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Trade-Based Money Laundering 101

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Delivered to: CBSA Liaison Officers

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PROTECTION • SERVICE • INTEGRITY

Canada



Agenda

1. International & Canadian context
2. TBML Tradecraft
3. Current Canadian TBML Environment
4. Examples of Observed Schemes
5. Red Flag Indicators
6. Liaison Officer TBML Support







Money Laundering Methods

1. Financial Institutions	Paper trail, high AML controls
2. Bulk Cash	High risk of detection
3. Trade	Low risk, high reward

Working Definition of TBML

The process of disguising illicit financial flows and move value through the use of trade transactions in an attempt to legitimise their illicit origins



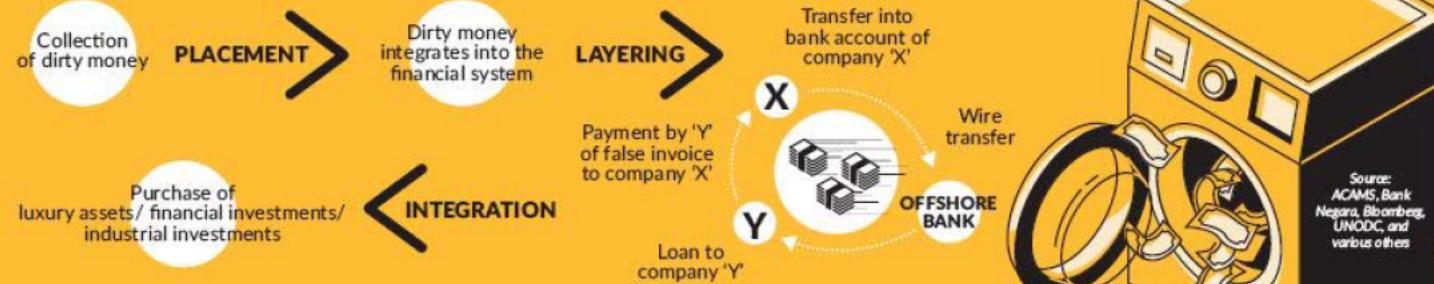
"The magnitude [of TBML] is enormous. It could very well be the largest money laundering methodology in the world! And, unfortunately, it is also the least understood and recognized."



International Context: High Risk

- Exponential growth of global trade creates huge opportunity
- Trade not seen as an ML vector
 - Most AML \$ are spent on traditional ML
 - Low awareness leads to lack of controls
- Low risk, high reward:
 - Easy to comingle legitimate and illicit trade in same shipment
- “Essentially unquantifiable... but enormous” problem (PWC report)
 - WTO & UNODC: 1-7% of global GDP
 - Cassara: 6-9% of US GDP (\$220B USD outbound and \$340B USD inbound)
 - Global Financial Integrity (NGO):
 - NAFTA: USD \$561B in illicit capital outflows from 1994-2010 perpetrated via customs mis-invoicing
 - Mexico: 75% of USD \$852B in illicit capital outflows from 1970-2010 perpetrated via customs mis-invoicing
 - Developing World: \$8 trillion USD in illicit capital outflows from 2004-2013. 83% likely perpetrated through customs mis-invoicing

A TYPICAL MONEY LAUNDERING SCHEME



THE COST OF DIRTY MONEY

JPMorgan Chase

FINED US\$2.05bil

For 15 years or so, JPMorgan ignored red flags surrounding the dealings of Wall Street financier Bernard Madoff, who used his account at the bank to run a US\$65bil Ponzi scheme, the largest ever uncovered in the US.

Citigroup

FINED US\$237mil

From 2007 till 2012, Banamex USA, a Citi subsidiary, processed more than US\$8.8bil in transactions with almost no oversight.

Wachovia

FINED US\$160mil

Mexican drug cartels used accounts at Wachovia to finance their operations and launder money.

Liberty Reserve

The digital currency platform was central to an alleged US\$ 6bil money laundering operation.

In 2016, U.S. authorities sentenced its founder, Arthur Budovsky, to 20 years in prison for running a money laundering enterprise via the Costa Rica-based platform.

Standard Chartered

FINED US\$967mil

In 2012 the bank paid US\$667mil in fines for violating US sanctions on doing business with Iran. In 2014, New York state fined it an additional US\$300 mil for weak AML controls.

HSBC

FINED US\$1.9bil

Bank failed to monitor properly over US\$670bil in wire transfers from Mexico and more than US\$9.4bil in purchases of US currency, according to a 2012 deferred prosecution agreement with US authorities.

ING

FINED US\$900mil

In 2018, the bank acknowledged "serious shortcomings" in failing to prevent illicit payments by VimpeCom (now known as VEON) to a company owned by an Uzbek government official.

Danske Bank

In September the bank said about €200bil (US\$230bil) in potentially illegal funds flowed through its tiny Estonian unit over nine years.

Commerzbank

FINED US\$1.45bil

From 2002 to 2008, the bank processed more than US\$250bil in transactions on behalf of Iranian and Sudanese entities.

Deutsche Bank

FINED US\$670mil

In 2017, US and British authorities fined the bank for a series of mirror trades conducted through its Moscow office. The trades allowed Russians to expatriate billions of dollars by buying stocks with rubles at home and selling the same shares in London for dollars or euros.

Bangladesh Hackers

Hackers stole US\$81mil from the central bank of Bangladesh in 2016. The thieves used Swift, the global interbank payment system, to issue bogus instructions to withdraw.

Malaysia

1MDB

From 2009 through 2015, more than US\$4.5bil flowed from this government fund into the hands of allegedly corrupt officials and their associates.

Commonwealth Bank of Australia

FINED A\$700mil

The bank in June paid the biggest civil penalty in Australian corporate history after admitting to more than 53,000 breaches of money laundering laws, allowing drug syndicates to funnel millions of dollars offshore.



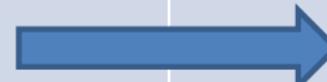
Current Canadian Context: High Risk

- Magnitude of the threat:
 - hundreds of millions annually – at a minimum
- Low awareness, limited controls
- High level of harm for Canada and Canadians
 - Threatens economic integrity, public safety, and Canada's reputation



Trade Fraud Underlies Most TBML

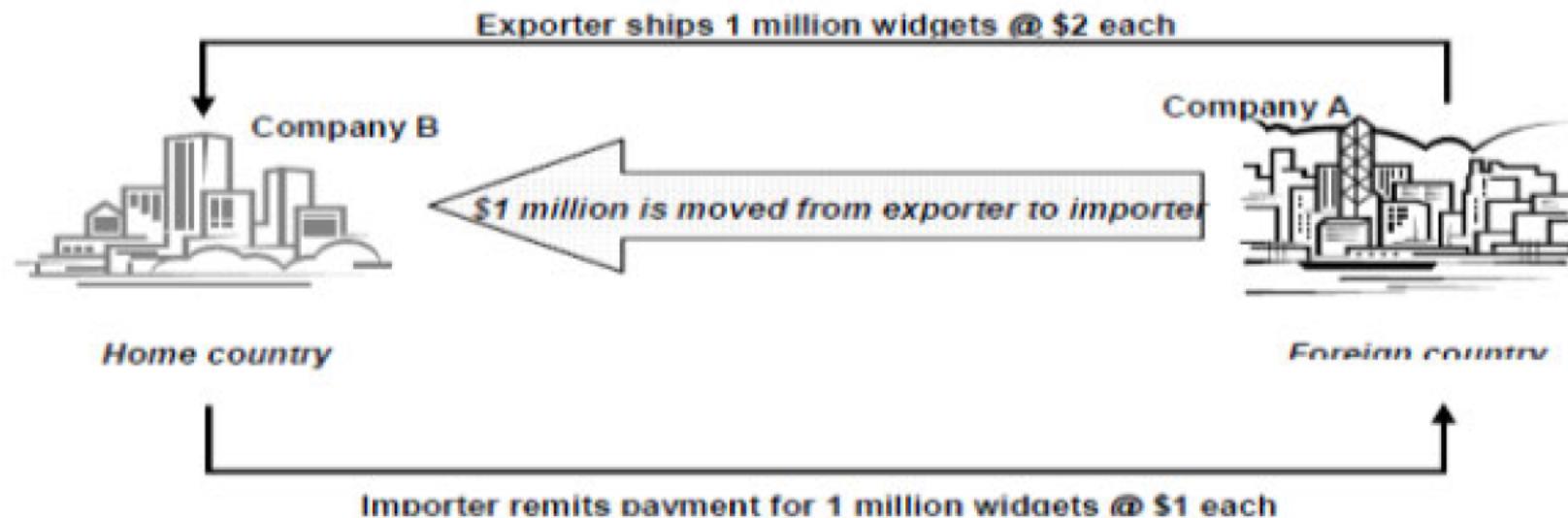
TRADE FRAUD	TRADE-BASED MONEY LAUNDERING
<i>Customs Act (CBSA)</i>	<i>Criminal Code (Law Enforcement)</i>
Intent: to defraud national governments through customs “misinvoicing” aka “misdescription”	Intent: to disguise illicit financial flows and move value through the use of trade transactions in an attempt to legitimise their illicit origins
Method: manipulation of elements customs documents such as: <ul style="list-style-type: none">• Price paid• Quantity• National origin• Tariff classification• Physical description of the goods	Method: trade fraud





1. Under/Over Invoicing of Goods

(source: FATF)



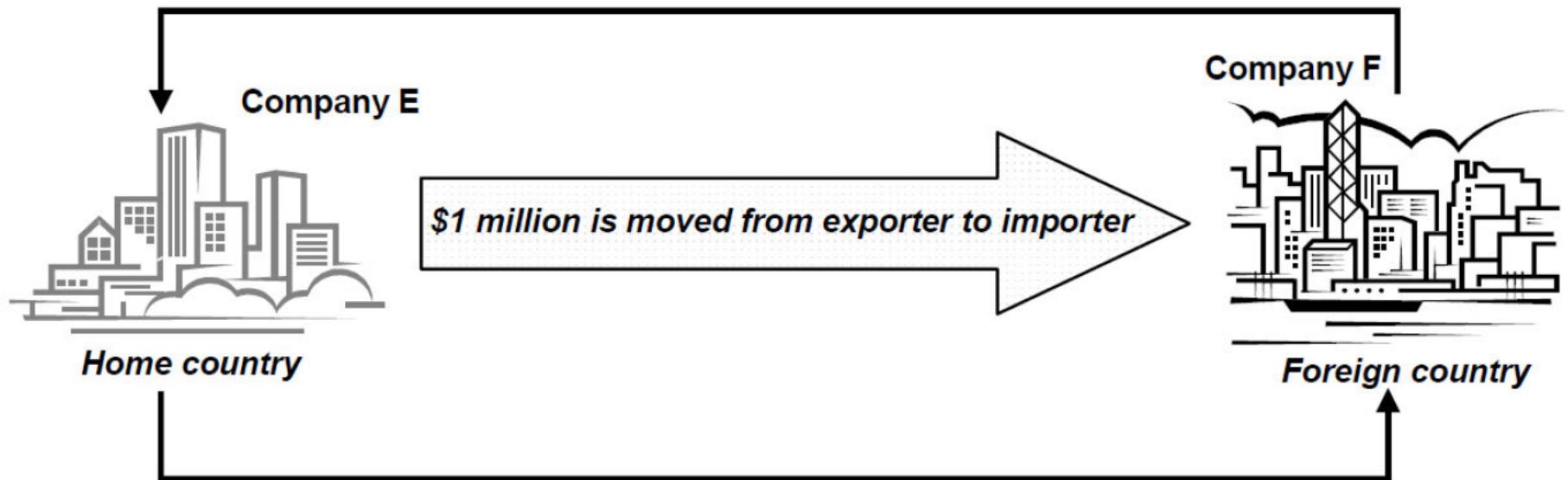
SUMMARY (source: Cassara)

To move money OUT	Import Goods	Using above value prices
	Export Goods	Using below value prices
To move money IN	Import Goods	Using below valued prices
	Export Goods	Using above value prices



2. Over/Under Shipment of Goods

Importer remits payment for 1 million widgets @ \$2 each

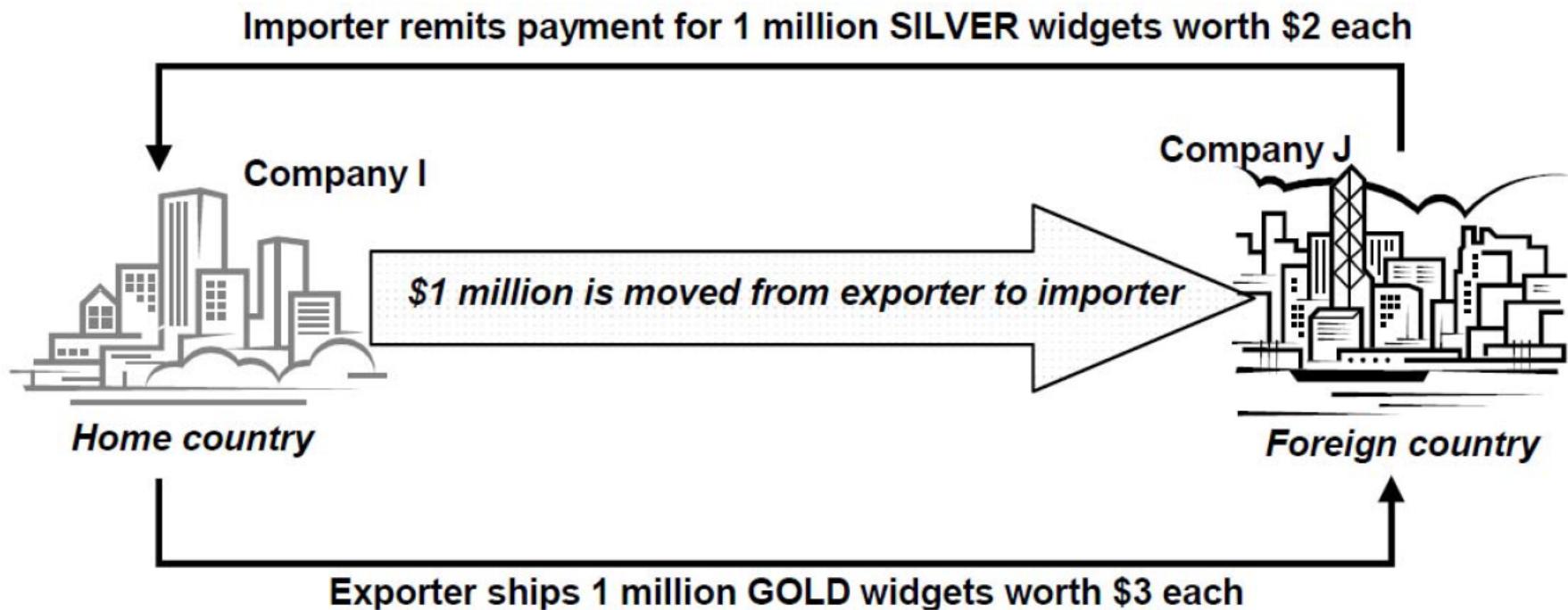


Exporter ships 1.5 million widgets @ \$2 each

- The most extreme cases involve “phantom shipments” where no goods are shipped, but shipping/customs documents are processed as normal.



3. Falsely Described Goods



- A money launderer may misrepresent the quality or type of the trade goods; e.g. substituting an inexpensive product for the more expensive item listed on the invoice and customs documents.



Current Canadian TBML Environment

- Key jurisdictions
- Highly liquid, high-demand goods
- Professional Money Launderers prevalent
- Black Market Peso Exchanges
- Informal Value Transfer Service links to International Money Controller Networks



Key Jurisdictions

- UAE
- China and Hong Kong
- U.S.
 - New York
 - South Florida
 - Southern California
- Latin America
 - Mexico
 - Colombia
 - Paraguay / TBA: Ciudad del Este
- Russia related
 - Baltics: RUSSIAN LAUNDROMAT, TROIKA
 - Cyprus (professional services)
 - BVI and other offshore jurisdictions (shell company formation)
- Canada?



Canada

- Canada attractive to launder both through and to/from
 - TOC proceeds generated in CDA – cash pickups
 - TOC Proceeds from US: Mexican/Colombian DTOs laundered through CDA to Latin America, Oceania, Asia
 - Sanctions evasion- Iran
 - Capital flight – PRC



Goods Exploited

- Highly liquid, high-demand goods
 - pricing/fair market value difficult to establish
 - Difficult for authorities to examine
- Agri-food (meats, dairy, produce)
- Vehicles and parts
- Textiles/Garments
- Lumber/Pulp and Paper
- Industrial Equipment
- Metal scrap
- Electronics



Professional Money Launderers

- Skilled facilitators of laundering
- Distanced from the proceeds generating offences
- Linked to professions conducive to laundering
 - Lawyers
 - Accountants
 - Own/control import-export companies
- Often ethnic based – stemming from *hawala* and *fei chen*
 - Developed contact base in Middle East, Asia
- Fee for service
 - Fees dependent on access to domestic cash pools



Black Market Peso Exchanges

- Solves several problems for criminals:
 - Gets profits back home in local currency
 - Illicit foreign currency exchanges
 - Helps International Money Controllers balance books
 - Goods used to “buy money” from other IMCs around the world and resolve outstanding payments owed between international cash pools
- Multiple variants on the technique



TBML - BMPE

Cartels



Source: FinCEN Graphics



TBML - BMPE Brokers



Source: FinCEN Graphics



TBML - BMPE

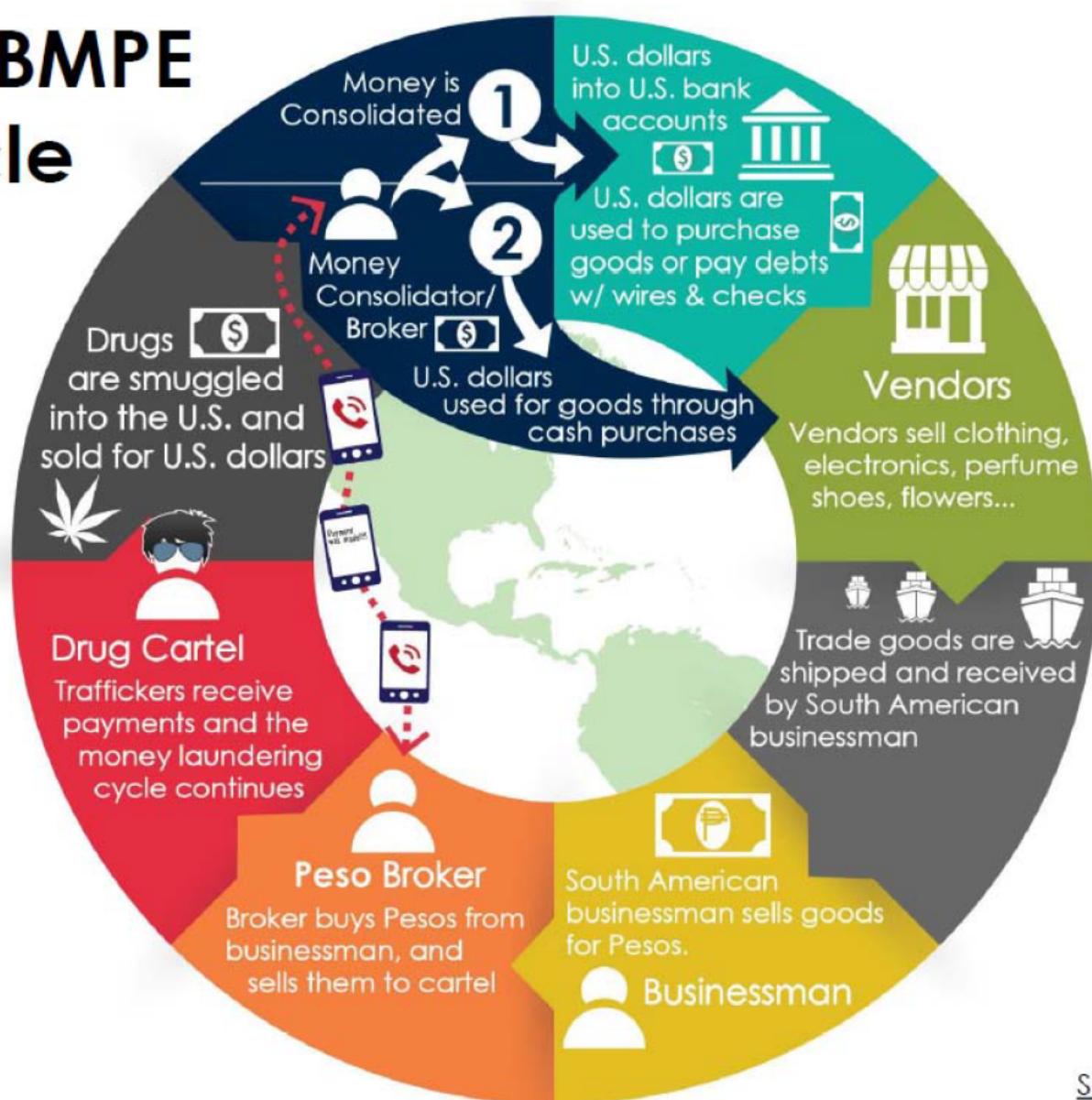
Vendors and Import/ Export



Source: FinCEN Graphics



TBML - BMPE Cycle



Source: FinCEN Graphics



Case Study 1

- CDN agri-food broker receives \$100s of millions in wires from ML jurisdictions to pay for goods shipped to mostly unrelated 3rd party companies around the world.
- Some wires from Mexican MLO who have also sent wires to seemingly unrelated Canadian business (different province, different goods)
- Others from a KHANANI MLO front



Case Study 2

Scheme 1:

- Tens of millions in US-derived narco proceeds wired or transferred to CDN electronics importers
- CDN companies import over-valued electronics goods from AUS/NZ and wire proceeds in payment for goods.
- Analysis of declared values of imports/exports based on CDN, AUS, NZ trade data reveals price discrepancies and phantom shipments.

Scheme 2:

- Same CDN companies export (often straw-purchased) smartphones to UAE, Hong Kong
 - Exploiting semi-legitimate *Daigou* (“buy on behalf of”) networks
- Goods are over- or under-valued to reconcile cash pools as needed
- **Free Trade Zones** used to conceal ultimate recipients of the goods



TBML Red Flags – Trade Indicators (source: FATF)

- Significant discrepancies:
 - between description of the commodity on the bill of lading and the invoice;
 - between the description of the goods on the bill of lading (or invoice) and the actual goods shipped;
 - between the value of the commodity reported on the invoice and the commodity's fair market value;
- The size of the shipment appears inconsistent with the scale of the exporter or importer's regular business activities;
- The type of commodity being shipped is designated as "high risk" for money laundering activities;
- The type of commodity being shipped appears inconsistent with the exporter or importer's regular business activities;
- The shipment does not make economic sense;
- Round or whole dollar values
- The commodity is transshipped through one or more jurisdictions for no apparent economic reason;



TBML Red Flags – Financial Indicators (source: FINCEN)

- International wire transfers received as payment for goods into [CDN] bank accounts or processed through [CDN] correspondent or intermediary accounts, especially where the ordering party (importer of goods) of the wire does not live in the country from which the wire originated.
- Wires originating from BMPE jurisdictions such as Mexico, Guatemala, Argentina, Brazil, Paraguay, Uruguay, Venezuela;
- Payment destinations that include United States, Hong Kong, China, South Korea, Taiwan, Spain, Panama, Curacao, as they relate to duty free trade zones;
- Wires where no apparent business relationship appears to exist between the originator and the beneficiary;
- Vague wire instructions;
- Frequent transactions involving rounding or whole dollar amounts.



Upcoming GOC/CBSA Initiatives

- Budget 2019 Announcements
 - CBSA Centre of Expertise on Trade Fraud and Trade-Based Money Laundering
 - April 2020 launch
 - Government of Canada Anti-Money Laundering “Action, Coordination, Enforcement” (ACE) Team
 - April 2020 launch
- CBSA Renewal

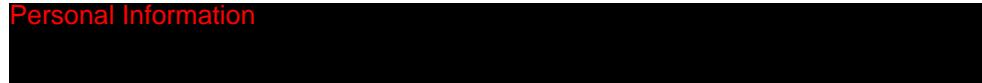


Useful Information

Country	WCAs	Notes
Peru	FTA, MLAT	TBML jurisdiction
Malaysia	Exploratory FTA ASEAN, CPTPP	TBML jurisdiction (1MDB ML scandal)
China	MLAT, CMAA	Major TBML/BMPE jurisdiction, FTZs Chinese BMPE networks are an intelligence gap
Netherlands	MLAT, CMAA	Data analytics focused, significant interest & capacity for combating TBML
Panama	FTA	TBML jurisdiction, FTZs, Secrecy Jurisdiction
Morocco	FTA negotiations	
India	MLAT	TBML jurisdiction
London	MLAT, CMAA	FVEY partner, HMRC NHQ, NCA/JMLIT and MLWG
Jordan	FTA	

Contact Details

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