

International Narcotics Control Strategy Report

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Trade Transparency Units

For the past several decades, the United States has championed the concept of financial transparency in the formal financial sector, particularly banks, and most recently non-bank financial institutions. Working primarily with the Financial Action Task Force (FATF) and the FATF-style regional bodies, and exerting bilateral and regional leadership globally, the United States has helped create internationally recognized anti-money laundering programs, policies, and standards.

However, as entities in the formal financial sector are brought under the purview of anti-money laundering laws and regulations and illicit funds move further underground, we come to more fully understand the threats posed by financial flows outside the recognized formal financial sectors. Alternative remittance systems are able to bypass, in whole or part, regulations designed to make money laundering and financial crimes more transparent. Although there are a variety of alternative remittance systems, they all have one thing in common; they are dependent to various degrees on the misuse of international trade to transfer value.

Trade-based systems act as a kind of parallel method of transferring money and value around the world. The 2003 and 2004 editions of the INCSR have profiled the use and growing recognition of "trade-based" money laundering. Systems such as hawala, the black market peso exchange, and the use of commodities such as gold and diamonds are not captured by current financial reporting requirements. These systems pose tremendous challenges for law enforcement around the world. Moreover, many of these alternative remittance systems are indigenous and ethnic-based, making them even more difficult for U.S. investigators to understand, penetrate, and target. As the United States and other countries worldwide tighten financial regulation and reporting for the formal and even informal financial sectors, the use of trade-based money laundering and alternative remittance systems will assuredly grow. As in the past, when the United States advanced global financial transparency, today it is likewise essential that we work to establish an international mechanism capable of detecting trading anomalies that could point to fraudulent value transfer, money laundering, terrorist financing, and other financial crimes.

Customs and law enforcement experience has shown the best way to analyze and investigate suspect trade-based activity is to have systems in place that can monitor specific imports and exports to and from given countries. In fact, the former U.S. Customs Service (now the Bureau of Immigration and Customs Enforcement (ICE), in the Department of Homeland Security) pioneered this approach through its creation of a computer system that uses U.S. trade data, examines suspect anomalies, and identifies likely targets of investigation.

However, using U.S. data alone has its limitations. To maximize effectiveness, analysts need to compare corresponding trade data from other countries. If country X exports goods to country Y, in theory country X's export records regarding price, quantity, and general description should match (with some recognized variables) the corresponding import records of country Y. However, the analysis becomes increasingly complex if the trade goods are transshipped from country X to Y via Z. An additional challenge occurs for U.S. law enforcement when suspect trade does not enter into the commerce of the United States.

There is a growing worldwide recognition of entrenched patterns of trade fraud. For example, the Kimberley Process was created—in part—due to findings that conflict diamonds from non-diamond producing West African countries were being exported into Belgium. U.S. Customs has used this same technique of examining trade anomalies to combat the Colombia black market peso exchange, to examine suspect gold shipments from non-gold producing countries in the Caribbean, and to examine transshipped textiles from the Middle East. In these instances, Customs was able to match U.S. trade data with cooperating countries' trade data and look for suspicious indicators. In the case of Colombia, the examination of the trade data revealed the link between the drug cartels and the country's largest insurgency—the FARC.

Every country around the world collects the desired trade data. All countries have customs services and all countries impose tariffs and duties for revenue purposes. In fact, lesser-developed countries are dependent on customs duties to generate revenue. Although there are some differences in the way trade data is gathered and warehoused, disparate customs services worldwide are adopting uniform norms and standards. There is presently enough commonality among systems that specific and targeted trade transactions can be compared and examined for indications of customs fraud and other crimes using software pioneered by the former U.S. Customs and further refined by Department of Homeland Security's Bureau of Immigration and Customs Enforcement (DHS/ICE).

Borrowing from the successful Financial Intelligence Unit (FIU) model that examines suspect financial transactions, over the last two years the United States has studied the feasibility of establishing a prototype Trade Transparency Unit (TTU) that will collect and analyze suspect trade data and then disseminate findings for appropriate enforcement action. The objective is a new investigative tool to combat previously entrenched trade-based alternative remittance systems and customs fraud that eventually could result in a worldwide TTU network somewhat analogous to the Egmont Group of Financial Intelligence Units.

ICE, in cooperation with the U.S. Departments of State and Treasury, has begun a Trade Transparency Unit initiative. This initiative is designed to protect the integrity and security of the U.S. economy by targeting and eliminating systemic vulnerabilities in commercial trade and the financial and transportation sectors susceptible to exploitation by criminal and terrorist organizations. Under the auspices of trade transparency, ICE will form partnerships with participating foreign governments to establish a network of TTUs. The United States and foreign governments will create dedicated enforcement units to detect discrepancies or anomalies in international trade data, which may be indicative of trade-based money laundering or other criminal activities. TTUs will support investigations and prosecutions related to trade-based money laundering, the illegal movement of criminal proceeds across international borders, alternative remittance systems, terrorist financing, and other financial and trade crimes.

To assist the proposed TTUs, ICE has developed an analytical database called "Data Analysis and Research for Trade Transparency" (DARTT), which is designed to detect and track money laundering, contraband smuggling and trade fraud. DARTT is an outgrowth of earlier analytical systems, which the former U.S. Customs Service and ICE had successfully used to detect trade-based money laundering and fraud. DARTT will allow investigators to identify discrepancies in trade and financial transactions, facilitating the dissemination of investigative referrals to field entities.

Under Plan Colombia, ICE formed the first TTU with the Government of Colombia. In furtherance of this trade transparency initiative, ICE is actively working with the Colombian TTU on several Black Market Peso Exchange (BMPE) investigations and has already demonstrated the links between the BMPE and the FARC. ICE has taken specific steps to improve the organizational infrastructure of DIAN, the Colombian customs and tax authority. These steps include a Mutual Assistance Agreement, which provides the framework for ICE and DIAN to share trade information. ICE has several initiatives incorporated into Plan Colombia targeting BMPE schemes. Dedicated funds have been allocated to temporarily assign agents and analysts in Colombia to assist DIAN in analyzing BMPE data to develop leads for ICE field offices. Additionally, computers and equipment have been purchased for DIAN to track imports/exports data. There are promising indications that the pioneering work of TTU development will

begin to show specific results in 2005. Several countries have approached ICE to participate in the Trade Transparency Unit initiative. These countries include Brazil, Paraguay, Argentina, Panama, India and the Philippines. Additionally, the concept of Trade Transparency Units has been presented to several Eastern and Central European countries. The regionalization of TTUs will ultimately provide for the open exchange of trade data among participating countries and will play an increasingly important role in the global effort to thwart money laundering, international organized crime and terrorism.