

Combating Trade-Based Money Laundering and Other Forms of Threat Finance that Fuel Illicit Commerce: Harms to the American Economy, Businesses, and Citizens

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Good morning.

Thank you, Paul [Massaro] for the kind introduction. I applaud you, and Danielle Lindholm, for co-organizing and chairing this important meeting.

I would like to thank the U.S. Helsinki Commission [“Commission”] and the House Financial Services Committee [“Committee”] for their invitation to participate this morning in this Congressional joint briefing on trade-based money laundering, and how criminals exploit international trade through various forms of threat finance that help fuel illicit commerce and corruption.

I would also like to applaud the leadership of both the Commission and the Committee for working in a bi-partisan spirit to support important legislation in this 116th Congress that empowers our law enforcement and business communities to target organized criminals,

kleptocrats, and terrorists who exploit our laws and corrupt our institutions, markets, and communities, hide their criminally-derived assets, and use their dirty money to finance even more security threats.

While John Cassara (Special Agent, U.S. Treasury, retired) and Lakshmi Kumar (Policy Director, Global Financial Integrity) will provide greater insights on how bad actors and illicit networks disguise the proceeds of crime and move value through TBML and other illicit finance methods around the world, I will focus my statement on the urgent need to sharpen our understanding of the inter-connections between illicit commerce and money laundering across licit and illicit economies through a prism of convergence crime.

In a world of convergence, various threats collide to form a more potent mix of insecurity and instability globally that directly impacts our homeland and society every day. Each threat is individually dangerous, but their sum represents a greater threat.

Money laundering and trade-based money laundering are threat multipliers that help finance greater harms that impact all Americans.

The reality is that dirty money derived from illicit commerce remains the lifeblood of today's kleptocrats, criminal organizations, and terrorist groups.

Trade-Based Money Laundering (TBML) and other illicit finance vehicles and methods enable these bad actors to disguise and clean their dirty money by purchasing trade goods (licit and illicit), moving such merchandise across borders, falsifying its value, quality, or quantity, and mis-invoicing or misrepresenting trade-related financial transactions.

A snapshot of the current global illegal economy brings into clearer focus the magnitude of illicit trade and why "following the money" and "following the value" are critical if we are to successfully expose illicit activities, and to disrupt and dismantle the webs of corruption and criminality behind threat networks that are harming U.S. national security and our global interests.

Make no mistake: The global illegal economy is booming.

According to a 2015 report from the World Economic Forum (WEF), the global value of illicit trade and transnational criminal activities is estimated at between 8 percent to 15 percent of Gross Domestic Product (GDP).

In 2017, the World Bank projected the World's GDP at \$US 80 trillion.

Even if we take the conservative 8 percent estimate from the cited WEF report, it is fair to assume that today’s global illicit markets generate several trillion dollars every year for transnational criminal organizations, complicit corrupt facilitators, and other threat networks.

The types of criminal activities involved include the trafficking of narcotics, arms, humans, counterfeit and pirated goods, illegal tobacco and alcohol; illegally-harvested timber, wildlife, and fish; pillaged oil, diamonds, gold, and other natural resources and precious minerals; stolen antiquities; and other contraband or commodities that have value and are sold on our main streets, social media, online marketplaces, and the dark web.

Let me now break down some of these illicit trade numbers based on data provided by numerous organizations including the World Bank, IMF, OECD, INTERPOL, ODNI, GFI, and others:

Estimated Global Illegal Trade, Corruption and Illicit Markets

CRIMES	Estimated Annual Dollar Value
Money Laundering	At least \$2.6 trillion (between 2 and 5 percent of world GDP)
Transnational Crime	\$1.6 trillion to \$2.2 trillion
Bribery	Significant portion of \$1 trillion
Narcotics Trafficking	\$750 billion to \$1 trillion
Counterfeited and Pirated Products	\$500 billion to \$1 trillion
Environmental Crime (illegal wildlife trade, logging, IUU Fishing, trade in CFCs, and toxic waste)	\$91 billion to \$258 billion
Human Trafficking/Modern Slavery	Up to \$150 billion
Illegal Tobacco	\$40 to \$50 billion
Illegal Mining	\$12 to \$48 billion

** Sources: World Economic Forum, World Bank, UNODC, OECD, ILO, GFI

These are simply staggering amounts and are of great concern to the U.S. Department of the Treasury and US law enforcement agencies, as we heard earlier this week at a U.S. Senate hearing on illicit financing. Given that hundreds of billions of dollars in illegally-concealed proceeds are moving through our financial system and our economy across numerous industries, the enforcement challenge is monumental.

A few weeks ago in a new report that I authored for the FACT Coalition, we examined how the trafficking and smuggling of counterfeit and pirated goods is a very profitable illegal activity for many of today’s criminals and illicit networks that rely on the secrecy provided by anonymous entities to launder their ill-gotten-gains and escape detection.

Evidence-based research recently conducted by the Organization for Economic Cooperation and Development (OECD) and European Union Intellectual Property Office (EUIPO) estimated the value of imported fakes worldwide at \$509 billion in 2016, or up to 3.3% of world trade.

Of this \$509 billion in imported fakes worldwide, the top 10 product categories in terms of values of fakes in trade were: electronics & electrical equipment (\$138 bn); jewelry (\$49.8bn); optical, photographic & medical equipment (\$26.7bn); clothing & textile fabrics (\$24.8 bn); footwear (\$13.9 bn); toys (\$11.8 bn); foodstuff (\$6.1 bn); leather, handbags (\$8.5 bn); perfumery and cosmetics (\$5.4 bn); and watches (\$4.2 bn).

The joint analyses by the OECD and EUIPO showed that China is the top producer of counterfeit goods in nine out of ten product categories, while Hong Kong (China), Singapore, and the United Arab Emirates are global transit hubs for the trade in counterfeit goods.

Brands suffering the most from counterfeiting were largely from OECD and EU member countries with U.S. companies at the top of the list (20%).

Even more alarming this illicit trade will more than double in five years' time alone: In a 2017 report by the International Chamber of Commerce's Business Action to Stop Counterfeiting and Piracy (BASCAP) and the International Trademark Association (INTA), it is projected that the global economic value of counterfeit and pirated goods alone will reach close to \$US 3 trillion by 2022.

In the United States, the threats posed by counterfeits and internet pirates directly harm legitimate commerce, markets, and financial systems including critical national industries, regional and local economies, and the reputational value of American brands and companies.

These threats also put the safety and health of all Americans in danger when criminals inject opioids, counterfeit medicines, food, automotive and airplane parts, toys, apparel, footwear, and fast-moving consumer goods (FMCG) into our distribution networks and supply chains — including pharmacies, workplaces, hospitals, schools, cars, airlines, grocery stores, restaurants, retailers, and online marketplaces.

In addition to illicit trade activities, legitimate commerce and the enormous volume of trade flows also enable criminals to obscure individual transactions to transport value across borders, and between exporting and importing jurisdictions, thereby hiding illicit cash within seemingly legitimate uses.

For example, in the licit-illicit continuum according to the FBI, criminals will often dump imported goods bought with dirty money into a market at a discount to accelerate the money laundering process, putting legitimate merchants at a competitive disadvantage.

As these goods reach consumer markets in the United States, US law enforcement is increasingly seizing more and more fakes and dangerous contraband that put our citizens at risks.

A few cases that highlight the convergence of illicit commerce and money laundering:

- Anonymous companies and money laundering – including TBML -- have helped criminals across the United States sell in recent years several billion dollars in fake and counterfeited luxury handbags and apparel accessories branded as Burberry, Louis Vuitton, Gucci, Fendi, Coach, and Chanel, as well as counterfeit sportswear and gear from the NFL, NBA, and MLB branded as Nike, Adidas, and Under Armour, among many others.
- Anonymous companies were used to import and sell to American consumers through internet pharmacies, counterfeit medicines from India and China worth hundreds of millions of dollars. These counterfeits included fake versions of Arimidex, a breast cancer treatment, Lipitor, the cholesterol control medicine, Diovan, for high blood pressure, and other medications such as illicit OxyContin, Percocet, Ritalin, Xanax, Valium, and NS Ambien.
- Anonymous companies assisted in selling knock-off parts to the Pentagon that have cost the U.S. military tens of millions of dollars and put our soldiers' lives at greater risk and danger.

Some comments on Free Trade Zones (FTZs) and online marketplaces:

As consumers goods and fakes make their way from provenance jurisdictions to demand markets, overall trade can also get very complicated in transit, including through the exploitation of Free Trade Zones by criminal and corrupt actors. FTZs are used to launder illicit proceeds, especially in areas that have inadequate oversight and customs controls and weak anti-money laundering, anti-corruption, and anti-illicit trade regulations and enforcement.

For example, as reported by the U.S. State Department in last year's Country Reports on Terrorism, the free trade zones in Panama and the Tri-Border Area of Argentina, Brazil, and Paraguay remain regional nodes for money laundering including related to the illegal tobacco and counterfeit trade, and are vulnerable to exploitation by corrupt officials and sympathizers to terrorist groups.

The reality is that too many FTZs simply do not have the capacities – and in some cases lack the political will – to effectively monitor incoming and outgoing cargo, repackaging, and relabeling.

As the Financial Action Task Force (FATF) has noted in recent years: “The lack of transparency in the company formation process in FTZs permits companies located in FTZs to create layers of transactions which are difficult if not impossible for law enforcement to follow.”

Thus, illicit trade and the convergence of criminality and money laundering (including TBML) in one FTZ can have serious security ripple effects around the world including here in the U.S.

Regarding on-line marketplaces, as more shopping has moved to the internet, criminals are profiting immensely from selling illicit commodities across global e-commerce platforms.

A recent report by Cybersecurity Ventures estimates that the financial costs from cybercrime will double from US\$3 trillion in 2015 to US\$6 trillion by 2021, especially as the world population grows exponentially, and tens of millions of people gain new access to the internet every year.

According to the Better Business Bureau (BBB) in a report last week, a massive number of deceptive web-sellers illegally use copyrighted pictures of brand-name goods to lure consumers to buy and then send fake items, low-quality substitutes, or dangerous and toxic products.

Many unsuspecting consumers can also find themselves at risk for malware from accessing pirated film and television content. Without question, malware’s effects on consumers and the US economy are vast, including identity theft, credit card fraud, and DDoS attacks.

An April 2019 report from the Digital Citizens Alliance (DCA) found that growing use of “illicit devices” to stream pirated film and television content brought malware to consumers’ doorsteps.

On-line piracy has defrauded the communications, sports, entertainment, film, and other industries billions of dollars every year.

Unmitigated, such an expansion of internet shopping and cybercrime presents a devastating threat to the American economy, companies, and consumers.

In closing: Trade-based money laundering and other illicit finance vehicles and methods enable an array of bad actors and threat networks to profit enormously from globalization, international trade, and dark commerce.

The use of trade transactions also helps criminals to disguise and legitimize the illicit origins of goods, value, and their filthy money. In many cases, the profits generated through trade-based money laundering finance other converging criminal activities including the illicit trafficking of arms, humans, narcotics, other contraband, and in some instances, terrorism.

Let me suggest some practical actions that I believe can be effective to combat the convergence of corruption, money laundering, organized crime, and terrorism that is harming U.S. national interests at home and abroad:

- The United States Congress must pass legislation to end the abuse of anonymous companies by requiring the collection of beneficial ownership information at the point of corporate formation.
- The United States government should continue to deny safe haven and entry into the United States to complicit and corrupt actors and their facilitators, including criminals engaged in the illicit commerce that harm Americans. Bad actors should also not be able to benefit from the fruits of their criminality though the reinvestment of their dirty money in our economy.
- Congress should strengthen U.S. anti-money laundering laws by making all felonies predicate offences for money laundering.
- Implement and Enforce the President’s Executive Order on Enforcing Federal Law with Respect to Transnational Organized Crime (EO TOC) and Preventing International Trafficking including forfeiture of the proceeds of their criminal activities.
 - On the President’s commitment for his Administration to conduct a national assessment on the harms posed by counterfeit and pirated goods including online marketplaces, we hope that the interagency working group preparing this study consults with the OECD, and also takes a convergence approach to include related matters such as corruption, money laundering, TBML, anonymous companies, and the role that FTZs play in contributing to the illicit commerce.
- We should continue to build a global network of trade transparency units (TTUs).
- We should also impose sanctions on bad and risky FTZs that enable, facilitate, or sustain corruption, money laundering, and illicit trade within their jurisdictions.
- More evidence-based research is important: I am proud to announce today that I will be working with Dr. Louise Shelley at the Terrorism, Transnational Crime, and Corruption Center (TraCCC), Schar School of Policy and Government, George Mason University to launch a new Anti-Illicit Trade Institute (AITI) to examine the threats posed by TBML and other converging threats to U.S. national security.

Congress must do all in its power to create the types of authorities, tools and capacities needed so that our law enforcement agencies can decisively prosecute the fight against today’s bad actors and threat networks and confiscate their ill-gotten gains.

On this Memorial Day weekend, when we celebrate our patriots who made the ultimate sacrifice in defense of our country, that through such Congressional leadership we can safeguard our national security, protect the American economy and our businesses, and secure the welfare and safety of our citizens.

Thank you.