



**DEPARTMENT OF THE TREASURY
OFFICE OF FOREIGN ASSETS CONTROL**



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Pegasus Worldwide Logistics Settles with OFAC for \$175,015 for Apparent Violations of Counter Narcotics Sanctions

Pegasus Worldwide Logistics (“Pegasus”), a California-based logistics company and freight forwarder, has agreed to pay \$175,015 to settle its potential civil liability for apparent violations of OFAC counter narcotics sanctions, as well as OFAC reporting obligations. The apparent violations occurred when Pegasus arranged for the shipment of equipment from a designated supplier in China and failed to identify the equipment as such due to substantial deficiencies in its compliance review and program. Pegasus also initially failed to respond fully to OFAC’s administrative subpoena.

The settlement amount reflects OFAC’s determination that Pegasus’ apparent violations were non-egregious and not voluntarily self-disclosed. It also reflects Pegasus’ extensive remedial measures and enhanced reporting commitments. More broadly, this action highlights the significant sanctions risks logistics and freight forwarding companies may encounter, including with respect to dealings in blocked property, and underscores the importance of effective, risk-based controls.

Description of the Apparent Violations

Pegasus is a small integrated logistics company of about a dozen employees that provides a range of transportation solutions and services to assist customers with cross-border shipments. These services include ocean freight import and export transportation, container consolidation, customs clearance, warehousing, trucking, rail transport and drayage. Beginning in early 2023, Pegasus began requiring its employees and designees to undertake rudimentary sanctions screening of relevant persons by instructing its employees to “compare parties’ name, address, email, phone, and other information for parties to the transaction” with the information on OFAC’s Specially Designated Nationals and Blocked Persons (SDN) List.

On May 30, 2023, OFAC designated Youli Technology Development Co., Ltd. (“Youli”), a China-based supplier of pill press and packaging equipment, pursuant to Executive Order (E.O.) 14059 “Imposing Sanctions on Foreign Persons Involved in the Global Illicit Drug Trade,” for shipping machinery to individuals in the United States involved in the manufacture of counterfeit pills using techniques intended to evade law enforcement scrutiny.¹ As a result of its designation, all property and interests in property of Youli became blocked, and all transactions by U.S. persons involving Youli’s property or interests in property generally became prohibited. Upon its designation, OFAC added Youli to the SDN List and included several additional identifiers, including its phone number and email address. After its designation, Youli changed its name to Huizhou Youli Fushi Co., Ltd.² Youli’s other identifiers, however, remained unchanged.

¹ See U.S. Department of the Treasury, “[Treasury Sanctions China- and Mexico-Based Enablers of Counterfeit, Fentanyl-Laced Pill Production](#),” (May 30, 2023).

² Huizhou, where Youli is located, is a city in Guangdong Province, China.

In August 2023, a U.S. nutritional supplement company (the “U.S. Purchaser”) engaged Pegasus to coordinate the purchase and shipment of a customized sugar packet-filling machine³ valued at \$5,950 from Youli. The U.S. purchaser had previously purchased from Youli a tableting machine used to make breath mints and had used Pegasus to assist with that importation.

On September 7, 2023, Youli informed the U.S. Purchaser that the sugar packet-filling machine was ready to ship. On September 12, 2023, Pegasus instructed Youli—via communication with an email address identified as associated with Youli on the SDN List—to arrange with a Chinese shipping agent for the machine to be shipped to the United States. The Chinese shipping agent prepared the necessary shipping documents from China and sent them to Pegasus. Those documents identified the shipper using Youli’s new post-designation name, “Huizhou Youli Fushi Co., Ltd,” but included Youli’s unchanged telephone number as OFAC identified it on the SDN List. Pegasus used this information to file an Importer Security Filing (ISF), via a U.S. customs broker, with Customs and Border Protection (CBP). On or after September 28, 2023, Pegasus paid the Chinese shipping agent \$146.33 for transporting the machine from China into the United States.

Pegasus’s sanctions compliance procedure made no mention of when to check the SDN List, and, rather than performing any due diligence at the beginning of the transaction, Pegasus waited until just before the machine was to depart China, by which point Pegasus had already engaged in prohibited conduct. After receiving the shipping documents from the Chinese shipping agent, pursuant to its policy, Pegasus performed rudimentary manual sanctions screening by checking “Huizhou Youli Fushi Co., Ltd,” against the SDN List, which resulted in a null response. Youli’s other identifiers, however, including its phone number and email address, remained the same in all the relevant shipping documents and electronic communications following its designation. A Pegasus employee failed to screen these identifiers in contravention of the company’s policy which called for screening “parties’ name, address, email, phone, and other information” against the SDN List. Screening the other identifiers, including through a basic internet search, would have yielded a positive match for Youli.

On October 11, 2023, the sugar packet-filling machine arrived at the port in Long Beach, California. On November 3, 2023, having identified the machine as coming from a blocked person, CBP notified Pegasus that it had detained the machine and issued Pegasus a Detention Notice that identified OFAC as the responsible agency. Neither the Detention Notice nor the mention of OFAC prompted Pegasus to investigate further. Approximately a week later, the U.S. customs broker issued the U.S. Purchaser, via Pegasus, a \$1,463.55 invoice for import duties and fees associated with the machine, which Pegasus promptly paid. Pegasus subsequently received \$2,358.62 from the U.S. Purchaser covering both these import fees and Pegasus’s fees for freight forwarding services associated with the machine. On December 6, 2023, CBP seized the machine as blocked property.

OFAC issued Pegasus an administrative subpoena seeking information about the machine shortly before CBP seized it. OFAC provided three name variations in its questions related to Youli as well as several other identifiers, including Youli’s email address and phone number as included on the SDN List. On February 1, 2024, Pegasus submitted a certified response denying that it had any

³ According to OFAC’s investigation, the intended purpose of the machine, which the Drug Enforcement Administration indicated has little utility for packaging narcotics, was for legitimate commercial activity.

responsive information. OFAC thereafter presented Pegasus with the relevant arrival notice,⁴ which did not include additional information about Youli, but which did demonstrate Pegasus's involvement with the shipment of the machine. Only then did Pegasus locate records responsive to OFAC's administrative subpoena. Pegasus also explained to OFAC that it had failed to provide all necessary information to its attorney at the time its subpoena response was being prepared. On August 8, 2024—six months after Pegasus submitted its first certified response—Pegasus sent OFAC a revised response detailing Pegasus's involvement with the shipment of the machine.

As a result of the conduct described above, Pegasus appears to have violated § 599.201 of the Illicit Drug Trade Sanctions Regulations, 31 C.F.R. part 599 (the "IDTSR"), by dealing with a blocked person or in property in which a blocked person had an interest. Additionally, from February 1, 2024 to August 8, 2024, Pegasus violated § 501.602(a) of the Reporting, Procedures and Penalties Regulations, 31 C.F.R. part 501 (the "RPPR"), six times by failing to furnish complete information responsive to OFAC's administrative subpoena over the course of six months.

Penalty Calculations and General Factors Analysis

OFAC determined that Pegasus did not voluntarily self-disclose the apparent IDTSR and RPPR violations (the "Apparent Violations") and that the Apparent Violations constitute a non-egregious case. Accordingly, under OFAC's Economic Sanctions Enforcement Guidelines (the "Enforcement Guidelines"), 31 C.F.R. Part 501, app. A., the base civil monetary penalty applicable in this matter equals the sum of the applicable schedule amount, which is \$205,900.

The settlement amount of \$175,015 reflects OFAC's consideration of the General Factors under the Enforcement Guidelines.

OFAC determined the following to be **aggravating factors**:

- (1) Pegasus demonstrated a reckless disregard for U.S. sanctions requirements by failing to properly screen information in its possession regarding Youli and by not investigating further after learning that the machine had been detained pursuant to OFAC authorities. These failures resulted in multiple dealings in blocked property.
- (2) Pegasus was aware at all times that it was arranging the export of equipment from Youli, which it had reason to know was the same party OFAC had sanctioned.
- (3) Pegasus's dealings supported an SDN in continuing to export to the United States and profit from such conduct, thereby undermining the objectives of OFAC counter narcotics sanctions. Additionally, Pegasus's failure to timely and fulsomely respond to OFAC's administrative subpoena delayed OFAC's investigation.
- (4) Although not a large company, Pegasus's role as an international logistics company and freight forwarder warranted heightened attention to U.S. sanctions given risks in the sector.

⁴ An arrival notice is a document issued by the carrier or freight forwarder to notify the importer on record of the machine's arrival. Pegasus, as the freight forwarder, notified the U.S. Purchaser through an arrival notice that the shipment had arrived on October 11, 2023.

OFAC determined the following to be **mitigating factors**:

- (1) Pegasus has not been the subject of any OFAC enforcement action in the five years preceding the earliest date of the transactions giving rise to the Apparent Violations.
- (2) Pegasus is a small company and the transactions were relatively low in value.
- (3) Pegasus has agreed to implement extensive remedial measures designed to enhance its sanctions compliance controls, including by hiring an outside consultant knowledgeable in U.S. sanctions requirements to assist in this effort. Pegasus will also make regular and detailed reports to OFAC for an extended period of time regarding all steps it is taking to ensure it is complying with U.S. sanctions requirements.

Compliance Considerations

This enforcement action highlights the numerous types of sanctions risks that intermediaries and service providers involved in international trade, such as members of the freight and logistics industry, may encounter. Such intermediaries operate at the center of trade transactions and deal with multiple counterparties, including buyers, sellers, shippers, carriers, and others. By virtue of their position, these logistics providers often serve as the gatekeepers of international trade—the first line of defense in preventing dealings with sanctioned parties or in their property interests. And because they facilitate so many facets of international trade-related transactions, they may be exposed to significant sanctions risks. Accordingly, OFAC strongly encourages international trade-related intermediaries and service providers to employ robust, risk-based sanctions compliance controls to effectively manage sanctions risks. Employees of these companies should have a thorough understanding of OFAC sanctions requirements and engage in regular training to keep current on sanctions issues as they arise.

This action also demonstrates the myriad ways in which commercial activity involving blocked property can give rise to a violation of U.S. sanctions. Upon designation, any property in which an SDN has an interest of any nature whatsoever, direct or indirect, becomes effectively radioactive. Any dealing, no matter how small, generally becomes prohibited without authorization from OFAC. To avoid unauthorized dealings in blocked property, U.S. persons should approach sanctions compliance comprehensively. Sanctions screening against names on the SDN List, while critically important, is a baseline tool. Firms should ensure their sanctions compliance controls take into account efforts by SDNs to obfuscate their involvement. Such vigilance is all the more important as sanctioned actors employ increasingly sophisticated schemes and technologies to evade OFAC sanctions.

Lastly, this action demonstrates the importance of responding to OFAC information requests in a timely and accurate manner. Recipients of such a request should conduct a thorough inquiry and make sure they are providing all responsive records. As part of its analysis under the General Factors, OFAC considers the nature and extent of a subject's cooperation when considering both how to resolve an investigation and the size of any potential penalty or settlement. Timely and fulsome cooperation, through such actions as conducting prompt and searching inquiries,

demonstrates that an investigative subject takes seriously its compliance obligations and seeks to resolve concerns over its conduct. Failure to cooperate in a manner that is complete and satisfactory not only risks foregoing mitigation credit for cooperation, but can also risk standalone penalties under the RPPR.

OFAC Enforcement and Compliance Resources

On May 2, 2019, OFAC published [A Framework for OFAC Compliance Commitments](#) in order to provide organizations subject to U.S. jurisdiction, as well as foreign entities that conduct business in or with the United States or U.S. persons, or that use goods or services exported from the United States, with OFAC's perspective on the essential components of a sanctions compliance program. The *Framework* also outlines how OFAC may incorporate these components into its evaluation of apparent violations and resolution of investigations resulting in settlements. The *Framework* includes an appendix that offers a brief analysis of some of the root causes of apparent violations of U.S. economic and trade sanctions programs OFAC has identified during its investigative process.

Information concerning the civil penalties process can be found in the OFAC regulations governing each sanctions program; the Reporting, Procedures, and Penalties Regulations, 31 C.F.R. part 501; and the Economic Sanctions Enforcement Guidelines, 31 C.F.R. part 501, app. A. These references, as well as recent civil penalties and enforcement information, can be found on OFAC's website at <https://ofac.treasury.gov/civil-penalties-and-enforcement-information>.

Whistleblower Program

The U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) maintains a [whistleblower incentive program](#) for violations of OFAC-administered sanctions, in addition to other violations of the International Emergency Economic Powers Act and violations of the Bank Secrecy Act. Individuals located in the United States or abroad who provide information about sanctions violations may be eligible for awards if the information they provide leads to a successful enforcement action that results in monetary penalties exceeding \$1,000,000. The incentive program is available for whistleblowers providing information relating to potential violations in any commercial sector.