

Tracing the Trade Flow:

The Latest Trends in Trade-Based Money Laundering
Including Wildlife Trafficking, Arts and Antiquities,
Counterfeit Goods

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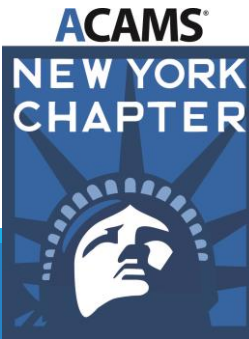
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JUNE 27TH, 2019



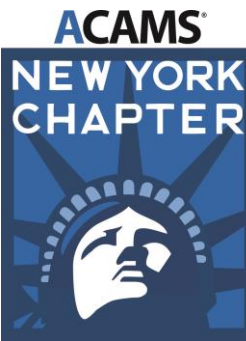
AGENDA

THE REAL AND THE FAKE OF IT: TRADE FINANCE BASICS
FOR FIs AND COUNTERFEIT GOODS

THE EVOLUTION OF TRADE FINANCE

ART AND MONEY LAUNDERING

WHERE THE WILD THINGS ARE: WORLD: WILDLIFE
TRAFFICKING



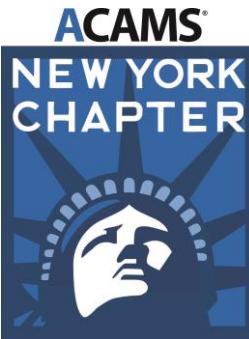
THE REAL AND THE FAKE OF IT

Trade Finance Basics for FIs and Counterfeit Goods

Michael Schidlow
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HSBC



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Trade Overview

Under Invoicing

Value is transferred from seller to buyer through under-valued goods being traded. For example, if you sold £100,000 worth of coffee to someone for £50,000, they would be able to sell on and make £50,000.

Over-Invoicing

This is a similar process to the above, but reversed. In this instance, the goods are traded at a price far above the fair market price, and so the exporter is the one that makes the profit.

Multiple Invoicing

This involves the duplication of invoices for the same trade deal. This enables firms to justify multiple payments to someone without necessarily receiving more goods.

Over/ Under Shipping

The amount of goods shipped does not match up to the quantity of payments sent and received.

False Description of Trade Goods

This involves a misrepresentation of the goods, which may benefit the buyer or the seller depending on which way the false description lies – if it is exaggerated it allows the seller to profit, if it is under-declared it gives benefit to the buyer.

Trade Overview

Screen:

Involved Parties
Goods (quality/
quantity, price)
Dual-Use
Shipping Routes/
Transshipment
AOB: risk assessment



Finance/Insurance



Loan



Trade Receivables

Monitor:

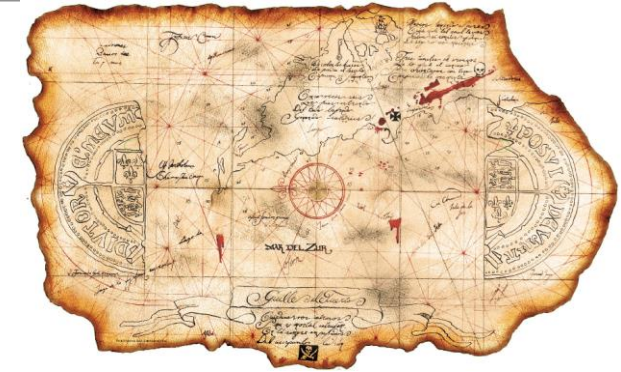
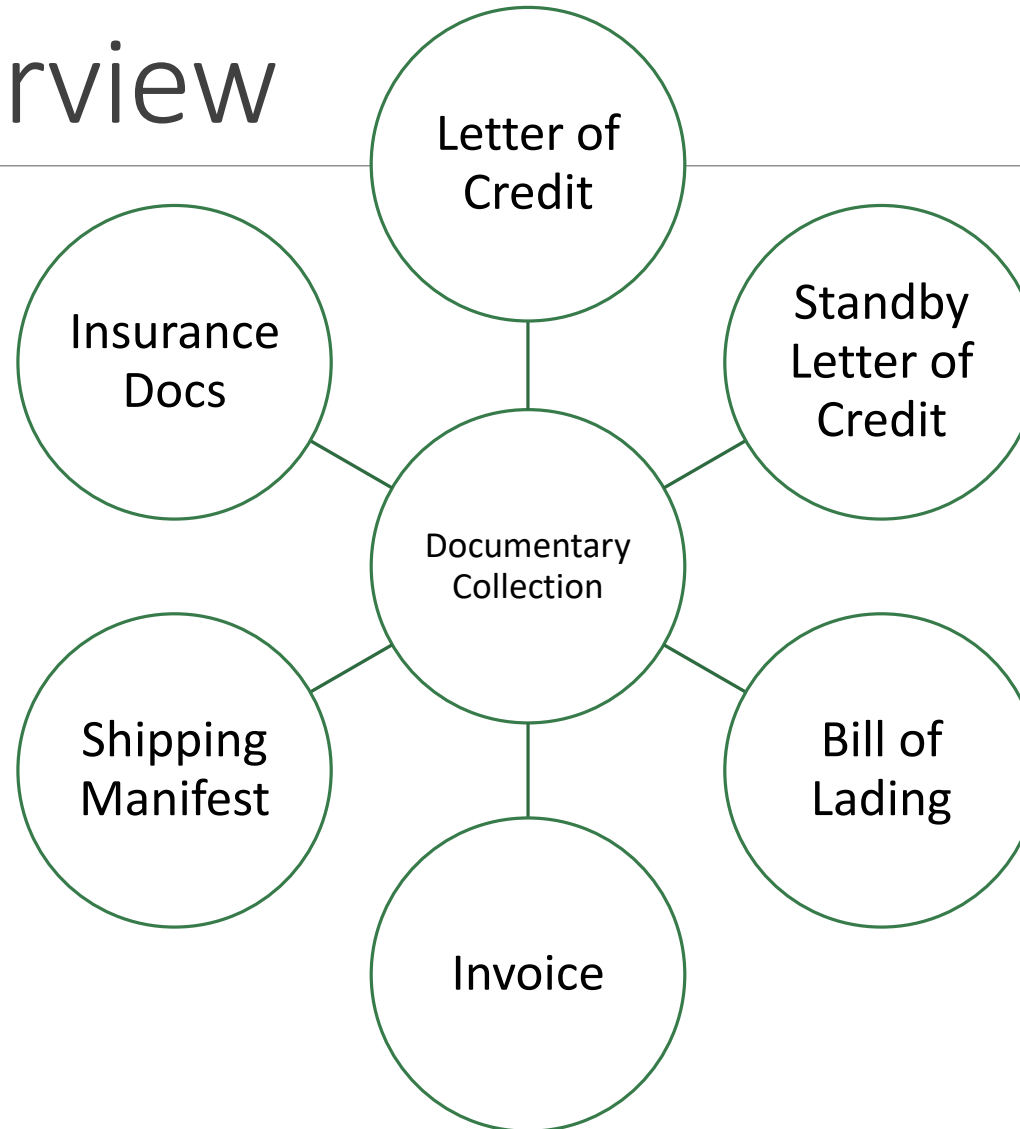
Payment Amount
Origin/Country
Third Party
Typologies
Sanctioned Parties
Sanctioned Countries
AOB

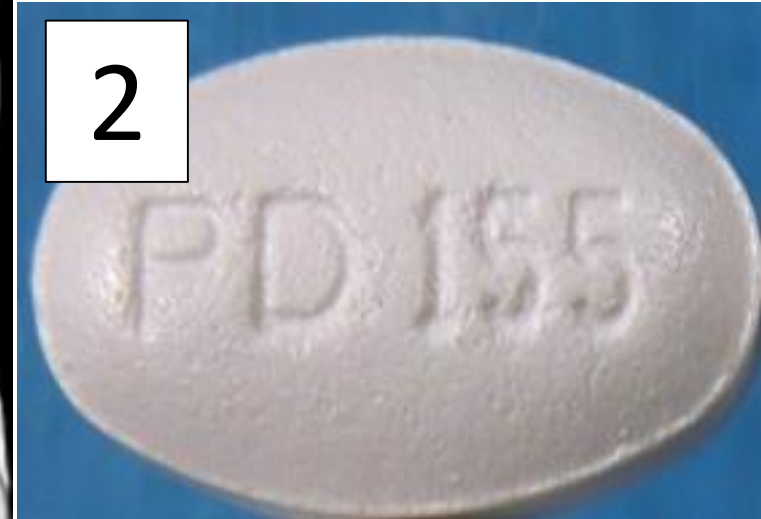


Trade Overview

CARGO MANIFEST			
TRAIN DH-019			
COMMERCIAL CARGO			
RTRN 1999100 - FIN		HFX-1100	
CAR	CARGO	WEIGHT	DEST.
1	MAIL	20.000	YEKA.
2	GRAIN	180.000	YEKA.
3	TEXTILES	145.000	KRAS.
4	CORRUGATED METAL	170.500	KRAS.
5	ELECTRONIC [REDACTED]	[REDACTED]	VLAD.
SPECIAL CARGO			
CAR	CARGO	WEIGHT	DEST.
6	FISH (Atlantic Cod)	219.000	VLAD.
7	FISH (Northern Pike)	217.500	VLAD.
8	[REDACTED]	208.000	VLAD.
9	FISH (Atlantic Cod)	211.500	VLAD.
10	FISH (Zander)	[REDACTED]	VLAD.

WARNING: Failure to comply with the explicit instructions of party officials regarding the transportation of these goods may result in immediate termination or arrest.





New York Woman Pleads Guilty To Trafficking Over \$3 Million In Counterfeit Footwear And Handbags Through Port Of Newark

NEWARK, N.J. – A Flushing, New York, woman today admitted her plan to distribute counterfeit Nike sneakers, Louis Vuitton handbags, and other phony merchandise that was shipped into the Port of Newark, U.S. Attorney Craig Carpenito announced.

Xiao Xia Zhao, 41, pleaded guilty before U.S. District Judge Jose L. Linares in Newark federal court to an information charging her with one count of trafficking in counterfeit goods. Zhao was originally arrested and charged by complaint on June 23, 2017.

According to documents filed in this case and statements made in court:

From November 2013 through February 2017, Zhao received certain shipping individual overseas that identified at least three containers containing counterfeit goods. Zhao asked individuals working at the Port of Newark to remove the containers from the shipping area.



THE EVOLUTION OF TRADE FINANCE

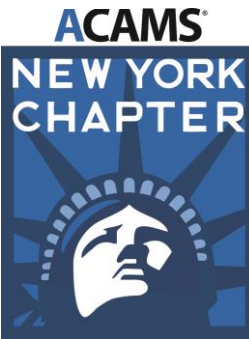
The Latest Trends in TBML

Gail Fuller
Director
Financial Integrity Network



© Getty Images

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Trends in Trade-Based Money Laundering

- Shift Away from Traditional Trade Finance
- Growing Trade Restrictions and Complexity
- Technological Approaches to Risk Identification and Mitigation
- Public-Private Partnerships

There is an Ongoing Shift Away from Traditional Trade Finance

- As of 2017, about 80% of all trade transactions by volume used open account methods as opposed to traditional trade finance.

Traditional Trade Finance (Import LoC)

- The transaction relies on an Import LOC—a credit instrument—issued by a bank on behalf of the importer, guaranteeing that the importer will pay the exporter.
- The LOC lays out terms and conditions for payment.
- Exporters provide documents that trigger payment by providing evidence that goods have been shipped in accordance with the LOC.
- The issuing bank also vets the importer to determine credit-worthiness.

Open Account

- Goods are shipped by the exporter and received by the importer before payment is due.
- Financial transactions are typically executed by cross-border wire transfer directly from the importer's account to the exporter's account.



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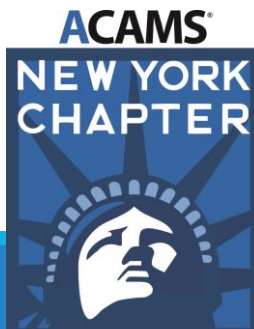
Information Available to Banks Involved in Trade Transactions

Banks that follow the Wolfsberg Principles on Trade Finance for letter of credit (LOC) transactions have more information available to them when screening transactions for sanctions and proliferation risk than banks that are processing wire transfers that only meet the minimum requirements described in the interpretive note to Financial Action Task Force Recommendation 16. Payment messages for wire transactions only require the name, address, and account number for the sender and the beneficiary, putting banks in a poor position to detect sanctions evasion or proliferation financing.

	LOC		Wire		
	Available to Applicant Bank	Available to Advising Bank	Available to Sending Bank	Available to Intermediary Bank	Available to Beneficiary Bank
1. CDD file for buyer of goods/payment originator	▲	●	▲	●	●
2. CDD file for seller of goods/payment beneficiary	●	▲	●	●	▲
3. Bank-verified address for buyer of goods/payment originator	▲	▲	▲	▲	▲
4. Bank-verified address for seller of goods/payment beneficiary	▲	▲	●	●	▲
5. Goods type	▲	▲	●	●	●
6. Vessel name	▲	▲	●	●	●
7. Shipping company or carrier or agent name	▲	▲	●	●	●
8. Ports	▲	▲	●	●	●
9. Deal structure	▲	▲	●	●	●

Legend: ▲ Yes ● No

Information challenges are particularly pronounced for intermediary banks





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Bulk of Proliferation Red Flags More Readily Detectable in Letter of Credit Transactions than in Wire Transactions

Almost all of the proliferation financing red flags that the Financial Action Task Force issued in February 2018 are readily apparent to both the buyer's and seller's banks in letter of credit (LOC) transactions when the banks adhere to the Wolfsberg Trade Finance Principles for LOC transactions, but fewer than half of the red flags are readily apparent to both the sender's bank and the beneficiary's bank or intermediary banks in wire transactions.

Red Flag	LOC	Wire	
	Readily Apparent To LOC Applicant/ Advising Banks	Readily Apparent to Sender/ Beneficiary Banks	Readily Apparent To Intermediary Banks
1. Transaction involves person or entity in foreign country of proliferation concern.	▲	▲	▲
2. Transaction involves person or entity in foreign country of diversion concern.	▲	▲	▲
3. The customer or counter-party or its address is similar to one of the parties found on publicly available lists of "denied persons" or has a history of export control contraventions.	▲	■	■
4. Customer activity does not match business profile, or end-user information does not match end-user's business profile.	▲	■	●
5. A freight forwarding firm is listed as the product's final destination.	▲	■	●
6. Order for goods is placed by firms or persons from foreign countries other than the country of the stated end-user.	▲	■	●
7. Transaction involves shipment of goods incompatible with the technical level of the country to which it is being shipped, (e.g. semiconductor manufacturing equipment being shipped to a country that has no electronics industry).	▲	■	●
8. Transaction involves possible shell companies (e.g. companies do not have a high level of capitalization or displays other shell company indicators).	▲	■	●

LEGEND

For Applicant and Advising Banks (LOC)

▲ Information is often readily apparent to banks because it is provided during the LOC application process.

■ Information is sometimes readily apparent to at least one bank in the payment chain.

● Information is rarely readily apparent to either bank.

For Sender and Beneficiary Banks (Wire)

▲ Information is often readily apparent to both banks because it is included in a payment message.

■ Information is sometimes readily apparent to at least one bank because it was collected at onboarding.

● Information is rarely readily apparent to either bank.

For Intermediary Banks (Wire)

▲ Information is often readily apparent to intermediary banks because it is included in a payment message.

■ Information is sometimes readily apparent to at intermediary banks.

● Information is rarely readily apparent to intermediary banks.

Growing Trade Restrictions and Complexity

**The
Economist**

Weapons of mass disruption

America is deploying a new economic arsenal to assert its power

THE WALL STREET JOURNAL.

REAL TIME ECONOMICS | NEWSLETTER

Real Time Economics: U.S.-China Tensions Spread Across the Economy

Bloomberg

Politics

U.S. Weighs More Iran Sanctions Over Potential Trade With Europe

Markets

China Stokes Rare Earths Concerns With Possible Export Controls

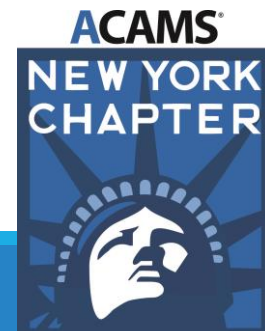
The New York Times

Trump Says Mexico Tariffs Worked, Emboldening Trade Fight With China

China Summons Tech Giants to Warn Against Cooperating With Trump Ban

FINANCIAL TIMES

US hits Iran with sanctions on metals sectors



Technological Approaches to Risk Identification and Mitigation

Trade finance is an area in which many companies are looking to apply technological solutions to leverage available data and identify risk:

GFTrade

SOLUTIONS FOR INSPIRED ECONOMIES



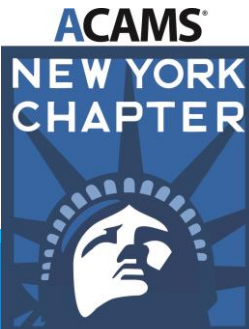
Figure 2: Price comparison visualization

Public-Private Partnerships

Because the security risks of TBML are high and data is dispersed among many stakeholders public-private partnerships are an attractive option.



“...layering additional controls on the manual operations in a bank’s trade operation will not solve TBML. The solution must reach beyond banks. Law enforcement, government agencies and regulators should take an ecosystem approach to this problem, bringing together financial institutions, customs agencies, shipping companies, and other stakeholders that have access to this information. In this way, an end-to-end view can be constructed, and mitigating controls put in the right place.” –BAFT, 2017



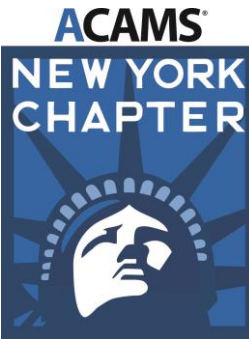
WHERE THE WILD THINGS ARE

Wildlife Trafficking



Ryan Connors
Trial Attorney
DOJ Environmental Crimes Section

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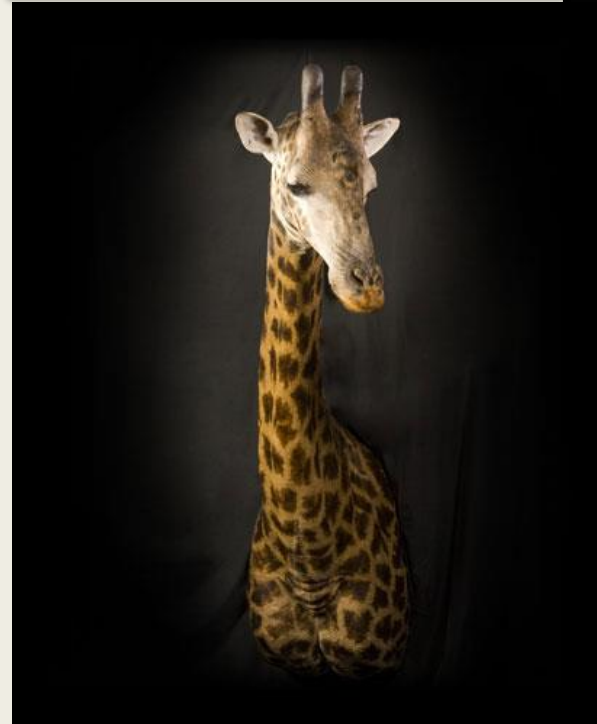
Money Laundering & Wildlife Trafficking



Demand for Wildlife



- Pets
- Art/Collectibles
- Traditional medicine
- Exotic food
- Trophies
- Jewelry, Clothing



Scope of the Problem

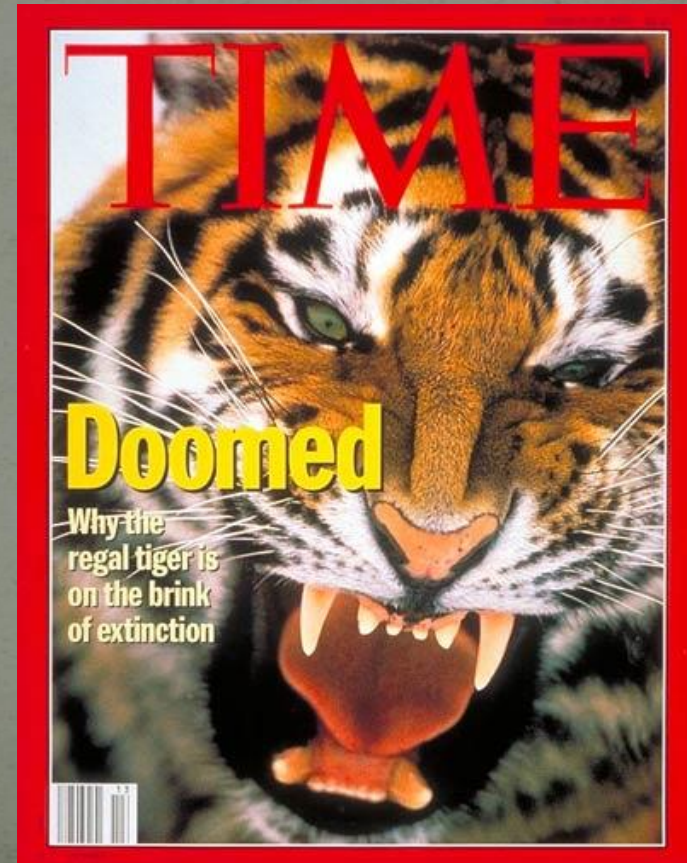
Wildlife trafficking estimated at \$20 billion/year

- 6 million reptiles
- 550 million fish
- 30,000 primates
- 1,500 tons of coral
- 15 million reptile skins
- \$50B of wood
- Black rhino horn, totoaba bladder worth more than platinum.



Effects of Illegal Trade

- Contributes directly to extinction
- Destroys habitat and ecosystem balance
- Exacerbates the effects of climate Change, overfishing, pollution...
- Funds organized crime, corrupt governments, war, drugs...
- Shell corporations, encryption, laundering billions of dollars.



The Retail Value of Transnational Crime



GLOBAL FINANCIAL INTEGRITY

Source: *Transnational Crime and the Developing World*

Organized Crime & Violence

Illegal logging in Indonesia: the link between forest crime and corruption

Environmental Official Shot Dead in Brazil as Attacks on Land Defenders Rise in Latin America

Latin America remains the most dangerous region in the world for land defenders and environmental activists
by Nika Knight, staff writer

Soldier freed by rebels into drugs, illegal logging

By Edith Regalado (The Philippine Star) | Updated May 21, 2014 - 12:00am

Illegal Logging Has Become More Violent Than Ever

committing more murders around the world, but they



Financial Crime

Organized, white-collar crime with an environmental impact.

- Transaction records (speed)
 - Cash, checks, loans, wires, account details
- Asset forfeiture
- Freezing accounts
- Forensic accounting
- Credit reports
- Tax records
- Identity secrecy
- Venue through the bank
- Bank partnerships
 - PayPal & eBay
- FCPA compliance records



Financial Crime

- \$200,000 of narwhal tusks smuggled from Canada
- U.S. buyer makes series of transfers
- Suspicious Activity Report triggered
- Leads to ML, trafficking, conspiracy case.

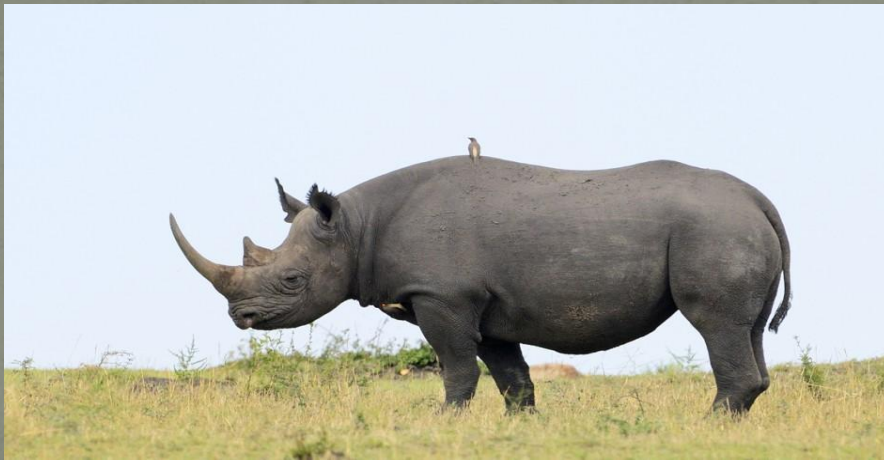


Financial Crime

Federal crimes generally require international or interstate element.

Auction house lists \$400k rhino libation cup for sale,
Endangered Species Act requires instate New York buyer.

Smuggler recruits straw buyer. Bank records show true relationship and implicate auction house as turning blind eye.

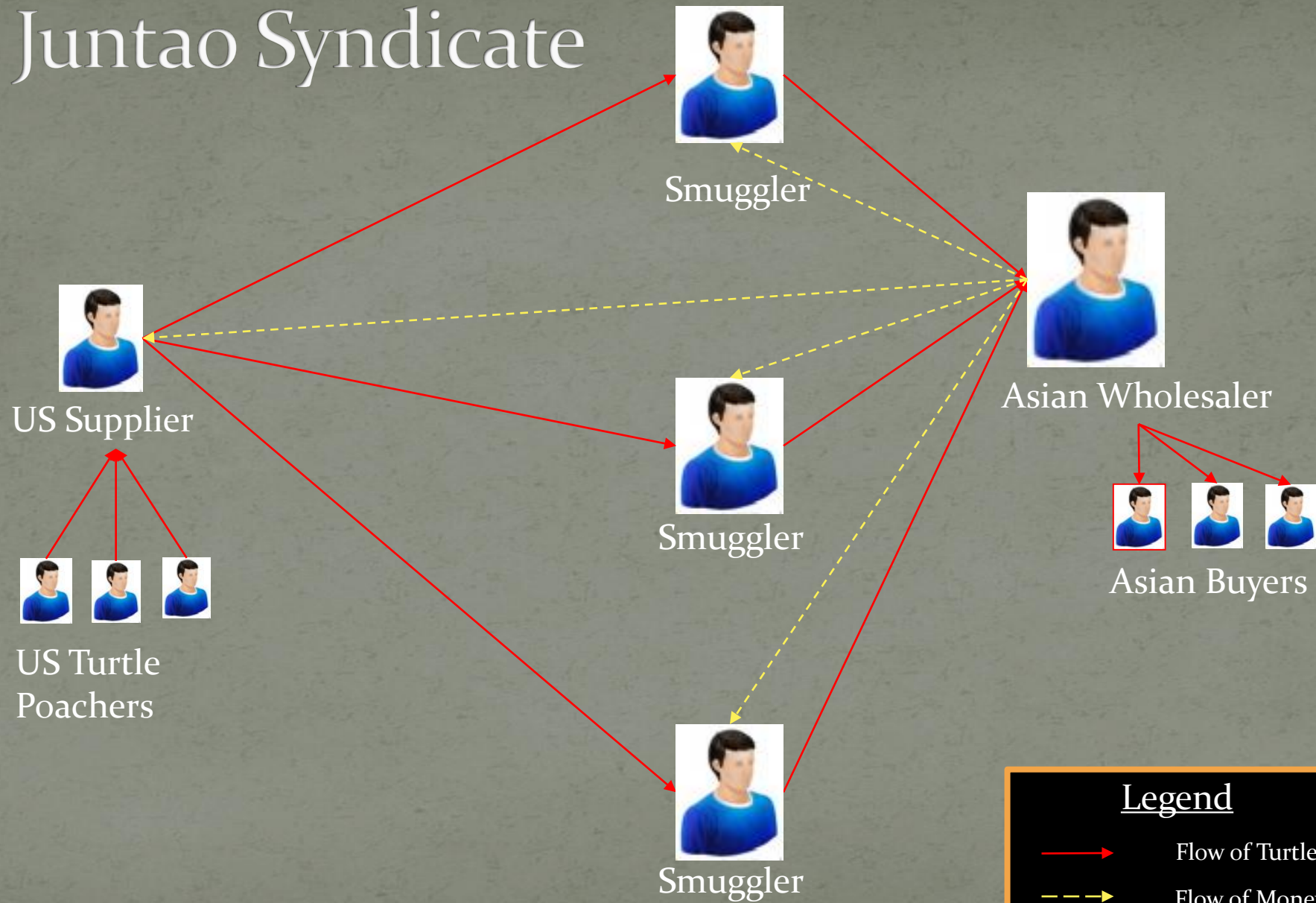


Financial Crime

Illegal Seafood: overharvested and falsely labeled as to species and origin.
Fish markets kept poor records, witness credibility issues, old investigation.
Solution: Wire fraud through the bank records.



Juntao Syndicate



Asian Market Value

- Eastern Box Turtles: \$1,500 – \$2,500
- Spotted Turtles: \$600 - \$700
- Florida Box Turtles: \$2,500 - \$3,000
- Diamondback Terrapins:
 - Northern - \$500 - \$2,300 ea.
 - Mangrove - \$20,000 ea.
- Bog Turtles: \$9,000-\$15,000

Used in food, pet, and medicinal industries.



Smuggling Method

- Turtles placed into sock
- Secured with tape to restrict movement
 - Reduces noise
- 5-6 turtles per box
 - Limits weight of each parcel
- Falsely labeled box
- Shipped USPS 3-5 Day International Express Mail



Forms of Payment

- PayPal
- Zelle / Venmo
- Wal-Mart MoneyGram
- Square (Credit Card)
- WeChat Wallet
- U.S. & Chinese Banks



Case Facts

Target Kang Juntao

- Chinese citizen, never been to the U.S.
- Appx. 2,000 turtles worth \$2.75M
- Vacationing in Malaysia

U.S. Nexus

- Poachers and shippers across the U.S.
- Undercover agent in New Jersey
- Money flows from China to shippers & suppliers



Charging Options

Wildlife Trafficking

- Endangered Species Act
 - CITES treaty
- Lacey Act

Problems

Misdemeanor


Possession only in Malaysia

18 USC Crimes

- Smuggling
- Conspiracy
- False Statements
- Money Laundering

Extraterritoriality

Why Money Laundering?

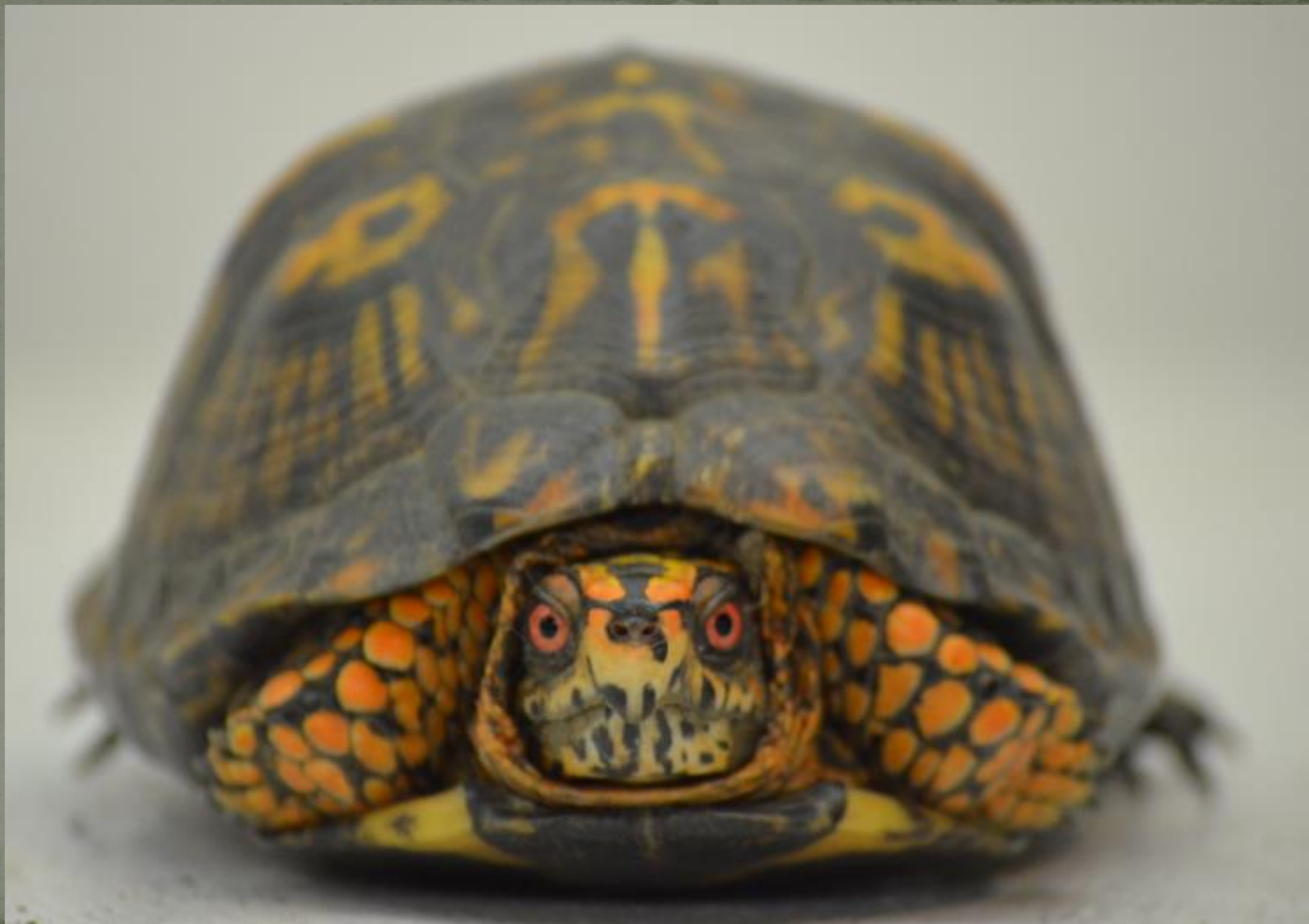
- Not usually worth it for +2 guideline bump
- Solves extraterritoriality (18 U.S.C. 1956(f))
 - Conduct occurs in part in the US and < \$10,000
- Specified unlawful activity = Smuggling
- Venue: North Carolina  New Jersey
- Admissible evidence
 - Payments to poachers, shippers, and suppliers
 - U/C texts and calls
 - No permits
 - Relevant conduct
 - \$78,000 in payments opens door to full \$2.75M

Result

United States v. Kang Juntao (19-cr-107) Camden, NJ

If successful:

1. First money laundering only indictment on wildlife trafficking case.
2. First Chinese trafficker apprehended never having been to United States
3. Poachers and shippers have been prosecuted separately in eight districts.
4. Deterrence in China; high-value domestic species; role of U.S. banks.





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