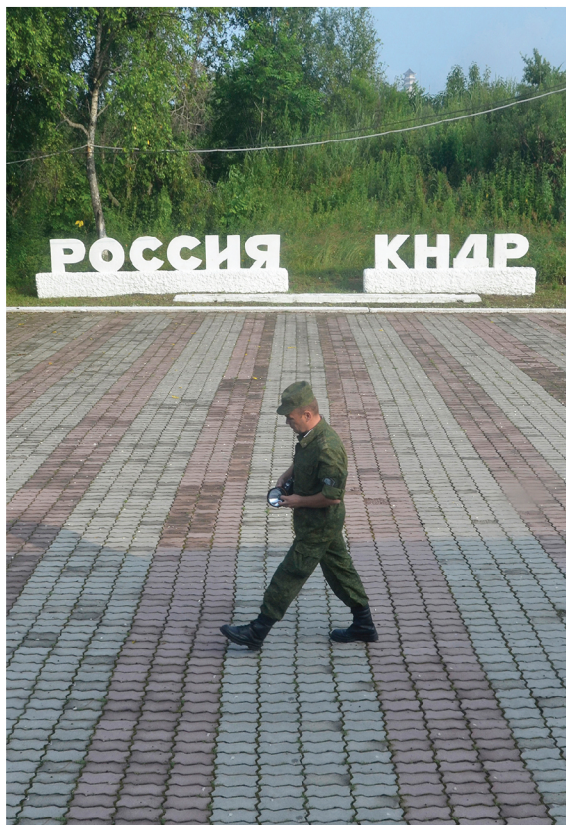


ASAN REPORT

The Rise of Phantom Traders: Russian Oil Exports to North Korea

THE ASAN INSTITUTE FOR POLICY STUDIES

JULY 2018



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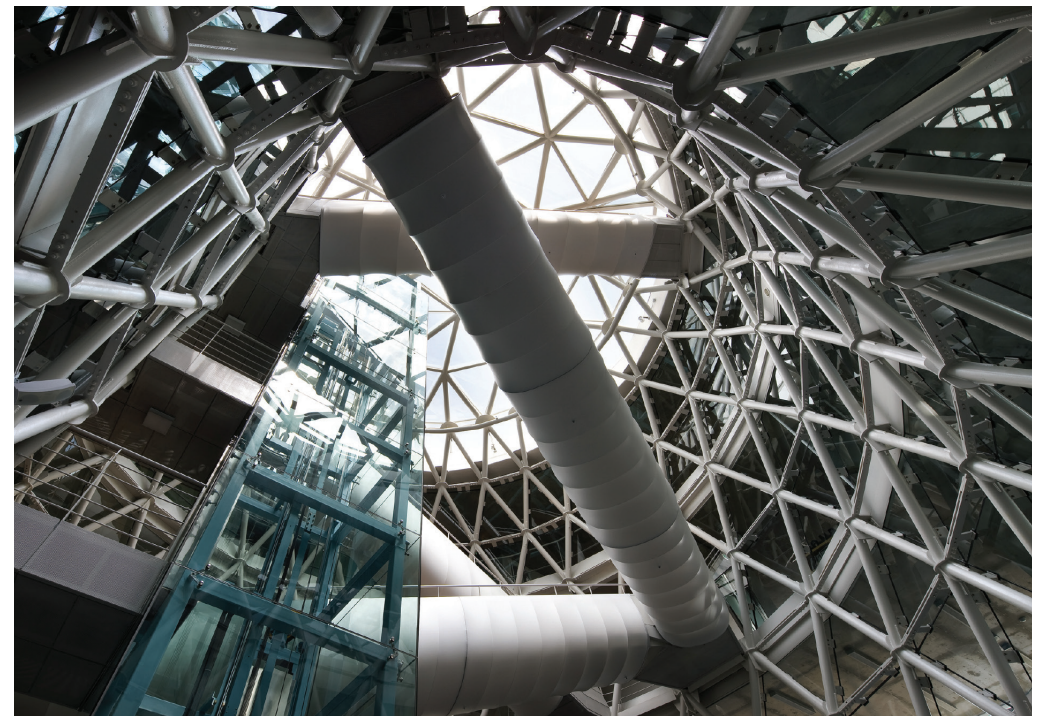
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The Asan Institute for Policy Studies

About

The Asan Institute for Policy Studies is an independent, non-partisan think tank with the mandate to undertake policy-relevant research to foster domestic, regional, and international environments conducive to peace and stability on the Korean Peninsula, East Asia, and the world-at-large.



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Summary

Despite the historic June 12 summit between US President Donald Trump and North Korean Chairman Kim Jong Un, North Korea remains under some of the most stringent international sanctions in the world. Sanctions against North Korea continue to evolve as the world awaits the regime to abandon its nuclear and ballistic missile programs. Following the 2017 nuclear and ballistic missile tests, sanctions against North Korea were expanded to include the country's oil imports via UN Security Council Resolutions 2375 and 2397. The resolutions specifically cap the amount of oil that North Korea can import.

Oil is paramount to the North Korean economy and its strategic implication in the ongoing nuclear crisis couldn't be clearer. Yet it is still not known with certainty which countries are involved in the North Korean oil trade. While it is well known that China is North Korea's main source of oil imports, it is also widely suspected that China may not be the only provider. Russia, as one of the largest oil producers in the world, has often been considered as another likely source, but official trade figures did not bear this out: according to KITA (Korea International Trade Association), which bases its report on Russia's official trade statistics, Russia's oil export to North Korea in 2016 and 2017 were worth mere 1.7 USD million and 4.7 USD million, respectively.

But there are now indications that Russia's role is much larger than what official figures suggest. A former high level official working for North Korea's Office 39 claimed in 2017 that North Korea had been importing between 200,000~300,000 tons of fuel from Russia every year using oil brokers based in Singapore.¹ More recently, oil tankers under a number of different national flags were spotted engaging in ship-to-ship transfer of oil, in a clear bid to avoid sanctions enforcement.² In several of these instances Russian tankers were involved.³

1. VOA News: "Sanctions Pinching North Korea Regime, High-level Defector tells VOA" June 27, 2017 <https://www.voanews.com/a/sanctions-pinching-north-korea-regime-high-level-defector-tells-voa/3918475.html>.

2. "Chinese Ships Spotted Selling Oil to N.Korea" Chosun Ilbo, December 26, 2017. http://english.chosun.com/site/data/html_dir/2017/12/26/2017122601156.html

This report provides for first time empirical evidence of large scale oil export to North Korea from Russia, based on the analysis of the official Russian customs data.⁴ It finds that in the 3 year period between 2015 and 2017, shell companies and one North Korean state enterprise purchased 622,878 tons of Russian oil worth USD 238 million. The entities involved tried to cover up the transactions by falsifying destination countries for the purchases, but the nature of shipping network used and the location where the deliveries took place show that the true destination was North Korea.

The research in the current report is centered on the trade involving Independent Petroleum Company (IPC), a Russian firm that the U.S. Treasury Department targeted in June 2017 for violating restrictions on selling oil to North Korea. IPC has since changed its name.⁵ While IPC conducted business around the world and exported more than \$4 billion of oil between 2015 and 2017, a number of IPC's buyers have been found to have strong links to North Korea and have been indicted for abetting North Korea's procurement of oil. Two have been identified by the U.S. Treasury Department in September 2017, as Velmur Management and Transatlantic Partners.⁶ On February 23, 2018, the Treasury Department added a Taiwanese entity, Pro-Gain Group Corporation, and its owner, Tsang Yung Yuan, to the list of sanctioned entities.

Officially, Velmur Management/Transatlantic Partners and Pro-Gain Group Corporation stand accused of having conducted USD 2 million worth of oil transactions with IPC on behalf of North Korea. But the actual amount of trade between IPC and the shell companies was far larger, according to the trade database of Russian customs reports. The analysis of the Russian trade database also reveals that a North Korean state enterprise, Korea United Petroleum General Corporation, had been purchasing oil

3. "Exclusive: Russian tankers fueled North Korea via transfers at sea – sources" Reuters, December 30, 2017

<https://www.reuters.com/article/us-northkorea-missiles-russia-oil-exclus/exclusive-russian-tankers-fueled-north-korea-via-transfers-at-sea-sources-idUSKBN1EN1OJ>.

4. A private export-import database provider.

5. "Khudainatov reorganizing his assets, dumping IPC brand" Interfax, August 30, 2017 <http://www.interfax.com/newsinf.asp?id=774597>.

6. Velmur and Transatlantic Partners were essentially a partnership, with Transatlantic Partners handling the financial settlement of the oil purchases from IPC.

directly from IPC until 2016. Pro-Gain Group Corporation alone purchased 377,129 tons of oil from IPC valued at USD 126 million in the period between December 2015 and April 2017.

Based on this evidence, this report makes the following conclusions:

- 1) IPC has been one of the largest providers of petroleum products to North Korea until 2017, possibly supplying one third of North Korea's refined oil import every year. This fact was concealed by simply falsifying the country of end destination. IPC's behavior turned suspicious in 2016, when it stopped exporting oil to North Korea directly and instead started to sell oil to shell companies based in Singapore and Taiwan. The amount of oil IPC sold to North Korea between 2015 and 2017 could be worth as much USD 238 million. This far exceeds Russia's official report on its oil exports to North Korea during the same period, which amounted to USD 25 million.
- 2) Among the three IPC buyers known to have shipped oil to North Korea, Pro-Gain Group Corporation was by far the biggest entity in terms of purchases, having purchased possibly as much as 377,129 tons of IPC oil between December 2015 and April 2017. Together with Velmur and the Korea Petroleum United General Corporation, the three purchased 622,878 tons of refined oil from IPC between 2015 and 2017, of which 148,702 tons were imported by land and 474,177 tons by sea.
- 3) While a lot of attention has been paid to at-sea, ship-to-ship transfer of oil, the overland route is an important channel of oil supply for North Korea. 24% of IPC oil sales to the three entities mentioned above entered North Korea through the Khasan-Tumangang rail corridor. This corridor is also used by JV Rason Con Trans, a joint venture between Russian Railways (RZD) and North Korea that makes use of the Rajin port terminal to export Russian coal to Asian markets.⁷ The fact that this arrangement has been exempted from the UN sanctions may have steered international scrutiny away from the land route, making feasible the

7. Oil purchases by JV Rason Con Trans are explicitly reported in the customs records as being destined to North Korea, with Rason as the point of delivery.

covert export of refined oil to North Korea through Khasan/Tumangang.

The findings in the report show that both IPC and North Korea have been able to conduct large scale trade in refined oil, a key strategic commodity, by relying on a network of shell companies located in open trading hubs in Asia. While the main actors were eventually identified by the international community, and both IPC and Pro-Gain Group Corporation ceased trading with each other by the first quarter of 2017, it is likely that covert oil trade between Russia and North Korea is still continuing, facilitated by phantom entities located in open economic hubs in Asia.

Introduction

United Nations Security Council Resolution 2397 came into effect in December 2017 and restricts virtually all North Korean exports by building on previous resolutions that had already stifled 90% of the country's trade.⁸ North Korean imports also received their strictest limits to date. The latest resolution caps North Korean imports at 500,000 barrels of refined petroleum and 4,000,000 barrels of crude oil per year.⁹ It is believed North Korea has been importing around 4 million barrels of crude oil (around 500,000 tons) and 4.5 million barrels of refined oil (around 640,000 tons) annually, mostly diesel and gasoline, according to the US Department of State.¹⁰ While the majority of this trade is believed to originate in China, this report finds that a substantial amount also comes from Russia, which is not declared in the official trade statistics: The report found indications that 622,878 tons of refined oil has been transported to North Korea from Russia between 2015-2017, representing around one third of North Korea's total refined oil imports during the same period.

Since North Korea's first nuclear weapons test in 2006, the UN has levied 10 rounds of sanctions, including four in 2017 alone.¹¹ At the same time, the US maintains a

8. <https://usun.state.gov/remarks/8238>.

9. <https://usun.state.gov/remarks/8238>.

10. <https://usun.state.gov/remarks/7969>.

11. <https://www.treasury.gov/resource-center/sanctions/Programs/pages/nkorea.aspx>.

comprehensive unilateral ban on all North Korean imports and exports. There are indications that these sanctions are beginning to have an effect on the North Korean economy, particularly as China cracks down on cross border trade.¹² But as this report will show, official records do not always reflect the full scope of North Korean dealings. Despite international efforts, at every step, North Korea has found ways to maneuver around the restrictions, aided by a wide network of multinational enablers and middlemen.

North Korea's trade practices have two goals: to acquire foreign currency and to use that currency to import basic supplies for the regime's survival, such as petroleum products, as well as luxury goods for elites and components for their nuclear and ballistic missile programs. While virtually all North Korean financial institutions are cut off from the global financial system directly, these entities funnel money through a network of shell companies and foreign accounts in order to pay for the required goods. Often money will pass through several layers of ownership in multiple countries before the final purchase occurs. In order to bring the goods into the country, North Korea relies on both the land borders between China and Russia, as well as maritime transport. At the key points of overland trade, particularly Dandong in China, traffic has fallen significantly and customs measures have improved, although there are still opportunities for illicit cross border trade. Maritime transport has also become increasingly difficult for the regime, as virtually all of the nation's ships are sanctioned and subject to searches. So to get around these restrictions, North Korea takes advantage of legal and technical loopholes. North Koreans often use "flags of convenience," by which they conceal the ownership of the vessel by registering the ships in third countries. North Korean ships also disable their Automatic Identification System (AIS) transponders in order to hide their location. They will frequently change vessel names and identification numbers, even painting over or altering the numbers on the ships' exteriors.¹³ Recently North Korean ships have been observed transferring oil in open waters via ship-to-ship transfers. These and other practices are commonly used to manipulate the system and acquire the resources that the regime needs to survive.

12. <https://www.wsj.com/articles/north-korea-finally-feels-the-sting-of-international-sanctions-1519923280>.

13. https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Documents/dprk_vessel_advisory_02232018.pdf.

The Exporter: Independent Petroleum Company (IPC)

On June 1, 2017, the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) designated Independent Petroleum Company (IPC; in Russian "NEZAVISIMAYA NEFTEGAZOVAYA KOMPANIYA") and its subsidiary, AO NNK-PRIMORNEFTEP-RODUCT, as being in violation of Executive Order 13722 for shipping more than \$1 million of oil to North Korea.¹⁴ (Note: although IPC has since changed its name to JSC, this report uses the company's former name for the sake of continuity and ease of reference). IPC is a sprawling company with an opaque ownership structure and over \$4 billion in total sales since 2015.¹⁵ Its broader corporate network reaches more than 13 jurisdictions worldwide, including Russia, Cyprus, Bermuda, Luxembourg, and the United Kingdom. Official tax registries indicate that IPC and the subsidiary sanctioned by OFAC in June 2017 are not the parent companies of this business empire, but are in fact low level entities that have obscured their ownership through layers of shell companies.¹⁶ It is unclear if OFAC intended to sanction the parent IPC or the subsidiary IPC, but the result has been that the majority of the IPC network remains in operation. At the top of the structure is Eduard Yurievich Khudainatov, the former head of Rosneft. Following the U.S. Treasury Department sanction of IPC, Khudainatov told a Russian news agency, "I am absolutely shocked. I was especially struck by the US administration linking my company to the North Korean nuclear programme – I would not have had the imagination to invent such a thing."¹⁷

As of September 2017, IPC's ownership structure was as follows (sanctioned entities in bold):

1. **EDUARD YURIEVICH KHUDAINATOV** was the 100% shareholder of **OOO NEZAVISIMAYA NEFTEGAZOVAYA KOMPANIYA-HOLDING**.¹⁸

14. <https://www.treasury.gov/press-center/press-releases/Pages/sm0099.aspx>.

15. Russian Customs Data.

16. Russia Federal Tax Registry.

17. <https://newsbase.com/topstories/washington-slaps-sanctions-independent-russian-producer>.

18. Russia Federal Tax Registry.

2. OOONEZAVISIMAYANEFTEGAZOVAYAKOMPANIYA-HOLDING was the 100% shareholder of Cypriot company IPC (INDEPENDENT PETROLEUM COMPANY) HOLDINGS CY LIMITED.¹⁹
3. IPC (INDEPENDENT PETROLEUM COMPANY) HOLDINGS CY LIMITED was the 100% shareholder of DAUMIER INVESTMENTS LIMITED.²⁰
4. DAUMIER INVESTMENTS LIMITED was the 100% shareholder of GELTOME LTD.²¹
5. GELTOME LTD was the immediate parent company of ALLIANCE OIL COMPANY LTD, per the 2016 IFRS annual report for ALLIANCE OIL COMPANY LTD published on the company's website in April 2017. It is possible that the ownership has changed since April; however, this cannot be confirmed until the 2017 annual report is released later this year.
6. ALLIANCE OIL COMPANY LTD was the sole shareholder of AO NEFTEGAZHOLDING (f.k.a. AO NNK-AKTIV), per the 2016 IFRS annual report for ALLIANCE OIL COMPANY LTD published on the company's website in April 2017. It is possible that the ownership has changed since April; however, this cannot be confirmed until the 2017 annual report is released later this year.
7. AO NEFTEGAZHOLDING (f.k.a. AO NNK-AKTIV) was the parent company of both **INDEPENDENT PETROLEUM COMPANY** and **AO NNK-PRIMORNEFTEPRODUCT**, per the 2016 IFRS annual report for AO NEFTEGAZHOLDING (f.k.a. AO NNK-AKTIV) published on the company's website in April 2017. It is possible that the ownership has changed since April; however, this cannot be confirmed until the 2017 annual report is released later this year.

19. Cyprus Registrar of Companies and Official Receiver.

20. Cyprus Registrar of Companies and Official Receiver.

21. Cyprus Registrar of Companies and Official Receiver.

Figure 1. IPC Headquarters in Moscow²²



22. Source: Google Maps/Street View.

The Rise of Phantom Traders

Russian custom records show that the amount of oil IPC exported to various North Korean shell companies far exceeds the \$1 million highlighted by OFAC and that the illicit trade did not stop with the designation.²³ Back in 2015, IPC sold more than \$76 million, or 166,000 tons, of refined oil directly to a North Korean company called Korea Petroleum United General Corporation (KPUGC), which listed their headquarters in the Rakrang District of Pyongyang.²⁴ As this company does not show up in any sanctions list, it is likely a front for North Korea's Ministry of Crude Oil Industry, which was sanctioned on January 24, 2018.²⁵ But in 2016, this kind of flagrant dealing with a North Korean state entity comes to a full stop, likely in order to avoid increased scrutiny by the international community. Instead, oil is exported through a network of shell companies that facilitate masking of the destination of shipments that went to North Korea.

On August 22, 2017, the U.S. District Court, District of Columbia filed a complaint against two Singapore-based companies for laundering money on behalf of North Korean banks through the U.S. financial system in order to pay for oil shipments from IPC.²⁶ According to the complaint, the companies, Transatlantic Partners Pte. Ltd. and Velmur Management Pte Ltd., were operating on behalf of North Korea's state owned Foreign Trade Bank (FTB), which had been sanctioned by the U.S. Treasury Department in March 2013.²⁷ Transatlantic served as a front company for FTB and would transfer money to Velmur, who then bought the oil from IPC. The practice was widespread, and these were not the only companies involved. The complaint read:

“The scheme to launder funds is as follows: (1) designated North Korean banks direct front companies, such as Transatlantic, to send U.S. dollars to Velmur; (2) the front companies, such as Transatlantic, wire U.S. dollars to Velmur; (3) Velmur then

wires the U.S. dollars to IPC; and (4) IPC then ships the gasoil to North Korea.”²⁸

Altogether, entities in the IPC network sold nearly \$75 million of oil to Velmur/Transatlantic between September 2016 and July 2017. Both Velmur and Transatlantic were owned by ethnic Russians with Russian or South African citizenship, who continue to own other businesses that bear similar characteristics of shell companies, including one that shares the same address as Velmur.²⁹

But Velmur was just the latest of the phantom traders purchasing oil from IPC for North Korea. Before and while the Velmur trades were taking place, another company had been buying much larger quantities of oil from IPC than Velmur: Pro-Gain Group Corporation (PGGC). Like Velmur, PGGC appears to be a shell company, in that it has no website and at least one of the addresses it provides cannot be found in official databases. The characterization of PGGC by the US government also paints a rather underwhelming picture of the firm: according to the U.S. Treasury Department, PGGC is owned by Taiwan citizen Tsang Yung Yuan.³⁰ Tsang was sanctioned on February 23, 2018 after attempting to engage in a \$1 million deal with IPC in 2017 via another company he owns, Kingly Won International Co., Ltd. According to the Treasury Department's press release, Tsang “coordinated North Korean coal exports with a Russia-based North Korean broker, and he has a history of other sanctions evasion activities.”³¹ Tsang and Pro-Gain Group Corporation was further sanctioned by the UN on March 30, 2018 for “illicit transfers of DPRK coal.”³²

Two addresses for PGGC listed by the Treasury Department match those in the IPC trade data. One is in Taipei, which Bloomberg lists as the headquarters of a Pro-Gain Industrial Co Ltd.³³ The other address is in Samoa, at a building called Le Sanalele Complex [Figure 2], although official records do not contain evidence of a company called Pro-Gain in Samoa. According to trade records, approximately two-thirds of

23. Russian customs data.

24. Russian customs data.

25. <https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20180124.aspx>.

26. <https://www.justice.gov/usao-dc/press-release/file/992171/download>.

27. <https://www.treasury.gov/press-center/press-releases/Pages/jl1876.aspx>.

28. <https://www.justice.gov/usao-dc/press-release/file/992171/download> p. 18.

29. Singapore Accounting and Corporate Regulatory Authority.

30. <https://home.treasury.gov/news/press-releases/sm0297>.

31. <https://home.treasury.gov/news/press-releases/sm0297>.

32. <https://www.un.org/press/en/2018/sc13272.doc.htm>.

33. <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=330422690>.

the PGGC purchases were from the address in Samoa, while the remaining third were registered at the Taipei address.³⁴

Figure 2. Le Sanalele Complex³⁵



Le Sanalele Complex in Apia, Samoa. A company registered at this location purchased more than \$126 million of oil from IPC.

Yet, a completely different picture of PGGC emerges from the Russian customs database. PGGC has been a major player in the North Korean oil trade between 2015 and 2017. In total, PGGC purchased 377,129 tons of oil from IPC valued at USD 126 million between December 4, 2015 and April 21, 2017. PGGC’s purchases peaked in 2016, when it bought more 340,000 tons of refined oil from IPC. Interestingly, PGGC was not the biggest buyer in 2015 or in 2017. PGGC’s position as the top IPC oil buyer lasted slightly more than a year. In fact, each year a different entity made up for the bulk of oil purchases from IPC, as shown in Table 1.

Table 1 shows that KPUGC was the largest oil purchaser among the three in 2015, followed by PGGC in 2016, and Velmur in 2017. Table 2, which shows the relative share for each entity, also indicates that the three firms completely monopolized the imports of IPC oil in the year in which they were respectively the top purchasers of

34. Russian customs data.

35. Source: <https://www.facebook.com/Le-Sanalele-Complex-1446813902213997/>.

Table 1. Total oil purchases (in tons), by importing firms

Tons	2015	2016	2017	Total
KPUGC	165,275	833	0	166,109
PGGC	27,550	340,896	8,683	377,129
Velmur	0	5,081	74,560	79,641
	192,825	346,810	83,244	622,878

IPC oil. This pattern is possibly due to a scheme on the part of either North Korea or IPC to alternate among different shell companies to obfuscate the oil trades between IPC and North Korean entities.

Table 2. Relative share of total purchases (tons), by importing firms

% Total	2015	2016	2017	Total
KPUGC	85.7%	0.2%	0.0%	26.7%
PGGC	14.3%	98.3%	10.4%	60.5%
Velmur	0.0%	1.5%	89.6%	12.8%
	100%	100%	100%	100%

Again, PGGC-IPC trades can be split into two categories according to the modes of shipment: Almost 70% of the shipments were registered under the Samoan address and listed their point of delivery as the port of Vladivostok.³⁶ This implies that the oil was shipped via oil tanker to its destination, listed in the records as China. The rest were registered in Taipei and listed the point of delivery as Khasan, a village on the Tumen River at the Russian-North Korean border. Khasan has long been the point of entry for goods coming into North Korea via Russia.

36. Russian customs data.

The trade records show that the countries of destination for the oil deliveries arriving in Khasan were China. But Khasan does not have a port for oil tankers. In fact, all it has is a rail gateway to Tumangang, a North Korean village across the so-called Friendship Bridge that spans the Tumen River. This suggests the final destination of oil was Tumangang (village) in North Korea rather than China or Taiwan. PGGC's modes of shipment show the same pattern as previous IPC's oil shipments to Korea Petroleum United General Corporation in 2015: around 70% of the shipments were sent by sea and the rest by rail. The fact that around 30% of IPC oil shipments to Korea Petroleum United General Corporation listed Tumangang as the final point of delivery indicates that listing of Khasan as the delivery point was an effort by either IPC or PGGC to mask the final destination for the oil shipments.

In fact, in all of IPC's trade data since 2015, spanning dozens of countries and thousands of transactions, only two companies listed Khasan as the point of delivery, PGGC and Velmur. This further strengthens the case that the PGGC transactions, at least those leaving from Khasan, were intended for North Korea. The amount of oil delivered to Khasan was 88,663 tons, representing 28% of PGGC's total export to North Korea during the period the shipments were recorded.³⁷

The Shipping Connection

The large number of oil shipments that were delivered at Khasan and Tumangang for Velmur, PGGC, and Korea Petroleum United General Corporation are a clear indication that Russian oil that was supposedly destined for China and other legal destinations was actually meant for North Korea. Yet these shipments constitute only around 30% of the total, the rest of the shipments having Vladivostok listed as the point of delivery. It would require an additional layer of evidence to prove that shipments by sea, which add up to 308,136 tons, were indeed destined for North Korea rather than China as listed in all the customs records of PGGC purchases.

Thankfully, there is strong evidence that PGGC's maritime oil shipments were meant for North Korea. Although PGGC probably made use of several oil tankers, one particular ship left tell-tale signs linking PGGC with North Korea. According to Equasis Ship Registry, the same vessel that is currently North Korean-flagged oil tanker Kum Un San 3 (IMO No. 8705539) was owned by an entity named Pro Gain Group Corp from April 25, 2015 until April 07, 2016.³⁸ Although this entity has a slightly different spelling from PGGC, ownership records indicate that they are in fact the same entity.

At the time, the ship that would eventually be called as Kum Un San 3 was operating under a Cambodian flag with the name Yong Won, which in turn was managed by Victory International Ship Management Co Ltd, based in Dalian, China. According to NK News' Live North Korea Ship Tracking database, the Yong Won exhibited behavior that strongly suggests it was involved in illicit oil transfers during the time that PGGC began purchasing oil from IPC.³⁹

The suspicious pattern becomes even more noteworthy given how prosaic the ship's previous travels were. In the six months prior to Pro-Gain Group Corp gaining ownership of the Yong Won in April 2015, the vessel is shown to have stayed primarily in South Korean waters, according to its AIS signal, which was activated almost every day.⁴⁰ At the time, the ship was owned by a South Korean company and was called the Kyung Dong Frontier. But once the ship was purchased by PGGC, its behavior changed. Its flag switched to Cambodia, and its name changed to Yong Won. Between April 25, 2015 and December 19, 2015, its AIS location places it in and around several ports, including Dalian and Shanghai in China, Taichung in Taiwan, Vladivostok in Russia, and Nampo and Rajin in North Korea. During this time, it continued to activate its AIS signal almost daily, with over 100 locations plotted during this time.⁴¹ Then, in late December 2015, trade between PGGC and IPC began in earnest. Around that same time, beginning on December 20, 2015, just four days before PGGC began to steadily purchase oil from IPC using Vladivostok as the point of delivery, the Yong Won's behavior became even more suspicious. It stopped listing a port of destination for its

38. Equasis Ship Registry, accessed 1 Feb 2018.

39. <https://www.nknews.org/pro/north-korea-ship-tracking/>.

40. <https://www.nknews.org/pro/north-korea-ship-tracking/>.

41. <https://www.nknews.org/pro/north-korea-ship-tracking/>.

37. Russian customs data.

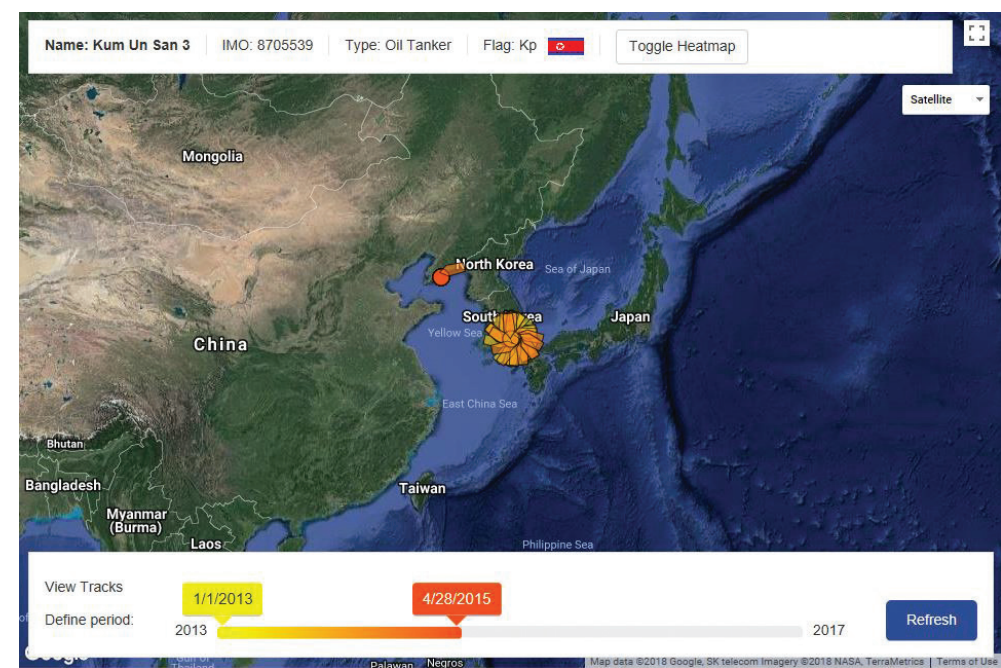
journeys, registering only Vladivostok as its port of departure. For the next four months, the ship turned on its AIS signal only 20 times, and its locations were exclusively within the waters around the Korean peninsula, including the North Korean ports of Wonsan and Rajin, as well as Vladivostok.

The Yong Won was sold to a Pyongyang-based company, Dawn Marine Management Co Ltd, which renamed it Kum Un San 3 and changed its flag to North Korea on April 07, 2016.⁴² As soon as the vessel was sold it once again began listing a port of destination, and its movements shifted almost exclusively to Chinese ports. Yet Kum Un San 3 (a.k.a. Yong Won a.k.a. Kyung Dong Frontier) continued to engage sporadically in the Russian oil trade for PGGC even after the ownership transfer. Sometimes Kum Un San 3 left the trace of its travels back and forth Russia. According to the “Administration of Maritime Ports of the Primorsk Territory and Eastern Arctic” (АДМИНИСТРАЦИЯ МОРСКИХ ПОРТОВ ПРИМОРСКОГО КРАЯ И ВОСТОЧНОЙ АРКТИКИ), Kum Un San 3 visited the port of Vladivostok at least twice, once on June 19th 2016, sailing from Chongjin, and again on August 19th 2016, this time hailing from Songjin a.k.a. Kimchaek. These North Korean cities are known for hosting a major petrochemical plant and a large steel mill complex, respectively. Kum Un San 3’s August visit followed a recorded PGGC oil purchase of 2,400 tons from an IPC subsidiary that took place on August 16th, and the amount of oil purchased was under Kum Un San 3’s dead weight of 2,889 tons. As for the absence of a corresponding purchase record for Kum Un San 3’s earlier visit in June could be attributed to the fact that a significant number of transactions in the IPC trade database lacks buyer’s information. The June visit could correspond to one of the transaction records with missing buyer’s information, and therefore unable to produce a match.

Eventually, both Dawn Marine and the Kum Un San 3 were sanctioned by the U.S. Treasury Department in November 2017 for “operating in the transportation industry in North Korea.”⁴³ Based on the evidence that, during its time owned by PGGC, the Kum Un San 3 was concealing its port of destination, sporadically using its AIS, and appearing in Wonsan, Rajiin, and Vladivostok is strong evidence that it was being used to transfer illicit shipments of oil to North Korea. The fact that this behavior began

within days of PGGC’s trade with IPC suggests that the final destination for PGGC’s oil shipments from Vladivostok was North Korea and not anywhere else. Had the end destinations been more innocuous, there would be little need for PGGC to obfuscate Kum Un San 3’s position out in the open ocean.

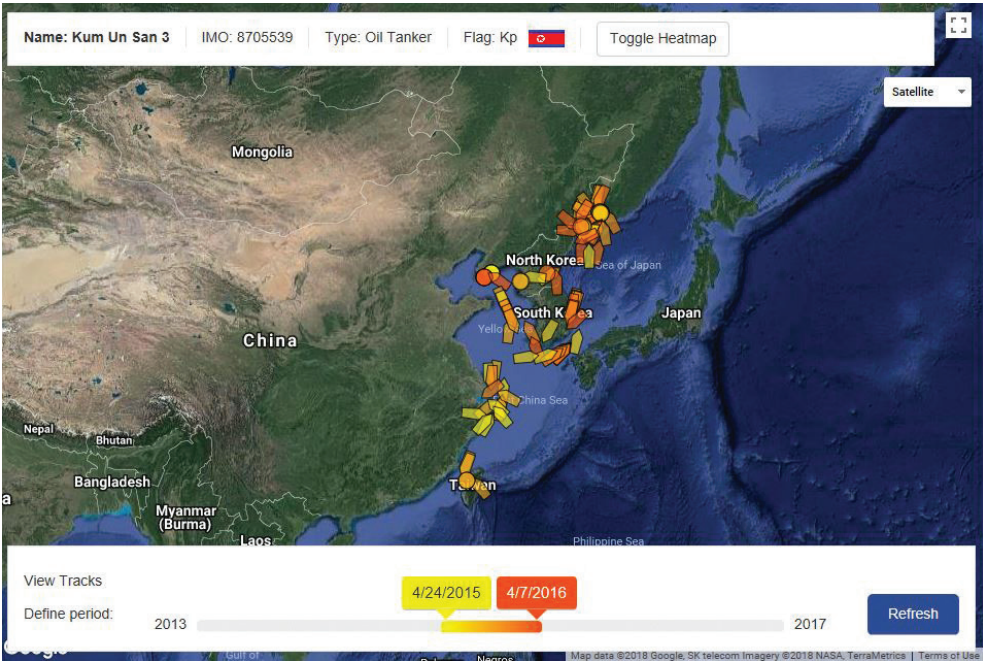
Figure 3. Movements of Yong Won a.k.a. Kum Un San 3



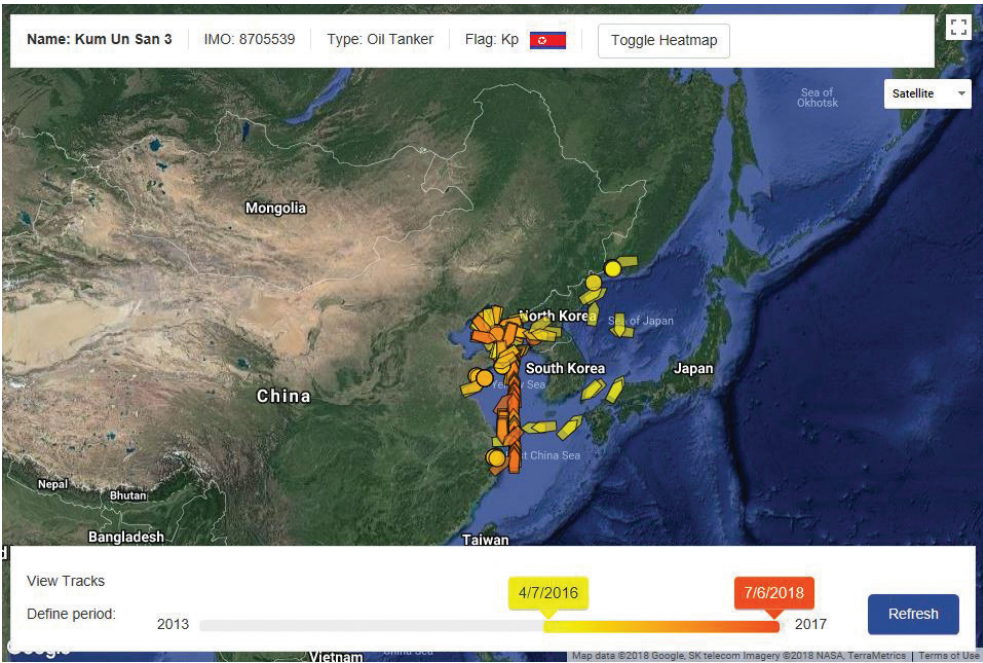
Prior to purchase by Pro Gain (Kyung Dong Frontier)

42. Equasis Ship Registry, accessed 1 Feb 2018.

43. <https://www.treasury.gov/press-center/press-releases/Pages/sm0220.aspx>.



During its time owned by Pro Gain (Yong Won)



After being owned by Pro Gain (Kum Un San 3)

The Connection between Pro-Gain Group Corporation and Victory International Ship Management

The Dalian-based company that managed Kum Un San 3 on behalf of PGGC, Victory International Ship Management (Dalian) Co Ltd, is 80% owned by Chinese citizen Zhou Shengli.⁴⁴ The company was incorporated on July 30, 2007. According to online records, Victory International manages 32 vessels and is involved in ship inspections and certifications.⁴⁵ Victory International and Zhou have a long history in dealing with North Korean vessels and illicit activities. On May 15, 2017, NK News reported that Zhou was one of four Chinese citizens with known links to North Korean sanctions evasion networks that were authorized by the government of Sierra Leone to register foreign vessels in the country.⁴⁶ This is one of the ways by which North Korea acquires the so-called “flags of convenience” to mask the ownership of their ships. Victory International is also authorized to register ships with Panamanian and Cambodian flags, two countries that North Korea has traditionally used to obfuscate ownership.⁴⁷ According to the Sierra Leone Maritime Administration (SLMARAD), Zhou listed his address as the same location used by Victory International and Pro Gain Group Corp. Two of the other men listed have been mentioned by the UNSC Panel of Experts for repeated involvement in North Korean weapon proliferation activities.

Zhou and Victory International’s connection to North Korean vessels themselves is also revealing. In addition to the Kum Un San 3, Victory International owned or managed at least two other ships with ties to North Korean networks. The first, Harmony Source (IMO No. 9129366), is a Panama-flagged cargo ship managed by Victory International in 2013.⁴⁸ According to NK News, the Harmony Source is a “28,572 ton cargo ship

44. Liaoning Administration for Industry and Commerce, accessed 1 Feb 2018.
45. <https://baike.baidu.com/item/大连胜利国际船舶管理有限公司>.
46. <https://www.nknews.org/2017/05/red-flags-the-african-registry-helping-n-koreas-smugglers-avoid-sanctions/>.
47. <http://company.zhaopin.com/CC438172018.htm>.
48. <https://www.nknews.org/2017/05/red-flags-the-african-registry-helping-n-koreas-smugglers-avoid-sanctions/>.

with previous links to illicit company networks in Hong Kong. Former owners include Sea Star Ship, a company in the Kasatsugu Network which has helped North Korea evade sanctions.⁴⁹ The other vessel, Jang Gyong (IMO No. 8203933), is a DPRK-flagged cargo ship managed by Victory International from 2012 until 2016.⁵⁰ During that time, the vessel used a Panamanian flag of convenience and was called the Yu Horng. Around the same time that Victory International sold the Yong Won (a.k.a. Kum Un San 3) to Dawn Marine Management Co Ltd, it also sold the Yu Horng (a.k.a. Jang Gyong) to the same company.⁵¹ Like Kum Un San 3, the Jang Gyong was also sanctioned by the U.S. Treasury Department on November 21, 2017.⁵² This pattern of behavior indicates that Victory International has had an important role in assisting North Korea's external trade network, including the procurement of oil.

Conclusion

North Korea's use of foreign enablers has allowed them to continue to evade sanctions and acquire the oil that they need to keep the economy afloat. A Russian oil producer and exporter, Independent Petroleum Company (IPC), has allowed millions of dollars worth of oil to flow into North Korea both over land, via Khasan, and over sea from Vladivostok and other nearby ports, where ships with connections to North Korean networks have been able to falsify documents to obfuscate their intended destination. Although IPC is currently under U.S. Treasury Department sanctions, much of the network remains free to operate as shown above. The analysis of Russian customs data shows that between 2015 and 2017, Taipei-based Pro-Gain Group Corporation, which is owned by a Taiwanese national with ties to North Korean sanctions evasion measures, purchased 377,129 tons of oil from IPC. Of these, around 25% of the total was delivered to Khasan on the North Korean border. Two other entities, one offshore and the other North Korean, did also purchase oil from IPC but to a lesser extent, although similar

percentage of their purchases were delivered to North Korea using the overland route through Khasan. PGGC also owned a Panamanian-flagged ship that exhibited suspicious behavior starting around the time of PGGC's business with IPC. This ship, carrying a flag of convenience, was managed by Victory International Ship Management (Dalian) Co Ltd, whose owner, Chinese citizen Zhou Shengli, has been connected to North Korean sanctions evasion networks in the past.

Based on the strength of IPC trade data and its analysis, this report makes the following conclusions:

- Russia's Independent Petroleum Company has been a, if not the, major provider of oil to North Korea in the period between 2015 and 2017. IPC export to North Korea through the three entities mentioned in this report amounted to 622,878 tons, worth as much as USD 238 million. IPC and the connection with shell companies back up the contention by a recent North Korean high level defector who revealed that North Korea has been importing between 200 to 300 thousand tons of oil from Russia annually.
- Although Korea Petroleum United Group Corporation, Pro-Gain Group Corporation, and Velmur Management reported to the Russian customs authorities their purchases from IPC were all destined for China or a third country, 148,702 tons of the total were delivered to North Korea through Khasan. The physical constraint of Khasan as a delivery point leaves little doubt that the true destination of these purchases was North Korea.
 - KPUGC reported its overland delivery point as Tumangang (North Korea) to the Russian customs authority, even though in the paperwork it indicated that the final destination was China.
- While there is no conclusive proof that all 474,177 tons of oil purchased by Korea Petroleum United Group Corporation, Pro-Gain Group Corporation, and Velmur Management and delivered by sea were meant for North Korea, there are evidences that the three were specialized entities in the wider North Korea's scheme to procure Russian oil.
 - The three entities' respective records of oil purchases from IPC and export to

49. <https://www.nknews.org/pro/north-korea-ship-tracking/>.

50. http://www.tokyo-mou.org/inspections_detentions/psc_database.php.

51. http://www.tokyo-mou.org/inspections_detentions/psc_database.php.

52. <https://www.treasury.gov/press-center/press-releases/Pages/sm0220.aspx>.

North Korea lasted about a year each. Their trade activities were staggered with little to no overlap in terms of time, as if they were passing the baton in a relay race.

- PGGC suddenly ceased oil purchases from IPC upon increased scrutiny by the international community in 2016, even though officially it had never exported oil to North Korea.
- PGGC had connections with existing foreign enablers of North Korea’s external trade, and they owned a well-known North Korean oil tanker ship that later engaged in a ship-to-ship oil transfer scheme.
- While much attention has been paid to ship-to-ship transfer of oil at sea, the use of the land route for oil export with falsified final destinations has not received similar level of scrutiny. This indicates that overland trade in oil is still a vital part of North Korean sanctions evasion measures.
- Victory Independent Ship Management (Dalian) Co Ltd has served an important role in the North Korean external economic network, by managing and issuing “flags of convenience” for North Korean-linked ships. While it has not been sanctioned by the international community, a closer scrutiny of the company’s commercial activities is merited.

North Korea will continue to find ways to skirt the international sanctions regime as long as foreign enablers are willing to engage with them. These enabling entities and individuals not only hail from the usual suspect countries, i.e., China and Russia, but also from the open trade economies of Singapore and Taiwan. Identifying and isolating these entities requires multilayered support and cooperation between transnational institutions, national governments, law enforcement, and the financial sector. Measuring the official trade statistics with North Korea is not enough to provide a complete picture of North Korea’s trade, for as this report shows, it is relatively simple for companies to falsify records that conceal the intended destination or purchaser of resources that the North Korean regime needs to survive and to continue to develop its nuclear and ballistic missile programs.

Appendix: Tables

Table: IPC oil export to North Korea

Tons of Oil	2015	2016	2017	Total
Land	42,026	88,066	18,610	148,702
Sea	150,800	258,743	64,634	474,177
	192,825	346,810	83,244	622,878

Revenue (USD)	2015	2016	2017	Total
Land	19,583,733	31,742,448	8,176,724	59,502,905
Sea	65,791,118	82,061,148	30,740,194	178,592,460
	85,374,851	113,803,596	38,916,918	238,095,365

Table: Total oil export (tons) by shipping method, by importing firms

KPUGC				
Tons of Oil	2015	2016	2017	Total
Land	37,026	0	0	37,026
Sea	128,250	833	0	129,083
	165,275	833	0	166,109

PGGC				
Tons of Oil	2015	2016	2017	Total
Land	5,000	88,066	1,232	94,298
Sea	22,550	252,829	7,452	282,831
	27,550	340,896	8,683	377,129

Velmur				
Tons of Oil	2015	2016	2017	Total
Land	0	0	17,378	17,378
Sea	0	5,081	57,182	62,263
	0	5,081	74,560	79,641

Table: Total oil sales (USD), by importing firms

Total oil sales (USD)					
		2015	2016	2017	Total
KPUGC	USD	76,326,251	255,613	0	76,581,864
PGGC	USD	9,048,600	112,197,934	5,356,826	126,603,360
Velmur	USD	0	1,350,050	33,560,091	34,910,141

Overland total (USD)					
		2015	2016	2017	Total
KPUGC	USD	18,049,183	0	0	18,049,183
PGGC	USD	1,534,550	31,742,448	551,343	33,828,341
Velmur	USD	0	0	7,625,381	7,625,381

Maritime total (USD)					
		2015	2016	2017	Total
KPUGC	USD	58,277,068	255,613	0	58,532,681
PGGC	USD	7,514,050	80,455,486	4,805,484	92,775,019
Velmur	USD	0	1,350,050	33,560,091	34,910,141

Table: Total oil purchases (in tons), by importing firms

Tons	2015	2016	2017	Total
KPUGC	165,275	833	0	166,109
PGGC	27,550	340,896	8,683	377,129
Velmur	0	5,081	74,560	79,641
	192,825	346,810	83,244	622,878

Table: Relative share of total purchases (tons), by importing firms

% Total	2015	2016	2017	Total
KPUGC	85.7%	0.2%	0.0%	26.7%
PGGC	14.3%	98.3%	10.4%	60.5%
Velmur	0.0%	1.5%	89.6%	12.8%
	100%	100%	100%	100%

Table: Total overland export of oil (tons), by importing firms

Tons of Oil	2015	2016	2017	Total
KPUGC	37,026	0	0	37,026
PGGC	5,000	88,066	1,232	94,298
Velmur	0	0	17,378	17,378
	42,026	88,066	18,610	148,702



The Rise of Phantom Traders:
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