

Proliferation Finance: Using Financial Tools to Support Nonproliferation

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- Training and research
- Offices in Monterey, California; Vienna Austria; Washington, DC; London
- Significant training in Asia-Pacific
- 2018: Focus on MARITIME SANCTIONS



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Using Financial Tools to Support Nonproliferation

-- Outline --

- I. The key tools and how they are used
- II. The international legal framework for applying them



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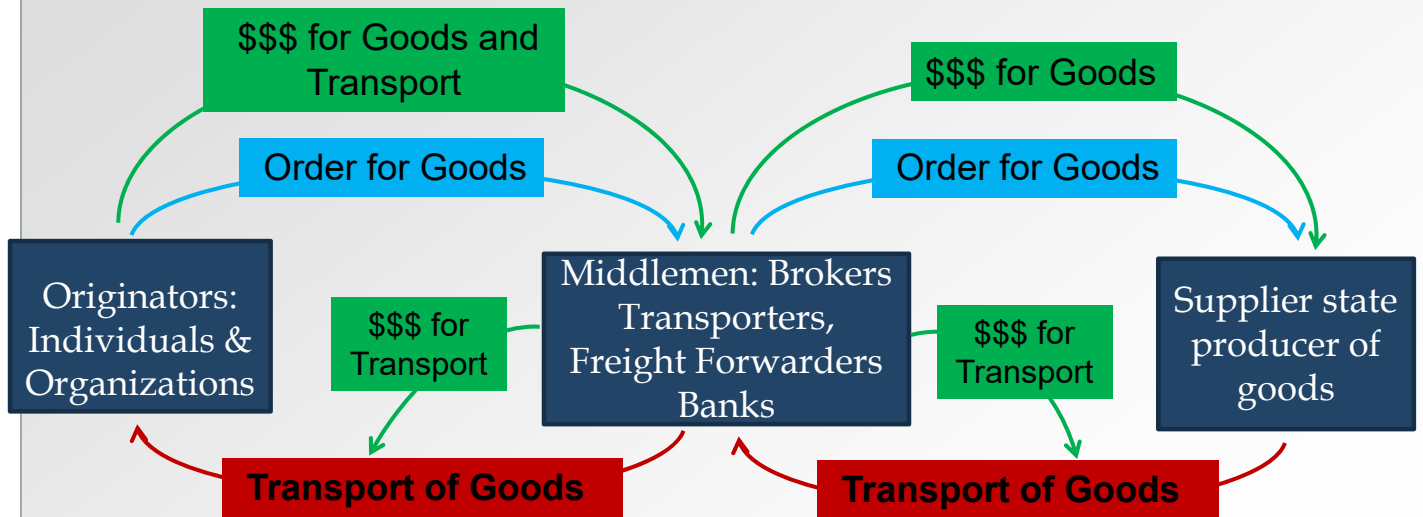
Using Financial Tools to Support Nonproliferation

- Impede illicit trade
 - Every illicit trade transaction ultimately requires payment
 - To avoid suspicion... acquisition from legitimate suppliers requires use of formal financial system rather than informal sector.
- Put economic pressure on target state to promote restraint/negotiations
- Enforce other non-financial sanctions



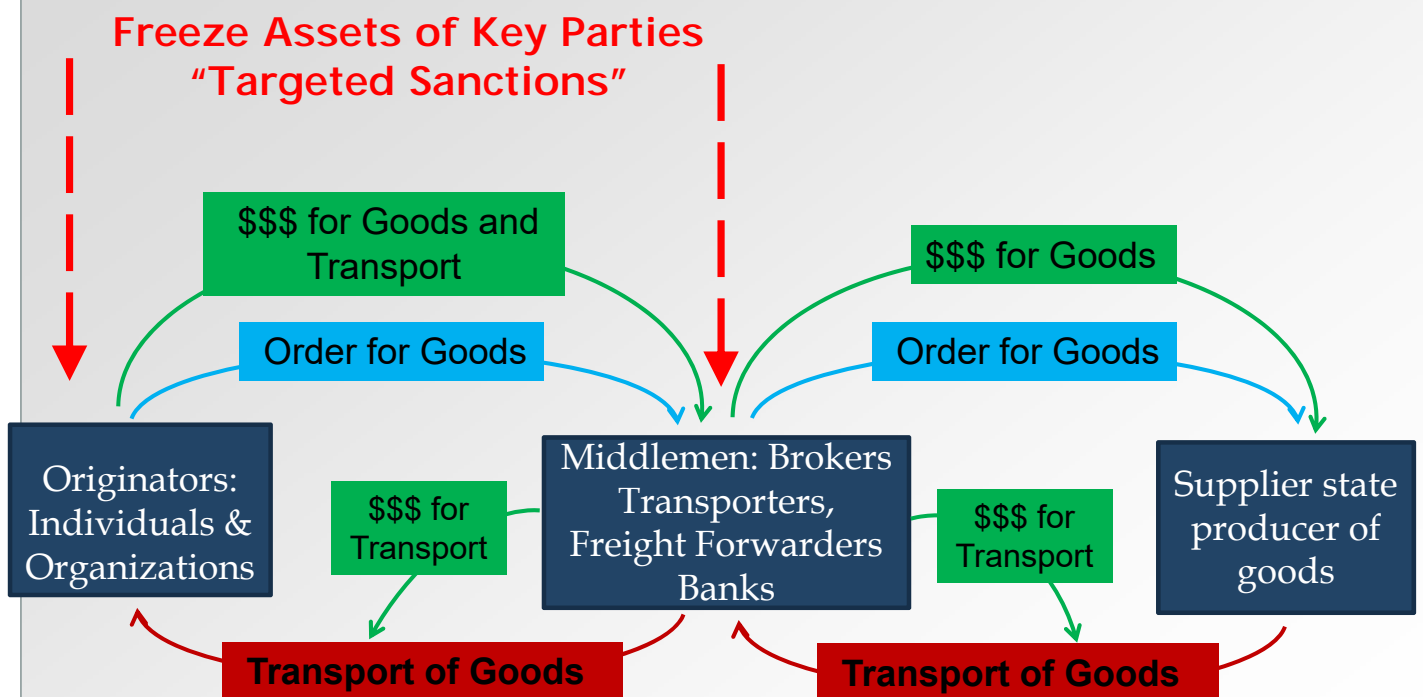
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Using Financial Tools to Block Illicit Procurement



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Using Financial Tools to Block Illicit Procurement



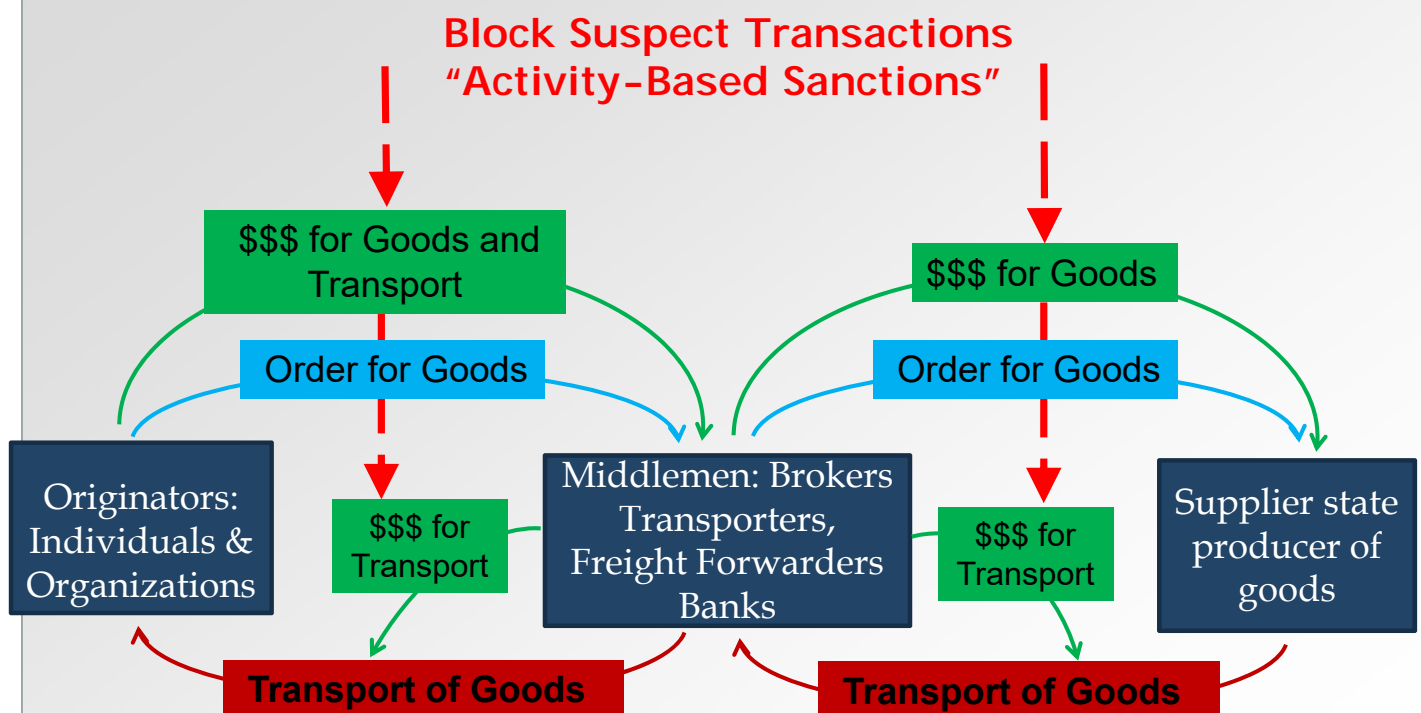
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Targeted Financial Sanctions

- Focused on specific parties
- Seek to disrupt suspect transactions by making resources unavailable and punishing parties to illegal trade by
 - Freezing assets of specific individuals and entities
 - Denying them access to the international financial system



Using Financial Tools to Block Illicit Procurement



Activity-Based Financial Sanctions

- Aim at preventing the states from providing financial services, financial resources or financial assistance to the concerned countries that could contribute its prohibited activities and programs.
- Risk-based approach
 - Identification of high-risk clients and transactions
 - Conduct enhanced due-diligence
 - Follow-up actions
 - Terminate business relationship
 - Suspend transactions
 - Freeze accounts



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Using Financial Tools to Impose Economic Pressure

- Seek to change target state behavior
 - Slow programs of concern
 - Gain agreement to negotiations
- Focus banking sector (“sectoral sanctions”)
- Deny access to international banking system
 - Ban on external banking relationships (correspondent accounts)
 - Ban transactions in targeted state’s currency



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Using Financial Tools to Enforce *Other* Sanctions

- Imposition of banking sanctions if a government or party does not implement *other* sanctions
 - e.g., export embargoes or bans on the importation of certain goods from the target country



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II. International Legal Framework

- UN Security Council Resolutions on North Korea (and Iran)
- Resolution 1540
- Financial Action Task Force (FATF)
- Unilateral measures
 - Secondary Sanctions



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UN Resolutions on DPRK (and Iran)

- Resolution 2371(2017) and Resolution 2375 (2017) on DPRK --
 - Leading international instrument today imposing financial measures
 - Terminates Member State banking relationship with DPRK banks
 - Targets hard currency earnings
 - Through limiting coal, iron, other imports from DPRK
 - Through expulsion of certain diplomatic personnel
 - Through curtailing employment of North Korean workers
- Resolution 2231(2015) on Iran lifted nuclear-related sanctions (Missile related embargo remains.)



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Terminating DPRK Banking Relationships

- Closing DPRK banks' existing branches/ representative offices in Member States
- Closing foreign bank's branches, representative offices in DPRK
- Prohibiting opening of new ones unless UNSC 1718 Committee approves
- Terminating joint ventures, ownership interests, corresponding banking relationships
- Limiting DPRK diplomats' banking accounts to a single account



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UNSC Resolution 1540

- Operative Paragraph 3 obligates all states to have “controls on providing funds and services” that could contribute to WMD and related missile capabilities
- Does not specify how to achieve these requirements
- Implementation is lagging
- Weak enforcement mechanism. . . although 1540 Committee publishes matrices listing states’ implementation status



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Financial Action Task Force (FATF)

- Inter-governmental body established by G7 in 1989 with 36 members/22 observers, including the UN
- Sets standards and promotes effective implementation of measures for combating money laundering, terrorism financing, and proliferation financing
- Has established global network of “FATF-Style Regional Bodies” to help implement the FATF standards
 - Of prime interest here is the Asia-Pacific Group on Anti-Money Laundering (APG).



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FATF, continued

- Conducts “Mutual Evaluations” on member state implementation of its standards and publishes evaluation results
- May declare a state to be “uncooperative and non-compliant”
 - Will warn other states to limit their banking relationships with such states, a very potent sanction
- *But...proliferation finance requirements are very limited*
 - Only mandates implementation of UNSC *targeted* sanctions. . . Not broader financial requirements, e.g., terminating banking relationships with North Korea.
 - Concern that FATF is falling behind UNSCR mandates



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Unilateral Measures

- A number of states impose more extensive financial restrictions than the Security Council
 - Targeted sanctions cover more parties
 - Banking relations prohibited prior to UN action
 - Access to financial messaging services (SWIFT) denied
- Complements and provides enforcement to UN Security Council sanctions
- US secondary sanctions enable targeting non-US parties supporting DPRK's illicit programs
 - Freezing of assets, imposing fine, denying access to US financial system
 - Chinese company designated for supporting DPRK's nuclear program



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To summarize . . . Financial measure to address proliferation =

Using financial tools to . . .

- Impede illicit procurement
- Put economic pressure on states of concern
- Enforce other non-financial sanctions

Within international legal framework of . . .

- UN Security Council sanctions resolutions
- UN Security Council Resolution 1540
- The Financial Action Task Force
- Unilateral measures with international reach



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Thank you...



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