

Trade-Based Money Laundering Made Simple

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Notwithstanding last year's release of the first commercial off-the-shelf program to identify trade-based money laundering, I have found that the vast majority of bankers and lawyers that I meet at conferences are unaware of the mechanics of such activities. The purpose of this article is to briefly survey the most common typologies of trade-based money laundering, for those who fail to recognize a specific technique often let it pass without the close scrutiny it needs to be both identified and interdicted on a real-time basis.

The most commonly-known tactic is known as the Black Market Peso Exchange, or BMPE; although it evolved to meet the needs of the Colombian narcotics trafficking cartels, it can easily be modified to fit other locales where the illicit proceeds of crime must be converted to a more usable form of wealth, and where the relative weakness of local currency, and the demand for a hard currency by importers and traders, present an opportunity to use trade to launder dirty money.

In the BMPE, legitimate Colombian businessmen require US dollars to purchase American-manufactured goods that are necessary for sale or use in their own companies. Unable or unwilling to obtain such hard currency through official (and legal) channels, they turn to the central figure in the arrangement: the Peso Broker. He is an individual who straddles both the legitimate and the illegitimate spheres of commerce.

On the other side, Colombian narcotics traffickers have US dollars, earned in America through drug sales,

but require Colombian Pesos in their country to make legitimate investments. For them, seeking to exchange large quantities of US dollars would invite unwanted local law enforcement attention.

The Peso Broker moves the dirty dollars of the narco-trafficker into a free trade zone in the Western Hemisphere, often in the Republic of Panama, usually by creating many US bank accounts, and 'smurfing' the money into them in small accounts, then taking checks physically to Panama's Free Trade Zone. He then purchases the US goods needed by the Colombian businessman with that money. Such goods are the often smuggled into Colombia to avoid duty.

The broker then hands over to the narcotics trafficker the pesos he received from the businessman. The cycle is complete, and all parties have obtained what they needed from the transaction; the broker earns a commission for his trouble.

Recognizing the BMPE usually only demands that one understand that a free trade zone must be employed, and that any repetitive use of such asset, without a history of such activity, often indicates that criminal trade activity is being employed to launder drug money, and change it into easily-concealable local currency.

The other four variations of trade-based money laundering depend largely upon pricing misrepresentation and manipulation. They are premised upon the belief that most bankers at financial institutions, and their attorneys, know little about the technical side of international trade prices.

Since we are not engineers with specific backgrounds in our clients' technologies, how can we ascertain whether the listed cost of goods is correct? Allow me to explain.

Over- or under-invoicing of the price of goods shipped in international trade. Sending very valuable items marked as inexpensive commodities allows the money launderer to transfer great wealth overseas, to a jurisdiction where cash sales might not be so rigidly monitored, disguised as cheap goods. Alternatively, showing huge sums in bills of lading and invoices for worthless goods allows one to wire transfer or use letters of credit to move great wealth right through major banks without arousing suspicion. This occurs because the bankers have no idea that the goods shipped have absolutely no relationship to the listed prices.

Multiple invoicing of goods; while a shipment did actually occur, it is invoiced, with minor modifications sometimes to confuse those who view the transaction, many times. In truth and in fact, there was only one shipment. Generally, several different financial institutions, located in diverse countries, are employed to insure that the technique is not discovered.

Over- or under-shipment of goods; the quality of goods being shipped is either grossly over-stated or under-stated, depending on whether funds must be transmitted or received. In some cases, no goods at all are shipped, notwithstanding the processing of invoices and customs documents. This is generally known as a "phantom shipment."

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The last variation is falsely-described goods. The money launderer misrepresents the quality or type of goods, to move items of greater value for covert sale. This method demands more than the usual amount of deceit, for there is always the danger of routine customs inspection, or of records when the valuable items are later sold, or the funds realized are banked.

What we have seen is a basic snapshot of the techniques employed each day to move illicit funds through international trade, disguise the criminal origins, launder the value, and ultimately assist criminal organizations in the wash, dry and fold cycle of money laundering. You are encouraged to explore this subject in depth, for as law enforcement steps up its investigations of trade-based money launder-

ing, financial institutions and professionals employed by them to assist will be held to a higher degree of awareness, and greater effectiveness in identifying this unique crime. ■

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