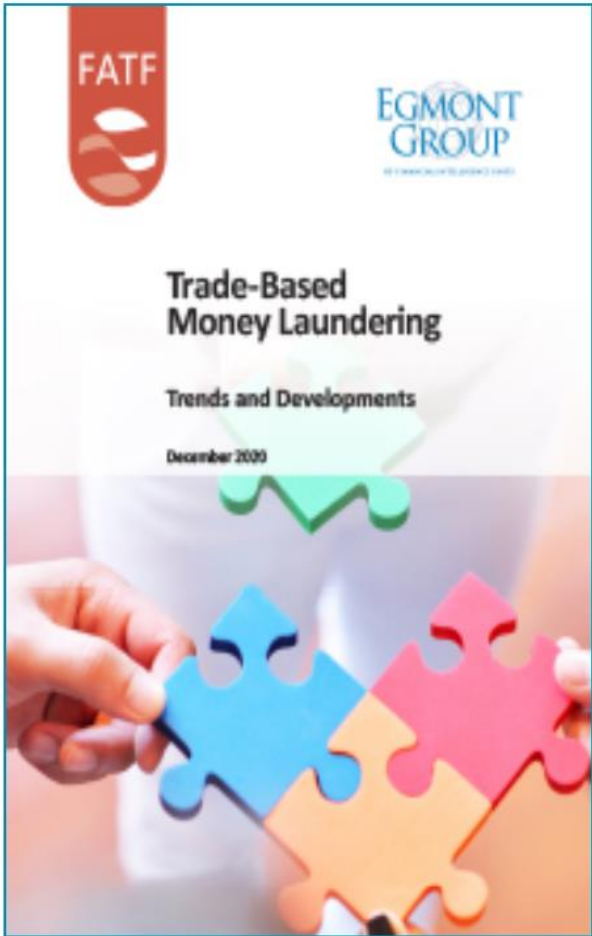




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# Trade Based Money Laundering



## Webinar: Trade-Based Money Laundering



<http://www.fatf-gafi.org/publications/methodsandtrends/documents/webinar-trade-based-money-laundering.html>



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# Definition

TBML is definable:

- *“as the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origins”* (FATF 2006).
- *“Laundering the proceeds of crime through trade in real or imaginary goods or services, either internationally or domestically.”* (HMRC)

Theoretically global anti-money laundering regulations have created more barriers to illicit money movements through the regulated sector.



# Introduction

- Trade Based Money Laundering (TBML) involves the misrepresentation of price, quantity or quality of goods moved through international trade.
- Value Transfer without money transfer
- Breaking the audit trail
- Disguise of beneficial ownership/ Use of Corporate Identities
- Often simultaneously facilitates other crime – evasion of currency controls, tax/duty evasion etc.
- Burying the transaction within the of millions of other trade transactions



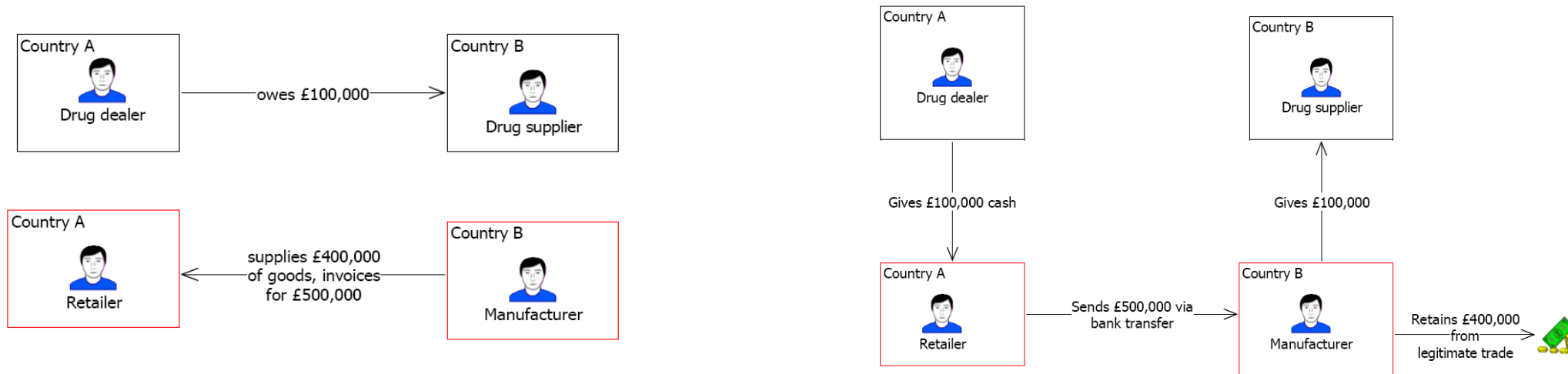
# Over / Under invoicing

- The key element of this technique is the misrepresentation of the price of the good or service, in order to transfer the value.
- In this type of arrangement, the critical enabling aspect is that the importer and exporter are complicit in the misrepresentation.



# Over invoicing

- Describing the goods correctly on customs documentation, (i.e. the right amount of goods) but overstating the value

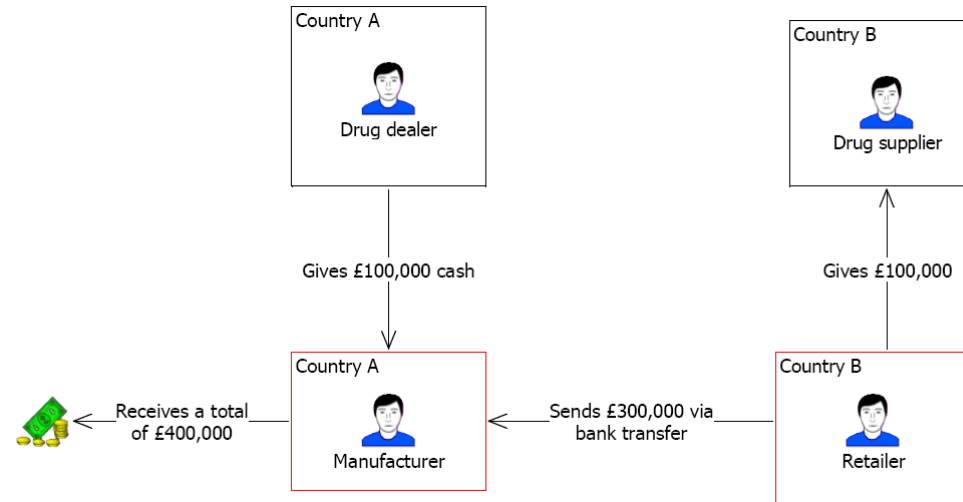


Under Shipping – Valuing the goods correctly but deliberately overstating the amount shipped on the invoice – achieves the same aim.



# Under invoicing

- Describing the goods correctly on customs documentation, (i.e. the right amount of goods) but understating the value



Over Shipping – Valuing the goods correctly but understating the amount shipped on the invoice – achieves the same aim.



# Multiple Invoicing

Several invoices may be raised for a single consignment of goods

This results in overpayment and the transfer of value to the supplier of the goods.

The abuse of these invoices may also result in false VAT claims or the reduction of Corporation Tax liabilities



# Mis-description

- Mis-description is often used to evade customs duties at import, or VAT levies
- Goods liable to one rate of tax or duty are described on the invoices as being goods taxable at a different rate of duty
- The description may also permit the under or overvaluation of the consignment
- This could shift value in either direction
- As well as adding value by cheating taxes or duties



# TBML- Fictitious Trading

## **Fictitious Trades.**

*Also known as “ghost shipping” or “phantom shipping”. A seller may not ship any goods at all, but simply collude with a buyer to ensure that all shipping and customs documents associated with the trade.*



# Phantom Shipping

- Operation Ghast
- Dual SimCard Readers, among other goods, with a value of around £100,000,000 were invoiced around an MTIC chain
- None of the goods existed, the model of reader had never been manufactured in anything like those quantities
- This permitted the fraudulent evasion of around £20,000,000 in VAT
- But actually moved around £100,000,000 through the fraud and out to foreign countries
- Some of this money cycled endlessly around the chain, some did not.
- Several participants were major criminals, well connected to other OCG's and criminal activities



# Black Market Peso Exchange

- In January 2020 the US Justice Department indicted six Colombian nationals, in co-operation with an Indian national for their roles in an international money laundering scheme involving TBML and the use of unlicensed money transmission business
- The purpose of the scheme was to launder the proceeds of drug trafficking, using a Black Market Peso Exchange-style process so the cash located in the US was not physically transferred.



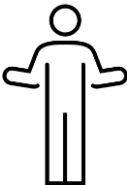
**Colombian nationals allegedly working as money brokers that receive criminal proceeds from couriers located throughout the United States, and the receipt of incoming international wire transfers.**

**The physical cash was introduced into the US financial system so as not to raise suspicion, before being transferred to a business bank account controlled by the Indian national, who was an alleged complicit merchant.**

**The merchant exported consumer electronics to buyers throughout the world, including importers located in Columbia.**



**Colombian nationals  
working as money  
brokers**



**Couriers located  
throughout the US**



**The merchant exported roughly the equivalent value of consumer products to the importers in Colombia.**

**In turn the Colombian importers arranged to pay for the products by delivering Pesos to the money brokers in Colombia, who passed this money to the drug trafficking organisation.**

**This negated the need for drug traffickers to attempt any movement of cash across border, thus reducing risk of detection.**



**Merchant exported consumer products to Colombian importers**



**Importers arrange payment for products**

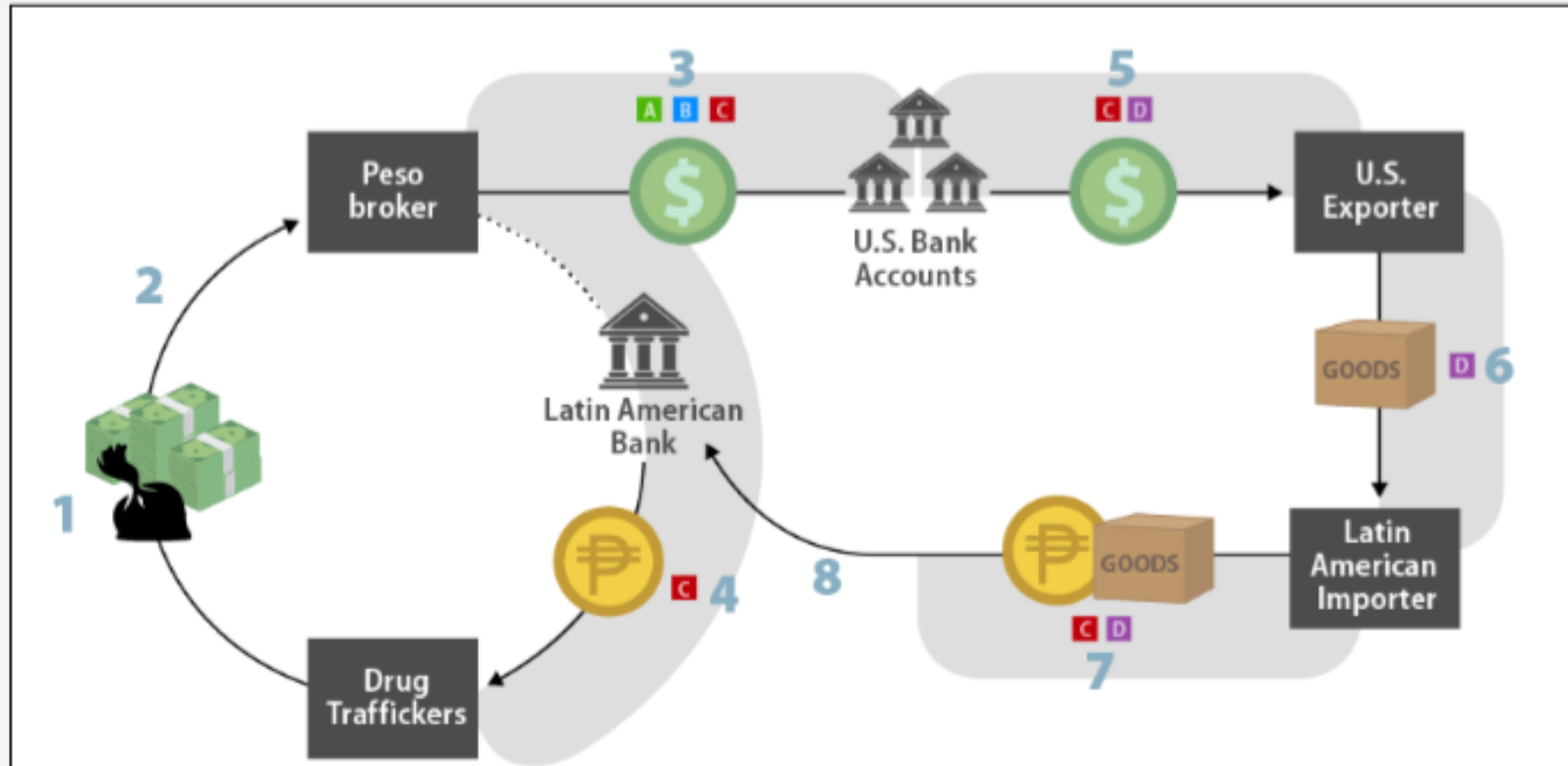


**Money passed to drug trafficking organisation**



## Black Market Peso Exchange (BMPE): An Illustration

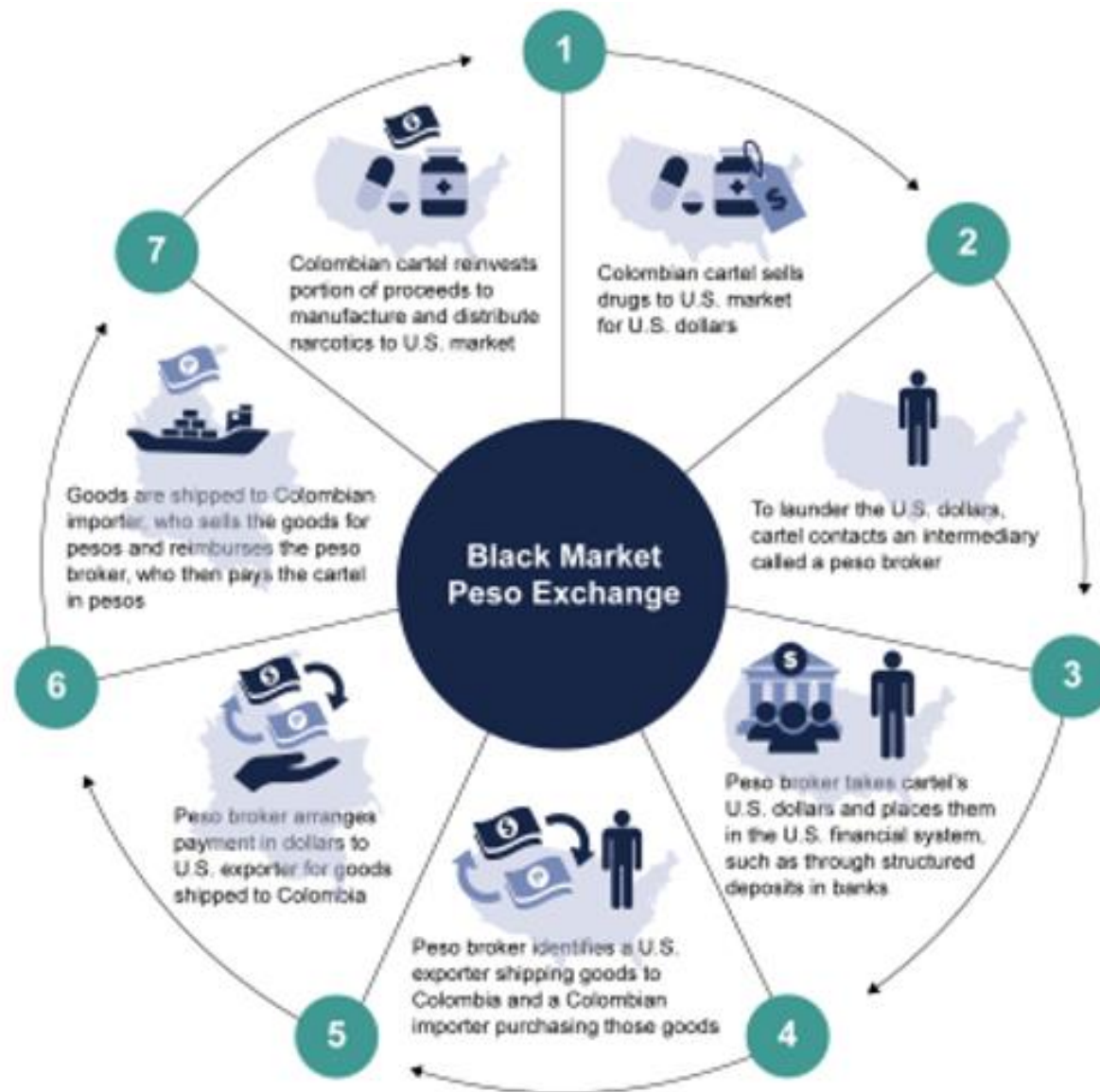
Although Latin America and the United States are used in the example below, similar arrangements have been widely used in many countries to repatriate the proceeds of various types of crimes. These transactions combine legal and illegal activities and multiple actors across international jurisdictions that wittingly or unwittingly facilitate TBML.



### Illustrative steps of a black market peso exchange

**1** Drug traffickers smuggle illegal drugs into the United States and sell them for U.S. dollars ("narco dollars"). **2** Drug traffickers sell the narco dollars at a discount to a peso broker. **3** The peso broker consolidates the narco dollars in a U.S. bank account and **4** pays the drug traffickers with pesos from a Latin American bank account. **5** The peso broker uses narco dollars to pay a U.S. exporter for legitimate goods on behalf of a Latin American importer. **6** The Latin American importer receives the legitimate goods and **7** sells them in Latin America for pesos. **8** The Latin American importer repays the peso broker with pesos.





Source: Department of the Treasury and Department of Homeland Security | GAO-20-316R



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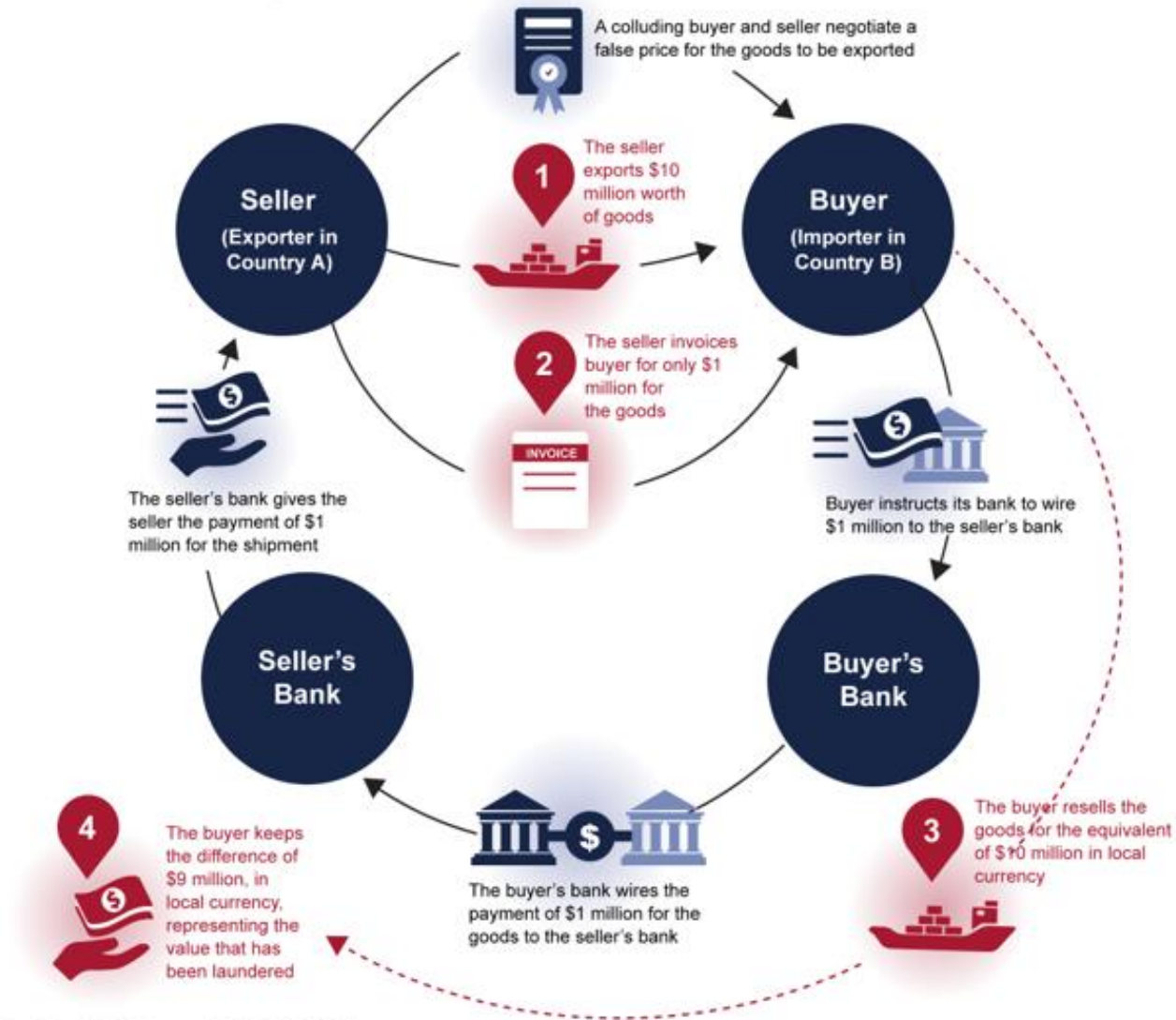
# Open Account

- An open account transaction is a sale where the goods are shipped and delivered before payment is due.
- TBML schemes frequently involve this method because financial institutions have a reduced role.
- Financial institutions can struggle to accurately or consistently assess the legitimacy of the customer's operations.



## Trade-Based Money Laundering: Open-Account Transactions

Trade-based money laundering is the process of disguising proceeds of crime by moving value through trade transactions to legitimize their illicit origin, often by under- or over-invoicing the payment for the goods. In open-account transactions, the buyer and seller negotiate the terms of the transaction, and their banks process the payments for the transaction often without access to the documents underlying the transaction, such as an invoice or a description of the goods.



Source: Bankers Association for Finance and Trade. | GAO-20-314R



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# Documentary Collections

- In documentary collection, the exporter requests payment by presenting shipping and collection documents for the traded goods to its financial institution.
- Financial institutions do not necessarily verify the documents.
- Documents are not always standardised, increasing the risk of TBML through fictitious or false invoicing.
- However when checked, red flag indicators can be spotted:
  - Use of personal email address
  - Obvious signs of recycling previous documentation
  - Complete lack of any trading presence of the importer.



# National Risk Assessments

Every country in the world is involved in trade. TBML can therefore occur anywhere.

Enabling activities such as the misuse of corporate structures can occur in a wide range of jurisdictions.

OCGs exploit potential loopholes or gaps, and the benefit of a national risk assessment is challenging countries to think about risk exposure in terms of threat and vulnerability.



# National Risk Assessments

- IN December 2017, Germany launched its first National Risk Assessment (NRA).
- The NRA highlighted the significance of TBML because of Germany's volume of trade.
- Typical TBML methods were identified, such as over/under invoicing.
- Working with the private sector built an understanding of the TBML risk.
- It was recognised that the financial institutions were better placed to detect indications of TBML and submit STR's to the FIU.



# National Risk Assessments

- Singapore identified TBML as a priority risk and the Monetary Authority of Singapore (MAS) has worked to raise industry awareness of the risk.
- A financial institution identified TBML as a key risk, due to the prominence of trade in Singapore's economy.
- The institution assessed its trade finance business to be of higher risk based on geography, product and transaction risk.
- The institution plans to roll out an automated transaction monitoring system.



# Economic Sectors and Products Vulnerable to TBML Activity.

- Criminals exploit sectors, products, or businesses prone to gaps in customer due diligence and know your customer processes across jurisdictions.
- Economic sectors vulnerable to TBML include:
  - High-value, low volume sectors (precious metals)
  - Low-value, high volume (second-hand textiles)
- Common themes:
  - Goods with wide pricing margins;
  - Goods with extended trade cycles;
  - Good which are difficult for customs authorities to examine.



# Gold, Precious Metals and Minerals.

- The exploitation of gold and other precious metals and minerals is often a factor in TBML schemes.
- Not just a commodity to exploit in moving value but also a proxy for cash.



# Use of Gold in TBML Scheme

- In the United States, four Peruvian nationals were indicted for their alleged involvement in a multi-billion dollar money laundering scheme.
- Between 2013 and 2017, the individuals purchased criminally derived gold from Latin America and the Caribbean.
- They used a Florida based company that operated as a dealer in precious metals
- The gold was sold to complicit U.S. refineries, completing the money laundering cycle by paying for the gold which appeared to be legitimate wholesale gold purchases.



# Auto Parts and Vehicles

- Transportation of damaged cars from one jurisdiction to another, with a legitimate market in place for onward sale, following vehicle repairs.
- Criminal groups were declaring the right price at point of export.
- They were then declaring considerably lower values at transshipment points
- To frustrate Law Enforcement Agencies, the crime groups routed payments through a different network of companies., in alternate jurisdictions.



# Auto Parts and Vehicles

- Spanish and Italian authorities identified Italian nationals living in Spain who had created a network of companies to launder the proceeds of drug trafficking and tax fraud.
- Using criminal cash to buy luxury vehicles in Germany, the crime groups created fake paper trails for sales and purchases to create value-added tax chains
- They then exploited the trade process to both disguise the proceeds of crime and generate additional proceeds.



# Auto Parts and Vehicles

- This crime group also used import/export companies they controlled to purchase other luxury items, such as watches.
- The watches were purchased in Spain and Switzerland before being supplied to drug traffickers in Morocco and the Netherlands.
- Lower value items such as shoes and fabric were also imported/exported.
- These items were exported to Colombia and Morocco for onward sale.
- Intervention in 2017 identified assets worth €8 million across several European countries.



# Agricultural Products and Foodstuffs

- Exploitation of agricultural products includes the abuse of food supply chains involving highly perishable items such as fresh fruit and vegetables.
- Crime groups penetrate these legitimate supply chains and use them to introduce illicit cash into the financial system.
- Instead of using common TBML techniques, they exploit supply chains to move criminal proceeds to different jurisdictions.



# Agricultural Products and Foodstuffs

- In 2016, France, Belgium and the Netherlands launched a multi-agency investigation focusing on the laundering of the proceeds of drug smuggling.
- Drug traffickers employed the services of professional money launderers who deployed several techniques including TBML.
- The money launderers used underground banking networks in France and Belgium which collected and remitted the criminal proceeds.
- The Netherlands underground banker worked in an import/export business, trading in food stuffs with North African countries.



# Agricultural Products and Foodstuffs

- Potatoes and onions were purchased in the Netherlands and Germany.
- These were exported to companies in North Africa.
- These companies were directed to pay invoices into bank accounts controlled by the drug traffickers.
- Those involved in the scheme received prison sentences for money laundering and drug trafficking.
- Additionally, €4.8 million worth of assets and over €7 million in cash was seized.



# Clothing and second-hand textiles

As with foodstuffs, clothing and second-hand textiles are a compelling example of a low-value, high-volume product that allow for an extended supply chain, making them attractive for exploitation in TBML schemes.



# Portable Electronics (mobile phones, laptops etc)

Portable electronics are attractive in TBML schemes as they can be deliberately misrepresented and incorrectly valued, increasing the opportunity to move significant criminal proceeds.



# Portable Electronics (mobile phones, laptops etc)

- In 2017, the Australian order Force commenced an investigation into a TBML referral from an international partner relating to the exploitation of trade in small portable electronics.
- The investigation revealed an extensive money laundering network and found that more than AUD 500 million had passed through Australian bank accounts since 2014.
- The proceeds were generated by the sale of drugs in North America.
- The proceeds then transmitted to South East Asia where they were layered through multiple Australian bank accounts.



# Portable Electronics (mobile phones, laptops etc)

- The proceeds were remitted to offshore bank accounts, or used to purchase small, high-end electronic devices for export to companies in South East Asia and the Middle East.
- The undervaluation of the exported devices exaggerated the illicit value being transferred offshore.

# Other sectors abused by TBML

- Construction materials
- Plant machinery
- Scrap metal dealers
- Fuel and energy products
- Alcoholic or soft drinks



# Indicators of TBML

- Use of letters of credit, unusual payment methods
- Payments received or made through third parties
- Unusual deposits of cash or negotiable instruments in round figures
- Payments made from or into multiple accounts
- “Goods” shipped to or from a high risk jurisdiction
- Shipment through or from Free Trade Zones
- Routing is inconsistent with normal geographic trade
- Goods inconsistent with transit documents
- Consignment is not consistent with the capacity of the exporter
- Presence of shell companies in the supply chain



# Indicators of TBML

- Rapid growth of newly formed companies into existing markets
- Evidence of consistent and significant cash payments, including those directed towards previously unknown third-parties. These businesses may also receive unexplained third party payments;
- Un-necessary complicated and complex supply chains, involving multiple transshipments;
- Previously established companies specialising in one sector that unexpectedly pivot into an entirely unrelated sector.
- Companies simultaneously involved in more than one unrelated sector.



# Other Sectors Uniquely Positioned to Identify TBML

- Shell and front companies – Whilst there is often a significant intersection between TBML schemes and the exploitation of shell or front companies, they do not feature in all TBML schemes.
- Freight Forwarders – play an important role in facilitating goods shipments and processes, acting as experts in determining the most efficient transportation method in moving goods.
  - Commercial invoices: This can include a statement certifying the invoice is true.
  - Bill of lading: a document issued by the carrier to acknowledge receipt of cargo.



# Current Trade Based Money Laundering Risks

**Illicit cash Integration** – Crime groups need a way of integrating illicit cash into the financial system.

A variation to the Black Market Peso Exchange is to dispose of illicit cash with other crime groups, looking for cash.

**Third Party Intermediaries** – Has continued to remain as a constant feature of TBML schemes.



# Illicit Cash Integration

- Whilst cash integration involves financial institutions, crime groups also exploit other types of financial institutions such as informal value transfer systems such as Hawala.
- Crime groups perceive that informal mechanisms have less developed understanding of TBML.
- This reinforces the obligations on customer due diligence.
- Supervisors and regulators should consider TBML policies and controls.
- Examples:
  - Offsetting schemes – where crime groups dispose of cash by co-operating with other crime groups looking for cash.
  - Surrogate shopping networks – networks of shoppers purchasing desired goods on behalf of wealthier individuals.
  - Infiltration of legitimate supply chains – A crime group purchases a stake in a legitimate business and uses its supply chain as a method of integrating illicit cash into the financial system.



# Third Party Intermediaries Facilitating Invoice Settlement.

- Third party intermediaries often appear as part of the invoice settlement process.
- They are also often associated with the exploitation of open account trading.
- A crime group may pay for goods by involving a previously unknown third-party.
- These third-parties may be based in locations with beneficial ownership secrecy provisions.



Thank you



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