



Homeland Security Investigations Trade Transparency Unit



Safeguarding America through
Financial Investigations

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Cornerstone is U.S. Immigration
and Customs Enforcement's (ICE's)
comprehensive investigative initiative
for fighting financial crime.

The *Cornerstone Report* is a quarterly
bulletin highlighting key issues related
to ICE Homeland Security Investigations
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COMBATING TRADE-BASED MONEY LAUNDERING THROUGH GLOBAL PARTNERSHIPS

Homeland Security Investigations (HSI), the investigative arm of U.S. Immigration and Customs Enforcement has been a leader in the pursuit of trade based money laundering investigations. Due to its unique authorities and access to both trade and financial data, HSI is strategically positioned to combat criminal organizations exploiting vulnerabilities in the global trade and financial systems.

What is Trade-Based Money Laundering?

Trade-Based Money Laundering (TBML) is a type of money laundering where criminals use the international trade system to disguise illicit proceeds by altering customs and banking paperwork, making it appear as legitimate. Unfortunately, vulnerabilities in the international trade system provide numerous opportunities for exploitation. Some criminals simply depend on

the sheer volume of international trade to hide their crimes. Others rely upon the complexity of foreign exchange transactions and diverse financing instruments to conceal their fraudulent activity. Many traditional customs fraud methods such as false-invoicing, over-invoicing and under-invoicing commodities are often used to move value around the world. To further increase the value of their illicit funds, criminals often layer various schemes.

Black Market Peso Exchange

One well known example of TBML, used extensively by Colombian drug cartels to repatriate drug proceeds is commonly referred to as the Black Market Peso Exchange (BMPE). BMPE, a type of TBML, operates as an underground financial exchange system used to evade record keeping requirements mandated by the Bank Secrecy Act (BSA) in the U.S. as well as to evade Colombian bank reporting requirements, customs duties, sales tax and income tax. The overall scheme involves the purchase of U.S. export



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goods destined for Colombia with proceeds from the sales of illegal drugs.

The following scenario demonstrates how a Colombian cartel could use BMPE to launder illicit funds. A Colombian cartel sells cocaine in the U.S. and receives illicit U.S. dollars. The cartel then contacts a Colombian peso broker to launder their money. The peso broker arranges to have the illicit proceeds picked up from the cartel and placed into U.S. financial institutions, often by structuring deposits into various bank accounts. Next, the peso broker finds Colombian importers who want to import U.S. goods, and U.S. exporters who will export goods to Colombia.

Once these relationships are established, the peso broker uses the illicit proceeds already embedded in the U.S. banking system to pay the U.S. exporters for the shipments to Colombia. Therefore, the illicit proceeds never leave the U.S. The peso broker then directs the exporter to

ship his goods to a specified Colombian importer. The Colombian importer receives the goods and then pays the Colombian peso broker in pesos for the shipment. The peso broker then returns the clean pesos to the drug cartel. All of the participants benefit from the transaction by either increasing their sales and/or charging a fee for their participation. In addition, the Colombian importer can easily falsify its invoices reducing or avoiding Colombian customs duties.

TRADE TRANSPARENCY UNITS

When it comes to TBML, one of the primary factors criminals rely on besides the complexity of the international trade transaction is the idea that a customs agency can only see one side of a trade transaction. For example, if a U.S. exporter sends \$1 million dollars worth of computers to Brazil, U.S. customs officers do not know what is being reported upon entry to Brazil. A Brazilian importer in collusion with the exporter could easily

RED FLAG INDICATORS OF TRADE-BASED MONEY LAUNDERING

- Payments to a vendor made by unrelated third parties
- Payments to a vendor made via wire transfers from unrelated third parties
- Payments to a vendor made via checks, bank drafts, postal money orders or travelers checks from unrelated third parties
- Suspected or known use of shell companies and related accounts
- Unexplained, repetitive or unusual patterns of wire activity
- False reporting: such as commodity misclassification, commodity over-valuation or under-valuation
- Carousel transactions: the repeated importation and exportation of the same high-value commodity
- Commodities being traded not matching businesses involved
- Unusual shipping routes or transshipment points not making economic sense
- Packaging inconsistent with commodity or shipping method
- Double-invoicing
- Discrepancies between invoiced value of the commodity and the fair market value
- Payment for the goods either in excess or below known market value
- Size of the shipment inconsistent with the average volume of business





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change the paperwork to reflect the value of the shipment as \$500,000. This would allow the Brazilian importer to justify a reduced payment of \$500,000 to the U.S. exporter, transferring \$500,000 additional dollars in value to Brazil.

This example is a typical TBML scheme called undervaluing. By invoicing the goods below the fair market value, the exporter can transfer value to the importer. Once the importer sells the goods, he will receive the full value of merchandise. In this example, since the importer only paid \$500,000 to the exporter, he still owes the exporter \$500,000 because the true value of the shipment was \$1 million. This portion of the debt can be settled using a parallel banking market like the BMPE or a similar Brazilian Black Market scheme called *Doleiros*. However, if both the U.S. and Brazilian custom agencies could see each other's trade paperwork, the transaction becomes transparent, allowing law enforcement personnel to identify fraudulent transactions indicative of money laundering and other crimes.

This transparency is the theory behind the initiation of HSI's Trade Transparency Unit (TTU) initiative.

The TTU is a collaborative effort among HSI, U.S. Customs and Border Protection (CBP), the Department of State and Department of the Treasury. The first TTU was established in Washington D.C. at HSI headquarters. At that time, HSI began identifying countries who were interested in partnering and sharing trade data. Currently, HSI has developed partnerships with Argentina, Brazil, Colombia, Mexico, Panama and Paraguay. Through these relationships, HSI and foreign TTUs exchange trade data, allowing visibility to both sides of a trade transaction.

HSI TTUs bring worldwide recognition to the threat of trade-based money laundering and HSI's efforts to combat and prevent this threat. Recognized as the best mechanism to combat trade based money laundering, TTUs have been highlighted in numerous U.S. Government publications including the *National Money Laundering Threat Assessment*, the *Department of Treasury National Money Laundering Strategies* and the *Department of State's International Narcotics Control Strategies*.

Using specialized software and proven investigative techniques, officers can analyze trade and financial data to help identify trade transactions and other information that does not follow normal patterns. To help conduct this analysis, HSI has developed a specialized computer system called the Data Analysis & Research for Trade Transparency System (DARTTS). This program is used by both HSI and foreign TTU partners to help identify indicators of money

laundering, customs fraud, contraband smuggling, and the evasion of duties and taxes.

By establishing these international partnerships, TTUs offer another means to link global customs and law enforcement agencies together, expanding networks to help combat transnational crime. Over the past several years, these joint efforts have identified and disrupted the activities of criminal organizations engaged in fraudulent trade schemes, BMPE, money laundering, and illegal exportation of goods, resulting in multiple arrests and seizures of millions of dollars of proceeds and merchandise.

RECENT INVESTIGATIVE SUCCESSSES

HSI, as part of the Joint Terrorism Task Force, initiated a case to investigate the suspicious exportation of electronic goods from Miami, Fla. to Ciudad del Este in Paraguay. Ciudad del Este borders Argentina and Brazil, and is part of a region often referred to as the Tri-Border Area. One of the largest duty-free zones in the world, Ciudad del Este is also a South American smuggling hotspot





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for counterfeit goods, illegal weapons and other illicit activities. In December 2006, Galeria Page, one of the large shopping centers within Ciudad del Este, was designated as a Specially Designated Global Terrorist (SDGT) entity by the Office of Foreign Assets Control, due to its ties to the terrorist group Hezbollah. Once an individual or business is designated as an SDGT, U.S. entities are prohibited from conducted business with the SDGT or face criminal prosecution.

As the investigation progressed, HSI special agents and CBP officers, along with JTTF taskforce members, determined several Miami based freight forwarding companies were illegally exporting electronic goods to Galeria Page. Working with TTU partners in Paraguay to verify paperwork, agents discovered the criminals concealed the true destination of the prohibited shipments by using fake invoices containing false addresses and fictitious ultimate consignees on required export paperwork. Additionally, wire transfer payments were routed through various facilities to mask their true origin.

As a result of the investigation, four individuals and three Miami based freight forwarding companies were indicted on conspiracy charges for violating the International Emergency Economic Powers Act (IEEPA) and the smuggling of electronic goods. As of October 2010, three of the four have pled guilty. In addition, over \$119 million dollars of merchandise, primarily high-end electronics, have been seized as part of the investigation.

A second large scale TBML investigation involved a BMPE scheme operating out of a Los Angeles based toy company. Drug proceeds, which were allegedly laundered through structured cash deposits, were used to purchase stuffed animals, including teddy bears. The toys were subsequently exported to Colombia for sale and the Colombian pesos generated by those sales were then used to reimburse the Colombian drug traffickers.

In July 2010, defendants associated with the toy company and money laundering organization were indicted under charges including structuring transactions to avoid reporting requirements, bulk cash smuggling and intimidation of witnesses. In addition, the toy company as a whole was charged with conspiracy to launder money. Based on the criminal indictments for structuring, a criminal forfeiture indictment of \$8.6 million for structured assets was also filed.

The use of trade as an instrument to launder illicit revenue is a complex and evolving scheme which will challenge law enforcement for decades. But with the development of the HSI TTU and its global partners, and the continuing commitment by HSI demonstrated by the steady expansion of the program, law enforcement can meet the ever changing world of TBML.

For additional information on the TTU or TBML, please contact the TTU Unit Chief at TTU.TTU@dhs.gov.

