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# TRADE-BASED MONEY LAUNDERING

**Recognising criminal abuse of trade transactions**

## WHAT IS TRADE-BASED MONEY LAUNDERING?

International trade is often complex, with interconnected supply chains stretching around the world. Organised criminal groups, professional money launderers and terrorist financing networks exploit international trade to move value through trade transactions in an attempt to legitimise their illegal origin or finance their activities. Trade-based money laundering is difficult to detect, particularly as online business increases the speed of trade operations.

The **Financial Action Task Force** and the **Egmont Group of Financial Intelligence Units** completed a joint study to increase understanding of trade-based money laundering, building on earlier reports.

## WHAT DISTINGUISHES TRADE-BASED MONEY LAUNDERING FROM SMUGGLING, FRAUD AND OTHER TRADE-RELATED OFFENCES?

In both trade-based money laundering and trade-related offences, criminals can engage in a range of other potentially unlawful activities, such as preparing false invoices, mischaracterizing goods to circumvent controls, and other customs and tax violations.

- The aim of trade-based money laundering – unlike trade-related predicate offences – is not the **movement of goods**, but rather the **movement of money**, which the trade transactions facilitate.

- Just like any other form of money laundering, trade-based money laundering seeks to **legitimise the illegal origin** of the proceeds of crime. Smuggling, fraud and other trade-related offences seek to **generate more illicit wealth** from the proceeds of crime.

- Professional money launderers commonly use trade-based money laundering techniques to launder the proceeds of crime **for their clients**. Criminals involved in trade-related offences are usually the **ultimate beneficiaries** of the proceeds of these crimes.

# TRADE-BASED MONEY LAUNDERING
# COMMON TECHNIQUES

These techniques are listed independently but, in practice, criminals can mix these methods in one scheme, further complicating the transaction chain.

### OVER- AND UNDER- INVOICING OF GOODS AND SERVICES

The key element of this technique is the misrepresentation of the price of the good or service, in order to transfer value. In this type of arrangement, the importer and exporter are both complicit in the misrepresentation.

### OVER- AND UNDER- SHIPMENT OF GOODS AND SERVICES

This technique involves the misrepresentation of the quantity of goods or services, including ‘phantom shipments’ where no product is moved at all. The importer and exporter are both complicit in this technique.

### MULTIPLE INVOICING OF GOODS AND SERVICES

This technique involves the reuse of existing documentation to justify multiple payments for the same shipment of goods or delivery of services. Criminals or terrorist financiers exploit this further by reusing these documents across multiple financial institutions, making it difficult for one institution to identify it.

### FALSELY DESCRIBED GOODS AND SERVICES

This involves the misrepresentation of the quality or type of a good or service, such as the shipment of a relatively inexpensive good, which is described as a more expensive item, or an entirely different item, to justify value movement.

### ILLICIT CASH INTEGRATION

Criminals often need a way to integrate illicit cash into the financial system. Various methods exist to help them achieve this, including *Black Market Peso Exchange* schemes, cooperation between criminals looking to dispose of illicit cash, the exploitation of surrogate shopping networks and the infiltration of legitimate supply chains.

### THIRD-PARTY INTERMEDIARIES

Criminals penetrate legitimate supply chains by paying for the goods through the involvement of a previously unknown third-party (usually the company responsible for integrating criminal cash) in the transaction.

**Trade-Based Money Laundering - Trends and Developments**, FATF, Egmont Group (2020), 63 pages
Find out more and download the full report at www.fatf-gafi.org or www.egmontgroup.org