Trade Based Money Laundering

Conference Report

Convened by the Terrorism, Transnational Crime and Corruption Center
at the Schar School of Policy and Government
of George Mason University

September 18, 2019

About TraCCC

The Terrorism, Transnational Crime and Corruption Center (TraCCC) is the first center in the United States devoted to understanding the links among terrorism, transnational crime and corruption, and to teach, research, train and help formulate policy on these critical issues. TraCCC is a research center within the Schar School of Policy and Government at George Mason University.

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This event was hosted by the Terrorism, Transnational Crime and Corruption Center (TraCCC) at George Mason University with collaboration and support from the Targeting Natural Resource Corruption (TNRC) consortium and the Anti-Corruption Advocacy Network (ACAN). We want to thank all of them for their contribution to putting together the speakers and panels. We also want to thank the following individuals who played an important role in organizing the conference: Dr. Louise Shelley, James Wright, Dennis Dunleavy, Clay Fuller, Kasey Kinnard, and Judy Deane. The conference report was prepared by Dr. Yulia Krylova. We see this conference as the opening of a multi-stakeholder dialogue on TBML. Like most complex policy issues, there is no quick fix or easy solution to this problem. It is an ongoing issue whose solution requires cooperation of multiple public and private actors.

Abstract

This report on Trade Based Money Laundering (TBML) summarizes a conference featuring distinguished professionals and experts from the financial community, government, the Association of Certified Anti-Money Laundering Specialists (ACAMS), think-tanks, nongovernmental organizations, and academia. The importance of the topic relates to the fact that TBML is extensively used to move large amounts of illicit funds tied to corruption, illicit trade, transnational crime, and terrorism. Much of the money movement of the Panama Papers and the Troika laundromat was tied to TBML. This conference explored various complex schemes related to this presently under-regulate form of money laundering. The report contains a list of recommendations and suggestions that were developed by coference participants in their collective effort to tackle this problem.

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FOREWORD: Dr. Louise Shelley, Director of TraCCC

I want to welcome you all to this conference on Trade Based Money Laundering (TBML). This conference is organized by the Terrorism, Transnational Crime and Corruption Center (TraCCC) with the support of the Schar School of Policy and Government at George Mason University. We have more than 300 participants from all over the United States and Europe. Last year, we hosted another conference on Money Laundering into Real Estate, which also received great attention from the professional community and the general public.

My interest in this topic goes back to the 1990s, when a human trafficking case study I was working on was found to be directly linked to TBML. Today, billions of dollars are being moved through TBML and it has become much more complex than in my original case study from the 1990s. The idea to host this conference belongs to several members from the Anti-corruption Advocacy Network (ACAN), which is an independent nonpartisan group of anti-corruption professionals and experts. Specifically, I would like to thank Clay Fuller, Dennis Dunleavy, and Jim Wright. I also want to thank all the speakers, moderators, and participants who have donated their time to come and prepare this event. I also want to give a special thanks to the TraCCC team and Kasey Kinnard, in particular, for their hard work in organizing this conference.

George Mason University (GMU) has also supported this conference. The rector of the university, Thomas Davis, will join us at lunch to introduce our special guest Senator Bill Cassidy. GMU and the Schar School have always focused on research that matters and makes a difference. Aligned with this objective, we are launching the Anti-Illicit Trade Institute (AITI) dedicated to cutting-edge research to address illicit trade threats and educate future leaders and professionals in this field.

We also want to recognize the support of the Targeting Natural Resource Corruption (TNRC) consortium which is headed by WWF and USAID. Illicit trade in natural resources has become a growing source of income to criminals, corrupt officials, and non-state actors. In fact, the annual growth rate of illicit trade in this area is 5% to 7% higher than in other areas of illicit trade. Recently, this topic has received much attention from researchers, but its links to TBML are significantly understudied. TBML is a key part of illicit trade in natural resources and the only way we can combat it is by understanding TBML more broadly. This conference is designed not only to cast light on this phenomenon, but also help us save the diversity of life on the planet, improve the security of our country, and enhance the safety of our communities. Today, we will discuss fascinating and diverse subjects with various case studies and analytical methods; and I look forward to starting this important multi-stakeholder dialogue and exchange of ideas on how to combat TBML.

EXECUTIVE SUMMARY

Trade based money laundering (TBML) represents the process by which criminals, corrupt officials, kleptocrats, terrorists, and other criminal actors use legitimate trade to disguise the criminal origin of their proceeds. TBML involves various complex schemes and methods, such as, invoice manipulation, customs fraud, tax and tariff evasion, export incentive fraud, VAT fraud, capital flight, evading capital controls, counter-valuation, barter trade, underground financial systems, such as hawala, the black market peso exchange (BMPE), abuses of free trade zones (FTZs), trade diversion, and transfer pricing, among many other schemes. Moreover, TBML often converges with other types of crime, such as corruption, illicit trade, drug trafficking, human trafficking, terrorism finance, and other illegal activities. TBML also involves professional money launderers, facilitators, and super-fixers, including lawyers, brokers, insurance companies, and diverse financial specialists who enable this illicit business to flourish, often using tax havens and shell companies all around the world.

The current trends related to advanced communications, lower transportation costs, global value chains, and digital commerce have led to the expansion of international trade. However, these trends have also created many opportunities for criminals to hide their dirty money generated by both illegal and illicit activities. As this report shows, TBML harms legitimate trade, national and international markets, and the global financial systems. It also poses threats to national security, global peace, prosperity, and the safety of various communities. Currently, there are no official statistics for TBML, but its magnitude is estimated at hundreds of billions of dollars annually. However, despite the fact that TBML is rapidly growing both in terms of its magnitude and global coverage, it remains significantly understudied. The result is a lack of effective policy responses to TBML.

TBML is one of the most sophisticated methods of money laundering, and since it resembles legitimate trade, it is the hardest to detect for financial institutions and customs authorities. Financial institutions might be wittingly or unwittingly involved in TBML when they are used to settle, facilitate, or finance international trade transactions through processing wire transfers, providing trade finance, and issuing letters of credit and guarantees. However, financial institutions have very limited information about trade transactions and they cannot inspect the underlying goods. For customs authorities, it is also very difficult to detect TBML due to the staggering amount of container traffic that enters the United States and other countries every day of the year. Currently, customs officers do not have the capacity to examine all this container traffic. TBML is a cross-jurisdictional and multifaceted problem. Its solution requires coordination and cooperation among multiple stakeholders, including legislators, government agencies, academia, nongovernmental organizations, civil society, financial sector organizations, customs authorities, businesses, shippers, airlines, truckers, ports, and other trade actors.

This conference was designed as a starting point in the process of multi-stakeholder policy discussions of TBML. It convened distinguished professionals and experts from the financial community, government, the Association of Certified Anti-Money Laundering Specialists (ACAMS), think-tanks, nongovernmental organizations, and academia. It show-cased the importance of TBML in facilitating growing illicit trade in specific sectors, including natural resources, and the role of corruption in allowing it to flourish. In their collective effort, the conference participants developed the following recommendations for further actions to address the TBML problem.

RECOMMENDATIONS FOR FURTHER ACTIONS

Building Public-Private Partnerships

- *To develop public-private partnerships (PPP) to combat TBML.*
- *To engage trade actors in policy discussions and the implementation of specific anti-TBML programs.*
- *To assess a potential for creating a task force with a diverse representation of various government agencies.*

Taking a Holistic Approach to TBML

- *To raise awareness of this problem among private and public actors.*
- *To develop special outreach programs that bring together NGOs, civil society, government agencies, and the general public.*

Specific Strategies to Combat TBML

- *To develop comprehensive mitigation plans in the trade industry.*
- *To intensify responses of customs officers, shippers, and other trade actors to TBML.*

Improving Policy Responses to TBML

- *To address the issue of kleptocrats moving corrupt proceeds around the world.*
- *To introduce legal responses to address the current gaps in the legislature.*
- *To strengthen international cooperation in this arena*.

Fostering Innovative Research & Data Methods

- *To improve trade data and make it accessible*.
- *To improve methodologies to measure TBML and calculate the related risks.*
- *To enhance responses to TBML based on comprehensive research conducted by interdisciplinary teams of scholars and practitioners*.
- *To develop human skills and strengthen their tech capacities to combat TBML.*
- *To further develop monitoring systems and analytical tools in the financial sector, including the use of artificial intelligence.*

PANEL ONE: What is TBML?
Moderator: Charles Davidson, George Mason University

Abstract: The first session provides various perspectives on the nature and definitions of trade based money laundering (TBML). It also analyzes different methods used by criminals, terrorists, kleptocrats, and fraudsters to disguise the proceeds of crime and move them through the use of trade transactions in an attempt to legitimize their illicit origins.

Raymond Baker, Global Financial Integrity

In my presentation, I would like to put the issue of TBML into a larger framework. Since the beginning of the 1960s, the Western world has been creating and expanding a shadow financial system, which is specifically designed to move illegal and illicit money. The 1960s mark the takeoff point in this process for two reasons. First, from the late 1950s to the beginning of the 1960s, 48 countries gained their independence around the world, and a lot of people in those ex-colonial countries wanted to have easy ways for taking their money out of them. Second, the 1960s witnessed the spread of multinational corporations, who also looked for easy ways to transfer their money around the globe. Since that time this shadow financial system has continued to grow and expand every day.

> *Nowadays, trade fraud can be applied to anything, including physical goods, services, intangibles, and intellectual property. Trade fraud can be accomplished through many types of manipulations, such as the price, weight, quantity, quality, specification, origin, and purpose.*

Key elements of the shadow financial system include tax havens, secrecy jurisdictions, disguised corporations, anonymous trust accounts, fake foundations, holes in financial regulations, and trade fraud. In the early 1960s, there were only three or four tax havens around the world. Currently, according to different estimates, their number ranges from 75 to 150. In terms of secrecy jurisdictions, virtually every tax haven has multiple lawyers, bankers, and accountants who handle transactions in secrecy. The United States has more disguised corporations than any other country in the world. Anonymous trust accounts and fake foundations are part of their structure. Furthermore, there are holes left in the laws in the Western countries that facilitate the movement of money through this shadow financial system and ultimately into the Western economies. Finally, trade fraud plays the most important role in this system. It enables the rest of the system to function.

Nowadays, trade fraud can be applied to anything, including physical goods, services, intangibles, and intellectual property. Trade fraud can be accomplished through many types of manipulations, such as the price, weight, quantity, quality, specification, origin, and purpose. Any aspect of trade transactions can be falsified for the purpose of contributing toward the movement of illegal or illicit money. The key point is that trade fraud exists right in the center of this shadow financial system, and it is the most important and frequently used element of this system, as depicted in Figure 1.

Figure 1. Key elements of the shadow financial system

TBML is the term describing actions of bad actors who manipulate trade for the purpose of shifting money across borders. This is the context in which it is useful to put today's discussions of TBML. There are several ways to combat TBML. They include recognizing types of perpetrators, frequently used commodity groups, types of transactions, frequently used entities or banks, and monitoring and investigating the related mechanisms. In this process, it is important to keep in mind the centrality of the issue of trade fraud within a larger framework of the shadow financial system.

John Cassara, Global Financial Integrity

I would like to start my presentation with the following anecdote. Not long after the September 11 attacks, I had a conversation with a Pakistani entrepreneur. This businessman could charitably be described as being involved in international grey markets and illicit finance. We discussed TBML, terror finance, value transfer, hawala, fictitious invoicing, and counter-valuation. At the end of the

discussion, he looked at me and said, "Mr. John, don't you know that your adversaries are transferring money and value right under your noses? But the West doesn't see it. Your enemies are laughing at you." The conversation made a profound impact on me. I knew he was right. At the time of the conversation, the U.S. government and the international community had not focused attention or resources on the misuse of international trade to launder money, transfer value, avoid taxes, commit commercial fraud, and finance terror. It was completely under our radar screen. Our adversaries − terrorists, criminals, kleptocrats, and fraudsters − were operating in these areas with almost total impunity. And unfortunately, many years after that conversation and the tremendous expenditure of resources to counter illicit finance, TBML and value transfer are still not recognized as significant threats. Perhaps as the Pakistani businessman inferred, it is because the subterfuges are "hiding in plain sight."

In 2006, the Financial Action Task Force (FATF) released its report entitled *Trade Based Money Laundering (TBML)*, in which it identified the following three major methods used by criminal organizations and terrorist financers to move money for the purpose of disguising its origins and integrating it into the formal economy: (1) money laundering through financial institutions, (2) bulk cash smuggling, and (3) trade.[1] Much time and attention have been devoted to countermeasures related to the first two methods; however, until very recently, the third method has been almost completely ignored. In my opinion, TBML is the least understood, recognized, and enforced of these three methods. At the same time, TBML is found in every country around the world. As I wrote in my book on TBML, it is the largest money laundering methodology.[2]

According to the FATF definition, TBML is "the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins."[3] It encompasses many methods, such as customs fraud, invoice manipulation, tax and tariff evasion, VAT fraud, export incentive fraud, capital flight, evading capital controls, counter-valuation, barter trade, underground financial systems, such as hawala, the black market peso exchange (BMPE), abuses with the Afghan Transit Trade, and commercial TBML, such as trade diversion, transfer pricing, and abusive trade-misinvoicing.

Despite the loss of national revenue, TBML has never been systematically examined by the U.S. government. There are no official estimates on the magnitude of TBML as a whole. There have been some academic studies, according to which almost 6% to 9% of U.S. trade is tainted by customs fraud and categorized as misinvoicing.[4] However, the misuse of trade is not just a customs

[1] FATF/OECD. (2006). *Trade Based Money Laundering*. Paris: FATF.
[2] Cassara, J. A. (2015*). Trade-Based Money Laundering: The Next Frontier in International Money Laundering* Enforcement. Hoboken, NJ: John Wiley & Sons.
[3] FATF/OECD. (2006). *Trade Based Money Laundering*. Paris: FATF.
[4] Analysis given to the author by Dr. John Zdanowicz via June 30, 2015 email.

issue. Each year, about 12 million shipping containers enter U.S. ports.[5] Customs officers physically inspect less than 4% of inbound containers; for outbound containers, the number is less than 1%.[6] If 6-9% of U.S. trade is considered suspicious, and only a small fraction of U.S. container traffic is inspected, it raises a question of what is going on in the rest of the world.

In terms of countermeasures, I propose several recommendations. First, trade transparency is theoretically achievable with existing trade data. Second, trade transparency is a revenue enhancer for governments, which should motivate them to combat TBML. Third, banks have important roles to play in countering TBML. Yet, it is necessary to take into account that they get involved in only about 20% of international trade transactions. Fourth, it is necessary to drastically increase TBML-related investigations and prosecutions. Fifth, trade transparency could be the backdoor into counter-valuation of many underground financial systems like *hawala* and the *fei-chien* – the Chinese "flying money" system, which historically and culturally revolve around trade misinvoicing and value transfer. Sixth, trade transparency units (TTUs) are a great countermeasure, but there should be a separate line item for the TTU initiative so as to promote their expansion. Finally, the FATF Recommendations set out a comprehensive and consistent framework for anti-money laundering/counter-terrorist finance (AML/CFT) enforcement. However, in 2012 when the current FATF recommendations were reviewed and promulgated, they did not specifically address TBML. This suggests a need to examine TBML as a possible new FATF recommendation.

Stacey Facter, Bankers Association for Finance and Trade

In my presentation, I will focus in particular on the ways that banks try to address TBML. Detecting TBML is a real challenge. This challenge is largely shouldered by customs authorities, enforcement agencies, and banks. Banks that provide trade finance products contribute to the fight against TBML by implementing risk-based controls. They include a robust customer due diligence process to ensure that banks know their customers, their business, and transaction patterns, checking against various sanctions lists and other watch lists, surveillance, and other controls designed to identify and investigate potential red flags or key risk indicators, as well as training and awareness programs for employees involved in processing trade finance transactions.

In this regard, banks should apply the lessons learned from fighting cash-based money laundering to better understand and combat TBML. However, momentum across the industry is moving in favor of a more tailored approach. For example, banks could use potential red flags to better identify and categorize higher-risk customers. Banks are also looking at ways to harness risk-based

[5] Congressional Budget Office. (2016). *Scanning and Imaging Shipping Containers Overseas: Costs and Alternatives*. Retrieved from https://www.cbo.gov/publication/51478

[6] Westar International Forwarders (2016, August 24). *U.S. Lawmakers Say with New Technology, It's Time to Inspect all Inbound Containers*. Retrieved from http://www.westarusa.com/u-s-lawmakers-say-new-technology-time-inspect-inbound-containers/

intelligence, bringing together comprehensive customer knowledge, transaction information, and other meaningful risk factors. With innovative technology, this intelligence could be turned into a powerful weapon for experienced analysts to use against TBML. This may also help banks react faster to emerging trends in TBML. However, banks cannot solve this problem on their own.

The Wolfsberg Group, the International Chamber of Commerce, and the Bankers Association for Finance and Trade made a number of recommendations in their 2017 Trade Finance Principles, including greater collaboration between the private and public sectors.[7] If all stakeholders, such as shippers, airlines, truckers, ports, customs authorities, businesses, banks, and law enforcement agencies, could find better ways of sharing information, then collectively they could do much more to disrupt these criminals. Banks are ready to join other public and private actors in the fight against TBML and contribute their information to a common data pool. Customs authorities and law enforcement agencies could use this information to find potentially suspicious transactions. In order to find new ways to identify TBML, in 2017, the Bankers Association for Finance and Trade prepared a paper entitled *Combating Trade Based Money Laundering: Rethinking the Approach*.[8]

If all stakeholders, such as shippers, airlines, truckers, ports, customs authorities, businesses, banks, and law enforcement agencies, could find better ways of sharing information, then collectively they could do much more to disrupt these criminals.

In terms of TBML, one of the most important points is that banks are not involved in every trade transaction. In fact, banks provide traditional trade financing in no more than 20% of cases. In 2017, the Wolfsberg Group estimated that approximately 80% of global trade was transacted using open account settlement,[9] with banks having very limited information about the underlying trade deals. Also, in those transactions where banks are involved, they have no opportunity to physically inspect actual goods or containers. This suggests that although TBML is a grave concern for the trade finance community and banks, they cannot solve this problem alone. At the same time, they need tools and mechanisms to identify and prevent this problem, including automated processes. One of them is optical character recognition (OCR), which allows for automatic identification of some issues related to TBML. But such measures can be extremely expensive for banks.

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[7] The Wolfsberg Group, ICC and BAFT. (2017). *2017 Trade Finance Principles*. Retrieved from https://www.tradefinance.training/library/files/The%20Wolfsberg%20Group,%20ICC%20and%20BAFT%20Trade%20Finance%20Principles.pdf

[8] Bankers Association for Finance and Trade. (2017). *Combating Trade Based Money Laundering: Rethinking the Approach*. Washington, D.C.: BAFT. Retrieved from https://baft.org/docs/default-source/marketing-documents/baft17_tmbl_paper.pdf

[9] The Wolfsberg Group, ICC and BAFT. (2017). *2017 Trade Finance Principles*. Retrieved from https://www.tradefinance.training/library/files/The%20Wolfsberg%20Group,%20ICC%20and%20BAFT%20Trade%20Finance%20Principles.pdf

The key takeaway is that it takes a village to counter TBML. In this regard, it is important to build partnerships and relationships with various stakeholders and to improve their access to data, taking into consideration privacy and confidentiality issues. It is also important to have the ability to synthesize trade data. Entities like trade transparency units (TTUs) have access to manipulate trade data, but they also need access to financial institutions' data. Therefore, collaboration between law enforcement, customs, shippers, corporations, brokers, banks, and insurance companies is the only way to combat the TBML problem.

David Johnson, Center for Advanced Defense Studies (C4ADS)

State sponsored and non-state illicit networks are the greatest threat to the free world today. They embed themselves in the legal systems of transportation, communications, and finance. They perpetrate the official corruption, transnational crime, and political violence that destabilize states, prevent development, and devastate the environment. TBML is one of the most important ways for these networks to transfer value between the licit and illicit worlds.

State sponsored and non-state illicit networks are the greatest threat to the free world today…TBML is one of the most important ways for these networks to transfer value between the licit and illicit worlds.

In my presentation, I will focus on methods related to the use of publicly available information and emerging technologies to fight TBML, based on the projects conducted at the Center for Advanced Defense Studies (C4ADS), a Washington, D.C.-based nonpartisan nonprofit think tank. One method related to the abductive inferential process builds evidence to identify and eliminate alternative conclusions. In this case, the evidence is found under a number of red flags related to the underlying documentation, value, business rationale, origin or destination, transport/packaging, payment or financing, and entities involved in trade transactions. The more this method is applied, the more likely the investigator can build a strong case. Each of these red flag categories provides a vast variety, volume, and velocity of publicly available information. Technology can make this process extremely fast. When looking for useful datasets, it is necessary to examine the entire trade process. This can include the use of corporate and property registries, more traditional trade data, HS codes, trade baselines, contracts, letters of credit, invoices, etc. It can also include the use of court records, sanctions lists, port records, social media, satellite imagery, transporters and phone data, just to name a few other options. These data can be made adjustable and flexibly searchable, and then they can be analyzed, using descriptive and inferential statistical analysis, social network analysis, and geospatial analysis.

For example, in our investigation of illicit gold trade in Latin America, a team of C4ADS analysts collected vast amounts of trade data in one dataset, which allowed them to identify the top 10

companies producing gold in this region. This dataset also helped identify and examine anomalies related to the quantity of gold moved and its value. In fact, the C4ADS analysts found that the top company by the quantity was among the lowest in terms of its value. Further manipulations with the dataset revealed that an average price per kilo exported by those companies was between $35,000 and $45,000 per kilo. Any price that significantly deviated from that amount served as a TBML red flag. After identifying such cases, the C4ADS analysts started searching corporate registries, looking for common selectors, such as shareholders, phone numbers, and locations in order to identify facts that provided some useful insights into these companies. Furthermore, the C4ADS analysts mapped out their subsidiaries and affiliates, using Palantir technologies. Finally, using the C4ADS unified data model, the analysts found an affiliated network in another region of the world, with multiple interrelated subsidiaries and affiliates. Such information is particularly useful for law enforcement because it can help them identify hubs of global illicit gold trade.

Different emerging machine learning tools make it possible to use the variety, volume, and velocity of existing data to combat TBML. Firms with access to various supply chain data and financial transaction information can now spot anomalies in milliseconds. Misinvoicing cases, the black market peso exchange, and informal systems like *hawala* are equally accessible with these tools and data. Because of their inevitable links to official corruption and the sheer volume of the problem, the fight against TBML and illicit networks cannot be left to governments or industries alone. There should be greater data transparency for public and private actors.

It is important to create public-private partnerships to enhance the velocity and effectiveness of enforcement actions. C4ADS partners with Palantir, Amazon Web Services, Windward Maritime Intelligence, ADS-B Exchange, academia, and law enforcement agencies around the world. Recently, C4ADS launched the sanctions explorer website to make it easier for investigators to identify sanctioned entities and their connections.[10] C4ADS ensures that our data is legally admissible and is readily available to law enforcement, including various financial intelligence units and similar organizations. In the last two years, C4ADS also supported a number of sanctions, seizures, indictments, and arrests. Lastly, the scale and importance of illicit trade and TBML suggest that everyone needs to get personally involved in solving these problems in order to protect our communities from the predators who are preying on them.

[10] OFAC (n.d.). *SanctionsExplorer*. Retrieved from https://sanctionsexplorer.org/about

PANEL TWO: TBML Impacts
Moderator: Louise Shelley, TraCCC

Abstract: This session provides an analysis of various impacts of TBML on the economy, national security, international development, and communities. Overall, TBML enables instability and chaos around the world, negatively impacts peace and security, and diverts financial resources from international development.

David M. Luna, Anti-Illicit Trade Institute, TraCCC, at George Mason University

As Dr. Louise I. Shelley underscores in her recent book, *Dark Commerce*, the global illegal economy issue is not only greatly expanding, but it also negatively impacts the future of all our communities.[11] In my presentation, I will focus on why it is important to understand the interconnections between illicit commerce and money laundering and why it is important for us to mobilize our collective efforts in the fight against TBML. At the end of the day, dirty money derived from illicit economies is financing more insecurity and instability that impacts peace and security all around the world. Currently, TBML is underestimated and its impacts are not well understood. At the same time, it is converging with other threats, as bad actors, corrupt facilitators, and super-fixers are contributing to leveraging this money laundering vehicle to finance other crimes. We often hear about kleptocrats, transnational organized criminal organizations, and terrorists involved inillicit trade, but we do not often hear about tax havens or professional service facilitators involved in TBML. In this respect, it is important to develop a holistic approach to disrupt and dismantle these illicit networks and follow their dirty money.

In terms of the scale of today's economy, estimates of the global value of money laundering are between 2% and 5% of Gross Domestic Product (GDP). As widely reported by the OECD, the United Office on Drugs and Crime (UNODC), the World Economic Forum (WEF), Global Financial Integrity (GFI), and other international organizations, it is generally estimated that the illicit trade in arms, drugs, and people, and other forms of "convergence crime" generate approximately between 8–15 percent of GDP, or several USD trillions to include corrupt proceeds and illicit financial flows.[12]

Of equal concern is not only the current breadth and scale of today's illicit markets, but that many of them will double within five years' time alone. This is simply a staggering amount. In 2018, the World Bank projected the World's GDP at $85.8 trillion.[13] It is thus fair to state that today's global

[11] Shelley, L. I. (2018). *Dark Commerce: How a New Illicit Economy Is Threatening Our Future*. Princeton: Princeton University Press.
[12] World Economic Forum. (2015). *Out of the Shadows: Why Illicit Trade and Organized Crime Matter to Us All.* Retrieved from https://www.oas.org/en/sms/downloads/BROCHURE_GAC14.pdf
[13] World Bank (2019). GDP. Retrieved from https://data.worldbank.org/indicator/NY.GDP.MKTP.CD

illicit markets generate trillions of U.S. dollars every year for transnational criminal organizations, complicit corrupt facilitators, and other threat networks. In a world of convergence, various threats collide to form a more potent mix of various illicit threats. Because law enforcement has not made TBML a priority, it is complicating the ability of governments to attack this threat multiplying crime.

Table 1. Estimated global illegal trade, corruption, and illicit markets

Crimes	Estimated annual dollar value
Money Laundering	At least $2.6 trillion (between 2% and 5% of world GDP)
Transnational Crime	$1.6 trillion to $2.2 trillion
Bribery	Significant portion of $1 trillion
Narcotics Trafficking	$750 billion to $1 trillion
Counterfeited and Pirated Products	$500 billion to $1 trillion
Environmental Crime (illegal wildlife trade, logging, IUU Fishing, trade in CFCs, and toxic waste)	$91 billion to $258 billion
Human Trafficking/Modern Slavery	Up to $150 billion
Illegal Tobacco	$40 to $50 billion
Illegal Mining	$12 to $48 billion

Source: Based on data provided by the World Economic Forum, the World Bank, UNODC, OECD, ILO, GFI

Table 1 provides some estimates of the value of several illicit trade activities, such as money laundering, transnational crime, bribery, narcotics trafficking, environmental crime, human trafficking, and illegal tobacco and mining. As evident from Table 1, and noted earlier, today's global illicit markets generate several trillions of dollars every year. Online illicit trade and e-commerce are also booming. In the case of counterfeits, the value is estimated at between $500 billion to $1 trillion. Recent evidence-based research conducted by the Organization for Economic Cooperation and Development (OECD) and the European Union Intellectual Property Office (EUIPO) shows that these illicit trades will more than double in five years' time, which will negatively impact the U.S. economy and American companies.[14]

A recent report by the FACT coalition shows how these two elements come together to impact U.S. national security and American consumers as well.[15] The report also highlights how the trafficking and smuggling of counterfeit and pirated goods are a very profitable illegal activity for many of today's criminals and illicit networks and that these networks rely on the secrecy provided by anonymous entities to launder their ill-gotten-gains and escape detection. Anonymous companies created by criminals help to finance the distribution of harmful counterfeits across the U.S. economy that seriously harm and even kill Americans — from illicit opioids and fake

[14] OECD/EUIPO. (2019). *Trends in Trade in Counterfeit and Pirated Goods*. Paris: OECD Publishing House.
[15] Luna, D. M. (2019). *Anonymous Companies Help Finance Illicit Commerce and Harm American Businesses and Citizens: A Need for Incorporation Transparency*. Washington, D.C.: FACT Coalition.

medicines, food, and alcohol to fake parts in cars and airplanes to counterfeited apparel and toys that are sometimes made with deadly chemicals and toxic material.[16] Anonymous companies assisted in selling knock-off parts to the Pentagon that have cost the U.S. military tens of millions of dollars.[17]

In terms of the global trade scale, the World Trade Organization (WTO) estimates that the value of merchandise trade is close to $20 trillion.[18] About 90% of all trade is conducted via maritime containers of which more than 500 million are shipped annually, with less than 2% of them being inspected.[19] Another important aspect of the global trade relates to free trade zones (FTZs). While FTZs play their positive roles in economic development and prosperity, they are also used by criminals to launder illicit proceeds, especially in areas that have inadequate oversight, customs controls, and weak anti-money laundering, anti-corruption, and anti-illicit trade regulations and enforcement.

In terms of recommendations to combat TBML, the U.S. Congress must pass legislation to end the abuse of anonymous companies by requiring the collection of beneficial ownership information at the point of corporate formation. It is also important to deny safe haven and entry into the United States to complicit and corrupt actors, TBML facilitators, and criminals engaged in illicit commerce. The Presidential Executive Order on Enforcing Federal Law with Respect to Transnational Criminal Organizations and Preventing International Trafficking is a very important opportunity to integrate TBML into a transnational crime framework, similarly to interagency efforts to integrate TBML into combatting counterfeit and pirated goods. In terms of investigations, the number of TBML-related convictions still remains very low, especially compared to money-laundering convictions in general. Finally, more evidence-based research is needed. In this respect, I am proud to announce that we will be launching the Anti-Illicit Trade Institute (AITI) at George Mason University to address the issues of illicit trade. In 2020, the AITI will begin its core courses related to understanding illicit trade, corruption, and criminality, as well as TBML. We hope to be partnering with all of you to develop better and more effective research and training across all sectors and industries.

Jodi Vittori, Carnegie Endowment for International Peace

In my presentation, I will focus on how TBML affects the foreign policy and national security objectives of the United States in the most critical geopolitical environments and in the places where U.S. troops are currently engaged overseas. Specifically, I will focus on the role of terrorism and insurgency, as well as the role of corrupt politicians, kleptocracies, and predatory

[16] Ibid.
[17] Ibid.
[18] WTO (2019) Data. Retrieved from https://data.wto.org/
[19] UNODC. (2019). *Container Control/The Global Container Control Programme*. Retrieved from https://www.unodc.org/ropan/en/BorderControl/container-control/ccp.html

governments. Recent empirical evidence indicates that regimes with predatory governance, human rights abuses, and the use of coup-proofing strategies lead to the environments with the most conflict, terrorism, insurgency, and organized crime, including TBML. The latter allows criminals to move money and resources across various borders in a much more efficient way compared to moving cash. In fact, cash is remarkably difficult to move. This is why many criminal organizations increasingly use TBML.

In terms of terrorism and insurgency, in particular, there have been over a dozen congressional hearings on the role of TBML in terrorism financing. For example, in the 1990s, Hezbollah operatives within the United States smuggled cigarettes from low-tax states into high-tax states and used the difference to fund Hezbollah activities, sending that money to Lebanon. In the early 2000s, the Department of Justice also disrupted a TBML scheme involving sales of U.S. used cars to West Africa. This complicated scheme was also used to help make money for Hezbollah.[20] More recently, a logging company called Cotrefor used timber imports from Africa into the United States to finance Hezbollah, which also contributed to environmental damage.[21]

A number of other terrorist organizations and groups have used TBML, such as the Irish Republican Army in Northern Ireland and the Tamil Tigers in Sri Lanka. From its inception, the Taliban has also used TBML to move assets into and out of Afghanistan, including through the hawala system and through the Afghan Transit Trade areas. In Afghanistan, TBML was used by a wide range of bad actors, such as warlords, Taliban members, and drug traffickers. More recently, similar TBML schemes were documented in Africa, with small traders moving gold from artisanal mines to Dubai. Later, that cash was used to buy goods through FTZs in order to ship them back to Africa. Drug traffickers and all sorts of other criminal organizations are widely known to use such schemes.

It is also important to look at the role of corrupt politicians in in this process. TBML by corrupt politicians and predatory governments can have very significant national security and foreign policy impacts on the United States. In the case of Nigeria, when its former president Goodluck Jonathan needed money for his reelection campaign, he used TBML to divert money from arms procurement contracts. Specifically, his former national security adviser was charged with stealing more than $2 billion meant to purchase weapons for the military in order to fight the armed group Boko Haram.[22] Other governments also increasingly use corruption and TBML to achieve their own foreign policy goals. This is particularly obvious in the cases of Russia and China. Corruption

[20] Becker, J. (2011, December 13). *Beirut Bank Seen as a Hub of Hezbollah's Financing*. The New York Times. Retrieved from https://www.nytimes.com/2011/12/14/world/middleeast/beirut-bank-seen-as-a-hub-of-hezbollahs-financing.html

[21] Global Witness. (2017). Cotrefor: *US consumers at risk of funding Hezbollah*. Retrieved from https://www.globalwitness.org/en/campaigns/forests/us-consumers-risk-funding-hezbollah/

[22] Nigeria Orders Arrest of Ex-adviser over $2bn Arms Deal. (2015, November 18). Al Jazeera. Retrieved from https://www.aljazeera.com/news/2015/11/nigeria-orders-arrest-adviser-2bn-arms-deal-151118043340314.html

as a foreign policy tool allows governments to undermine adversary governments and helps ensure loyalty of key power brokers and political actors in foreign countries.

For example, in 2019, then Italian Interior Minister Matteo Salvini and his Five Star Movement (M5S) were involved in a corruption scandal. Specifically, a secret recording revealed a Salvini aide discussing a complicated TBML scheme, where a Russian oil company would sell underpriced fuel to the Italian energy giant Eni, with the money (potentially in the amount of $65 million a year) being channeled through middlemen.[23] TBML is a new, but very popular way to move money into election campaigns, as also is evident from the case of Ukraine, where a number of investigations have shown that there are questionable middlemen and intermediary companies involved in moving natural gas from Russia through Ukraine and into Europe. A number of Ukrainian and Russian politically exposed persons (PEPs), including Ukraine's former president Yanukovich, were involved in such TBML schemes.

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In January 2019, *the Wall Street Journal* reported on TBML linked to China and Malaysia.[24] It involved contracts that the Malaysian government was supposed to procure from China's *One Belt, One Road program*, a signature initiative of building ports, railways, roads and pipelines in 70 countries to generate trade and business for Chinese companies. In this case, China was supporting the re-election campaign of then Prime Minister Najib Razak, who was involved in the notorious 1MDB scandal. In 2016, there was a meeting between Malaysian and Chinese officials, which was approved by President Xi Jinping.[25] According to *the Wall Street Journal*, some of the infrastructure projects were to be financed at above-market values, generating funds for Najib's re-election campaign, while also benefiting Chinese companies.[26] From a strategic perspective, there was a related issue: Najib also embarked on secret talks with China's leadership to let Chinese navy ships dock at two Malaysian ports. The expansion of Chinese naval activity has been of keen interest to the US Navy.

[23] Harlan, C., & Pitrelli, S. (2019, July 11). A Secret Recording Raises Questions about Ties Between Italy's Far Right and Russia. *The Washington Post*.
[24] Wright, T., & Hope, B. (2019, January 7). WSJ Investigation: China Offered to Bail Out Troubled Malaysian Fund in Return for Deals. *The Wall Street Journal*.
[25] Ibid.
[26] Ibid.

Countermeasures related to TBML include requirements for beneficial ownership transparency in the United States and throughout the world. It is also necessary to expand Geographic Targeting Orders (GTOs) and forbid anonymous purchases because of the linkages between TBML and money laundering through real estate. Making GTOs permanent, nationwide, and covering both commercial and residential property has a great potential for combatting TBML. Furthermore, similar to banks, other gatekeepers in this area, such as real estate agents, insurance actors, and lawyers, should be required to file suspicious activities reports. Finally, there is a need for improved data, human resources, training, and enhanced transparency in trade operations.

Tom Cardamone, Global Financial Integrity

In my presentation, I would like to focus on the impacts of TBML on international development. Global Financial Integrity (GFI) has done an extensive amount of research on illicit financial flows, TBML, money laundering in general, and trade misinvoicing through the lens of global development. In this regard, an important question is how these activities affect the developing world.

It is very difficult to estimate the magnitude of TBML. Currently, there are only a few estimates. According to a 2017 GFI report, the value of transnational crime is estimated at between $1.6 trillion and 2.2 trillion a year.[27] This estimate includes different types of illicit activities, such as counterfeiting ($923 billion to $1.13 trillion), narcotics trafficking ($426 billion to $652 billion), human trafficking ($150.2 billion), and illegal logging ($52 billion to $157 billion), among other illicit activities.[28] Apart from money-laundering schemes, the proceeds from such illicit activities are also moved between countries via TBML, which is difficult to detect and interdict. According to the 2017 Congressional Research Service report that focused on Suspicious Activity Reports (SARs) issued by banks in the United States, TBML was estimated at about $55 billion per year over a five-year period between 2004 and 2009, with the affected transactions totaling more than $276 billion.[29]

GFI's estimates related to trade misinvoicing provide some insights into the magnitude of TBML. Although these activities are not identical, their definitions are similar. According to a widely used definition, trade misinvoicing is the practice of knowingly submitting an invoice that misrepresents the price, quantity or quality of goods, or the country of origin, in order to evade income taxes, VAT taxes, customs duties, etc. In the most recent annual report by GFI, trade misinvoicing was estimated at about $940 billion for 148 developing countries in 2015.[30] Between 2006 and 2015,

[27] Global Financial Integrity. (2017). *Transnational Crime and the Developing World*. Washington, D.C.: GFI.
[28] Ibid., p. xi.
[29] Miller, R. S., Rosen, L. W., & Jackson, J. K. (2016). *Trade-Based Money Laundering: Overview and Policy Issues* (p. 21). Washington, D.C.: Congressional Research Service.
[30] Global Financial Integrity. (2019). *Illicit Financial Flows to and from 148 Developing Countries: 2006-2015.* Washington, D.C.: GFI.

it has been increasing in scope, with a 3.8% annual growth rate. Currently, trade misinvoicing represents a severe, chronic, and ubiquitous problem all around the globe, meaning that most governments are likely to fail to achieve Sustainable Development Goal (SDG) 16 (Peace, Justice and Strong Institutions) set by the United Nations in 2015, if they do not address this issue in a comprehensive way. Despite the fact that SGD 16 obligates governments to address illicit financial flows, there has been little progress in this area over the last four years.

Currently, trade misinvoicing represents a severe, chronic, and ubiquitous problem all around the globe, meaning that most governments are likely to fail to achieve Sustainable Development Goal (SDG) 16 (Peace, Justice and Strong Institutions) set by the United Nations in 2015, if they do not address this issue in a comprehensive way.

Trade misinvoicing has various negative impacts on international development. On the one hand, trade misinvoicing generates financial outflows from developing economies, leading to a net loss of revenues that cannot be spent on education, health care, or any other SDG. On the other hand, the related financial inflows can distort their markets and inflate prices in real estate, which disproportionately impacts the most vulnerable communities in the lowest economic strata. Trade misinvoicing can also facilitate further illegal activity and the underground economy that generates some of the related illegal profits in the first place. Regardless of the way in which this illicit money moves, it is not taxed by governments and has little positive impact on the economies involved.

In 2019, GFI released three country studies of trade misinvoicing in Egypt, South Africa, and Indonesia. These studies estimate the value gap based on an analysis of the related bilateral trade statistics, as published by the United Nations (Comtrade). The detailed breakdown of bilateral trade flows in Comtrade allows for the computation of trade value gaps that are the basis for misinvoicing estimates. Import gaps represent the difference between the value of goods the country reports having imported from its trade partners and their corresponding export reports. Export gaps represent the difference in value between what the country reports as having exported and what its partners report as imported. The country studies estimate the revenue loss related to that value gap and opportunity costs associated with it.

In the case of Egypt, the trade gap for mis-invoiced goods equals $8.5 billion, or 10.5% of the country's total trade of $80.6 billion in 2016.[31] The estimated potential tax revenue losses to the

[31] Global Financial Integrity. (2019). *Egypt: Potential Revenue Losses Associated with Trade Misinvoicing*. Washington, D.C.: GFI.

Egyptian government are approximately $1.6 billion.[32] The study also finds significant opportunity costs related to Egypt's revenue loss using the previous United Nations Development Program (UNDP) spending in specific areas related to several SDGs (Table 2).

Table 2. Opportunity costs based on the previous UNDP spending in Egypt

SDG	Opportunity costs
SDG 1 (Poverty)	$512 million
SDG 8 (Work)	$512 million
SDG 13 (Climate)	$80 million
SDG 15 (Land)	$144 million
SDG 16 (Institutions)	$208 million
SDG (Other)	$144 million

Source: Global Financial Integrity. (2019). Egypt: Potential Revenue Losses Associated with Trade Misinvoicing. Washington, D.C.: GFI.

In South Africa, the value gap is twice that of Egypt – $19 billion, while the estimated revenue loss is $3.4 billion.[33] In this country, opportunity costs related to its revenue loss are estimated using another approach based on the South African government spending in particular areas. The study finds the largest opportunity costs in the amount of $1.5 billion in the area of education (Table 3).

Table 3. Opportunity costs based on the previous South African government spending

SDG	Opportunity costs
SDG 1, 5, 8, & 11 (Social protections)	$887 million
SDG 3 (Health)	$904 million
SDG 4 (Education)	$1.5 billion
SDG 7, 13, 14 & 15 (Environment)	$50 million

Source: Global Financial Integrity. (2019). South Africa: Potential Revenue Losses Associated with Trade Misinvoicing. Washington, D.C.: GFI.

In the case study in Indonesia, the value gap is twice of that of South Africa – $38.5 billion, while the estimated revenue loss is $6.5 billion in 2016.[34] Based on Indonesia's voluntary national reporting for their SDG spending, the estimated opportunity costs are $1.3 billion in the area of education, alone (Table 4).

[32] Ibid.
[33] Global Financial Integrity. (2019). *South Africa: Potential Revenue Losses Associated with Trade Misinvoicing*. Washington, D.C.: GFI.
[34] Global Financial Integrity. (2019). *Indonesia: Potential Revenue Losses Associated with Trade Misinvoicing*. Washington, D.C.: GFI.

Table 4. Opportunity costs based on Indonesia's 2019 Voluntary National Report

SDG	Opportunity costs
SDG 2 (Hunger)	$390 million
SDG 3 (Health)	$325 million
SDG 4 (Education)	$1.3 billion
SDG 9 (Infrastructure)	$975million
SDG (Other)	$3.51 billion

Source: Global Financial Integrity. (2019). Indonesia: Potential Revenue Losses Associated with Trade Misinvoicing. Washington, D.C.: GFI.

These estimates illustrate the impacts that trade misinvoicing has on development in many emerging markets and developing countries. They also provide insights into the importance of efforts and attempts to attack the problem of fraudulent invoicing and TBML in general.

PANEL THREE: TBML from the Perspective of Financial Institutions and Business
Moderator: Elise Bean, Global Witness

Abstract: This session provides the financial sector perspective on TBML, focusing on the questions of (1) who is responsible for identifying TBML in the first instance, (2) what types of bank staff are involved and how they work together to combat TBML, (3) what TBML actually looks like to a bank, and (4) what red flags and standards for filing suspicious activity reports exist in this industry. The panelists from the financial community provide their unique perspectives on these questions based on their expertise in financial intelligence, trade transactions, technology, and investigations.

Les Joseph, Wells Fargo[35]

As the Manager of the Global Financial Crimes Intelligence Group at Wells Fargo & Company, I work with a group of about 20 analysts who inform the bank's compliance officers, investigators, and business partners on money laundering developments and typologies. We are embedded in the Financial Crimes Risk Management group of about 1,200 people, which in turn, is part of a larger compliance group of about 4,000 people. As a financial institution, one of our responsibilities is to identify and report suspicious activities. In some cases, they might involve TBML.

In our investigative work, we rely on three sources of information: (1) referrals from people in the lines of business who identify some unusual activity, (2) our monitoring systems, and (3) information from law enforcement. Once investigations are open, we have about 700 investigators who analyze these cases and make decisions about filing suspicious activity reports (SARs). Later, based on these SARs and further investigation, law enforcement agencies can identify whether TBML was involved in these suspicious activities.

Answering the question of what TBML actually looks like to a bank, I would like to remind you that 80% of global trade operations are transacted using open account settlement, while the remaining 20% of transactions go through documentary trade, such as letters of credit.[36] In Figure 2, you can see a letter of credit, which represents documentary trade. It provides certain information to the bank about the transaction itself. However, it is difficult for bank employees to determine whether it involves TBML.

[35] The views expressed by Mr. Joseph are his own and do not necessarily reflect the views of Wells Fargo.
[36] The Wolfsberg Group, ICC and BAFT. (2017). *2017 Trade Finance Principles.* Retrieved from https://www.tradefinance.training/library/files/The%20Wolfsberg%20Group,%20ICC%20and%20BAFT%20Trade%20Finance%20Principles.pdf

Figure 2. Trade transactions involving letters of credit

With respect to the question of how trade transactions go through banks, it is important to make a couple of distinctions. In some cases, banks have direct customers who use letters of credit for trade transactions. If these transactions involve illicit activities, banks have a better chance of detecting them because they have extensive information about their own customers. However, large international banks also have correspondent banking relationships with thousands of financial institutions around the world. This is why a significant part of transactions do not necessarily involve their direct customers. In such cases, U.S. financial institutions employ other methods to try to identify unusual activity, such as monitoring the activity through their correspondent banking networks, which include foreign banks that use the U.S. bank to transact operations in U.S. currency on behalf of their customers. U.S. financial institutions are required to conduct due diligence on their foreign correspondent banking customers to ensure that correspondent banks have reasonably designed control systems and practices. Although U.S. banks have their monitoring systems aimed at identifying unusual activities coming through wire transfers, this can be a difficult challenge since the US bank is monitoring activity that does not involve their own customers – but rather the customers of the correspondent bank.

There are various red flags related to TBML, depending on the nature of transactions. For example, in the case of correspondent banking transactions, we look for transactions that do not make sense based on the countries that the funds are coming from, the messaging for the transactions, their volume versus justification, the nature and pattern of the underlying activities. Just to give an example, Figure 3 illustrates an unusual pattern of activity at the international level. The red star is a company located in Curacao that was identified by the monitoring system in relation to high risk parties in the correspondent banking group. Further investigation showed that in this case, some money was moved from that company in various directions, including to China, the United

States, and Colombia. At the same time, some money was coming in the opposite direction from a precious metal company in Italy, a gold company in Florida, and a precious metals company in the Middle East. Based on the nature and the pattern of these activities, the activity was identified as suspicious. In this particular case, these activities were later confirmed to involve TBML. However, in most cases, it is difficult, if not impossible, for banks to identify a particular type of suspicious activity; it can be a fraud scheme or any other criminal scheme. This is why the responsibility of banks is limited to identifying suspicious activities and filing SARs – but banks are not required to identify the particular kind of criminal activity that may be involved.

Figure 3. Legitimate trade – or TBML activity?

Another example of TBML is a scheme involving cell phones, which is a very lucrative business for criminals. There are many cases where cell phones, which are either stolen or obtained improperly in the United States, are shipped to other countries. This business involves a lot of money because an iPhone from the United States worth $500 could be sold for $2000 in China or the Philippines. This activity can often look like legitimate trade so it can be hard to detect. Another popular TBML scheme involves used cars. Probably, one of the most emblematic TBML cases was a case involving Lebanese Canadian bank.[37] Apart from TBML, this scheme involved drug trafficking and terror finance. This case is a good illustration of the concept of crime convergence, which makes identifying TBML even more challenging.

[37] U.S. Department of the Treasury. (2013). Treasury Identifies Kassem Rmeiti & Co. For Exchange and Halawi Exchange Co. As Financial Institutions of "Primary Money Laundering Concern." Retrieved from https://www.treasury.gov/press-center/press-releases/Pages/jl1908.aspx

Another challenge in TBML cases is related to a class of professional money launderers who are not only helping criminals launder their illegal proceeds, but who are also helping a wider range of actors to move money from sanctioned countries like Iran, North Korea, and Venezuela, using multiple shell companies around the world. Professional money launderers and shell companies add another layer of complexity to international TBML. In addition, there is an issue of capital flight, especially with respect to Venezuela, where many people want to transfer their money abroad. These people often use the same networks and money brokers as criminals. As a result, their money gets mixed with TBML around the world, which makes it harder for both banks and law enforcement to identify their origin. All of this activity creates challenges for banks in trying to identify TBML.

Amy Hull, Standard Chartered

As the Regional Head of FCCA Trade and Corporate Finance at Standard Chartered, I oversee all aspects of financial crimes compliance for trade in the United States.

There is a common misconception that trade finance products, such as letters of credit, are more-risky than cash products, such as wires; and that trade finance products are more commonly used for illicit activity. I would like to challenge that misconception.

There is a common misconception that trade finance products, such as letters of credit, are more-risky than cash products, such as wires; and that trade finance products are more commonly used for illicit activity. I would like to challenge that misconception.

The majority of global trade takes place on open account terms. Open account trade involves transactions that are non-documentary and are not bank-intermediated (e.g., trade loans, receivables/payables financing). Deals are settled by wires, which are only subject to financial institutions' automated screening mechanism against various sanctions lists and internal watch lists. Financial institutions do not have sight over the underlying documents that could potentially provide additional information in which to identify suspicious activity. Furthermore, the payment messages (typically MT103s and 202s) have very limited information regarding the purpose of the payment: the information provided is the remitter, beneficiary, banks involved, and there is an optional field for the information such as an invoice number.

Documentary trade involves bank-intermediated financing and/or risk mitigation, and occurs in a variety of forms (e.g., letters of credit, collections, guarantees). Transactions are subject to both automated screening and manual review by trained trade professionals in at least two banks. This manual review consists of multiple layers of scrutiny against a list of red flags. The red flags are a combination of industry guidance (from groups such as BAFT, FATF, Wolfsberg) on best

practices in how to identify TBML, as well as specific risk indicators for each institution. Red flags can indicate potentially suspicious activity and must be reviewed holistically with the entire transaction.

A holistic review includes a review of the red flag as well as a closer look at the parties, underlying goods, and trade route. For the applicant and beneficiary, financial institutions often conduct lines of business check to ensure they are not shell companies and are legitimate businesses, operating according to their stated lines of business. The underlying goods should also align with the lines of business in a legitimate transaction but may not in a situation involving TBML. The trade route is also considered to ensure it makes sense for the goods being traded. For example, that the exporting country actually produces the goods the documentation says are being exported. Geographic risk may also be considered, and countries with known lax AML regulatory environments are obviously more prone to TBML than countries with strong AML regulatory environments. The price of the goods may also be looked at for obvious over- or under-invoicing and the transaction structure reviewed to ensure it makes sense for parties involved. Such holistic assessments can identify suspicious activity, and determine which red flags are risk relevant or irrelevant. In some institutions, defense and dual-use goods are also considered in order to stem proliferation and prevent funding of goods for lethal use.

In conclusion, documentary trade is less risky because of the detailed, manual review that is conducted by financial institutions to identify suspicious activity. It is also unlikely that an importer and exporter who are engaged in TBML, would subject their documentation to a detailed, manual review by trained trade professionals. As the Wolfsburg group estimates that 80% of global trade takes place on open account terms and just 20% takes place with documentary trade, the majority of global trade is settled using products where it is difficult to identify TBML.

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In terms of how financial institutions' regulatory requirements have changed, traditionally, financial institutions were asked to identify and report suspicious activity for a limited number of criminal activities, such as drug trafficking. However, the regulatory expectation has changed so that financial institutions are now charged with protecting the financial system from the threat of financial crime by seeking to prevent it, and from preventing corrupt proceeds from entering the financial system. We are also tasked with contributing to natural security concerns, such as sanctions, terrorist financing, and proliferation of weapons of mass destruction. We are also required to identify tax and custom duty evasions and activities and goods subject to export and import restrictions, including dual-use goods. This has created the need for various types of FCC

staff with different expertise, such as transaction processing of alerts, transaction monitoring, policies and procedures, investigations, sanctions, trade, governance.

Brett Barrett, CaseWare

As a Senior Risk Specialist at CaseWare, I work with a team responsible for data modeling, data analytics, and the technology side of risk assessments and compliance. Speaking about today's compliance culture, it is extremely important to consider the role of IT in this process. Technology is becoming an increasingly important element in this area. This why is I always try to advocate and underscore internally the importance of understanding the different kinds of data, their interconnections, and correlations. One of the most recent trends in the financial industry is related to ever-growing internal partnerships with the technology arms of our businesses.

There are several driving factors behind this trend, including regulatory compliance obligations. Within each bank, there is a risk-based approach towards its own profit model. As far as documentary trade is concerned, data analysis is critically important for banks to identify TBML and other suspicious activity. Banks cannot go to a shipping yard to inspect the underlying goods. Banks cannot interview people at the customs border. But banks can get layers of common denominators right across transactions that represent various red flags. In this process, it is important to remember that each business line is unique in terms of its regulation policy and other characteristics, meaning that each business line needs a specific risk-based approach. Nowadays, banks handle hundreds of millions of transactions that need to be well documented to produce good leads for compliance officers and investigators. This task requires well-thought policies related to data collection and analytics within existing risk-based approaches.

Red flags include structured/round amounts, multiple branch activity, payments to a vendor by unrelated third parties, new/dormant account related analytics, amended letters of credit, repeated import and export of the same high-value commodity, known as carousel transactions, commodities being traded that do not match the business involved (KYC), false reporting, and commodity over- or under-valuation. Apart from transaction analysis, banks need the next generation of monitoring systems that holistically analyze behavioral patterns of individuals, using various insights from their political affiliation, their ultimate beneficial ownership (UBO) data, their risk history, their family and business connections, and so on. All these data need to be pulled together into a holistic risk profile in order to partially cut out the noise, but also to prioritize risky events. In addition, holistic risk profiles might rely on the supply chain data, history of invoicing, data from accounts receivable, and other data that help create a big picture of the related trade transactions.

Bryan Earl, HSBC

As the Financial Crime Threat Mitigation Head of Complex Investigations, North America at HSBC, I represent a very small team of investigators who look at the highest threat investigations in the bank. I also work with large teams of investigators, as well as intelligence and compliance officers in the bank. In the investigative process, it is very important to talk to different stakeholders and specialists who might have specific data related to a particular case under investigation. Different actors within a financial institution might have separate pieces of the puzzle. For example, intelligence might know more about policy-related issues, while the line of business might know more about customers. When it comes to complex investigations, our job is to look at the related transactions and collect facts from various stakeholders: businesses, compliance specialists, intelligence officers, data analysts, and so on. Apart from internal stakeholders, investigators might want to approach external actors, including law enforcement and social media. The ultimate objective of any investigation is to put facts together, to come up with a holistic picture of what actually went on, and to provide that picture to the appropriate decision makers.

Each investigation starts with a lead and then follows that lead. Imagine that there is a criminal group out there that is generating money by committing fraud on the internet. Based on their fraudulent scheme, first, they get some people that are willing to send them money. Then, in order to launder this money, the fraudsters find some business partners to open up accounts to move the money generated by their fraudulent scheme to other banks based on completely false invoices. In such a case, despite the fact that the victims of this scheme might reside in the United States, it can be impossible for U.S. law enforcement to return their money. Except for the fraudsters, other people engaged in these transactions (account holders and victims) might be unaware of the underlying criminal activity. Just based on the nature of these transactions, it might also be difficult for banks to determine whether it is legitimate or illegitimate trade. In this case, banks need a lead either from law enforcement or from some account holder who might suspect criminal activity. Based on such leads, bank investigators can put the puzzle together.

Nowadays, TBML schemes are becoming more and more complicated and more and more specialized. This makes it extremely hard for banks to identify them, despite existing sophisticated data modeling and compliance expertise. Therefore, partnerships between internal and external stakeholders are essential for detecting TBML.

The most severe challenge in TBML cases is that they often look like legitimate trade, and as previously mentioned, 90% of trade transactions are legitimate. Another challenge relates to crime convergence. Imagine drug traffickers who are very good at generating profit from selling drugs. Often, they do not have any expertise in money laundering. In such cases, they turn to professional money launderers who might belong to a completely different organized criminal group. Professional money launderers can represent a different ethnic group or they can be located in different part of the country. Moreover, professional money launderers can also be located in a different part of the world, which is, for example, typical for gray cellphone sales that represent a cash intensive industry found in every country around the globe. Nowadays, TBML schemes are becoming more and more complicated and more and more specialized. This makes it extremely hard for banks to identify them, despite existing sophisticated data modeling and compliance expertise. Therefore, partnerships between internal and external stakeholders are essential for detecting TBML.

PANEL FOUR: TBML from the Perspective of the Government
Moderator: Dennis Dunleavy, Solutions LLC

Abstract: This panel is devoted to discussions of proactive approaches that could be used by government agencies to combat TBML. The panel specifically focuses on an analysis of complex schemes used to launder money through trade and on red flags that can alert public and private actors to such incidents. The panel pays particular attention to specific anti-TBML strategies and partnerships in the United States and the United Kingdom.

Speaker from the Homeland Security Investigations at the Department of Homeland Security

Homeland Security Investigations (HSI) is the lead investigative arm of the Department of Homeland Security and is a vital U.S. asset in combating criminal organizations illegally exploiting America's travel, trade, financial and immigration systems. It is responsible for investigating transnational organized crime and threats, specifically those criminal organizations that exploit the global infrastructure.

The ICE HSI Trade Transparency Unit (TTU) was established in 2004 and its main purpose is to address TBML. The ICE HSI Trade Transparency Unit also works with interagency partners and international organizations to bring awareness to this global issue. Its primary purpose is to identify global TBML trends and conduct ongoing analysis of trade data provided through partnerships with trade transparency units located in other countries. One of the most effective ways to identify instances and patterns of TBML is through the exchange and subsequent analysis of trade data for anomalies that would only be apparent by examining both sides of a trade transaction. As the network of trade transparency units grows, so will the open exchange of trade data among all participating countries. This will play an increasingly important role in thwarting money laundering and transnational crime, including international organized crime and terrorism. By expanding information sharing agreements with foreign partners, HSI provides border security, homeland security, public safety, and protects public health, global trade, the U.S. economy, and U.S. technology.

Recently, as part of the Data Analysis and Research for Trade Transparency System (DARTTS) HSI has deployed a new information system called FALCON Data Analysis & Research for Trade Transparency System (FALCON-DARTTS). FALCON-DARTTS analyzes trade and financial data to identify statistically anomalous transactions that may warrant investigation for money laundering or other import-export crimes. As part of the investigative process, HSI special agents

and analysts work to understand the relationship among importers, exporters, and financing for trade transactions to determine which transactions are suspicious and warrant investigation.

Box 1. Trade Transparency Analysis

FALCON-DARTTS is owned and operated by the HSI TTU. Trade transparency is the concept of examining U.S. and foreign trade data to identify anomalies in patterns of trade. Such anomalies can indicate trade-based money laundering or other import-export crimes that HSI is responsible for investigating, such as smuggling, trafficking counterfeit merchandise, the fraudulent misclassification of merchandise, and the over- or under-valuation of merchandise to conceal the source of illicitly derived proceeds or as the means to earn illicitly derived funds supporting ongoing criminal activity. HSI will use FALCON-DARTTS to conduct trade transparency analysis to identify and investigate these illegal activities. If performed manually, this process would involve hours of analysis of voluminous data. Like the system it is replacing, FALCON-DARTTS is designed specifically to make this investigative process more efficient by automating the analysis and identification of anomalies for the investigator.

FALCON-DARTTS allows HSI to perform research and analyses that are not possible in any other ICE system because of the data it analyzes and the level of detail at which the data can be analyzed. For example, FALCON-DARTTS allows investigators to view merchandise details for imports or exports and then sort on any number of variables, such as country of origin, importer name, manufacturer name, and total value. FALCON-DARTTS does not seek to predict future behavior or to "profile" individuals or entities (i.e., identify individuals or entities that meet a certain pattern of behavior that has been pre-determined to be suspect). Instead, it identifies trade and financial transactions that are statistically anomalous based on user-specified queries. Investigators analyze the anomalous transactions to determine if they are in fact suspicious and warrant further investigation. If determined to warrant further investigation, HSI will gather additional facts, verify the accuracy of the FALCON-DARTTS data. Not all anomalies lead to formal investigations.

FALCON-DARTTS allows HSI to perform three main types of analysis. It conducts international trade discrepancy analysis by comparing U.S. and foreign import and export data to identify anomalies and discrepancies that warrant further investigation for potential fraud or other illegal activity. It performs unit price analysis by analyzing trade pricing data to identify over- or underpricing of goods, which may be an indicator of trade-based money laundering. FALCON-DARTTS also performs financial data analysis by analyzing financial reporting data for the import and export of currency or other monetary instruments, financial transactions with financial institutions, reports of suspicious financial activities, and the identities of parties to these transactions to identify patterns of activity that may indicate trade-based money laundering schemes.

Source: U.S. Department of Homeland Security. (2014). FALCON Data Analysis, https://www.dhs.gov/sites/default/files/publications/privacy_pia_ice_falcondartts_january2014_0.pdf

In general, TBML red flags include the following indicators:

- payments to vendor made in cash by unrelated third parties,
- payments to vendor made via wire transfers from unrelated third parties,
- payments to vendor made via checks, bank drafts or postal money orders from unrelated third parties,
- false reporting, such as commodity misclassification, commodity over-valuation or under-valuation,
- carousel transactions (the repeated importation and exportation of the same high-value commodity),
- commodities being traded do not match the business involved,

- unusual shipping routes or transshipment points,
- packaging inconsistent with commodity or shipping method, and
- double-invoicing.[38]

In conclusion, foreign and domestic partnerships are extremely important for HSI. Cooperation and collaboration of multiple agencies working together and sharing information is the only way to attack large criminal organizations that participate in TBML.

Brendan McMurrough, British Embassy

HM Revenue and Customs is a non-ministerial department of the UK Government responsible for the collection of taxes. HMRC was formed by the merger of the Inland Revenue and HM Customs and Excise, which took effect in 2005. It is supported by the border police in the UK and is responsible for investigation of all tax and customs offenses in the UK and for cooperation with international partners.

The current risk related to TBML includes the emulation of legitimate trade through the application of fraudulent procedures and supporting documentation, meaning that the core function of the trade is based on criminal enterprise. It is difficult to tackle such activities because of knowledge and trust amongst members of the criminal fraternity, cursory or uncorroborated KYC or due diligence, and the related difficulties of identifying fraudulent trade transactions due to their 'closed circle' approach. For example, such circles often have their own rules and regulations for the entire trade.

The use of cryptocurrency represents yet another challenge, similar to the use of complex payments and transaction structures. Another emerging trend is the rise in service-based money laundering, where instead of selling goods, fraudulent entities are selling services, for example, financial services.

The emerging risk in this area is related to those fraudulent enterprises that are able to infiltrate legitimate, yet unwitting businesses. Another risk relates to their ability to penetrate the legitimate supply chain. In such cases, settlement payments to third parties often serve as a red flag. Another emerging risk is related to settlements accepted and un-checked, as well as potential lack of KYC and due diligence by legitimate trading partners and financial institutions. These risks are particularly noticeable in emerging markets, such as West Africa, where it is very easy for fraudulent entities to infiltration into the supply chain. The use of cryptocurrency represents yet another challenge, similar to the use of complex payments and transaction structures. Another

[38] Trade Transparency Unit. (2018*). Red Flag Indicators*. Retrieved from https://www.ice.gov/trade-transparency

emerging trend is the rise in service-based money laundering, where instead of selling goods, fraudulent entities are selling services, for example, financial services.

TBML countermeasures should be based on data and information, including their acquisition, interrogation, assessment, and sharing. Furthermore, they should be based on a holistic approach to frustrate and disable TBML, which goes beyond just a criminal response to such activities. For example, it might be useful to consider a civil approach, including taxation and other compliance measures. In this regard, one of the most recent tools in the UK is unexplained wealth orders (UWO), which is a new piece of legislation applicable across most law enforcement agencies, according to which if the person cannot prove the assets are from a legitimate source, then the authorities can take steps to recover those assets.

It is crucial to share knowledge, typologies, and methodologies across various partners in the financial industry and public sector. It also important to share this information with partner agencies globally, not just within the UK or the United States. In terms of collaboration in the UK, the Joint Money Laundering Intelligence Task Force (JMLIT) is a partnership between law enforcement and the financial sector to exchange and analyze information relating to money laundering and wider economic threats in the country. In the UK, JMLIT holds joint meetings behind closed doors, involving bankers, investigators, HMRC officers, and other authorities in order to share information related to investigations. This public-private information sharing has generated very positive results since its inception in 2015. It helps tackle high-end money laundering schemes, which are most commonly complex, multi-institutional, and multi-jurisdictional. In this process, feedback is critical as private and public partners have to learn from each other what is successful and unsuccessful. In addition, the Crime and Courts Act 2013 allows for an exchange of bank information for intelligence purposes.

The National Economic Crime Centre (NECC) is another example of a partnership that brings together law enforcement and justice agencies, government departments, regulatory bodies, and the private sector in the UK, with a shared objective of driving down serious organized economic crime, protecting the public, and safeguarding the prosperity and reputation of the UK as a financial center. This collaboration allows government agencies to decide how to take their investigations forward and effectively speed up the entire investigative process.

GUEST SPEAKER: SENATOR BILL CASSIDY, M.D. (R-LA)

My focus will be on what we can do together to address trade based money laundering (TBML) by a multipronged effort that involves us all. I will start with the following question: What is the relationship between someone who died of an overdose in the United States, a caravan forming in Central America, a cartel in Mexico corrupting its government officials, and organizations such as Boko Haram and Hezbollah? Their common thread is money laundering which interconnects all these elements and allows different illegal activities to happen. Just to give you one example of the related threats, this year, 67,000 Americans will die from opioid overdoses. Currently, more people are dying from opioid overdoses in just one year than in the 17 years of the Vietnam War, and we must address this problem.

What is the relationship between someone who died of an overdose in the United States, a caravan forming in Central America, a cartel in Mexico corrupting its government officials, and organizations such as Boko Haram and Hezbollah? Their common thread is money laundering which interconnects all these elements and allows different illegal activities to happen.

As I wrote in my white paper on TBML, drug cartels have been extremely successful in financing their operations, moving as much as $100 billion through U.S. financial systems.[39] Effective money laundering is crucial to terrorist and criminal organizations. Over the last 15 years, Hezbollah has evolved into a multi-billion dollar transnational organized criminal global enterprise with a strong presence in North America and extensive ties with Latin American drug cartels. TBML is a national security threat. As a cross-jurisdictional problem, it requires cooperation and coordination of multiple agencies and the corresponding congressional committees. America's intelligence agencies, law enforcement, U.S. Department of Defense, U.S. Treasury Department, U.S. Department of Homeland Security, U.S. Department of Justice, and the private sector must cooperate strategically to confront terrorist and criminal activity on this new battlefield. Currently, due to a lack of coordination among agencies, TBML succeeds despite our best efforts. International commercial transaction manifests are tracked by CBP and the Census Bureau. There is no requirement that the information contained in the manifest match the information in the invoice. This lack of manifest and financial invoice information sharing between interested parties, agencies, and financial institutions results in a lack of the real-time data tracking necessary to combat TBML.

[39] Sen. Bill Cassidy (R-LA). (2019, September 6). *Trade-based Money Laundering: An Asymmetric Threat with Ties to Terror and Drugs.* Retrieved from https://www.cassidy.senate.gov/imo/media/doc/TBML%20White%20Paper.pdf#page=1&zoom=auto,-12,798

For example, if exported goods move from the United States, say, to Guatemala, but the invoice is routed through another country and the reported value on the invoice is lowered in that country without the knowledge of the U.S. or Guatemalan parties, Guatemala will collect fewer duties upon the imported goods. One of Guatemala's problems is that, like many other countries, it gets the smallest portion of its GDP from tax revenue. Tax evasion defrauds its federal government, meaning a paucity of funds for infrastructure development and more difficulties in attracting foreign direct investment (FDI). Without FDI, there are fewer employment opportunities for Guatemala's people. As a result, they start to form caravans of migrants to the United States. This suggests that if we can figure out how to address TBML and the related vicious circle, then Guatemala can have more federal revenues, more funds for infrastructure investment, and more employment opportunities for its people.

The rest of the world looks to the United States as being the leader in combating TBML. However, according to recent estimate, about $278 billion goes out of our country in a way which is not accounted for by the IRS. This amount also includes money that is moved by criminals and terrorists to corrupt Latin American governments and to finance such organizations as Boko Haram and Hezbollah. Effectively addressing this complex issue requires all-source information intelligence to generate actionable data for law enforcement, military, political, diplomatic, and international priorities.

First, we need to develop an appropriate methodology and system to integrate necessary trade data and intelligence data. There needs to be real-time coordination and reviewable connections between the agency handling the manifest information and the agency handling corresponding financial information within the U.S. and between the U.S. and our trading partners. This could be accomplished through a public distributed ledger system. This system would allow all parties to simultaneously follow the transaction and track any changes made to the documents uploaded to the system. The connection with the manifest allows correlation with the shipped goods. The private sector also must be involved. The Department of State recently testified before the Senate Caucus on International Narcotics Control that the private sector largely controls the tools of commerce upon which traffickers operate, and is therefore vital in addressing illicit trade. Counterfeit goods are a major issue for private industry which therefore has a vested interest in addressing TBML. The private sector is beginning to employ distributed ledger systems. It follows that government agencies should partner with the private sector to promote this effort.

Second, direct existing federal agencies need to prioritize the combating of TBML through interagency and private sector cooperation. This can be achieved through a joint interagency task force focusing on illicit trade transactions and protecting our national interests, trade channels, and supply chains. It will analyze commercial transactions, identify TBML, collect and share information, consolidate classified and unclassified data, and identify all parties involved in a transaction. It would detect sales and distribution of counterfeit goods and identify those using

trade to disguise drug proceeds or support terrorist or other threat networks. In addition, detailed, standardized invoices and bills of lading would be required. The shipping data should be properly analyzed to discover anomalies and be coupled with informed statistical sampling. Further, the joint interagency task force would aim to protect supply chains from risk, interruption, and exploitation of vulnerabilities. In doing so, we will address weaknesses in international commerce.

Third, we need to enhance cooperation with our trading partners to identify TBML, through trade agreements and Memoranda of Understanding. TBML undermines national security and the rule of law in other countries where it takes place. This is particularly an issue in Mexico and Central and South America where, in addition to corruption, there are weak institutions and a strong presence of drug traffickers. These countries have informal economies, so it is easy to distribute counterfeit goods and sell products without paying the appropriate taxes. It is also important to engage in other regions of the world, particularly those countries with informal economies and corruption in ports. The United States must also engage with China, given the number of counterfeit goods produced in that country.

Until we prioritize TBML as a national security concern, corrupt actors will continue to use licit trade to fund illicit activities.

In conclusion, there is a direct connection between different illicit activities, through TBML. Our nation is facing a drug use crisis and a supply chain infiltrated by counterfeit goods. The presence of drug traffickers in our region and their intrinsic connection to international threat networks, as well as the use of licit trade to further their motives, is a national security concern. Until we prioritize TBML as a national security concern, corrupt actors will continue to use licit trade to fund illicit activities. We will only be effective in our efforts if we combat threat networks through the cooperation of our military, law enforcement, intelligence community, private industry, non-government affiliated organizations, partner nations, and our citizens. The rest of the world is looking to us for the answer. This is why it is our mutual responsibility to address TBML.

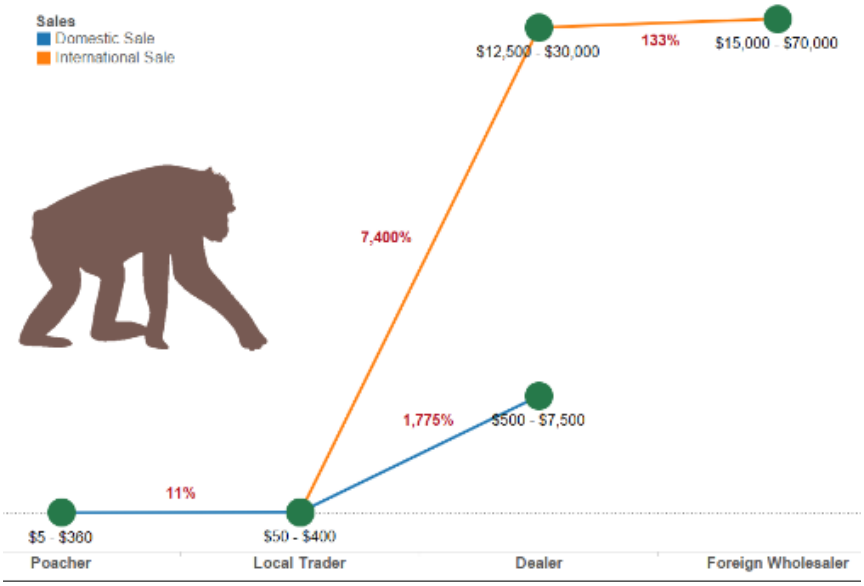
BREAKOUT SESSIONS

Environmental Strategies: Methods to identify TBML in wildlife trade and fisheries

Channing Mavrellis, Global Financial Integrity

In 2017, GFI released a report entitled "*Transnational Crime and the Developing World*," according to which the annual retail value of 11 different transnational crimes is an average of $1.6 trillion to $2.2 trillion annually.[40] Illegal logging is the third most profitable transnational criminal sector, followed by illegal mining, illegal fishing, illegal wildlife trade, and crude oil theft. In 2018, GFI released another report entitled "*Illicit Financial Flows and the Illegal Trade in Great Apes*."[41] The report identifies four major roles along the supply chain: poachers, local traders, dealers, and foreign wholesalers. According to one of the key findings, international dealers are making the greatest profit, representing the most critical point in the supply chain (see Figure 4).

Figure 4. From forest to foreign market: The story of chimpanzee



Source: Adapted from Global Financial Integrity. (2018). Illicit Financial Flows and the Illegal Trade in Great Apes. Washington, D.C.: GFI.

In Africa, three major families are known to be involved in the trafficking of great apes and there is a lot of corruption at the state level that enables them to continue working. Their specialized role is to link local traders with foreign wholesalers. Currently, there is a lot of focus on poaching

[40] Global Financial Integrity. (2017). *Transnational Crime Transnational Crime and the Developing World*. Washington, D.C.: GFI.
[41] Global Financial Integrity. (2018). *Illicit Financial Flows and the Illegal Trade in Great Apes*. Washington, D.C.: GFI.

incidents or the final sale of illicit goods, but not on these dealers who are allowing the whole illicit trade operation to continue. The same pattern can be observed in the cases of chimpanzees, gorillas, and bonobos.

The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) is an international agreement between governments aimed at ensuring that international trade in wildlife does not threaten their survival. CITES puts different species in particular appendices based on their vulnerability. For example, all great apes are classified as Appendix I that includes species threatened with extinction with significant restrictions on their commercial and non-commercial trade. However, an exemption allows trade in Appendix-I species for commercial purposes if they were captive-bred at an approved facility for that species. This loophole allows criminals to trade these animals with the aid of corrupt officials who issue trade permits, knowing, for example, that there are no breeding facilities for chimpanzees in Africa. This is why it is extremely important to punish corrupt officials who facilitate illicit trade.

To conduct a national risk assessment related to money laundering and illicit trade in natural resources, GFI uses sectoral assessments to define incidents of trade misinvoicing. The latter represents attempts to deliberately manipulate the value of a trade transaction by falsifying the price, quality, quantity, or the country of origin, among other factors. In addition, analyses of individual transaction records allow analysts to get more detailed data on shipping and receiving companies, the price of the traded goods, and other specific data that help identify TBML. For example, in one case, GFI analysts found around two dozen companies exporting gold from Colombia to the United States that were registered at the same address in a small three-story building. This is why in TBML cases, apart from the value gap in bilateral trade, it is critical to understand individual risks in the entire supply chain.

In 2016, GFI launched its new database tool, GFTrade, with real-time price analyses to measure trade misinvoicing risks for various goods categories.[42] It is a proprietary risk assessment application that enables customs officials to determine if goods are priced outside typical ranges for comparable products. The system provides officials with real-time price comparisons for goods in the port with price ranges for the same product, traded between the same two trading partners during the previous year, based on global trade information which can be used to determine if further investigation is warranted. The system is fed by the most recent official trade data from 43 countries, including China, the United States, EU28, and Japan, and provides the ability to search for goods values based on thousands of Harmonized System (HS) codes.

One of the key challenges related to illicit trade in natural resources is data precision. It is extremely difficult to measure illicit financial flows and transnational crime. Currently, there are no perfect measurements in this area, however, GFI provides reliable data that allows analysts to

[42] Global Financial Integrity. (2019). *GFTrade*. Retrieved from https://gfintegrity.org/gftrade/

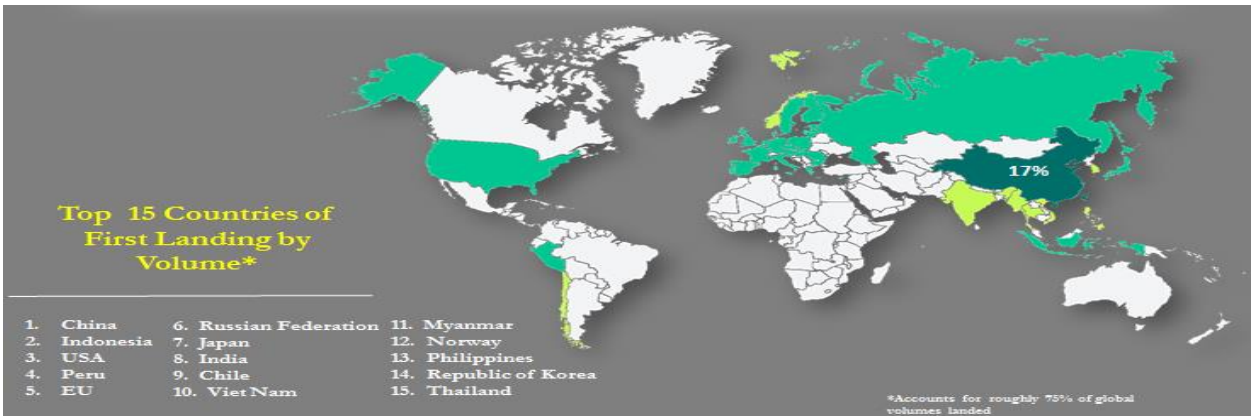
understand the magnitude of the related problem and allows policymakers to make informed decisions based on such data. One of the positive trends in this area is the institutionalization of digital reporting for trade permits. The pilot project is being conducted in Sri Lanka and shows great potential for eliminating current gaps in the information chain and preventing TBML. Another positive trend relates to new efforts in terms of the demand side regulation in the United States and Europe that are increasing their requirements on the import side in order to fight against the illicit trade in natural resources.

Michele Kuruc, World Wildlife Fund, and Ben Freitas, World Wildlife Fund

In our presentation, we will focus on the global fish market. It is probably the most widely traded global food commodity. According to our data, almost one third of the fish that is traded today is already overfished. At the same time, there are 2.6 billion people who depend on fish as an important part of their diet.[43] Illegal fishing is threatening the food supply of coastal communities as fish populations decline due to overfishing in areas where industrial-scale fishers are not permitted to access. It is also estimated that globally at least 30% of the fish is caught illegally. According to GFI, annual illegal and unreported marine fishing generates $15.5 billion to $36.4 billion in illicit profits. [44]

Figure 5 presents a map that shows those countries where most of the fish come to ports. China lands 17% of the world's fish, alone, followed by Indonesia, the United States, Peru, the EU, and Russia. Often, fish makes a global journey before it ends up in the consumer marketplace, and the largest import markets are Europe, the United States, and Japan.

Figure 5. Port states of fish landing, by volume



[43] WWF (2019). *Illegal Fishing*. Retrieved from https://www.worldwildlife.org/threats/illegal-fishing
[44] Global Financial Integrity. (2017). *Transnational Crime and the Developing World*. Washington, D.C.: GFI.

In terms of reporting, there are significant discrepancies in either the volume or the value of the traded fish, which might serve as a TBML indicator. Trade data analysis can help officials in many of these countries and regions to identify TBML. However, this process is often time consuming. In order to solve this problem, in 2016, WWF and TRAFFIC partnered with Hewlett-Packard Enterprises to develop a big data analysis web tool to help in the fight against illegal fishing called DETECT-IT.

DETECT-It is a web-based tool that looks at data tracking the movement of fish from country to country. The tool highlights any trade information that looks suspicious and possibly illegal. Through rapid, automated collection, it compares, and analyzes United Nations trade data from more than 170 countries. It allows users to conduct their own searches. The database has a threshold set at 50% and if there is a discrepancy of greater than 50%, an alert is triggered for that traded fish. DETECT-IT has dashboard pages that contain some basic background information on the global seafood trade, including leading importers and the value of imports, leading importers and their trading partners/net weight, leading exporters and their trading partners/net weight, top wild-caught commodities by import trade value/kg, and top wild-caught commodities by export trade value. For example, China is both the leading importer and the leading exporter of seafood. Because of the volume of imports coming in to China, inadequate traceability requirements, the number of illegal catches either imported or landed directly in China, and China's role as a major processor and re-exporter, significant volumes of illegal products are likely being laundered in with legal catches and traded around the world.

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To give an example of how DETECT-IT can be helpful for investigators, it is useful to refer to one of the largest illegal fishing cases in the world that involved Arnold Benjis, the Managing Director and Chairman of Hout Bay Fishing Industries (PTY) Ltd. ("HBFI") in Cape Town, South Africa. From 1987 to 2001, Arnold Benjis, his son, and their co-conspirators, engaged in an elaborate scheme to harvest illegally large quantities of South and West Coast rock lobster and to export the illegally harvested lobster to the United States. Arnold Benjis and his co-conspirators underreported the fish harvested to South African authorities and bribed South African fisheries inspectors to help them carry out their illegal harvesting scheme. They also submitted false export documents to South African authorities to conceal their overharvesting. In April 2004, Arnold

Benjis and his son were sentenced to imprisonment of 46 months and 30 months, respectively.[45] As part of their sentences, Arnold Benjis and his son forfeited $5.9 million to the government.[46] Arnold Benjis was also prosecuted in South Africa. Originally, his restitution to the South African government was ordered in the amount of $62 million; however, it was later reduced to $22.5 million.[47]

DETECT-IT allows analysts and investigators to see spikes related to illegal fishing similar to the Benjis case. For example, in Figure 6, the red circle relates to the period when Benjis and his company were in full operations. It shows the difference between import/export data reported by trading partners. The green line shows South African reports on exported fish to the United States, while the purple line shows U.S. records related to imported fish from South Africa. The second spike illustrates a copycat case that tried to duplicate the methods that Benjis used in the 1990s.

Figure 6. Massive Trade Discrepancy Illustrated by DETECT IT

Currently, DETECT-IT has 6 million trade records on fish. It is very useful for investigators. The United States is the largest country market for imported seafood. DETECT-IT can be used to show the number of alerts coming from exporting countries to the United States. For example, from

[45] U.S. Department of Justice. (2013, June 14). *Officers of Fishing and Seafood Corporations Ordered to Pay Nearly $22.5 Million To South Africa For Illegally Harvesting Rock Lobster and Smuggling it into the United States.* Retrieved from https://www.justice.gov/usao-sdny/pr/officers-fishing-and-seafood-corporations-ordered-pay-nearly-225-million-south-africa
[46] Ibid.
[47] Ibid.

2000 to 2016, Japan was the exporter with the highest number of alerts (263), followed by the Republic of Korea (236), Mexico (231), Spain (200), and China (199).

WWF has been advocating for greater transparency in this area. In this regard, governments have an important role to play in establishing stronger import controls. For example, in 2008, the European Union established a requirement for all importers of seafood to provide some key information on the legality of their catches. In 2018, the United States established the Seafood Import Monitoring Program (SIMP) that sets reporting and recordkeeping requirements for imports of thirteen seafood species, to combat illegal, unreported, and unregulated-caught and/or misrepresented seafood from entering U.S. commerce. However, the SIMP program covers only about 40% of the imported fish. Therefore, it is important to expand this program to include all species.

Private Sector Strategies: Illicit Trade in Tobacco Products

Hernan Albamonte, Philip Morris International

The illicit trade in tobacco products poses major health, economic, and security concerns around the world. It is estimated that 1 in every 10 cigarettes and tobacco products consumed globally is illicit, [48] with the size of the global illegal tobacco trade being estimated at 600 billion cigarettes. This translates into an annual $40-50 billion loss in tax revenues. The illicit market is supported by various players, ranging from petty peddlers to organized criminal networks involved in money laundering and terrorism. Price disparities provide an opportunity for criminals to make huge profits from this illicit business. In addition, a low risk of detection creates strong financial incentives for criminals to engage in this business. For example, costs to produce one counterfeit pack of cigarettes in China could be as low as $0.20, while an approximate street value of this pack of 20 counterfeit cigarettes could be as high as $5.00. Thus, potential profits of smugglers from 1 container of counterfeit cigarettes could reach $2,300,000.

Operation Smokescreen provides an illustrative example of crime convergence between illicit tobacco trade and TBML. This was a U.S. interagency counterterrorist operation to disrupt fundraising by Hezbollah. Between 1996 and 2000, a group of individuals affiliated with Hezbollah used bulk cash to purchase about $8 million in cigarettes in North Carolina, where the cigarette tax was 5 cents per pack. They then travelled to sell the cigarettes in Michigan, where the cigarettes tax was 75 cents per pack. The group was able to avoid paying the tax to the State of Michigan, pocketing the difference in prices between the two states. The estimated profit of $1.5 million was sent to Hezbollah in Lebanon as cash and goods.[49]

[48] World Health Organization (2019). *Tobacco.* Retrieved from https://www.who.int/news-room/fact-sheets/detail/tobacco

[49] Levitt, M. (2011, July 27). *Hezbollah: Party of Fraud, Foreign Affairs*, Retrieved from https://www.foreignaffairs.com/articles/2011-07-27/hezbollah-party-fraud

Another example of the convergence between illicit tobacco trade and TBML is an investigation that involved a money laundering and contraband cigarette smuggling organization led by Stormy Paul. This large-scale organization smuggled contraband cigarettes into the United States from China and subsequently structured cash deposits to avoid payment of millions of dollars in Washington State tax revenue.[50] The cigarettes were imported into a FTZ located in Hawaii, then diverted to the state of Washington, rather than to the claimed destination, a Native American reservation in Idaho. Paul then sold the illegally gained cigarettes in Washington, and laundered the proceeds. As a result of the investigation, 16 warrants were executed in Washington and in Hawaii, which yielded 1,451,697 million packs of contraband cigarettes, one vehicle, and over $600,000. This seizure of the cigarettes reflects $2,068,668 in revenue loss to the State of Washington. Paul and his associates were eventually indicted for smuggling and trafficking of cigarettes, money laundering, and structuring financial transactions.

Another example of the convergence between illicit tobacco trade and TBML is an investigation that involved a money laundering and contraband cigarette smuggling organization led by Stormy Paul. This large-scale organization smuggled contraband cigarettes into the United States from China and subsequently structured cash deposits to avoid payment of millions of dollars in Washington State tax revenue.

Key recommendations to combat TBML and illicit tobacco trade include the following:

- Capacity building and awareness raising,
- International cooperation,
- Enhancing transparency in free trade zones (FTZs),
- Preserving the integrity of the supply chain.

When it comes to preserving the integrity of its supply chain, PMI:

- applies strict Know-Your-Customer and Know-Your-Payment requirements,
- has made large investments in state-of-the-art tracking-and-tracing technology and developed other tools to effectively reduce the diversion of tobacco products from their supply chain, and,
- uses the information gathered from seizure inspections to identify the points of diversion with the aim of preventing reoccurrence.

[50] "Eight indicted for smuggling and trafficking in contraband cigarettes." (2005, April 12). The Seattle Times. Retrieved from https://www.seattletimes.com/seattle-news/eight-indicted-for-smuggling-and-trafficking-in-contraband-cigarettes/

Another important aspect of illicit tobacco trade is related to its convergence with terrorist financing. For example, in her recent book, Louise Shelley discusses how the illicit cigarette trade is attractive to terrorist groups given the low-risk and high profit. She writes, "The trade in counterfeit, diverted, and illicit white cigarettes resembles the trade in drugs and humans, with which it often intersects. Ignored by many law enforcers, this trade provides an ideal funding source for states, corrupt officials, criminals, and terrorists."[51] Similarly, a recent government report on illicit tobacco trade identifies it as a lucrative crime for terrorist groups and a potential revenue source to finance terrorist activities.[52] Apart from al-Qaeda in the Islamic Maghreb, at least a half-dozen terrorist groups and insurgencies have profited from illicit tobacco trade.[53]

How Do We Measure TBML?

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A major obstacle to evaluating TBML risks is the lack of reliable statistics and the breadth of the issue. There is no standardization with regard to the collection and maintenance of TBML data because presently, trade data are collected for purposes other than detecting TBML. Some organizations try to measure misinvoicing as one of the TBML types; however, this focus is too narrow since analysis of price anomalies related to over- or under-invoicing is not sufficient to cover the whole issue. Additional obstacles occur when such measurements are conducted at the country level. FATF points to difficulties associated with TBML data due to the "lack of structured and regular exchange of information related to trade and trade finance among relevant agencies."[54] In such circumstances, we can talk about attempts to measure the extent of TBML-related risks at the country level, rather than attempts to measure the scale of TBML activities. To measure TBML-related risks, we can use the following two approaches: (1) to look at a structural framework for trade, and (2) to look at macroeconomic data on exports/imports between trading partners, as well as free trade zones (FTZs). Currently, there are several indices and indicators based on these approaches: the Basel AML Index, the Global Illicit Trade Environment Index, the World Bank Logistics Performance Index, and Global Financial Integrity Data.

The Basel AML Index is an independent annual ranking that assesses the risk of money laundering and terrorist financing (ML/TF) around the world.[55] It is published by the Basel Institute on Governance since 2012. It provides risk scores based on data from publicly available sources, such as the Financial Action Task Force (FATF), Transparency International, the World

[51] Shelley, L. I. (2018). *Dark Commerce: How a New Illicit Economy Is Threatening Our Future*. Princeton: Princeton University Press, p. 163.
[52] The Global Illicit Trade in Tobacco: *A Threat to National Security*, U.S. Government Report (2015). Retrieved from https://2009-2017.state.gov/documents/organization/250513.pdf
[53] Wilson, K. (2009). *Terrorism and Tobacco*. The Center for Public Integrity. Retrieved from https://publicintegrity.org/health/terrorism-and-tobacco/
[54] FATF (2012). *APG Typology Report on Trade Based Money Laundering*. Retrieved from https://www.fatf-gafi.org/media/fatf/documents/reports/Trade_Based_ML_APGReport.pdf
[55] Basel Institute on Governance (2019). The Basel AML Index. Retrieved from https://www.baselgovernance.org/basel-aml-index

Bank Group, and the World Economic Forum. The Basel AML Index does not calculate the amount of TBML. It assesses countries' structural risks related to financial crimes, including TBML but without a specific focus. The main assumption is that there is a correlation between a high level of corruption, low quality of governance, poor public transparency, and TBML risks. The risk scores cover five domains: (1) quality of the AML/CFT framework, (2) bribery and corruption, (3) financial transparency and standards, (4) public transparency and accountability, and (5) political and legal risks. The Basel AML Index scores are based on 15 indicators from publicly available sources (see Table 5).

Table 5. The Basel AML Index

Domains	Indicators
Quality of AML/CFT framework (65%)	• FATF Mutual Evaluation Reports • Financial Secrecy Index • US State Department International Narcotics Control Strategy Report (INCSR)
Corruption risk (10%)	Corruption Perception Index, Bribery Matrix Data
Financial transparency and standards (15%)	• Extent of Corporate Transparency Index • WEF Global Competitiveness Report – Strength of auditing and reporting standards • WEF Global Competitiveness Report – Regulation of securities exchanges • World Bank IDA Resource Allocation Index – Financial sector regulations
Public transparency and accountability (5%)	• Political Finance Database – Political disclosure • Open Budget Index – Budget transparency score • World Bank IDA Resource Allocation Index – Transparency, accountability and corruption in the public sector
Political and legal risk (5%)	• Freedom House: Freedom in the World and Freedom of the Press • WEF Global Competitiveness Report – Institutional pillar • Rule of Law Index

Another indicator related to TBML is **the Global Illicit Trade Environment Index** calculated by the Economist Intelligence Unit (EIU).[56] It evaluates 84 economies on their structural capability to prevent illicit trade. Its main focus lies in the areas of laws, regulations, systems, and the effectiveness of political and regulatory environment. However, the Global Illicit Trade Environment Index does not measure an economy's performance on the effectiveness of combating illicit trade. It has four major categories: (1) government policy, (2) supply and demand for illicit goods, (3) transparency and trade, and (4) customs environment (see Table 6).

Table 6. The Global Illicit Trade Environment Index

Categories	Measurements
Government policy	The availability of policy and legal approaches for monitoring and preventing illicit trade
Supply and demand for illicit goods	The domestic environment that encourages or discourages the supply and demand for illicit goods

[56] Economist Intelligence Unit (2019). *The Global Illicit Trade Environment Index*. Retrieved from http://illicittradeindex.eiu.com/

Categories	Measurements
Transparency and trade	Assessments of economies on their transparency as regards illicit trade and the degree to which they exercise governance over their free-trade zones (FTZs) and transshipments
Customs environment	Effectiveness of economies' customs service management related to its dual mandate to facilitate licit trade while also preventing illicit trade

The Basel AML Index provides data related to the "government policy" section of the Global Illicit Trade Index. These data cover the extent to which a jurisdiction engages in international judicial cooperation on money laundering and other criminal issues. The data are based on the FATF assessments and analysis conducted by the Basel Institute on Governance. The Global Illicit Trade Environment Index has several limitations. First, it covers only a limited number of countries. Second, it overemphasizes formal legal and regulatory frameworks. Third, it considers a country's signature on trade-related international protocols as a compliance criterion. Fourth, poor performing economies have disadvantageous positions due to the index's focus on an infrastructural perspective related to TBML. Finally, this index raises some questions on causality between independent and dependent variables. For example, developed port infrastructure does not necessarily mean lower TBML risks.

One more indicator partially related to TBML is **the World Bank Logistics Performance Index (LPI).** This index identifies the challenges and opportunities that countries face in their performance on trade logistics. The 2018 LPI allows for comparisons across 160 countries.[57] The LPI is a weighted average of countries' scores on six dimensions: (1) efficiency of the clearance process, (2) quality of trade and transport-related infrastructure, (3) ease of arranging competitively priced shipments, (4) competence and quality of logistics services, (5) ability to track and trace consignments, and (6) timeliness of shipments in reaching destination. However, the LPI also has several limitations. First, the infrastructure criteria automatically put low-income countries into a low-performance category. Second, the scores of landlocked countries are influenced by the performance of their neighboring coastline countries. Third, the quality of trade infrastructure does not fully reflect risks associated with TBML. Finally, the LPI assesses only potential risks related to logistics services and does not cover TBML risks outside shipments.

The second approach to assessing TBML risks is based on trade data analysis. As stated by the FATF report, "analysis of trade data and its international sharing are useful tools for identifying trade anomalies and detection of TBML. Since international trade leaves behind documentation, the anomalies noticed during data analysis may lead the investigator to documentary evidence."[58] Based on this approach, **Global Financial Integrity (GFI)** provides an annual estimate of illicit financial flows to and from 148 developing countries. It uses the United Nations Comtrade dataset and data from the International Monetary Fund's Direction on Trade Statistics. It calculates trade

[57] World Bank (2018). *Logistics Performance Index*. Retrieved from https://lpi.worldbank.org/

[58] FATF (2012). *APG Typology Report on Trade Based Money Laundering*. Retrieved from https://www.fatf-gafi.org/media/fatf/documents/reports/Trade_Based_ML_APGReport.pdf

misinvoicing as the value gap between imports and exports in bilateral trade reports. Being the only existing measurement of the volumes of illicit financial flows, the GFI data nevertheless has several limitations. First, it focuses on developing countries. For example, export/import gaps are not calculated for pairs of advanced economies. Second, import/export gaps do not always identify illicit financial flows. For example, there might be certain time lags in reported transactions or trading partners might use different reporting systems. Furthermore, gaps between reported exports and imports might also relate to tax and customs duty evasion.

Recently, the OECD and the European Union Intellectual Property Office (EUIPO) published a report on fake exports.[59] According to a 2018 OECD/EUIPO report, it could be expected that economies registered as having FTZs would tend to show higher values of counterfeit and pirated exports since customs officials there have fewer incentives to check goods which are less likely to end up in their own territories.[60] Specifically, the report indicated that the share of fake goods from economies hosting the 20 biggest FTZs was twice as big as from economies that do not host any FTZs.[61] The larger the number and size of FTZs and the larger the number of participating firms and employees, the larger the share of fake goods.

There is some data available on such zones, including the **World FTZ Database (2014)** which covers export processing zones in 158 countries.[62] In addition, **the Pronto Database (2017)** covers export processing zones, export/import processing zones, and special economic zones.[63] However, key challenges to use data on FTZ as a way to measure TBML risks include the lack of a single definition for FTZs, their regime opacity (frequently noncompliant with WTO rules), and the existence of a significant number of inactive FTZs. Apart from FTZs, there are several related zones organized in different formats, including export processing zones, industrial free zones, maquiladoras, special economic zones, bonded warehouses, technology and science parks, financial service zones, and free ports.

In terms of limitations related to quantifying FTZs risks, they vary significantly depending on the country, the size of FTZs, and their goods. Risks also depend on the relationship between the size of FTZs and the overall size of the economy. This is why TBML risk assessments need to take several factors into consideration, including the quality, size, and environment of FTZs. Some assessments of TBML risks related to FTZs can be found indirectly in the FATF Mutual Evaluation Reports. However, FTZs are only partially covered by the FATF Recommendations (Immediate Outcome 1; Recommendation 1, Recommendation 2, Recommendation 5, Recommendation 19,

[59] OECD/EUIPO. (n.d.). *Why do countries export fakes?*. Paris: OECD Publishing House. Retrieved from https://www.oecd.org/gov/risk/why-do-countries-export-fakes-brochure.pdf
[60] OECD/EUIPO (2018). *Trade in Counterfeit Goods and Free Trade Zones: Evidence from Recent Trends*. Paris: OECD Publishing.
[61] Ibid., p. 2.
[62] Yücer, A., Siroën, J.-M., Archanskaia, E. (2014). World FTZ Database, ftz.dauphine.fr
[63] World Trade Institute, University of Bern (2017). PRONTO Database on Export Processing Zones, Productivity, Non-Tariff Measures and Openness. Retrieved from http://prontonetwork.org/pages/resources.html

Recommendation 33, and Recommendations 36 – 40). Whatever approach researchers choose to use to assess TBML risks, they should take its limitations into account.

CLOSING SESSION: MOVING FORWARD (POLICIES AND STRATEGIES)

Moderators: Dennis Dunleavy, Solutions LLC, and Louise Shelley, TraCCC

Abstract: This concluding panel is devoted to brainstorming on new strategies and policy recommendations for government, law enforcement, private, and nonprofit actors to mobilize their responses to mitigate TBML. These recommendations include specific strategies to combat TBML, improvements in policy responses, building public-private partnerships, fostering innovative research and data analytics, as well as taking a holistic approach to this problem.

List of recommendations

Building public-private partnerships

- ***To develop public-private partnerships (PPP) to combat TBML.*** It is important to introduce legislative incentives for the development and implementation of PPP in this arena, similar to the Joint Money Laundering Intelligence Taskforce (JMLIT) in the UK. It is also necessary to remove barriers to PPP that often exist within agencies and private organizations.
- ***To engage trade actors in policy discussions and the implementation of specific anti-TBML programs***. It is important to invite associations and representatives of shippers, importers, exporters, ports, customs authorities, and other trade actors to discussions about their involvement in anti-TBML programs, building their capacity to counter TBML, and raising awareness about this issue in the industry.
- ***To assess the potential for creating a task force with representation of different government agencies.*** It is critical for all government and law enforcement agencies to work together on TBML because of its convergence with other types of crime, such as corruption, drug trafficking, human trafficking, terrorism, and other illegal activities.

Taking a holistic approach to TBML

- ***To raise awareness of this problem among private and public actors.*** The huge negative consequences of TBML for the national and global economies suggest a need to elevate this problem to the top of the policy agenda. Multi-stakeholder discussions of TBML and advocacy campaigns should include legislators, academia, NGOs, civil society, private sector organizations, customs authorities, and other government agencies, as well as representatives of international organizations, such as the United Nations, the World Bank Group, the Organization for Economic Cooperation and Development, the International Monetary Fund, and other multinational agencies.

- ***To develop special outreach programs that involve various NGOs, civil society, government agencies, and the general public.*** These programs are essential for improving existing initiatives and providing feedback on strategies and policies related to TBML.

Specific strategies to combat TBML

- ***To develop comprehensive mitigation plans in the trade industry***. It is important to analyze the entire supply chain to be able to identify the criminal actors who make the biggest difference in that supply chain in terms of profit. This is essential for strategic allocation of the limited resources available for combatting TBML. In this regard, it is important to understand the entire structure of the supply chain, its operators, and the related logistics.
- ***To intensify responses of customs officers, shippers, airlines, ports, and other trade actors to TBML.*** Education and training of trade professionals and customs officers are critical for combatting TBML.

Improving policy responses to TBML

- ***To address the issue of kleptocrats moving corrupt proceeds around the world.*** Illicit money often originates from contemporary kleptocractic regimes. Currently, there are several bills in Congress that deal with this issue, including the Foreign Extortion Prevention Act, the Kleptocrat Exposure Act, the Justice for Victims of Kleptocracy, and the Transnational Repression Accountability and Prevention (TRAP) Act. Sanctioning of kleptocrats engaged in corruption and human rights violations should be linked with TBML.
- ***To introduce legal responses to address the current gaps in the legislature.*** One of the issues that requires urgent attention is the lack of beneficial ownership transparency, which is essential for all other reforms. In addition, the Counter Act was introduced into Congress in May 2019. It includes several reforms to the Federal Bank Secrecy Act and anti-money laundering laws that could be helpful for combatting TBML.
- ***To strengthen international cooperation in this arena***. TBML is a global problem involving both developed and developing countries around the world. Therefore, international cooperation is of critical importance for TBML prevention at the level of the Financial Action Task Force (FATF) and other subnational authorities. Another recommendation is to expand the use of trade transparency units (TTUs) and their global network. It is also important to work with various countries in terms of greater transparency within free trade zones (FTZs) and to improve their resource bases to combat TBML.

Fostering innovative research & data methods

- ***To improve trade data and make it accessible*****.** It is important to include data on free trade zones, which are currently one of the main challenges for combatting TBML, and to

improve the FATF recommendations and the related data in FATF mutual evaluation reports.

- ***To improve methodologies to measure TBML and calculate the related risks.*** Currently, there are no exact estimates of TBML and there are no standardized procedures for the collection and maintenance of TBML-related data.
- ***To enhance responses to TBML based on comprehensive research conducted by interdisciplinary teams of scholars and practitioners***. Specifically, it is necessary to link TBML with the global illicit financial system and to understand the architecture of the entire system and its particular elements, including tax havens and shell companies. Conducting such research will require interdisciplinary teams of scholars and practitioners, including social scientists, business analysts, risk evaluators, data analysts, and computer scientists.
- ***To develop human skills and strengthen their tech capacities to combat TBML.*** Criminals are constantly looking for innovative ways and new schemes for TBML. Financial institutions and other actors should invest resources in identifying new criminal trends as early as possible.
- ***To further develop monitoring systems and analytical tools in the financial sector***, including the use of artificial intelligence. It is important to develop and apply different techniques, including suspicious pattern recognition, anomaly detection, network analytics, attack path analysis, and predictive analytics.