

Chinpo Shipping Case

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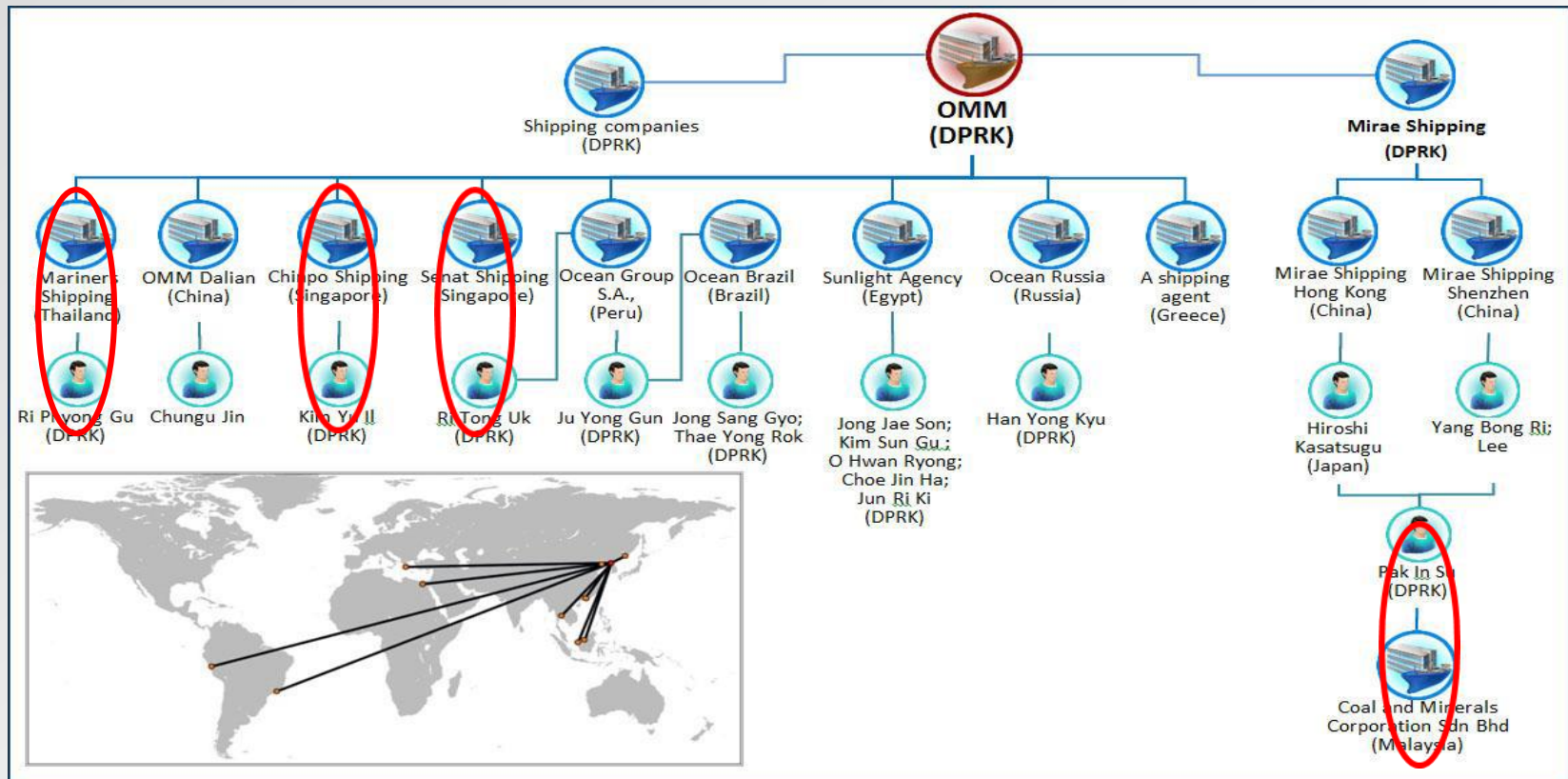
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Ocean Maritime Management (OMM)

- North Korean shipping company controlled by Korean Ministry of Land and Marine Transport
- Arm shipments serve a key resource for DPRK's proliferation programs
- Employed deceptive techniques to circumvent financial sanctions
 - Dissociated operational activities with their financial transactions
 - Used financial intermediaries for financial transactions

Ocean Maritime Management (OMM)

- Established a global network of facilitators, including Southeast Asian companies and individuals
- Appointed Singapore-based Chinpo as shipping agent



Chinpo Shipping

- Small family-run company in the ship chandlery business
- Tan Cheng Hoe was the director
- Tan built close business and personal relationships with North Koreans
 - Acted as shipping agent for many North Korean entities, including OMM
 - Allowed DPRK embassy to use Chinpo's office space without any cost
 - Acted as a contact person for employment of DPRK workers in Singaporean companies
 - Acted as an intermediary to resolve disputes between North Korean and Singaporean companies

Chinpo Shipping

- Later, also served as their payment agent because DPRK entities unable to open bank accounts
- International banks were reluctant to deal with DPRK after
 - the UN Security Council sanctions resolutions starting from 2006
 - the US efforts targeting North Korea's illeitimate activities
 - designation of Macau-based Banco Delta Asia as “a financial institution of primary money laundering concern” because of laundering North Korea's illegally acquired revenues
 - US Treasury officers efforts to convince international financial institutions not dealing with North Korea

Attempted Arms Smuggling

- In 2013, OMM-operated vessel, *Chong Chon Gang*, was interdicted in Panama, on its way to North Korea
- Concealed weapons and related material found under bags of sugar
- Constituted the largest shipment seized by authorities to/from DPRK since the first UN Sanctions imposed in 2016
- Violated the UNSC resolutions which prohibits transfer of any arms

Weapons found on North Korean Ship



Attempted Arms Smuggling



- MIG-21 jet fighters
- SA-2 and SA-3 anti-aircraft missiles
- Various related materials



- These have a potential use in the protection of DPRK's nuclear weapons program
- DPRK was known to use these systems to protect its nuclear sites from adversaries



OMM's Role in the Attempted Transfer

- Provided captain and crew
- Instructed them to hide the weapons under bags of sugar
- Provided them with false documentation to be submitted to the Panamanian authorities
- Despite these, UN and US designated OMM one year later

Chinpo's Involvement

- OMM instructed Chinpo to pay Panama Canal fees for *Chong Chon Gang*
- Transferred to Panamanian shipping agent from its account in Bank of China's Singaporean branch
 - US\$54,270 for east-bound passage
 - US\$72,017 for return passage
- Failed to question what Chong Chon Gang was carrying
- Investigations revealed Chinpo's financial intermediary role for other DPRK entities.
- Never designated by the UN and US due to involvement
- Singapore launched an investigation and found guilty

Legal Consequences of Chinpo's Remittances in Singapore

At district court Chinpo found guilty of two offenses

■ Violation of UN Sanctions

- Transferring funds that may reasonably be used in DPRK's nuclear activities
- Judge found that Tan irresponsibly disregarded the nature of the transactions
 - Not acted "deliberately and with intent" as prosecutor argued
 - Not acted merely "negligent" as his attorney argued

■ Running a remittance business without a license

- Conducted 605 outward remittances for DPRK entities
 - In exchange for a fee for each transaction
 - Amounted to more than US\$40 million in four year
 - The Prosecutor said "one of the largest amounts ever remitted illegally" in a four-year period.

Reversed on appeal. Link between payment of Panama Canal fees and DPRK nuclear program too weak to violate nonproliferation sanctions law.

Sustained on appeal.



Analysis of Chinpo Shipping Case

Obfuscation from Authorities

- **Two key factors played role for successful use of Chinpo as a payment agent**
 - **Chinpo Shipping's actions (Unquestioned DPRK entities' activities)**
 - Just kept excel sheets and record inward and outward remittances
 - Used monies based on OMM's instructions
 - Paid salaries of OMM's employees in Singapore
 - Transferred to foreign parties as instructed by OMM
 - **Bank of China's actions (Unquestioned Chinpo and Tan's activities)**
 - Rarely questioned Chinpo's financial transactions

Analysis of Chinpo's Actions

- Failed to conduct due diligence and enhanced due diligence to DPRK entities
 - Never asked the source of inward remittances
 - Never asked the purpose of outward remittances
 - Justified that it was DPRK entities' money not Chinpo's
 - Justified that questioning of their money was not their business
- Excluded, on purpose, the vessel names indicating North Korean identity in the financial messages
 - Justified that Bank of China's employees advised to do so
 - Justified that more questions were asked by bank and sometimes delays or refusals
 - Justified that mentioning vessel name was not a requirement for conducting a financial transaction

Red Flags to Chinpo

- Chinpo had reasons to question OMM's instructions before it paid Panama Canal fees
 - **Bank of China asked for the details of**
 - cargo loaded on *Chong Chon Gang*
 - Panama Canal fees by asking
 - contract to support the remittance to CB Fenton
 - invoice to support the remittance amount
 - purpose of the remittance
 - information relating to Chinpo's role in this shipping arrangement
 - **Bank of China rarely questioned thus far**
 - **OMM requested Chinpo to falsely declare the vessel name as *South Hill 2* in the financial messages for Panama Canal passage**

Analysis of Bank of China's Actions

- **Weak implementation of preventive measures**
 - Customer due-diligence
 - Failed to recognize or ignored Chinpo's relationship with DPRK
 - Failed to recognize economic difficulty Chinpo experienced
 - Determination of beneficial ownership
 - Failed to investigate for whom Chinpo used its account
 - Enhanced due-diligence when high-risk customers or countries involved
 - Failed to question Chinpo and Tan's financial transfers
 - Reporting suspicious activity report (SAR)
 - Although unknown whether filed SAR, other lax implementation seems failed to do so

Red Flags to Bank of China

- Chinpo was openly dealing with high-risk customers, DPRK entities which are in a high risk sector, shipping
 - Tan's close business and personal relationship with North Koreans
 - Chinpo's allowing DPRK embassy to use office space
- Inconsistency between Chinpo's economic profile and financial transactions over time
 - Ship servicing activities fell from 57 vessels in 2010 to 4 vessels in 2013
 - But account balance ranged from \$3.6 million to \$6.8 million between 2008 and 2012
 - Outward remittances amounted to more than US\$40 million between 2009 and 2013

Efficiency of Preventive Measures

■ Case reflects success

- OMM and other DPRK entities could not open bank account
- Chinpo's United Overseas Bank account was closed after Chinpo's dealings with North Koreans was discovered

■ Case reflects failures

- Bank of China's weak preventive measures
 - Allowed Chinpo to act as a financial agent for many years

Lessons Learned

- Investigation of Chinpo's Bank of China accounts revealed its role as a payment agent with other DPRK entities
 - Proved the investigative value of financial controls
- DPRK's clandestine banking activities poorly disguised
 - Effective due diligence implementation by banks would have prevented its financial transactions
- Regulator authorities supervision would lead to similar implementation of financial controls by banks

Thank you...



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