Although investigators have little empirical insight into how often criminals exploit trade to transfer illicit value, the scope of trade-based money laundering is likely “overwhelming,” according to John Cassara, a former intelligence agent and U.S. Treasury Department official.

The most popular tactics, such as over- and under-invoicing, are at times viewed as standard practices of business in certain parts of the world, according to Cassara, who as an investigator for U.S. Customs helped uncover schemes in the 1990s that criminals continue to replicate today.

Cassara, the author of "Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement," recently spoke to ACAMS moneylaundering.com reporter Kira Zalan about the challenges of curtailing illicit trade, and why he believes the pending Trans-Pacific Partnership (TPP) may complicate efforts to detect the crime.

What follows is an edited transcript of their discussion.

**Is there an accepted estimate of how much money is laundered through trade transactions?**

There isn’t. In fact, one of my recommendations is that the Financial Action Task Force (FATF) or the [U.S.] Office of Intelligence and Analysis should do a study on the magnitude of trade-based money laundering (TBML), because we have to have a good starting point. If they came up with the numbers and they looked at the comprehensive view, I think they would find the numbers are overwhelming.

**You say U.S. efforts have been focused on financial institutions and bulk cash smuggling, largely ignoring trade. What more can be done?**

We can move toward the concept of trade transparency. We never could do that before because we never had the data and the analytical capacity we have today. Just using stuff [the Department of] Commerce collects and U.S. Customs collects, we can get a very good picture of what’s going in and what’s going out, and compare it to our trade partners. What we could do is basically say we are working for trade transparency and that could be incorporated into our foreign policy objectives, our economic objectives. We’re now talking about the TPP agreement. Why not build trade transparency into these trade agreements?

**How close are we to being able to harness Big Data analytics to make a dent in trade-based money laundering?**

I think we’re very close. It’s just a question of political will to do so. In fact, we’re doing it on a limited basis right now with the Trade Transparency Unit, but we need more [funding].

**What role do you see for financial institutions in this effort?**
This is the rub because, historically, financial institutions have done what they’ve been asked to do regarding traditional money laundering investigations. They’re reluctant, understandably, to increase the scope of that activity. I’m trying to put myself in the place of a financial institution. They’ll say ‘we’re not customs,’ like they said before, ‘we’re not the police.’ Now all that being said, we are really dependent on our colleagues in the financial industry to assist us in AML/CFT. So my thought is financial institutions in particular have to be more aware of what trade-based laundering is in all its forms. They need to learn how to recognize it. Then I’d encourage them to flag it and start producing financial intelligence that is geared towards trade-based money laundering. It’s not a hard fix.

**Invoice fraud is the top form of trade-based money laundering. How can illicit transactions be distinguished from legitimate international trade transactions?**

It can be and it can’t be. If a buyer and a seller don’t get too greedy, they’re probably not going to get caught. Say they’re selling a widget and that widget is $100. If they sell that widget mispriced plus or minus 10 or 20 percent, you’re probably not going to see it. You can still transfer a lot of value, possibly launder a lot of money, but when they get greedy and say that widget costs $200 or if they are under-invoicing it and saying it costs $10-15, that’s when they can get caught. It’s something that stands out.

**Can banks detect invoice fraud?**

It depends on what the bank sees because each trade transaction and trade financing is a bit different. But there are [commercial and government] programs out there that say ‘this is the bandwidth of prices for this particular commodity. This is how much it should cost.’

**What are the incentives for legitimate businesses to become participants in trade-based laundering schemes?**

If they’re coconspirators, they’re witting participants. So if you ask why they would do it, it’s for that reason. They have illicit proceeds and they send value abroad. Now there are unwitting participants that are just plain used. So you have brokers and traders that would take a legitimate product and use it to launder money. For years and years, industry would say they didn’t know that their product was being purchased by Black Market Peso Exchangers. Some would say they should know and some would say it’s a form of willful blindness.

**Which is the more typical scenario?**

It depends on where it is. I did a lot of these investigations in the Middle East, in places like Dubai. I was interviewing a broker in Dubai and he was involved in the proverbial import-export stuff. And I was talking to him about TBML and over- and under- invoicing, fraud, non-payment of taxes and probably sanctions, and he looks at me and says, ‘Mr. John, money laundering, but that’s what we do.’ It’s a way of life, a part of a culture. So a lot of the time, people aren’t necessarily realizing they’re breaking the law. But if they can maximize profits and minimize taxes, keep government out of their business and practice counter valuation the way it’s been practiced for hundreds of years, they’re saying, ‘what are we doing wrong? What’s the problem?’

**There’s a consensus that customs fraud is the predicate offense of choice in prosecuting trade-based money laundering. Why is that approach challenging?**
The problem is there are a lot of prosecutors out there, U.S. attorneys in this country, who just don’t want to go there. It’s not sexy. It may not reach a threshold amount for prosecution. They don’t understand it. The situation is worse overseas.

You describe Chinese goods becoming favored instruments in Black Market Peso Exchange schemes. What effect do trade deals, like the TPP, have on anti-money laundering efforts?

The biggest effect it will have is the very volume of trade will increase. And when you have the volume of trade increased, the bad guys have more opportunities to comingle the illicit transactions with the overwhelming majority of perfectly legitimate transactions.

What effect do currency restrictions have on financial black markets?

If you go to countries, particularly in the developing world, people cannot just send their money out. In order to get around these restrictions, they’ll often use underground financial systems. That’s where ‘hawala’ comes in [and] that’s where ‘fei-chien’ comes in. The Chinese are buying up massive amounts of real estate in the U.S. or Vancouver or wherever, but they’re restricted to $50,000 [in offshore transfers]. So how are they paying for this real estate? So my thing is—and I don’t think anyone is collecting data on this—a lot of this is coming through underground financial systems or a lot of it goes through global transfer pricing.

If any commodity can be used to launder money—you say, apples even—why is gold still the favored medium?

If you’ve got a lot of money to launder, say the proceeds of drug trafficking, then we’re talking hundreds of millions of dollars and there’s nothing else out there like gold. Anywhere you go there’s always a ready market for gold. Also, the form of gold can change easily, like nothing else. Gold is basically a commodity, but it’s also a de facto bearer instrument. The weight and the quality of gold can be assured. [It also] offers a lot of anonymity and it’s very hard from a criminal investigative standpoint to trace gold.

Diamonds have an even higher value, why are they not as popular?

I had a conversation once with a money launderer who used both gold and diamonds and I asked him which he preferred. He said diamonds are the most condensed form of physical wealth in the world. You can transport an incredible amount of money in your pocket. But the problem with diamonds is they’re still relatively subjective. If he just wanted certainty in value transfer, he would use gold.

Some large banks are training their compliance officers in detecting trade-based laundering. Do you think this is something regulators will increasingly expect?

Yes, I suspect that in the near-term, we are going to start seeing an increasing emphasis on detecting trade-based money laundering and the inclusion of trade-based money laundering in financial intelligence reporting. I think that’s going to come down from the FATF, which has declared trade-based laundering one of the top three money-laundering methodologies in the world. We’re starting to slowly turn the corner now and we’re going to start seeing more [focus on] this.