

FINANCING OF WMD PROLIFERATION

UN SECURITY COUNCIL RESOLUTIONS AND OTHER CONTROLS

Policy & Resources Committee of the States of
Guernsey

10 December 2018

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Agenda

- International Controls on financing of WMD proliferation (PF)
 - UN Resolution 1540 (2004)
 - UN Sanctions
 - Iran
 - DPRK
- Recent guidance
- Financial Action Task Force (FATF) and PF
- PF case studies
- Trade finance
- Good practices to mitigate risks
- Risk assessments

The framework of international controls on PF

United Nations

- UN Security Council Resolution 1540 (2004) (*non-State actors*)
- Other UN Security Council Resolutions (*State actors*)
 - DPRK (ten sanctions resolutions between 2006-2017)
 - Iran UNSCR 2231 (2015)

Financial Action Task Force (FATF)

- FATF Standards 2012 (Recommendations 2 and 7)
- Immediate Outcomes I (in part) and 11

European Union

- EU Strategy for non-proliferation of weapons of mass destruction (2003) and related Council Decisions (incl. Export Control Lists)

US and other national legislation

Status of implementation of 1540-related requirements on PF

2016 Comprehensive Review of resolution 1540 (2004):

- Improvement in control measures, however
- Financial controls related mainly to legislation on counter-terrorism financing, money-laundering, and establishment of financial intelligence centres
- Few States had dedicated separate PF legislation in place
- Most States had not addressed need to prohibit financing of means of delivery
- Some States needed guidance

Financing of Proliferation Definition

- Funds or financial services
- Used for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of...
- nuclear, chemical or biological weapons and means of delivery...
- and related materials (technologies and dual use goods used for non-legitimate purposes)
- In contravention of national laws or international obligations

(FATF working definition 2010)

Difficulties of countering PF:

Symptoms

- Lack of understanding of PF (often assumed to be equivalent to sanctions evasion)
- National PF regulatory frameworks often under-developed (by comparison with terrorist financing or money-laundering)
- National-level PF guidance to financial institutions often insufficient
- Individual financial institutions may be involved in a limited range of PF transactions, not in a complete network
- Few financial institutions incorporate PF indicators into their TF/ML risk assessments
- Restrictions on data sharing can inhibit PF information exchange between financial institutions, and between authorities and financial institutions.

Some characteristics of financing of proliferation

- Industrial items: may be dual-use, may or may not be listed for export control (e.g. NSG, MTCR lists)
- Transactions normally through formal financial channels
- Complex networks of procurement agents and front companies in multiple jurisdictions
- Procurement agents engage in deceptive practices; operate for profit
- Source of funds hidden (individuals, entities, countries, operating covertly or perhaps under sanctions)

UN Security Council Sanctions

- Currently 13 different sanctions regimes
- Targeted Sanctions
 - Travel bans
 - Asset freezes
 - Arms embargoes
 - Sectoral sanctions
 - WMD-related goods and materials
- Role of Sanctions Committees and Experts
- UN Website (www.un.org) contains details for each regime

DPRK

- 10 UN Security Council Sanctions resolutions:
 - 1718 (2006)....2397 (2017)
- Include various categories of financial sanctions
 - Targeted financial sanctions
 - Activity-based sanctions
 - Vigilance Measures
 - Sectoral Sanctions
 - Other financial measures
- www.un.org/sc/suborg/en/sanctions/1718

Iran

- JCPoA and resolution 2231 (2015)
 - www.un.org/en/sc/2231
- US withdrawal from JCPoA and re-imposed sanctions
 - Oil
 - Secondary sanctions
- Other JCPoA Parties
 - Proposed SPV

EU sanctions regimes

- EU Strategy for non-proliferation of weapons of mass destruction (2003) and related Council Decisions (incl. Export Control List)
- Some sources of information:
 - http://ec.europa.eu/dgs/fpi/what-we-do/sanctions_en.htm
 - <https://europeansanctions.com/eu-guidelines/>

US Sanctions Guidance

- Finding That the Democratic People's Republic of Korea is a Jurisdiction of Primary Money Laundering Concern, Department of the Treasury, 2 June 2016
- Advisory on North Korea's Use of the International Financial System, FinCEN, 2 Nov 2017
- FinCEN Names ABLV Bank of Latvia an Institution of Primary Money Laundering Concern and Proposes Section 311 Special Measure, 13 Feb 2018
- North Korea Sanctions: Sanctions Risks Related to North Korea's Shipping Practices, Department of the Treasury, 23 Feb 2018
- Advisory on the FATF-Identified Jurisdictions with AML/CFT Deficiencies, FinCEN 27 April 2018
- North Korea Sanctions & Enforcement Actions Advisory: Risks for Businesses with Supply Chain Links to North Korea, 23 Jul 2018, US Department of the Treasury, Department of State, Department of Homeland Security
- Advisory on the Iranian Regime's Illicit and Malign Activities and Attempts to Exploit the Financial System, 11 Oct 2018

Other PF Guidance

- Countering Proliferation Finance: An Introductory Guide for Financial Institutions, Emil Dall, Tom Keatinge and Andrea Berger, RUSI Guidance Paper, April 2017
- Study of Typologies of Financing of WMD Proliferation Final Report, Jonathan Brewer, King's College London, 12 October 2017
- Countering North Korean Procurement Networks Through Financial Measures: The Role of Southeast Asia, Eda Erol and Sandy Spector, Occasional Paper 35, James Martin Center for Non Proliferation Studies, 11 December 2017
- The Financing of Nuclear and Other Weapons of Mass Destruction, Jonathan Brewer, Center for New American Security, Jan 2018
- Challenges with implementing proliferation financing controls: How export controls can help, Togzhan Kassanova, May 2018, WorldECR
- The Financing of WMD Proliferation, Conducting Risk Assessments, Jonathan Brewer, Center for New American Security, Oct 2018

Other Guidance (cont.)

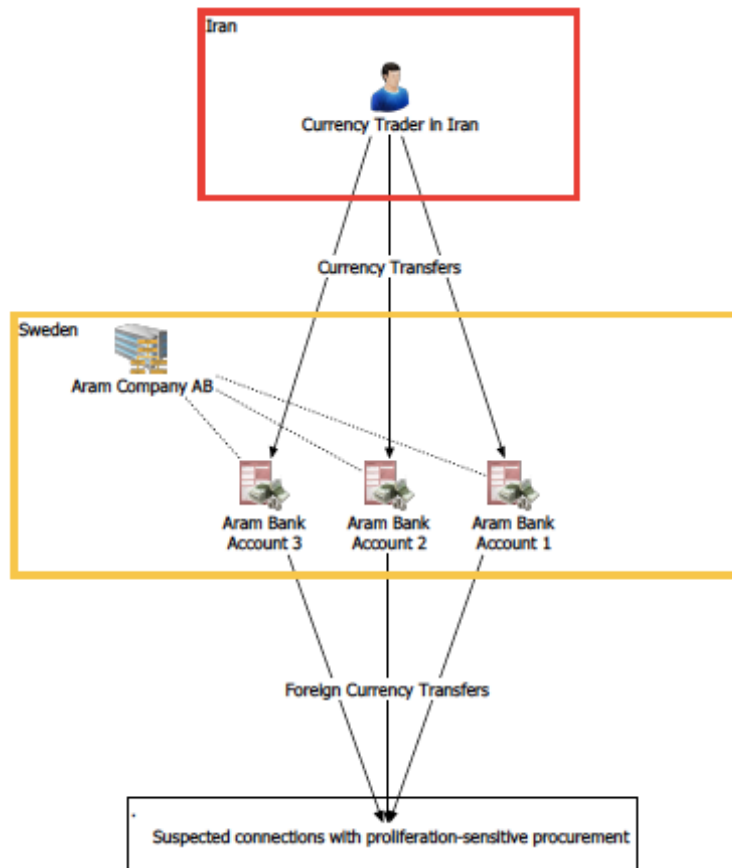
- Risky Business: A System-Level Analysis of the North Korean Proliferation Financing System, C4ADS, 12 June 2017
- The Forex Effect: US Dollars, Overseas Networks, and Illicit North Korean Finance, C4ADS, 12 Dec 2017
- Despatched, C4ADS, 2 Aug 2018

Proliferation Financing and the Financial Action Task Force (FATF)

- Typologies Report (2008)
- Combating Proliferation Finance Status Report (2010)
- 40 FATF Standards (2012)
 - Recommendation 7
 - Recommendation 2
- Guidance on implementation of UN financial sanctions on WMD programmes (February 2018)
- Country Mutual Evaluation Reviews
- Current review under US Presidency of FATF

Financing of Proliferation – what banks can do (1)

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Alpha Typologies Study Case 17

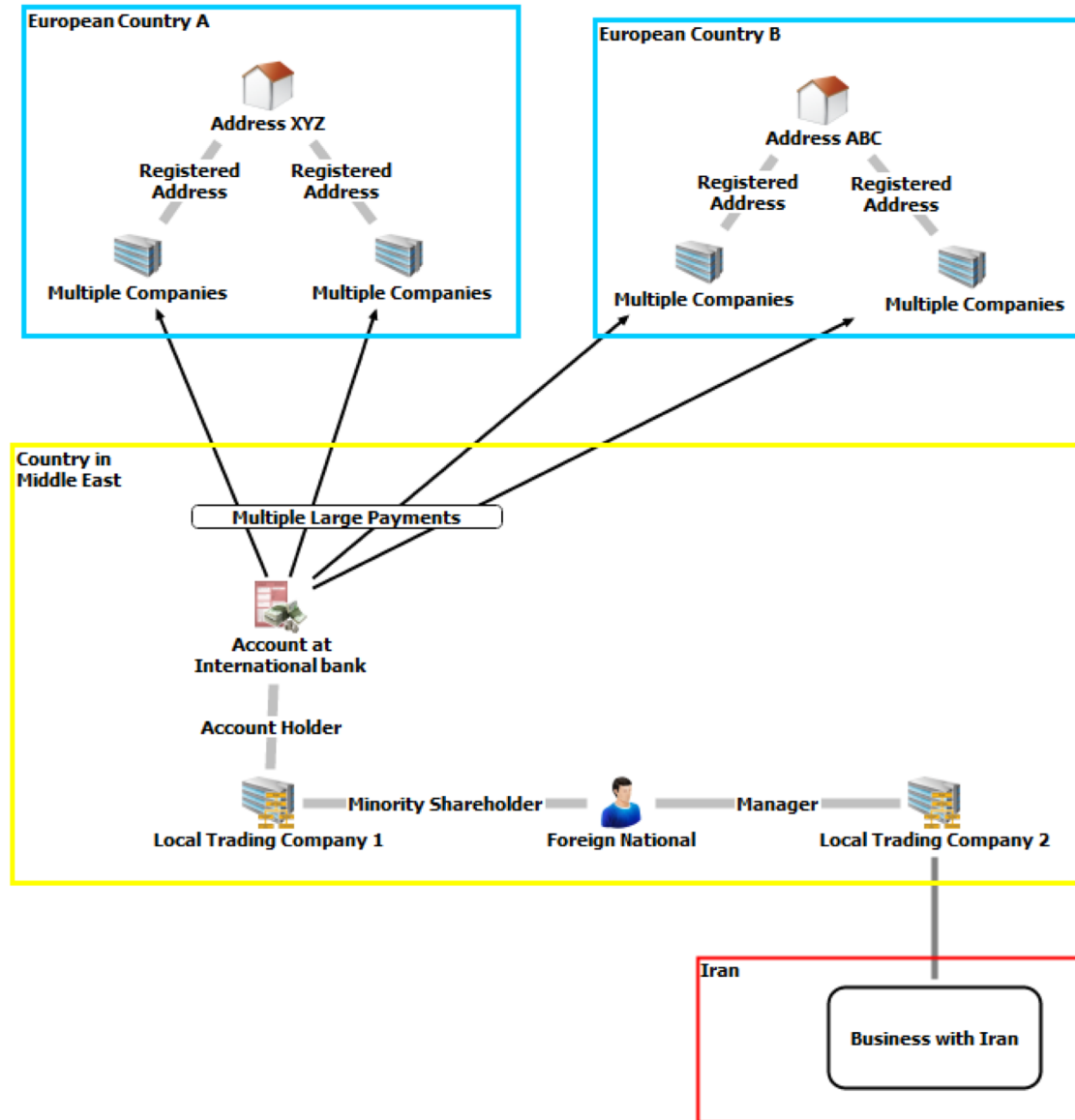


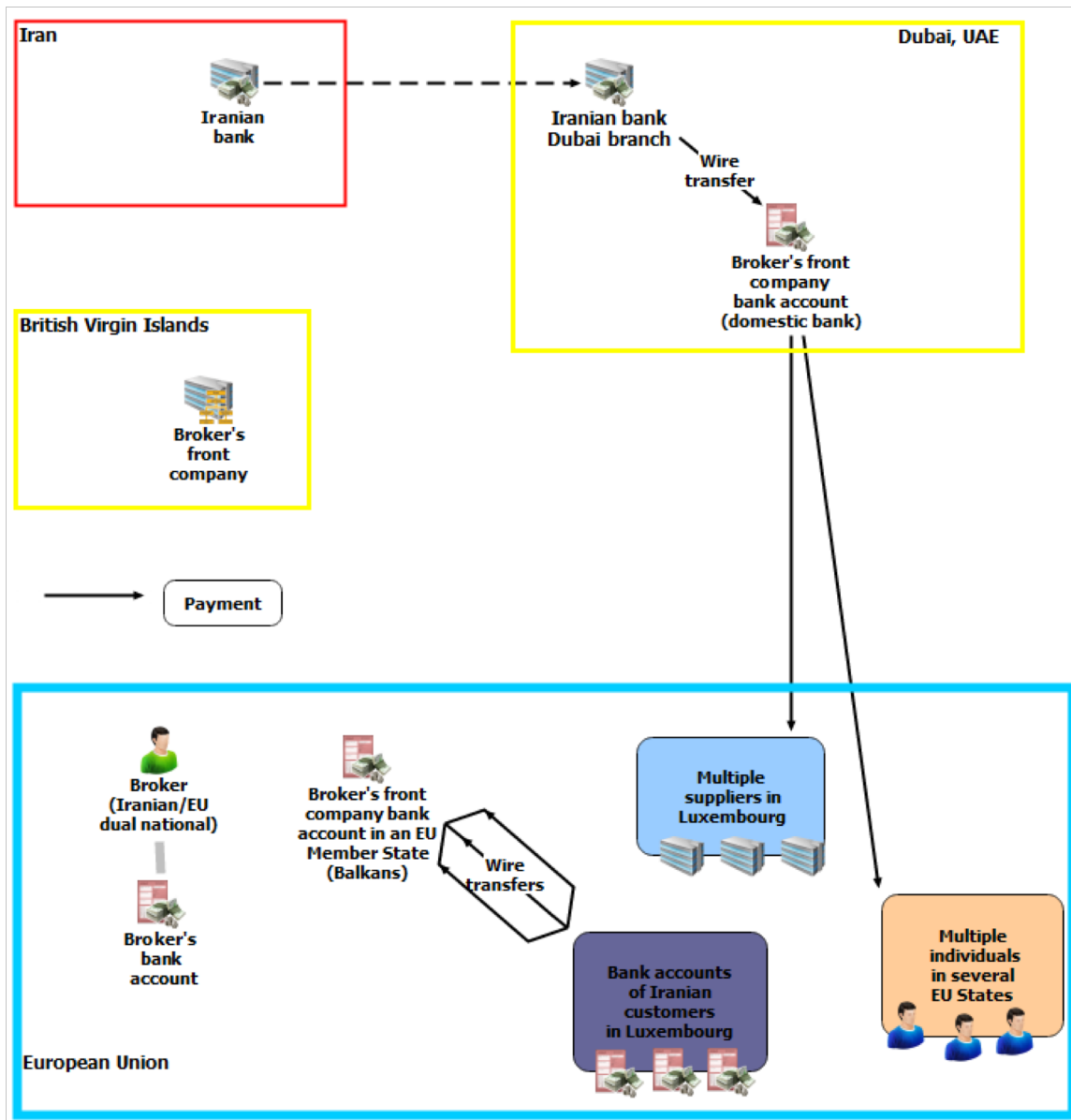
- Swedish bank submits STR
Small trading company
acting as unlicensed money-
remittance business on
behalf of Iranian currency
trader
- Some transfers suspected to
be connected with
proliferation-sensitive
procurement in other
countries.

Financing of Proliferation – what banks can do (2)

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Project Alpha
Case Study 31

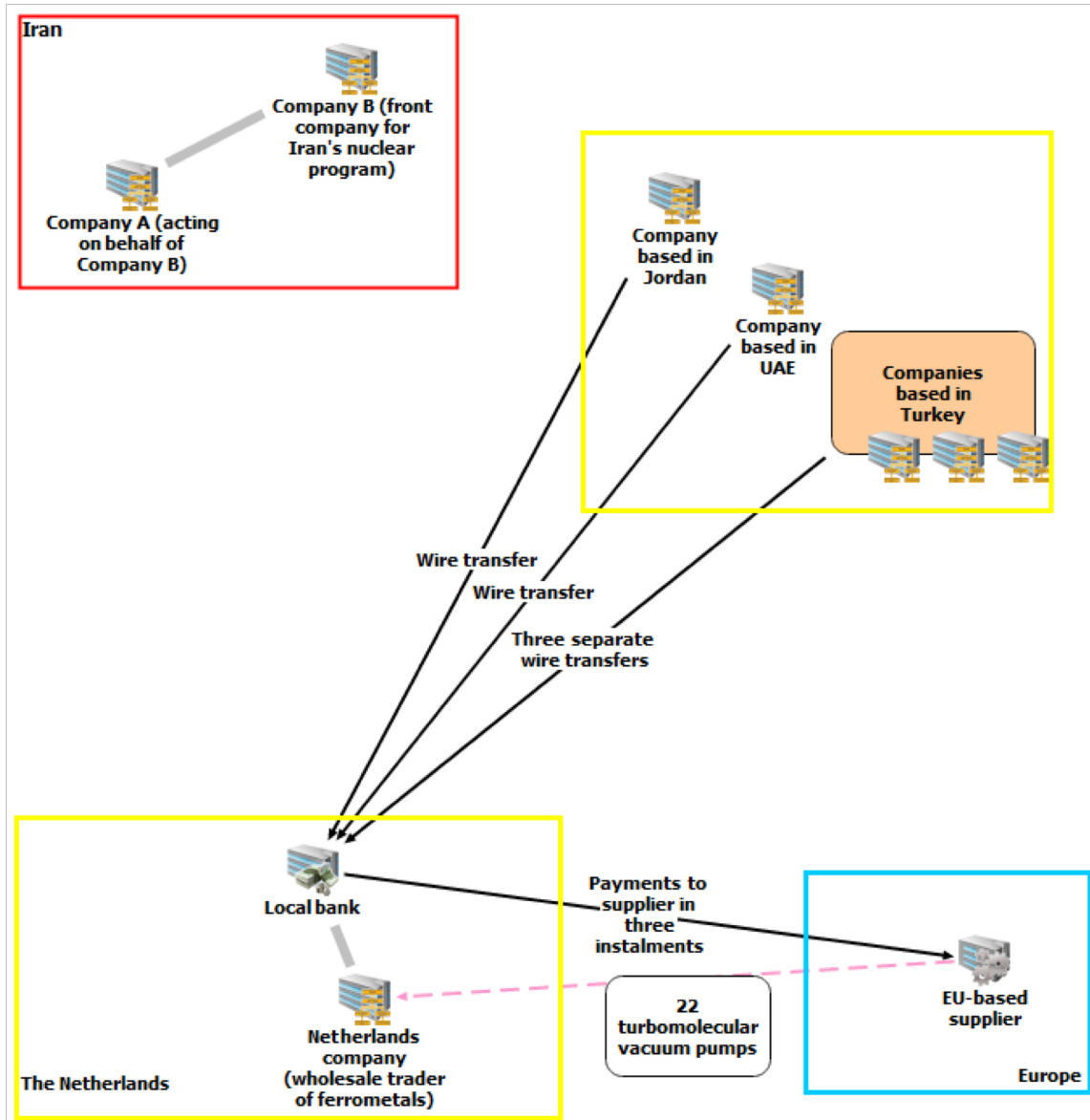
- Middle Eastern trading company sets up bank account;
- Multiple large payments made to companies in Europe sharing common address;
- Trading company local partner also managed a company doing business with Iran.





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Typologies Study
Case No 20

- Procurement from suppliers in the EU by broker registered in BVI
- Funded through front company in Dubai with bank account in a Balkan State



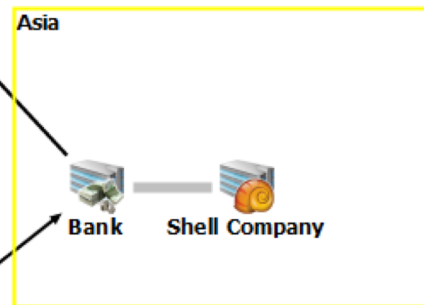
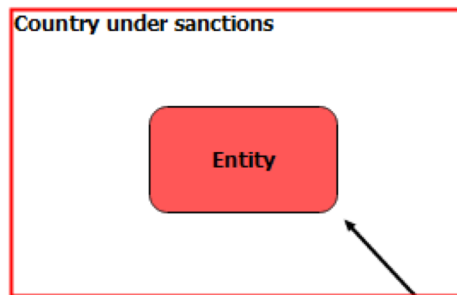
King's College London Project Alpha Case Study 26

Some indicators

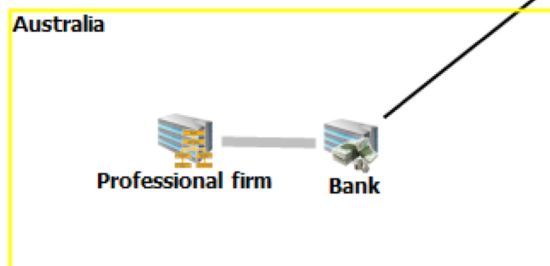
- Involvement of small trading company run by Iranian living in Europe;
- Trading company apparently did little substantive business;
- Received funds from possible front companies overseas (lacked websites).

Case Study 26: Payments schedule

Date	Payment received from different companies in:	Amount (€)	Description attached to payment received	Action by trading company
March 2011	Turkey	36,185.00	Invoice No...	
March 2011				Payment to supplier
11 April 2011	UAE	44,926.00	Business transaction	
14 April 2011	Turkey	25,000.00		
14 April 2011	Jordan	55,480.00	Purchase	
15 April 2011				Payment to supplier
2 June 2011	Turkey	68,220.00	Based on First Glass	
12 July 2011				Payment to supplier
May 2012				Attempted export of vacuum pumps



Omission of beneficiary data
in fund transfer request



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Typologies Study
Case No 55

- Professional firm sends funds to company in sanctioned country
- Professional firm seeks to remove information from transaction

Trade Finance and PF

- Banks provide assurances of payment for international trade deals
 - E.g. letters of credit
- Can result in complicated transaction routings decoupled from the actual flow of goods
 - Identified in 2008 FATF Typologies Report
- PF may also involve open account transactions; trade finance, and the frequency of this typology seems to be decreasing
 - Increased due diligence and awareness of risks
 - Increasing role of open account transactions in trade

Good practices by governments to mitigate PF risks

- Proliferation financing risk assessment
 - Task departments and agencies to address risks accordingly
- Ensure
 - Appropriate PF legislation in place
 - Effective communications between governments
 - Effective communications within government
 - Effective communications between government departments and financial institutions
 - Financial institutions should monitor for and report proliferation financing



Proliferation financing risk assessment: Customer considerations

Source:
Financing of WMD Proliferation
Conducting Risk Assessments,
2018, CNAS

Risk-Based Criteria

		High Risk (Score 3)	Medium Risk (Score 2)	Low Risk (Score 1)
Country Risk Factors The Customer is Based in a Country ...	That is a WMD proliferator or has a record of being one (A1)	North Korea, Iran, Syria, India, Pakistan	Other countries that might have undeclared WMD programs, according to reliable information (open source or government source)	The rest
	That is of diversion concern (A2)	UAE, Turkey, Iraq, China, Hong Kong, Taiwan, Malaysia, BVI, other countries at high risk of diversion	Singapore, Kuala Lumpur, Jordan, Oman, other countries at moderate risk of diversion	The rest
	That hosts a financial or trade center (possibly with weak controls on ML/TF, or weak enforcement) (B13)	Dubai, Turkey, Hong Kong, BVI, Singapore, other countries with high risk of exploitation	Other UAE, Malaysia, Taiwan, other countries at moderate risk of exploitation	The rest
	That is characterized by a large diaspora from a state of proliferation concern	Dubai, China, Turkey, other countries with large diasporas and relatively weak regulations	Australia Sweden, U.S., Norway, other countries with large diasporas but relatively strong regulations ³⁶	The rest

Source:
 Financing of WMD Proliferation
 Conducting Risk Assessment,
 2018, CNAS²⁵

Thank you

Questions?

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