



Shipping registries and PF risk

FACTSHEET / March 2025

agpml.org

Shipping registries can be abused to facilitate evasion of targeted financial sanctions (TFS) on proliferation financing (PF). This misuse can have financial impacts, reputational damage and breach of United Nations obligations for the jurisdiction providing the ship registration.

While counter-proliferation financing (CPF) is a specific objective of the Financial Action Task Force's (FATF) Standards, as a concept, it is also tied to broader weapons of mass destruction (WMD) control frameworks. This includes international treaty instruments. A range of United Nations Security Council Resolutions (UNSCR) create specific international obligations for UN member states in relation to counter-proliferation and CPF.

FATF Standards

Under the FATF Standards for combating PF, jurisdictions must identify, mitigate and manage their PF risk, and implement TFS of UNSCRs relating to the prevention, suppression and disruption of proliferation and PF.¹ The FATF standards reinforce many elements of those UNSCRs and extend the obligations beyond UN member states to all jurisdictions in the global AML/CFT network.

These standards oblige jurisdictions to require **all natural and legal persons** within the jurisdiction to freeze, without delay² and without prior notice, **the**

funds or other assets of UN designated persons and entities. Designated person or entities refers to individuals, groups, undertakings and entities designated by the Committee of the Security Council established pursuant to UNSCRs 1718 (2006) and 2231 (2015).

Jurisdictions must also ensure that any funds or other assets are **prevented from being made available** by their nationals or **by any persons or entities within their territories**, to or for the **benefit of UN designated persons or entities** unless licensed, authorised or otherwise notified in accordance with the relevant UNSCRs.

The FATF define funds or other assets broadly and maritime vessels, insurance, licences and flag rights can all constitute property and/or assets for the purposes of the standards.³

The FATF notes in its guidance that UNSCRs apply to all 'natural and legal persons'. This includes any competent authority that grants maritime registration or 'flags of convenience'; and persons or entities that **offer services related to registration and flagging of vessels.**⁴ This is consistent with the definition of 'assets' under the relevant UNSCR⁵ which covers 'economic resources', which includes **assets of every kind**, which potentially may be used to obtain funds, goods, or services and specifies that this **includes maritime vessels.**

¹ FATF Recommendation 7.

² FATF Defines 'without delay' under its General Glossary in the *FATF Methodology*. It means within a matter of hours of a designation by the United Nations Security Council or its relevant Sanctions Committee

³ *FATF Methodology for Assessing Technical Compliance with the FATF Recommendations and the*

Effectiveness of AML/CFT Systems June 2023, page 183.

⁴ *FATF Guidance on Proliferation Financing Risk Assessment and Mitigation*

⁵ UNSCR 2270, paragraph 12.

Shipping registries and PF risk

While shipping registries can deliver jurisdictions **substantial economic benefits**, they also may pose the risk for being abused for PF purposes. High volumes of international trade, financial and shipping services have been shown to provide proliferators with legitimate and formal financing and commercial channels to hide proliferation activities.

A flag of convenience ship is one that flies the flag of a jurisdiction other than the jurisdiction of ownership. Flag-state registration is the jurisdiction providing the registration to a ship owned in another jurisdiction, and can be abused by UN designated persons and entities to conceal the identity and nationality of the persons or entities that own or control the maritime vessel. Once identity and nationality of the owner is concealed, the maritime vessel can be used for storing and moving materials that can spread and/or support WMD/WMD programs. A common typology being transshipment of raw materials such as coal or ship-to-ship transfers of oil on the high seas. Some jurisdictions, including the DPRK, have been found to also falsify documents, reflag vessels, and switch off automatic identification systems (AIS) to avoid discovery when illicitly transferring goods.⁶

Shipping registries play a role in ensuring UN designated persons and entities are identified and prevented from undertaking PF-related transactions. A critical opportunity for jurisdictions to mitigate PF risk is implementing screening for TFS at the vessel registration stage, and ‘fit and proper’ checks on key personnel (including on any beneficial owners) adds to the effectiveness of this. Further, freezing actions under R.7 and denial of financial services are just the starting point for all natural and legal persons in the jurisdiction. They can take further steps, which may include:

- Requiring further customer due diligence checks to try to understand the history and range of contacts / points of control for the

vessel/key personnel/beneficial owner subject to the freeze.

- Further intelligence / investigation work by competent authorities on further networks related to designated entities / persons.

It is also critical for shipping registries to be aware of their obligations under the relevant UNSCRs, noting that ships are economic resources of designated persons and entities and required to be frozen. Further, its critical for shipping registries to receive support from the government on identification and action to be taken in response to possible matches with UN designated persons and entities.

Some jurisdictions outsource their shipping registries to private businesses, and sometime private businesses based in a different jurisdiction. This can create complexities and impact on both the jurisdiction’s competent authorities’ and the private business’ understanding of their FATF and UN obligations. While a jurisdiction can outsource the registry function, it cannot outsource the responsibility for complying with FATF and UN obligations. Maritime vessels flagged to a jurisdiction are considered a ‘detached part’ of that jurisdiction’s territory, and the law of that jurisdiction applies.

[UN Panel of Expert reports](#) highlight DPRK’s targeting of other jurisdictions’ shipping registries to obtain control of vessels by UN designated persons or entities, or persons acting on behalf of, or at the direction of designated persons or entities.⁷ This includes UN designated persons or entities becoming beneficial owners of vessels that are on other jurisdictions’ shipping registries.

The UN Panel of Experts identified several indicators that may provide “grounds for further investigations by the relevant public and private sector parties of the vessels that they flag, charter, operate, insure, class or finance”.⁸ These indicators include suspicion that suspect vessels are “transmitting falsified or inconsistent identifiers on AIS and reporting false destinations,

⁶ <https://ofac.treasury.gov/media/37751/download?inline>

⁷ https://main.un.org/securitycouncil/en/sanctions/1718/panel_experts/reports

⁸ UNSC Panel of Experts Report S/2024/215, paragraph 57.

or trading in restricted or banned commodities and exhibiting AIS transmission gaps continue to sail in and around waters where illicit ship-to-ship activities typically occur.”⁹

Maritime vessels are also a high-value asset. Illicit funds can be invested in maintaining high-value assets which hold or can improve in value, or can be used to generate more funds for illicit activities,

Cases, Typologies & Research

[The United Nations Interregional Crime and Justice Research Institute - CBRN Proliferation Financing: A Perspective from Southeast Asia](#): This report notes that the DPRK carries out its maritime import-export operations through sophisticated tactics involving vessels - e.g. ship-to-ship transfers, misuse of AIS, false documentation, and corporate structures aiming to obfuscate the management or ownership of the vessels.

Further, providing the **services required to operate a vessel**: from insurance services to crew services, to vessel classification or certification, also exposes jurisdictions to PF risk. Ship registration is a requirement under international law and the jurisdiction of registration **determines the nationality of the vessel**, which is then allowed to sail internationally. Providing these services to designated vessels or to vessels linked to designated entities or individuals becomes instrumental to DPRK revenue-raising.

[APG Typologies Report 2024](#), Case Study #99, **Chinese Taipei**: Persons A and B jointly invested with Persons C, D and others to operate a maritime bunkering business. They used multiple foreign-flagged oil tankers and falsely declared the destination ports for exports, then conducted bunkering operations near the port of DPRK for sanctioned DPRK vessel *Saebyo*. Chinese Taipei’s authorities arrested and prosecuted Persons A, B, C, and D, who are now on trial.

[APG Typologies Report 2023](#), Case study #114, **Cook Islands**: An international company was established and registered with a Cook Islands trust office, as the ‘ship owner’ for a vessel that

had been registered in Jurisdiction B. The Company operated its business in Jurisdiction C. A suspicious activity report uncovered that the ship had been suspended and subsequently de-registered in Jurisdiction B, due to its participation in an illicit ship-to-ship transfer with another vessel flagged under the DPRK. The company was placed on the sanctions list and de-registered in the Cook Islands.

The [UN Panel of Experts 2023 Report](#) provided the example of the *An Hai 6* and *Anni* to illustrate a common DPRK methodology. Both ships were previously China-flagged ships that were sold to Marshall Islands registered entities a few months before transfer to the DPRK. They were flagged by Niue on a single-delivery voyage with a stopover at Busan (Korea) for a crew change before departing (supposedly) to Japan. However, they sailed to the DPRK instead. The UN’s report notes that Niue’s Ship Registry failed to provide convincing due diligence on several counts.

[Australia 2022 PF in Australia National Risk Assessment](#): In 2017, an Australian-registered property company and its director, a Chinese national, were reportedly involved in the smuggling of DPRK coal. The coal was carried on-board a Panamanian-flagged vessel destined for Vietnam. The individual mislabelled the coal as originating from Russia. The company and the director were investigated by the authorities.

⁹ Ibid.