



New Interagency Advisory on North Korean Missile Procurement

September 9, 2020

Summary

On September 1, the U.S. Departments of State, Treasury, and Commerce issued a North Korea Ballistic Missile Procurement Advisory (“the Advisory”) calling attention to how Kim Jong-un’s regime obtains goods for its missile program.¹

- **The Advisory warns the electronics, chemicals, metals, and materials industries that North Korea is looking to acquire their products for use in its ballistic missile program. The Advisory adds these new industries to sectors identified in previous advisories (the financial, transportation, and logistics sectors).**² The Advisory builds on prior efforts to draw attention to how North Korea exploits various industries to fund itself and obtain the components for its weapons of mass destruction and ballistic missile programs.
- **The Advisory identifies specific North Korean entities involved in or directing this illicit procurement trade and provides an overview of the methods they use for evading U.S. and multilateral sanctions and export controls.** The scale of the challenge for governments and companies around the world is increasing, as Pyongyang’s procurement networks have adapted their operations to avoid international pressure on their activities. The Advisory references United Nations sanctions, though it discusses in-depth relevant U.S. authorities, which can target firms who are not directly subject to U.S. jurisdiction for activities involving North Korea or North Korean entities. For North Korea’s missile activities in particular, the Advisory includes an Annex that lists goods that the DPRK has targeted for acquisition, including guidance systems, gyroscopes, chipsets, and specialty heat-resistant metals.³

- **Companies should review their compliance programs to ensure they understand how their operations may be exposed to these deceptive activities. Companies involved in the manufacturing of the goods listed in the Annex should be particularly concerned about North Korea’s interest in their products.** Companies should follow the Advisory’s recommendations for maintaining an effective sanctions and export controls compliance posture, as failure to do so may have legal, financial, and reputational consequences:
 - Companies should closely scrutinize activity outside of their customers’ expected business operations profile.
 - Sudden changes in purchase or shipment activity, for example, may be indicative of illicit procurement.
 - To assist the private sector’s efforts in further identifying red flags, the Advisory directs companies to a variety of government resources for further research and guidance on sanctions and export control compliance in general and North Korea’s illicit financial activities specifically.

Understanding the DPRK’s Procurement Apparatus

North Korea, like many countries that seek to illicitly develop weapons of mass destruction and ballistic missile programs, needs to acquire or access the underlying goods from abroad due to a lack of sufficient indigenous capability. Such procurement is directed by agencies of the North Korean government and affiliated companies, agencies, and individuals. While the United States, European Union, and the United Nations have designated many of these entities, these entities are able to continue their work through non-designated parties whose connections to North Korea are deliberately obscured.

The tactics that Pyongyang has embraced to obtain proliferation-sensitive goods include:

- Leveraging overseas networks of procurement agents, many of whom are nationals of other countries;
- Relying on foreign companies who are willing to engage in lucrative but illegal activity, particularly those located or registered in Russia and China; and
- Using its diplomatic representatives abroad to raise and move money on behalf of the regime and identify manufacturers who may be making products that Pyongyang needs.

North Korea’s procurement networks are adept at disguising the flow of funds and the end-user and destination for its procurement activity. By doing so, they can obtain necessary goods from companies unaware they are dealing with North Korean-linked entities. These strategies are built on a number of methodologies. For example, North Korea-affiliated

purchasers will often mislabel invoices or other shipping documentation to camouflage proliferation-sensitive goods by listing them as innocuous commercial or industrial equipment. They will direct the delivery of these goods to third countries, after which they will be diverted to North Korea. Alternatively, as referenced in other U.S. government advisories, these networks will exploit the shipping sector to export banned goods to North Korea.⁴

In order to evade the sanctions screening procedures of financial institutions, these networks will structure payments through multiple levels of intermediaries, many of which are front and shell companies that have no apparent linkages to North Korea. As these entities are not themselves designated, this strategy poses additional challenges to the financial sector.

Implications for the Private Sector

The U.S. government released this Advisory to help the private sector understand the risks of operating in sectors that Pyongyang has identified as priorities for their weapons program. Implementing the controls listed as part of a robust compliance program will help companies mitigate regulatory risk. Companies should internalize the recommendations of the Advisory, which include:

- **Stressing the importance of a robust sanctions compliance program.** The Advisory recommends that companies take a risk-based approach to building, implementing, and updating a sanctions compliance program. A sanctions compliance program should be tailored to a company's size and sophistication, products and services, customers and counterparties, and geographic locations. It should also incorporate the five essential components of compliance, as identified in the Framework for OFAC Compliance Commitments⁵:
 - Management commitment
 - Risk Assessment
 - Internal Controls
 - Testing and Auditing
 - Training
- **Understanding the role of export controls in denying WMD and ballistic missile capabilities to North Korea.** Many of the goods that North Korea seeks to obtain are subject to export controls, which can be implemented at the national or multilateral level. Multiple nodes of the global supply chain could potentially uncover export control violations:

- Financial institutions should review whether and how they conduct screening of trade finance transactions for listed goods;
 - Shippers and others in the maritime sector should work to verify the underlying documentation for cargoes that their vessels are carrying; and
 - Companies involved in the manufacturing of any of the materials identified in the Annex should review their policies and procedures to determine if they are adequate for preventing dealings with entities linked to North Korea.
- **Consulting other information sources for further information.** Companies should ensure they are incorporating the content of reports from U.S. government agencies and departments, as well as international institutions, in developing policies and procedures and training for compliance staff. These reports compile red flags, case studies, and other information to enable the private sector to better understand the threat from North Korea's proliferation networks and improve their own compliance approach⁶. Relevant documents may include:
 - **United Nations Panel of Experts Reports:** The United Nations 1718 Sanctions Committee has a dedicated Panel of Experts to gather information about and analyze the effective implementation of United Nations sanctions imposed on North Korea⁷. In successive reports, it has identified individuals and entities who they suspect to be engaged in sanctions evasion. While the inclusion of individuals and entities in such reports is not equivalent to a designation, financial institutions should screen their customers against the individuals and entities listed to determine if they have missed potentially suspicious activity.
 - **Financial Action Task Force (FATF) Guidance on Counter Proliferation Financing:** FATF, the international standard setter for anti-money laundering and counter-terrorist financing, has expanded its work on countering the financing of proliferation. In February 2018, it released nonbinding guidance to better define what the financing of proliferation is, how it differs from other financial crime, and how countries and financial institutions can better manage those risks.⁸
 - **National Proliferation Financing Risk Assessment:** In 2018, the Department of the Treasury led an U.S. interagency effort to identify the risks to the United States arising from the financing of proliferation, with a particular focus on exploitation of the U.S. financial system⁹. The Risk Assessment lists North Korea among the threat actors, and provides case studies of individuals or entities who have been prosecuted or sanctioned for engaged in WMD or ballistic missile proliferation. It also highlights how the U.S. regulatory framework has developed to manage the threat.

- **Department of Commerce Red Flag Indicators:** The Department of Commerce maintains a list of red flags that may indicate to exporters that their customers are trying to evade U.S. export controls. Among the red flags are:
 - Vague delivery dates or deliveries planned for out of the way destinations
 - Freight forwarding firms listed as the product's final destination
 - Abnormal Shipping routes for the product and destination
 - Inconsistent packaging with the stated method of shipment or destination
 - Evasive buyers who may be unclear about whether the purchased product is for domestic use, for export, or for reexport

¹ United States Department of State, Department of the Treasury, and Department of Commerce, “North Korea Ballistic Missile Procurement Advisory,” (September 1, 2020), available at https://home.treasury.gov/system/files/126/20200901_nk_ballistic_missile_advisory.pdf.

² The Department of the Treasury has released advisories for North Korean illicit shipping activity, as well as their cyber activities. Important advisories and other information can be found at <https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information/north-korea-sanctions>. For a previous policy alert on the most recent maritime guidance see: K2-Financial Integrity Network, “U.S. Government Issues Significant New Advisory on Maritime Sanctions Risk,” (May 18, 2020), available at https://www.finintegrity.com/uploads/8/7/8/0/87802750/2020.05.18_-_maritime_guidance_policy_alert_-_final.pdf.

³ Other goods include fibrous material production; heavy-duty truck chassis; heat resistant, specialty steels, aluminums, etc.; bearings; equipment; precursor chemicals; electronics; and guidance, navigation, and control.

⁴ United States Department of the Treasury, Department of State, and United States Coast Guard, “Sanctions Advisory for the Maritime Industry, Energy and Metals Sectors, and Related Communities: Guidance to Address Illicit Shipping and Sanctions Evasion Practices,” (May 14, 2020), available at https://home.treasury.gov/system/files/126/05142020_global_advisory_v1.pdf.

⁵ United States Department of the Treasury, “A Framework for OFAC Compliance Commitments,” available at https://home.treasury.gov/system/files/126/framework_ofac_cc.pdf.

⁶ See the Department of the Treasury advisories here: <https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information/north-korea-sanctions>.

⁷ United Nations Security Council, 1718 Sanctions Committee (DPRK), Panel of Experts, “Reports,” available at https://www.un.org/securitycouncil/sanctions/1718/panel_experts/reports.

⁸ Financial Action Task Force, “FATF Guidance on Counter Proliferation Financing,” (February 2018), available at <http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Countering-Proliferation-Financing.pdf>.

⁹ United States Department of the Treasury, “National Proliferation Financing Risk Assessment,” (December 20, 2018), available at https://home.treasury.gov/system/files/136/2018npfra_12_18.pdf.