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Article

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Due Diligence: Sanctions and Insurance

By L Burke Files, CDDP, President, Financial Examinations & Evaluations, Inc (01/12/2012)

Iran used to sail its ships under the flags of Iran, Cyprus and Malta. As these ships came to be known as beneficially owned or operated by Iran, Iran reflagged these ships in Tanzania and Tuvalu and reportedly some with Hong Kong. National Iran Tanker Corporation (NITC) has been playing this game with the rest of the world trying to hide individual tankers and disguise the ownership and nature of its fleet. The same has been true for the Islamic Republic of Iran’s Shipping Lines (IRISL) that handles the non-oil merchant marine needs of Iran.

The EU and the US have taken a dim view of reflagging and have forced both Tanzania and Tuvalu in July to deregister the reflagged ships. In September the Korean Shipping Registry chose to no longer certify Iranian ships. Some of these ships found their way to the Hong Kong ships registry. Just recently, within the last few weeks Hong Kong was convinced to unilaterally deregister 19 vessels. In addition the shipping services Bureau Veritas, Germanischer Lloyd, the Russian Maritime Register of Shipping, and Class NK have also stopped certifying known or suspect Iranian ships and even Moldova and Mongolia have ended their reflagging of Iranian vessels. Which flag is next, I am not certain, but I am sure it will not be the white flag.

In the meantime those Iranian Vessels still plying the seas have been using a number of tricks to disguise the ship as well as the cargo. Many ships have been reflagged and renamed enroute. This old game is reasonably effective as by the time they reach a new port to offload oil, the ships name or flag is not an issue. Another ploy is to ship oil to a bunker ship and offload the oil to a bunker ship and re-title the origin of the oil through a series of bills of lading and bunker oil sales contracts. The oil can now be purchased and sold and picked up for delivery in a non-Iranian ship with few the wiser for the ruse.

So why don’t the countries of India, South Korea, Japan send their own tankers to Iran to pick up the oil they need? Simple, the insurers are prohibited from insuring the oil that comes from Iran or the ships that are transporting the Iranian oil. Why not run without insurance? Well that is what many of the Iranian tankers do, however without insurance against, collision, grounding, contact damage, machinery failure, pollution, fire, etc... they are not allowed in some waters and would not be at all allowed in any non-Iranian ports.

Iran has resorted to two methods around these problems. One, front people and companies have been looking to set up captive insurance companies and or re-insurance in many of the IFC locations. The objective of these companies is to offer insurance for those companies engaged in bottomery finance for a variety of cargos and peril. If one were to look at the actual policies or terms of re-insurance backing up these policies one might see that the policies cover not just the financed contents but also the vessel in which the loads are carried, any vessel, - vessel insurance by another means. There are policies suspected to have already been purchased on ships and cargo subject to embargos. The second scheme has to set up Kish P&I a privately held independent club of ship owners in Iran. The club appears to contain 50 members but all members are owned by NITC. The club has insured its member ships - forty-four to be exact, and oddly enough that is just about the exact number of NITC’s oil tankers. Forty-four policies that cover ships up to US\$500,000 and the rest of the coverage up to the mandatory minimums on most oil tankers of one billion through a reinsurance program headed by National Insurance of Iran.

So let’s see, the ship are owned by Iran, the club members are all companies owned by



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Iran and the insurance is controlled by and backed by entities owned by Iran or by National Insurance of Iran. A Ferris Wheel of chicanery whereby a single party is split up under some form of fiscal personality disorder with different entities and assets all in different seats in a shallow ruse to make them look independent and viable.

Make no mistake, the authorities are looking very hard at each and every policy proffered as coverage. The US and EU are looking at the policy's origins, and who and what reinsurance backs the policy. The US and EU are looking to come down viciously on any professional who aids and abets Iran shipping in any way whatsoever.

One needs to do one's homework to insure that the ultimate beneficiary of the coverage is not a sanctioned country, vessel or cargo. The world is not just "upset" with Iran, it is a war and we are just one step short of a shooting war - it is that serious.

The EU and US Congress took very serious aim at Tanzania and Tuvalu for reflagging ships by threatening to impose sanction on a nation for their actions - what chance does a service provider have against that clear and amassed will?

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