

AML alert: Russia sanctions – Trade sanctions circumvention

Extract from Department of Business and Trade Notice NTE 2023/08: Russian sanctions – Trade sanctions circumvention.
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Introduction

The Russia sanctions regulations impose financial, trade, aircraft, shipping and immigration sanctions for the purposes of encouraging Russia to cease actions which destabilise Ukraine, or undermine or threaten the territorial integrity, sovereignty or independence of Ukraine.

Trade sanctions seek to deny Russia access to the goods, technologies and revenue necessary to pursue its illegal war. The Department of Business and Trade issued notice NTE 2023/08 to prevent the undermining of trade sanctions, export controls, and other restrictive measures designed and implemented in response to Russia's invasion of Ukraine. Awareness of the risk and obligations in relation to sanctioned goods is an important first step for those working in the accountancy profession so that they don't become party to the trade sanctions circumvention.

Direct trade between the UK to Russia has fallen significantly since sanctions were introduced. However, Russia will seek to procure restricted goods via other routes. As such, there are risks around displacement of trade and diversion of goods to Russia. Businesses, and their accountants, should ensure that they consider these risks as part of their due diligence.

Ensuring Due Diligence

The true end-users of procured goods are unlikely to approach international suppliers directly or be named as end-users on paperwork. Instead, organisations often use a layered approach to conceal their procurement activities. Closer scrutiny of intermediary companies and apparent end-users can uncover discrepancies.

Strong due diligence on counterparties and internal governance in relation to sanctions is essential. Even on established counterparties, due diligence will need to be repeated at intervals to ensure that the risk has not changed; for example, change of directors/change of products traded, etc.

Procurement Cycle

The procurement cycle below illustrates the different stages and types of entities likely used to acquire goods covertly. Not all stages may be used in every procurement attempt. Using this model, the end-user typically uses a 'cover' or 'front' company to request goods from networks of complicit intermediaries.

- 1. International suppliers** - Commodities from a range of industrial fields are sourced from specialist manufacturers or distributors.
- 2. Intermediary** - (Overseas) Trading companies could be complicit but probably has legitimate business too. May claim to be the end-user, or name another intermediary or cover company.
- 3. Cover/front company** - An entity acting entirely on behalf of the sanctioned entity. May be a registered business, or may be solely a cover name. These companies may be seen named in international trade paperwork.
- 4. The true end-user** - A sanctioned destination, person or organisation

Key Risk Indicators

Risks need to be considered in the circumstances of individual companies and due diligence/internal governance tailored accordingly. These can be broadly grouped by customer, product and location.

There are a number of initial risk indicators below. This list is not exhaustive and the examples below are intended to be indicative.

Customer:

- customer is, directly or indirectly, involved in the supply, sale, delivery or purchase of restricted or high-risk goods, particularly to higher risk destinations
- customer is physically located in or adjacent to countries/diversion concern
- customer maintains connections with a country of concern
- customer has previously had dealings with individuals or entities now designated
- customer who has entered into a joint venture or cooperation agreements with designated persons
- customer sells goods with a disproportionate delivery cost without a justified reason
- complicated structures to conceal involvement – use of layered letters of credit, front companies, intermediaries and brokers
- personnel, address or telephone number matching or suspiciously similar to any found on publicly available lists, including sanctions lists
- customer is vague about details, especially end user and end use. Provides incomplete information and is resistant to providing additional information when sought
- vendor is vague, particularly about source of materials, provides incomplete information or is resistant to providing additional information when sought

Product:

- the transaction concerns sanctioned, dual-use, proliferation-sensitive or military goods, whether licensable or not
- the transaction involves an individual or entity in a foreign country of proliferation concern
- the description of the goods on the trade/financial documentation is non-specific or misleading
- shipment of goods inconsistent with normal geographic trade patterns; for example, where the country involved does not normally export or import the types of goods
- the country of the stated end-user is not the same as where the order was placed from
- evidence or suspicion that documentation or material particulars therein are fraudulent

Country/Jurisdiction:

- countries which are actively engaged with a sanctioned country
- a route of shipment of goods or transactions inconsistent with normal geographical or trade patterns or the customer's expected business activity
- payments or transfers made to importers, exporters, agents or brokers that export to countries and ports near the border of sanctioned countries
- shipments involving individuals, companies or a shipment route located in a country with weak export control laws or weak enforcement of these laws

Contact

Trade sanctions:

Export Control Joint Unit
Department for Business and Trade
Old Admiralty Building
Admiralty Place
London
SW1A 2DY

Email tradesanctions@trade.gov.uk

Suspicious Activity Reporting

If you identify activity which may be indicative of the activity detailed in this alert you should make a SAR and include the appropriate glossary code for sanctions (XXSNEXX).

Guidance on reporting is available at: www.nationalcrimeagency.gov.uk.

Data Protection Considerations

Please consider your obligations under the relevant data protection regulations and where necessary remove any related personal data from your systems securely and within a satisfactory timeframe.

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