



EU Sanctions Compliance: Meeting Article 12gb Due Diligence

The EU's expanded sanctions regime against Russia now requires detailed due diligence on high-risk export items, demanding more than list screening.

SANCTIONS

EU Sanctions Compliance: Meeting Article 12gb Due Diligence

By Sayari Analyst Team · Published March 2025

The EU's expanded sanctions regime against Russia now requires detailed due diligence on high-risk export items, demanding more than list screening.

Many EU exporters assumed sanctions list screening was sufficient. That no longer holds. Article 12gb of Council Regulation (EU) No 833/2014 imposes a legal obligation on operators dealing with Common High Priority (CHP) items—specialized dual-use goods with high Russia diversion risk—to implement documented due diligence procedures. The regulation recognizes a critical gap: standard screening catches designated entities but misses undisclosed ownership changes, re-export networks, and shell company structures that sophisticated evasion schemes rely on.

The EU's December 2024 Article 12gb guidance acknowledges that hidden information exists. Operators exporting CHP items without adequate due diligence face civil penalties. A Kyrgyzstan case showed a local company exporting CHP integrated circuits to Russia-sanctioned entities before detection. In Hong Kong, over 500 companies registered to a single tower address were added to the U.S. BIS Entity List in June 2024—flagging a network likely involved in evasion. Article 12gb due diligence is no longer optional.

The Regulatory Framework

EU sanctions against Russia expanded significantly after February 24, 2022, with successive amendment packages imposing export restrictions on items critical to Russia's military and technology sectors. Article 12gb marks a shift from reactive list-based screening to proactive risk assessment.

CHP items are identified by specific Harmonized System (HS) codes jointly developed by the EU, Japan, the U.K., and U.S. Bureau of Industry and Security. CHP designation indicates items

with significant dual-use application to Russian military capabilities: integrated circuits, optical components, control systems, specialized materials.

Article 12gb requires operators to establish and maintain documented due diligence procedures. The EU published December 2024 FAQ guidance signaling that member state authorities expect operators to demonstrate compliant procedures during inspections. The burden falls on the operator: demonstrate adequate due diligence rather than authorities proving inadequacy.

Three Risk Categories to Address

Article 12gb due diligence targets three interconnected risk patterns. First, stakeholder-level risk involves identifying entities owned or controlled by EU-sanctioned parties, particularly where ownership changed after sanctions. Beneficial ownership searches at transaction date miss entities that transferred control immediately after sanctions were implemented. Due diligence requires baseline ownership mapping and periodic updates.

Second, re-export risk clusters around structural red flags. Shelf companies with minimal operational history, shared office addresses with dozens of firms, and abrupt import pattern shifts indicate entities established for transshipment rather than end-use. Beneficial ownership changes coinciding with Article 12gb implementation warrant investigation. Trust arrangements and offshore vehicles in limited-transparency jurisdictions raise re-export probability, especially when beneficial owners remain undisclosed.

Third, historical trade activity reveals patterns. Prior CHP exports to Russia, Belarus, or Iran, and documented trade with entities linked to Russian military sectors are informative though not determinative. A supplier importing CHP items then shipping to multiple Russia-sanctioned entities before sanctions tightened represents a known evasion actor.

Implementation: From Risk Detection to Operations

Integration of corporate and trade data is essential. Sanctions list screening alone is insufficient. Address-based risk analysis reveals clustering. For example, when 500 companies are registered to a single Hong Kong address, they likely share beneficial ownership or represent a transshipment network. Export pattern shifts also signal activation risk. A company with no prior history of importing CHP items that suddenly receives multiple large shipments warrants immediate investigation as a potential entry point for diverted items.

Compliance programs should establish a centralized risk data layer combining regulatory lists such as OFAC SDN, BIS Entity List, and EU consolidated lists with corporate beneficial ownership databases, trade flow information, and geographical risk profiles. When receiving CHP export orders, transaction teams should request comprehensive documentation including articles of incorporation, shareholder registers, beneficial ownership declarations covering ultimate beneficial owners, complete import-export history, and end-use certifications. This documentation must then be mapped against known evasion networks and examined in conjunction with shipping documentation and end-destination verification. Workflow tools should document all due diligence checkpoints and create audit trails demonstrating proportionate effort and reasonable process, providing evidence of a systematic approach should regulators conduct inspections.

For EU exporters and multinational manufacturers with European subsidiaries, Article 12gb compliance integrates directly into standard CHP item transaction procedures. Strong documentation, clear escalation criteria, and evidence of stakeholder engagement satisfy regulatory scrutiny. The regulatory bar has risen substantially from the previous list-based approach, and adaptation is essential for organizations exporting controlled items.

Screening Connected Parties and Subsidiaries Under EU Rules

Article 12gb compliance extends beyond the direct parties to a CHP transaction. The regulation requires examination of beneficial ownership structures and connected parties because evasion networks often use subsidiary relationships, nominee arrangements, and related entity structures to obscure end-user intent. A CHP exporter must verify not only that the direct buyer is not sanctioned but that related entities, parent companies, sister companies, and subsidiary structures do not indicate diversion risk.

Beneficial ownership investigations should identify all natural persons with 25 percent or greater ownership or significant managerial control. For complex structures involving trusts, partnerships, offshore vehicles, and layered ownership, this investigation can be resource-intensive. Exporting organizations should establish procedures that specify acceptable evidence of beneficial ownership verification: official corporate filings from relevant jurisdictions, certified shareholder lists, trust documents disclosing settlors and beneficiaries, and board resolutions identifying controlling parties. For foreign entities in jurisdictions with limited beneficial ownership transparency, documented good-faith inquiry followed by reasonable conclusion carries more weight than perfect disclosure.

Connected party analysis should examine whether subsidiary or related company structures indicate operational connection to sanctioned activities or Russia-directed operations. An entity importing CHP items may itself be compliant, but if sister companies or parent entities operate in Russia, are registered in higher-risk jurisdictions, or have documented trade relationships with Russian military sectors, the import activity warrants enhanced scrutiny. Transaction teams should maintain documented procedures identifying what information constitutes reasonable inquiry and when a transaction should be escalated for senior review.

Member state authorities increasingly expect exporters to demonstrate proportionate, documented screening of connected parties as part of Article 12gb compliance. Organizations that maintain clear procedures, document screening efforts, and escalate questionable structures appropriately demonstrate the compliance posture regulators now require.

For trade compliance professionals managing CHP item exports, Article 12gb compliance demands deeper visibility into corporate networks and transaction flows than traditional list screening provides. Organizations seeking to streamline Article 12gb compliance should explore integrated solutions that combine sanctions list monitoring with corporate network investigation. Sayari's corporate network platform is built for scenarios where regulatory compliance requires connecting beneficial ownership data, trade patterns, and counterparty risk across complex, multi-jurisdictional supply chains. To learn how your organization can implement scalable Article 12gb due diligence procedures, request a demo.

Please visit sayari.com to learn more.

This blog is for informational purposes and isn't intended to be legal advice.