

The Lap of Luxury:

Using Open-Source Data to Trace North Korea's Procurement of Luxury Goods

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Abstract

More and more information is becoming available as reporting or in studies, or when North Korea decides to show the rest of the world something in a parade or a Kim Jong Un review. Customs data may help corroborate and identify the sourcing of those items or materials. It does not always do so, particularly in regard to luxury goods. The UN Security Council bans the export of luxury goods to North Korea but has delegated the definition of what a luxury good is to member states. The more clearly defined a luxury good, the more North Korea works to obscure its origins from customs data and authorities—taking advantage of an imperfect system where countries are not always committed to enforcement. This paper examines two sets of luxury goods: Russian thoroughbred horses and two armored Mercedes. One is not clearly defined and one is. The goal of this paper is to analyze the patterns and trends of North Korea's acquisition of luxury goods through illicit trade and provide a set of recommendations to help identify ways to capture illicit activity and strengthen enforcement.

Introduction

Photographs and video footage are windows into North Korea's purchasing capabilities and show us where sanctions have failed. Footage from North Korea's military parade celebrating its seventy-fifth anniversary makes it clear that sanctions have not had the desired effect. Noncommercial, publicly available trade data from UN Comtrade enables identifying the source from which North Korea was able to import some of the goods and materials visible in those images. Other goods remain untraced, obscured from government recorded customs data. The focus of this study is how North Korea obtains the luxury goods it does.

I review noncommercial open-source information to examine the trends and patterns of North Korea's luxury goods trade and to identify the schemes Pyongyang uses to circumvent sanctions and local customs laws and regulations so that its transactions are untraced. I also review unpaid literature that has analyzed commercial data in its research and made that research publicly available free of charge. My goal was to use open-source information that would be available to anyone at no cost.

The first step is to assess how luxury goods are defined. The definition alone is problematic and made enforcement on the luxury goods ban to North Korea challenging, to say the least. The term *luxury* is defined by the UN Security Council, which prohibits luxury goods transfer to North

Korea but then delegates the responsibility of defining such goods to individual member states. This in turn has often created confusion and challenges to both the Security Council and member states seeking to impose their obligations under Security Council resolutions in the interpretation of luxury goods and how to define them from country to country. No standard international definition has been established. Member states at all levels of development are individually expected to define *luxury goods* in their domestic policy.

Two types are reviewed here. The first involves the payment schemes related to North Korea's import of Russian thoroughbred horses over the years, horses recently used in the military parade celebrating the country's seventy-fifth anniversary. Russian definitions of luxury goods are limited to address the status of the horses and whether they meet the threshold.¹ The US Department of Commerce luxury ban is far more comprehensive. The definition of the horses remains ambiguous but may depend on how the horses are used. According to the Commerce Department's Bureau of Industry and Security, horses may be considered livestock. North Korea, however, does not use them as such.² Do the horses meet the thresholds of a luxury good, even under US standards? Perhaps the answer depends on the breed of horse. The white horses in the parade or the ones Kim Jong Un rides are Russian thoroughbreds, so not all the horses North Korea imports qualify as livestock. The definition remains problematic in the most sophisticated of sanctions regimes and gets increasingly complicated quickly.

The second type of luxury goods are the two armored and illicitly imported Mercedes. Mercedes, a German company, has several transshipment points: Rotterdam, Dalian, Osaka, Busan, Nahodka. Unlike Russian thoroughbred breeders, Germany, Mercedes, and the company manufacturing the armored protection for the vehicles were likely unwitting participants. Here, the UN 1718 Sanctions Committee (DPRK) has defined high-end vehicles as luxury goods, leaving little ambiguity.³

These two items were selected both to analyze North Korea's illicit imports and assess how Pyongyang circumvents sanctions and to better understand when parties are complicit and when they are not. The trends and patterns in these two models could help regulators and authorities detect illicit activity. They also illustrate North Korea's ability to continue to abuse the international trade and finance system by violating international sanctions.

Sources used include the UN DPRK Panel of Experts' annual reports over the last several years, news articles, rules and regulations of countries where the illicit trade is taking place, UN Security Council resolutions, research from the Washington-based Center for Advanced Defense Studies (C4ADS), the Institute for Science and International Security, noncommercial customs data from UN Comtrade, and photos and video footage, including from North Korea. The UN Comtrade database was used for detailed exports of specific traded goods per the Harmonized System, short for Harmonized Commodity Description and Coding System, or HS code. HS code is a

¹ The Kremlin, Russian Customs Rules, October 14, 2006 (<http://kremlin.ru/acts/bank/25583>); March 2, 2016 (<http://www.kremlin.ru/acts/bank/41624>); November 30, 2016 (<http://www.kremlin.ru/acts/bank/42376/>).

² U.S. Department of Commerce, "2020 North Korea Ballistic Missile Advisory," Bureau of Industry and Security, <https://www.bis.doc.gov/index.php/policy-guidance/country-guidance/sanctioned-destinations/north-korea>.

³ UN 1718 Sanctions Committee (DPRK), Consolidated list of additional items and luxury goods. Group B, https://www.un.org/securitycouncil/sites/www.un.org.securitycouncil/files/list_items_and_luxury_goods.pdf.

standardized international system used to classify products in shipments. The data pulled from UN Comtrade supporting North Korean trade, however, clearly do not capture traded goods North Korea is able to obscure. First, North Korea does not report any data. Second, countries do not always report all of their trade activity, particularly their exports, given that most countries tend to tax imports and not exports. To capture North Korea's imports, we would have to pull export data from countries to North Korea, which could be less reliable. Finally, UN Comtrade data do not necessarily contain entity-level information; this study did not use any commercially available trade data sources to investigate specific entity-level information.

As sanctions have tightened and Pyongyang has become more adept at circumventing them by using evolving elaborate illicit payment schemes, tracking North Korean illicit activity has become increasingly more difficult. Photos and video footage released from North Korea give us an additional glimpse into what it has acquired beyond the new missiles and gear showcased during the parade. The day-to-day images of Kim Jong Un reviewing sites are a window into the country. They range from Kim traveling in his growing luxury fleet of vehicles to inspect areas affected by typhoons to riding horseback with his inner circle to Mount Paektu, the mythological birthplace of his father, Kim Jong Il. Kim is not shy about any of these goods. If anything, he flaunts them, caring little about sanctions ramifications or criticism from abroad.

Luxury goods are significant in the North Korean regime as a tangible reward as well as for their symbolic importance and cultural significance that builds friendship and loyalty, as the Panel of Experts 2020 annual report highlights. Despite sanctions, Pyongyang is still able to source them.

Russian Horses

The greater the difficulty in assessing whether a luxury good is indeed a luxury good, the fewer restrictions the Security Council is able to impose on North Korea to import them. This in turn makes it increasingly difficult for the United States and its allies to hold North Korea accountable for items that may have a dual purpose, such as the horses. Such workarounds enable Kim to maintain loyalty among the Pyongyang elite. Kim is able to work around Security Council resolutions faster than it is able to adopt new ones (as the United States struggles to press China and Russia to support stronger measures) to address his acquisition of goods that help him to further sustain regime objectives of advancing the country's weapons programs.

Access to the Russian horses is providing Kim Jong Un with two benefits. The first is propaganda domestically to promote a mythical legacy, and the second is that the horses are often gifts for loyal members in Kim's inner circle.⁴ As sanctions tighten and Kim looks for nonsanctioned items to use as potential luxury goods, the horses may be complementary substitutes. However, horses require considerable daily care, especially thoroughbreds, and the care is not inexpensive. Responses to a horse-ownership survey from the University of Maine found that the average annual cost of ownership is \$3,876 per horse; the median cost is \$2,419. In North Korea, the cost is probably lower but still well above any amount any ordinary North Korean would be able to

⁴ Pjotr Sauer, "How North Korea's Leader Buys Purebred White Horses From Russia's Stud Farms," *Moscow Times*, February 20, 2020, <https://www.themoscowtimes.com/2020/02/19/how-north-koreas-leader-buys-purebred-white-horses-from-russias-stud-farms-a69317>.

afford. North Korea showcased at least forty horses during its seventy-fifth anniversary military parade. The horses appear to be healthy and well cared for (image 1).

Image 1. Russian thoroughbreds at seventy-fifth anniversary parade



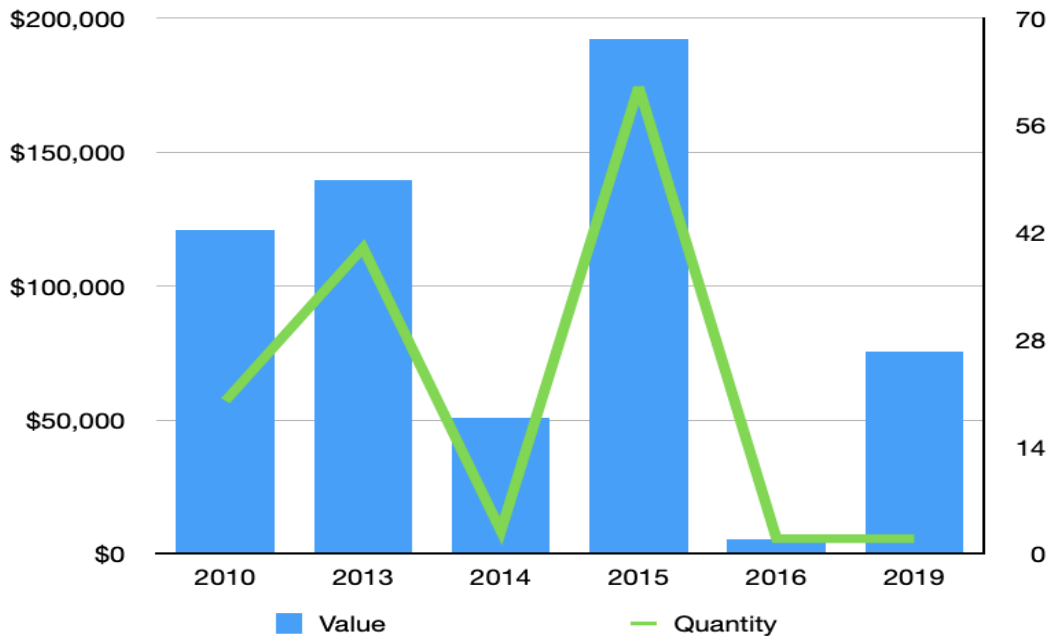
Source: Rodong/Sinmun/KCNA.

North Korea imported 128 horses between 2010 and 2019 and spent nearly \$600,000 that we know of according to Russian custom data available on UN Comtrade (see figure 1). The UN Harmonized System code used for the horses was 0101. It is extremely difficult to gather data on North Korean trade and the discrepancy among open sources. Identifying patterns when trends are divergent or complementary is informative to help capture North Korean efforts to offset losses from goods that are clearly identified as luxury goods. According to customs data pulled by Reuters, Russia exported twelve horses worth a total of \$75,509 to North Korea in 2019, which conflicts with the UN Comtrade data on the numbers of horses exported.⁵ The amount, however, is the same. UN Comtrade also reports Russia exported 128 horses during that period; Reuters cites 138. The amount and quantity from Reuters and UN Comtrade mirror each other for 2015. Reuters reports the total during the entire 2010 to 2019 period is \$584,304. UN Comtrade reports \$584,291.

The value discrepancy is small and therefore not significant. The quantity discrepancy, on the other hand, is large and requires further examination, as well as the whole dataset and what kind of payment schemes Pyongyang could be using. Before 2010, North Korean purchases of horses were less frequent, its last purchase being in 2001, when it imported ten for \$15,000 total. Before 2001, the previous purchase was in 1997.

⁵ Reuters, “North Korea imported purebred horses from Russia as Kim Jong Un took snowy ride,” February 17, 2020, <https://www.reuters.com/article/us-russia-northkorea-horses/north-korea-imported-purebred-horses-from-russia-as-kim-jong-un-took-snowy-ride-idUSKBN20B11E>.

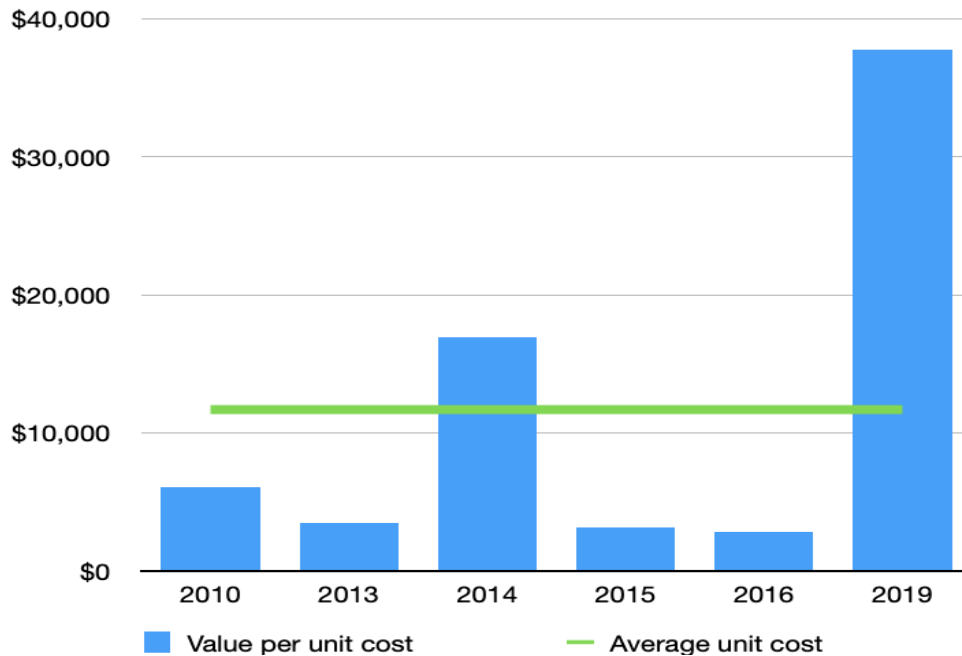
Figure 1. Russian export of horses to North Korea



Source: UN Comtrade

As figure 2 makes clear, however, the unit cost North Korea paid per horse varied greatly over the period.

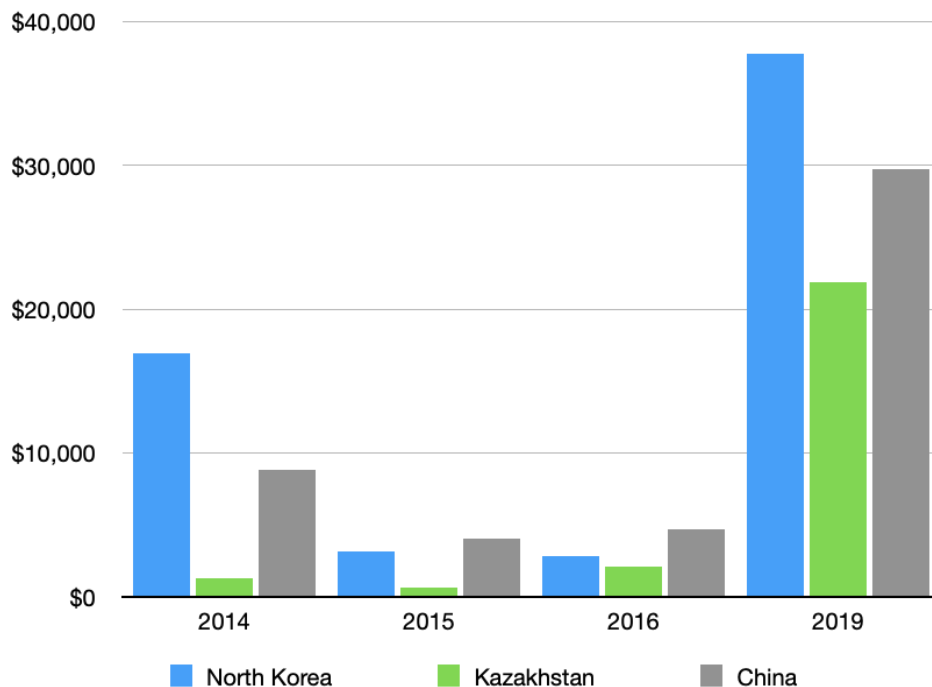
Figure 2. North Korean value per imported Russian



Source: UN Comtrade

The pattern does not differ greatly from other importers of Russian horses (see figure 3). North Korea’s unit value per horse, however, is higher in certain years relative to other noteworthy importers of Russian horses, such as China and Kazakhstan—both of which have imported hundreds of thousands of horses in a given year.

Figure 3. North Korean, Kazakh, and Chinese unit cost per horse



Source: UN Comtrade

Why did North Korea pay so much more for the Russian horses in 2014 and 2019? Perhaps the payment schemes could provide insight: they may not be entirely legitimate even though the horses themselves were not subject to sanctions; Pyongyang could have violated UN and US sanctions as well as local laws.

Most countries, such as the United States, have caps or reporting requirements on the amount of cash individuals can take out of the country. Russia and China have similar requirements. Travelers can generally take the equivalent of \$10,000 of foreign currency out of Russia and \$5,000 out of China.⁶ China enforces an additional restriction of 20,000 RMB in or out of China. This limit is applicable to local residents and foreigners.⁷ Otherwise, both Russia and China require permissions issued by a bank if the amount is higher. The required amount exceeded customs laws in both countries in 2014 and 2019 and would have required special permissions. The money may have never left China or Russia and was possibly paid using local bank accounts held by North Korean individuals abroad, North Korea-linked companies abroad, or foreign nationals abroad

⁶ IFCG Encyclopedia, “Customs rules in Russia for individuals,” https://en.cyclopedia.ifcg.ru/wiki/Customs_rules_in_Russia_for_individuals.

⁷ General Administration of Customs, People’s Republic of China, “Customs Clearance Guide for International Passengers,” <http://english.customs.gov.cn/statics/88707c1e-aa4e-40ca-a968-bdbdbb565e4f.html>.

with extensive commercial or political relationships with North Korea who operate de facto correspondent accounts for DPRK financial institutions.

The figures for 2014 and 2019 in figure 3 suggest that North Korea paid more per horse than at least two other countries in the region. Given North Korea's history, it likely paid a premium for the horses to begin with. It would have behooved customs officials to scrutinize the purchase and should prompt additional investigation on the purchase.

Armored Mercedes-Maybach S600

In 2013, the United Nations defined automobiles for private transport as a luxury good in Security Resolution 2094, but North Korea continues to acquire them, including high-end luxury vehicles. According to C4ADS, Kim Jong Un appeared in a new Rolls Royce Phantom to meet US Secretary of State Mike Pompeo in Pyongyang during Pompeo's visit in October 2018.⁸ Several months later, KCTV showed Kim appearing in an armored Mercedes-Maybach S600 Guard, which is marketed to heads of state and is valued at more than \$500,000.⁹ Kim's fleet of luxury vehicles also appeared during his meetings with President Donald Trump in Hanoi and Vietnam then with President Vladimir Putin in Vladivostok, Russia, and again with Chinese President Xi Jinping in Pyongyang.¹⁰

The Panel of Experts' investigations over the years shows that North Korea retains the ability to obtain luxury automobiles, often through elaborate supply chains, despite the restrictions imposed by most manufacturers' compliance programs. For example, the Panel and C4ADS obtained information received from one country that in 2020, North Korea continued attempts to import Mercedes-Benz S-Class limousines using companies based in third countries. Other vehicles include Audis and Toyotas. A report from C4ADS found that North Korea imported 803 luxury vehicles from 2015 to 2017, the majority originating from Russian companies.¹¹

C4ADS conducted a study that assessed that North Korea acquires high-end luxury goods using smuggling techniques similar to those of its weapons programs. C4ADS argues that "high-end luxury goods share key features with dual-use goods for North Korea's weapons program: they are scarce, specialized products with high monetary value and great symbolic importance for the Kim regime. However, unlike dual-use goods, luxury products like armored Mercedes vehicles are easily identifiable on publicly available trade records and at port."¹²

⁸ Joshua Berlinger, "Kim Jong Un appears to have a new Rolls-Royce," CNN, October 8, 2018, <https://www.cnn.com/2018/10/09/asia/kim-jong-un-rolls-royce-intl/index.html>.

⁹ Erik Johnson, "Do Your Worst: Meet the Armored Mercedes-Maybach S600 Guard," *Car and Driver*, February 22, 2016, <https://www.caranddriver.com/news/a15348672/do-your-worst-meet-the-armored-mercedes-maybach-s600-guard/>.

¹⁰ Lucas Kuo and Jason Arterburn, "Lux & Loaded: Exposing North Korea's Strategic Procurement Networks," C4ADS, 2019, <https://static1.squarespace.com/static/566ef8b4d8af107232d5358a/t/5d307a43bf42140001877def/1563458128965/Lux+%26+Loaded.pdf>

¹¹ Kuo and Arterburn, "Lux & Loaded."

¹² Kuo and Arterburn, "Lux & Loaded."

Most of these vehicles have appeared in photos or in video footage; other images were obtained directly by the Panel of Experts. Some of these vehicles continue to be armored by a third party. Their origins are difficult to ascertain and the accuracy of the reporting by countries exporting vehicles to North Korea remains spotty, especially in more recent reporting. Countries reporting trade with North Korea capture only the surface of the relationship. It is fair to suspect more going on than the reporting indicates.

Figure 4 offers a snapshot of what countries are reporting in their exports of vehicles to North Korea using HS Code 8703, illustrating which countries are reporting the aggregate value. It is difficult to ascertain how much of this value comes from the export of luxury vehicles to North Korea or whether any of these countries acted as a transshipment hub.

Figure 4. Exports of vehicles to North Korea

Period	Reporter	Trade Value (US\$)
2015	China	\$21,377,507
2015	France	\$21,753
2015	Germany	\$50,438
2015	Kuwait	\$50,359
2015	Russian Federation	\$26,841
2015	India	\$24,178
2015	Thailand	\$96,457
2016	China	\$24,365,811
2016	Mongolia	\$14,510
2016	Niger	\$3,355
2016	Russian Federation	\$1,335,343
2016	India	\$7,105
2017	China	\$27,098,239
2017	Mongolia	\$25,000
2017	Russian Federation	\$302,663
2017	Mali	\$4,267
2018	China	\$358,196
2018	Honduras	\$2,043
2018	Niger	\$21,768
2018	India	\$17,328
2019	China	\$29,442
2019	Mongolia	\$34,160
2019	United Arab Emirates	\$33,764
2019	United Arab Emirates	\$33,764

Source: UN Comtrade

C4ADS reports that North Korea imported at least \$191 million worth of luxury goods from 2015 to 2017, sourced from “as many as 90 countries” in violation of United Nations sanctions.¹³ The focus here, though, is to review the open-source materials reporting North Korea’s import of two Mercedes-Maybach S600s. This vehicle’s armor protects occupants from steel-core ammo fired from assault rifles and from explosive devices. The vehicle also has leather massaging seats.¹⁴ C4ADS scoured eight months’ worth of customs records, shipping data, bills of lading, and other open-source documents to determine how the vehicles made their way from Rotterdam to Pyongyang.¹⁵

On June 14, 2018, the two vehicles—which cost about \$500,000 each—began their journey in two sealed containers from the Dutch Port of Rotterdam in the custody of China Cosco Shipping Corporation.¹⁶ It is not clear who initially purchased the vehicles. Daimler, the company that owns Mercedes, claimed that it is unaware how the vehicles were delivered and where they come from: “Our company has had no business connections with North Korea for far more than 15 years now and strictly complies with EU and US embargoes. To prevent deliveries to North Korea and to any of its embassies worldwide, Daimler has implemented a comprehensive export control process, which we consider appropriate and effective and which meets all requirements of the export control authorities.”¹⁷

Could Daimler have done more? What did it miss? At what point was North Korea able to break the supply chain and obtain the vehicles? “Sales of vehicles by third parties, especially of used vehicles, are beyond our control and responsibility,” Daimler told CNN. “We always investigate the vehicles displayed on the photos in the media thoroughly. However, without the vehicle identification numbers it is impossible to find a concrete trace.”¹⁸ According to open-source research, it has been difficult to ascertain whether these vehicles were used or were imported as new. According to *NK News* as cited by C4ADS, however, when the vehicles spotted in Pyongyang in January 2019, they had customized wheels, indicating that they “were not directly sold by [the manufacturer] but have been modified by a third party.”¹⁹ They might also have been modified by North Korea for one reason or another, but C4ADS stipulates that because the containers remained sealed between Rotterdam and Busan “any vehicle modifications likely would have been made prior to their departure from the Netherlands or after their plausible arrival in the Russian Far East.”

Daimler says Mercedes runs background checks on potential buyers of the vehicles to ensure that the company is not selling to sanctions violators.²⁰ What went wrong? Daimler cooperated with

¹³ Joshua Berlinger, “How did Kim Jong Un get his Mercedes-Benzes? New report traces origin of North Korea’s luxury rides,” CNN, July 16, 2019, <https://www.cnn.com/style/article/north-korea-luxury-vehicles-intl-hnk/index.html>.

¹⁴ Erik Johnson, “Do Your Worst: Meet the Armored Mercedes-Maybach S600 Guard,” *Car and Driver*, February 22, 2016, <https://www.caranddriver.com/news/a15348672/do-your-worst-meet-the-armored-mercedes-maybach-s600-guard/>.

¹⁵ Berlinger, “How did Kim Jong Un?”

¹⁶ Kuo and Arterburn, “Lux & Loaded.”

¹⁷ Berlinger, “How did Kim Jong Un?”

¹⁸ Berlinger, “How did Kim Jong Un?”

¹⁹ Kuo and Arterburn, “Lux & Loaded.”

²⁰ Edward Wong and Christopher Koettle, “How North Korea’s Leader Gets his Luxury Cars,” July 16, 2019, *New York Times*, <https://www.nytimes.com/2019/07/16/world/asia/north-korea-luxury-goods-sanctions.html>.

the Panel of Experts and told them that the images of vehicles were indeed produced by the company, but with modifications by another party. “Daimler could not determine the date of production or sale without more information and stated that it had complied with all relevant applicable embargoes and did no business with the Democratic People’s Republic of Korea.”²¹

Daimler is not alone in its poor insight into its distribution chain. These cases may be the exception. Companies need to do a better job of working with distributors and ensuring their supply chains are not compromised. The cost incentives in the long run will benefit everyone involved and help prevent illicit activity.

It took months and thousands of miles through six countries before the vehicles arrived in Pyongyang, having made stops in China, Japan, South Korea, and Russia before being flown to their final destination, Pyongyang, where only Kim Jong Un would benefit from riding them.

C4ADS determined the linkages from Rotterdam to Busan, South Korea. After Busan, the vehicles were placed on the Togo-flagged *DN5505*, per the bill of lading. From there, North Korean-linked traders were able to mask its trace. After the *DN5505* left Busan, it reported via its Automatic Identification System (AIS) that it would reach Nakhodka, Russia, on October 5, 2018. It then turned off its transponder and disappeared. When it turned the transponder back on, its AIS identified it as being where it had originally disappeared. It may have reached Nakhodka; it may have not, but the vehicles were consigned to Do Young Shipping, registered in the Marshall Islands and one other ship, the Panama-flagged oil tanker *Katrin*, which was already implicated in other DPRK-linked sanctions evasions.

According to C4ADS, Russian businessman Danil Kazachuk may own Do Young Shipping. This is not clear, however, because records from the Marshall Islands, a secrecy jurisdiction, are not definitive. Documents obtained by C4ADS show Kazachuk as having owned the *Katrin* for about a month in 2018.²²

The scheme to purchase high-end luxury goods offers North Korea an opportunity to engage in schemes to export its commodities and mask their origin. C4ADS notes that *DN5505* was heading in the opposite direction back to Busan. In this example, Pyongyang was able to mask the origins of its coal while obtaining the vehicles in an elaborate scheme. “On November 2, the *DN5505* submitted a bill of lading to South Korean customs authorities that showed that the vessel imported 2,588 metric tons of ‘anthracite coal in bulk’ allegedly from Nakhodka, where no record exists of its arrival.”²³ North Korea also likely pays a premium for this service.

Nakhodka, however, has no record of the *DN5505*’s arrival and UN Comtrade does not show that Russia engaged in any coal trade with North Korea in 2018. The *New York Times* reports that Kazachuk acknowledged in a telephone interview his relationship to the *DN5505*, but provides no further details about the cargo or whether he had transferred the vehicles to North Korea.²⁴ What actually happened?

²¹ DPRK, Panel of Experts Annual Report, August 2019.

²² Wong and Koettle, “How North Korea’s Leader Gets his Luxury Cars.”

²³ Kuo and Arterburn, “Lux & Loaded.”

²⁴ Wong and Koettle, “How North Korea’s Leader Gets his Luxury Cars.”

On October 7, two days after the estimated arrival of *DN5505*, three Ilyushin-76 cargo jets operated by North Korea's Air Koryo reportedly flew from Pyongyang to Vladivostok. The jets are often known to be used by North Koreans to transport armored vehicles used by North Korea's elites. According to C4ADS, they are rarely spotted in Vladivostok. Four months later, on January 31, 2019, the same vehicles were seen on the streets of Pyongyang.²⁵

South Korea's Enermax was listed as the consignee on a bill of lading for a shipment of 2,588 metric tons of coal from Nakhodka to Pohang port on November 1, 2018, aboard the *DN5505* on the return trip from shipping the two Mercedes-Benz vehicles that reportedly ended up in North Korea. The consigner was Do Young Shipping, a Marshall Islands shell company that is also the owner and ship manager for the *DN5505*. South Korea had previously detained the *DN5505* in Pohang for importing North Korean coal from Nakhodka in February and referenced the *DN5505*'s coal import in November 2018. Enermax claimed in a press interview that it had taken another local broker at his word that the coal originated in the Russian Federation. Enermax never responded to the Panel's inquiries.²⁶

Failure of the South Korean firm Enermax to respond to the Panel of Experts is problematic because it sends the wrong message to other countries. If anything, South Korea should have encouraged Enermax to respond. The failure to respond enables North Korea to continue its illicit activities, abusing countries' territories and their companies.

Smuggling high-end vehicles is nothing new for North Korea. Mercedes seems to be a preferred brand. Four Mercedes-Benz S-600 limousine conversions were observed during military parades in Pyongyang on April 15 in 2012, 2013, and 2014, and again in October 2015. The Panel of Experts reported in February 2016 that three shipments of such limousines that were allegedly diverted to North Korea in 2010 and 2011. The vehicles, which originated in Europe, were armored and customized in the United States before transshipment to North Korea via China. The Panel had obtained correspondence between Chinese businessman Young Ma, also known as George Ma, who organized and financed the shipment of the Mercedes from the United States, and a US-based freight forwarder who agreed to facilitate the transaction.

UN sanctions not only prohibit North Korea's development of its weapons proliferation programs but also ban individuals and entities from selling any luxury goods to the country. Yet Kim Jong Un is usually seen being chauffeured in what is believed to be a \$1 million Mercedes-Maybach Pullman Guard armored limousine.

As the end user, North Korea uses complex, constantly evolving schemes to circumvent sanctions and export controls as it obfuscates its origins to obtain illicit goods. It constantly reinvents itself to that end and often pays premiums for such service, making the goods costlier than their retail value.

Understanding how North Korea smuggled goods is not easy. Complex and constantly evolving, the schemes become more and more difficult to unravel. North Korea obtains luxury goods,

²⁵ Kuo and Arterburn, "Lux & Loaded."

²⁶ DPRK, Panel of Experts Annual Report, August 2019.

weapons-related materials, commodities all through well-planned, orchestrated overseas illicit networks. It uses similar networks for weapons smuggling.²⁷

Understanding the patterns and trends to North Korea's schemes may not be difficult but identifying the country's networks and catching players in the act before the transactions are finalized has seen mixed results. North Korea has demonstrated that it is able to acquire both advanced weapons systems and gear as well as luxury goods. It has learned how to work with licit channels to obfuscate its illicit networks, making it even more difficult for authorities to trace the origins of goods. This makes it all the more import for manufacturers, companies, banks, and suppliers to understand their supply chains and know their customers' customers.

Analysis

The techniques used to smuggle high-end luxury goods, as mentioned, are much the same as those to smuggle materials for its weapons programs. The techniques are not new but involve a constantly evolving, elaborate scheme of handlers, front companies, ship-to-ship transfers, and banking channels—which often start with what appears to be a legitimate transaction. When countries tighten sanctions enforcement, the schemes become more elaborate and intricate, making a successful transaction more difficult but not necessarily impossible. Nonetheless, countries need to tighten and enforce sanctions.

In one year (2019–2020), the Institute for Science and International Security identified more than 250 alleged North Korean sanctions violations involving sixty-two countries, an increase of six countries over the previous year.²⁸ Thirty-nine of the sixty-two were allegedly responsible for multiple (two or more) documented sanctions violations. A dozen countries were involved in more than five allegations. “China alone had over 60 alleged violations, representing almost 25 percent of the total number of alleged violations” during this period.²⁹ “Hong Kong followed with over 20 violations, and Sierra Leone, Russia and Indonesia each had a total of 10 or more alleged violations.” Several countries prevented violations, for example, through interdiction and seizures of goods.

China was listed as not having taken action. Some instances were identified in which Chinese entities made purchases on behalf of North Korea to obtain luxury goods, as well as dual-use nuclear and missile components, to avoid sending dollars back to North Korea. This scheme helped Pyongyang avoid issues with US banking channels.³⁰

²⁷ Kuo and Arterburn, “Lux & Loaded.”

²⁸ David Albright, Sarah Burkhard, and Spencer Faragasso, “Alleged Sanctions Violations of UNSC Resolutions on North Korea for 2019/2020: The number is increasing,” *Institute for Science and International Security*, July 1, 2020, https://isis-online.org/uploads/isis-reports/documents/North_Korea_PoE_sanctions_analysis_report_July_1_Final.pdf.

²⁹ Albright, Burkhard, and Faragasso, “Alleged Sanctions Violations.”

³⁰ David Albright, Sarah Burkhard, Spencer Faragasso, Linda Keenan, and Andrea Stricker, “Illicit Trade Networks: Connecting the Dots,” vol. 1, *Institute for Science and International Security*, February 2020, 95, https://isis-online.org/uploads/isis-reports/documents/Illicit_Trade_Networks_Vol1_Connecting_the_Dots_February_2020_FINAL.pdf.

Sanctions on luxury goods have not slowed North Korea's ability to acquire them. Instead, it has prompted Pyongyang to adopt more creative practices and elaborate networks. The value of the smuggled goods varies but is always significant. Sometimes affiliates, front organizations, and third parties are complicit, not always necessarily wittingly. When an actor is operating illicitly, they know what they are doing and therefore do not always ask questions. Their goal is to process the transaction, deliver the goods, and take their cut.

Despite sanctions, North Korea continues to access the international financial system through joint ventures, offshore accounts, and shell companies, using a network of smaller banking channels throughout Asia to circumvent sanctions and widen its access to global markets and supply chains. Most foreign companies are likely participating unwittingly, and their negligence in more careful compliance has created a permissive environment. They lack the resources, commitment, or skills to adequately address appropriate compliance and due diligence to counter North Korea's access to their networks. This is concerning.

C4ADS reviewed national implementation reports submitted to the Security Council and identified thirteen jurisdictions that have defined luxury goods in any terms and of those thirteen, only a few had invoked standardized commodity codes. For each export control regime, C4ADS matched product descriptions to specific codes from the HS Code.³¹ The user-to-user transaction was entirely complicit in the trade, so the only way to prevent the transaction from taking place is to engage the supplier and the host country or attempt to stop the payment from going through—unless North Korea pays in cash.

This is how facilitators help North Korea procure high-end luxury goods. Such transactions require capable and willing intermediaries who will take their cut to help secure transport from limited suppliers across multiple jurisdictions. These individuals and entities have access to key rail and sea delivery routes and are able to consign for shipments before diverting the cargo to a North Korean end user. They may not even necessarily know they are doing business with Pyongyang, and if they do, they might not care as long as they get their cut. As the cargo gets closer to North Korea, however, the identity of the end user is likely clear.

North Korean diplomats and representatives of overseas branches of North Korean companies continue to facilitate such transactions while working with correspondent entities and individuals in third countries. The Panel of Experts has documented numerous cases. From the C4ADS report "Lux & Loaded," it was difficult to ascertain the points at which North Koreans were involved or the exact collaboration took place. "Lux & Loaded" distinguishes between luxury goods acquired through general regional trade for broader consumer markets and procurement of high-end specialized goods for limited customers. C4ADS recommends that sanctions practitioners look at how North Korea's domestic economic policy changes over time and how firms make purchases domestically and abroad.

The additional challenge with luxury goods that are not specifically identified by the UN 1718 Sanctions Committee (DPRK) or by member states is the definition. As noted, the UN defined all automobiles for private transport as a luxury good but horses as livestock. When in 2006 the UN first banned the export of luxury goods to North Korea in Resolution 1718, it delegated the

³¹ Kuo and Arterburn, "Lux & Loaded."

responsibility of defining what constitutes a controlled luxury good to member states. Subsequent resolutions added items to the list, automobiles among them. The distinction was clear for vehicles. It was not for horses, for which no definition exists.

C4ADS and the Panel of Experts, meanwhile, argue that luxury goods need clear categorization. Between 2015 and 2017, North Korea was able to smuggle luxury goods from as many as ninety countries. Product descriptions of controlled items need to be better matched to HS codes, particularly for goods not clearly identified in any of the annexes.

An additional challenge is North Korea's ability to procure foreign goods despite sanctions. North Korea maintains access to a vast array of luxury goods, procuring them from Western suppliers and through third-party facilitators. C4ADS makes the distinction, however, between general cross-border trade and high-end luxury items requiring a sophisticated procurement network.

C4ADS argues that enforcement has been inadequate because of unclear definitions for luxury goods, inconsistent implementation across jurisdictions, and the limited utility of current export control regimes to screen for luxury shipments.³² The UN has made some distinctions, such as automobiles, for which enforcement is lacking, but other luxury items need clearer categorization. Member states need more robust export control regimes to address the problem. In addition, member states need to agree to automatically implement UN mandates if they have not already limited domestic authorities, laws, and regulations to capture UN mandates on identified items.

Recommendations

Enforcement of Security Council resolutions requires member states to do their part. Countries need to bolster their enforcement mechanisms to prevent North Korea from taking any advantage of their territories. Doing so requires resources, time, and consistent commitment—and often sustained pressure from the United States because sanctions are not self-enforcing. This is challenging and usually requires US political capital because other bilateral issues may crowd the agenda. If companies, financial institutions, and authorities take steps to preempt illicit activity from taking place, it could potentially save hundreds of millions if not billions of dollars in North Korean illicit financial transactions. Pyongyang relies on front companies and illicit channels abroad to help it to trade sanctioned commodities and import luxury goods.

North Korea's abuse of jurisdictions creates a permissive environment for other illicit behavior, eroding democratic freedoms and trust in institutions. Democratic freedoms may be less important in some of these countries but all of them want to build up their institutions. To ensure the integrity of their finance and trade flows, it would be in their interest to enforce robust measures to counter North Korean illicit behavior in their territories. The following recommendations will hopefully assist authorities, regulators, and manufacturers to implement more effective compliance:

- Member states need to create robust export control regimes to categorize luxury goods appropriately.

³² Kuo and Arterburn, "Lux & Loaded."

- Member states should abide by UN mandates and scrutinize vessels with suspicious behavior, following the example of the *Chong Chon Gang* when Panamanian officials detained the ship. The actions that set in motion this success story may likely require foreign partners to work closely with US officials or the UN 1718 Sanctions Committee.
- Financial institutions should adopt artificial intelligence models to help combat the hidden codes of money laundering. Although not infallible, AI helps detect cryptic and suspicious SWIFT messages, erroneous invoice numbers, duplicate or linked addresses, and other money laundering clues buried in the terabytes of transactional data that financial institutions are responsible for monitoring. AI has the capability to process faster and analyze data tirelessly for actionable intelligence 24/7. Its cost efficiency will benefit financial institutions in the long run. Instead of training a staff of fifty to discern patterns of money laundering, institutions pay a small team of five developers to code. Financial institutions have already been using AI and other machine-learning tools for almost three decades in fraud management. They need to be widely adopted to prevent money laundering. This would capture suspicious transactions worldwide, not only in high-risk jurisdictions involving North Korea.
- US financial institutions should scrutinize clearing requests for US dollar transactions from correspondent banks for shipments of high-end luxury goods involving freight forwarders in high-risk jurisdictions, particularly in locations in China and Russia that are contiguous with North Korea. US financial institutions need to be more diligent about following up on any red flag requests.
- US financial institutions should be more diligent about knowing their correspondent bank relationships as well as the patterns and trends of finance and trade in those networks to better familiarize themselves with the red flags that may pop up. This will help maintain the speed of the US clearing system if they are more familiar with the challenges in specific regions while ensuring the integrity of the US financial system.
- Insurers and reinsurers should include contractual language requiring consistent AIS transmission, as required by the International Maritime Organization, to acquire and maintain protection and indemnity insurance and reinsurance.
- Sanctions should be adopted as information becomes available rather than only after the next Security Council resolution. Member states should also adopt the long overdue recommended set of designations proposed.
- C4ADS and the Panel of Experts recommend that the Security Council “delineate specific commodity codes for export-controlled luxury goods and require member states to include export control lists for luxury goods in their national implementation reports. In order to facilitate information sharing among member states, the UN Panel of Experts should resume the practice of consolidating export control lists from member states and reproducing those lists in an appendix to each annual report. Member states should promulgate the aggregated export control list to relevant local authorities for

harmonization with domestic export control systems, like the U.S. Department of Commerce Export Control Classification Number system.”³³

- C4ADS recommends “the intelligence and defense communities should consider the utility of publicly available information (PAI) for both the real-time identification of North Korean sanctions evasion and the production of analytical products that can be rapidly shared with partner agencies or governments, including participants in the Proliferation Security Initiative. Relevant stakeholders should identify opportunities to scale and accelerate collection and integration of PAI with traditional intelligence sources.”³⁴
- The Panel of Experts recommends that member states and relevant shipping and transportation companies adopt a thorough system for checking consignees, bearing in mind the risk of transshipment.

In conclusion, given how important luxury goods are to the regime, robust sanctions enforcement in this space offers a powerful legal instrument for law enforcement, regulators, companies to prevent abuse from North Korean illicit activity. Efforts to disrupt the operational networks that the North Korean regime requires to maintain its strategic procurement capability will personally frustrate Kim Jong Un, whose access to luxury goods, including well-tailored suits (image 2), likely acquired in Singapore or Hanoi during a meeting with President Trump, will be hampered as he prioritizes the development of the country’s weapons programs above the needs of North Koreans.

Image 2. Chairman Kim Jong Un at anniversary parade



Source: Rodong/Sinmun/KCNA

³³ Kuo and Arterburn, “Lux & Loaded.”

³⁴ Kuo and Arterburn, “Lux & Loaded.”

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