

Whitepaper

Hidden In Plain Sight

Unmasking Trade-Based Money Laundering In Global Trade



Table of Contents

01	Introduction	02
02	Money Laundering Process	03
03	Types of Money Laundering	04
04	Black Market Peso Exchange System	08
05	Regulatory Framework and Detection Strategies for BMPE	10
06	What should be your plan of action?	11

Introduction

Often hidden in plain sight, money laundering poses a significant challenge for regulatory bodies, financial institutions, and law enforcement agencies worldwide. Among the evolving methodologies employed by money launderers, the concept of trade-based money laundering has emerged as a sophisticated technique that effectively cloaks illegitimate funds within the legitimate flows of international trade.



Trade-based money laundering has become a silent epidemic within the financial landscape, exploiting trade transactions to blur the lines between legitimate commerce and criminal activities.

To combat trade-based money laundering, trade data analysis and the international sharing of trade data emerge as essential tools in identifying trade anomalies, offering a path towards investigation and prosecution of trade-based money laundering cases.¹ However, the information exchange is often limited to specific circumstances or undertaken voluntarily rather than mandatorily. Moreover, there is the issue of discrepancy in capabilities, as many authorities responsible for combating money laundering and terrorist financing prove less adept at identifying and tackling trade-based money laundering due to a narrower understanding of its techniques.

¹ "Financial Action Task Force Groupe d'action financière." 2006. U.S. Department of the Treasury. <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Trade%20Based%20Money%20Laundering.pdf.coredownload.pdf>.

Hence, the sophisticated nature of trade-based money laundering demands a comprehensive understanding of trade flows, financial transactions, and criminal networks. Without vigilance, these illicit activities can corrode the foundations of economies and institutions, perpetuating the cycle of financial crime.

Money Laundering Process

Money laundering, a complex and clandestine process, follows a structured sequence of steps to obfuscate the origins of illicit funds and reintegrate them into the legitimate financial realm. The three primary stages – placement, layering, and integration – are intrinsically interconnected, each serving distinct objectives within this nefarious endeavor.²



In the placement stage, criminal proceeds are surreptitiously injected into the formal financial system, often through channels like business transactions, fraudulent invoices, or cash deposits. This initial phase is pivotal for the illicit funds to gain a foothold in the legitimate economy.

²“3 Stages of Money Laundering Explained – An insight into efficient AML.” 2023. KYC AML Guide. <https://kycaml.guide/blog/3-stages-of-money-laundering-explained-an-insight-into-efficient-aml/>.

Integration, the culminating stage, involves merging laundered funds with legal assets, rendering them indistinguishable from legitimate wealth. This transformation facilitates unobstructed utilization of the illicit proceeds without raising suspicion.

Following placement, the layering stage ensues, characterized by the creation of intricate webs of transactions, deliberately designed to blur the money trail. This involves a myriad of financial maneuvers, such as converting funds across currencies, employing offshore accounts, and engaging in convoluted trading activities.



Stage 1

Placement sets the foundation, allowing illicit gains to infiltrate legitimate channels, thus enabling a seamless progression into subsequent stages.

Stage 2

Layering serves as the smoke screen, complicating the tracing process and confounding authorities.

Stage 3

Integration camouflages the taint of ill-gotten gains, allowing criminals to operate freely within the financial mainstream.

Types of Money Laundering

Traditionally, money laundering has been achieved through various methods, including the movement of value through the financial system, physical transportation of banknotes, and manipulation of traded goods and services. These methods exploit the vastness of global trade flows, the complexity of foreign exchange transactions, and the incorporation of illicit funds within legitimate business cash flows.

Among these, structuring, smurfing, and trade-based money laundering stand out as distinct strategies employed by illicit actors to mask the origins of their ill-gotten gains.

Structuring involves fragmenting large sums of money into smaller deposits or transactions to evade the scrutiny triggered by large transactions.

“Structuring is akin to breaking down a puzzle into smaller pieces, making it harder to see the full picture of the illicit funds.”

Smurfing, on the other hand, entails dispersing illicit funds across multiple accounts, often involving accomplices to carry out numerous smaller transactions.

“Smurfing disguises the true nature of the transactions amidst a sea of legitimate ones, confounding investigators.”

In contrast to these techniques, trade-based money laundering exploits international trade channels, leveraging the complexity of cross-border transactions to obscure the movement of illicit funds.

“In contrast to these techniques, trade-based money laundering exploits international trade channels, leveraging the complexity of cross-border transactions to obscure the movement of illicit funds.”

The distinctive feature of trade-based money laundering lies in its utilization of trade invoices and misrepresentation of goods or services to manipulate financial flows. Unlike structuring and smurfing, trade-based laundering relies on exploiting the intricate nature of international trade documentation and transactions. This approach involves inflating or deflating the value of traded goods, creating a façade of legitimate transactions while funneling illicit funds across borders.

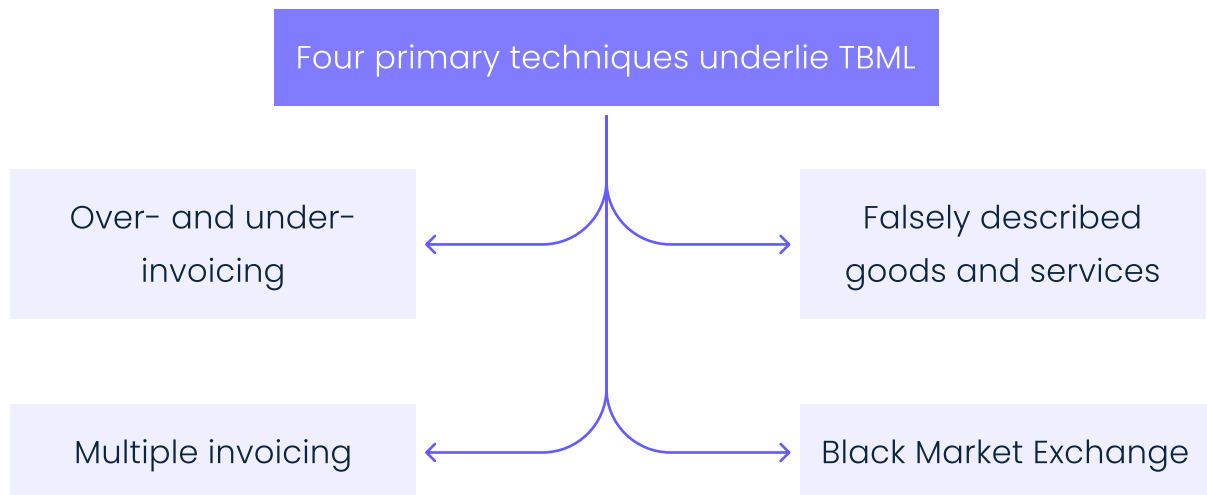
"Trade-based money laundering artfully blends economic transactions with criminal intent, making it a uniquely challenging form to detect and prevent."

Trade-Based Money Laundering (TBML)

The Financial Action Task Force (FATF) defines trade-based money laundering as "the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origin."³

TBML is a lucrative option for money launderers due to its inherent advantages. The 2020 joint study by the Egmont Group and FATF⁴ highlights the swiftness of transactions and the involvement of diverse goods and services, making it a compelling choice for criminals seeking to launder funds.

Additionally, TBML exploits the vulnerabilities of trade transactions, allowing money launderers to manipulate prices, quantities, and qualities of imports or exports. This technique serves as a financial conduit to inject illegal cash into the legitimate economy.



³"Financial Action Task Force Groupe d'action financière." 2006. U.S. Department of the Treasury. <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Trade%20Based%20Money%20Laundering.pdf.coredownload.pdf>.

⁴"Trade-Based Money Laundering." n.d. FATF. Accessed August 21, 2023. <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Trade-Based-Money-Laundering-Trends-and-Developments.pdf.coredownload.pdf>.



Over- and under-invoicing involve misrepresenting the price of goods or services to facilitate the transfer of value between the exporter and importer.

Multiple invoicing entails issuing multiple invoices for the same shipment of goods, allowing money launderers to justify multiple payments.

The technique of falsely described goods and services involves misrepresenting the quality or type of items to create a disconnect between shipping documents and the actual goods being traded.

Black Market Peso Exchange refers to a money laundering technique prevalent in countries like Mexico and Colombia, particularly employed by drug traffickers. In this method, illegal drug proceeds are converted into local currencies through a network of brokers, businesses, and financial institutions. The process involves coordinating with legitimate importers who purchase goods using laundered funds and then sell these goods in local markets. The funds generated from the sales are then returned to the drug traffickers in the form of local currency, effectively legitimizing the illicit proceeds through seemingly legitimate trade transactions.

TBML has far-reaching implications for the global economy. It leads to tax revenue losses as manipulated trade transactions evade proper taxation. The manipulation of trade records and statistics undermines informed decision-making by policymakers and economists, and unfair competition arises when criminals exploit the market with laundered funds, impacting legitimate businesses. Moreover, TBML disrupts supply chains, increases costs of anti-money laundering efforts for businesses and financial institutions, and damages the reputation of financial entities.

Black Market Peso Exchange System

TBML has far-reaching implications for the global economy. It leads to tax revenue losses as manipulated trade transactions evade proper taxation. The manipulation of trade records and statistics undermines informed decision-making by policymakers and economists, and unfair competition arises when criminals exploit the market with laundered funds, impacting legitimate businesses. Moreover, TBML disrupts supply chains, increases costs of anti-money laundering efforts for businesses and financial institutions, and damages the reputation of financial entities.

The Black Market Peso Exchange (BMPE)⁵ operates as a complex mechanism that involves several distinct steps to facilitate trade-based money laundering (TBML). These steps are meticulously orchestrated to convert illegal proceeds, often from activities such as drug trafficking, into legitimate-seeming funds through trade transactions. The process unfolds as follows:

- **Obtaining Criminal Proceeds**

Criminal organizations, such as drug cartels, accumulate illegal profits from their illicit activities, such as drug trafficking. These funds serve as the source of money to be laundered.

- **Involvement of Intermediary Services**

The criminal group contacts a representative, often referred to as a "peso broker," who acts as an intermediary in the money laundering process. The broker's role is to facilitate the conversion of the illegal funds into legitimate currency.

⁵ "What is Black Market Peso Exchange?" 2023. KYC AML Guide. <https://kycaml.guide/blog/what-is-black-market-peso-exchange/>.

- **Identification of Complicit Companies**

The broker identifies legitimate import and export companies, preferably located in different countries, to serve as vehicles for the money laundering process. These companies may be unaware of their involvement in illicit activities.

- **Pay the Export Fee**

The broker coordinates with the exporter to initiate a trade transaction, where the legitimate export company in one country sells goods to the legitimate import company in another country. The exporter receives payment in the exporter's currency (usually US dollars).

- **Shipping and Selling the Product**

The exported goods are shipped from the exporter's country to the importer's country. The importer sells the goods within their domestic market, generating local currency.

- **Reimbursement**

The importer then uses the local currency to pay the exporter for the goods. The pesos are transferred to the peso broker's account. This step completes the cycle and replenishes the broker's supply of pesos.

- **Consolidation of Funds**

The peso broker consolidates the local currency proceeds generated from selling the goods and the initial illegal funds into a single account, often in a foreign financial institution.

The Cali Cartel, a Colombian drug-trafficking organization, exploited the system for BMPE by employing shell companies and money brokers, causing profound economic consequences for Colombia.

Case Study:

In the late 2000s, the proprietors of Woody Toys, Inc., a Los Angeles-based toy wholesaler, allegedly received substantial cash payments linked to Colombian and Mexican drug trafficking. These illicit funds were reportedly laundered through a Bulk Cash Smuggling (BMPE) scheme. To evade reporting requirements, the drug money was funneled into the company's bank account through various locations in small deposits, each consistently under \$10,000 (a practice known as structuring). Woody Toys utilized these cash deposits to procure toys from China, subsequently exporting them to Colombia. The Colombian pesos obtained from toy sales were then used to reimburse the drug traffickers through the BMPE. Notably, some employees of Woody Toys had previous affiliations with Angel Toy Company, whose owners were implicated in a similar toys-for-drugs BMPE scheme. The investigation into this case was facilitated by information sharing between the United States and Colombia through Trade Transparency Units (TTUs) established in both countries.⁶

Regulatory Framework and Detection Strategies for BMPE

The Black Market Peso Exchange (BMPE) has prompted a robust response from international authorities.

The US government, recognizing the threat posed by BMPE, took decisive action during the 1970s by enforcing money laundering laws and instituting reporting procedures for suspicious transactions.

The Mexican Ministry of Finance has also stepped in, proposing a tax reform aimed at limiting the volume of US currency accepted by Mexican banks. This measure aims to curtail dollar outflows from the Mexican financial system, thereby addressing one avenue for money laundering through TBML.

Despite these regulations, numerous banks have previously faltered-and continue to do so-in meeting their requirements, prompting the imposition of stringent restrictions and an increased focus on enforcing compliance.

⁶ "Co-owner of Los Angeles-area toy company sentenced in drug money laundering case." 2014. ICE. <https://www.ice.gov/news/releases/co-owner-los-angeles-area-toy-company-sentenced-drug-money-laundering-case>.

To combat the multifaceted threat of TBML, an integrated approach involving various stakeholders is imperative. Financial institutions, customs agencies, and law enforcement bodies play pivotal roles in detecting and preventing BMPE-related money laundering. They utilize red flag indicators to identify suspicious trade activities that could potentially be linked to money laundering. These indicators, as reported by the FATF, include detecting significant discrepancies between invoice descriptions and actual goods, identifying abnormal shipment sizes compared to regular business activities, and flagging transactions involving high-risk commodities.

According to the FATF, the use of such red flag indicators is essential to promoting a risk-based approach to detecting TBML, further enhancing the vigilance of these entities against the intricate web of illicit financial operations.

What should be your plan of action?⁶

Considering your next steps?

Prioritize legal compliance with our specialized suite, crafted to facilitate a clear understanding and seamless adherence to regulations. Drawing insights from 200+ sanctions rules spanning 235 countries, we aim to equip you with reliable information. Learn from past incidents for informed decision-making and effortlessly avoid potential pitfalls.

Our commitment is to simplify your compliance journey, ensuring a genuine and effective solution for navigating the complexities of regulatory obligations.