

Basics of Countering Proliferation Finance

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Content

- ❖ Importance of financial measures in countering proliferation
- ❖ Deceptive techniques to finance proliferation
- ❖ Vulnerable jurisdictions
- ❖ International response to proliferation Financing
- ❖ Financial tools to counter proliferation Financing

Dependence on High-Tech Imports

- Sensitive facilities require specialized “dual-use” materials and equipment
- Requires imports from more advanced states
- Sanctions / controls lead acquire the necessary items using deceptive techniques

Financial Dimension

- Every illicit trade transaction requires payment
- Use of mostly formal financial system because of legitimate suppliers
- Operate for financial profit and vulnerable to disruption of funding



Importance of Financial Measures

- **Unravel broader proliferation networks**
 - WMD Proliferators
 - Facilitators
 - Provision of finance
 - Logistical support
 - Shipping and insurance
 - Suppliers
 - Front companies
 - Intermediaries/brokers
- **Understand the operational structure of networks**
- **Deter unsure proliferators**
- **Prevent proliferation activities**

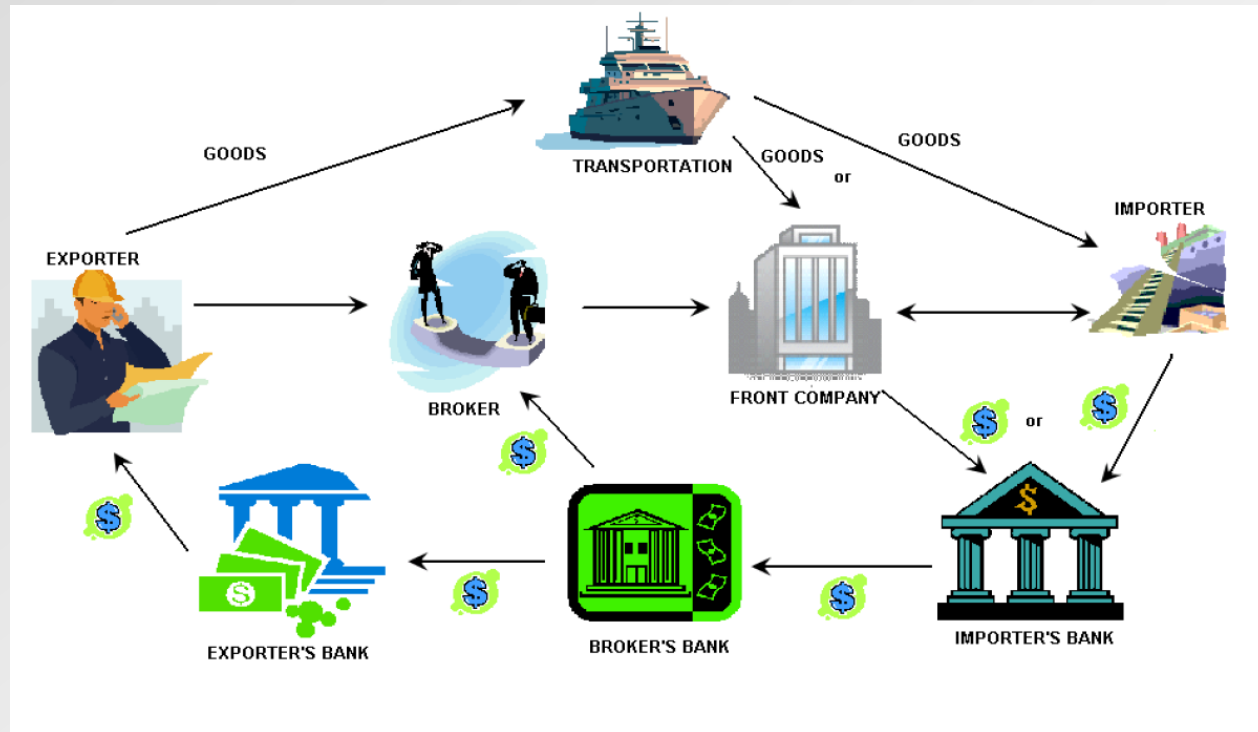


Proliferation Financing



- No internationally accepted standard definition
- FATF's working definition (2010)
 - the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, transshipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons, and their means of delivery, and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.

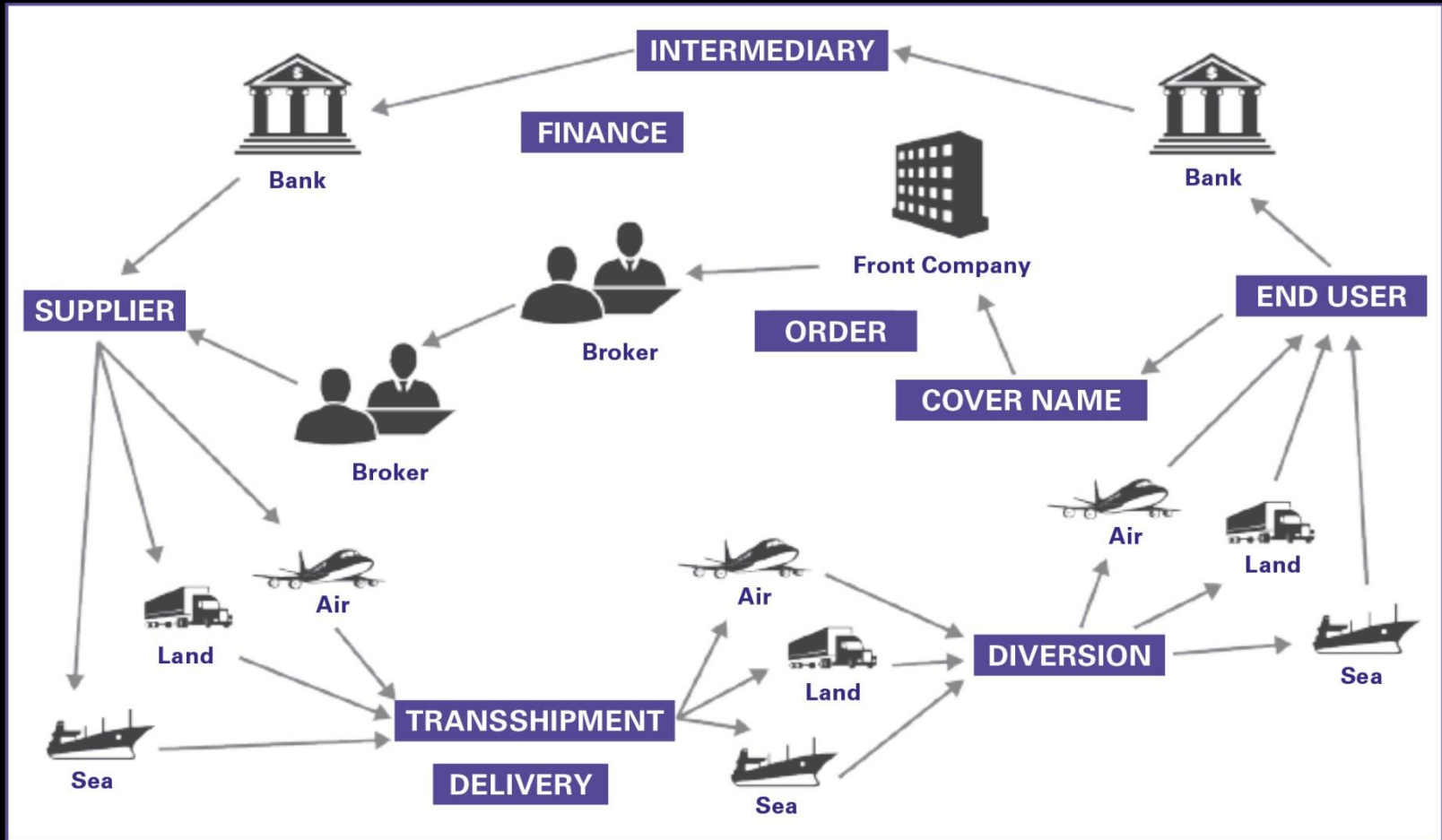
Financial Component of Exports



Source: FATF 2008 Report on Proliferation Financing

Figure 1: The Trail of Proliferation Procurement

Proliferators use a complex web of front companies, intermediaries, and delivery methods to hide the true nature of their transactions from unwitting suppliers.



Source: Financial Action Task Force; Pacific Northwest National Laboratory.

Jurisdictions Vulnerable to PF

- Weak AML/CFT controls and/or weak regulation of the financial sector.
- Weak or non-existent export control regime and/or weak enforcement of existing export control regime.
- Non-party to relevant international conventions and treaties regarding the non-proliferation of weapons of mass destruction.
- Lack of implementation of relevant UNSCRs.
- The presence of industry that produces WMD components or dual-use goods.
- A relatively well-developed financial system or an open economy.

Jurisdictions Vulnerable to PF-Cont.

- The nature of the jurisdiction's export trade (volumes and geographical end-users).
- A financial sector that provides a high number of financial services in support of international trade.
- Geographic proximity, significant trade facilitation capacity (e.g. trade hub or free trade zone), or other factors causing a jurisdiction to be used frequently as a transshipment point from countries that manufacture dual-use goods to countries of proliferation concern.
- Movement of people and funds to or from high-risk countries can provide a convenient cover for activities related to proliferation financing.
- Lack of working coordination between the customs authority and the export licensing authority of a specific jurisdiction.
- A jurisdiction that has secondary markets for technology.

Techniques Used to Finance WMD Proliferation



- **Diversion of trade and financing to elude authorities**
 - Using front companies
 - Arranging trade finance vehicles to be administered through branches or subsidiaries located in another jurisdiction
 - Strip originating information

- **False documentation provided to financial institutions**
 - Changing container numbers to hide involvement
 - Renaming vessels -- Provide IMO Numbers

Potential Indicators of PF

- Transaction involves individual or entity in foreign country of proliferation concern.
- Transaction involves individual or entity in foreign country of diversion concern.
- Trade finance transaction involves shipment route (if available) through country with weak export control laws or weak enforcement of export control laws.
- Transaction involves individuals or companies (particularly trading companies) located in countries with weak export control laws or weak enforcement of export control laws.
- Transaction involves shipment of goods inconsistent with normal geographic trade patterns (*e.g.* does the country involved normally export/import good involved?).
- Transaction involves shipment of goods incompatible with the technical level of the country to which it is being shipped, (*e.g.* semiconductor manufacturing equipment being shipped to a country that has no electronics industry).

Potential Indicators of PF

- Transaction involves financial institutions with known deficiencies in AML/CFT controls and/or domiciled in countries with weak export control laws or weak enforcement of export control laws.
- Based on the documentation obtained in the transaction, the declared value of the shipment was obviously under-valued vis-à-vis the shipping cost.
- Inconsistencies in information contained in trade documents and financial flows, such as names, companies, addresses, final destination etc.
- Customer activity does not match business profile, or end-user information does not match end-user's business profile.³⁵
- Order for goods is placed by firms or individuals from foreign countries other than the country of the stated end-user.³⁶
- Customer vague/incomplete on information it provides, resistant to providing additional information when queried.

Potential Indicators of PF

- New customer requests letter of credit transaction awaiting approval of new account.
- The customer or counter-party or its address is similar to one of the parties found on publicly available lists of “denied persons” or has a history of export control contraventions.
- Circuitous route of shipment (if available) and/or circuitous route of financial transaction.
- Transaction demonstrates links between representatives of companies exchanging goods *i.e.* same owners or management.
- Transaction involves possible shell companies (*e.g.* companies do not have a high level of capitalisation or displays other shell company indicators).
- A freight forwarding firm is listed as the product’s final destination.

Potential Indicators of PF-Cont.



- * Obviously under-valuing of the shipping cost.
- * Circuitous route of shipment and/or financial transaction.
- * Pattern of wire transfer activity that shows unusual patterns or has no apparent purpose.
- * Wire instructions or payment from or due to parties not identified on the original letter of credit or other documentation.
- * Inconsistencies in information contained in trade documents and financial flows, such as names, addresses, final destination etc.
- * Order for goods is placed by firms or individuals from foreign countries other than the country of the stated end-user.
- * A freight forwarding firm is listed as the product's final destination.
- * New customer requests letter of credit transaction awaiting approval of new account.

International Framework



- **UNSCR 1540 (2004)**
 - Establish controls on provision of funds and financial services that could contribute to proliferation
- **Country-Specific UNSCRs (Iran, North Korea)**
 - Targeted financial sanctions
 - Asset freeze
 - Denial to access to the financial system
 - Activity-based financial prohibitions
 - Exercise vigilance
 - Other financial provisions
- **Financial Action Task Force (FATF) Standards**
 - * Recommendation 2 and 7

Responsibilities of Financial Institutions

- * **Implementation of UN targeted financial sanctions rapidly**
 - Internal procedures
- * **Implementation of preventive measures**
 - Customer due diligence
 - Risk assessment and Risk management
 - Enhanced due diligence
 - Internal Controls
 - Audit
 - Suspicious activity report
 - Training of employee



Thank you...

