



Dual-Use Goods and Proliferation Financing



Dual-Use Goods, herein referred to as “**DUGs**”, have been defined as items having commercial and military use but can also be used for proliferation activities. They are therefore governed by a range of export limitations and regulations imposed by national and/or international organizations to restrict the illicit use of these goods. These can sometimes be in the form of *sanctions* but usually take the shape of licensing requirements being placed upon regulated persons or entities. The concept of DUGs involves several mechanisms to combat financial crime within the financial services industry, including *proliferation financing counter measures, export controls* and *trade sanctions*. Financial Institutions (FIs) and Designated Non-Financial Businesses and Professions (DNFBPs) should remain cognizant of the various uses of these goods as regulatory expectations and requirements may differ and bring some traded products under scrutiny by authorities.

The FATF defines **Proliferation Financing (PF)** as the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling, or the use of nuclear, chemical, or biological weapons.

This includes the means of delivery and related materials (including both technologies and DUGs used for non-legitimate purposes) in contravention of national laws and/or where applicable, international obligations.

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Identification of Dual-Use Goods (DUGs)

The regulatory guidance that is now available indicates that screening trade transactions to identify DUGs is a suitable step that FIs and DNFBPs should take into consideration. However, it also outlines associated restrictions that make this task equally challenging to complete.

Dual-Use items can be described in common terms as items which have many uses. These can be goods, software or technology for personal use or for specific use such as military.

FIs and DNFBPs should utilize customer data obtained from various sources such as search engines, due diligence software and available public sector databases to gather the necessary customer data to conduct targeted analysis to mitigate PF risks. The exchange of information between the public and private sectors is essential to this analysis and creates a more robust and cooperative regime to combat PF and enhances cooperation and coordination.

WHY SHOULD YOU BE CONCERNED WITH THE PREVENTION AND DETECTION OF PF ?

- ◆ PF facilitates the movement and development of proliferation-sensitive goods. The movement and development of such items can contribute to global instability and may ultimately result in loss of life, if proliferation-sensitive items are deployed.
- ◆ Publicized cases can result in possible reputational damage which may cause investors to shy away from a jurisdiction perceived as being accessible to proliferators.

Proliferation Financing



Challenges associated with the identification of DUGs

- ◆ The technical description of some goods provided by government/regulatory bodies may be difficult to interpret and understand.
- ◆ The technical nature of some goods may be difficult to understand for staff members of FIs and DNFBPs who would not possess the necessary technical qualifications and knowledge of the wide range of DUGs.
- ◆ Absence of a standard list of DUGs.
- ◆ Absence of a user-friendly automated list of goods or description of these goods to facilitate effective screening and monitoring.
- ◆ False positive hits during screening due to the vague or inadequate description of imported/exported goods.
- ◆ Incomplete or too complex description of goods which can result in incorrect analysis of customers and/or transactions.

Approaches to DUG Screening

- ◆ Ongoing training and awareness for relevant staff members to gain or enhance knowledge in identifying DUGs.
- ◆ Review of various trade/export control lists, including descriptions to identify DUGs.
- ◆ Screening of customers, individuals or entities against sanctions lists or other lists for customers at a higher risk of PF activities.
- ◆ Robust Customer Due Diligence (CDD) measures to identify customers at higher risk for PF or who may be susceptible or involved in trading DUGs.

Types of Proliferation Financing:

- ◆ **Direct Financing:** Providing funds or resources directly to proliferators.
- ◆ **Indirect Financing:** Facilitating transactions or services that indirectly support proliferation (e.g., shipping, logistics, front companies).
- ◆ **Trade-Based Money Laundering:** Manipulating trade transactions to move funds for proliferation purposes.

Risk Factors:

- ◆ **Jurisdictional Risk:** Some countries or regions may have weak Anti-Money Laundering (AML)/ Counter Financing of Terrorism (CFT) and Counter Proliferation Financing (CPF) controls.
- ◆ **Sectoral Risk:** Certain industries (e.g., technology, chemicals) are more susceptible to PF.
- ◆ **Product Risk:** Goods with dual-use applications (civilian and military) pose a higher risk.

Preventive Measures:

- ◆ **EDD:** FIs and DNFBPs should identify and review high-risk clients and transactions.
- ◆ **Sanctions Compliance:** Scrutinize international sanctions lists to prevent dealings with designated proliferators or their associates.
- ◆ **Information Sharing:** Collaborate with authorities, regulators and other institutions to detect suspicious activities.



Recommendations and Best Practices:

- ◆ Development of education and awareness-building programs to include PF activities and mechanisms to identify DUGs.
- ◆ Employment of enhanced due diligence (EDD) measures to manage higher risk customers through the application of targeted CDD procedures focused on the identification of higher risk business types involving trade in DUGs.
- ◆ The adoption of screening mechanisms to detect higher risk individuals and entities with greater exposure to PF.
- ◆ Adherence by Exporter/Importer to relevant regulations by obtaining the requisite licences.



Remember that vigilance and cooperation among governments, FIs, DNFBPs and international bodies are crucial in combating PF.





Red Flags to assist with awareness of potential PF



Customer	Transaction	Documentation /Other
<ul style="list-style-type: none"> ◆ Individual or entity listed on a sanctions list or is connected to a targeted person. ◆ The customer is involved in the supply, sale, delivery or purchase of dual-use, proliferation-sensitive or military goods, particularly to higher risk jurisdictions. ◆ The customer or counterparty, or its address, is the same or similar to one of the parties found on publicly available sanctions lists or has a history of export control contraventions. ◆ The customer is a military or research body connected with a higher risk jurisdiction of proliferation concerns. ◆ Activity does not match the business profile or customer. ◆ The customer is vague, particularly about his/her use of goods, provides incomplete information or is resistant to providing additional information when sought. 	<ul style="list-style-type: none"> ◆ Transaction concerns dual-use, proliferation-sensitive or military goods whether licensable or not. ◆ Transaction demonstrates a link between representatives of companies exchanging illicit or questionable goods e.g. same owners or management, in order to evade scrutiny of the goods exchanged especially if not consistent with nature of business. ◆ Transaction involves the shipment of goods inconsistent with normal geographic trade patterns i.e. where the country involved does not normally export or import the types of goods concerned. ◆ Order for goods is placed by firms or individuals from foreign countries, other than the country of the stated end-use. ◆ Transaction involves FIs and DNFBDs with known deficiencies in AML/CFT/CPF controls and/or domiciled in countries with weak export control laws or weak enforcement of export control laws. 	<ul style="list-style-type: none"> ◆ Inconsistencies in information contained in trade documents and financial flows e.g. names, addresses, final destination etc. ◆ Use of fraudulent documents and identities e.g. false end-use certificates and forged export or re-export certificates. ◆ Declared value of shipment undervalued in relation to shipping cost. ◆ Trivial description on customs declaration/export licence e.g. agriculture, electronics and pumps (without further explanation of purpose/use). ◆ Missing documents. ◆ Technical description altered. ◆ Transaction involves shipment of goods incompatible with the technical level of the country in which it is being shipped, e.g. semiconductor manufacturing equipment being shipped to a country that has no electronics industry.



References:

- FATF and CFATF Research desks - Guidance Papers (Feb .2024), Report (2021), October 2020 on Combating Proliferation Financing ~ [www. FATF-GAFL.ORG](http://www.FATF-GAFL.ORG)
- International Chamber of Commerce Report on Dual-Use Goods and Proliferation Financing ICC (2023) ~ www.iccwbo.org

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