
Editorial: Towards meaningful action against proliferation financing

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The financial action task force (FATF) standards are designed to combat money laundering, terrorist financing and proliferation financing. Threats of Russian employment of nuclear weapons in its conflict with Ukraine, continuing North Korean ballistic missile testing and expansion of its intercontinental ballistic missile capacity and concerns about the availability of uranium on the black market heighten the relevance of effective counter proliferation financing measures. This is however also the area where FATF standards are at their weakest, mainly due to a lack of global consensus among nuclear powers.

Since 1990, the FATF framework secured remarkable standardisation success. More than 200 jurisdictions committed themselves politically to meeting the FATF standards. They agreed to be reviewed by their peers for technical compliance with the standards as well as the effectiveness of their AML/CFT/CPF measures, and they also subjected themselves to grey- and blacklisting should they fail to meet key requirements.

This level of commitment is not easily achieved at a global level. Leading human rights instruments of the United Nations, for example, have not achieved similar levels of global support and implementation. A key driver of this level of agreement and commitment in the 1990s was the high measure of consensus that drug trafficking and organised crime posed threats that required global, standardised responses.

The events of 9/11 galvanised a similar response to terrorist financing, building off the international agreement reached two years earlier to suppress the financing of terrorism. While the International Convention for the Suppression of the Financing of Terrorism was adopted in December 1999, only a handful of countries had actually signed up to it before the attacks of 11 September 2001. Within weeks of the attacks, the FATF's scope broadened to include combating of financing of terrorists (CFT), and by early 2002, enough countries had signed the Convention to trigger its entry into force. At the start of 2023, the Convention had 132 signatories and 189 state parties.

From 2007, the FATF began to turn its attention to combating the financing of weapons of mass destruction (CPF). In 2012, the scope of the FATF and its standards were explicitly expanded to include CFT. The level of international agreement about the concept of CFT and the objectives to be attained was, however, much lower than the levels of agreement that underpinned anti-money laundering and even CFT measures. Some countries, generally those who do not have nuclear weapons, would want to see all actions financing weapons of mass destruction (WMD) covered by the global CFT measures. Certain countries with nuclear weapons, including United Nations Security Council (UNSC) members with such weapons, favour a more limited scope that excluded financing of their own nuclear programs. Broader collaboration may have been possible in relation to chemical and biological weapons, but these are clustered with nuclear weapons under the WMD proliferation umbrella.

Pre-2012, the FATF members could therefore only agree on project-related working definitions of CPF. In 2012, for purposes of their incorporation into the FATF standards, FATF's CPF concept was finally defined. Disappointingly, the definition limited the concept to support for proliferation-related targeted financial sanctions (TFS) of the UNSC (PF-TFS). PF-TFS in this context refers in practice to CPF measures supporting the sanctions imposed



by the UNSC on specific individuals and entities linked to the proliferation programs of North Korea and Iran.

The FATF expanded its CPF-TFS measures in 2020 by requiring countries and regulated institutions to undertake PF-TFS risk assessments and adopt appropriate risk mitigation measures to mitigate higher risks. These assessment standards remain tied to UNSC TFS measures. FATF's non-binding guidance issued in 2021 advises, however, that an understanding of broader proliferation and CPF risk may contribute to an improved understanding of PF-TFS risk.

In practice, PF-TFS measures add limited value to the existing AML/CFT, sanctions and proliferation control frameworks of countries. They basically reinforce UNSC-TFS measures that countries, as members of the UN, are already bound to adopt and implement. They do, however, help to sharpen the CPF lens, raise PF risk management awareness and tighten some geographical and technology-related control measures. These benefits, however, are marginal, especially compared to actual work that needs to be done to prevent sensitive technology from falling into the wrong hands and being abused to build and improve WMDs. Frustratingly, the narrow field of PF-TFS is further undermined by actions of major UNSC and FATF members, especially since Russia invaded the Ukraine in February 2022. Russia's arms deals with Iran and the concerns about the involvement of Russian and Chinese entities in sanctions evasions by North Korea pose particular challenges to global CPF-TFS objectives.

The FATF operates by consensus, and there is currently little reason to envisage that its members will reach consensus about a broader CPF scope for its CPF standards. FATF standards are, however, minimum standards, and countries can, and sometimes do, adopt more ambitious measures. Similarly, regulated entities must comply with the law but may also go beyond legal requirements when they design control measures. While politics may constrain political actors, other parties may therefore adopt broader measures that are aligned with their own concerns, threat perceptions and ethics.

AML/CFT/CPF practitioners have the opportunity to design and adopt CPF control measures that meet national legal requirements and international standards but also go beyond TFS to make a meaningful contribution to effective mitigation of global proliferation threats. In many cases, compliance officers may find that broader CPF measures are more aligned with institutional codes of ethics and policies on corporate citizenship than PF-TFS measures.

Officials can also do more to increase the effectiveness of broader CPF measures, for example, by adopting a broad definition of CPF when they undertake a national CPF risk assessment, implementing effective trade and technology controls and enabling effective exchanges of PF risk-related information.

Going beyond current laws and TFS-focused global standards, officials and institutions may help counter some high-risk proliferation actions now. In addition, they will also be putting in place building blocks for a more effective anti-proliferation framework in the future when conditions for global PF collaboration have improved.

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