SIPRI Good Practice Guide
The Transport Sector as Counterproliferation Partner
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PROLIFERATION RED FLAGS AND THE TRANSPORT SECTOR

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INTRODUCTION

By the nature of its business, the transport sector is well placed to counter the proliferation of weapons of mass destruction (WMD): its potential for contributing to global counterproliferation efforts should not be underestimated. All parties in the international supply chain have a responsibility to ensure that a transaction complies with the numerous requirements captured under the general description of 'export controls' or 'strategic trade management'. This may include the fulfilment of export, transit and trans-shipment licence requirements; and end-use, dual-use and restricted-party screening. Complying with export control regulations can be particularly complex for the transport sector since transactions involve multiple jurisdictions and, in some situations, have extraterritorial implications.

The SIPRI Good Practice Guides on the transport sector as counterproliferation partner have been developed to support partnerships between the transport sector and government authorities to counter proliferation and to implement proliferation-related United Nations Security Council resolutions. The series identifies and explores various aspects of the transport sector as a counterproliferation partner, with the aim of strengthening the sector's contribution in this area.

This guide pays specific attention to the concept of 'red flags' as indicators of possible non-compliance and proliferation-related activity. It aims to support good practices as they relate to identifying and pursing potential proliferation-related red flags.

WHAT ARE RED FLAGS?

Many countries publish information, standards and procedures to support compliance with national export, transit, trans-shipment and import laws and regulations.[1] On occasion, certain individuals, companies or organizations may attempt to avoid or circumvent trade controls. There are indicators or 'red flags' that can be applied to transactions to help identify what may be attempts to circumvent controls. Further enquiries then help to determine whether the transaction is legitimate and compliant with national laws and regulations or whether it should be refused and/or referred to an appropri-

[1] See e.g. US Department of Commerce, Bureau of Industry and Security, 'Freight forwarder guidance', Feb. 2012, <https://www.bis.doc.gov/index.php/forms-documents/doc_view/620-new-freight-forwarder-guidance>.

SERIES SUMMARY

● The SIPRI series of good practice guides on the transport sector as counterproliferation partner is the culmination of a MacArthur-funded research project that recognizes the importance of the transport sector to counterproliferation efforts and seeks to encourage the sector's enhanced activity and partnerships with government authorities.

Throughout 2015 the project team engaged with a broad range of transport sector stakeholders in Asia, Europe, the Middle East and the United States to better understand their compliance challenges; to explore risks and obligations; and to identify, share and test good practice. In doing so, the team also hosted regional good practice workshops that brought together government officials, experts and transport sector representatives and provided a rare opportunity for a spectrum of stakeholders to engage directly on counterproliferation issues.

The guides reflect the main findings of the project's research, engagement and workshops. They explore an array of counterproliferation activities and can be used individually or combined to support training, awareness raising or the development of internal compliance programmes. The format and focus have been developed in consultation with the transport sector.

ate enforcement or regulatory authority. 'Red flags' is a term commonly used to describe various indicators and signals, which may be explicit or implicit in nature. The concept is used in different contexts, usually as a warning or when things seem 'too good to be true'.

Transport sector actors are never the manufacturers of the commodities transported and are seldom the legal owners of shipments. The sector is primarily reliant on information or documentation supplied by another party in the supply chain. These other parties can include, but are not limited to, exporters, the collection addressee, freight forwarders, customs brokers, airlines, shipping lines, domestic carriers, importers and the final delivery addressee.

There are several steps that a transport actor can follow to ensure a transaction is legal. In addition to the legal obligations that apply, red flags are often practical indicators of the need for increased diligence or checks on a shipment prior to its acceptance for transport. If a transport sector actor is already in possession of a shipment that raises red flags, a decision needs to be made about referring it to the appropriate enforcement or regulatory authority.

COMMON RED FLAGS

The following red flags are proliferation-risk indicators commonly encountered in the transport sector. Good practice to mitigate the risks of proliferation, as well as to deter it, requires the application of standard operating procedures and risk profiles in order to identify suspicious shipments.

Cash payments

It could be considered unusual if a sender/exporter wishes to pay cash for the payment of transport costs—particularly for a large or expensive transaction. The use of cash as a payment method has drastically declined in recent years, with most transport companies invoicing their customers after dispatch and using electronic forms of payment, such as bank transfers.

Payment of freight costs by a third party

It is most common that either the sender/exporter or receiver/importer pays the freight, transport or service costs for a shipment. Thus, payment by a third party—particularly a third party that does not appear to have a relationship with the sender/exporter or receiver/importer, or a third party that is located in a country other than that of the sender/exporter or receiver/importer—may be cause for further investigation.

Disproportionate freight costs

Sometimes transport costs do not appear to correspond with the nature of the commodities being shipped. For example, a shipment with a declared value of $50 being shipped as 'priority air express' with a freight or transport cost of $350. In these cases, the disparity between the commodity's value and the disproportionate freight costs raises the question of why the sender/

exporter is willing to pay such a high amount for a shipment with such a low value, something that could be the cause for further investigation.

Acceptance of standard freight/transport rates

Companies usually try to negotiate freight/transport rates for their shipments. It would be unusual for a company that regularly exports to accept the standard tariff or first rate offered.

Questionable paperwork

Documents may appear to have been doctored or amended in some form. For example, handwritten amendments to documentation or invoices not printed on company-branded stationery.

Incompatible commodities

Commodities being shipped appear to be incompatible with a country's technical capabilities. For example, semiconductor manufacturing equipment being shipped to a country that has no electronics industry. Additional verification of the customer order may be required.

Dubious descriptions

Descriptions of commodities are vague or misleading. For example, commodities are described simply as 'spare parts', 'samples', 'machine tools' or 'electrical goods'.

Unrealistic valuations

Declared valuations appear to be unaligned with the actual value of commodities or the weight of shipments. For example, a laptop computer with a value declared as $50 or a shipment of 500 kilograms with a value declared as $100.

Inconsistent assessment of shipping size

The size of a shipment (in number of units, weight or value) appears to be inconsistent with the scale of the regular business activities of the sender/exporter or receiver/importer. For example, a customer usually orders 1 kg of ammonium nitrate and suddenly places an order for 1000 kg of the same item.

Change of delivery address

Last-minute or 'after dispatch' changes to a delivery address may indicate an intention to divert a shipment to an undeclared recipient. This is particularly relevant when a change in delivery address involves a shipment subject to export controls. All changes to delivery addresses should be screened as described in the 'Restricted parties and the transport sector' SIPRI Good

Practice Guide.[2] If an exported shipment was subject to controls, checks should be made with a trade compliance specialist before making any changes. If the changes to a delivery address result in a shipment transiting a different country from the original route, checks should be made to see if this change requires a transit licence.[3]

Delivery to an unusual address

The delivery of commodities to addresses incompatible with the businesses associated with such commodities may be cause for concern. For example, communication equipment being delivered to a bakery or industrial-scale shipments being delivered to private addresses.

Use of hotels within a transaction

It is very difficult to verify the details of a company or individual involved in a transaction when a hotel is used as the address for collection or delivery. Thus, hotels are often used as collection or delivery addresses in an effort to conceal the true identity of the sender/exporter or receiver/importer. Accordingly, use of a hotel address by any party involved in a transaction may be cause for concern.

Use of transport companies as consignees or receivers of shipments

On occasion, organizations or individuals that are attempting to violate sanctions and controls misuse transport companies as consignees or receivers of shipments. Based on the instructions of a third party, once received, shipments may be split or re-consigned as separate transactions to parties that were unknown at the point of original dispatch.

‘Delivered in’ shipments

‘Delivered in’ or ‘dropped off’ shipments are transactions whereby the sender/exporter brings the shipment to the transport company’s premises rather than have the transport company collect the shipment from the sender’s/exporter’s address. In some circumstances, this can be to avoid identification of the nature of the sender’s/exporter’s business or to hide the actual sender’s/exporter’s details. A form of official identification (e.g. driver’s licence, identification card or passport) should be checked to verify that the sender/exporter is who he or she claims to be. A copy of the document should be taken and kept on file.

[2] Palmer, M., ‘Restricted parties and the transport sector’, SIPRI Good Practice Guide: The Transport Sector as Counterproliferation Partner no. 2, Sep. 2016, <www.sipri.org/publications/2016/restricted-parties-good-practice-guide>.

[3] Dunne, A., ‘The role of transit and trans-shipment in counterproliferation efforts’, SIPRI Good Practice Guide: The Transport Sector as Counterproliferation Partner no. 6, Sep. 2016, <www.sipri.org/publications/2016/transit-and-trans-shipment-good-practice-guide>.

‘Collected’ shipments

‘Collected’ or ‘picked up’ shipments are transactions whereby the receiver/importer takes possession of the shipment at the transport company’s premises rather than have the transport company deliver the shipment to the receiver’s/importer’s address. In some circumstances, this can be to avoid identification of the nature of the receiver’s/importer’s business or to hide the actual receiver’s/importer’s details. A form of official identification (e.g. a driver’s licence, identification card or passport) should always be checked to verify that the receiver/importer is who he or she claims to be. A copy of the document should be taken and kept on file.

Free trade zones

By their very nature, free trade zones and free ports areas have simplified export, transit, trans-shipment and import procedures and processing. As such, they are prime sites for the diversion of commodities to sanctioned countries and individuals. Therefore, extra diligence is required when operating in such zones.

Employee demands

Staff insisting on working certain shifts when a particular shipment or transaction is to be processed (particularly within high-risk areas such as warehousing, data processing, screening or loading) may indicate an internal conspiracy.

First-time shippers

Although representing a new revenue stream, first-time shippers or new customers can also present a possible risk. There are numerous examples of individuals and organizations impersonating another person or company with the aim of inserting an illicit transaction into the supply chain. First-time shippers or new customers should be subject to robust screening to confirm that they are in fact who they claim to be.

Restricted parties

If the sender/exporter or receiver/importer (or even one of those parties’ employees) appears on an official restricted parties list, checks should be carried out to see if it is legally possible for the transaction to continue.

A LIST OF COMMON RED FLAGS

- Cash payments
- Payment of freight costs by a third party
- Disproportionate freight costs
- Acceptance of standard freight/transport rates
- Questionable paperwork (e.g. amended or inconsistent)
- Incompatible commodities
- Dubious or vague descriptions
- Unrealistic valuations
- Inconsistent or unusual shipment size
- Change of delivery address
- Delivery to an unusual address
- Use of hotels within a transaction
- Use of transport companies as consignees or receivers of shipments
- 'Delivered in' shipments
- 'Collected' shipments
- Free trade zones
- Employee demands
- First-time shippers
- Restricted parties

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