From Petroleum to Produce, Commodities Offer Array of Laundering Options, Says HSI Official

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Within the cargo containers lined along American ports and the semi-trailer trucks driven past U.S. border crossings, there is at times more than just goods en route to a profitable sale. Less detectable and often hidden within the paperwork, illicit value is an occasional stowaway.

For law enforcement officials, such schemes prove challenging to detect because organized crime groups operate much like “huge corporations,” enlisting third-parties to help exploit commodities that range from electronics to diamonds to garments, according to Hector Colon, a director with Homeland Security Investigations (HSI) and a head of its Trade Transparency Unit.

Colon, who has global programmatic oversight of HSI’s investigations into trade-based money laundering, recently spoke to ACAMS moneylaundering.com reporter Kira Zalan about goods that criminals have recently misused and what the pending Trans-Pacific Partnership may mean for law enforcement officials. What follows is an edited transcript of their discussion.

What is the status of the Trade Transparency Unit and have the analyses of import-export data led to major investigations?

The HSI Trade Transparency Unit is alive and well. We have gone through some significant changes over the past couple of years. Most notably, [we’ve rebuilt] the system that we use to analyze data that we share with our partners. We’re currently operational with 10 of our 11 partners, and actively working and supporting each other in investigations. The Trade Transparency Unit has been an important part of some of HSI’s most significant cases, including the Fashion Police case out of Los Angeles as well as the Natalie Jewelry case out of Fort Lauderdale last year.

What was addressed by the changes?

Basically the costs involved in maintaining the system, the efficiency of the system—how data could be analyzed and the amount of data that could be analyzed. But most importantly, the change was required because of the fact that we are looking towards doing regional, multilateral partnerships. We believe that being able to share information on trends and schemes—because it [typically] involves several countries in a region—would combat the effectiveness of trade-based money laundering.

What information is shared?

Trade data that we’re authorized to share based on the agreements. Export-import data and the value of the merchandise. Value is important because that’s primarily what’s manipulated in trade-based money laundering schemes.
Are there new or emerging trends in trade-based money laundering?

The simple answer to that question is yes. We see a lot of commodities being exploited by criminal organizations. We were focusing on gold for a time, focusing on vehicles. We’re seeing a lot of different types of schemes being used through the vehicle trade, particularly exports from the United States. That’s what led to the Canadian Lebanese Bank case that was supporting Hezbollah. We’re also seeing other types of schemes—luxury vehicles and various other commodities.

We firmly believe that precious metals and stones like diamonds are being used in trade-based money laundering schemes. And there are other commodities we’re looking at—everything from food to petroleum to electronics. The complexity of the schemes is pretty difficult sometimes to decipher because what we’ve also noticed in trade-based money laundering is that criminal organizations not only operate as if they were a huge corporation but they also go out and recruit and have at their disposal professional money launderers, what we refer to in the government as “third-party money launderers,” who move this merchandise for them and move the money and the value for them.

Who are these third-party launderers?

They’re basically professionals. They can be lawyers. They can be import companies, export companies. They could be companies like garment companies that allow their businesses to be used. Not only do they do legitimate business but they allow criminal organizations to do their business in supporting their illicit activities.

Is there an HSI effort to go after the professionals?

Yes, there’s a whole government approach to this. Treasury, IRS, DEA, HSI, FBI—we’re all looking at these professional money launderers. That’s one of the big focuses we have as a whole government approach to combating money laundering. They speak a lot to third-party money launderers in the National Money Laundering Risk Assessment published by the Treasury Department.

The Financial Action Task Force has recommended that professional industries should have anti-money laundering reporting requirements. Is this something that would help U.S. law enforcement?

Lawyers do have requirements to report cash transactions over $10,000, businesses as well. But I’ll give you an example: the gold industry. The value of gold is pretty much regulated by international market, so whatever the value is in the U.S., for the most part, that value will be honored somewhere else in the world, because it’s a market-driven commodity. The U.S. gold industry—particularly pawnshops, cash-for-gold shops—are not required to file [suspicious activity reports, or SARs]. They’re required to file [Form] 8300 if they have a transaction over $10,000, but any transaction less than that is not a requirement, and as far as filing SARs, it’s voluntary. So if we’re talking about that industry then I’d say, yeah, maybe some enhanced reporting requirements could help law enforcement.

You’ve mentioned industries that are known to be targets for trade-based money laundering. Is there an industry that’s surprising or an unexpected target?

Yeah, I would say the one that’s kind of surprising to us right now that we’re trying to get a grasp on is involving food that’s imported or exported from the U.S. I can’t give any details on particularly which one because these are ongoing investigations, but I would say we believe the food industry is possibly also being exploited.
There have been reports that cartels control some of the U.S.-bound produce from Mexico, including avocados and limes. How would this scheme be used to move money?

If an organization in Mexico needs to move value from the U.S., basically what they would be doing is finding some company or individual in the U.S. that needs a certain commodity. So these criminal organizations will just arrange for payment in the U.S. to the importer and then they will export that merchandise. When that payment for that merchandise is made to Mexico, then in essence the money can then be funneled to the criminal organization, less whatever commission is involved.

If a criminal organization infiltrates a particular industry, it just makes it easier for them to do that. That means that not only are they selling their merchandise and making a profit from selling it or importing it into the U.S., but they would also be able to easily launder money and keep the commission as well as the profits from the merchandise. That’s a huge vulnerability. That would make it even more challenging because then we in law enforcement have to be able to identify what part of that money is actually illicit when it’s the same people that actually own that business. There’s really no additional movement of the funds, so those schemes are more complex for law enforcement to investigate.

There’s been an increase in the use of geographic targeting orders (GTOs)—four in the past 12 months, three of which are collaborations between HSI and the Financial Crimes Enforcement Network. What kind of insight have you been able to glean from the enhanced reporting?

The geographic targeting order can do a couple of things, most importantly requiring additional reporting on financial transactions. It could be perhaps a business that wasn’t required to report or lowering the reporting threshold so that we capture additional information. Based on analysis from previous investigations, we’ve noticed that perhaps a particular industry or businesses in a particular area, let’s say, [makes] cash deposits less than the reporting requirements. When they make these cash deposits, they’re not collecting the information that could potentially help law enforcement. The [orders] generate additional information that we can analyze that can help us decipher the unknowns.

Do criminals shift their tactics when these orders go into effect?

Sometimes they will. A few things can happen. They can just go below the reporting requirement or move to a different industry or change the method that they’re using to move or launder money. If there’s no illicit activity, then there will be no shift, right? [The businesses] should just be reporting the information. But if there is, we will see the shift.

You pretty much see the shift once a geographic targeting order goes into play. It just takes time to analyze it and determine where it went to. And that’s where we hope financial institutions are vigilant in being able to see that there is a shift to a different commodity or a different industry in that particular area based on that GTO.

If you start seeing a company that normally doesn’t do cash transactions and then there’s a GTO issued and the company all of a sudden starts doing cash transactions, that would be, in my opinion, something that a financial institution should look into. I mean that’s easy, that’s low-hanging fruit.

The Trans-Pacific Partnership will presumably mean a sharp increase in trade. Are you concerned this will increase trade-based money laundering?
Wherever there's an increase in trade, there's going to be an increase in possibility of trade-based money laundering. We do have two partners in the Asia Pacific right now: Australia and the Philippines. There's an awareness of the threat of trade-based money laundering in the Asia Pacific region, not just merchandise being imported and exported to their countries, but also merchandise being transited through their countries and some of the schemes used there. I think as awareness continues to grow and as the capacity continues to increase and knowledge of trade-based money laundering continues to increase in that region, I would hope that we can expand the Trade Transparency Unit to more partners to improve our effectiveness.