Financial Action Task Force

Groupe d'action financière

TRADE BASED MONEY LAUNDERING

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FATF Secretariat, 2 rue André-Pascal, 75775 Paris Cedex 16, France
Fax: +33 1 44 30 61 37 or Contact@fatf-gafi.org

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Executive Summary

There are three main methods by which criminal organisations and terrorist financiers move money for the purpose of disguising its origins and integrating it into the formal economy. The first is through the use of the financial system; the second involves the physical movement of money (e.g. through the use of cash couriers); and the third is through the physical movement of goods through the trade system. In recent years, the Financial Action Task Force has focused considerable attention on the first two of these methods. By comparison, the scope for abuse of the international trade system has received relatively little attention.

The international trade system is clearly subject to a wide range of risks and vulnerabilities that can be exploited by criminal organisations and terrorist financiers. In part, these arise from the enormous volume of trade flows, which obscures individual transactions; the complexities associated with the use of multiple foreign exchange transactions and diverse trade financing arrangements; the commingling of legitimate and illicit funds; and the limited resources that most customs agencies have available to detect suspicious trade transactions.

For the purpose of this study, *trade-based money laundering is defined 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*. In practice, this can be achieved through the misrepresentation of the price, quantity or quality of imports or exports. Moreover, trade-based money laundering techniques vary in complexity and are frequently used in combination with other money laundering techniques to further obscure the money trail.

This study provides a number of case studies that illustrate how the international trade system has been exploited by criminal organisations. It also has made use of a detailed questionnaire to gather information on the current practices of more than thirty countries. This information focuses on the ability of various government agencies to identify suspicious activities related to trade transactions, to share this information with domestic and foreign partner agencies, and to act on this information.

The study concludes that trade-based money laundering represents an important channel of criminal activity and, given the growth of world trade, an increasingly important money laundering and terrorist financing vulnerability. Moreover, as the standards applied to other money laundering techniques become increasingly effective, the use of trade-based money laundering can be expected to become increasingly attractive.

Looking ahead there are a number of practical steps that can be taken to improve the capacity of national authorities to address the threat of trade-based money laundering. Among these are the need for a stronger focus on training programs to better identify trade-based money laundering techniques, the need for more effective information sharing among competent authorities at the national level, and greater recourse to memoranda of understanding and mutual assistance agreements to strengthen international cooperation.

Trade-Based Money Laundering

1. Introduction

In general, there are three main methods by which criminal organisations and terrorist financiers move money for the purpose of disguising its origins and integrating it back into the formal economy.

- The first involves the movement of value through the financial system using methods such as cheques and wire transfers;
- The second involves the physical movement of banknotes using methods such as cash couriers and bulk cash smuggling; and
- The third involves the movement of value using methods such as the false documentation and declaration of traded goods and services.

Each of these methods involves the movement of enormous volumes of funds and can operate at a domestic or international level. *The primary focus of this study is trade-based money laundering involving the international exchange of goods.*[1]

Over the past few years, the Financial Action Task Force (FATF) has focussed considerable attention on the first two of these methods. In 2003, the FATF significantly toughened the standards that apply to the financial system and various non-financial intermediaries. Two years later, it extended these standards to cover the activities of cash couriers. To date, however, limited attention has been focussed on trade-related activities.

Not surprisingly, research has shown that when governments take action against certain methods of money laundering or terrorist financing, criminal activities tend to migrate to other methods. In part, this reflects the fact that more aggressive policy actions and enforcement measures increase the risk of detection and therefore raise the economic cost of using these methods.

This suggests that the FATF's recent actions to revise the 40 Recommendations on money laundering and extend the 8 Special Recommendations on terrorist financing to cover cash couriers, as well as the ongoing efforts of countries to implement these stricter standards, may have the unintended effect of increasing the attractiveness of the international trade system for money laundering and terrorist financing activities.[2]

This report is the product of research carried out by a project team operating under the umbrella of the FATF typologies initiative. The FATF project team was led by Canada with the participation of Aruba, Australia, Belgium, Brazil, China, India, Mexico, the Netherlands, the Netherlands Antilles, South Africa, South Korea, Spain, the United Kingdom, the United States, the Asia Development Bank, the Asia-Pacific Group on Money Laundering, the Eastern and Southern Africa Anti-Money Laundering Group, the Egmont Group (represented by the Ukraine), the Gulf Cooperation Council, the World Bank, and the World Customs Organisation.

[1] The specific risks associated with trade-based money laundering involving the international trade of services warrant further study.

[2] FATF Special Recommendation IX pertains to cash couriers.

2. The International Trade System

The international trade system is subject to a wide range of risks and vulnerabilities, which provide criminal organisations with the opportunity to launder the proceeds of crime and provide funding to terrorist organisations, with a relatively low risk of detection. The relative attractiveness of the international trade system is associated with:

- The enormous volume of trade flows, which obscures individual transactions and provides abundant opportunity for criminal organisations to transfer value across borders;
- The complexity associated with (often multiple) foreign exchange transactions and recourse to diverse financing arrangements;
- The additional complexity that can arise from the practice of commingling illicit funds with the cash flows of legitimate businesses;
- The limited recourse to verification procedures or programs to exchange customs data between countries; and
- The limited resources that most customs agencies have available to detect illegal trade transactions.

On this last point, research suggests that most customs agencies inspect less than 5 percent of all cargo shipments entering or leaving their jurisdictions. In addition, most custom agencies are able to direct relatively limited analytical resources to improved targeting and identification of suspicious trade transactions.

In recent decades, international trade has grown significantly: global merchandise trade now exceeds US$9 trillion a year and global trade in services accounts for a further US$2 trillion[3]. Much of this trade is associated with the financial system, as a significant amount of goods and services are financed by banks and other financial institutions.

In industrial countries the growth of trade has significantly exceeded the growth of gross domestic product, while in developing countries it has increased even faster. In addition, virtually all economies have become more open to trade. This has placed increasing pressure on the limited resources that most countries, especially developing countries, have available to scrutinise these activities.

3. Abuse of the International Trade System

Researchers have documented how the international trade system can be used to move money and goods with limited scrutiny by government authorities. In addition to money laundering, a considerable amount of academic attention has focused on the related activities of tax avoidance and evasion, and capital flight. A brief review of the recent literature in these areas is provided below.

Tax Avoidance and Evasion

A number of authors, including Li and Balachandran (1996), Fisman and Wei (2001), Swenson (2001) and Tomohara (2004), have described the impact that differing tax rates have on the incentives of corporations to shift taxable income from jurisdictions with relatively high tax rates to jurisdictions with relatively low tax rates in order to minimise income tax payments.

For example, this could arise in the context of a domestic parent company headquartered in a low-tax jurisdiction, which has a foreign affiliate operating in a high-tax jurisdiction. In such a situation, a common technique would be the over- or under-invoicing of imports and exports. For example, a foreign parent could use internal "transfer prices" to overstate the value of the goods and services that it provides to its foreign affiliate in order to shift

[3] See *International Trade Statistics 2005,* World Trade Organisation.

taxable income from the operations of the affiliate in a high-tax jurisdiction to its operations in a low-tax jurisdiction.[4]

Similarly, the foreign affiliate might understate the value of the goods and services that it provides the domestic parent in order to shift taxable income from its high-tax jurisdiction to the low-tax jurisdiction of its parent. Both of these strategies would shift the company's profits to the low-tax jurisdiction and in doing so, reduce its worldwide tax payments. Imports can also be under-invoiced to reduce the payment of import duties and exports can be over-invoiced to obtain larger export subsidies. For example, studies by Vincent (2004) and Goetzl (2005) have documented the use of under-invoicing to reduce import duties in the case of forest products.

Capital Flight

A number of authors, including Cuddington (1986), Gulati (1987), Lessard and Williamson (1984), Kahn (1991), Anthony and Hallet (1992), Wood and Moll (1994), Fatehi (1994), Baker (2005) and de Boyrie, Pak and Zdanowicz (2005), have shown that companies and individuals also shift money from one country to another to diversify risk and protect their wealth against the impact of financial or political crises. Several of these studies also show that a common technique used to circumvent currency restrictions is to over-invoice imports or under-invoice exports.

For example, the International Monetary Fund (IMF) (1991), Kahn (1991), Wood and Moll (1994) and Fatehi (1994) examined the impact of controls imposed by South Africa in the 1970s and 1980s. They found that the primary method used to evade these controls was the falsification of import and export invoices. By comparing discrepancies between the value of exports reported by South Africa and the value of imports reported by key trading partners, the Kahn study concluded that at least $20 billion had been transferred out of South Africa through the use of the international trade system. Other studies, including Smit and Mocke (1991) and Rustomjee (1991), suggested outflows ranging from $12 billion to more than $50 billion.

Trade-Based Money Laundering

Unlike tax avoidance and capital flight, which usually involve the transfer of legitimately earned funds across borders, capital movements relating to money laundering – or trade-based money laundering – involve the proceeds of crime, which are more difficult to track.

Trade-based money laundering has received considerably less attention in academic circles than the other means of transferring value. The literature has primarily focussed on alternative remittance systems and black market peso exchange transactions. However, a number of authors and institutions, including Baker (2005), de Boyrie, Pak and Zdanowicz (2005), the Department of Homeland Security, US Immigration and Customs Enforcement (2005), have recently examined a range of other methods used to launder money through the international trade system as well as the scope that jurisdictions have to identify and limit these activities.

A number of these studies have also analyzed techniques to establish whether reported import and export prices reflect fair market values. One of the methods currently being explored involves the use of statistical techniques to detect discrepancies in the information provided on shipping documents to better identify suspicious trading activity.

4. Basic Trade-Based Money Laundering Techniques

For the purpose of this study, *trade-based money laundering is defined 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 origin*. In practice, this can be achieved through the misrepresentation of the price, quantity or quality of imports or exports.

[4] In the case of transfer pricing, the reference to over- and under-invoicing relates to the legitimate allocation of income between related parties, rather than customs fraud.

In many cases, this can also involve abuse of the financial system through fraudulent transactions involving a range of money transmission instruments, such as wire transfers. The basic techniques of trade-based money laundering include:

- over- and under-invoicing of goods and services;
- multiple invoicing of goods and services;
- over- and under-shipments of goods and services; and
- falsely described goods and services.

All of these techniques are not necessarily in use in every country.

Over- and Under-Invoicing of Goods and Services

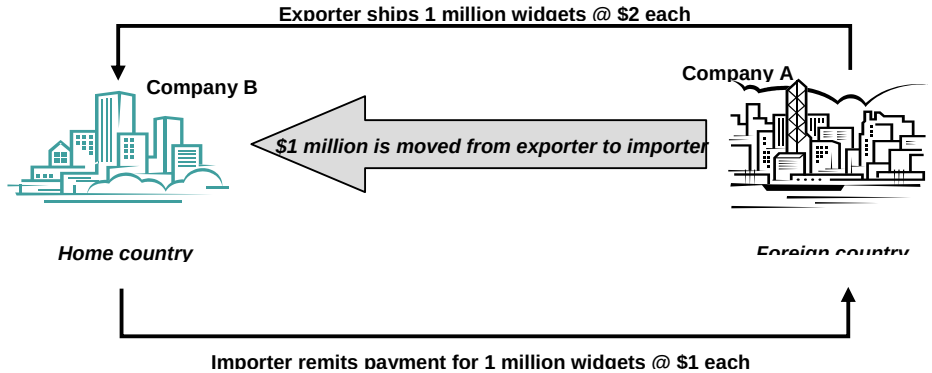
Money laundering through the over- and under-invoicing of goods and services, which is one of the oldest methods of fraudulently transferring value across borders, remains a common practice today. The key element of this technique is the misrepresentation of the price of the good or service in order to transfer additional value between the importer and exporter.

By invoicing the good or service at a price below the "fair market" price, the exporter is able to transfer value to the importer, as the payment for the good or service will be lower than the value that the importer receives when it is sold on the open market.

Alternatively, by invoicing the good or service at a price above the fair market price, the exporter is able to receive value from the importer, as the payment for the good or service is higher than the value that the importer will receive when it is sold on the open market.

Over- and Under-Invoicing of Goods – An Example

Company A (a foreign exporter) ships 1 million widgets worth $2 each, but invoices Company B (a colluding domestic importer) for 1 million widgets at a price of only $1 each. Company B pays Company A for the goods by sending a wire transfer for $1 million. Company B then sells the widgets on the open market for $2 million and deposits the extra $1 million (the difference between the invoiced price and the "fair market" value) into a bank account to be disbursed according to Company A's instructions.



Alternatively, Company C (a domestic exporter) ships 1 million widgets worth $2 each, but invoices Company D (a colluding foreign importer) for 1 million widgets at a price of $3 each. Company D pays Company C for the goods by sending a wire transfer for $3 million. Company C then pays $2 million to its suppliers and deposits the remaining $1 million (the difference between the invoiced price and the "fair market" price) into a bank account to be disbursed according to Company D's instructions.

Several points are worth noting. First, neither of the above transactions would be undertaken unless the exporter and importer had agreed to collude. For example, if Company A were to ship widgets worth $2 each, but invoice them for $1 each, it would lose $1 million a shipment. Such a situation would not make sense unless the exporter and importer were colluding in a fraudulent transaction.

Second, there is no reason that Company A and Company B could not be controlled by the same organisation. In turn, there is nothing that precludes a parent company from setting up a foreign affiliate in a jurisdiction with less rigorous money laundering controls and selling widgets to the affiliate at a "fair market" price. In such a situation, the parent company could send its foreign affiliate a legitimate commercial invoice (e.g. an invoice of $2 million for 1 million widgets) and the affiliate could then resell (and "re-invoice") these goods at a significantly higher or lower price to a final purchaser. In this way, the company could shift the location of its over- or under-invoicing to a foreign jurisdiction where such trading discrepancies might have less risk of being detected.

Third, the over- and under-invoicing of exports and imports can have significant tax implications. An exporter who over-invoices the value of the goods that he ships may be able to significantly increase the value of the export tax credit (or valued-added tax (VAT) rebate) that he receives. Similarly, an importer who is under-invoiced for the value of the goods that he receives may be able to significantly reduce the value of the import duties (or customs taxes) that he pays. Both of these cases illustrate the link between trade-based money laundering and abuse of the tax system.[5]

Research suggests that under-invoicing exports is one of the most common trade-based money laundering techniques used to move money. This reflects the fact that the primary focus of most customs agencies is to stop the importation of contraband and ensure that appropriate import duties are collected. Thus, customs agencies generally monitor exports less rigorously than imports.[6]

It is also worth noting that the more complex the good being traded, the greater the difficulty that customs agencies will have in identifying over- and under-invoicing and correctly assessing duties or taxes. In part, this is because many customs agencies do not have access to data and resources to establish the "fair market" price of many goods. In addition, most customs agencies do not share trade data with other countries and therefore see only one side of the transaction. As such, their ability to identify incorrectly priced goods is often limited to those that are widely traded (and whose prices are widely quoted) in international markets.[7]

Multiple Invoicing of Goods and Services

Another technique used to launder funds involves issuing more than one invoice for the same international trade transaction. By invoicing the same good or service more than once, a money launderer or terrorist financier is able to justify multiple payments for the same shipment of goods or delivery of services. Employing a number of different financial institutions to make these additional payments can further increase the level of complexity surrounding such transactions.

In addition, even if a case of multiple payments relating to the same shipment of goods or delivery of services is detected, there are a number of legitimate explanations for such situations including the amendment of payment terms, corrections to previous payment instructions or the payment of late fees. Unlike over- and under-invoicing, it should be noted that there is no need for the exporter or importer to misrepresent the price of the good or service on the commercial invoice.[8]

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[5] For the purposes of this paper, cases of over- or under-invoicing primarily designed to gain a tax advantage are considered customs fraud rather than trade-based money laundering.

[6] For the same reasons, non-dutiable goods may also be subject to less rigorous scrutiny.

[7] High-value goods, such as works of art, which have limited markets and highly "speculative" values present significant valuation difficulties.

[8] If prices are correctly reported to customs agencies, detection of criminal activity is more difficult and may depend on intelligence-led operations.

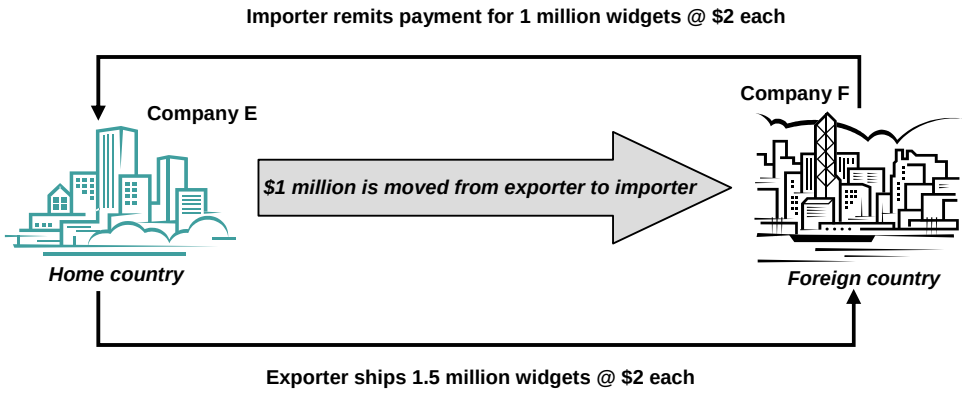
Over- and Under-Shipments of Goods and Services

In addition to manipulating export and import prices, a money launderer can overstate or understate the quantity of goods being shipped or services being provided. In the extreme, an exporter may not ship any goods at all, but simply collude with an importer to ensure that all shipping and customs documents associated with this so-called "phantom shipment" are routinely processed. Banks and other financial institutions may unknowingly be involved in the provision of trade financing for these phantom shipments.

Falsely Described Goods and Services

Over- and Under-Shipment of Goods – An Example

Company E (a domestic exporter) sells 1 million widgets to Company F (a colluding foreign importer) at a price of $2 each, but ships 1.5 million widgets. Company F pays Company E for the goods by sending a wire transfer for $2 million. Company F then sells the widgets on the open market for $3 million and deposits the extra $1 million (the difference between the invoiced quantity and the actual quantity) into a bank account to be disbursed according to Company E's instructions.



Alternatively, Company G (a foreign exporter) sells 1 million widgets to Company H (a colluding domestic importer) at a price of $2 each, but only ships 500,000 widgets. Company H pays Company G for the goods by sending a wire transfer for $2 million. Company G then pays $1 million to its suppliers and deposits the remaining $1 million (the difference between the invoiced quantity and the actual quantity) into a bank account to be disbursed according to Company H's instructions.

In addition to manipulating export and import prices, a money launderer can misrepresent the quality or type of a good or service. For example, an exporter may ship a relatively inexpensive good and falsely invoice it as a more expensive item or an entirely different item. This creates a discrepancy between what appears on the shipping and customs documents and what is actually shipped. The use of false descriptions can also be used in the trade in services, such as financial advice, consulting services and market research. In practice, the fair market value of these services can present additional valuation difficulties.

Falsely Described Goods – An Example

Company I (a domestic exporter) ships 1 million gold widgets worth $3 each to Company J (a colluding foreign importer), but invoices Company J for 1 million silver widgets worth $2 each. Company J pays Company I for the goods by sending a wire transfer for $2 million. Company J then sells the gold widgets on the open market for $3 million and deposits the extra $1 million (the difference between the invoice value and the actual value) into a bank account to be disbursed according to Company I's instructions.

Alternatively, Company K (a foreign exporter) ships 1 million bronze widgets worth $1 each to Company L (a colluding domestic importer), but invoices Company L for 1 million silver widgets worth $2 each. Company L pays Company K for the goods by sending a wire transfer of $2 million. Company K then pays $1 million to its suppliers and deposits the remaining $1 million (the difference between the invoiced value and the actual value) into a bank account to be disbursed according to Company L's instructions.

5. Complex Trade-Based Money Laundering Techniques

In practice, strategies to launder money usually combine several different techniques. Often these involve abuse of both the financial and international trade systems. Black market peso exchange arrangements provide a useful illustration of how a number of different money laundering techniques can be combined into a single criminal operation.

Black Market Peso Exchange Arrangements

The mechanics of black market peso exchange arrangements became the subject of considerable study in the 1980s when Colombia became the dominant exporter of cocaine into the United States. These illegal drug sales generated about $10 billion a year for the Colombian drug cartels, of which as much as $4 billion a year was laundered through black market peso arrangements. The mechanics of a simple black market peso arrangement can be set out in the following steps.

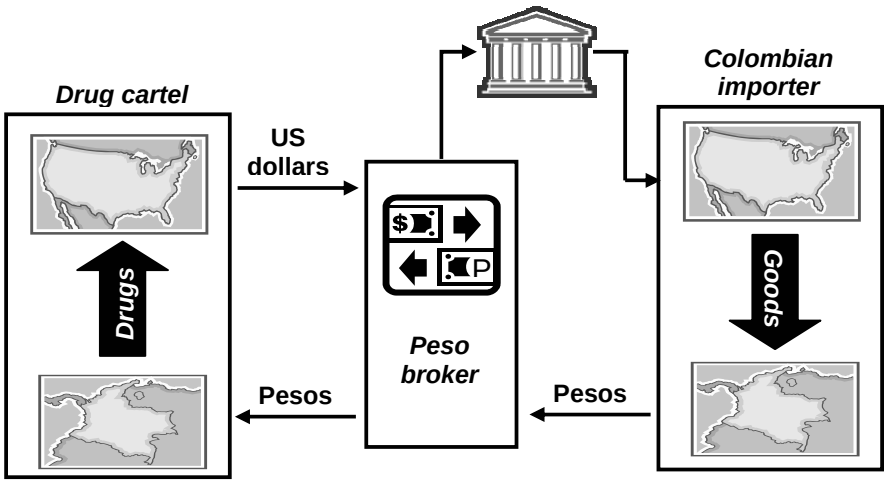
- First, the Colombian drug cartel smuggles illegal drugs into the United States and sells them for cash;
- Second, the drug cartel arranges to sell the US dollars at a discount to a peso broker for Colombian pesos;[9]
- Third, the peso broker pays the drug cartel with pesos from his bank account in Colombia (which eliminates the drug cartel from any further involvement in the arrangement);

[9] The peso broker does need not to be located in the United States and, in fact, will usually operate out of Colombia. However, the peso broker will need to have a relationship with a correspondent in the United States to execute the transaction.

- Fourth, the peso broker structures or "smurfs" the US currency into the US banking system to avoid reporting requirements and consolidates this money in his US bank account;
- Fifth, the peso broker identifies a Colombian importer that needs US dollars to purchase goods from a US exporter[10];
- Sixth, the peso broker arranges to pay the US exporter (on behalf of the Colombian importer) from his US bank account;
- Seventh, the US exporter ships the goods to Colombia[11]; and
- Finally, the Colombian importer sells the goods (often high-value items such as personal computers, consumer electronics and household appliances) for pesos and repays the peso broker. This replenishes the peso broker's supply of pesos.

These transactions combine a number of different illegal activities, such as drug smuggling, money laundering through the financial system and trade-based money laundering.[12] In addition, there is no reason why the drug cartel cannot act as its own peso broker or import business. In fact, many drug cartels appear to have internalised these functions.

Mechanics of a Black Market Peso Exchange Arrangement



Unlike the basic trade-based money laundering techniques discussed above, there is also no need for the importer and exporter to collude in a fraudulent transaction for the black market peso exchange arrangement to work. Instead, the prices and quantities of the goods can be correctly reported to customs agencies and value can still be transferred across borders.[13] Although the term "black market peso exchange" refers to a money

[10] The peso broker generally offers an exchange rate that is significantly better than that available through a Colombian bank.

[11] In practice, these goods would frequently be under-invoiced to reduce import duties or smuggled into the country to avoid import duties.

[12] Banks and other financial institutions provide a number of arrangements for the settlement of international trade transactions. (For more information, see Annex 1).

[13] If prices and quantities are correctly reported to customs agencies, detection of the criminal activity is more difficult and may depend on intelligence-led operations. In practice, the goods associated with most black market peso exchange transactions are smuggled into the country to avoid duties and taxes.

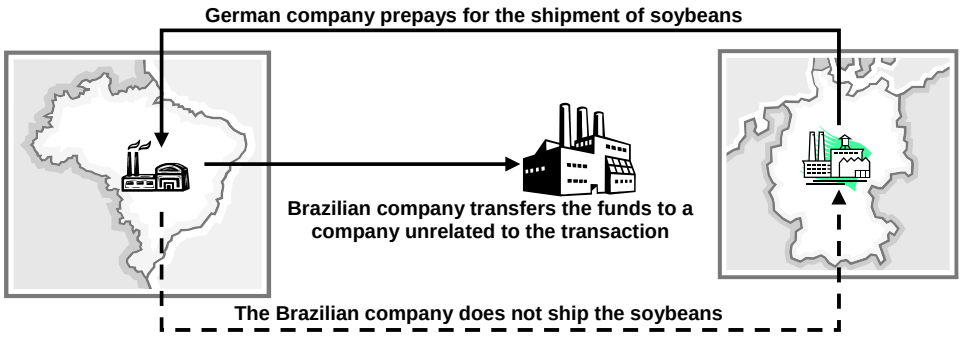
laundering technique that was originally associated with Colombian narcotics trafficking, these arrangements are widely used in many countries to repatriate the proceeds of various types of crimes.

6. Case Studies

This section provides a number of case studies that illustrate the various ways that trade-based money laundering techniques can be used separately or in combination with other money laundering techniques to obscure the origins of illegal funds and complicate efforts to trace this money.

Case Study 1

- A Brazilian company signs a contract to export soybeans to a German company.
- The German company prepays the Brazilian company for the shipment.
- The Brazilian company immediately transfers the funds to a third party that is unrelated to the transaction.
- The soybeans that were purchased by the German company are never shipped.

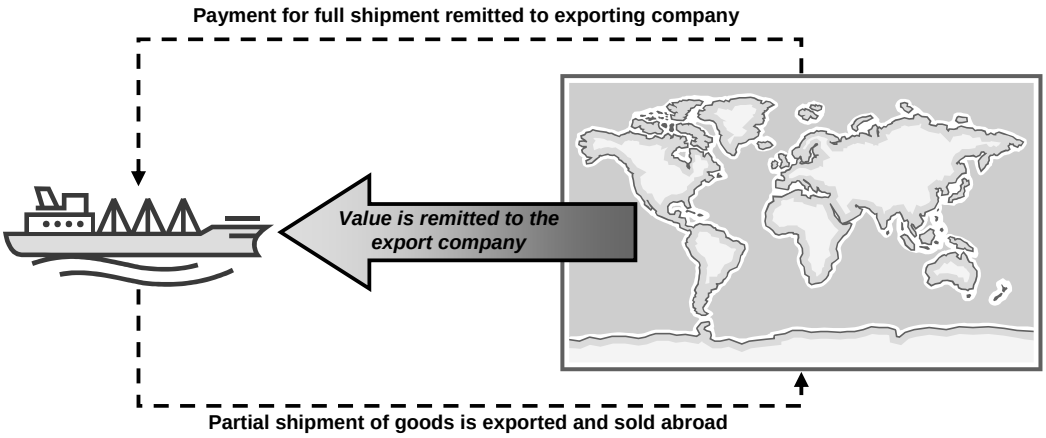


Source: Information provided by Brazil.

Commentary -- In this case, the German company transferred funds to the Brazilian company as an advance payment for a shipment of soybeans. Suspicions were raised when it was found that exports of soybeans were inconsistent with the Brazilian company's regular business activities and the size of the reported shipment was inconsistent with the scale of the company's operations.

Case Study 2

- A criminal organisation exports a relatively small shipment of scrap metal, but falsely reports the shipment as weighing several hundred tons.
- Commercial invoices, bills of lading and other shipping documents are prepared to support the fraudulent transaction.
- When the cargo is loaded on board the ship, a Canadian customs officer notices that the hull of the ship is still well above the water line. This is inconsistent with the reported weight of the shipment of scrap metal.
- The cargo is examined and the discrepancy between the reported and actual weight of the shipment is detected.
- It is assumed that the inflated value of the invoice would have been used to transfer criminal funds to Canada.

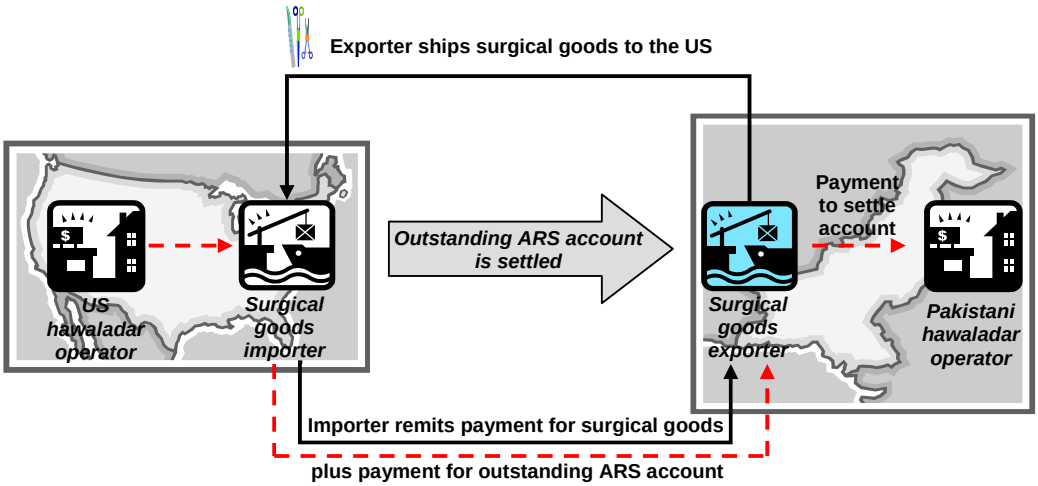


Source: Information provided by Canada.

Commentary -- In this case, the criminal organisation appears to have intended to over-invoice a colluding foreign importer by misrepresenting the quantity of goods. Using the international trade system, the criminal organisation would then have been able to transfer illegal funds back into the country using the trade transaction to justify payment through the financial system.

Case Study 3

- An alternative remittance system (ARS) operator (e.g. a "hawaladar") in the United States wants to transfer funds to his Pakistani counterpart to settle an outstanding account.
- The US operator colludes with a Pakistani exporter, who agrees to significantly over-invoice a US importer for the purchase of surgical goods.
- The US operator transfers funds to the US importer to cover the extra cost related to the over-invoicing.
- The Pakistani exporter uses the over-invoiced amount to settle the US operator's outstanding account with his Pakistani counterpart.
- The Pakistani exporter additionally benefits from a 20 percent VAT rebate on the higher prices of the exported goods.

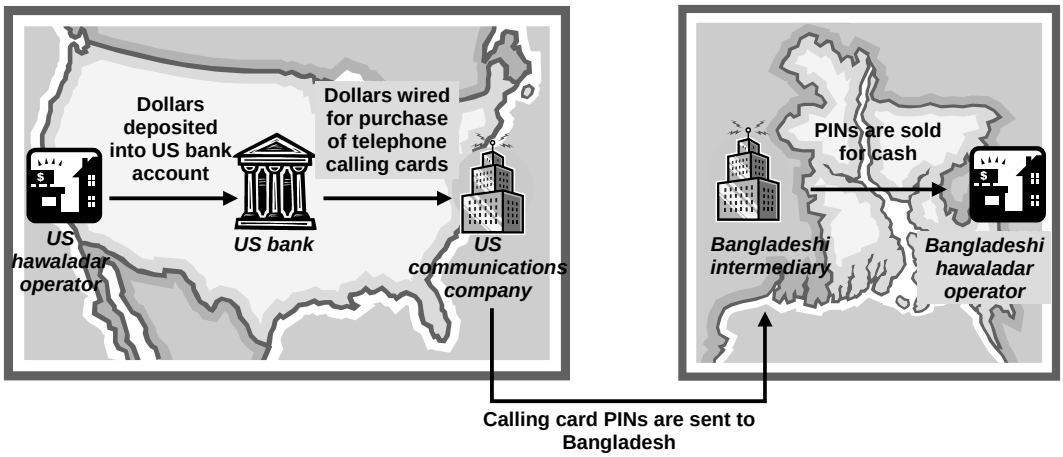


Source: Information provided by the United States.

Commentary -- In this case, rather than simply wiring the funds to his Pakistani counterpart, the US operator convinces a Pakistani exporter to over-invoice a colluding US importer. Using the international trade system, the US operator was then able to transfer the funds to settle his account using the trade transaction to justify payment through the financial system.

Case Study 4

- An alternative remittance system operator in the United States wants to transfer funds to his Bangladeshi counterpart to settle an outstanding account.
- The US operator deposits US dollars into his bank account and then wires the money to the corporate account of a large communications company to purchase telephone calling cards.
- The personal identification numbers (PINs) of these calling cards are sent to Bangladesh and sold for cash.
- The cash is given to the Bangladeshi counterpart to settle the US operator's outstanding account.

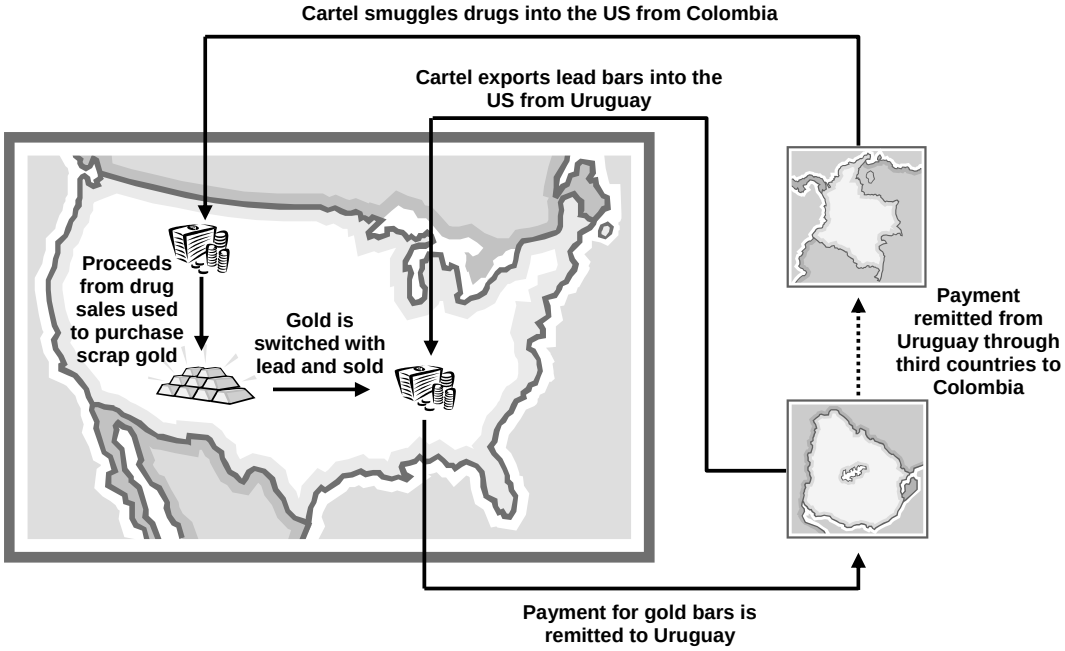


Source: FATF Money Laundering and Terrorist Financing Typologies for 2004-2005.

Commentary -- In this case, rather than simply wiring the funds to his Bangladeshi counterpart, the US operator chose to minimise the risk of detection through use of the international trade system. Interestingly, the operator's scheme does not depend on fraudulently reporting the price or quantity of the goods in order to transfer the funds required to settle the outstanding account. In addition, the calling cards are not actually exported. All that is required is the cross-border transfer of the PINs (i.e. the sale of an "intangible" good).

Case Study 5

- A Colombian cartel smuggles illegal drugs into the United States and sells them for cash.
- The cartel uses the cash to buy scrap gold in the United States, which is melted down and recast as gold bars.
- At the same time, the cartel ships lead bars from Uruguay to the United States, which are invoiced as bars of gold.
- When the shipment arrives, the lead bars are destroyed and the recast gold bars are substituted.
- With authentic documentation, the gold bars are sold on the open market. The money is wired back to Uruguay and then eventually to Panama.

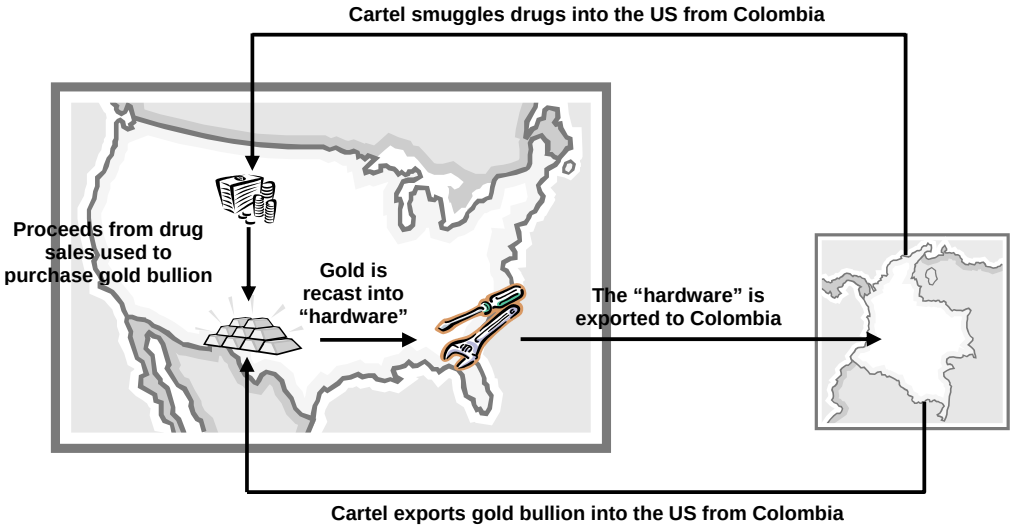


Source: Jeffrey Robinson, The Laundrymen (1995). Used by permission of the author.

Commentary -- Unlike black market peso exchange arrangements, rather than smurfing the US currency into the US banking system, the cartel chose to minimise the risk of detection through the use of a falsely described shipment of goods. The shipping documents associated with these falsely described South American "gold bars" were used to legitimise the sale of the US gold bars. The receipts from these US gold sales were then deposited into the US banking system.

Case Study 6

- A Colombian cartel smuggles illegal drugs into the United States and sells them for cash.
- The cash is deposited into the US banking system and then used to purchase gold bullion that the cartel exports from Colombia.
- A group of cooperative jewellers in New York melts down the gold bullion and recasts them as low-value hardware items, such as nuts, bolts and household tools.
- The hardware items are enamelled and exported back to Colombia where they are melted down and recast as gold bullion again.
- The cartel re-exports the gold bullion to the United States where they are sold again and used to repatriate additional funds from drug sales to Colombia.

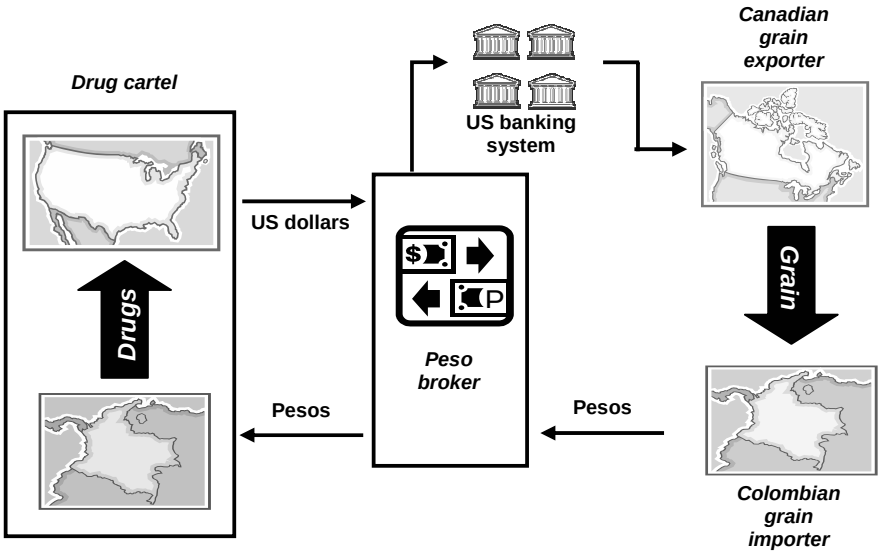


Source: Information provided by the United States.

Commentary -- Like black market peso exchange arrangements, the cartel smurfs the cash from drug sales into the US banking system and then uses this money to buy gold bullion that it has exported from Colombia. The gold is accurately reported to US Customs as "gold bullion", but falsely described to Colombian Customs as "manufactured gold products" in order to claim export credits. The shipping documents presented to US Customs are used to legitimise the sale of the Colombian gold bullion. By disguising the gold bullion as low-value exports to Colombia and then re-exporting the same gold bullion back to the United States, the cartel is able to repatriate the proceeds of the drug sales to Colombia by repeatedly invoicing the same gold bullion.

Case Study 7

- A Colombian drug cartel smuggles illegal drugs into the United States and sells them for cash.
- The drug cartel arranges to sell these US dollars at a discount to a peso broker for Colombian pesos.
- The broker "smurfs" the US dollars from the drug sales into the US banking system.
- The broker uses these funds to pay a Canadian company to ship grain to Colombia (on behalf of a Colombian grain importer). The payment is in the form of a letter of credit (covering 70% of the value of the contract) and third party cheques and electronic fund transfers (covering 30% of the value of the contract).
- The Colombian grain importer sells the grain in Colombia for pesos and repays the broker for financing the shipment.

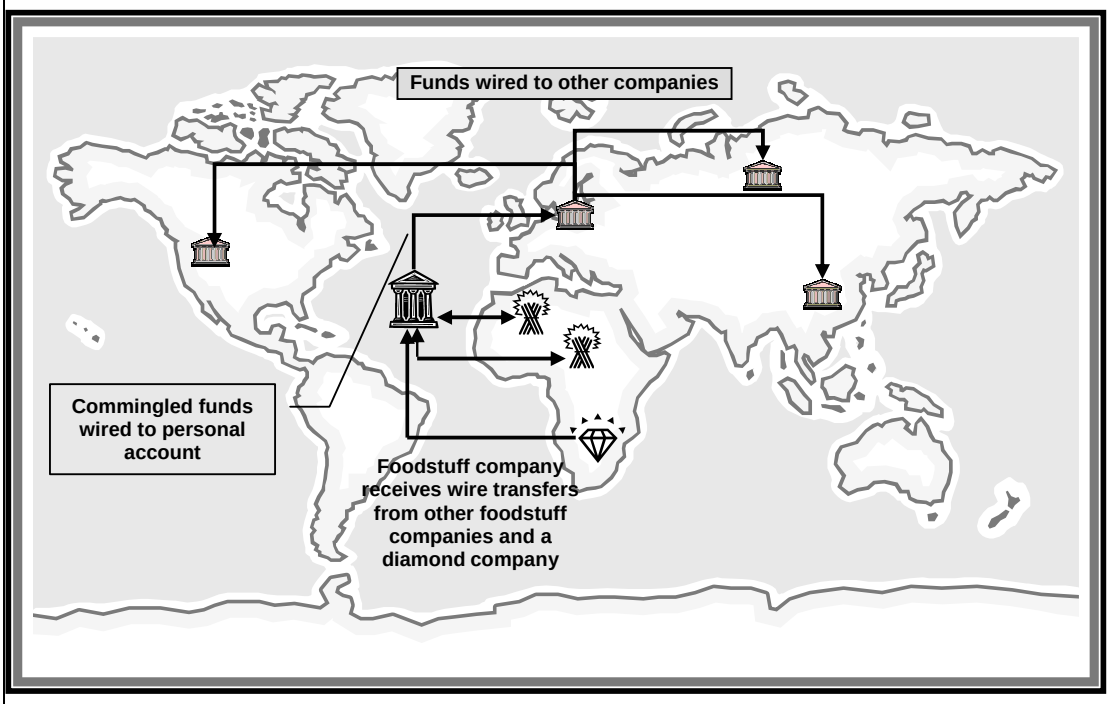


Source: Information provided by Canada.

Commentary -- This is a black market peso arrangement. Unlike the example that is used earlier in the paper, the peso broker smurfs the US dollars from the drug sales into the US banking system, but then uses these funds to purchase grain from a Canadian company for export to Colombia. In this case, the Colombian importer also made use of the two types of payments to try to defraud the Colombian Government of import duties by only declaring the 70 percent of the cost of the shipment covered by the letter of credit.

Case Study 8

- A food product trading company is established in an offshore financial centre and conducts business with several African food product companies.
- The money that the company receives for the sale of its products is immediately transferred from the company's offshore account to the personal account of its manager in Belgium. In turn, the funds are then quickly transferred to several foreign companies.
- The company also receives transfers from an unrelated company in the diamond business. The money from the diamond company is commingled with the company's other business receipts and transferred through Belgium to the same foreign companies.

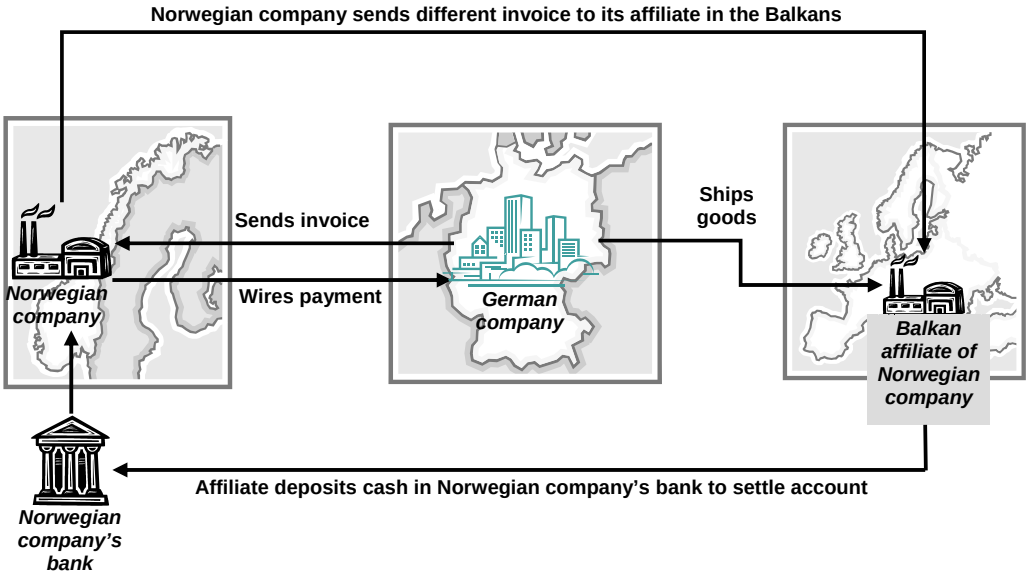


Source: Information provided by Belgium.

Commentary -- This case illustrates the level of additional complexity that can be added to the money trail by commingling illicit funds with the cash flows of legitimate businesses. In this case, the diamond company was subsequently the subject of an investigation into the trade in illegal "blood diamonds".

Case Study 9

- A Norwegian company purchases goods from a German company and directs that the goods be delivered to a branch of the Norwegian company in the Balkans.
- The German company sends the Norwegian company an invoice, which is settled by a wire transfer.
- The Norwegian company then sends the Balkan company a significantly higher invoice, which includes a range of inflated administrative costs.
- The Balkan company settles the invoice by paying cash into the Norwegian company's bank account.
- It is assumed that the Balkan company is transferring the proceeds of crime to the Norwegian company.

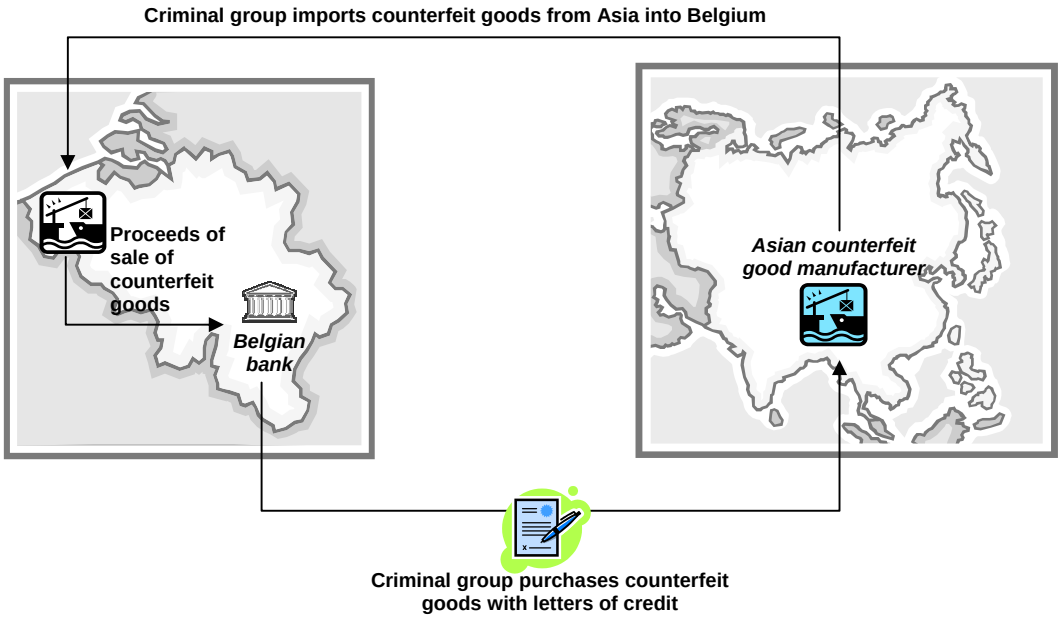


Source: Information provided by Norway.

Commentary -- In this case, the Norwegian company "re-invoices" the goods to significantly inflate their value. The Balkan company then deposits cash into the account of the Norwegian company. This "pay on account" transaction is done without any reference to the invoice for the shipped goods. This significantly complicates subsequent efforts to compare invoices and payments. The net effect is to transfer funds from the Balkan company to the Norwegian company with a relatively limited risk of detection.

Case Study 10

- A criminal group imports counterfeit goods from Asia into Belgium using a letter of credit and sells them for cash.
- The group deposits the money into a Belgian bank account and arranges a subsequent letter of credit.
- The group purchases additional counterfeit goods from Asia using the new letter of credit.
- These additional counterfeit goods are sold and the receipts deposited in the bank and used to arrange additional letters of credit.

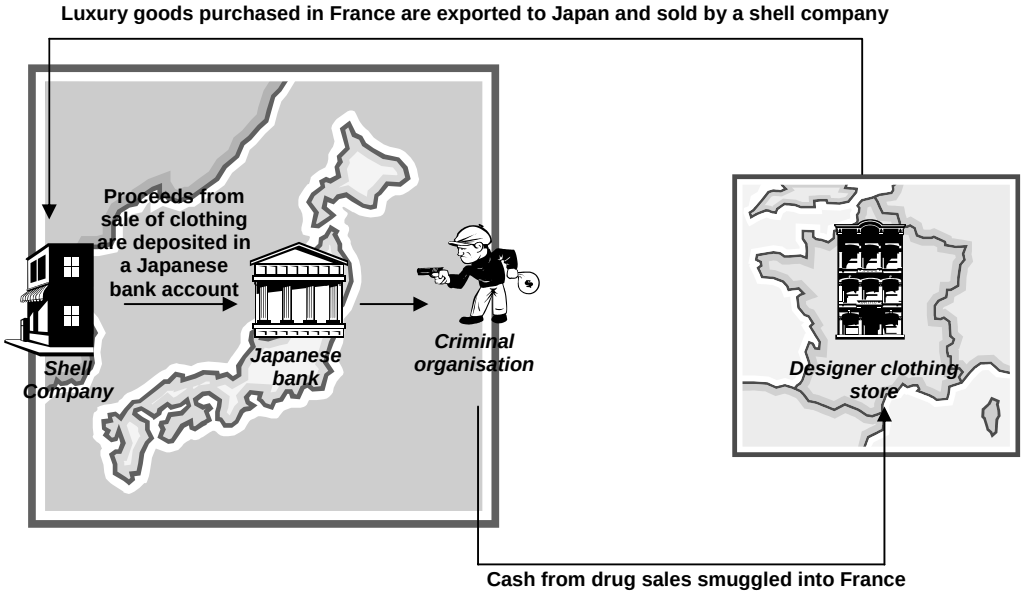


Source: Information provided by Belgium.

Commentary -- In this case, the criminal group was able to use the cash deposited in the bank to arrange letters of credit. Subsequently, it was able to make use of these letters of credit to purchase a series of shipments of counterfeit goods. The criminal group thought that the use of letters of credit related to trade transactions, rather than wire transfers, would increase the appearance of legitimacy of these transactions and reduce their risk of detection.

Case Study 11

- A criminal organisation sells illegal drugs in Japan. The organisation then smuggles the cash out of the country and into France.
- The money is used to purchase luxury goods in designer fashion stores, which are then exported to Japan and resold by a shell company.
- Proceeds from the sales of these luxury goods are deposited into the Japanese banking system.

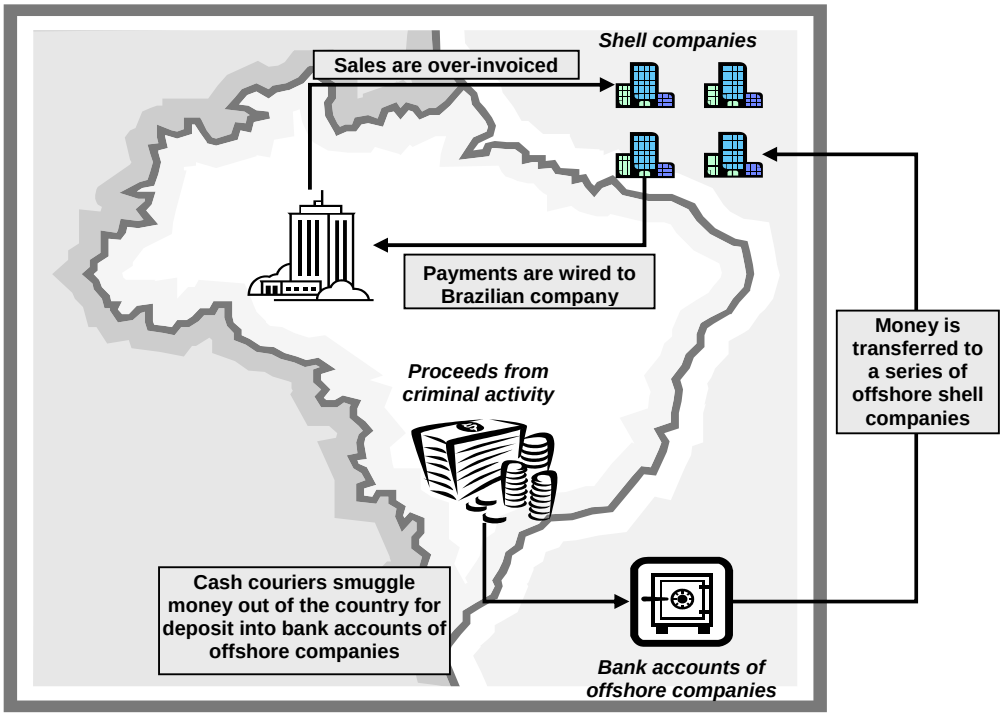


Source: Jeffrey Robinson, The Laundrymen (1995). Used by permission of the author.

Commentary – Rather than smurfing, the Japanese currency into the Japanese banking system, the criminal organisation chose to minimise the risk of detection by smuggling the cash out of the country and then using the international trade system to import luxury goods back into Japan. The proceeds from the sale of these goods were then deposited into the Japanese banking system. Suspicions were raised when it was discovered that forged documents were used to export these goods and that the organisation had never applied for a value added tax rebate.

Case Study 12

- A Brazilian company is engaged in a range of illegal activities.
- The cash, which is generated from these activities, is smuggled out of the country by cash couriers and deposited in the bank accounts of offshore companies controlled by the company.
- Funds from these offshore accounts are transferred to offshore shell companies and used to purchase concentrated syrup for soft drinks from the Brazilian company at highly inflated prices.
- The syrup was then sold by the shell companies to other legitimate companies at a significant loss.



Source: Information provided by Brazil.

Commentary -- In this case, the proceeds of crime were transferred to a Brazilian company through the sale of syrup at significantly inflated prices to a number of shell companies. The earnings from these sales were deposited into the company's Brazilian bank account and effectively reintegrated into the legitimate economy. Interestingly, unlike the shipment of scrap metal in Case Study 2, the weight and other physical characteristics of the shipment was unchanged, however, the process of dilution was used to reduce its value from US$40 a litre to US$1 a litre.

7. Current Practices

These case studies illustrate that the international trade system is subject to a wide range of vulnerabilities that can be exploited by criminal organisations and terrorist financiers. To examine the capacity of national authorities to combat trade-based money laundering, the FATF project team has made use of a detailed questionnaire to survey current practices in a range of countries.[14] This questionnaire focuses on the ability of various

[14] The 36 countries that responded to this questionnaire were Aruba, Australia, Austria, The Bahamas, Belgium, Brazil, Cambodia, Canada, Chinese Taipei, Fiji, France, Guatemala, Hong Kong, China, Indonesia, Italy, Japan, Kenya, Republic of

government agencies to identify suspicious activities related to trade transactions, to share this information with domestic and foreign partner agencies, and to act on this information. In carrying out this work, particular attention has been focused on the practices of customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors.

Customs Agencies

About half of customs agencies indicated that they make use of red flag indicators or other forms of risk analysis to detect potential trade-based money laundering activities. Moreover, almost three-quarters of those performing such analysis believe there is significant scope to make better use of trade data to identify anomalies that could be associated to money laundering or terrorist financing. In turn, this analysis triggered investigations in the case of more than half of respondents and prosecutions in about a quarter of respondents.

Similarly, almost all of respondents indicated that they were able to share trade-based information with law enforcement, financial intelligence units, tax authorities and foreign competent authorities. In the majority of cases, information sharing with law enforcement, financial intelligence units and tax authorities is voluntary. In the case of foreign competent authorities, the standard requirement for information sharing is a memorandum of understanding or customs mutual assistance agreement. Interestingly, less than half of respondents indicated that their customs agencies file suspicious activity reports with their financial intelligence units.

Only a third of respondents indicated that they had training programs in place, while virtually all agreed on the need for better training and understanding of the techniques of trade-based money laundering. In addition, more than half thought that there was scope to better use new technologies, such as X-ray scanners, electronic container seals and radio-frequency identification data. As a general proposition, two-thirds of respondents believed that their countries face serious vulnerabilities to trade-based money laundering activities.

Trade Transparency Units

Customs and law enforcement experience has shown that one of the most effective means of analyzing and investigating suspect trade-based activity is to have systems in place that monitor reported imports and exports between countries. Consistent with the FATF standards on international cooperation, a number of governments are now sharing import and export information in order to detect anomalies in their trade data.

To deal with the massive amounts of data generated by such exercises, new technologies have been developed that standardise this information against a range of variables to establish general patterns of trade activity. In turn, "trade transparency units" make use of this analysis to identify suspicious trading activities that often merit further investigation.

The sharing of trade data can be accomplished between cooperating customs authorities through customs mutual assistance agreements. The success of such arrangements underscores the importance of cooperating nations working together to establish bilateral mechanisms to detect trade anomalies, which may be associated with money laundering, terrorist financing or other financial crimes.

Experience shows that trade transparency units create effective gateways for the prompt exchange of trade data and information between foreign counterparts. As such, they represent a new and important investigative tool to better combat trade-based money laundering and customs fraud.

Korea, Macau, China, Malaysia, Mauritius, Mexico, Mongolia, Montserrat, Namibia, the Netherlands, the Netherlands Antilles, New Zealand, Norway, Peru, Qatar, South Africa, Spain, St. Lucia, Swaziland, United Kingdom and the United States. A detailed summary of the responses of each country has been provided to the FATF Secretariat to facilitate future analytical work in this area.

Law Enforcement Agencies

Interestingly, two-thirds of law enforcement agencies indicated they use trade information as part of their analysis of money laundering and terrorist financing activities. While the bulk of this information is received from financial intelligence units, customs agencies and financial institutions, significant information is also made available by banking supervisors and tax authorities. Almost all of the respondents that made use of this information indicated that it had triggered investigations and two-thirds of these investigations resulted in prosecutions.

While only a third of respondents have access to trade databases, those that do agree that there is significant scope for greater cooperation between customs and law enforcement agencies in this area. Half of the respondents make use of red flag indicators and similarly believe that there is scope for more extensive use of such techniques.

Law enforcement agencies appear to have few problems sharing information with customs agencies, financial intelligence units and tax authorities, although this is largely done on a voluntary basis and under certain conditions, such as to further an ongoing criminal investigation. Most respondents indicated that information sharing with banking supervisors is significantly more complicated (and frequently prohibited) and that information sharing with foreign competent authorities generally requires that a memorandum of understanding or mutual legal assistance treaty is in place. Nevertheless, several respondents indicated that they are generally able to share information on the basis of international reciprocity.

A third of respondents appear to have some level of expertise in the area of trade and a similar number indicated that they have training programs in place. Virtually all respondents agreed on the need for better training and awareness of the techniques of trade-based money laundering. In general, two-thirds of respondents viewed trade-based money laundering activities as presenting a serious risk to their country.

Financial Intelligence Units

Half of financial intelligence units receive suspicious activities reports triggered by concerns about trade-related activities. However, in most countries, the number of such reports is relatively low (e.g. often less than 25 a year). In addition to financial institutions, these reports are received from customs and law enforcement agencies and, to a lesser extent, tax authorities and banking supervisors. About a third of financial intelligence units use trade information as part of their ongoing analysis of money laundering and terrorist financing activities and this information frequently contributes to investigations and prosecutions.

Financial intelligence units indicated that they make extensive use of red flag indicators. In addition, the majority of respondents believe that there is considerable scope to make better use of such indicators and other analytical techniques to promote a more risk-based approach to detecting trade-based money laundering activities. This being the case, it is interesting that only a quarter of financial intelligence units reported that they make use of trade databanks as part of their analysis.

Not surprisingly, financial intelligence units are able to share information with law enforcement agencies, customs agencies, tax authorities and banking supervisors. However, some respondents cautioned that strict commercial confidentiality continues to apply to this information, which limits its use to intelligence purposes. Others indicated that the sharing of trade information is often limited to cases of ongoing criminal investigation. Respondents confirmed that domestic financial intelligence units are able to share information with foreign financial intelligence units, but this generally requires a memorandum of understanding or international reciprocity.

About half of the respondents have trade specialists on their staff, but only a quarter provide training to improve their analysts' understanding of trade-based money laundering techniques. Respondents were virtually unanimous that financial intelligence units would benefit from better training and awareness of the techniques of trade-based money laundering activities. In general, two-thirds of respondents believe that their countries are seriously vulnerable to abuse of the trade system for criminal purposes.

Tax Authorities

Two-thirds of tax authorities indicate that they receive information from customs and law enforcement agencies and financial intelligence units, which directly relates to trade-based money laundering. However, these respondents appear to make limited use of this information in pursuing investigations or prosecutions. This said, a third of tax authorities indicated that they perform analysis that is useful in identifying trade-based money laundering and routinely file suspicious activity reports with their financial intelligence units.

While half of tax authorities have the power to conduct investigations, only a third have a mandate that permits them to examine trade-based money laundering activities. Moreover, if a suspicion of money laundering arises in the course of an audit, only half of the respondents indicated that they are required to report it to competent authorities. Most tax authorities are able to voluntarily share information with customs agencies, law enforcement agencies and financing intelligence units under certain conditions, such as to further an ongoing investigation. Most respondents indicated that sharing information with banking supervisors is significantly more complicated (and frequently prohibited), but that trade-related information from tax audits can be shared with their foreign counterparts if appropriate memoranda of understanding or mutual legal assistance treaties are in place.

Few tax authorities have trade specialists on their staffs or training programs to improve the understanding of trade-based money laundering. Nevertheless, tax authorities unanimously agreed on the need for better training and awareness of trade-based money laundering techniques. In general, two-thirds of respondents considered their countries to be vulnerable to the use of trade transactions for criminal purposes.

Banking Supervisors

In most countries, banking supervisors have limited involvement in trade-based money laundering activities. However, a third of respondents indicated that they frequently receive information related to suspicious trade-based activities from their financial institutions. Moreover, a third of respondents indicated that they undertake analysis that can be used to identify trade-based money laundering and routinely report suspicious activities to their financial intelligence units. Just under half of respondents use red flag indicators and other analytical techniques to identify high-risk commodities, companies or countries and most see significant scope to make better use of such techniques. A third of respondents have used this information to trigger investigations, but in only 10 percent of these cases has it led to prosecutions.

Banking supervisors appear to have considerable scope to voluntarily share trade-related information with customs agencies, law enforcement agencies, financial intelligence units and tax authorities. In addition, the majority of banking supervisors indicated that they could share trade information with foreign competent authorities with certain restrictions. Not surprisingly, few banking authorities have expertise on the techniques of trade-based money laundering and most have little or no training programs in this area. In general, about half of respondents considered their countries to be vulnerable to the use of trade transactions for criminal purposes.

Red Flag Indicators

Trade-Based Money Laundering "Red Flag" Indicators

The respondents to the FATF project team's questionnaire reported a number of red flag indicators that are routinely used to identify trade-based money laundering activities. These include situations in which:

- Significant discrepancies appear between the description of the commodity on the bill of lading and the invoice;
- Significant discrepancies appear between the description of the goods on the bill of lading (or invoice) and the actual goods shipped;
- Significant discrepancies appear 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; **
- The commodity is shipped to (or from) a jurisdiction designated as "high risk" for money laundering activities;
- The commodity is transhipped through one or more jurisdictions for no apparent economic reason;
- The method of payment appears inconsistent with the risk characteristics of the transaction; ***
- The transaction involves the receipt of cash (or other payments) from third party entities that have no apparent connection with the transaction;
- The transaction involves the use of repeatedly amended or frequently extended letters of credit; and
- The transaction involves the use of front (or shell) companies.

Customs agencies make use of more targeted information that relates to specific exporting, importing or shipping companies. In addition, red flag indicators that are used to detect other methods of money laundering could be useful in identifying potential trade-based money laundering cases.

* For example, high-value, low-volume goods (e.g. consumer electronics), which have high turnover rates and present valuation difficulties.

** For example, the use of a forty-foot container to transport a small amount of relatively low-value goods.

** For example, the use of an advance payment for a shipment from a new supplier in a high-risk country.

8. Key Findings

The research work carried out for this project has led to the following key findings with respect to trade-based money laundering:

- Trade-based money laundering is an important channel of criminal activity and, given the growth in world trade, it represents an increasingly important money laundering and terrorist financing vulnerability.
- Trade-based money laundering practices vary in complexity. The most basic schemes are fraudulent trade practices (e.g. under- or over-invoicing of receipts). However, more complicated schemes integrate these fraudulent practices into a web of complex transactions, which also involve the movement of value through the financial system (e.g. cheques or wire transfers) and/or the physical movement of banknotes (e.g. cash couriers). The use of these complex transactions further obscures the money trail and complicates detection.
- Trade data analysis and the international sharing of trade data are useful tools for identifying trade anomalies, which may lead to the investigation and prosecution of trade-based money laundering cases.
- While customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors can exchange trade-related information, this is frequently restricted to certain circumstances or undertaken on a voluntary rather than mandatory basis. In addition, most financial intelligence units do not consistently receive suspicious activity reports related to trade transactions.
- Most customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors appear less capable of identifying and combating trade-based money laundering than they are in dealing with other forms of money laundering and terrorist financing. In part, this appears to reflect their more limited understanding of the techniques of this form of money laundering.
- Most customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors identified a pressing need for more training to ensure that their staff has sufficient knowledge to recognise trade-based money laundering.
- Most customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors indicated serious concerns about the vulnerabilities of their countries to trade-based money laundering. In addition, most believe that their countries have only limited measures in place to mitigate trade-based money laundering activities.

9. Issues for Consideration

Trade-based money laundering is an important money laundering technique that has received limited attention from policymakers. As international trade continues to grow and the standards applied to other money laundering techniques have become increasingly effective, the use of trade-based money laundering channels can be expected to become increasingly attractive.

This study suggests that the level of understanding of trade-based money laundering appears broadly similar to that relating to the movement of value through the financial system a decade ago. At that time, "front line" workers in most financial institutions were largely unaware as to what constituted suspicious activity as well as what actions they should take if such activities were detected.

This study suggests that customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors currently face similar challenges with respect to understanding the techniques of trade-based money laundering and detecting such activities.

Looking ahead, there appears to be a number of practical steps that could initially be taken to improve the capacity of national authorities to cope with trade-based money laundering. These can be summarised as building better awareness, strengthening measures to identify trade-based illicit activity and improving international co-operation.

Building Better Awareness

The review of current practices of those countries responding to the FATF questionnaire showed that there was almost unanimous agreement on the need for a stronger focus on training programs for competent authorities (e.g. customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors) to better identify trade-based money laundering techniques. In turn, improved training could result in substantial increases in the number of suspicious transaction reports filed with financial intelligence units. In addition, such training programs could be usefully supplemented by outreach sessions to the private sector.

Strengthening Current Measures

There are a number of actions that countries could take to better identify trade-based illicit activity. The simplest is to ensure that competent authorities and financial institutions have access to the case studies and red flag indicators in this study. In addition, most countries would benefit from more effective information sharing among competent authorities at the domestic level. For example, it would be useful if law enforcement agencies could seek information from customs agencies on specific trade transactions in advance of a full-fledged criminal investigation.

Improving International Co-operation

Countries need to work cooperatively to identify and combat trade-based money laundering. Consistent with FATF standards, countries could put clear and effective gateways in place to facilitate the prompt and constructive exchange of information. In practice, this may require broader use of memoranda of understanding and mutual legal assistance treaties between countries to facilitate the sharing of information related to specific transactions. It also means greater recourse to mutual assistance agreements between customs agencies to facilitate the exchange of export and import data in order to identify trade anomalies that may indicate potential trade-based money laundering abuses.

Annex I

Role of Financial Institutions in the Settlement of Trade Transactions

Financial institutions can play three roles in the settlement of international trade transactions, namely, money transmission, provision of finance, and lending the institution's name to the transaction. Below is a simple description of these roles.

> *Money transmission* – is the transfer of funds between parties associated with the trade transaction. (e.g. a wire transfer).
>
> *Provision of finance* – is the provision of credit to support the trade transaction. In these situations, as a standard practice, the financial institution conducts standard credit checks against the customer. In addition, the financial institution may conduct a check against the underlying transaction.
>
> *Lending the financial institution's name to the transaction* – occurs in two situations: (1) where the financial institution undertakes to make payment subject to certain conditions (e.g. a letter of credit), and (2) where the financial institution undertakes to make payment if the buyer defaults (e.g. a guarantee).

In addition to monitoring in accordance with domestic anti-money laundering and counter-terrorist financing regulations, the levels of scrutiny and information available on the underlying transaction will depend upon the bank's exposure to credit and reputational risk associated with the provision of finance and lending of the bank's name to the transaction. For example, because an institution's risk exposure when conducting a money transmission is low, it is unlikely that the institution will closely scrutinise or even see the documents supporting the transaction (e.g. bills of lading or invoices).

Annex II

This annex contains a sample of the key information that was provided in the responses to the FATF Project Team's questionnaire. In some cases, the respondents did not answer all questions.

Customs Agencies (24 respondents)

	Yes	*No*
Do you perform analysis that could be used to identify, investigate, or prosecute trade-based money laundering?	12	12
Do you undertake analysis of trade data to identify trade anomalies that could be related to money laundering or terrorist financing?	13	11
Can you provide a list of "red-flag" indicators of potential trade-based money laundering that could trigger suspicions or a possible investigation?	12	12
Do you make use of any risk models or analytical tools to identify high-risk companies, commodities, countries or activities?	19	5
Is there scope to make better use of trade data analysis to identify trade anomalies that could justify further investigation	18	5

Has information or analysis led to specific investigations and subsequent prosecutions?	
Investigations	14
Prosecutions	6
No	10

Is information sharing between customs agencies and other domestic agencies mandatory or voluntary?				
	Law Enforcement	***Financial Intelligence Unit***	***Tax Authority***	***Banking Supervision***
Mandatory	10	9	6	1
Voluntary	13	11	14	10
Not applicable	1	0	0	8

With which of the following domestic agencies can trade-related information be shared?				
	Law Enforcement	***Financial Intelligence Unit***	***Tax Authority***	***Banking Supervision***
Yes	10	6	10	2
Yes, with restrictions	13	15	10	11
No	1	0	0	7

Can trade-related information be shared with foreign competent authorities?	
Yes	7
Yes, with restrictions	16
No	0

	Yes	No
Do you have training programs in place that deal with the subject of trade-based money laundering?	8	15
Do you see the need for better training and awareness of the techniques of trade-based money laundering?	22	1
Do you consider your country to be vulnerable to the use of trade-based money laundering for criminal purposes?	17	7

Law Enforcement Agencies (20 respondents)

From which sources does your organisation receive information related to trade-based money laundering?	
Customs Agencies	11
Financial Intelligence Units	13
Tax Authorities	7
Banking Supervisors	5
Financial Institutions	10
Others	9

Has this information led to investigations and subsequent prosecutions?	
Investigations	18
Prosecutions	13
No	2

	Yes	No
Has trade information been used as part of your analysis or investigations of money laundering or terrorist financing?	15	5
Do you have access to a trade information database that you can use to advance analysis or investigations of money laundering or terrorist financing?	7	13
Is there scope to improve cooperation between law enforcement and customs agencies through the use of searchable databases relating to individual companies or transactions?	15	5
Can you provide a list of (“red flag”) risk indicators of potential trade-based money laundering activity that could trigger suspicions or a possible investigation?	7	12
Is there scope to make better use of risk indicators to promote a more risk-based approach to detecting trade-based money laundering activity?	8	10

Is information sharing between law enforcement and other domestic agencies mandatory or voluntary?				
	Customs Agencies	***FIU***	***Tax Authority***	***Banking Supervisor***
Mandatory	6	5	5	2
Voluntary	11	9	11	8
Not applicable	1	1	0	8

With which of the following domestic agencies can trade-related information be shared?				
	Customs Agencies	***FIU***	***Tax Authority***	***Banking Supervisor***
Yes	6	6	3	0
Yes, with restrictions	12	8	14	8
No	0	0	0	6

Can trade-related information be shared with foreign competent authorities?	
Yes	3
Yes, with restrictions	13
No	1

	Yes	***No***
Do you have training programs in place that deal with the subject of trade-based money laundering?	6	13
Do you see the need for better training and awareness of the techniques of trade-based money laundering?	17	2
Do you consider your country to be vulnerable to the use of trade transactions for criminal purposes?	13	6

Financial Intelligence Units (21 respondents)

Have you received Suspicious Activity Reports (SARs) that were triggered by suspicious trade transactions?	
Yes	12
No	2
Not applicable	5

Have you received SARs that were triggered by suspicious trade transactions?		
	In the past year?	***In the past three years?***
0	1	1
1 - 5	0	4
6 - 25	6	4
More than 25	8	5
Not applicable	5	5

From which sources does your organisation receive information related to trade-based money laundering?	
Customs Agencies	11
Law Enforcement Agencies	12
Tax Authorities	8
Banking Supervisors	3
Financial Institutions	17
Others	3
Not applicable	2

	Yes	No
Has trade information been used as part of your analysis or investigations of money laundering or terrorist financing?	11	10
Is trade information routinely used in your analysis or investigations?	8	13

Has this information led to investigations and subsequent prosecutions?	
Investigations	14
Prosecutions	10
No	5

	Yes	No
In situations where trade-based money laundering is suspected, do transactions involve trade finance products such as letters of credit or documentary collections?	11	8
Does your organisation collect SWIFT transactional data that is used in your analysis or investigations of money laundering or terrorist financing?	8	13
Can you provide a list of ("red flag") risk indicators of potential trade-based money laundering activity that could trigger suspicions or a possible investigation?	14	7
Is there scope to make better use of risk indicators to promote a more risk-based approach to detecting trade-based money laundering activity?	10	6
Do you have access to a trade information database that you can use to advance analysis or investigations of money laundering or terrorist financing?	6	15

With which of the following domestic agencies can trade-related information be shared?				
	Customs Agencies	***Law Enforcement***	***Tax Authority***	***Banking Supervisor***
Yes	10	11	9	9
Yes, with restrictions	8	7	7	3
No	0	1	1	2

Can trade-related information be shared with foreign competent authorities?	
Yes	7
Yes, with restrictions	14
No	0

	Yes	No
Does your agency have specialists with particular expertise in the area of trade?	12	9
Do you have training programs in place that deal with the subject of trade-based money laundering?	4	16
Do you see the need for better training and awareness of the techniques of trade-based money laundering?	18	2
Do you consider your country vulnerable to the use of trade transactions for criminal purposes?	15	4

Tax Authorities (21 respondents)

Do you receive information on suspicious activities related to trade-based money laundering?	
Yes	10
No	11

Do you have access to a trade information database that you can use to advance analysis or investigations of money laundering or terrorist financing?	
Yes	5
No	8
Not applicable	8

	Yes	***No***
Do you perform analysis that could be used to identify, investigate, or prosecute trade-based money laundering?	7	13
Do you file suspicious activity reports (SARs) with your financial intelligence unit relating to suspicious trade transactions?	7	14
Can you provide a list of “red-flag” indicators of potential trade-based money laundering that could trigger suspicions or a possible investigation?	9	12
Is there scope to make better use of risk indicators to promote a more risk-based approach to detecting trade-based money laundering activity?	5	10
Do you conduct your own investigations or are you involved with other agencies in investigations into potential trade-based money laundering activity?	10	10
Do you have a mandate to look for money laundering activities in the course of conducting an audit?	7	14
If a suspicion of money laundering arises in the course of an audit, are you required to report it to a competent authority?	12	9

Can a competent authority request tax information as part of an investigation on trade-based money laundering?	
Yes, in all cases	6
Yes, with restrictions	14
No	1

Is information sharing between tax authorities and other domestic agencies mandatory or voluntary?				
	Customs Agencies	***Law Enforcement***	***FIU***	***Banking Supervisor***
Mandatory	7	6	10	2
Voluntary	10	9	4	5
Not applicable	1	3	4	11

With which of the following domestic agencies can trade-related information be shared?				
	Customs Agencies	***Law Enforcement***	***FIU***	***Banking Supervisor***
Yes	9	4	8	2
Yes, with restrictions	8	11	6	4
No	2	3	5	10

Can trade-related information be shared with foreign competent authorities?	
Yes	2
Yes, with restrictions	12
No	5

	Yes	***No***
Does your agency have specialists with particular expertise in the area of trade?	4	15
Do you have training programs in place that deal with the subject of trade-based money laundering?	5	15
Do you see the need for better training and awareness of the techniques of trade-based money laundering?	20	1
Do you consider your country to be vulnerable to the use of trade-based money laundering for criminal purposes?	15	5

Banking Supervisors (23 respondents)

From which sources does your organisation receive information related to trade-based money laundering?	
Customs Agencies	2
Law Enforcement Agencies	2
Financial Intelligence Units	4
Banking Supervisors	1
Financial Institutions	7
Others	2

	Yes	***No***
Do you perform analysis that could be used to identify, investigate, or prosecute trade-based money laundering?	6	17
Can you provide a list of ("red flag") risk indicators of potential trade-based money laundering activity that could trigger suspicions or a possible investigation?	12	6
Do you make use of any risk models or analytical tools to identify high-risk companies, commodities, countries or activities?	9	14

With which of the following domestic agencies can trade-related information be shared?				
	Customs Agencies	***Law Enforcement***	***FIU***	***Tax Authority***
Yes	2	4	11	3
Yes, with restrictions	10	11	3	9
No	5	3	3	4

Is information sharing between banking supervisor and other domestic agencies mandatory or voluntary?				
	Customs Agencies	***Law Enforcement***	***FIU***	***Tax Authority***
Mandatory	1	6	9	2
Voluntary	10	8	4	9
Not applicable	5	3	3	4

Can trade-related information be shared with foreign competent authorities?	
Yes	1
Yes, with restrictions	12
No	4

	Yes	***No***
Does your agency have specialists with particular expertise in the area of trade?	3	20
Do you have training programs in place that deal with the subject of trade-based money laundering?	3	18
Do you consider your country to be vulnerable to the use of trade transactions for criminal purposes?	12	5

Glossary

Alternative remittance systems (ARS) -- are operations to transfer money outside of the formal banking system. These include unregulated networks (e.g. underground banks) and regulated operations (e.g. money service businesses).*

Bill of lading -- is a document signed by a carrier to confirm the receipt of goods to and from the points indicated.

Capital flight -- is the rapid outflow of money from a country often in response to an economic event that disturbs investors and causes them to lose confidence in the country's financial stability.

Cash couriers -- are individuals that transport currency or bearer-negotiable instruments from one country to another country for the purpose of laundering the proceeds of crime or financing terrorist activities.

Commingling -- is the process of combining the proceeds of illicit activities with the earnings of legitimate businesses for the purpose of disguising the source of these illicit funds and complicating the money trail.

Front company -- is a corporate vehicle that can be used to obscure the beneficial ownership of an organisation.

Guarantee -- is an undertaking, usually on the part of a bank, to fulfill the obligations of another party or to pay a specified amount of money upon presentation of specified documents indicating that the guaranteed party has defaulted on certain obligations.

Hawala -- is a specific form of an alternative remittance system operation. A hawaladar is the operator or owner of a hawala.

Letter of credit -- is an undertaking, usually on the part of a bank and at the request of a customer, to pay a named beneficiary a specified amount of money upon presentation of specified documents set out in the terms and conditions of the letter of credit.

Shell Company -- is a company that is incorporated but has no significant assets or operations.

Smurfing (or structuring) -- is a money laundering technique, which involves the splitting up of a large bank deposit into a number of smaller deposits to evade the suspicious activity reporting requirements of financial institutions.

Trade-based money laundering -- is the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origin.

Trade Transparency Units -- are arrangements to promote the sharing of trade data between cooperating customs agencies for the purpose of detecting and analysing suspicious trading activities.

Transfer pricing -- are pricing agreements established by mutual agreement rather than free market forces. In practice, these are often associated with intra-company transactions.

* For more information, see the Financial Action Task Force's *Money Laundering and Terrorist Financing Typologies Report for 2004-2005*.

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