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North Korea finds ways to avoid sanctions imposed by the United Nations

A forthcoming [United Nations Security Council report](#) from the 1718 Democratic People's Republic of Korea (DPRK) Sanctions Committee will discuss the ways in which the DPRK avoids sanctions and does business with its trading partners. A [Wall Street Journal article](#) quotes the report as saying that the U.N. sanctions program is ineffective:

“Global banks and insurance companies continue to unwittingly facilitate payments and provide coverage for vessels involved in ever-larger, multi-million-dollar, illegal ship-to-ship transfers of petroleum products, as well as an increasing number of ship-to-ship coal transfers and attempted transshipments.”

Supply chains that stretch across borders, particularly in Asia, are in danger of using North Korean labor, goods, and services, which is a direct violation of the [Countering America's Adversaries Through Sanctions Act](#) (CAATSA). A U.S.-based cosmetics firm, e.l.f. Cosmetics, was recently fined under CAATSA for purchasing fake eyelashes from a Chinese supplier that sourced from North Korea.

The United States Department of Justice recently [filed a suit](#) against three companies—two China-based entities and a Singaporean company—alleging money-laundering activities on behalf of blacklisted North Korean banks. According to the complaint, North Korea's financial sector is of primary concern for money laundering. The complaint references the Financial Crimes Enforcement Network's [findings](#) to demonstrate that North Korea's money-laundering activities are sophisticated, extensive, and effective in evading both U.S. and United Nations sanctions against the country:

While none of North Korea's financial institutions maintain correspondent accounts with U.S. financial institutions, North Korea does have access to the U.S. financial system through a system of front companies, business arrangements, and representatives that obfuscate the true originator, beneficiary, and purpose of transactions. We assess that these deceptive practices have allowed millions of U.S. dollars of [North Korean] illicit activity to flow through U.S. correspondent accounts.

The complaint focuses on two such companies, Apex Choice Ltd., and Yuanye Wood Co. Ltd., that allegedly transferred funds to agents and entities acting on behalf of North Korean banks—primarily the North Korean Foreign Trade Bank—in order to evade sanctions. The complaint includes a long list of unnamed front companies that received or sent out wire transfers that allegedly helped North Korea avoid sanctions, revealing a web of actors that shift, disappear, and reappear again depending on conditions. Apex Choice, for example, was incorporated by a Chinese national in Hong Kong under several different addresses, but with no set physical location. The company can dissolve in a moment, and be replaced by a different company used for the same purpose.

Forced labor

In the section of the complaint that deals with Yuanye Wood, U.S. authorities allege that Yuanye Wood sent several payments to front companies and partners in the wood-harvesting industry that benefitted North Korea's nuclear and ballistic missile program. The section goes on to describe one of the players, Chilbo, a North Korean wood harvester, as using North Korean prisoners as forced labor in Equatorial Guinea, where they worked as loggers and construction workers.

According to the complaint:

Paragraph 17 of United Nations Security Council Resolution 2375, approved on September 11, 2017, bans the exportation of workers by the Government of North Korea, and E.O. [Executive Order] 13,722 authorizes the President to designate persons involved in the exportation of workers by the government of North Korea ... [t]he Treasury Department has stated that the Government of North Korea uses some of the revenue it derives from the exportation of workers to fund the Munitions Industry Department, which is responsible for its development of ballistic missiles.

A United Nations sanctions National Implementation Report, which specifically named Chilbo as a North Korean forestry company using forced labor, led to Equatorial Guinea beginning the process of repatriation and cutting ties with North Korea, but the complaint did not confirm the extent of repatriation, or whether or not a different shell company may have replaced Chilbo.

Legal framework

The U.S. draws on a series of regulations, executive orders, and acts to pursue and prosecute entities who allegedly violate the sanctions regime against North Korea. First and foremost is the International Emergency Economic Powers Act (IEEPA), which gives the U.S. president extraordinary powers to regulate commerce in response to “an unusual and extraordinary threat to the United States.”

The IEEPA is supported by a number of executive orders, including E.O. 12938 and 13382, which identify the proliferation of weapons of mass destruction as an extraordinary threat to the United States. E.O. 13382 also provides a list of sanctioned entities in an annex, including eight organizations from North Korea, Iran, and Syria. On top of that, the Weapons of Mass Destruction Proliferators Sanctions Regulations, promulgated by the U.S. Treasury Department, allows for the blocking of “any property and interests of property, belonging to individuals and entities listed in or designated pursuant to E.O. 13,382.”

Additionally, E.O. 13722 authorizes the Secretary of the Treasury “to block all property and interests in property of persons operating in certain industries in the North Korean economy, including transportation, mining, energy, and financial services.” The United States further tightened the screws with the North Korea Sanctions and Policy Enhancement Act of 2016 and the Countering America's Adversaries Through Sanctions Act, which provides the U.S. with the authority to pursue, indict, and sanction those who launder money through the U.S. financial system, anyone who does business with sanctioned entities, and to effectively remove entities from the U.S. financial system.

There are other regulations that apply as well, such as the Bank Secrecy Act, and all of those are brought to bear on alleged violators of the sanctions regime against North Korea.

Slipping through the cracks

North Korea manages to maintain a flow of finances through shell companies, remittances from workers abroad,

and illegal trading in oil and coal ([RSCC 1.17](#)). A [recent report](#) in *The Wall Street Journal* addresses the ways shipping companies operating under false flags use a variety of tactics to keep trade with North Korea flowing.

According to the article, North Korea managed to import more than five times its annual quota of 500,000 barrels of oil, sell coal, trade in food stuffs and other items, and use a rotating cast of shell companies, mislabeled ships, and intermediaries from China to the Seychelles to Zanzibar to loosen the grip of U.S. and U.N. sanctions on the country.

Takeaways

- Despite rigorous enforcement, North Korea manages to avoid sanctions and mask its economic activities around the globe.
- Companies must be vigilant and continuously vet suppliers and vendors in order to avoid doing business with sanctioned entities.

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