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NETWORKS & CONVERGENCE STRATEGIES LLC



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INTERNATIONAL COALITION AGAINST ILLICIT ECONOMIES



COUNTERING RISKY & UNRULY ILLICIT SPACES ACROSS FTZs

WFZO-INTA Dialogue
Free Trade Zones (FTZs):
How to Combat Illicit Trade & Counterfeiting

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In 2019, the global trade value of goods exported throughout the world amounted to approximately 19 trillion U.S. dollars at current prices.

About 90% of all trade is conducted via maritime containers of which more than 500 million are shipped yearly in the trade supply chain, less than 2% are inspected; 25 % of such trade goes through FTZs.

TRUST and Info-sharing Cooperation across Ports/FTZs, etc.

Free Trade Zones can have a catalytic effect on economies, including attracting Foreign Direct Investment and helping to expand economic development, growth and prosperity.

Note: nearly 63% of customs seizures of counterfeit and pirated goods involve small parcels; US: 90 percent; BUT in terms of value: 80% shipping.

MarineTraffic Density Maps for 2018 and 2019 provides snapshot of the most-travelled sea routes around the globe.
<https://www.marinetraffic.com/blog/shipping-trends-at-a-glance/>

But in too many parts of the world, FTZs are also exploited on a daily basis by some to facilitate illicit activities that produce broader market reputational harm and put the economic and physical security of many communities in danger.

Illicit Economies

A global estimate (annually)





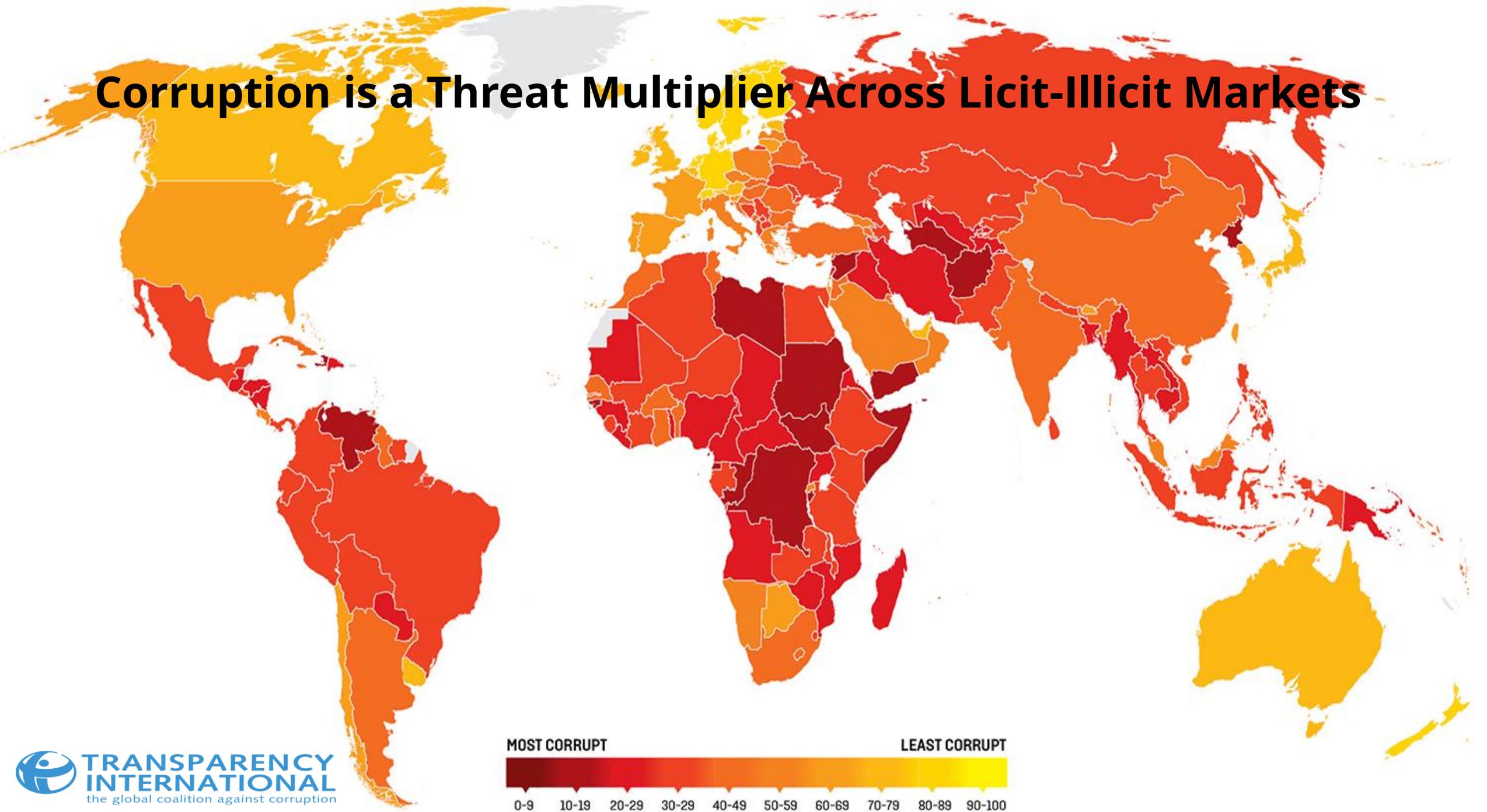
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Disrupting Illicit Pathways and ML Threats Across Ports and FTZs



Free Trade Zones are generally organized around major seaports, international airports, and national frontiers—areas with many geographic advantages for trade; shipping industry moves almost 90% of global goods.

Corruption is a Threat Multiplier Across Licit-Illicit Markets



Free Trade Zones Vulnerabilities



Inadequate measures against corruption money laundering and counter-terrorism financing.

+



Absence of effective oversight by domestic authorities.

+



Insufficient inspection and registration procedures for commodities and legal entities, including poor record-keeping and information technology systems.

+



Coordination and cooperation between FTZs and Customs authorities are limited.

= As a result

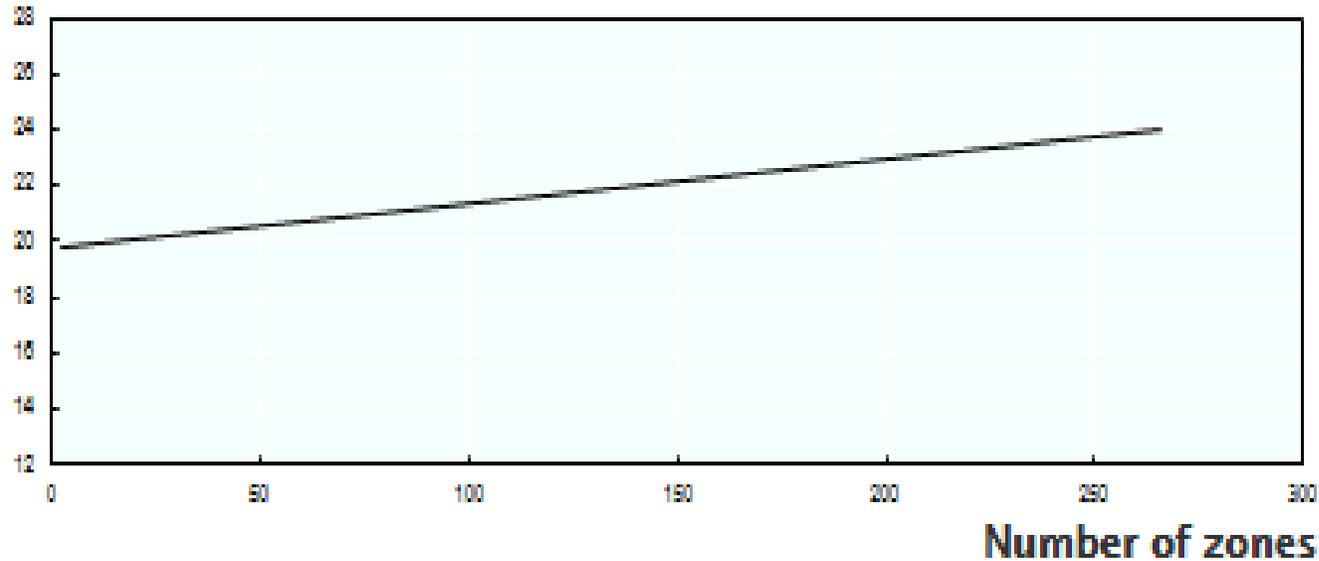
kleptocrats, money launderers, terrorist financiers, and criminal organizations are attracted to FTZs.

Free Trade Zones are key drivers of trade in counterfeit and pirated goods, especially with economies with weak governance.

Fake trade increases with more free trade zones

Value of fake exports (in log USD mln) against number of free trade zones

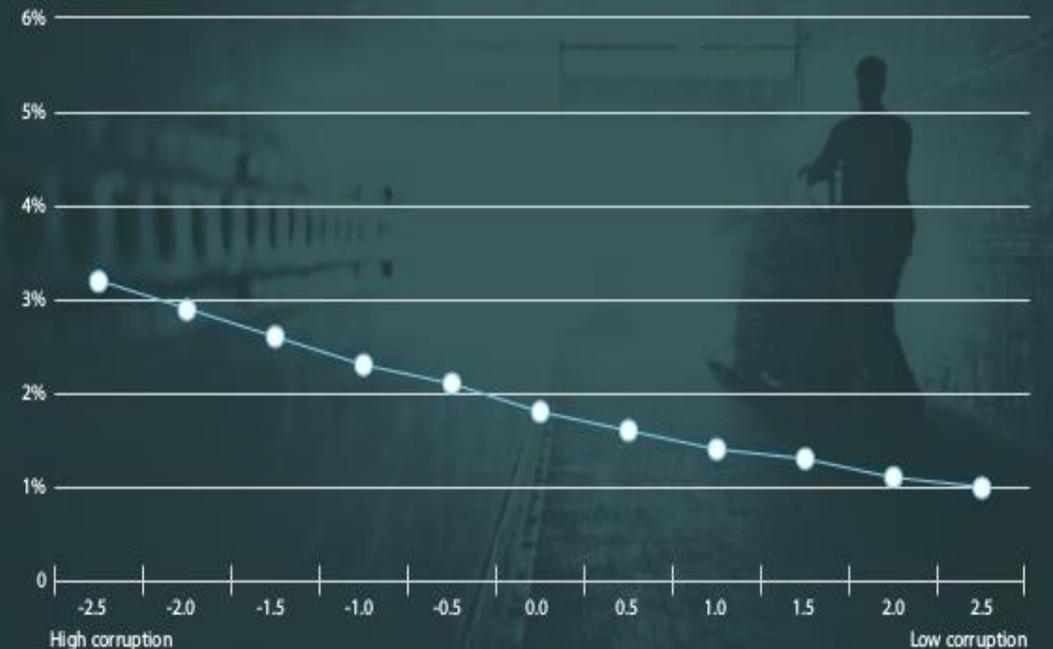
Value of counterfeit and pirated exports (in log)



Source: Trade in Counterfeit Goods and Free Trade Zones

Predicted share of fake exports depending on the level of corruption control

Share of exports of counterfeit and pirated goods



POOR GOVERNANCE - 5

- **OECD Recommendation of the Council on Countering Illicit Trade: Enhancing Transparency in Free Trade Zones**
- **OECD Code of Conduct for Clean Free Trade Zones**
- **OECD TFCIT; Mechanism (Diagnostic Tool); Monitor Implementation**

[Adopted on: 20/10/2019]

Countering Risky & Unruly “Illicit Spaces” Across FTZs



Impacts of Converging OC Threats in Illicit Spaces

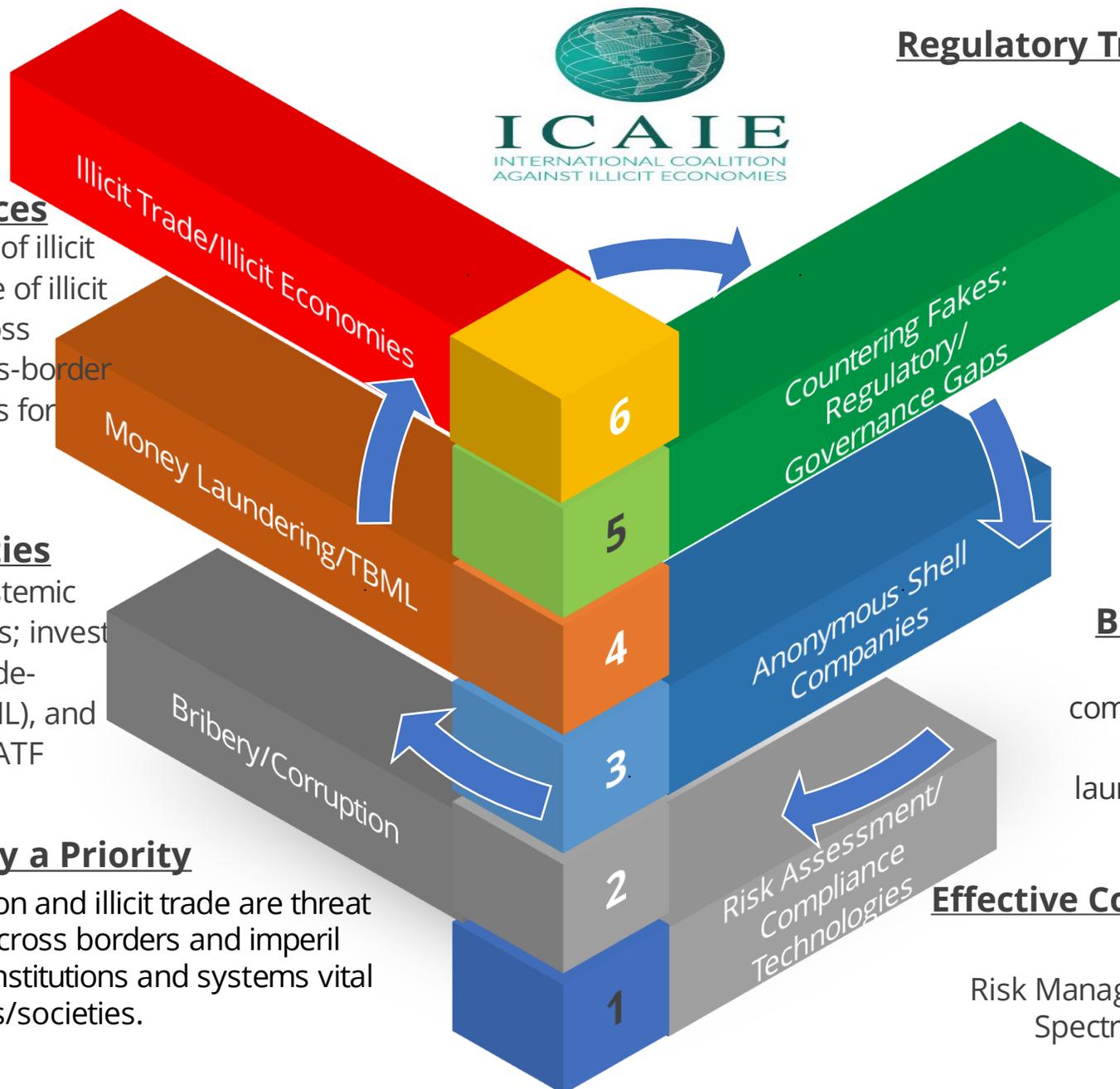
Understanding harmful effects of illicit economies; collecting evidence of illicit trade; information-sharing across sectors; conduct joint and cross-border investigations and support calls for prosecution.

Shutting Down Money Laundering Vulnerabilities

Identify ML/Threat Finance systemic weaknesses and vulnerabilities; invest in capabilities for detecting trade-based money laundering (TBML), and red flags in accordance with FATF guidelines

Make Corruption/Bribery a Priority

The reality is that both corruption and illicit trade are threat multipliers in FTZs that ripple across borders and imperil democratic transparency and institutions and systems vital for open, free, and just markets/societies.



Regulatory Transparency /Governance Gaps

Monitor regulatory/governance gaps and lax oversight; dissuade counterfeiting, criminal practices, and disguising of fakes' illegal origin while in transit, transshipment, manufacturing, re-packing, re-labeling, re-exporting in FTZs; disrupt illegal trade, smuggling, and trafficking across FTZs. Implement and enforce laws; **OECD Recommendation (Enhancing Transparency in FTZs; OECD Code of Conduct; WCO SAFE / WTO TFA.**

Beneficial Ownership/Anonymity

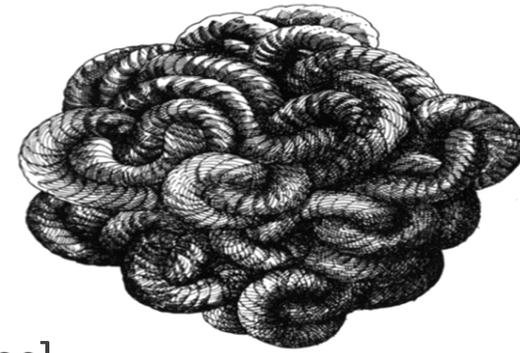
End the abuse of anonymous shell companies, in which kleptocrats, criminals, and terrorists have avoided detection. laundered dirty money, and financed other threats, operations, and illicit empires.

Effective Controls/Compliance/Enforcement

Invest in Anti-Illicit Trade Prevention, Risk Management, and Enforcement Strategies, Full Spectrum Solutions and Technologies including Blockchain, AI/Federated Learning.



GORDIAN BLUEPRINT



Solving the perceived complex challenges
Surfacing Criminal Networks Across Illicit Spaces

- **ICAIE:** Intelligence Collection, Analyzed-actionable Intelligence, Enforcement [Intel Packages]
- **Assessing Risk:** Free Trade Zones Risk Assessment Tool/13 Risk Factors [RUSI: <https://ftz-risk.rusi.org/>]
- **Mapping/Visualizing** Interconnected Threats In Ports, FTZs, Intermodal Ecosystems, Supply Chains [ICAIE Partners]
- **Precision Disruptions:** Leveraging Databases and Common Typologies [ICAIE Partners]
- **Identifying Illicit Spaces:** Geospatial Information Systems (GIS); Communications/Device Discovery [ICAIE Partners]
- **Surfacing Criminal Synaptic Nodes:** Social Influence Platforms/Social Network Analysis/Media [ICAIE Partners]
- **Surfacing Bad Actors, Enablers, and Facilitators:** TOC Network Analysis/Corruptive Influencers [ICAIE Partners]
- **Surfacing Illicit Routes:** Intermodal/Trade Infrastructure, Distribution Systems, Supply Chains [ICAIE Partners]
- **Connecting the Dots:** Document Forgery/e-CofOrigins/TBML/Valuations/Misinvoicing/Bills of Lading [GFI/Sayari]
- **Pinpointing Dirty Money/Financial Safe Havens:** FININT/Digital Forensics/Financial Investigations [ICAIE Partners]
- **Full Spectrum Technologies:** AI/Federated Machine Learning/Risk Management Solutions [Consilient/SAS]
- **ICAIE Informational-Sharing DOLFIN Pod [K2 Integrity]:** Strengthening Trust, Prevention and Enforcement [ICAIE]
- **ICAIE Gordian BluePrint:** Actionable Intelligence; Disrupt Illicit Networks, Recoup Lost Market Value; **PILOT CASES**



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