Sanctions & Restricted Parties

Guide to Navigating Sanctions and Restricted Party Screening

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1. Introduction to Trade Sanctions

What Are Sanctions?

Trade sanctions are restrictions imposed by governments on trade and commercial activity with targeted countries, entities, or individuals. Sanctions can range from comprehensive embargoes to targeted restrictions on specific sectors, entities, or activities.

Purposes of Sanctions

- Counter terrorism and terrorist financing
- Counter proliferation of weapons of mass destruction
- Promote human rights and democracy
- Counter narcotics trafficking

- Respond to territorial aggression or other violations of international norms
- Combat cybercrime and malicious cyber activities

Types of Sanctions

- **Comprehensive sanctions**: Broad prohibitions on most trade with a country
- **Selective sanctions**: Restrictions on specific industries or types of transactions
- **Sectoral sanctions**: Targeting specific sectors of an economy
- **List-based sanctions**: Prohibitions on dealing with specific individuals or entities
- **Secondary sanctions**: Penalties on third parties that engage with sanctioned targets

Key Terms

- **OFAC**: U.S. Treasury Department's Office of Foreign Assets Control
- **SDN**: Specially Designated Nationals and Blocked Persons
- **SSI**: Sectoral Sanctions Identifications
- **BIS Entity List**: Bureau of Industry and Security's list of restricted parties
- **Denied Persons List**: Individuals and entities denied export privileges
- **50% Rule**: OFAC's rule that any entity owned 50% or more by a sanctioned party is also considered sanctioned

2. Major Sanctions Programs

United States Sanctions Programs

Comprehensive Programs

- Cuba
- Iran
- North Korea
- Syria

- Crimea Region of Ukraine

Targeted Programs

- Belarus
- Democratic Republic of the Congo
- Iraq
- Lebanon
- Libya
- Mali
- Nicaragua
- Russia/Ukraine
- Somalia
- South Sudan
- Venezuela
- Yemen
- Zimbabwe

European Union Sanctions

Major EU Sanctions Regimes

- Belarus
- Iran
- North Korea
- Russia
- Syria
- Venezuela

EU Sanctions Features

- Regulation by EU Council Decisions and Regulations
- Implementation by member states
- Focus on targeted/smart sanctions rather than comprehensive embargoes
- May differ from U.S. sanctions in scope and application

United Nations Sanctions

Current UN Sanctions Regimes

- Central African Republic
- Democratic Republic of the Congo
- Guinea-Bissau
- Iran
- Iraq
- ISIL (Da'esh) and Al-Qaida
- Lebanon
- Libya
- Mali
- North Korea
- Somalia
- South Sudan
- Sudan
- Taliban
- Yemen

UN Sanctions Features

- Binding on all UN member states
- Implemented through domestic legislation
- Often more limited in scope than U.S. or EU sanctions
- Focused on arms embargoes, travel bans, and asset freezes

United Kingdom Sanctions

- Post-Brexit autonomous sanctions regime
- Office of Financial Sanctions Implementation (OFSI)
- Largely aligned with EU sanctions but with increasing divergence

3. Restricted Party Lists

U.S. Government Lists

Treasury Department (OFAC)

- **Specially Designated Nationals (SDN) List**: Individuals and entities blocked from U.S. transactions
- **Sectoral Sanctions Identifications (SSI) List**: Entities subject to more limited restrictions
- **Foreign Sanctions Evaders List**: Parties that have violated U.S. sanctions
- **Non-SDN Menu-Based Sanctions List**: Parties subject to "menu-based" sanctions

Commerce Department (BIS)

- **Entity List**: Parties subject to specific license requirements
- **Denied Persons List**: Individuals and entities denied export privileges
- **Unverified List**: End-users that BIS has not been able to verify
- **Military End User List**: Military end-users in China, Russia, and Venezuela

State Department

- **Nonproliferation Sanctions Lists**: Parties sanctioned under various nonproliferation authorities
- **CAATSA Section 231 List**: Parties associated with defense or intelligence sectors of Russia
- **Foreign Terrorist Organizations**: Designated terrorist groups
- **Debarred Parties List**: Entities and individuals prohibited from participating in arms exports

EU Lists

- **EU Consolidated List**: All persons, groups, and entities subject to EU financial sanctions

- **EU Dual-Use List**: Entities subject to specific export control restrictions

UN Lists

  - **Consolidated United Nations Security Council Sanctions List**: Individuals and entities subject to UN sanctions

Other National Lists

  - UK Consolidated List (OFSI)
  - Japan's METI Restricted Parties List
  - Canada's Listed Persons
  - Australia's Consolidated List

4. Designing a Screening Program

Risk Assessment

  - Identify sanctioned countries in your markets
  - Assess exposure to high-risk industries
  - Map direct and indirect business relationships
  - Evaluate transaction types and payment methods
  - Consider product risk (dual-use or controlled items)

Determining Scope of Screening

  - **Who to screen**: Customers, suppliers, intermediaries, financial institutions, employees, owners/shareholders
  - **When to screen**: New relationships, before transactions, periodic rescreening, triggered by changes
  - **What to screen**: Names, addresses, vessel names, countries, banks

Technology Solutions

  - Manual vs. automated screening
  - Integrated vs. stand-alone systems

- Batch vs. real-time screening
- Single-list vs. comprehensive screening
- Update frequency and mechanisms

Program Design Considerations

- Company size and transaction volume
- Geographic footprint
- Industry-specific risks
- Resource availability
- Integration with existing systems

5. Screening Process and Best Practices

Data Collection

- Gather complete identifying information
- Standardize data entry formats
- Implement data quality controls
- Document sources of information
- Update information periodically

Screening Methodology

- Name matching algorithms (exact, fuzzy, phonetic)
- Address matching considerations
- Country/jurisdiction screening
- Ownership structure analysis for 50% rule compliance
- Screening thresholds and match scores

Frequency of Screening

- Initial onboarding screening
- Pre-transaction screening
- Periodic rescreening (risk-based approach)
- Event-triggered rescreening (ownership changes, new sanctions)
- Portfolio/backlog screening when lists update

Best Practices

- Use multiple identifiers beyond just names
- Implement appropriate fuzzy logic settings
- Consider language variations and transliterations
- Document screening parameters and decisions
- Maintain audit trails of all screening activities
- Regular testing and tuning of screening system

6. Managing Screening Hits

Initial Hit Review Process

- Distinguish true hits from false positives
- Document review methodology
- Gather additional information as needed
- Compare identifying information systematically
- Apply consistency in decision-making

Escalation Procedures

- Clear escalation paths for potential matches
- Designated reviewers with appropriate expertise
- Timeframes for escalation and resolution
- Documentation requirements for decisions
- Final decision authority designation

Clearing False Positives

- Criteria for clearing hits
- Documentation requirements
- Creating "good guy" lists/whitelists
- Periodic review of cleared parties

Handling True Hits

- Immediate action procedures (block/reject/hold)
- Reporting requirements (internal and external)

- License application considerations
- Ongoing monitoring requirements
- Record retention requirements

7. Special Considerations for the Metals Industry

High-Risk Metals and Materials

- Certain aluminum and steel products under sectoral sanctions
- Precious metals used for sanctions evasion
- Rare earth elements and strategic minerals
- Dual-use metals and alloys with military applications

Industry-Specific Red Flags

- Unusual financing or payment terms
- Requests to change destination after shipment
- Unclear or changing end-use information
- Unusual shipping routes or transshipment points
- Pricing inconsistent with market values

Supply Chain Considerations

- Extended supply chains with multiple intermediaries
- Mining operations in high-risk jurisdictions
- Processing or refining in sanctioned countries
- Transportation through high-risk ports or zones

Beneficial Ownership Challenges

- Complex ownership structures in mining sector
- State-owned enterprises in metals industry
- Joint ventures with sanctioned party involvement
- Investment structures obscuring ultimate beneficial owners

8. Compliance Program Elements

Management Commitment

- Compliance policy with executive approval
- Adequate resources for sanctions compliance
- Regular reporting to senior management
- Clear accountability for compliance failures

Risk Assessment

- Formal sanctions risk assessment process
- Regular updates based on business changes
- New market entry risk evaluation
- Acquisition due diligence for sanctions risks

Internal Controls

- Written policies and procedures
- Technology and tools implementation
- Testing and audit protocols
- Record keeping systems

Testing and Audit

- Independent testing of screening systems
- Transaction sampling and review
- Compliance program effectiveness assessments
- Remediation tracking

Training

- Role-based sanctions training
- Regular refresher training
- Training effectiveness measurement
- Updates on sanctions developments

9. Enforcement Trends and Penalties

Recent Enforcement Actions

- Increasing focus on non-financial sectors
- Supply chain due diligence expectations
- Enforcement against non-U.S. companies
- Focus on willful blindness and failure to investigate red flags

Penalty Frameworks

- U.S. OFAC Economic Sanctions Enforcement Guidelines
- EU member state enforcement mechanisms
- UK OFSI penalty framework
- Criminal vs. civil penalties

Mitigating Factors

- Voluntary self-disclosure
- Cooperation with authorities
- Remedial actions
- Compliance program improvements

Penalty Examples

- Financial penalties (can reach hundreds of millions of dollars)
- Denial of export privileges
- Monitor requirements
- Individual liability for officers and directors
- Reputational damage

10. Resources and Tools

Government Resources

- OFAC Recent Actions and Resources
- EU Sanctions Map
- UN Sanctions Committees

- BIS Export Compliance Resources

Industry Groups

- International Association of Metal Traders (IAMT)
- World Steel Association
- International Aluminium Institute
- London Metal Exchange Compliance Resources

Technology Providers

- Commercial screening tools
- Regulatory update services
- Due diligence databases
- Training resources

Professional Assistance

- Legal counsel specializing in sanctions
- Compliance consultants
- Training providers
- Technology implementation specialists

Disclaimer

This guide is for informational purposes only and does not constitute legal advice. Sanctions regulations change frequently, and users should consult current official sources and qualified legal counsel for specific compliance requirements.

Contact Information

For more information or assistance with sanctions compliance:

Trade Compliance Department Email: info@ore2b.com