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EMERGING INSIGHTS

North Korean Proliferation Financing and Designated Non-Financial Businesses and Professions

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EXECUTIVE SUMMARY

North Korea has become increasingly skilled at evading targeted financial sanctions (TFS) and has often exploited or used designated non-financial businesses and professions (DNFBPs) to do so. Despite this, there is a lack of guidance available for this sector on the sanctions evasion risks they face. This gap needs to be urgently addressed, as the Financial Action Task Force (FATF) now requires the private sector – including DNFBPs – to ‘identify and assess the risks of potential breaches, non-implementation or evasion of the targeted financial sanctions related to proliferation financing’.¹ Understanding how North Korea has evaded TFS through DNFBPs will be key to fulfilling this requirement. This is of particular importance as North Korea-related DNFBP typologies do not appear to be aligned with the money-laundering and terrorist-financing vulnerabilities faced by DNFBPs more broadly, upon which the FATF Standards’ preventative measures and record-keeping obligations are based.²

The FATF defines DNFBPs as comprising: dealers in precious metals and stones (DPMS); the real-estate sector; casinos; and gatekeeper services such as lawyers, accountants, and trust and company service providers. While its definition does not include high-value goods dealers (HVGDs), this sector has often found itself at the heart of North Korea’s sanctions evasion techniques, and many countries choose to cover HVGDs or adjacent businesses such as dealers in art and antiquities under their DNFBP regimes.³ Therefore, considerations related to HVGDs are also included in this paper.

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1. Financial Action Task Force (FATF), ‘International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation: The FATF Recommendations’, 2012, Recommendation 1.
 2. FATF, ‘International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation’.
 3. The UK, for instance, indicates that high-value goods dealers are less aware of their proliferation-financing exposure than other sectors. See FATF, ‘Anti-Money Laundering and Counter-Terrorist Financing Measures: United Kingdom, Mutual Evaluation Report’, December 2018.

Based on a dataset of 87 identified cases of North Korean sanctions evasion and proliferation financing (PF) activities involving DNFBPs obtained from UN Panel of Expert (UN PoE) reports, this paper identifies significant gaps in DNFBP supervision and related policies that North Korea can exploit.⁴

A notable factor identified across all cases used in this paper is the extent to which current FATF Standards do not adequately capture the DNFBP-related sanctions evasion activities employed by North Korea, resulting in key exploitation vulnerabilities. The cases also provide a useful snapshot of the kinds of activities North Korea undertakes in these sectors.

KEY FINDINGS

- **HVGDs are vulnerable to attempts to procure luxury items to be shipped to North Korea.** The combination of uneven implementation of the UN's luxury goods ban on North Korea by UN member states and HVGDs not being explicitly covered by FATF Standards (although addressed in some regional regulation such as the EU's 5th Anti-Money Laundering Directive⁵) creates a key regulatory gap for North Korea to exploit.⁶
- **DPMS are similarly vulnerable to attempts by North Korea to both procure and sell precious metals and stones.** For example, of the DPMS cases identified for this paper, jewellery and diamonds appeared in 25% and 5% of cases respectively, with gold the most frequently mentioned precious metal (60%). The cases also provide an insight into the stages of the DPMS supply chain most targeted by North Korea, with mining/production mentioned in 21% of DPMS cases and wholesale/trading mentioned in 34%, compared to refining (7%) and retail (4%). Finally, DPMS cases involving gold were almost twice as likely (56% to 29%) as non-gold DPMS cases to indicate the proliferating state was associated with the DNFBP, and 17% of gold-related DPMS cases actually involved the sanctioned state exporting or attempting to export gold.⁷

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4. This dataset can be accessed in the Annex, which is published separately as Sasha Erskine, 'North Korean Proliferation Financing and Designated Non-Financial Businesses and Professions', RUSI Emerging Insights Annex, January 2022.
 5. Council of the European Union, 'Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 Amending Directive (EU) 2015/849 on the Prevention of the Use of the Financial System for the Purposes of Money Laundering or Terrorist Financing, and Amending Directives 2009/138/EC and 2013/36/EU', *Official Journal of the European Union* (L156/43, 19 June 2018), <<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018L0843&from=EN>>, accessed 3 May 2021.
 6. For more information on how North Korea continues to evade the UN's luxury goods ban, see C4ADS, 'Lux & Loaded: Exposing North Korea's Strategic Procurement Networks', 2019.
 7. *Ibid.*

North Korea has become increasingly skilled at evading financial sanctions

- **The real-estate sector appears to be targeted by North Korea mostly for income-generating purposes.** This stands in contrast to typical money-laundering real-estate typologies, where property is used for integrating proceeds of crime into the financial system and obscuring asset ownership.⁸ North Korean use of real estate includes property development (33% of real-estate cases) and the letting of commercial (50%) or residential (17%) properties for rental income. While the buying of property for rental purposes would be covered by FATF Standards, the subsequent letting activities fall outside their scope and provide a potential regulatory and awareness gap for North Korea to exploit.⁹
- **Gatekeeper professions play an important role in facilitating North Korean sanctions evasion, and more awareness of sanctions obligations in these sectors is needed.** At least 25% of cases indicated that North Korea in-sourced gatekeeper services, meaning that it either performed these services itself or provided gatekeeper services to others, as opposed to using third-party intermediaries.¹⁰ More research is needed to understand the exact ways and extent to which North Korea operates in these sectors.

A key overall trend highlighted in this paper is the extent to which DNFBPs involved in the identified cases were in some way associated with, or controlled by, North Korea-linked actors. In 22% of cases, the proliferating state had an ownership or controlling stake in the DNFBP in question.¹¹

This paper demonstrates that the DNFBP-related preventative measures provided by the FATF Standards that are primarily focused on money laundering and terrorist financing do not appear to adequately cover PF risks. This is particularly clear as relates to the implementation of UN-imposed TFS.¹² The paper therefore offers recommendations as to how international organisations, such as the FATF, and individual governments can adapt their existing regulation of these sectors to capture North Korea's sanctions evasion activities.

8. See, for example, UN Security Council, 'UN Panel of Experts Report on North Korea', S/2019/691, 2019, p. 25, <<https://undocs.org/S/2019/691>>, accessed 5 May 2021. Here, it is evident that a member of the North Korean Reconnaissance General Bureau received income from two properties owned in Paris.

9. FATF, 'International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation', pp. 115–16.

10. This dataset can be accessed in the Annex.

11. *Ibid.*

12. FATF, 'International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation'.

INTRODUCTION

North Korea has become increasingly skilled at evading financial sanctions and accessing the global financial system by using front company bank accounts and financial intermediaries. So far, most strategies to counter this have focused on financial institutions, given their role in sending, holding and receiving funds, as well as offering other financial services sought by proliferators (such as trade financing or insurance).¹³ Less understood is the role of DNFBPs in countering proliferation finance.

Despite the important services DNFBPs provide – whether intentionally or unintentionally – in support of North Korea’s sanctions evasion activities, there is a lack of DNFBP-specific guidance that can help the various DNFBP sectors take the steps necessary to incorporate counter-proliferation financing into their compliance procedures.¹⁴

As this paper demonstrates, existing anti-money-laundering and terrorist-financing requirements on DNFBPs do not sufficiently cover the kinds of activities in which proliferators are engaged.¹⁵ This, in turn, results in fewer PF cases being detected in, and reported by, these sectors. Thus, the full extent to which DNFBPs facilitate PF is almost certainly understated. The 87 cases of PF activity across DNFBP sectors identified for this paper in UN PoE reports are therefore likely to address only the tip of a potentially much larger iceberg.¹⁶

Clearly, there is an urgent need to understand how proliferators use DNFBPs and to close the gaps in supervision that are being exploited. This paper highlights the relevance of DNFBPs to North Korea’s PF activities, situating them alongside their financial sector counterparts. This is important as the FATF has recently amended its standards to require countries and private sector entities (including DNFBPs) to identify, assess and take effective action to mitigate the risk of potential breach, non-implementation or evasion of targeted financial sanctions related to proliferation, including those targeting North Korea.¹⁷

13. Emil Dall, Andrea Berger and Tom Keatinge, ‘Out of Sight, Out of Mind? A Review of Efforts to Tackle Counter Proliferation Finance’, *Whitehall Report*, 3-16 (June 2016).

14. FATF, ‘International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation’, pp. 115–16.

15. Existing financial thresholds for the following DNFBP sectors are: for casinos, when the transaction exceeds \$3,000; and for dealers in precious metals and stones and real estate, when the transaction exceeds \$15,000. These DNFBP sectors are additionally governed by: FATF Recommendation 10 (on customer due diligence); Recommendation 22 (on DNFBP customer due diligence); and Recommendation 23 (on other measures on DNFBPs).

16. This dataset can be accessed in the Annex.

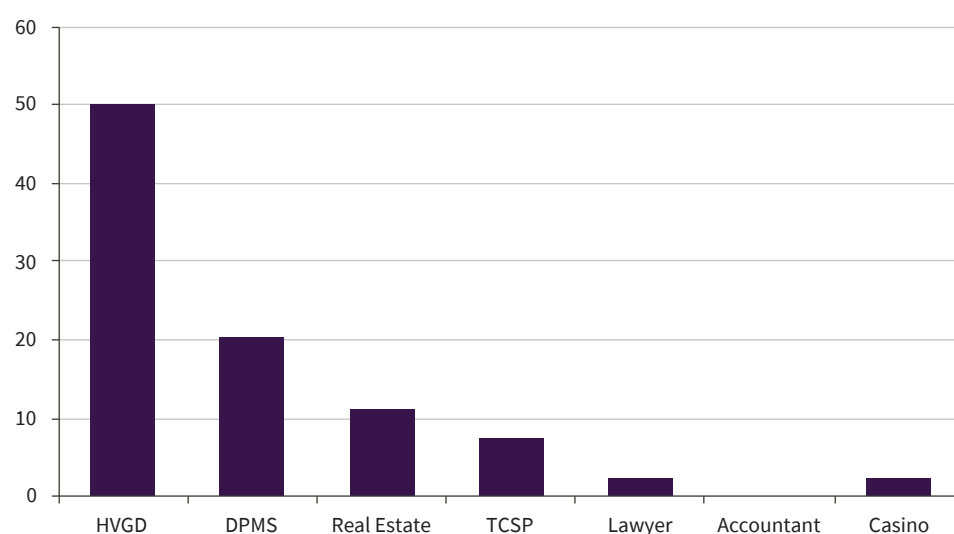
17. FATF, ‘Outcomes FATF Plenary, 20–25 June 2021’, <<https://www.fatf-gafi.org/publications/fatfgeneral/documents/outcomes-fatf-plenary-june-2021.html>>.

The paper will first outline the current regulatory and awareness gaps that exist with regard to DNFBPs and their exposure to PF risk from North Korea. Next, each individual DNFBP type will be explored and, where they exist, the current legal and regulatory obligations applying to each DNFBP type as relates to North Korea will be identified. This will be accompanied by related insights on each sector's PF vulnerabilities, which have been gathered from the case studies. Finally, the paper will offer practical solutions as to how international organisations and individual governments can adapt existing supervision of these sectors to adequately capture PF risk.

METHODOLOGY

This paper is based on an analysis of 87 open-source PF cases involving North Korea and a DNFBP business, along with a review of relevant policy literature from the FATF and selected other authorities such as the European Commission.¹⁸ The cases, as detailed in the Annex, were all gathered from UN PoE reports¹⁹ – the primary source for evidence of North Korean sanctions evasion.

Figure 1: Number of DNFBP Cases by Sector



Source: This data reflects the DNFBP cases identified in the UN PoE reports (2006–21), which can be found in the Annex.

accessed 30 June 2021.

18. This dataset can be accessed in the Annex.
19. The following information was extracted from the identified cases (where available): DNFBP type and service provided; year; value of transaction/service; evasion method; proliferator involvement and control; jurisdictions involved; DNFBP complicity (determination of whether the DNFBP was wittingly or unwittingly involved in the scheme); DNFBP jurisdiction; and whether the case is captured by existing DNFBP supervision (either at the FATF or in domestic law).

Identifying cases involving a DNFBP service presents some challenges, and while the dataset gathered is representative of risks to consider, the research does have its limitations. One limitation lies in determining when a DNFBP service has been offered. For example, many PF cases reference the use of a front company. While it can be assumed that a company service provider may have assisted with setting up or operating these front company structures, such cases have only been included in the dataset for this paper if there is an *explicit* mention that a DNFBP service has been procured and used. The same is the case for accountancy or legal services, where those cases that *explicitly* mention the contracting of a DNFBP service are included (for example, if someone acts as a nominee and receives a fee for such a service, or if legal advice is procured and paid for). Finally, in the real-estate sector, many PF cases reference North Korea's involvement in construction projects. However, not all those projects will involve a real-estate agent to sell or lease the properties after completion. Therefore, only those construction cases that reference the development of housing or other projects that could feasibly end up on the open market (and therefore involve a real-estate agent) have been included.

This paper therefore suffers from the lack of availability of precise information, as it is not always possible to determine whether a DNFBP service was formally involved in the sanctions evasion activity. Nevertheless, the evidence that is available clearly highlights the gaps and vulnerabilities that exist.

DNFBPS AND PF: IDENTIFYING GAPS IN AWARENESS AND COMPLIANCE

Since 2012, the FATF has required countries to establish legal, regulatory and operational measures to implement targeted financial sanctions related to proliferation.²⁰ In October 2020, it again amended its standards to require countries and regulated private sector businesses, including DNFBPs, to 'identify and assess the risks of potential breaches, non-implementation or evasion of the targeted financial sanctions related to proliferation financing'.²¹

However, mutual evaluation reports (MERs – the assessments that the FATF and its regional bodies carry out to monitor countries' compliance with its standards approximately every 10 years) have often highlighted that DNFBPs fall behind financial institutions when it comes to PF awareness and implementation. For example, the UK's 2018 MER stated that while outreach by the government had improved PF understanding in the banking sector, 'other sectors show less awareness'.²² The UK government is now planning

20. FATF, 'International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation'.

21. *Ibid.*, Recommendation 1.

22. FATF, 'Anti-Money Laundering and Counter-Terrorist Financing Measures: United Kingdom, Mutual Evaluation Report', p. 9.

sector-specific outreach to close these gaps.²³ In Hong Kong's 2019 MER, the FATF highlighted that while a robust legal framework was in place, 'there are significant gaps in awareness among other sectors, particularly money service operators and DNFBPs'.²⁴ Other MERs follow the same pattern, with banks leading the way on PF awareness and, as a result, implementation.

Beyond the FATF's standards related to PF (specifically the implementation of TFS related to proliferation), DNFBPs must also meet requirements covering record-keeping and conducting due diligence. These, however, are primarily focused on addressing money-laundering and terrorist-financing risks, and do not include, or refer to, PF. As a result, few DNFBPs appear to have integrated PF considerations into their broader compliance programmes.²⁵

A joint survey conducted by RUSI and the Association of Certified Anti-Money Laundering Specialists (ACAMS) in 2020 revealed that while 76% of respondents working in international banks said their organisation has a compliance function that incorporates PF, among non-bank financial institutions (including the DNFBP sector) only 46% identified a PF compliance function.²⁶ Furthermore, while DNFBPs may have sanctions compliance functions or anti-money-laundering procedures in place that could detect some PF activity, the same survey also revealed that non-banking institutions were less likely to have consulted key PF educational resources, such as the reports produced by the UN PoE on North Korea.²⁷ Therefore, awareness and understanding of PF as a distinct financial crime and sanctions risk is lacking, despite these very same reports making consistent reference to the role of DNFBPs in North Korea's sanctions evasion activities. For example, a March 2019 PoE report identified cases involving: luxury goods delivery to North Korea (HVGD); the leasing of embassy properties by North Korea (real estate); and smuggling of gold (DPMS). It explicitly warned countries that 'corporate service providers continue to facilitate, both wittingly and unwittingly, the sanctions evasion activities of the Democratic People's Republic of Korea'.²⁸

FINDINGS

While DNFBPs have an obligation to implement targeted financial sanctions in line with FATF Recommendation 7 in most jurisdictions, only 24% of the

23. *Ibid.*, p. 107.

24. FATF, 'Anti-Money Laundering and Counter-Terrorist Financing Measures: Hong Kong, China, Mutual Evaluation Report', September 2019, p. 101.

25. FATF, 'International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation', pp. 115–16.

26. RUSI and ACAMS, 'RUSI-ACAMS Proliferation Finance Survey', 2020, <<https://www.acams.org/en/media/document/18566>>, accessed 4 May 2021.

27. *Ibid.*

28. UN Security Council, 'Note by the President of the Security Council', 4 March 2021, p. 52, <<https://undocs.org/S/2021/211>>, accessed 5 May 2021.

cases reviewed for this paper involved a sanctioned person or entity.²⁹ Focusing merely on sanctions compliance is, therefore, only likely to capture some of the cases involving North Korea and DNFBPs.

Cases for this paper highlight that North Korean sanctions evasion activities – when not involving a sanctioned person or entity – are unlikely to have been identified by the DNFBP in question, even if it were correctly applying existing FATF Standards and guidance.³⁰

For example, depending on unknown details of some cases (for instance, whether payments were made in cash and exceeded reporting thresholds), less than a quarter of the cases would have been captured under the FATF's standards on customer due diligence and record-keeping, as detailed further in each DNFBP sector review below.

Furthermore, the North Korea-related DNFBP typologies reviewed for this paper do not appear to align well with existing guidance, which is based on the FATF's preventive measures and record-keeping obligations provided to DNFBPs for addressing money laundering and terrorist financing.

As FATF member states and their private sectors prepare to conduct a PF risk assessment, many for the first time, it is vital that DNFBP sectors are fully incorporated in this exercise. Furthermore, the FATF and individual countries must assist DNFBPs in understanding and mitigating their PF exposure.³¹

RECOMMENDATIONS

- Develop PF risk indicators specific to DNFBP sectors to capture vulnerabilities not covered by typical anti-money-laundering and counterterrorist-financing policies.
- Work with DNFBP sectors to integrate PF risk into their existing financial crime risk-assessment procedures.

Each DNFBP type will now be explored separately. Where they exist, the current legal and regulatory obligations as relates to North Korea for each DNFBP type are outlined, followed by insights and statistics gathered from the identified case studies to determine where legal, regulatory or procedural gaps exist. For each DNFBP type, the paper offers practical solutions for how international organisations and governments can adapt existing regulations to adequately capture PF risk.

29. FATF, 'International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation', Recommendation 7.

30. This dataset can be accessed in the Annex.

31. PF risk assessments are now a requirement for FATF member states. See FATF, 'Outcomes FATF Plenary, 20–25 June 2021'.

HIGH-VALUE GOODS DEALERS

The UN has maintained a ban on selling luxury goods to North Korea since its first sanctions resolution against the state in 2006.³² Despite the longevity of this measure, it has faced lax implementation as it is largely up to individual member states to determine what constitutes a luxury item. Few have created a domestic list of relevant luxury goods items to aid implementation.

Even among the countries that have created a domestic list of prohibited goods, the lists are difficult to regulate as they differ. For example, the Implementation Assistance Notice submitted to the UN's 1718 Committee on North Korea by the EU considers musical items to be a luxury good, while Australia's analogous submission does not. Differences revealed by these notices are detailed in Table 1 and render cohesive regulation challenging across jurisdictions.

Table 1: Items Included in UN Member States' Domestic Lists of Prohibited Luxury Items in Reference to UN Security Council Resolution 1718 on North Korea

	EU*	US	Russia	Australia	Singapore	Japan	South Korea	New Zealand	Canada
Transportation	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Fashion	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Recreation	Yes	Yes	No	Yes	Yes	Yes	No	Yes	Yes
Decorative Items	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Jewellery	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Foodstuffs	Yes	Yes	No	Yes	Yes	Yes	No	Yes	Yes
Cosmetics	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	No
Alcohol	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Technological Items	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Animals	Yes (horses)	No	No	No	No	No	No	No	No
Musical Items	Yes	Yes	No	No	Yes	Yes	Yes	Yes	No
Watches/Clocks	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Tobacco	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Artwork	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	No
Coins/Banknotes**	Yes	No	No	No	Yes	No	No	No	No
Collectibles	Yes	Yes	No	No	Yes	No	No	No	No
Perfumes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes

* Here, the EU includes the UK. The EU's prohibited luxury items list was transposed into UK law on 31 December 2020. See HM Government, 'Export Luxury Goods to North Korea or Syria: Special Rules', 9 November 2016, <<https://www.gov.uk/guidance/export-luxury-goods-to-north-korea-or-syria-special-rules>>, accessed 4 May 2021. For the EU's list of prohibited luxury items, see Council of the European Union, 'Council Regulation (EU) 2017/2062 of 13 November 2017 Amending Regulation (EU) 2017/1509 Concerning Restrictive Measures Against the Democratic People's Republic of Korea', Official Journal of the European Union (L295/4, 14 November 2017), <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2017.295.01.0004.01.ENG&toc=OJ:L:2017:295:TOC>, accessed 4 May 2021.

** This refers to banknotes that are not legal tender/currency, but rather collectibles.

32. UN Security Council, 'Security Council Commission Established Pursuant to Resolution 1718 (2006)', <<https://www.un.org/securitycouncil/sanctions/1718>>, accessed 4 May 2021.

Source: Data gathered from country implementation reports submitted to the UN Panel on North Korea. See UN Security Council, 'Implementation Reports', <<https://www.un.org/securitycouncil/sanctions/1718/implementation-reports>>, accessed 3 May 2021.

This difference in approach to luxury goods is compounded by the fact that the FATF's definition of DNFBPs does not include HVGDs. This means that this sector is not subject to the FATF's standards, despite its abuse by North Korea.³³ Nonetheless, some countries choose to include sections of the HVGD community in regulation and supervision, including dealers in cars (26% of HVGD cases), boats (6%), and art and antiquities (7%).³⁴ Given the prevalence of HVGDs in North Korea's sanctions evasion tactics and the uneven implementation of the UN's luxury goods ban on the state, the gaps in regulation are significant and present meaningful opportunities for exploitation by North Korea.

DEALERS IN PRECIOUS METALS AND STONES

The DPMS sub-sector of DNFBPs is used by North Korea to raise and move revenue, as well as to establish the necessary financial, corporate and legal infrastructure and instruments to support its PF activities. Currently, the DPMS sector has limited coverage under FATF customer due diligence and record-keeping requirements, which apply to cash payments over USD/EUR 15,000, and FATF Standards do not define precious metals and stones.

At the UN, sanctions relating to the purchase and transport of DPMS items in the case of North Korea include the following resolutions:

- At the UN Security Council (UNSC) level, the North Korean sanctions regime attempts to govern the trade and financial gain accrued from the trade in precious metals and stones. UN Security Council Resolution (UNSCR) 1718 (2006) includes a ban on the supply of luxury goods and implementation of luxury goods bans by member states. These include precious metals and stones, particularly jewellery and precious gems.
- UNSCR 2270 (2016) requires all member states to prevent the provision of financial services, including bulk cash and gold, the opening of banking subsidiaries, the provision of public financial support, new commitments for grants, and financial assistance or concessional loans that could contribute to North Korea's prohibited programmes/activities, or to the evasion of sanctions. This includes trade using precious metals and stones, such as gold bullion, for payment.
- UNSCR 2371 (2017) requires that all member states freeze the assets, funds and economic resources of entities of the North Korean

33. FATF, 'International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation', pp. 115–16.

34. This dataset can be accessed in the Annex.

government and the Korean Workers' Party that the state determines are associated with the prohibited activities, including designated persons and entities, as well as any persons or entities acting on their behalf or at their direction, or those owned or controlled by them. These assets include tangible, intangible, movable, immovable, actual or potential ones, which may be used to obtain funds, goods or services, with precious metals and stones falling into this category.

The UN prohibits the provision of financial services, including gold, that could contribute to North Korea's prohibited activities or the evasion of sanctions. In addition, North Korea is prohibited from selling copper, nickel, zinc and other rare earth minerals.³⁵ Outside this, high-end jewellery and precious stones and gems could also be captured under the UN's luxury goods ban against North Korea, as many countries include those items on domestic lists of luxury goods (see Table 1).

Dealers in precious metals and stones are captured by the FATF Standards, meaning that these businesses should implement targeted financial sanctions under Recommendation 7.³⁶ However, the precise nature of the precious metals and stones covered by the FATF definition is not specified, meaning it is up to member states to determine which types of metals and stones should be covered by the standards.

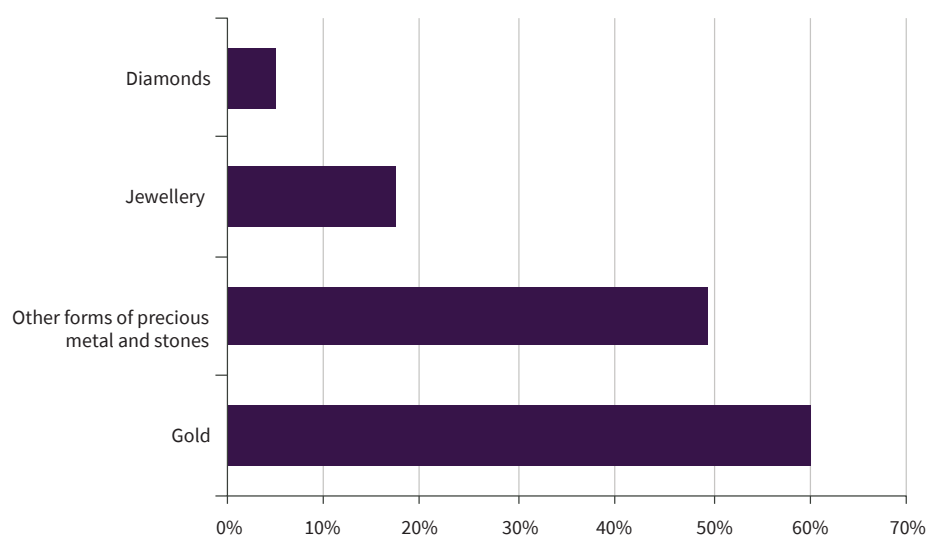
While sanctions obligations exist at the UN level and in FATF Recommendation 7, gaps can emerge in the actual implementation when countries fail to properly define the full scope of DPMS businesses vulnerable to North Korean sanctions evasion activities. For example, if precious metals are limited to gold, silver and platinum, and precious stones are limited to diamonds and gemstones, many of the cases identified for this paper (which primarily involved industrial metals and commodities) would fall outside existing guidance. Although the most frequently mentioned precious metal in the DPMS cases was gold (60%), other mineral products such as steel, copper and aluminium account for 49% of cases.³⁷ The latter category appears to be sourced for industrial use rather than as a means of moving value or disguising asset ownership. Jewellery was referenced in 8% of all DPMS and HVG cases (as it can be a precious stone as well as a luxury good), and diamonds were referenced in only 5% of DPMS cases.³⁸

35. UN Security Council, 'Security Council Commission Established Pursuant to Resolution 1718 (2006)'.

36. FATF, 'International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation', pp. 115–16 and Recommendation 7.

37. Some cases involve more than one type of precious metal or stone, thus the percentage total exceeds 100%.

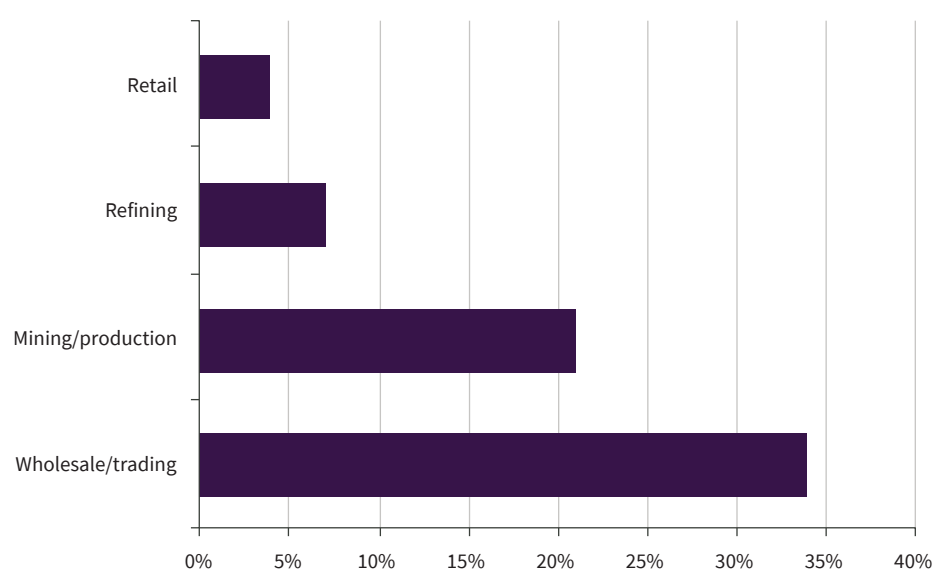
38. This dataset can be accessed in the Annex.

Figure 2: Precious Metals and Stones Featured in Case Studies

Note: As some cases involve more than one type of precious metal or stone, the percentage total exceeds 100%.

Source: DPMS cases identified in UN PoE reports (2006–21) and detailed in the Annex.

The large-scale and industrial profile of most of the DPMS cases are also reflected in the frequency of mining/production (21% of DPMS cases) and wholesale/trading (34% of DPMS cases) activities, in contrast to refining (7%) and retail (4%).³⁹

Figure 3: Type of Activity and Stage of Production

Source: DPMS cases identified in UN PoE reports (2006–21) and detailed in the Annex.

39. This dataset can be accessed in the Annex.

If payment in the DPMS sector is made in cash and is over USD/EUR 15,000, then the sector may also be captured by the FATF's customer due diligence and record-keeping requirements.⁴⁰ However, only a small number of cases (5% of the total DPMS and HVGD cases combined) mentioned cash and were generally not specific enough to determine if this was used to pay for the covered DNFBP goods/services and was over the designated record-keeping threshold. Furthermore, several cases indicated that the goods were sourced from overseas, implying that electronic transfer was a more likely method of payment.⁴¹ As such, a large portion of the DPMS cases likely did not meet the due diligence and record-keeping requirements under the FATF Standards.

PROLIFERATOR INVOLVEMENT IN HVGD AND DPMS SCHEMES

The extent to which North Korea exercises control over the DNFBP sector, as identified by the cases examined for this paper, varies greatly between HVGD and DPMS sectors. With regard to the DPMS cases, 41% suggested that the proliferating state controlled the DNFBP. This included selling precious metals and stones, as well as obtaining ownership and control over their production and processing.⁴² DPMS cases involving gold were almost twice as likely (56% to 29%) as non-gold DPMS cases to involve the proliferating state, and 17% of gold-related cases actually involved the sanctioned state exporting or attempting to export gold.⁴³ This could indicate that gold is more frequently used as a method of value transfer by proliferators than other precious metals and stones, and justifies its specific mention in UN sanctions against North Korea.

In contrast, only 10% of HVGD cases featured DNFBPs that appeared to involve goods of North Korean origin.⁴⁴ While most cases involving high-value goods focus on the procurement of items into North Korea (often from businesses unwittingly selling or supplying those goods), the reverse flow of goods also occurs, in particular as relates to North Korean art.⁴⁵

RECOMMENDATIONS

- Countries and international bodies such as the FATF should equip the DPMS sector with better knowledge of the kinds of precious metals and stones valued and sourced by North Korea.

40. FATF, 'International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation', Recommendation 22.

41. This dataset can be accessed in the Annex.

42. *Ibid.*

43. *Ibid.*

44. *Ibid.*

45. *Ibid.* For more information on North Korea's artwork procurement, see C4ADS, 'Lux & Loaded'.

- Countries should define luxury goods in domestic legislation, as required by the UNSC under UNSCR 1718 (2006),⁴⁶ and consider a broader definition of the kinds of goods included, to reflect those sourced by North Korea.
- Countries and international bodies such as the FATF should consider extending DNFBP supervision to the HVGD sector, recognising the prevalent role of HVGDs in North Korean sanctions evasion cases.

REAL-ESTATE SECTOR

The UN implements several sanctions measures against North Korea that could intersect with the real-estate sector in some way. For example, it prohibits North Korea from using property (owned or leased) for non-diplomatic purposes.⁴⁷ There are several cases of North Korean embassy staff letting commercial or residential properties in return for a rental income.⁴⁸

The UN also prohibits joint ventures or cooperative entities with North Korean companies, and bans the employment of North Korean foreign workers abroad.⁴⁹ There are many cases of North Korea being involved in construction or property development projects around the world, often using North Korean labour or joint venture structures.⁵⁰ This paper includes property development projects where there is an implied eventual sale of those properties, earning proceeds for North Korea as a result, as that is more likely to involve DNFBPs from the real-estate sector. Cases where North Korea carried out construction directly for government clients, or where it was not clear that the finished property could be sold on the open market, were not included.

In contrast to typical real-estate-based money-laundering typologies where property is used for integrating proceeds of crime into the legitimate economy and obscuring asset ownership, North Korea's activities in the real-estate sector are mostly focused on income generation. Most of the

There are many cases of North Korea being involved in construction or property development projects around the world

46. Security Council Committee Established Pursuant to Resolution 1718 (2006), 'Implementation Assistance Notice No. 3: Guidelines for the Implementation of Measures Regarding "Luxury Goods" Under Security Council Resolutions 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013), 2270 (2016) and 2321 (2016)', last updated 20 January 2017, <https://www.un.org/securitycouncil/sites/www.un.org/securitycouncil/files/implementation_assistance_notice_3.pdf>, accessed 4 May 2021.

47. *Ibid.*

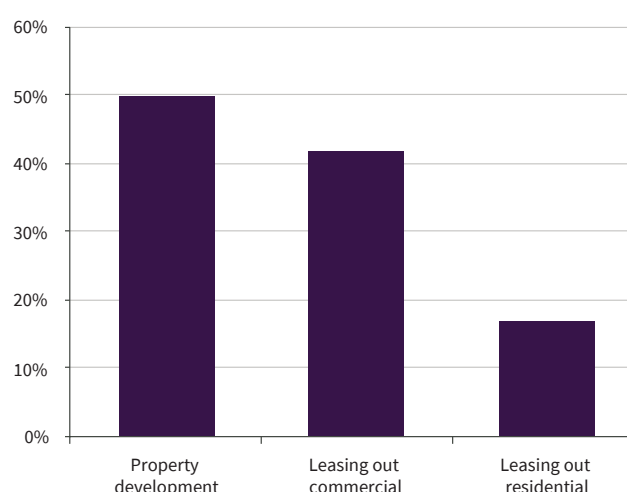
48. See, for example, UN Security Council, 'Report of the Panel of Experts Established Pursuant to Resolution 1874 (2009)', S/2019/691, 30 August 2019, p. 25.

49. Security Council Committee Established Pursuant to Resolution 1718 (2006), 'Implementation Assistance Notice No. 3'.

50. See, for example, Darya Dolzikova and Anagha Joshi, 'The Southern Stratagem: North Korean Proliferation Financing in Southern and Eastern Africa', *RUSI Occasional Papers* (April 2020).

cases identified therefore fall outside the scope of the FATF Standards. The standards only impose requirements on the buying and selling of real estate, in contrast to typical North Korean activity, which includes leasing for commercial (42% of real-estate cases) and residential purposes (17%), as well as property development (50%). In the case of property development, half the cases include the eventual sale of the properties.⁵¹

Figure 4: Type of Activity



Source: Real-estate cases identified in UN PoE reports (2006–21). Details can be found in the Annex.

PROLIFERATOR INVOLVEMENT IN REAL-ESTATE SCHEMES

Real estate continues to be a prominent income generator for proliferators, with the proliferating state frequently controlling such schemes. Of the real-estate cases identified in this paper, 67% were controlled by the proliferating state, including 100% of the cases involving construction and property development and commercial or residential property sales.⁵²

In some cases, there was an explicit mention of the apparently unwitting involvement of a licensed real-estate agent. However, the number of cases where North Korea appears to be offering real-estate services to other actors itself as a method of raising funds is a concern, particularly with regard to the letting of properties.⁵³

RECOMMENDATIONS

- Include rental and property development activities in the scope of covered real-estate services.

51. This dataset can be accessed in the Annex.

52. *Ibid.*

53. *Ibid.*

- Provide guidance for the real-estate sector on the way that PF actors may operate outside the scope of FATF Standards (notably, the requirement to keep records).
- Encourage the real-estate sector to conduct additional due diligence on supply chain partners when involved in property development.

GATEKEEPER PROFESSIONS

Where North Korea is concerned, this category of activity includes North Korea-related companies accessing legal, accounting and company services for advice and guidance on applying for operating licences or registering with regulatory bodies, as well as setting up and operating companies.

In most PF cases there is an assumed involvement of these services, such as setting up a front company, even if they are not explicitly mentioned. As previously noted, in the analysis conducted for this paper, cases were only included where there was an explicit mention of a gatekeeper profession, or a gatekeeper-type service being carried out.

Given the increasing ease with which companies can be registered online via a public website without requiring the engagement of a third party, the full extent to which gatekeeper professions are being used by North Korea is unknown. Where identified, some cases (25%) suggest that North Korea has in-sourced this activity, meaning that it either performed these services itself as opposed to using third-party intermediaries or provided gatekeeper services to others.⁵⁴

More broadly, 22% of the overall cases studied for this paper indicated that North Korea had an ownership or control stake in the DNFBP itself. While FATF Standards require DNFBPs to be supervised, the seeming proclivity of proliferating states to create their own or use complicit DNFBP service providers rather than outsource to unassociated third-party service providers needs to be addressed.

Box 1: Internationally Mandated Proliferation Financing Legal and Regulatory Obligations for Gatekeeper Professions

The FATF

Currently, lawyers and accountants are covered by FATF customer due diligence and record-keeping requirements related to anti-money laundering and counterterrorist financing when involved in the:

- Buying and selling of real estate.
- Managing of client money, securities or other assets.
- Management of bank, savings or securities accounts.

54. *Ibid.*

- Organisation of contributions for the creation, operation or management of companies.
- Creation, operation or management of legal persons or arrangements, and buying and selling of business entities.*

Trust or service company providers are covered by FATF customer due diligence and record-keeping requirements when:

- Acting as a formation agent of a legal person.
- Acting as a director or secretary of a company, a partner of a partnership, or a similar position in relation to other legal persons.
- Providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement.
- Acting as (or arranging for another person to act as) a trustee of an express trust or performing the equivalent function for another form of legal arrangement.
- Acting as (or arranging for another person to act as) a nominee shareholder for another person.[†]

The UN

Lawyers and accountants have additional obligations when it comes to UN sanctions on North Korea, including implementing asset freezes, limiting the provision of financial services commensurate with those provided by banks, limiting financial support for trade and restricting joint ventures and cooperative entities affiliated with or from North Korea.[‡]

*Sources: * FATF, 'International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation', Recommendation 22; † Ibid; ‡ Security Council Committee Established Pursuant to Resolution 1718 (2006), 'Implementation Assistance Notice No. 3'.*

The small number of cases that referenced DNFBPs from the legal sector include instances of North Korea-related firms accessing professional and legal services to provide advice and guidance on applying for operating licences or to register with regulatory bodies.⁵⁵ This could be considered a form of creating, operating or management of legal persons. There was also a case involving income generation through lawsuits, wherein the lawyer served as legal representation in court. This is clearly outside the scope of the FATF Standards.⁵⁶

RECOMMENDATIONS

- Raise awareness among gatekeepers of the wide scope of UN sanctions, encompassing not only entities and individuals, but also sanctioned activities related to North Korea.

55. This dataset can be accessed in the Annex.

56. FATF, 'International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation'.

- Encourage research into how North Korea uses gatekeeping professions to further sanctions evasion activities.
- Establish strict market entry provisions for gatekeeping professions.
- Raise awareness of the importance of conducting due diligence, particularly on DNFBP ownership, given the extent to which cases reveal the direct ownership and management of DNFBPs by North Korea.

CASINOS

Casinos are the only DNFBP sector required to be fully licensed under the FATF Standards, and countries are required to specifically take 'legal or regulatory measures' to ensure that the full scope of the sector is not infiltrated by criminals or their associates. Casinos are also covered by the FATF's customer due diligence and record-keeping requirements for transactions above USD/EUR 3,000.⁵⁷ Furthermore, they are covered by UN sanctions obligations, in particular the need to freeze assets of designated entities and individuals, including ensuring that funds are not made available to (or paid out to) designated actors.⁵⁸

Only one case involving the casino sector was present among those identified for this paper, which may indicate the benefit of a DNFBP sector being fully included within the FATF Standards. In this case, the casino was used as an additional layer in a series of digital transactions and wire transfers to obfuscate the traceability of funds.⁵⁹

RECOMMENDATIONS

- Ensure casinos, particularly online casinos, are aware of TFS obligations and have effective screening programmes in place.
- Conduct research on the application of the FATF Standards by the casino sector in order to develop best-practice approaches for other DNFBP sectors.

CONCLUSION

Since the introduction of financial sanctions targeting North Korea in 2006, and the updating of the FATF Standards to include PF in 2012, the regulated community has had important obligations placed on it to support the global effort to counter North Korea's sanctions evasion activities. North Korea is constantly adapting the way in which it seeks to circumvent sanctions – as

57. *Ibid.*, Recommendation 22; FATF, 'RBA Guidance for Casinos', 23 October 2008, <<https://www.fatf-gafi.org/media/fatf/documents/reports/RBA%20for%20Casinos.pdf>>, accessed 5 May 2021.

58. Security Council Committee Established Pursuant to Resolution 1718 (2006), 'Implementation Assistance Notice No. 3'.

59. This dataset can be accessed in the Annex.

revealed by the regular reports published by the UN PoE on North Korea – and is highly adept at maintaining the access it needs to the financial system.⁶⁰

As this paper demonstrates, there are significant vulnerabilities and gaps in the way in which a key element of this community, DNFBPs, is regulated. These vulnerabilities have been exploited by North Korea as it seeks to maintain access to the resources it requires to support its nuclear programme. The gaps and vulnerabilities fall into three main categories:

- A lack of dedicated PF-related guidance for DNFBPs, and thus a lack of specific PF risk awareness across the various elements of the DNFBP sector.
- A lack of clarity as to whether the cases identified in this paper would have been captured by the current formulation of the FATF Standards. This suggests they need to be revised to ensure that the aforementioned gaps are closed in order to reduce the extent to which North Korea can exploit the DNFBP sector.
- Where DNFBPs are implementing the FATF Standards according to existing money-laundering and terrorist-financing typologies, they seem unlikely to capture the activity identified in this paper. Therefore, PF-specific typologies and red flags must be produced that are tailored for DNFBPs.

The FATF has recently mandated that countries and their private sectors, including DNFBPs, should undertake national PF risk assessments.⁶¹ This will require a more advanced understanding of the kinds of activities to which DNFBPs are currently exposed. Identifying and addressing these gaps will be key as part of this exercise to ensure that the global financial system limits the opportunities for abuse by North Korea.

In addition, the following sector-specific recommendations should be applied.

RECOMMENDATIONS FOR HVGD AND DPMS

- Equip the DPMS sector with better knowledge of the kinds of precious metals and stones valued and sourced by North Korea.
- Ensure countries define luxury goods in domestic legislation, as required under UNSCR 1718 (2006),⁶² and consider a broader definition of the kinds of goods included, to reflect those sourced by North Korea.
- Consider extending DNFBP supervision to the HVGD sector, recognising the prevalent role of HVGDs in North Korean sanctions evasion cases.

60. See the biannual reports published by the UN Panel of Experts on North Korea, UN Security Council, 'Reports', <https://www.un.org/securitycouncil/sanctions/1718/panel_experts/reports>, accessed 3 May 2021.

61. PF risk assessments are now a requirement for FATF member states. See FATF, 'Outcomes FATF Plenary, 20–25 June 2021'.

62. Security Council Committee Established Pursuant to Resolution 1718 (2006), 'Implementation Assistance Notice No. 3'.

RECOMMENDATIONS FOR REAL ESTATE

- Provide guidance for the real-estate sector on the way that PF actors may operate outside the scope of the FATF Standards (notably, the requirement to keep records).
- Encourage the real-estate sector to conduct additional due diligence on supply chain partners when involved in property development.
- Include rental and property development activities in the scope of covered real-estate services.

RECOMMENDATIONS FOR GATEKEEPERS

- Raise awareness among gatekeepers of the wide scope of UN sanctions, encompassing not only entities and individuals, but also sanctioned activities related to North Korea.
- Encourage research into how North Korea uses gatekeeping professions to further sanctions evasion activities.
- Establish strict market entry provisions for gatekeeping professions.
- Raise awareness of the importance of conducting due diligence on the ownership of DNFBPs, given the extent to which cases reveal the direct ownership and management of DNFBPs by North Korea.

RECOMMENDATIONS FOR CASINOS AND GAMBLING

- Ensure casinos, particularly online casinos, are aware of TFS obligations and have effective screening programmes in place.
- Conduct research on the application of the FATF Standards by the casino sector to develop best-practice approaches for other DNFBP sectors.

North Korea has displayed a high degree of skill at evading sanctions and maintaining access to the global financial system. As this paper has demonstrated, the DNFBP sector represents a significant weakness in the global response to PF, a gap that must be filled as part of the FATF's renewed focus on counterproliferation finance.

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