



Future of Advice podcast

Mitigating sanctions circumvention risks and strengthening global compliance

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Host: Welcome back to the Future of Advice podcast by Deloitte Luxembourg. I am just thrilled to have you joining us today because the mission for this deep dive is absolutely fascinating.

Guest: It really is.

Host: We are taking you straight into the high-stakes, incredibly complex, and sometimes shadowy world of global economic sanctions. More specifically, we are looking at the ingenious—and frankly sometimes shocking—ways these sanctions are circumvented right under the world's noses.

Guest: Right under our noses. Yeah.

Host: We have an incredible stack of research today. It's a comprehensive analysis on mitigating sanctions, circumvention risks, and strengthening global compliance frameworks.

Guest: It's quite the read.

Host: It really is. It is basically a roadmap to understanding how international rules are broken and, more importantly, how the global financial system is fighting back. To truly appreciate the scale of what we're discussing today, we first have to establish what exactly a sanctions regime is mechanically. In the modern geopolitical landscape, sanctions are a key non-military tool. They are used by the international community to influence the behavior of other states, enforce global accountability, and deter unlawful practices without resorting to armed conflict. A huge deal.

Guest: Exactly. They are essentially the heaviest economic levers nations can pull short of military intervention.

Host: Okay, let's unpack this. History shows these levers can be incredibly effective when applied correctly.

Guest: Absolutely they can.

Host: Looking back, there are a couple of defining moments in modern history where sanctions played a critical role—for instance, securing Indonesia's independence from Dutch rule and Nelson Mandela's release. These weren't just administrative penalties or paper-pushing exercises.

Guest: No, definitely not.

Host: There are mechanisms that have literally reshaped the world map and human rights.

Guest: That historical context is vital. We can also see their impact playing out in real time today. Look at the recent economic impact on Russia—the data illustrates the sheer power of these measures.

Host: The numbers are staggering. A 2.1% decline in Russia's GDP in 2022 alone.

Guest: Wow.

Host: Furthermore, compared to other commodity-exporting countries over the same period, Russia has experienced significantly weaker growth. It's a direct reflection of being systematically cut off from major arteries of the global economy.

Guest: It's wild to look at FATF and UN reports—they read like spy novels. But as we go through this, it's important to remember, listeners: we're just looking at the mechanics. We aren't taking political sides or endorsing any viewpoint.

Host: Absolutely. Our goal is strictly analytical—conveying the facts and mechanics of global financial compliance.

Guest: A crucial distinction. We are mapping the architecture of global finance and how it responds to stress. Nothing more. With that framework, let's talk about the frontline of this invisible war. When governments issue sweeping sanctions, who enforces them day-to-day?

Host: Is it a government agency monitoring every wire transfer?

Guest: No. The burden falls heavily on the private sector, specifically financial institutions. They are the ultimate gatekeepers—they see the money moving.

Host: Exactly. Because they have visibility over fund flows, they are the frontline defense. They monitor transactions, flag anomalies, and detect breaches or illicit activity.

Guest: Makes total sense. Governments write the rules, but banks, payment processors, and investment firms build the infrastructure to catch bad actors.

Host: So the banks are essentially deputized by the government to do the heavy lifting.

Guest: In practice, yes. They're legally obligated to filter the entire global economy. But the targets of sanctions aren't passive—they innovate to circumvent the rules across financial, trade, and maritime channels.

Host: Not at all.

Guest: The tactics are mind-boggling. Entities will navigate schemes so convoluted and risky that the sheer cost of evasion could bankrupt them—but it's necessary to continue operations.

Host: Financial evasion is one area—how do you bypass standard financial restrictions if locked out of the banking system?

Guest: Sometimes the simplest method is physical cash.

Host: Cash?

Guest: Billions in physical paper are transported and converted back to Russian banks.

Host: Significant shipments reportedly come from countries like the UAE and Turkey. When electronic pathways are severed, the workaround is literally moving pallets of money across borders.

Guest: Just picturing a billion dollars in cash—cargo planes, pallets—it's staggering. And when that isn't enough, they get creative with currency swaps.

Host: How does that work?

Guest: A currency swap builds a parallel financial highway. Russia trades directly with countries like China using national currencies at predetermined rates, bypassing Western payment systems and sanctions alerts.

Host: That bypasses the toll booth entirely. And trade evasion extends further. The FATF reports show Iran smuggling dual-use goods.

Guest: What are dual-use goods?

Host: Materials with civilian applications but also military uses—like specialized aluminum tubing or carbon fiber. Bicycle frame today, centrifuge tomorrow.

Guest: Wow.

Host: Iranian entities use intermediaries, front companies, falsify customs documents, and route shipments through multiple jurisdictions to hide the final recipient.

Guest: Like a massive global shell game.

Host: By the time it ships, it appears legitimate. And the maritime evasions? That's even crazier.

Guest: The tactics are complex. Let's break down three from the investigations: ship-to-ship transfers, flag exploitation, and location faking.

Host: Ship-to-ship transfers blew my mind. The EU-sanctioned tanker *Unica* transferred thousands of barrels of oil directly to North Korean vessels in the open water. Completely off the books.

Guest: Flag exploitation—every commercial vessel must fly a country's flag. North Korea uses countries with limited vessel monitoring like Panama or Sierra Leone to disguise ships.

Host: They register under different jurisdictions, even steal identities of blacklisted vessels.

Guest: Identity theft for ships.

Host: They paint new names and falsify registration numbers to deceive traders.

Guest: Like swapping license plates on a skyscraper-sized freighter.

Host: And location faking—ships spoof AIS/GPS systems, showing fake routes on digital maps.

Guest: Russian tankers reportedly do this, making it appear they're west of Japan while sailing to China to deliver oil, bypassing price caps.

Host: So what does this mean for businesses, compliance officers, and institutions?

Guest: The stakes couldn't be higher. Sanctions compliance isn't optional—it's a strict legal obligation. Missing evasions exposes organizations to severe penalties and reputational damage.

Host: Even minor negligence now carries criminal liability. EU Directive 2024/1226 is a massive escalation.

Guest: Exactly. Local implementation in Luxembourg will broaden the directive scope to cover all restrictive measures, not just EU-originated ones.

Host: Operating from a hub like Luxembourg? Your margin for error is nearly zero.

Guest: Organizations must defend against highly sophisticated circumvention. Continuous vigilance is required.

Host: The research outlines three pillars for a robust sanctions framework:

Host: Pillar 1: Sanction-specific risk assessment. Unlike AML, sanctions risk is about who receives funds, not where dirty money comes from.

Guest: Tailor assessments to products, counterparties, and geography, considering FATF warnings on intermediaries, virtual assets, and maritime vulnerabilities.

Host: Pillar 2: Tailored counterparty due diligence. Human analysts must uncover complex ownership structures and falsified documents.

Guest: Yes, even slight anomalies in shipping or corporate structures require deep investigation.

Host: Pillar 3: Effective name screening. Unlike AML monitoring, this is binary—you check clients and transactions against government-issued sanctions lists, stopping any matches.

Guest: Lists change constantly, requiring real-time updates from third-party vendors. No room for error.

Host: Delays in list updates or alert responses trigger direct violations.

Guest: Imagine an automated alert sitting 72 hours while the transaction clears—legally exposed.

Host: The evaders use maritime identity theft, cash smuggling, and shell companies—the financial sector must catch them instantly.

Guest: Daunting. How does global compliance keep up?

Host: The future relies on predictive capabilities, particularly AI, to map complex global connections. Stronger regulatory cooperation and public-private partnerships are also key.

Guest: A united global front is essential. Effective sanctions implementation is collective responsibility.

Host: By investing in robust frameworks and intelligence sharing, sanctions remain effective tools for accountability, justice, and stability.

Guest: Exactly. And one final thought—if evaders get this sophisticated, will we need a borderless, centralized financial surveillance system? How do we balance enforcement with financial privacy?

Host: A fine line between catching bad actors and monitoring everyone all the time.

Guest: That is the ultimate question. Thank you for listening. Until next time.

