

**Commission on Security & Cooperation in Europe:
U.S. Helsinki Commission**

“Shady Shipping: Understanding Trade-Based Money Laundering”

Committee Staff Present:

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in Europe**

U.S. House Committee on Financial Services Staff Present:

**Danielle Camner Lindholm, Director of National Security Policy, U.S.
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Participants:

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Lakshmi Kumar, Policy Director, Global Financial Integrity;
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House Office Building, Washington, D.C., A. Paul Massaro, Policy Advisor,
Commission for Security and Cooperation in Europe, presiding**

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MASSARO: All right, let's get this show on the road. So thank you all for coming this morning. On behalf of our bipartisan and bicameral leadership, I'd like to welcome you to this briefing of the Helsinki Commission. The Commission is mandated to monitor compliance with international norms and standards in the European and Eurasian space. This includes norms in the military sphere, in the economic and environmental sphere, anti-corruption sphere – that's sort of the stuff I advise on – and the human rights sphere and democracy sphere.

I'm thrilled to be hosting this particular event today with my colleague Danielle Lindholm, right there, of House Financial Services Committee. This is the first time that the Helsinki Commission and the House Financial Services Committee have partnered for an event, but it will not be the last because next week we also have an event. On May 29th we'll be looking at the British approach to anti-corruption. So it's very exciting to have these two events in partnership.

So I guess to broadly frame the issues we're going to be talking about today, and Commission interest in these issues, I'd like to talk about the threat posed by globalized corruption and kleptocracy to the United States. I think that it comes as no surprise to many people in this room that authoritarian kleptocrats are exploiting the global financial system to hide their ill-gotten gains on our shores and those of our allies, providing protection for their stolen assets and a vector of influence into our political systems. Once established, these kleptocrats set about hollowing out the rule of law institutions that we hold so dear to better serve their preferences.

Much remains to be done to close the loopholes that enable this malign influence, though Congress is taking action. And I'd like to point out one piece of action recently taken by House Financial Services with the passage of the BSA amendment, that a study in strategy on Trade-Based Money Laundering (TBML) has come out and will hopefully be passed by Congress to be – to be completed by the executive branch.

So generally at the Helsinki Commission we try to work on some of the issues that others aren't looking at, try to think about emerging issues and think around the corner. And that's how we came to working on TBML. Of course, with TBML, as John I'm sure will tell you, that the issue's already arrived in many ways. It's sort of the USG response that hasn't necessarily arrived in the way that it has to.

I'll let the panelists get into sort of the nitty-gritty and talk about the details surrounding TBML, but broadly speaking TBML is a type of money laundering, one of sort of three major types of money laundering, where trade transactions are mis-invoiced to illicitly move ill-gotten gains. This type of money laundering, of course, next to the one we're talking about quite a lot in Congress, that is the shell company type money laundering, is a growing concern as it's become a favorite method for transnational criminals, autocrats, and terrorists.

So I'm very excited to welcome this distinguished panel today – very distinguished panel. So David Luna is going to kick us off. David is the CEO and president of Luna Global Networks and Convergence Strategies, LLC. A former senior U.S. government official in the Bureau of

International Narcotics and Law Enforcement Affairs, INL, at State, and a personal friend of mine. He will set the stage for our discussion by sharing his insights on the dark side of globalization and how that all fits into the TBML paradigm. John Cassara will then discuss TBML in depth, which he is eminently qualified to do as a former Treasury special agent and the author of the book, "Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement." He is also on the board of Global Financial Integrity, GFI, which is our last panelist, Lakshmi Kumar, who's GFI's policy director. Prior to joining GFI, Lakshmi worked for years at a lawyer and policy professional in India on anti-money-laundering issues. GFI has been one of the most proactive organizations where fighting TBML is concerned. We look forward to hearing her thoughts and what she has to say about GFI's approach.

So before we begin, before I hand the floor to David, I'd like to see if my colleague Danielle would just like to say a few words. Unfortunately, you'll see we have a mic issue today. So if I you could project and shout and use any theater experience you may have. Thank you. (Laughter.) And I guess I just did, because my mic wasn't on. (Laughter.)

LINDHOLM: No, thank you. Very, very briefly, just thank you to the Helsinki Commission and its hardworking staff for its collaboration on this event. This allows us to share the expertise of this fabulous panel on this very important issue with our members, with our staff, and with the public. And so we look forward to hearing your remarks. Thank you.

MASSARO: Thank you very much, Danielle. And, David, please take it away.

LUNA: Thank you very much, Paul. Good morning, everyone. And thank you to Danielle as well for organizing and chairing this important meeting with Paul.

I would like to thank the U.S. Helsinki Commission, House Financial Services Committee, for their invitation to participate this morning in this congressional joint hearing on trade-based money laundering. I would also like to applaud the leadership of both the Commission and the committee for working in the bipartisan sphere to support important legislation in this 116th Congress to empower law enforcement and business communities to target organized crime, kleptocracy, and terrorism and those bad actors who exploit our laws and corrupt our institutions, markets, and communities, hide their criminally derived assets, manipulate international trade and use their dirty money to finance even more security threats.

I will focus my statement on the urgent need to sharpen our understanding of the interconnections between illicit commerce and money laundering across licit and illicit communities through a prism of convergence crime. Money laundering and trade-based money laundering are threat multipliers that help to 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 and other illicit financial vehicles and methods enable these bad actors to disguise and clean the dirty money. By purchasing trade goods licit and illicit, moving such merchandise across borders, falsifying its value, quality and quantity in 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 you're 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 interest.

Make no mistake, the global illegal economy is booming. According to a 2015 report from the World Economic Forum, the global value of illicit trade and transnational criminal activities is estimated between 8 to 15 percent of gross domestic product. In 2017, the World Bank projected the world at U.S. \$80 trillion. Even if you 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 in every year for numerous threat networks.

The types of criminal activities involved include the trafficking of narcotics, arms, human(s), 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; and other commodities that have value and are sold on our Main Street, on social media, marketplaces, and the Dark Web.

Let me break down some of these illicit trade numbers based on the data provided by various international organizations, including GFI. Every year at least \$2.6 trillion gets laundered globally. Transnational crime generates between \$1.6 trillion to \$2.2 trillion. Bribery, up to a portion of \$1 trillion. Narcotics trafficking generates between \$750 billion to \$1 trillion. And I will discuss counterfeit and pirated goods shortly, but other illicit activities generate tens of billions of dollars every year.

These are simply staggering amounts and are of great concern to the U.S. Department of Treasury and U.S. 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 the international system and our economy across U.S. industries, the enforcement challenge is monumental. A few weeks ago, in the 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 OECD and the European Union IPO estimated the value of fakes worldwide at \$509 billion in 2016, or up to 3.3 percent of world trade. Of this \$509 billion in import fakes worldwide the top ten product categories in terms of values of fakes were electronics, jewelry, optical photographic and medical equipment, clothing and textiles, footwear, toys, foodstuff, handbags, perfumes, and cosmetics and watches. The joint analysis by the OECD and EU IPO showed that China is the top producer of counterfeit goods in nine out of 10 of these categories. While Hong Kong, Singapore and the UAE are global transit hubs for trade in counterfeits.

Brands suffering the most from counterfeiting were largely from the OECD and EU member states, although U.S. companies suffered the most at 20 percent. More alarming is that

this illicit trade in counterfeit and pirated goods will more than double in five years' time along, reaching close to U.S. \$3 trillion by 2022. In the United States, the threats posed by counterfeiting internet pirates directly harm critical national industries, regional and local economies, and the reputational value of American companies and brands. It also puts the safety and health of all Americans in jeopardy and in danger when criminals inject opioids, counterfeit medicines, food, automotive and airplane parts, apparel, footwear, and fast-moving consumer goods into our distribution networks and supply chains, including pharmacies, workplaces, hospitals, schools, grocery stores, restaurants, and online marketplaces.

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

Let me just share a few cases where convergence, illicit commerce and money laundering, come together. Anonymous companies and money laundering, including trade-based money laundering, have helped criminals across the United States sell in recent years several billion dollars in fake and counterfeit luxury bags and apparel accessories, including those sportswear and gear from the NFL, NBA, Major League Baseball, branded as Nike, Adidas, Under Armour, and many others.

Criminals also imported and sold to American consumers through internet pharmacies counterfeit medicines from India and China worth hundreds of millions of dollars, including fake versions of medicines to fight breast cancer, cholesterol, high blood pressure, and other medications to cure other ailments and diseases. Criminals also sold knock-off parts to the Pentagon that have cost the U.S. military tens of millions of dollars and put our soldiers' lives in greater risk and danger.

Some comments on free trade zones and online marketplaces. As consumer goods and fakes make their way from provenance jurisdictions to demand markets, overall trade can also get very complicated in transit, through the exploitation of free trade zones by criminals and corrupt actors. Free trade zones are useful under illicit proceeds, especially in the areas that have inadequate oversights and customs, weak anti-money-laundering, weak anti-corruption and illicit trade regulations enforcement – and weak anti-illicit trade regulations.

For example, as reported by the U.S. Department of State in last year's Country Report 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 illegal tobacco and counterfeit trade, and are vulnerable to the exploitation by corrupt officials and sympathizers to terrorist groups.

Regarding online marketplace, as more shopping as moved to the internet criminals are profiting immensely from selling illicit commodities across global e-commerce platforms. As reported by cybersecurity ventures, estimates of the financial cost from cybercrime will double

from \$3 trillion in 2016 to 6 trillion (dollars) by 2021, especially as the world population grows exponentially and as tens of billions of people gain new access to the internet every day.

According to the Better Business Bureau in their 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 from malware from accessing or using illicit devices to stream down pirated film and television content, defrauding the American industries of millions of dollars every year.

In closing, trade-based money laundering and the use of trade transactions help criminals to disguise the legitimate – to 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. Let me suggest some practical actions that I believe can be effective to combat trade-based money laundering and convergence crime.

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 to the United States to complicit and corrupt actors and their facilitators, including criminals engaged in the illicit commerce that harm Americans. Congress must strengthen U.S. anti-money-laundering laws by making all felonies predicate for money laundering. We must implement and enforce more robustly the president's executive order on transnational organized crime, including forfeiture and the proceeds of the criminal activities.

On the president's commitment for his administration to conduct a national assessment of the harms posed by counterfeits and pirated goods, including online markets, I hope that the interagency working group preparing the study consults with the OECD and also takes a convergence approach to include related matters such as corruption, trade-based money laundering, money laundering, anonymous companies, and the role of free trade zones, that they play, in contributing to the illicit commerce. We should continue to build a global network of trade transparency units. We should also impose sanctions on bad and risky free trade zones that enable and facilitate or sustain corruption, money laundering and illicit trade within the jurisdictions.

Finally, more evidence-based research is important. I am proud to announce this morning that I will be working with Dr. Louise Shelley at the Terrorism, Transnational Crime and Corruption Center at the Schar School of Policy and Government at George Mason University to launch a new anti-illicit trade institute to examine the threats posed by trade-based money laundering and other converging threats to 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 have 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 our citizens. Thank you.

MASSARO: Well, thank you very much, David, for sharing those really truly staggering numbers, as well as for taking an approach where you're really looking at what kind of solutions can be implemented, specifically with regard to, you know, a couple things that stuck out to me – FTZ abuse and the use of utility of trade transparency units.

So with that, let's turn to John Cassara. John, take us away.

CASSARA: Good morning. First of all, I'd like to thank Paul and Danielle and all the organizers for putting this event together. And I'd like to thank everybody here and those that are listening in for giving us the gift of your time. I know there's a lot of places you could be right now and things you're doing, but to come here and to give us an hour two particularly devoted to trade-based money laundering – I topic I feel very, very passionate about – I thank you all very much.

I don't really have any prepared remarks, so we're just going to talk, OK? And I'm going to begin by sharing a story with you – a true story. It took place about 2002-2003, not too long after 9/11. I was talking to a Pakistani businessman who I think you could charitably describe as being involved in the gray markets. And we were talking about many of the things we're going to be talking about this morning. We were talking about trade-based money laundering, and value transfer, and underground financial systems, and counter valuation.

And then finally, at the end of our conversation, he turns to me and he says: Mr. John, don't you know that your enemies are transferring money and value right under your noses? The West doesn't see it. Your enemies are laughing at you. They're laughing at us. And I was talking to this guy primarily because I was concerned about threat finance, but you could just as easily describe our adversaries as corrupt capitalists or oligarchs or kleptocrats or transnational criminal organizations of all sorts.

Now, Paul mentioned that the Financial Action Task Force labels trade-based money laundering as one of the primary money laundering methodologies around the world. The other two are through financial institutions, non-bank financial institutions, and in cold cash smuggling. Certainly there are countless other methodologies including cryptocurrencies and other things that are in the news. But I believe trade-based money laundering is the largest money laundering methodology. And I can also tell you, with utmost certainty because I've been looking at this for years, trade-based money laundering is the one that is the least understood, identified, and enforced.

Now, why do I say it's the largest? Because if you add up all the elements of trade-based money laundering – meaning what it entails – customs fraud, which is by far and away the largest part of trade-based money laundering. We'll talk about that in just a minute. But also tax evasion, export incentive fraud, VAT fraud, capital flight – forms of capital flight, evading capital controls, barter trade, underground financial systems such as the hawala or the Chinese flying money systems, commerce trade-based money laundering. Lakshmi's going to talk about

that in great detail, I think, Global Financial Integrity's done some great work talking about abuse of trade and mis-invoicing, transfer pricing, and this type of stuff. If you add it all up, it's the largest money-laundering methodology in the world.

So many of you really don't know what it is. I'm going to give you a couple quick examples – a hypothetical and a couple of real ones. So say, for example, that Lakshmi and I are in the business of buying and selling pens, OK? So she's in Dubai and I'm in the United States. And I want to import pens. I want to import pens from Lakshmi. I don't know her, but I find out about her business. So I send her an inquiry. And we negotiate a price, OK? True manufacturing cost, insurance rate. She charges a markup. And we consummate that transaction, OK? It's what we call arm's-length transaction. She doesn't know me. I don't know her. It's fair market value for this pen, OK?

Now, let's contrast that to another type of transaction. This time we know each other, OK? Maybe we've worked together in the past. Maybe we were in the same organization. Maybe we're members of the same family – she's my cousin – or tribe, or clan. Or maybe we're fronts for some transnational criminal organization. This time we take that same pen that's, say, worth \$50, OK, true cost, and we over-invoice that pen to say it would be worth \$100. Or, we under-invoice it to say it would be worth \$1. You send enough pens one way or the other, you're transferring a lot of value in the form of pens, OK? You're settling debts or you're transferring value, say, overseas, right?

I'll give you another quick example. It's true. I was in Rome for six years, assigned to the U.S. embassy. I was combatting Italian American organized crime, the mafia. And we were looking a number of things. And one of the things that was very concerning at the time, and I don't think much has changed, you've got gold couriers coming in from, say, Milan's Malpensa Airport flying into JFK. They come in all the time. Rome – I'm sorry – Gold is one of Italy's largest manufacturing industries. They do great things and they manufacture, say, 18-karat Italian gold rope.

So they come in, they have, say, satchel bags, something like this. They have this gold rope. So they come into customs and they declare this, all right, and say the true value of this 18-karat gold rope is, say, I don't know, \$500,000. But is it really? It is really 18-karat gold? Maybe it's 24-karat gold. Maybe it's 14-karat gold. Maybe it's 12-karat Walmart special gold, OK? Is it worth 500,000 (dollars)? Is it worth 700,000 (dollars)? Is it worth 100,000 (dollars)? Maybe it's gold plated lead. What is it, OK? Transferring value.

Another quick example on gold. The United States – we're importing all kinds of gold into the United States, which is kind of strange, if you think about it, because we're a gold-producing country. But we are producing – we are importing 4-9 gold from all over the world. Say, for example, Latin America, Central America – 4-9 gold. When I say 4-9, 99.99 percent pure gold bullion.

We are also importing gold scrap. Gold scrap, for customs purposes, is not clearly defined. It can be fillings from teeth, it can be the innards of a computer, it could be – I once had a customs inspector tell me you could have a 40-foot shipping container, you could fill it with

metal shards and scrap and bumpers off of buses and bicycles and whatnot. You could take a saltshaker filled with gold dust, get on top, sprinkled it over the top of that thing. And for customs purposes, you would have gold scrap, OK?

Now, imagine this. You got gold bullion and you got gold scrap. You could look at our import records. We are importing massive quantities of gold scrap over – well over the price of gold bullion. Massive quantities coming in from Latin America consistently. Why is that happening? Do you think it could be hiding the proceeds of narcotics? Just as a guess, maybe. Maybe. Do you think it's being investigated? No, it's not. Not really. OK? Now, TBML, as I said, primary techniques over and under invoices; multiple invoicing, because you want to invoice as many times as you can because every time you invoice it justifies payment being sent out, OK; falsely described goods, kind of like that gold stuff I was talking about; or phantom shipping, where the shipment doesn't really go but nevertheless the paperwork is produced and, again, payment is sent abroad.

What bothers me is because we've known about this for years, but the U.S. government – our government, Treasury, Justice, DHS has never, ever systematically examined this problem until recently. I think there's a bill in the works that is going to look at this. We need to know how much is going on. We have guesses. David just came up with a few estimates. There is a great academic down in South Florida, Dr. John Zdanowicz, Dr. Z. His is the only study that I'm aware of that has actually taken a look at the history of U.S. imports and exports and put numbers to this. He estimates, I'm summarizing here, 6-9 percent of our imports and exports are suspicious regarding over-under invoicing. That's not to say they're fraudulent. That's not to say they're all bad. But it's still 6-9 percent.

Now, that represents hundreds and hundreds and hundreds and hundreds of millions of dollars – billions of dollars. Billions of dollars. Hundreds and hundreds of billions of dollars. Think of the revenue we're losing, OK? Think of the proceeds of crime that are possibly being transferred via value transfer, OK? The other thing is, it's vitally important to understand. I have a background in U.S. intel. I have a background in U.S. law enforcement. We have the best in the world. We have the best in the world. We have the best customs service in the world. If 6-9 percent of our trade is suspect, what do you think's happening in the rest of the world?

All right. That being said, I actually have two reasons for being optimistic, not the least of which is that everybody's here, like I said. We're getting more and more attention to this. The first one is, for the first time in my career, trade transparency is theoretically achievable – theoretically. It's never going to happen, but theoretically it's achievable. Why? Because we have the data. We don't have to invent this stuff. It's there. It exists. Every country in the world has a customs service. Every country in the world keeps track of what goes in and what goes out for revenue purposes, for security purposes, or whatever. We've had an explosion in commercially available data over the last five years tracking stuff. Now, politically, that's something else. But technically, trade transparency is achievable.

The other thing, and I'll close on this, the reason I'm optimistic for this to combat trade-based money laundering is because Trade-based money laundering is the only money laundering methodology that I am aware of that if you crack down on it, if the government cracks down on

it, you're going to get money, because you're cracking down on trade fraud, OK? So it's in government's best interest to tackle this problem. Too often, particularly after 9/11, I was overseas and working with the USG.

And at that time, it was like, you're either with us or against us. If you don't cooperate with us to combat money laundering and terror finance, the hammer was going to come down on your head. With trade-based money laundering, we've got an opportunity here because we can dangle that proverbial carrot in front of interested audiences and say: Cooperate with us and it's in your best interest. We'll show you how you can get money. Every country in the world needs increased revenues. This could help them out.

Thank you.

MASSARO: Well, thanks so much, John, both for your stories and the clear explanation of TBML, but also for your two reasons for optimism. And especially that second reason, oh boy. (Laughter.) I mean, when you've got economic incentives, man, people should be lining up, you know? So I think the more we can hammer that point home is through congressional activity, executive, whatever. That's an incredibly important point.

So, with that, I'll turn to Lakshmi. GFI, again, has been one of the organizations that's really kind of taken this on in a practical way, even as the UGS has lagged behind. So, Lakshmi, please.

KUMAR: Thank you, Paul. That's going to be really hard to follow, after David and John. I don't know how much there's left for me to say, but I'm going to take a stab at it. To begin with, at GFI we're really lucky because we've had John on our board. So, you know, it's not that – we've done research and academic studies of these things, but it has enhanced, I believe, our work to have sort of a practitioners viewpoint on all of this. So if you haven't read John's book, I highly recommend it. It's an excellent read and a very – it explains very simply sort of the problems and solutions around TBML. (Laughter.) We didn't tag team this. (Laughter.) This is just a spur of the moment. (Laughter.)

MASSARO: Yeah, get the photo op, yeah. (Laughter.)

KUMAR: So having stated that, now with TBML, very often when we are talking about TBML, and I want to make sure I don't repeat what David and John have gone over. Very often sort of the notion of trade-based money laundering isn't really a study a domestic trade. It is essentially, when we are looking at trade-based money laundering policy, most of the regulation and enforcement focuses on cross-border international trade. And that is partially because the focus on domestic trade, there are so many informal mechanisms that it becomes even harder to track.

International trade is actually the easier thing to do than domestic trade, which sounds confusing, but it is true. And what makes sort of trade-based money laundering difficult, some of the factors that influence it are the fact that to begin with while it is easier to detect cross-border transactions, the fact that they are cross-border means that you have to have the

cooperation of multiple countries. And, you know, depending on legal processes and legal systems, sharing of that information can be hard.

Two, it is the share of volume, speed, and size of the transactions involved. We are talking about tons and tons of goods and parties that are – it's not even one-to-one transactions. Sometimes there can be eight people in a single transaction. So ensuring there is some due diligence mechanisms across supply chains that cover the manufacturer, trader, consignee, notifying party, financier, shipper, shipping agent, freight forwarder. I mean, a lot of these names might sound just like gibberish to everyone here, but it's in reality what makes up the trade chain. And the controls and oversight for them are not just with one organization. It's not with the banks. It's not with – necessarily with FinCEN. It's across multiple government entities.

And when we're talking about sort of the regulation of TBML and what it has meant, outside of the U.S. focus has traditionally focused on looking at sort of the issues with international trade from the banking perspective. So the countries that actually have sort of official guidelines on how to handle this – Singapore, the U.K. – all of – and then there are some smaller developing countries that also do it. But all of them look at trade through the banking lens. And what is important to understand is when you're talking about international commercial trade is that it occurs sort of in essentially three points .

It can occur through sort of what's called documentary trade, which occurs when the – when a bank provides financing documents for that trader and a trade transaction happens. You know, financing documents are, like, a letter of credit, a letter of guarantee. Alternatively, they can also have the bank again involved but through sort of non-financing means. Now, both these two methods only account for 20 percent of global international trade. Most of the international trade, which is what is called open account trading, is 80 percent of trade, which means that the banks aren't really involved. The banks don't get to prepare financing documents or don't do documentary checks to facilitate the trade. The only roles that banks play in open-account trading is they act as – they simply act to transfer money from one party to the other.

So banks very often don't know if someone in the wire transfer says, oh, we have a transaction, that's all the information they have. They don't get a series of backup documentation. So 80 percent of all international trade occurs through open account trading, where the banks aren't the first-line defenders or first oversight mechanism. So really, therefore, the impediment then becomes through customs officials, freight agents, ports shipping agents, the actual shipping vessel. Those are your first line of defense. But most actual policymaking in the realm of TBML, sort of outside the U.S., has always traditionally focused on banks because they have the most resources to sort of do oversight.

When in actuality, as John and Paul and David have mentioned, the focus actually has to be to empowering customs agent and having a mechanism of oversight and supervision that covers, you know, freights, export agents, export controls, the various players that I've mentioned, consignees. All of them that form that trade team, that's where supervision has to lie. And as John and I think David mentioned, when we are talking about commercial trade, the most commonly used method – and I say this because of 18 percent of international trade is open-account trading.

While there are other ways to do trade-based money laundering, the biggest occurs in sort of the actions of mis-invoices which, as John said already, is you can mis-invoice the value of goods. So you can have, like, a commercial invoice that says, oh, the goods are valued at 100 million (dollars) when in actuality they could be 200 million (dollars). You can mis-invoice the number. You could be doing wine fraud, and have a container full of wine but then on the shipping label say, oh, it's just widgets. You can lose millions in doing this.

And another big way of – something that doesn't get talked about is sort of the origin certificate in all of this, which is – you know, and more recently it's come up with – especially because Venezuela's become a big focus. And the Maduro regime in Venezuela has often used gold. They send it through Guyana and then ship it out. And if you look at Guyana's exports, the government – the amount of gold that Guyana produces versus the amount of gold that Guyana exports is vastly different.

The exports are so much more higher than the amount of gold that's actually produced in Guyana. Which means that, from what studies have shown, is that Venezuela is shipping its gold to Guyana. Guyana is setting up fake refineries. And those refiners are falsely labeling Venezuelan gold as Guyanan gold. And that is a way of sort of moving gold, but the money is actually moving from Guyana back into Venezuela. So, these are multiple ways in which sort of commercial invoicing is used to mask the movement of goods.

Now, in terms of what are the – why do people use methodologies and what are sort of the larger macroeconomic implications of all of this? Now, let's say you are under-invoicing the export, which means that let's say exports are valued at 100 million (dollars), you export it at 50 million (dollars). And the reason people do this is so that you can keep – you can move your profits to a lower-tax jurisdiction. So I – to go back to John's example – if John was exporting something that's worth 100 million (dollars) he'd say: Oh, Lakshmi, why don't you pay me 50 million (dollars) to my U.S. account, and pay 50 million (dollars) to my Cayman Islands account so the U.S. government doesn't know about the 50 million that's gone to the Cayman Islands account. John becomes a lot more richer than he should be. (Laughter.)

And now the other – on the other side of it is, you know, import under-invoicing and import over-invoicing. Now, again, to use the same example that John used, let's say I'm supposed to get that shipment of pens. And I say, on my end that, oh, actually, I know it's 100 million (dollars). I again say to my side of the – to my government that, oh, it's only valued at 50 million (dollars). And the reason you do it is to circumvent local taxes so that you don't pay taxes to the government on that freight.

And on the flipside, if the same goods that are worth 100 million (dollars) and I actually report them on the invoice or 200 or 300 million (dollars), now the reason sometimes that people do this is, let's say, there are price controls in a country that – pens are an example, but let's say we're talking about cellphones. If a cellphone can only be – or an important good like survival goods, like milk or rice can only be sold at, let's say \$2 or \$3. By over-invoicing you're, in a way, able to make the difference between what the government allows you to sell it for, saying that I had to import these at these exorbitant value so I can sell it at, you know, higher

than the government is allowing me. So it's, in a way, sort of to keep capital out of the domestic countries and place.

A lot of trade mis-invoicing, the focus of it is to move capital outside the home jurisdiction so that government don't benefit from revenue. That is, in a sense, a lot of what sometimes trade mis-invoicing does. Now, by our – by GFI's own estimates, and the studies that we've done, the value can be 1 trillion (dollars). And even if – and it's an estimate, because here are gaps in the data. So even if we are – if you're wrong about this, and even if it is only 5 percent or 6 percent of the value, the numbers are still huge. And where John and David mentioned that in the U.S. it's 6-8 percent, there have been countries that we've look at where it's as high as 13 percent.

When its in GFI it's that it's not just looking at the policy, but actually trying to find tools. And what a lot of countries have done is look at databases which are called world market price databases, which is essentially when you're a customs official and, let's say John is in the U.S. I'm, for example, let's say sitting over here in Ghana, and there's trade between us. It allows the U.S. customs agent to be able to look at sort of a world market price database and say, oh, for this good what has been the value at which it's been traded over, let's say, the last calendar year, over two calendar years? What price have exporters in the U.S. been selling those goods to Ghana?

And if there's sort of a discrepancy, then as a customs official you are able to investigate. What we have often seen is that a lot of customs officials don't use tools like this. They very often are going on Amazon and saying, oh, how much does a widget cost on Amazon? Those are retail values. Those aren't bulk commercial values. Or they go and look on Robb Report to see what's a used car value, but that's just for one car. It isn't a container full of used cars. And so a lot of those problems lie.

You know, at GFI we've tried to sort of create our own tool called GF Trade to help countries, but there are other tools out there, and there are governments that use them. But it's important that it's not just customs agents that use it, but also you have the banks start using it. And in a survey that was done by, you know, the U.K.'s financial conduct authority, they found that most banks don't – in fact, a lot of international banks do the same thing that developing country customs officials do, which is go on Amazon and look for individual prices, which is deeply problematic.

Oh, I'm really running out of time, but the one thing I did want to last speak about is that – is that when we are talking about trade-based money laundering, yes, there are criminal threats. There are sort of transnational organized crime elements. But if it is purely just a money laundering mechanism, what you must understand is the person who's doing it just doesn't care. It's a way for him to launder his money, turn black money into white. So it's very often just flooding the market with goods that are possibly cheap and inexpensive, because they don't care. They just want to change their money to white money.

But the consequence of all of that has been you're flooding a market with cheap goods. It means that legitimate businesses can't compete or function. So not only are you just money

laundering, you're also slowly collapsing legitimate businesses and, more importantly, can collapse an economy around it. And it can lead to the death of industry. And that's what we have to take away. So national security threats don't directly come through terrorism or organized crime. They can come through this sort of methodology. And you know, I hopefully – later, as we go on, we can – I'd like to talk more about sort of recommendations that GFI has.

MASSARO: Well, great. That's really wonderful, actually, both the work that GFI is doing with GF Trade, but also to better understand kind of what the solutions are and also just, like, what the problems are at the very operational level for these customs officials. Sort of unbelievable for me to hear that they're just looking up on Amazon what the retail price is. (Laughs.) And David whispered in my ear as you were just, well, there's lots of counterfeits on Amazon too. You know, there's lot of problematic – so it's even if you're looking at a retail price, who's to say that's even a – you know, a legitimate retail price, right? So there's all sorts of issues that come with it.

OK, so we're going to move into the Q&A segment now. And I have a few questions. So I'll ask one or two before we kind of open up to the audience. So please go ahead and think about what kind of questions you'd like to ask. We're going to end at 11:00, unless we exhaust all questions in which case we'll end a little earlier. But I'd also like to – after I ask a question or two, I'd like to see if Danielle would like to ask a question, a priority question from the House Financial Services Committee. So go ahead and think about that question, Danielle. (Laughter.)

So let me go ahead and, I guess, first things first, you know, trade transparency units have come up. I've heard that this is kind of the primary aspect of the USG's response to this issue, despite the USG having, you know, kind of a lack of coordinator strategy. And I was wondering, John, if you could maybe speak a little bit to the status of trade transparency units.

CASSARA: Thank you, Paul. Thank you for that question.

Trade transparency units are something I feel very strongly about, and I'll tell you the reason why. It really goes back to that conversation I had with that Pakistani businessman right at the outset – this – again 2002-2003. Very concerned about combatting threat finance by looking at underground financial systems and counter-valuation, or a system of balancing books between hawaladars, or that's another topic entirely. I think you guys know what hawala is, right, OK? Transferring – it's an underground financial system invented in India centuries ago that is used today for – primarily for the remitting of wages, which nobody has any objection to, but it is also used by criminal organizations and terrorist organizations to transfer money. And it's very opaque, and very hidden, and very much underground. Very difficult for us to peer inside those networks. Historically and culturally they used trade between brokers to settle accounts.

So I was consumed this problem right after 9/11. So I spent a number of years at Treasury's FinCEN. And I was also working at the State Department's Bureau of International Narcotics and Law Enforcement Affairs with David at the time. So I came up with this idea. Every country – well, there are about 160 financial intelligence units around the world today, right? Like we have Treasury's FinCEN. Well, there are 159 other financial intelligence units

out there around the world. So the thought was, make a somewhat analogous network of what I called trade transparency units, or TTUs.

As I said, every country in the world has a customs service. It's a fairly easy process, a logical process to keep track of what goes in and what goes out and compare that record of imports with another country's record of exports. As we were talking about earlier, if I'm exporting 1,000 widgets to Mexico, and each widget is valued at \$100, when they get into Mexico you should still have 1,000 widgets and the value should still be about \$100. If it's not, you compare our data with the Mexican data. If it's not, you have an indication that perhaps there's some trade fraud or something else involved.

So I proposed this – the creation of TTUs back about 2003, 2004. The U.S. government was in the process of creating the Department of Homeland Security at the time. It delayed it a little bit. But finally it was adopted. We do have a TTU now. It's over at Immigration and Customs Enforcement. It was the world's first trade transparency unit. There are approximately, if I understand it correctly, about 16 TTUs now. Most of them are in the Western hemisphere, but we do have one in the Philippines. We have one in the U.K. There perhaps are some others in the works. We primarily put them in the Western hemisphere to combat black market peso exchange problems.

It's part of our national anti-money-laundering strategy going back to 2007. I'm optimistic that eventually we will have a worldwide network of TTUs. However, it seems to be stalled. And I cannot talk for DHS, I cannot talk for ICE. I think there's some good reasons why it's stalled. I think lack of funding and personnel and line items and this kind of thing are part of the problem. But I cannot speak to the specifics. But it is still the USG kind of official countermeasure for all of this. There are other countermeasures that we can talk about, but this is the official U.S. government countermeasure – trade transparency units.

MASSARO: Well, thanks very much, John. And I guess my second prerogative question would be for David. David, you'd brought up free trade zones as a potentially problematic aspect of – related to TBML, but even more broadly related to illicit trade globally. And I was just hoping maybe you could break that down, you know, shortly, briefly. You know, what is a free trade zone and why are they so easy to abuse?

LUNA: Thank you very much, Bob, for the question. Free trade zones actually do play a very positive role within the international global trading system, as lot of the goods transit from one jurisdiction to another. So generally it's – they play a very important and a very positive role. But where I think it gets problematic relates to the lack of oversight, you know, the secrecy in some regards on what's going on within the free trade zones. And I think it is important to also consider the issues of corruption, the issues of transparency, oversight, because, again, as I mentioned in my statement, when we're looking at convergence crime not only are we looking at the licit side of trade and the role that free trade zones play globally, but really the illicit as well.

And, again, in free trade zones you tend to have the issues of counterfeits, the issues of gray goods as well. But folks who are benefitting often will use that secrecy or lack of transparency within free trade zones to embark on various illicit trade activity, including money

laundering and trade-based money laundering. As I mentioned, one of the cases related to luxury goods where some of the free trade zones were also involved as trades made their way from Asia to the United States. So, again, free trade zones are positive, but in place like the drug war, in places like Panama unfortunately they have not been model free trade zones. And I do think this is why it is important to consider sanctioning those free trade zones that are risky, that are not really being as transparent, or enforcing, implementing, anti-illicit trade, anti-corruption, anti-money-laundering regulations and laws to help combat the cross-border issues of illicit trafficking, as our colleagues pointed out.

MASSARO: All right. Thanks very much, David.

And is our mic working? OK, so for questions if you could stand up, sort of get your Friday exercise and walk to the mic.

Danielle, if you have a question, please.

LINDHOLM: OK. I just – the last two comments with David and Lakshmi, I just want to say I very much appreciate the concept that we need to have data to understand what's normal in order to then understand what's abnormal or anomalous. And this is one really good example of where that's essential. So appreciate that.

The question is this: Is there only a role for interagency and intergovernmental collaboration to combat the problem, or is there also a role for public-private partnership? And if so, what is that and how does it look different in your minds, versus what it looks like now? So whether that's for import and exporters, or for financial institutions, or other? Thank you.

KUMAR: You know, I think at the end of the day, you know, it will have to – there has to be sort of interagency inter-government collaboration because I think it is the financial system and it is the international trade system. So you do have to – government has an incredibly important role to play. But in terms of sort of private sector-public sector collaboration, I think, you know, 2015-2014, there were geographic targeting orders that were issued for – exclusively for trade-based money laundering. And the focus with those orders focused on looking at cash transactions to find the beneficial owner or the person behind cash transactions.

Now, while that was a great way to sort of approach TBML, it made the same mistake of looking at TBML through the lens of looking at how we normally look at AML, which is through the banking system. And you know, after 2015, GTOs weren't – GTOs for TBML weren't renewed. And I will be honest, I am not clear why that didn't happen. I've sort of asked around, but have yet to receive a decisive answer.

What I do think would be great, and a way to involve both the public and private were if instead the GTO were focused on ports, like vulnerable ports for a change, then you could have the people that were in charge of sort of the ships, the shipping vessels, the export and import agencies, and start extending that network. Because when it's a Financial Action Task Force or any other international agency or government agency, there is very little that's been done in

terms of actually doing an assessment on the players that make up the international trade chain, and how you can better equip them to engage on AML.

The Financial Action Task Force's recommendations and mutual evaluations for countries don't focus on TBML. They focus on the banking sector and the formal financial sector. So I think when we talk about public-private collaboration into sort of moving those assessments for TBML to that space, and then having a framework in mind where you can involve those chain of participants who can engage with the government. The reason why sort of the AML space is sort of succeeded and there's so much money in it is because the first line of defenders are the private sector, they are the banking sector. And they're able to invest those millions because it's multiple private sector players who have the capacity the, you know, staff potential, technical skills.

Whereas a lot of the times with TBML we make it the entire burden of the customs agent, who are very often not as well staffed, don't have as many resources. So spreading that risk to more of the private sector would actually help bolster the enforcement for TBML.

CASSARA: I just want to pick up on one thing very quickly, and that is I think the best countermeasure out there, if it were to ever happen, would be for the FATF, the Financial Action Task Force, to make trade-based money laundering recommendation number 41. Because in the world of AML CFT, the FATF makes things happen, period. OK? They've been dragging their feet on this for years. They don't want to go in that direction. They're kind of like the UGS, our AML CFT policies have all been focused, as Lakshmi said, on financial intelligence, on money laundering through banks primarily, other things as well, even bulk cash smuggling. But they do not want to take up trade.

And it's too bad. And it's also – I think it's a shame because I think the U.S. has the presidency of FATF right now. So this was a missed opportunity. I think China has the presidency next. Forget it. I think China is the largest trading power in the world. (Laughs.) Time does not allow us to go into all the reasons why China benefits from the status quo. I don't think the Chinese want trade transparency. I think legitimate traders would welcome it. Enough said.

LUNA: Yeah. You know, I'm a big fan of public-private partnerships. I'm really a fan of collective action. I think across sectors, not only the business community but civil society as well. And, you know, they bring a lot of expertise, a lot of insight. If you look at the business community across sectors who are working in all markets around the world, oftentimes they have more boots on the ground than law enforcement, certainly U.S. law enforcement, obviously local enforcement as well. But they have a lot of data, a lot of insights as well on how to work across the international community with governments, international organizations, and all market stakeholders to improve some of the market conditions, the mis-governance, the issues of money laundering and corruption. A good example of a public-private partnership, related to your earlier question of free trade zones, is the work that the OECD is doing on their guidelines to improve transparency of free trade zones for OECD member states are working with the international intergovernmental organizations, and the international business community to bring

greater transparency, to bring a code of conduct to better have better governance in a lot of free trade zones.

MASSARO: Great. Thanks so much. Could we get some questions? Yeah, Clay. You can also just project if you don't want to walk to the mic. (Laughs.) It is a ways. (Laughs.)

Q: I'll go ahead and do it. So most of you guys you don't know me. I'm Clay Fuller. I'm with the American Enterprise Institute. I'm the Jean Kirkpatrick fellow on foreign defense policy studies.

So I loved everything about this. I wanted to just explain how I come to this, and where – it explains my comments. So my academic research, I study the survival of authoritarian regimes. And what I found in my work is that the best predictor of how long a dictator – a modern dictator will survive in office is how much money he embezzles while he's there. And then I found that the best predictor for how long a modern authoritarian regime will last is the extent to which they experiment with liberal economic policies. Specifically, special economic zones, which are what we call foreign trade zones or what Latin America calls free trade zones. So that's the sort of picture that I – that I come into this.

Now, with the foreign trade zones, special economic zones, I love it. I've been trying to tell people to pay attention to this for a long time, and I'm so glad people are. But getting with the transparency – so I study the transparency and the data on this as well. And most people find, most academics find, that transparency in the form of credible data about trade or about all this stuff is a function of the capacity and the willingness to be able to put it out there, right? So democracies, free countries, typically are more prosperous, have the capacity and the willingness to put this data out there in the form of trade transparency. And this is what makes their markets work better and everything.

Authoritarian regimes sometimes have the capacity, but they don't always have the willingness, right? China, Russia, UAE, all these countries have the capacity to be able to report very credible data on the trade and the economic stuff coming in and out of their countries, but they do not have the willingness. So this gets to the sort of core of where it is, because it threatens their political model. It threatens the authoritarian model of government to be transparent about what you are doing economically. And so that's sort of where the bulk of that goes.

And this gets to – I love John's comment about the laughing – them laughing at us, because that's what I've seen in 10 years of studying only non-democratic countries around the world, is that this is why – you know, how does a dictator sleep well at night? Well, it's because they're just moving value all around the world and storing it at home. And they don't care if we sanctions them. They don't care if give speeches about them. They don't care is we criticize them over their human rights record, or anything like that. They're sitting on a pile of cash that they're siphoning out of our markets.

So this is extremely – very important. But so getting to the capacity thing I would like to ask the panel – get to my question and not to my speech. (Laughter.) Sorry. I'm not running for office. (Laughter.)

MASSARO: You can give a speech anytime you'd like, Clay. (Laughs.)

Q: But with the zones I worry about – so there are terrible zones out there. You get to the tribal order area. You get to the golden triangle in Southeast Asia, or if you look through what's going on with the Chinese zones in around there. There's lots of lawlessness in these. But on a lot of these places, especially the tribal order area in our developing other democratic states, they don't have the capacity, right, to be transparent about it. So I worry about punishing bad zones in friendly countries versus reaching out them. Like I say, using the BUILD Act or something like that to go, you know, build them the capacity to be able to keep moving forward. And then the countries that don't want to – don't have the willingness to report, punish those. So I'm wondering if the panel had thoughts on that.

MASSARO: Anybody want to take that one?

KUMAR: I'll let it start from this end.

MASSARO: Maybe David?

LUNA: Well, thank you very much. And as always, thank you for your insights and really for your leadership in really advancing a lot of these important research areas.

On capacity, well, before that, the comment that you made on political will. Absolutely very important. This does back to Danielle's question on public-private partnerships and harnessing all capacities, all energies to put more pressure on some of the problematic jurisdictions or problematic trading partners as well. And because, again, the more that we can do together, it's important to put that political pressure. Look, we're here at Congress. Resources are very important.

We can talk across an array of transnational security threats, but at the end of the day Congress or the administration is not requesting the type of resources to help our law enforcement to fight transnational crime, to fight money laundering, to fight corruption. Then it is – it makes the battle more difficult, no doubt. And a lot of these good partners do need the capacity on so many fronts. And I hope as some of these bills move forward that – you know, again, I'm not lobbying, I got to be careful – but I hope that the issue of resources become part of that discussion, because without those resources the FBI, DHS, HSI, CBP cannot do the type of work that is important, including the TTUs that John was mentioning. So resource is very critical.

MASSARO: Would you like to say something?

CASSARA: Very briefly. And, once again, Clay, thank you for all the work you do in so many different related areas. And he does some phenomenal reports. I encourage anybody to look at his work.

Two issues on capacity, very briefly. And I'm trying to give you some – to summarize some things that I've been thinking about for a number of years here. The first one in the United States is one of our major problems in combatting trade-based money laundering – there's a lot of them. But one of them that doesn't get the attention it deserves – and I got this directly from the TTU chief a couple years ago, and I talked to a lot of other people – and that's assistant U.S. attorneys around the country are reluctant to take these cases. They don't understand them, right, and they're not sexy, all right? And they have so many competing interests, all right? So it's a major problem. You can have the best data in the world and a wonderful investigation, but if an AUSA won't take these cases to prosecute, we're out of luck. And we need cases, all right? So we need to do more on educating our colleagues in the U.S. attorney offices around the country to take these cases, OK?

The second one is a capacity issue overseas. And that is, in the United States U.S. customs, which doesn't exist anymore. We have ICE, OK? That's another issue. But they have enforcement authority. They have a badge. They have a gun. They interview. They have a power of arrest. They conduct investigations. They actually conduct more investigations than the FBI does, right? Overseas, most customs services don't have that. Most customs services are what we call inspection and control. They look at what stuff goes in. They look at stuff what goes out, and they may put a fine on it. But they don't conduct investigations. If they happen to be motivated, they may pass it off to the country's fiscal police, but they don't understand this stuff. So as a result, this stuff doesn't get investigated overseas. And you need to work with countries to change that.

MASSARO: Please go ahead. Yeah, sure.

KUMAR: No, just to add to what John – just a small sort of example is, you know, when you're talking about capacity, we – in the U.S. we have TTUs with Australia. The Australian regulators website has long documentary reason on why they don't want to do TBML and they will not have a TBML policy. So if that's with a friendly ally that we have TTU with, it just gives you an insight into what it is for every other country, that there isn't and then doesn't have the capacity.

MASSARO: All right. Well, thanks so much.

Yeah, Leah, if you'd like to ask a question. Would you prefer to project or go to the mic?

Q: I'm just going to project.

MASSARO: OK, great. If you could say: Leah with the Subcommittee on Europe Eurasia.

Q: That's what I am. OK.

So I just had a quick question. What region of the world should we be the most focus on for this issue? And then since I'm from the Subcommittee on Europe and Eurasia, if you could talk a little bit about what's going on in that region and what, you know, we should be most focused on.

LUNA: I'll take a first stab. I think all regions – when we think about globalization, when we, you know, think about the cross-border nature of these threats, I think all regions are very important, especially, again, from a convergence perspective. On the issue of counterfeits, no doubt, you know, working within the U.S. government and our partners to engage China, engage some of the markets that are – that are really proliferating the counterfeits, including – well, Hong Kong is part of China.

But on counterfeit medicines, you know, some of the other jurisdictions that are really putting these counterfeit medicines that are harming a lot of citizens in the U.S. and globally. But when it comes to strengthening international cooperation, again, I think given the cross-border nature of it I think we need to be working because as some of these goods go, from – for example, from China to UAE, you know, to or through Panama on the other side, in between all of these places U.S. law enforcement needs to be working with all these partners to really, again, disrupt and hopefully dismantle some of the illicit networks. So all jurisdictions I think are important.

MASSARO: Just real quick, we're going to finish this up. John, did you have any thoughts there, or Lakshmi, before we move on? We will move on –

CASSARA: Very, very quickly. TBML affects every country in the world, every single one, developed and developing. Every single one. And really quick answer to your question, I mean, we can – we can talk in some details, but it's – if you were to ask me what country is the most problematical right now, it's China because of all the reasons that David mentioned. But there's another issue that has never been, again, systematically examined, that's the capital flight leaving China. And that – and the trade value transfer that takes the form of capital flight has never been looked at. You mentioned GTOs earlier. All this money coming in and buying up U.S. real estate – commercial real estate, residential real estate. What's behind that?

And the other thing is the Chinese flying money system, OK, their equivalent of hawala which probably actually dwarfs hawala in the magnitude because of the Chinese diaspora around the world, all this counter valuation, settling accounts, do you think when China's overseas in Africa, or Europe, or the Americas, do you think they keep their money there? It goes back. It goes back to China. How does that happen? Via value transfer with trade. And nobody's looking at it, and nobody understands it, and nobody talks about it.

MASSARO: So I'd just like to really quick, Maria – my colleague Maria Sierra with Senator Cassidy's office. I know you're very focused on this. Do you have any – so if you could just target your question toward one – we only got 15 minutes left. I'm going to try to get a bunch of questions. Maria, and then we'll grab you. Sorry. (Laughs.)

Q: You know that I've been looking at this issue for quite a while. What would – what agency do you recommend should be the agency that – I know that it's an interagency issue, but some agency has to take the lead. What agency do you think? What U.S. government agency do you think should be the one to take the lead, or the most adequate?

MASSARO: I guess that'd be a best John question, maybe?

CASSARA: Almost by definition it's a customs issue. It has to be. And as I said, we don't have a customs service anymore. We have an ICE, all right? One of the reasons I don't think we've made the progress that we should have over the last 10-15 years since 9/11 is because customs, in effect, was disbanded. We now have a Department of Homeland Security, OK? Immigration and Customs Enforcement, the first word on that is immigration, right? The resources, the money has gone into immigration. And I don't want to speak out of turn here, because I'm not representing ICE, OK, but I believe customs has gotten short – traditional customs work, including combatting trade fraud has gotten short –

Q: Shrift.

CASSARA: Thank you. (Laughter.) Yes, they have, OK? And it's – because the data is basically customs and commerce and other, it's customs has to be the focal point on this.

Q: And what role would FinCEN sort of pay into this? I mean, it's just – I've been at this for years, trying to figure it out.

CASSARA: One thing that a lot of people I think don't quite grasp, we're talking about trade transparency units and investigating trade fraud in general, the more data you have the better it is. So what we'd like to do is overlap, say, financial intelligence with the trade data, and all other sources, OK? So FinCEN has a role in that. Back in the early days – and I was at FinCEN at the time, we gave FinCEN the opportunity to host the TTU, and they turned it down.

MASSARO: Interesting. OK.

LUNA: Just briefly, but if you're going to address the issue holistically, comprehensively, you need the whole interagency. You know, you need State Department, also working on intelligence, economic, Commerce, Treasury and others. Obviously the Department of Justice as well.

MASSARO: Yeah, so I'd like to recognize my colleague Danica Starks, our new detailee from the Department of Commerce at the Helsinki Commission.

Q: So, question. Thank you to everybody.

You mentioned that it's very hard to get the sort of anti-money-laundering, financial crimes folks to talk about trade. What has been – has there been success at getting the trade folks to talk about money laundering? You know, are there any efforts to reach out to the WTO, that type of thing? The reason I ask is that Lakshmi brought up a good point. You know, one of

the big problems that we've had, you know, at Commerce is countries using reference pricing and other things, or other non-savory ways of doing, you know, evaluations. So there has been a concerted effort to do training on customs valuations and other issues. But that community it seems to me is very separate from the sort of money laundering community. Has there been any effort to sort of attach some of the money laundering efforts to more traditional trade and customs evaluation folks?

KUMAR: So when you look at the World Customs Organization, which is what most customs entities in different countries participate, they have a very cursory reference to it. There is nothing in depth, even within a risk template, that talks about it. You know, the WTO doesn't really consider it as an issue. And it's mostly been the ambit of the Financial Action Task Force and all its regional bodies. And the issue is that the Financial Action Task Force needs to start roping in the World Customs Organization.

And I think then it will actually give birth to dialogue on this issue where it brings trade and AML. Because otherwise if you look at most AML conferences today, they're focused on TBML. Like I said earlier, most of them are led by the banking sector. And that is a false notion, because most of the trade that goes and that we are concerned about doesn't go through the banking sector. So I think the World Customs Organization, if that's what you're talking about, I think there should be sort of –

Q: Or WTO, or any – yeah.

KUMAR: Well, WTO, but especially the World Customs Organization because then you have direct face-to-face contact with the customs agencies. And then they can be roped into sort of advocate at other fora to talk about bringing TBML into this – into the mix.

MASSARO: Thanks so much. So if you could please loudly shout your name and affiliation. (Laughs.)

Q: Ken Duncan (sp), U.S. citizen. (Laughter.)

MASSARO: All right. (Laughs.)

CASSARA: I love that.

Q: Former state lawmaker. First off, I appreciate this panel and this discussion. My question to American Enterprise as well as Helsinki as a commission, most laws get passed based off of appropriate noise – advocates, incidents. What's happened in the Chicago region, at least reported-wise from good journalism, is that these pharmaceuticals are so toxic that they're impacting certain segments of the population – typically low-income black or brown populations where there is no voice, there's no commission. What is your campaign? Outside of you doing these wonderful papers and having these incredible, informative panels, who is that outside voice to help prod policymakers and employees of the USG to really make this a public campaign, if you will? Almost like smoking. Not just for pharmaceuticals, but in general a lot of these bogus

products are all in low-income areas across – not out – they’re in middle class areas across this country.

MASSARO: I do want to turn it over to my colleague David, because David is doing a lot of work on counterfeit and toxic products. I think that that’s huge. But I’ll say that, you know, as far as noise-making goes, I think a lot of work’s been done in this town to pass legislation, to work on legislation around this. It’s going to the House Financial Services Committee right now. You know, looking at a beneficial ownership registry in the United States that would go after a lot of this stuff. But let me go ahead and kind of turn it over to David, because he’s the man with a plan when it comes to counterfeits.

Q: I like plans.

MASSARO: Yeah.

LUNA: And, again, I’m not with the Commission.

MASSARO: Not with – not with the Commission, yeah.

Q: All right.

LUNA: But as an American citizen as well. (Laughter.) You know, very good point, because oftentimes when we talk about counterfeits or other illicit threats, they are impacting those distressed communities that you’re talking – significantly. On the issue of counterfeits, it’s because of the price issue, but because the criminals smartly target them as well. Not only in physical retail markets, but online as well. So it is a big challenge. Certainly, I mentioned this U.S. interagency study that the president asked to be done in 180 days. DHS is taking the lead for that. And I hope that they do address not only the impacts and the harms to the American economy and business, but to American citizens, especially the community.

So I would encourage you to – and we can talk offline about who’s taking the lead for that. I also hope that the administration finds the OECD on this important issue, because they are doing some of the best research related to countering counterfeit and pirated goods. One last thing, as the chair of the Anti-Illicit Trade Committee of the U.S. Council for International Business, I can assure that certainly USCIB, the business communities, are taking this issue very seriously.

MASSARO: And maybe I’ll just add one final thing from sort of the perspective of the Helsinki Commission staff. You know, we’re a mandated commission of Congress, you know, founded in 1976. And our job is to promote sort of the rule of law, human rights, and democracy around the world. And we do that from a values-based perspective, but we also do it because sort of if the bad guys win there’s more of this coming, you know?

I mean, there’s a definite – it may not seem that way, you know, from the high-browed foreign policy community, right, but there’s a definite reason why we need to fight back against corruption, transnational organized crime and authoritarianism, because this is the kind of

environment, the sort of deviant globalization, that leads to this free for all, corrupt, capitalist globalization that leads to sort of drugs and counterfeit goods, and all sorts of nastiness that impacts the lives of our constituents in really meaningful ways. So I guess from a Helsinki Commission perspective that's what we do on a daily basis. (Laughs.)

Q: You know, I just never heard of this component of the Helsinki Commission.

MASSARO: Certainly. Yeah, definitely. So please, Jim, right there, and then we'll get you, thanks.

Q: Sure. I'll make it quick. I just wanted to support this idea of the public-private partnerships, because whether it's the banking industry or the trade industry, they need to work together and do more, because a lot more can be done there. I'll give you an example about the complexity of trade-based money laundering. I'm asked from time to time by investigative reporters to help them out on cases. If it's a pure money laundering case, the first question is: Is this money laundering? And I say, I'll tell you later. With the trade-based money laundering cases it takes a tremendous amount of time, looking at a tremendous number of documents. So extremely complex. And that's why we need a lot of education. With respect to institutions, I think the bank regulators can do a better job. Right now, you have the compliance staffs looking at money laundering, and you have the trade people conducting the transactions, and there's not enough communication.

MASSARO: Please.

Q: Hi. My name's Victoria Prieboh (ph). I'm just an intern trying to learn.

So I have a question simply about – you talked a lot about how money laundering can affect Americans in, like, all sorts of different ways. I was wondering about, like, the cost-benefit of sanctioning? Because a lot of you mentioned sanctions as a way to combat that. But sanctions also face the risk of backlash, for example, if we're, like, sanctioning Syria I can see it leading to possible oil shortages. So I was wondering if you could elaborate on the cost-benefit and how the benefits in the long run kind of outweigh those. Sorry.

KUMAR: I can take the question.

MASSARO: Please, Lakshmi, yeah.

KUMAR: So the thing is sanctions really haven't done this for TBML, but they've looked a lot at correspondent banking relationships, which then touch on trade because, you know, a lot of trade finance is routed through correspondent banking. So there is – you know, sanctions are complicated, but the one thing that we at GFI, that at least that I've been looking at, is the sort of cascading effect of that. So you know, you target corresponding banking relationships. And the Financial Stability Board at the end of, I think, November 2018 released a report because when you are – when you are looking at this, it's not just that you are affecting those institutions or those sectors. There are cascading effects that come from now you have a short fall in remittances, and remittances are, like, a \$500 billion market.

For example, I think sanctions that targeted corresponding banking relationships in Somalia, there was a loss of 40 percent of the GDP because the remittances couldn't go there. And I think in the Caribbean it's become a huge issue because there are a lot of sanctions that target corresponding banking relationships there. And the U.N. has released a report that covers the Caribbean, which is it affects financial – their ability to participate in the formal financial system. It affects the ability of existing business to participate in trade. But also, when you cut off relationships, it leads to the potential – and it's very difficult to measure some of these things, but at leads to the potential of how will new businesses then engage with the economy?

And I think what is often lost in all of this, and it should be a conversation of how we target, is that not – money has to find a way. Money will always find a way. So if it's not going through the formal financial system, it means you are growing the shadow banking system. And the shadow banking system has – within the last five years – has grown by 6 trillion (dollars). Which means it will just continue to grow. So when you're talking – I think talking about sanctions, you think of cascading effects around it. It doesn't necessarily touch TBML, except to the extent we're talking about corresponding banking relationships.

MASSARO: OK, thanks so much. Yeah, please, name and affiliation, though I know who you are. (Laughs.)

Q: Tim Nelson, State Department.

I just wondering if you could, from the bigger perspective, while we're looking at pinpointing law enforcement with, you know, thousands of documents to go through for single cases, are we structurally built to be the world's number-one money laundering destination because we allow this type of non-transparency, whether it's in LLCs, or not even looking in the biggest levels of money laundering coming into the country? Have we earned that position worldwide?

CASSARA: It's an interesting question, but I want to – I want to take issue with the premise that the United States is the biggest money laundering country in the world, biggest destination. I used to think it was simply because of our economy of scale and our insatiable appetite for narcotics. But we're no longer the number one. It's China. China is the number one money laundering country in the world. My estimations are, and I've got some numbers I can back this up, I think they're responsible for about half of the money laundering going on in the world today.

KUMAR: Can I just answer that?

MASSARO: Please, please.

KUMAR: So, you know, the fact that the U.S. is such a stable financial system, it means that unstable economies want to park their money. And some of which – you know, at GFI we did a – we did a report which just sort of crystalizes, I call it a library card project. And we looked at 50 states in the U.S. and saw what the requirements were to get a library card and what

the requirements were to form any kind of company. And in every state, it was harder to get a library card than it was to form a company. And I think one example that I find particularly fascinating is that in Kentucky you have to give biometric identification –

MASSARO: What? (Laughter.)

KUMAR: But you need nothing to form a company. (Laughter.) But having said that, even with all of this, even though there are sort of handicaps and not knowing beneficial ownership, not knowing all of these pieces of information, the U.S. still take the lead more than any other – more than any other advanced economy in pursuing money laundering. For example, in Mozambique right now, their economy has collapsed because of a minister decided, oh, I will take out a \$2 billion personal loan, and then make my country now responsible for it. And I was through banks in the U.K. The U.K. has given up that fight. The U.S. is still pursuing that investigation. When FIFA was being investigated, soccer isn't a big – Europe is obsessed with soccer. But it was the U.S. government that went after it. So, yes, there are deficiencies within the legal framework, but I think on the enforcement side there is so much that is being done that the rest of the world still has to catch up to.

MASSARO: David, you wanted to say something?

LUNA: Just briefly. Even though if we're not, you know, still the biggest money laundering safe haven, right, I think we should continue to reduce our levels, including, again, by passing legislation to have anonymous companies requiring more beneficial ownership. I think denying safe haven to kleptocrats and criminals so that they don't enjoy their fruits by buying real property, not only for them but their families and their facilitators as well.

MASSARO: And I mean, I'm the moderator, but I do want to echo something that John said earlier, and that is U.S. law enforcement is world class. Nothing like it in the whole planet. I mean, and I think we need our legal framework to catch up, you know, for sure, and our financial framework to catch up. But once it does, you know, the boys are going to go to town, you know? (Laughs.)

So, anyway, I guess with that it's 11:00. Thank you all for sticking it out till the end. (Applause.) It was a lot of fun. Look forward to the next panel. Again, May 29th we have the next House Financial Services Committee and Helsinki Commission partnership. We'll be having the Brits in. John Penrose MP, the prime minister's anti-corruption champion's going to be there. We're going to talk about their public corporate transparency registry and their information sharing – private-public information sharing structure JMLIT, the Joint Money Laundering Intelligence Taskforce. Hope to see everybody there. Have a great day and a happy weekend – Memorial Day weekend.

[Whereupon, at 11:01 a.m., the briefing ended.]