYAGER (2 to 18 June 2020)
- CHIOS I (2 to 18 June 2020)
- SEAHERO (2 June to 2 July 2020)
- VOYAGER I (2 June to 2 July 2020)

- EUROFORCE (18 June 2020 to 2 July 2020)
- DELOS VOYAGER (18 June 2020 to 2 July 2020)

- Masters of CLAVEL, PETUNIA, FORTUNE, FOREST and FAXON

KEY CHALLENGES

- Sanctioned counterparty – buyer / seller / charterer / shipper / receiver
- Other sanctioned party – agent / port operator / bank / etc
- Sanctioned cargo
- Involvement of US persons or other US nexus
- Difficulties in providing security in the event of claims
- Banking issues / challenges in paying claims
- Availability of reinsurance
- Sanctions clauses in charters

- Sanctions policies / benchmarking / training

- Dealing with regulators

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THANK YOU FOR YOUR ATTENTION

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The Shipowners' Club

Sanctions from a Club's Perspective

Who We Are

SHIPOWNERS

- The Shipowners' Club is a mutual insurance association and one of the 13 Clubs that make up the International Group of P&I Clubs (IG).
- We insure over 33,000 vessels and have a wide spread of over 8,000 Members across a range of sectors and geographical areas.
- Our 220 Greek Members own and operate 450 vessels between them.
- The Club's Greek representative office opened in September 2019.

The Club's Priorities – the interests of the Club and its Members are aligned

SHIPOWNERS

- The Club's priority is to protect our Members. We provide:
    - Bespoke advice and guidance – websites, webinars, individual queries
    - Screening and tracking
- Sanctions are predominantly focused on vessel owners and operators, but insurers must also be mindful of the risk that insurance may inadvertently facilitate sanctionable activity, thereby attracting its own penalties.
- We must also protect the Membership as a whole, not just individual Members. The interests of Members and the Club are intrinsically aligned.

Vessel Monitoring and P&I Insurance

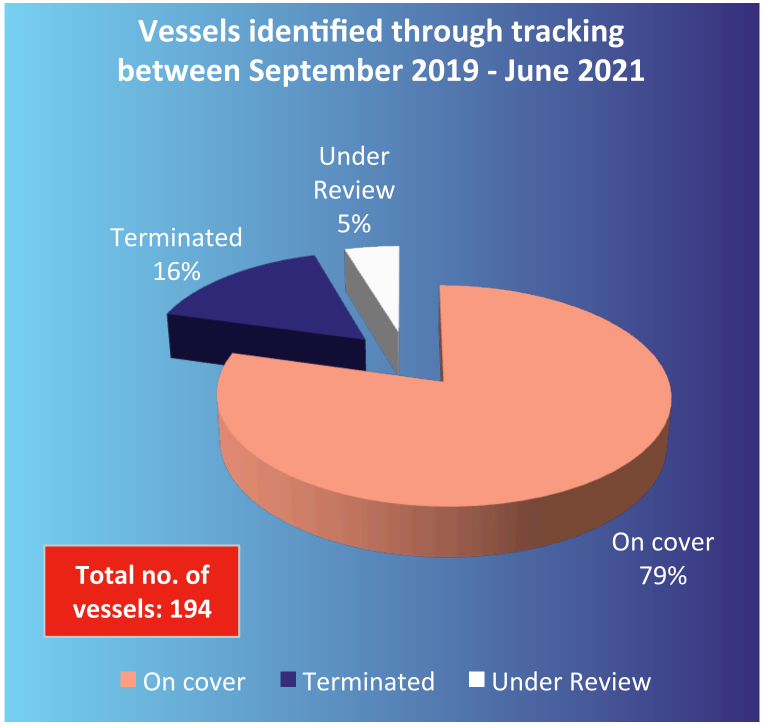
- All IG Clubs maintain sophisticated sanctions compliance programmes and procedures. The rules and procedures developed by Clubs to manage sanctions risks take account of the guidance provided by bodies such as the UN, OFSI, the US State Department and OFAC.
- The ability to track vessels using their AIS (Automatic Identification Systems) has become an increasingly important part of all IG Clubs' sanctions compliance programmes.
- The agreed IG common minimum standard of vessel tracking in high risk areas helps to identify activities such as port calls in sanctioned countries, abnormal navigation, manipulation and/or switching off a vessel's AIS transmitter, and STS operations in high risk areas.
- AIS monitoring can help Clubs to reach out to Members to ensure that they are fully aware of sanctions which may impact them, and to mitigate against the cover being inadvertently provided to vessels violating sanctions.

THE SHIPOWNERS' CLUB

What are the Club's Practical Experiences of Screening and AIS Monitoring?

SHIPOWNERS

- The Club's checks are no substitute for the Member's own due diligence.
- When presented with a risk, our underwriters must screen all parties to be named on the certificate of insurance as well as the vessel(s) to be entered. Our risk intelligence software screens against a multitude of databases including, as you would expect: EU, UN, and OFAC.
- As soon as vessels are entered, we begin routine AIS monitoring of vessel movements.
- The story does not end there: screened names are continually monitored for status change. As for AIS monitoring, this also continues throughout the period of entry. With over 33,000 vessels entered, any potential activity identified outside of agreed parameters is reported to us by our provider.



Limitations on AIS Tracking

SHIPOWNERS

There are limitations on what AIS tracking can achieve:

- (Lack of) Receipt of the AIS signal, particularly in areas of high density traffic
- Vessel spoofing
- Legitimate reasons for AIS to be switched off
- Monitoring of AIS signal alone cannot ensure effective sanctions compliance. It is only one piece of the full picture.

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MARITIME INDUSTRY OVERVIEW

The Challenges

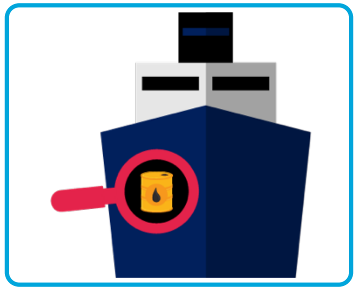
Regulators have made it clear that:

- No one is shielded from sanctions
- Knowing a vessel's movement history is essential
- Ship screening is not sufficient alone, must screen the whole ecosystem
- Full investigations into suspicions of false documentation and STS transfers must be completed
- Prior to registration, all vessels and their counterparties should be screened
- The monitoring of a vessel's movement and any high risk activity should be recorded

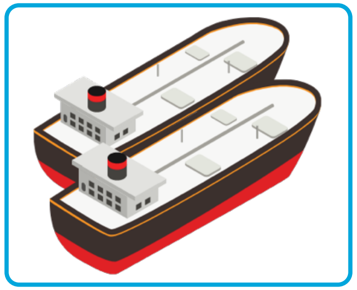
WHAT TO LOOK OUT FOR

Deceptive Shipping Practices

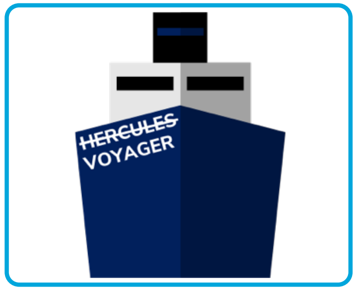
AIS manipulation or disablement



Falsifying cargo and vessel documents

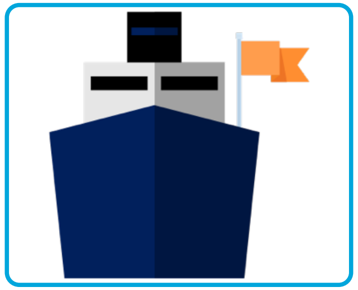


Ship to Ship (STS) transfers



Vessel name changes

Physically altering vessel identification



False Flags & Flag Hopping

Voyage Irregularities

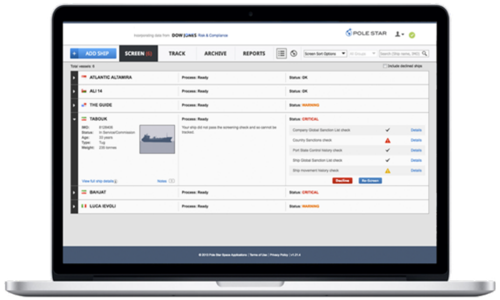
Complex Ownership Structure

POLE STAR

PurpleTRAC

Designed with and for companies with regulatory exposures in maritime trade and shipping, PurpleTRAC incorporates best in class data to enable the automation, streamlining, and recording of regulatory processes and mitigate regulatory risk.

PurpleTRAC is used by major international trade financing banks, trading companies, governments and flag administrations, maritime insurers, ship financing and leasing companies, and other members of the supply chain to demonstrate best efforts in compliance



In under 30 seconds, PurpleTRAC allows users to:

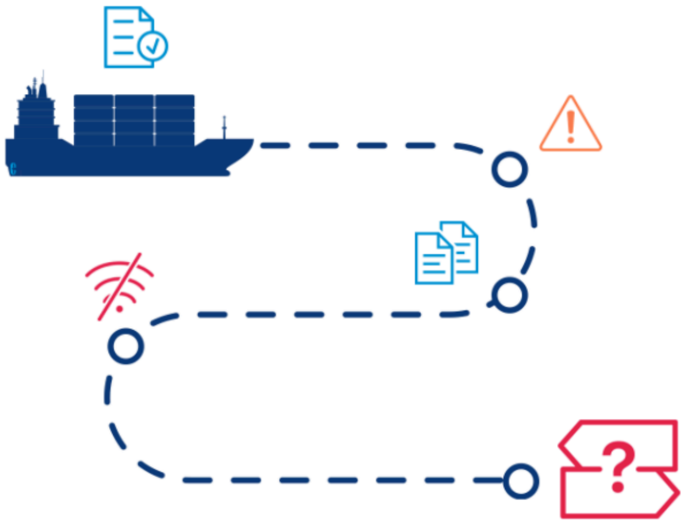
- Screen the key aspects of a trade transaction, the vessels used, their associated ownership & management, port state control history & Bills of Lading.
- Monitor a ship's historical or real-time movements and dark activity, and be notified of high-risk points of call or suspicious behaviour indicating potentially illicit activity.
- Calculate the carbon score and environmental impact of a transaction, as well as the vessels in your supply chain.

EARLY ADOPTERS:

WHAT TO LOOK OUT FOR

Per the 2021 FATF x Egmont Group TBML Report

Those involved in maritime trade and its associated supply chains should be on the lookout for instances where:



- A trade entity diverges from standard transactions and shipping routes or methods.
- Unnecessarily complicated supply chains, involving multiple transshipments.
- Trade or customs documents supporting the transaction are missing, appear to be counterfeits, include false or misleading information, or raise other red flags.
- Shipments of commodities are routed through a number of jurisdictions without economic or commercial justification.

SCREENING

Bill of Lading Verification (BLV)

The need to access the information required to tackle trade-based money laundering and documentary fraud has been dramatically compounded by recent OFAC and OFSI advisories, reinforcing how essential thorough due diligence throughout the maritime industry is. PurpleTRAC users can now extend their sanctions risk and compliance investigations to cover 2 key aspects of a trade transaction.

Enter the bill of lading number to **confirm** whether it is a recognised asset within the database of container lines currently supported.

Receive a list of all the vessels involved in the delivery of this BL, all ports visited, and all container lines involved in the transaction.

Pass vessels through PurpleTRAC's vessel screening capability to **ensure** they meet their specific sanctions compliance requirements.

All BL searches are recorded and saved to allow you to trace and **prove** your due diligence steps.

VESSEL INVESTIGATION

Dark Ship Analysis

AIS has vulnerabilities that may result in the loss of AIS ship position data - creating a “dark” ship. If a dark ship is operating in proximity to known high-risk transshipment areas and linked with a sanctioned entity, any associated stakeholders providing commercial services are at risk.

Ship location transparency requires optimal performance “persistent tracking” provided by the aggregation of secure and reliable Inmarsat or Iridium positional data with AIS positional data. This combination creates a multi-source tracking solution.

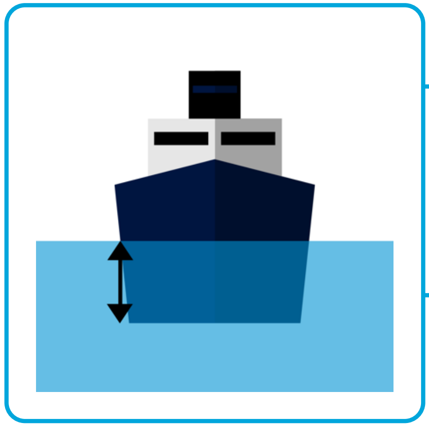
- Real-time, accurate ship location that works even when the AIS is unavailable.
- Provides redundancy and allows for the elimination of a significant level of dark ship false-positives.

VESSEL INVESTIGATION

Draught Change

Detect illicit activity by monitoring draught changes during a period of non-reporting.

Draught refers to the vertical distance between the surface of the water and the lowest point of the vessel.



Detect if a non-reporting vessel had cargo loaded or unloaded, e.g. after a vessel's AIS had stopped reporting for 10hrs, the vessel left the area with its draught changed from 8.6 meters to 13.1 meters, indicating cargo may have been loaded onto the vessel.

PurpleTRAC shows the draught value for the last position before the vessel stopped reporting and the first position when the vessel resumed reporting.

VESSEL INVESTIGATION

Dark Activity / STS Risk

Protect yourself from associations with the illegal import and export of goods by identifying the risk of illicit transshipments of cargo during periods of non-reporting.

When would a ship show a warning indicator for dark activity or ship-to-ship transfer risk?

- When a draught change has been recorded for the vessel,
- When the vessel has had a period of non-reporting,
- When the ship type is part of the 'ship-to-ship transfer ship collections' in PurpleTRAC Admin.

Investigate the length of time the vessel's AIS was not reporting, as well as its whereabouts in relation to high-risk transshipment areas and regulatory zones.

POLE STAR

Thank you

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