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## Industry Voices



### New Tools Emerge to Fight Trade-based Money laundering

by Kenneth Rijock, Financial Crime Consultant, World-Check

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**A**s a former money launderer, I know from personal experience that the only way to effectively interdict money laundering on a real-time basis is to make full use of all developing AML/CFT technologies available to compliance officers today in the marketplace. Some of the most advanced money laundering techniques can be uncovered only through daily use of anti-money laundering software and databases. It is incumbent upon compliance officers to keep current on emerging AML technologies, so that they can take advantage of new developments.

One of the most sophisticated forms of money laundering is trade-based money laundering. Financing trade transactions involving products with abnormal prices represents a direct reputational, financial, or compliance risk to banks. For those readers not familiar with this subject, one must first understand the concept of trade-based money laundering:

1. It is believed to be the method through which the largest amounts of criminal profits are successfully transferred in international financial transactions. Relying upon the fact that international trade is a multi-billion dollar industry, it seeks to disguise the proceeds of crime within the mass of legitimate daily international trade payments that flow through the global financial system.
2. The technique's strength is that it operates upon the correct assumption that international bankers are no familiar with neither the pricing structure, nor the technical aspects of specific goods sold in international commerce. Bankers, simply put, cannot accurately estimate the cost of goods being bought and sold in international trade, and generally do not look beyond the four corners of the shipping documentation, when facilitating payments for international trade.
3. Also, when it comes to high-tech goods, most bankers, who of course have no engineering or technical training or experience, will tend to rely upon the correctly-prepared documents that pass through their hands for review, during international trade transactions

**So, how exactly does trade-based money laundering work? A typical scheme would go like this:**

- Criminal drug profits, earned in Australia, are required to be repatriated to the home jurisdiction where the parent narcotics trafficking organization conducted its operations
- The money launderer would set up two purportedly independent and separate operations, both small manufacturing facilities, one in Sydney, and the other in either the headquarters country of the drugs organization, or a cooperating tax haven jurisdiction that would serve to secrete the criminal profits.

- The type of goods being chosen for manufacture would deliberately be of a high-tech type, where the actual market price could not readily be ascertained by laymen (i.e.) bankers), either by physical examination, or reference to invoices or shipping documents.
- The factory at the other end would manufacture a commodity that was invoiced out at a high individual price, justifying and covering the regular wire transfer of millions of dollars from Australia to the destination of choice, where it could be readily accessed by the trafficking organization. In truth and in fact, the goods produced were worth only a tiny fraction of their billed value, and they may have even been commercially worthless. They were, however, shipped in international trade, customs duties properly paid on the bogus worth, with all the details of the purported transaction properly observed. Some call this over-invoicing, but it is much more than that, for all the indicia of a legitimate commercial transaction are scrupulously observed by the money launderers, and it is rarely, if ever, identified as such on a real-time basis.
- That method accomplished the end, to wit: the regular transfer of millions of dollars of drug profits out of Australia, and into criminal hands.

**Should the organization wish to bring criminal profits into Australia, then the reverse of the scheme occurs:**

*"This scheme could be repeated regularly, and successfully, for several months, after which the company would close for some ostensibly legitimate commercial reason, and the operation transferred to another location, with a new front company, making a completely different category of product. Alternatively, the money launderer, having accomplished his goals, leaves the country permanently."*

- The Sydney factory manufactures the desired products, and exports them to the desired country where the funds are being held. Of course, the value of the exported goods is nowhere near the listed prices officially invoiced out for payment.
- This arrangement covers the "payment" for the goods to be to be wired into the domestic company, with little or no scrutiny on the part of the banks effectuating payment.

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**A permutation of the scheme involves under-invoicing:**

- The goods being exported from Australia are billed out for a small amount in money. In truth, they are quite valuable, but the pricing does not reflect this,
- The criminal organization uses this method to transfer substantial value overseas, in the form of the good themselves, rather than the funds. Once the goods arrive, they can be sold on the black or grey markets for cash, or even shipped elsewhere for sale, thus legitimizing the money when profits are realized, if money laundering is an aim of the scheme.

**Some more imaginative money launderers have been known to engage in other variations of trade-based money laundering:**

- Totally phantom transactions; no goods are shipped, but the purported transactions are processed through the companies' bank accounts. If necessary, customs duties and even taxes are paid, to further convey the false reality of legitimacy.
- A single transaction multiplied simultaneously through a number of banks. One shipment is paid, through different, unrelated banks, using the same documents, several times over.

I first learned about the dangers of trade-based money laundering fifteen years ago, through the lectures conducted by Professor John Zdanowicz, of International Trade Alert\*\*, who created the International Price Profiling System (IPPS), which allows financial institutions to evaluate specific international trade transactions, by comparing them the market prices of the product, as appear in US Government trade statistics. If a product is sold for more than 5% off the current market price, it alerts the user.

If you are implementing a risk-based compliance programme, the good professor has now created risk indices which should greatly reduce the risk of trade-based money laundering.

*"The use of emerging AML/CFT technologies, such as I have discussed here\*\*\*, in risk management programmes, is both effective and efficient. Utilise them wherever possible, for they will greatly enhance your compliance programme."*

- The first one is the Product Risk Index. This is a risk analysis of over 4700 products, ranked according to the number of suspected trade-based money laundering transactions identified in IPPS, by product. Are any of your clients transacting business with the products on the first page of the list?
- The second one is a targeted Country Risk Index, which offers a risk analysis of 222 countries, based upon their share of trade in each respective country. Under-Valued Exports and Over-Valued Imports are listed, and, when combined with product risk, a profile will emerge that gives one an immediate risk assessment.
- Last, the Customs District Risk Index. This list the US Customs Districts with the highest pro-rata share of trade identified by IPPS as trade-based money laundering. Whilst this does not immediately seem relevant to compliance conducted outside the US, if your clients are doing trade business with US entities, it is a valuable tool with which to rule them out.

When the three indices are used together, a risk profile can be easily constructed with respect to those bank clients engaged in international trade. Bankers whose clientele includes businesses engaged in international trade would be well advised to use these assets to evaluate the levels of risk they pose. Reference to the risk indices, comparing the clients' specific products, and overseas customers' jurisdictions, enable compliance officers to eliminate them as potential trade-based money laundering risks.

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\* Mr. Rijock's AML/CFT articles, "From a Different Angle," appear daily on the World-Check website: <http://www.world-check.com/>.

\*\* <http://www.internationaltradealert.com/>.

\*\*\* Another valuable new tool is Country-Check, which is a comprehensive tool used to reduce, and manage, country risk. For further information, see <http://www.country-check.com>.

## About the author

J.D. University of Miami School of Law, 1973. Mr. Rijock is believed to be the only former banking and corporation lawyer-turned career money launderer who has thereafter served as a compliance officer. He regularly lectures globally on financial crime for World-Check, and his articles can be found at [www.world-check.com](http://www.world-check.com)

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