Trade Based Money Laundering, Trade Finance and Illegal Wildlife Trafficking

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Contents

Background and context

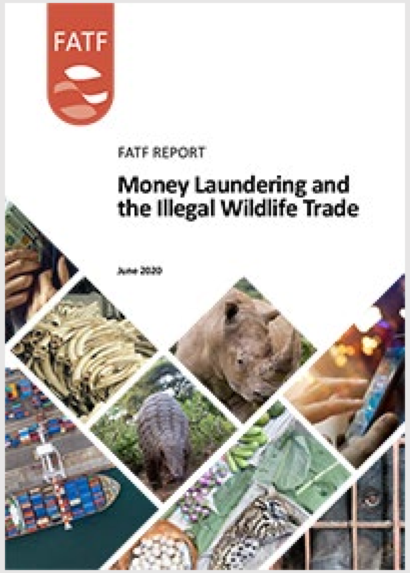
- Illegal wildlife trafficking is trade centric.
- IWT networks utilize air freight and sea shipping routes.
- Container ships especially are getting larger – current container vessels have a capacity of over 21,000 containers (20ft containers).
- Volume of trade: Over 500 million containers circulate in international trade each year by air, sea, road and rail.
- It is impossible to manually inspect every shipping container at border control points.
- Volume of payments: Banks send and receive millions of remittance transactions each year.
- IWT networks also utilize alternative methods of payment such as money remitters, Hawala/Hundi, cash couriers, and nowadays via cryptocurrencies.
- Only 20% of international trade is financed through trade finance products offered by banks.
- The remaining 80% of international trade is financed through ‘open account’ transactions; i.e. direct relationship between importer and exporter without initial involvement of banks.

How financial institutions can be exposed to IWT

“The illegal wildlife trade is a **major transnational organized crime**, which generates **billions of dollars of criminal gains** each year. **The private sector has a crucial role to play** in combatting financial flows from the illegal wildlife trade. **Wildlife traffickers use services provided by financial institutions, including banks and payment institutions, to move and hide their illicit proceeds**.”

Source: FATF, June 2020, “Money Laundering and the Illegal Wildlife Trade”

http://www.fatf-gafi.org/media/fatf/documents/Money-laundering-and-illegal-wildlife-trade.pdf



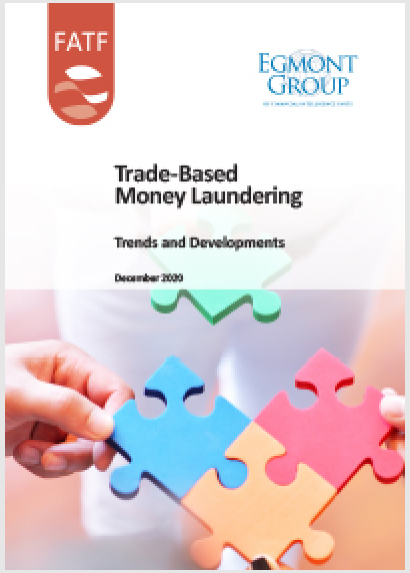
Financial Action Task Force

- The FATF Methodology and 40 Recommendations do not specifically provide for TBML.
- TBML as a concept is covered broadly, if not specifically, across all FATF Recommendations.
- Instead, FATF has published best practice papers, guidance, trends and developments, red flags and risk indicators in relation to TBML.

Source: https://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf

Trade Based Money Laundering

- Trade based money laundering was originally defined by FATF in 2006 as *"the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origin or finance their activities."*
- The main characteristic of a TBML scheme is the deliberate movement of illicit proceeds through the exploitation of trade transactions.
- The aim of trade based money laundering is not the movement of goods, but the movement of money which the trade transactions facilitate.



Source: FATF, 2020, "Trade Based Money Laundering – Trends and Developments"

http://www.fatf-gafi.org/media/fatf/content/Trade-Based-Money-Laundering-Trends-and-Developments.pdf

Trade Based Money Laundering

- Criminal networks exploit international trade to move value through trade transactions in an attempt to legitimize their illegal origin or to finance their activities.
- Criminals engage in unlawful activities to enable TBML such as false invoicing, misrepresentation of goods description, false declarations, misuse of corporate structures, shipping across multiple jurisdictions, and other circumvention methods.
- Exploiting international trade transactions disguises the flow of funds. Activities include -

  ∗ **Underpricing:** Shifts value to the buyer

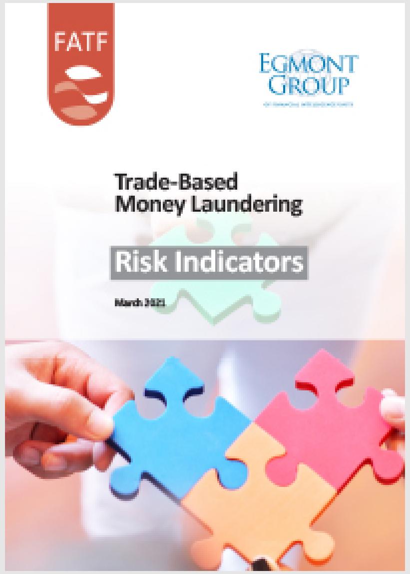
  ∗ **Overpricing:** Shifts value to the seller

  ∗ **False invoicing:** Quantity or quality is misstated

  ∗ **Ghost or phantom invoicing:** No actual export or import is involved, but invoice is a cover for wire transfer or other funds transfer

TBML Risk Indicators

- Inconsistent trade activity; i.e. precious metal dealers suddenly importing seafood.
- Consistent low profit margins by importing close to retail value, or re-selling at purchase price or lower.
- Shipments routed through a number of different countries without economic or commercial justification.
- Transaction activity that increases suddenly and significantly, but then goes dormant after a short period of time.
- Negative news coverage of the business entity or its owners such as past money laundering or other financial crime activities and/or investigations.
- Trade entity is registered at a high density residential building or post box address.



Source: FATF, 2021, "Trade Based Money Laundering – Risk Indicators"

http://www.fatf-gafi.org/media/fatf/content/images/Trade-Based-Money-Laundering-Risk-Indicators.pdf

TBML - challenges

- **Lack of understanding and awareness** – complexity of TBML schemes
- **Domestic co-operation and co-ordination** – a fundamental pillar of an effective AML framework
- **International co-operation** – criminal networks using shell companies registered in one jurisdiction, whilst transferring funds and shipping goods to other jurisdictions
- **Investigation and prosecution** – looking beyond charging criminals for only the predicate crime
- **Private sector limited visibility over whole supply chain** – TBML has broad coverage of all business sectors and commodity types

Trade Finance

- Whilst the vast majority of international trade is legitimate, trade finance and international trade payments create the environment in which TBML schemes operate.
- Traders require working capital or short term financing to support trading activities.
- Limited access to financing, high costs, lack of insurance or guarantees are barriers to trade.
- Under international trade law, buyers expect to pay for shipments when the goods arrive, or later under agreed terms, but not payment in advance.
- Financial institutions play a critical role in trade finance.
- By providing a number of trade finance products and facilities, financial institutions create an environment where more trade can be facilitated.
- Trade finance activities require KYC, due diligence and screening.
- International trade is now moving more towards ‘open account’.

Trade Finance

- Logistically intensive
- May involve multiple parties operating in different source, transit and destination jurisdictions
- Typically relies on the same sea/air/land transport networks used by legitimate actors
- Methods used to avoid detection may include:
  - falsified documentation and permits, misdeclaration of goods
  - concealment of goods
  - misdeclaration of parties involved in the trade chain.
- Corruption

Trade Finance – Products & Instruments

There are a number of trade finance instruments offered by financial institutions, including the following:

Bills of Exchange – a means for exporter to obtain payment from buyer for goods shipped. Linked to a commercial contract of sale. Provides formal evidence of debt under a letter of credit.

Commercial Invoice – how the exporter charges the importer for goods purchased.

Bill of Lading – issued by the carrier or shipper that describes the goods accepted for carriage or shipment. This document may also act as a document of title to the goods.

Insurance – a guarantee by an insurance company specifying goods shipped, and the named vessel.

Letter of Credit – whereby the importer's bank (issuing bank) extends credit to the importer and assumes responsibility in paying the exporter through the exporter's bank (confirming/receiving bank). Upon presentation of documentation relating to the goods, the LC allows for transfer of title to the goods.

Examples of potential red flags - Corporates/Individuals

- Corporates/individuals beneficially owned, controlled or associated with **known suspects or subjects of adverse media in relation to IWT, or previously subject to fines**

- Potential front companies:

  - Operating in **international trade/transport**, such as general trading companies, import-export, logistics, freight forwarders- particularly along **high-risk corridors**
  - Operating in **legitimate wildlife/wildlife product trade** (e.g. zoos, animal parks/sanctuaries, breeding facilities, rare/live animal traders, taxidermists, traditional medicine wholesalers, timber trade, jewellery/ornament retailers)
  - Linked to a **Politically Exposed Person**
  - Trading with parties in **jurisdictions which present higher IWT risk** or operate in **IWT “hotspots”**
  - Beneficially owned by **non-resident nationals of higher IWT risk jurisdictions**

- **Diplomats and embassy staff**, as well as **government officials** working in wildlife management & protection agencies, customs & revenue, border control, forestry management, CITES Management Authorities, zoos and wildlife parks, ministries with oversight of seized illegal wildlife product stockpiles.

Examples of potential red flags - Transactions

- Transaction descriptions which mention **key words linked to wildlife/wildlife products**
- Transaction descriptions which are **inconsistent with the transaction's commercial purpose/ the entity's stated nature of business**
- Adverse media linked to IWT identified on **transaction counterparties**
- Purchase of **high value goods** inconsistent with the customer's anticipated wealth- property, land, luxury goods, vehicles, commercial enterprises
- Financial activity (e.g. cash deposits/withdrawals, car rental, visa and flight purchase, wire transfers) along **known smuggling routes**, or in **IWT source/transit/destination countries**
- Reference to **e-commerce or social media platforms** (Facebook, Ebay, Instagram, Zalo etc)

Examples of potential red flags - Trade Finance

- **Incomplete, expired, post-dated or missing** CITES **certificates**, export **permits** or phytosanitary **certificates**
- **Forged, inconsistent or altered trade documentation** (e.g. letters of credit, bills of lading) or inconsistent goods descriptions
- **Diversion** of shipments through third/multiple countries, or trade route appears **unusual or unnecessarily complex**
- Use of **small embarkation/disembarkation ports**, which is incongruous with intended market or company location
- Transport route is **unusual based on commercial rationale-** e.g. extremely low value cargo
- Cargo **originates in locations** with a potentially elevated IWT risk

Summary

- Greater awareness of all aspects of the trade process provides opportunities to detect and disrupt trade based money laundering and illegal wildlife trafficking.

- Financial institutions have a very limited view on actual financial volumes flowing through an IWT network – only have visibility on flows that touch the individual FI.

- The majority of IWT network shipment activity utilizes air freight and sea as a mode of transport.

- Trade finance documentation is challenging to operationalize digitally and relies heavily upon manual processing.

- The illegal wildlife trade and trade based money laundering related to IWT are not issues for any one country or one financial institution to address alone. Transnational organized crime syndicates reside globally, and illicit trade is found within national boundaries, across borders and between continents.

Questions?