United States Government Accountability Office

Report to Congressional Requesters

April 2020

TRADE-BASED MONEY LAUNDERING

U.S. Government Has Worked with Partners to Combat the Threat, but Could Strengthen Its Efforts

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Why GAO Did This Study

TBML involves the exploitation of international trade transactions to transfer value and obscure the origins of illicit funds. Various observers have noted that although TBML is a common form of international money laundering, it is one of the most difficult to detect due to the complexities of trade transactions and the sheer volume of international trade, among other things.

This report examines (1) what the available evidence indicates about the types and extent of international TBML activities, (2) the practices international bodies, selected countries, and knowledgeable sources have recommended for detecting and combating TBML, and (3) the extent to which ICE has effectively implemented the TTU program and steps the U.S. government has taken to collaborate with international partners to combat TBML. GAO analyzed U.S. agency and international body data and documentation, conducted a literature review, and interviewed U.S. officials and selected knowledgeable sources.

What GAO Recommends

GAO recommends that DHS develop (1) a strategy to maximize TTU program effectiveness and (2) a performance monitoring framework for the TTU program. DHS concurred with the first, but did not concur with the second recommendation, citing data it already collects and challenges it faces. GAO continues to believe the recommendation is valid, as discussed in the report.

View GAO-20-333. For more information, contact Kimberly Gianopoulos at (202) 512-8612 or gianopoulosk@gao.gov.

What GAO Found

Different types of criminal and terrorist organizations use trade-based money laundering (TBML) to disguise the origins of their illicit proceeds and fund their operations. TBML schemes can rely on misrepresenting the price, quantity, or type of goods in trade transactions, but other methods are also used. For example, some drug trafficking organizations from Latin America have used a type of TBML scheme known as the Black Market Peso Exchange (BMPE) to launder funds. BMPE schemes involve merchants who—wittingly or not—accept payment in illicitly derived funds, often from third parties to a trade transaction, for exports of goods. In carrying out TBML schemes, criminal and terrorist organizations use various goods, including precious metals and automobiles (see fig.). U.S. officials and other sources have identified a number of countries as being at particular risk for TBML schemes. Available evidence indicates that the amount of TBML occurring globally is likely substantial. However, specific estimates of the amount of TBML occurring around the world are not available.

Examples of Goods Commonly Used in Trade-Based Money Laundering Schemes

| Precious metals | Automobiles | Textiles | Electronics |

Source: GAO. | GAO-20-333

Officials and reporting from relevant international bodies and selected partner countries, and knowledgeable sources recommended various practices for countries to consider to combat TBML, which GAO grouped into five categories: (1) partnerships between governments and the private sector, (2) training, (3) sharing information through domestic interagency collaboration, (4) international cooperation, and (5) further research on challenges to combating TBML.

The U.S. government's key international effort to counter TBML is the Trade Transparency Unit (TTU) program under the Department of Homeland Security's (DHS) Immigration and Customs Enforcement (ICE). ICE set up TTUs in 17 partner countries with the goal of exchanging and analyzing trade data to identify potential cases of TBML. While TTUs have played a role in some TBML investigations, the TTU program has experienced various challenges, including lapses in information sharing between ICE and the partner TTUs, differing priorities between ICE and partner TTUs in pursuing TBML investigations, and limitations in the data system that ICE and the TTUs use. However, ICE has not developed a strategy to increase the effectiveness of the TTU program or a performance monitoring framework to assess the results of its work with partner TTUs. As a result, ICE does not have a clear guide on how best to operate the TTU program and cannot make management decisions based on program results. In addition to the TTU program, the U.S. government collaborates with partner countries and international bodies through a range of other activities, such as developing international anti-money laundering standards, providing training and technical assistance, establishing information-sharing methods, and providing ongoing law enforcement cooperation.

_____ **United States Government Accountability Office**

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Abbreviations

AML	anti-money laundering
BMPE	Black Market Peso Exchange
CBP	U.S. Customs and Border Protection
CFT	countering the financing of terrorism
DARTTS	Data Analysis and Research for Trade Transparency System
DEA	Drug Enforcement Administration
DHS	Department of Homeland Security
DOJ	Department of Justice
Egmont Group	Egmont Group of Financial Intelligence Units
FATF	Financial Action Task Force
FinCEN	Financial Crimes Enforcement Network
FIU	Financial Intelligence Unit
HSI	Homeland Security Investigations
ICE	U.S. Immigration and Customs Enforcement
INCSR	International Narcotics Control Strategy Report
INL	Bureau of International Narcotics and Law Enforcement Affairs
MOU	memorandum of understanding
OTA	Office of Technical Assistance
SAR	Suspicious Activity Report
State	Department of State
TBML	trade-based money laundering
Treasury	Department of the Treasury
TTU	Trade Transparency Unit
UNODC	United Nations Office on Drugs and Crime
WCO	World Customs Organization

April 2, 2020

The Honorable Sheldon Whitehouse
Ranking Member
Subcommittee on Crime and Terrorism
Committee on the Judiciary
United States Senate

The Honorable Bill Cassidy, M.D.
United States Senate

The Honorable Marco Rubio
United States Senate

Transnational criminal organizations and terrorist groups generate hundreds of billions of dollars every year from their illegal activities in the United States and around the world. These organizations use a variety of different money laundering schemes to disguise the illicit origins of this money, including through trade-based money laundering (TBML).[1] TBML involves the exploitation of international trade transactions to transfer value and obscure the origins of illicit proceeds. While international trade promotes economic growth around the world, international trade transactions face a range of risks and are vulnerable to abuse by criminal and terrorist organizations.

TBML incorporates a range of different techniques with varying levels of complexity. TBML can involve an exporter and importer who collude to misrepresent the price, quantity, or type of traded goods or services in order to shift the value of illicit proceeds from one location to another. Another well-known TBML scheme, known as the Black Market Peso Exchange, involves merchants who—wittingly or not—accept payment in illicitly derived funds, often from third parties to a trade transaction, for exports of goods. Various observers have noted that although TBML is a common form of international money laundering, it is also one of the least understood and most difficult to detect because of its complexity.

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[1]Money laundering is generally the process of converting proceeds derived from illicit activities such as narcotics trafficking into funds and assets in the financial system that appear to have come from legitimate sources. See 18 U.S.C. § 1956 for statutory language criminalizing the laundering of monetary instruments.

In addition, various observers have highlighted the risks that TBML poses to U.S. national security and the need to ensure that U.S. agencies are effectively combating this threat. U.S. agencies have taken certain steps to address the threat posed by TBML, including working to establish partnerships internationally, such as through U.S. Immigration and Customs Enforcement's (ICE) Trade Transparency Unit (TTU) program.

You asked us to examine the extent of international TBML activities and to evaluate U.S. agencies' efforts to work with international partners to detect and combat TBML. Specifically, this report examines (1) what the available evidence indicates about the types and extent of international TBML activities, (2) the practices international bodies, selected countries, and knowledgeable sources have recommended for detecting and combating TBML, and (3) the extent to which ICE has effectively implemented the TTU program and the steps the U.S. government has taken to collaborate with international partners to combat TBML. This report is in addition to our December 2019 report to you on U.S. efforts to counter TBML-related vulnerabilities in the U.S. financial and trade systems.[2] We will also be issuing two additional reports in the future, addressing other aspects of your request for us to examine the U.S. government's efforts to combat TBML.

To address these three objectives, we analyzed relevant documentation from the Departments of Homeland Security (DHS), Justice (DOJ), State (State), and the Treasury (Treasury), including relevant assessments of TBML threats, and interviewed officials from each of these agencies in Washington D.C. who are knowledgeable about U.S. government efforts to combat TBML. We also analyzed documentation from key international bodies that play a role in combating TBML, including the Egmont Group of Financial Intelligence Units (the Egmont Group), the Financial Action Task Force (FATF), the United Nations Office on Drugs and Crime (UNODC), and the World Customs Organization (WCO).

To support our work on all three objectives, we also selected a nongeneralizable sample of six countries. We conducted fieldwork in three of these countries: Colombia, Paraguay, and the United Kingdom. During our fieldwork in each country, we interviewed U.S. embassy and host country officials. For the other three countries we selected— Australia, Mexico, and Singapore—we conducted work remotely. We

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[2]GAO, *Countering Illicit Finance and Trade: U.S. Efforts to Combat Trade-Based Money Laundering*, GAO-20-314R (Washington, D.C.: Dec. 30, 2019).

interviewed U.S. embassy officials in Australia and Mexico, and obtained written responses from U.S. officials at Embassy Singapore. To select these six countries, we considered several criteria, including (1) the type and extent of TBML risk, (2) the types and level of U.S. collaboration with the country, (3) the presence of U.S. agencies that work on TBML in the country, (4) the extent to which the country had implemented recommended practices to identify and combat TBML (with a goal of covering a range of levels of adoption), and (5) the country's location (with a goal of covering a range of geographic regions).

To gather further information about the types and extent of international TBML and recommended practices for combating it, we conducted a literature review to identify relevant studies. We also interviewed selected individuals knowledgeable about TBML and efforts to combat it, identified through initial research and building on recommendations from those we interviewed. We conducted a total of 15 of these interviews with academic researchers, think tank officials, private sector representatives from trade organizations and individual companies, and former U.S. government officials.[3] Throughout this report, we refer to these individuals as "knowledgeable sources."

To assess the extent to which ICE has effectively implemented the TTU program, we collected information on the TTU program, including information on TTU partner countries and the TTU program's operations. We evaluated ICE's management of the TTU program by comparing the steps it had taken to establish a strategy and performance monitoring framework to requirements that DHS has established related to planning, programming, budgeting, and execution. To identify the steps ICE had taken, we interviewed ICE officials and reviewed relevant documentation on the TTU program. To gather further information on the steps the U.S. government has taken to collaborate with international partners to combat TBML, we analyzed State and Treasury foreign assistance data. To assess the reliability of these data, we reviewed available documentation and interviewed knowledgeable U.S. officials. We determined that the data were sufficiently reliable for our purposes to present summary information on funding for assistance programs. For more information about our scope and methodology, see appendix I.

We conducted this performance audit from January 2019 to April 2020 in accordance with generally accepted government auditing standards.

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[3]Some of these interviews included more than one individual.

GAO-20-333 International Trade-Based Money Laundering

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Transnational criminal organizations and terrorist organizations use a variety of money laundering schemes to disguise the origin and destination of their illicit proceeds and integrate their assets in legitimate financial entities.[4] According to the U.S. government's 2018 *National Strategy for Combating Terrorist and Other Illicit Financing*, the criminal activities in the United States that generate the largest share of illicit proceeds for laundering are fraud, drug trafficking, human smuggling, human trafficking, organized crime, and government corruption.

FATF has identified three primary methods of money laundering: the laundering of money through the financial system, the physical movement of money (such as through cash couriers), and TBML. FATF has defined TBML as "the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins."[5]

The volume of international trade is significant and has grown over time. According to the World Trade Organization, in 2018, there was $19.67 trillion in international merchandise trade and $5.63 trillion in international services trade. Although international trade offers many economic opportunities for the United States and other countries around the world, the number and complexity of international trade transactions present a number of risks and vulnerabilities that make them susceptible to abuse by criminal and terrorist organizations. For example, the large volume of international trade complicates detection of individual illicit transactions. In the United States alone, on a typical day in fiscal year 2019, almost 79,000 containers and $7.3 billion worth of goods entered the country through ports of entry, according to U.S. Customs and Border Protection (CBP). Similarly, different studies have noted that the increasingly complex nature of international trade—with the movement of goods and

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[4]At times, rather than seeking to disguise the origins of illicit proceeds, supporters of terrorist organizations can instead use similar techniques to disguise the ultimate recipients of often legitimately-earned funds.

[5]See Financial Action Task Force, *Trade Based Money Laundering* (Paris, France: June 23, 2006).

services around the world and the use of various financing and payment structures—makes detecting suspicious transactions difficult.

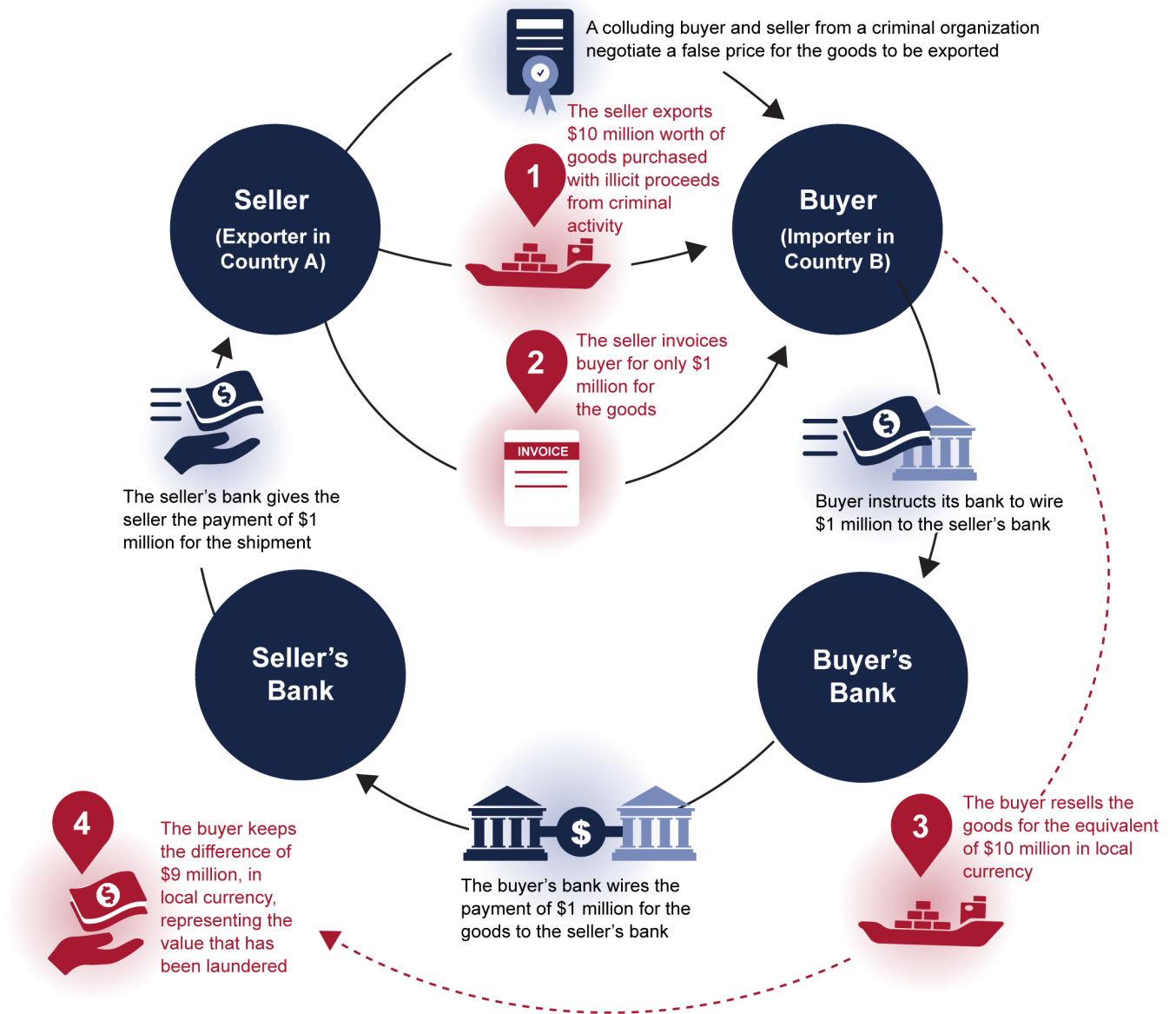## The Use of TBML to Launder Funds and Transfer Value

TBML schemes can involve misrepresenting the price, quantity, or type of goods or services in trade transactions, but other types of TBML schemes, such as the Black Market Peso Exchange, do not need to rely on this type of misrepresentation. In misrepresentation schemes, the parties involved in the trade transaction may under or over invoice goods or services; issue multiple invoices for the same goods or services; provide more or less goods or services than the declared amount, including in some cases providing no goods or services; or falsely describe the types of goods or services provided. Through these types of misrepresentation, value can be transferred from one party to another and the illicit origins of criminal proceeds obscured.

In a hypothetical TBML scheme involving the misrepresentation of the price of goods, a criminal organization in Country A needs to launder the proceeds from its criminal activity and move these proceeds to Country B. To accomplish this, the criminal organization will use the illicit proceeds to purchase 100,000 cell phones worth $100 each. The criminal organizations will then make arrangements to export the 100,000 cell phones to a co-conspirator in Country B. However, the criminal organization in Country A, will fraudulently invoice the cell phones at $10 each rather than $100 each. Thus, the co-conspirator in Country B pays a total of $1 million for the cell phones, rather than their true value of $10 million. The co-conspirator then sells the cell phones at their true market value of $10 million in Country B resulting in the criminal organization having successfully transferred $9 million in value from Country A to Country B through TBML. Figure 1 illustrates how such a price misrepresentation scheme works.

Figure 1: Hypothetical Example of a Trade-Based Money Laundering Scheme Involving Price Misrepresentation

Trade-Based Money Laundering

Trade-based money laundering can involve the misrepresentation of the price, quantity, or type of goods in trade transactions in order to transfer value and disguise the origin of illicit proceeds. In this example, a colluding buyer and seller from a criminal organization misrepresent the price of the goods being exported in order to launder illicit proceeds from criminal activity in Country A and transfer value to Country B.

A colluding buyer and seller from a criminal organization negotiate a false price for the goods to be exported

Seller (Exporter in Country A)

Buyer (Importer in Country B)

1 The seller exports $10 million worth of goods purchased with illicit proceeds from criminal activity

2 The seller invoices buyer for only $1 million for the goods

The seller's bank gives the seller the payment of $1 million for the shipment

Buyer instructs its bank to wire $1 million to the seller's bank

Seller's Bank

Buyer's Bank

4 The buyer keeps the difference of $9 million, in local currency, representing the value that has been laundered

The buyer's bank wires the payment of $1 million for the goods to the seller's bank

3 The buyer resells the goods for the equivalent of $10 million in local currency

Source: GAO presentation of U.S. agency and international organization information. | GAO-20-333

Similarly, the criminal organization can transfer value through misrepresentation of the quantity or type of goods being exported. For example, the criminal organization can invoice its co-conspirator for 50,000 cell phones, but actually ship 100,000 phones, or it can claim that it is shipping different, lower value items such as USB flash drives.

Under a hypothetical Black Market Peso Exchange scheme, a criminal organization operating in Country A, which uses dollars, will take the dollar proceeds of its criminal activities to a currency broker's representative that has access to currency reserves from Country B (pesos). At the same time, in Country B, an import company will contact the currency broker seeking dollars to pay for goods that it wishes to import from Country A. The currency broker uses the dollars provided by the criminal organization to pay exporters in Country A on behalf of the importer in Country B. The importer receives and sells the goods in Country B and pays the currency broker in pesos. The currency broker then pays the criminal organization in Country B in pesos, completing the transfer of its proceeds. Thus, the criminal organization has successfully shifted the value of its proceeds from Country A to Country B without having to physically move money, or transfer funds through the banking system, from Country A to Country B. Figure 2 shows such a Black Market Peso Exchange scheme involving the United States and Colombia.

Figure 2: Hypothetical Example of a Black Market Peso Exchange Scheme

Black Market Peso Exchange

The Black Market Peso Exchange is a form of trade-based money laundering that was originally developed by Colombian drug cartels, but is now used by criminal organizations in a number of countries. In this example, a Colombian cartel exchanges U.S. dollars from drug sales for Colombian pesos, using a peso broker, while at the same time, the peso broker facilitates a Colombian importer's access to U.S. dollars to purchase goods from a U.S. exporter.

Black Market Peso Exchange

1 Colombian cartel sells drugs to U.S. market for U.S. dollars

2 To launder the U.S. dollars, cartel contacts an intermediary called a peso broker

3 Peso broker takes cartel's U.S. dollars and places them in the U.S. financial system, such as through structured deposits in banks

4 Peso broker identifies a U.S. exporter shipping goods to Colombia and a Colombian importer purchasing those goods

5 Peso broker arranges payment in dollars to U.S. exporter for goods shipped to Colombia

6 Goods are shipped to Colombian importer, who sells the goods for pesos and reimburses the peso broker, who then pays the cartel in pesos

7 Colombian cartel reinvests portion of proceeds to manufacture and distribute narcotics to U.S. market

Source: GAO presentation of U.S. agency and international organization information. | GAO-20-333

TBML differs from other crimes, such as trade or customs fraud, that may occur in connection with trade and the movement of goods, according to Treasury officials. Organizations and individuals involved in TBML exploit vulnerabilities in international trade to move value across international borders in an attempt to disguise the origin, nature, or source of illicit proceeds, which may derive from a variety of predicate crimes.[6] According to Treasury officials, while offenses like smuggling and fraud may resemble TBML, they differ in purpose. For example, smugglers attempt to evade detection or the payment of custom fees, duties or taxes while moving legitimate, illicit, or restricted goods across borders. Similarly, in frauds involving the (purported) purchase or sale of goods, one of the parties to the transaction seeks to deceive another one for financial gain. In TBML, the scheme may be accomplished using fraudulent documents, such as false invoices, but this is not a necessary part of the scheme, nor does it alone represent TBML. In TBML schemes that involve misrepresenting the price, quantity, or type of goods, both the buyer and seller normally understand that the goods shipped or funds paid may differ from what is stated in the supporting documents.

Legal and Regulatory Framework for Combating TBML

Within the United States, a number of laws and regulations are used to combat TBML. The Bank Secrecy Act,[7] which was passed in 1970, and implementing anti-money laundering (AML) regulations[8] provide the legal and regulatory framework for preventing, detecting, and deterring money laundering in the United States. The Bank Secrecy Act regulations generally require banks and other financial institutions, such as money service businesses, securities broker-dealers, and certain types of insurance companies, among others, to, for example, collect and retain various records of customer transactions, verify customers' identities at the time of account opening, maintain AML programs, and report suspicious transactions or cash transactions over a certain amount.[9] In addition, the Trade Facilitation and Trade Enforcement Act of 2015,

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[6]Predicate crimes are the underlying criminal activities, such as drug trafficking, that generate the illicit funds that are then laundered.

[7]The Currency and Foreign Transactions Reporting Act, its amendments, and the other statutes relating to the subject matter of that Act, have come to be referred to as the Bank Secrecy Act. These statutes are codified at 12 U.S.C. §§ 1829b and 1951-1959; 18 U.S.C. §§ 1956-1957 and 1960; and 31 U.S.C. §§ 5311-5314 and 5316-5332 and notes thereto. 31 C.F.R. § 1010.100(e).

[8]31 C.F.R. Chapter X.

[9]31 C.F.R. Chapter X.

signed into law in 2016, addressed trade facilitation and trade enforcement issues such as import safety, the protection of intellectual property, and the prevention of the evasion of duties, among other things.[10] Further, individuals can be prosecuted under U.S. law, such as section 1956 of title 18 of the United States Code, for money laundering, including TBML schemes. For example, under section 1956, defendants can be prosecuted for money laundering activities, including those involving falsely classifying goods or entering goods by means of false statements.[11]

U.S. Agencies Involved in Efforts to Combat TBML Internationally

Within the U.S. government, a number of agencies play a role in working with international partners to combat money laundering more broadly, as well as TBML specifically. These include DHS, DOJ, State, and Treasury and their component agencies and offices.[12]

- **DHS:** Within DHS, ICE's Homeland Security Investigations (HSI) investigates financial crimes and money laundering cases, including those involving TBML. HSI has established a TTU that seeks to identify global TBML trends, provide investigation support to HSI and other law enforcement efforts, and conduct ongoing analysis of trade data provided through partnerships with TTUs that it has helped establish in other countries. CBP is responsible for enforcing U.S. trade laws, facilitating compliant trade, collecting revenue, and protecting the U.S. economy and consumers from harmful imports and unfair trade practices. As part of its mission, CBP conducts targeting of high-risk shipments that may involve trade violations, including violations linked to TBML schemes.

- **DOJ:** The Drug Enforcement Administration (DEA) and the Federal Bureau of Investigation both conduct investigations of criminal organizations that may use TBML to launder their illicit proceeds. In

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[10]Pub. L. No. 114-125, 30 Stat. 122 (Feb. 24, 2016).

[11]18 U.S.C. § 1956(c)(7)(D).

[12]In addition to these agencies, federal financial regulators play a role in combating money laundering in the United States by conducting examinations of financial institutions to ensure these institutions' compliance with the Bank Secrecy Act and its implementing regulations. These federal financial regulators include the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Securities and Exchange Commission, and the Commodity Futures Trading Commission. We will be reporting further on the federal financial regulators' work related to combating TBML in a separate report.

addition, the DOJ Criminal Division's Money Laundering and Asset Recovery Section and U.S. Attorney's Offices throughout the country prosecute cases involving money laundering crimes, including TBML schemes.

- **State:** State's Bureau of International Narcotics and Law Enforcement Affairs (INL) leads State's AML technical assistance efforts with international partners. In this role, INL works in global and regional forums to promote the implementation of international AML standards. INL also funds AML assistance programs in countries around the world. Finally, INL publishes the annual *International Narcotics Control Strategy Report*, which includes an analysis of countries identified as "major money laundering countries."[13] In addition to INL, State's Bureau of Economic and Business Affairs and Bureau of Counterterrorism also play a role in State's AML and countering the financing of terrorism (CFT) efforts.

- **Treasury:** Treasury's Financial Crimes Enforcement Network (FinCEN) collects, analyzes, and disseminates the financial intelligence information it collects pursuant to the Bank Secrecy Act to support efforts to combat financial crime, including money laundering. FinCEN is responsible for administering the Bank Secrecy Act and coordinating with federal and state regulatory agencies on AML/CFT efforts. Additionally, FinCEN serves as the Financial Intelligence Unit (FIU) of the United States, which entails gathering and analyzing Suspicious Activity Reports (SAR) and other financial information relevant to money laundering, terrorist financing, and other financial crimes, as well as disseminating the results of this analysis to law enforcement and other competent authorities.[14] A number of other Treasury agencies and offices also play a role in efforts to combat money laundering, including TBML. For example, Treasury's Office of Technical Assistance (OTA) provides assistance to partner countries to help strengthen their efforts to combat economic crimes. Treasury's Office of Terrorist Financing and Financial Crimes is the policy

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[13]See, for example, Department of State, Bureau of International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report*, vol. II (Washington, D.C.: March 2019). This report is required under 22 U.S.C. § 2291h. The term "major money laundering country" means a country whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking. 22 U.S.C. § 2291(e)(7).

[14]In the United States, financial institutions must file SARs with FinCEN for transactions that involve or aggregate at least $5,000 and that the financial institution knows, suspects, or has reason to suspect that the transaction involves funds derived from illegal activities, among other things. See 31 U.S.C. § 5318(g); *see e.g.* 31 C.F.R. §§ 1020.320, 1022.320, 1023.320, 1026.320.

coordination office for illicit finance and develops and implements U.S. government strategies to combat all forms of illicit finance domestically and internationally. Internal Revenue Service Criminal Investigation investigates tax crimes and other financial crimes, including those associated with TBML schemes. It has lead authority for investigating criminal violations of the Bank Secrecy Act.

International Bodies Involved in Efforts to Combat TBML

Internationally, the U.S. government participates in a number of bodies that address issues related to TBML, including the Egmont Group, FATF, UNODC, and the WCO.

- **The Egmont Group:** The Egmont Group, formed in 1995, is composed of FIUs from 164 jurisdictions. The organization seeks to foster information exchange among its members to support efforts to combat money laundering and terrorist financing. In addition, the Egmont Group provides training and technical assistance to its member FIUs. FinCEN represents the United States at the Egmont Group. The Egmont Group's Secretariat is located in Canada.

- **FATF:** FATF is an intergovernmental body, formed in 1989, that sets internationally recognized standards for developing AML/CFT regimes and assesses the ability of member jurisdictions to meet these standards.[15] In addition, FATF works to identify specific money laundering methods and promotes international cooperation in disrupting and dismantling those money laundering schemes. FATF's membership includes 37 jurisdictions and two regional organizations—the European Commission and the Gulf Cooperation Council. Treasury's Office of Terrorist Financing and Financial Crimes heads the United States delegation to FATF. The FATF Secretariat is located in Paris, France.

- **UNODC:** UNODC is an agency within the United Nations, formed in 1997, that works to combat illicit drugs and other international crime in more than 150 countries throughout the world. As part of its mandate, UNODC carries out the Global Program against Money Laundering, Proceeds of Crime and the Financing of Terrorism. Through this program, UNODC seeks to strengthen the ability of United Nations member states to implement measures against money laundering and the financing of terrorism and to assist them in detecting, seizing, and

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[15]There are also nine FATF-style regional bodies (FSRB) that work to promote FATF standards in specific geographic locations and to assess countries' level of implementation of those standards. The United States is a member of one FSRB—the Asia/Pacific Group on Money Laundering—and also actively participates in all the other FSRBs, according to Treasury officials.

confiscating illicit proceeds. State is the lead agency representing the United States at UNODC. UNODC is headquartered in Vienna, Austria and has field offices in 20 countries, as well as liaison offices in New York and Brussels, Belgium.

- **WCO:** The WCO, established in 1952, is an intergovernmental body whose mission is to enhance the effectiveness and efficiency of customs administrations around the world and to help them in their dual role of facilitating international trade while also promoting security. WCO's membership includes customs agencies from 183 countries. CBP is the lead agency representing the United States at WCO. The WCO's Secretariat is located in Brussels, Belgium.

Criminal and Terrorist Organizations Use a Variety of TBML Schemes, but Specific Estimates of TBML's Extent Are Unavailable

A Variety of Criminal and Terrorist Organizations Use TBML to Disguise the Origins of Their Illicit Proceeds and to Fund Their Operations

Different types of criminal and terrorist organizations use TBML to disguise the origins of their illicit proceeds and fund their operations. In some cases, these organizations may manage the TBML schemes directly, and in other cases, they may enlist the services of professional money launderers.

- **Drug trafficking organizations.** Drug trafficking organizations throughout Latin America, including in Colombia and Mexico, have used TBML schemes for decades to launder the proceeds from illegal drug sales. These organizations make billions of dollars from the sale of illegal drugs in the United States and elsewhere. Although much of these revenues remain with the ultimate sellers of the illegal drugs in the United States, significant amounts of illicit proceeds are sent back to drug trafficking organizations in supplier countries, including through TBML schemes. For example, in a 2017 reporting cable on Colombia's cocaine economy, State noted that U.S. law enforcement agencies and independent economists have estimated that somewhere between $5 billion to $10 billion in cocaine proceeds are laundered back to Colombia each year, frequently using TBML schemes. U.S. government reporting, including Treasury's 2020

National Strategy for Combating Terrorist and Other Illicit Financing and DEA's 2019 *National Drug Threat Assessment,* and various U.S. officials noted that a key trend related to TBML that has occurred in recent years is the increasing involvement of Chinese criminal organizations in TBML globally, including in the United States. Chinese money laundering networks are working increasingly with Mexican drug cartels to assist the cartels in laundering drug proceeds. In addition, U.S. government reporting, including the 2018 *National Money Laundering Risk Assessment,* and U.S. officials noted Chinese criminal gangs are using TBML schemes to repatriate proceeds from the sale of synthetic opioids in the United States and around the globe.

- **Other criminal organizations.** In addition to drug trafficking, criminal organizations have used TBML schemes to launder proceeds from a range of other crimes, including illegal mining, human trafficking, and the sale of counterfeit goods. For example, criminal organizations in Colombia have used TBML to disguise the origins of illegally mined gold, in exchange for funds, according to U.S. Embassy Bogotá and Colombian government officials we interviewed.

- **Corrupt government officials.** In certain countries, senior government officials and government entities have used TBML schemes to disguise profits derived from corrupt practices, according to U.S. government reporting. For example, FinCEN has reported that senior government officials in Venezuela have used TBML as part of schemes to steal money from the Venezuelan government's food distribution program.

- **Terrorist organizations.** Terrorist organizations, including Hezbollah and the Revolutionary Armed Forces of Colombia (known by its Spanish acronym FARC), have also used TBML schemes to launder funds. For example, a number of U.S. officials and knowledgeable sources have noted that Hezbollah operates a number of TBML schemes in the Tri-Border Area in South America, where Argentina, Brazil, and Paraguay meet, which help to fund the terrorist organization's activities around the world.

Criminal and Terrorist Organizations Use a Range of TBML Schemes Involving Many Different Goods and Services

Criminal and terrorist organizations use a range of TBML schemes with varying levels of complexity. In many instances, these organizations combine TBML techniques with other forms of money laundering, such as bulk cash smuggling and the laundering of funds through the banking system. The U.S. government, foreign governments, and international bodies have identified a number of different examples of the types of TBML schemes that occur. For example:

- In one case described in Treasury's 2018 *National Money Laundering Risk Assessment* and ICE press releases, HSI led an investigation, known as Operation Fashion Police, which targeted businesses in the Los Angeles Fashion District that were suspected of being involved in Black Market Peso Exchange schemes to launder the proceeds of illegal drug sales on the behalf of international drug cartels. As a result of the investigation, two owners of a textile company pled guilty to using the business to receive bulk cash that they knew or believed to be the proceeds of narcotics trafficking and part of a Black Market Peso Exchange scheme. The two individuals received approximately $370,000 in cash delivered on four separate occasions as payment for goods shipped to Mexico, Guatemala, and other countries in Latin America. Operation Fashion Police, along with several related investigations, also resulted in the seizure of tens of millions of dollars in bulk cash stashed at warehouses in the Los Angeles area.

- In one case identified by Treasury, DOJ indicted seven co-conspirators for participating in an international TBML scheme. The individuals are alleged to have used family-owned import-export businesses in Long Island and Miami and to launder millions of dollars in illegal drug proceeds. As part of the scheme, the defendants are alleged to have taken in bulk cash deliveries from drug dealers in the United States and disguised the transfer of money to South America and elsewhere through the actual and purported purchase and export of mobile phones.

- In another case, according to U.S. government information provided to FATF, Colombian drug cartel representatives in the United States deposited proceeds from illegal drug sales into the U.S. financial system. The cartel then used these funds to buy gold from Colombia, which it imported into the United States. The cartel representatives in the United States then melted down the gold and recast and enameled the gold to disguise it as low value items such as nuts and bolts. The cartel then exported the disguised gold back to Colombia where it was melted down once again and the process was repeated. Through this scheme, the cartel was able to use the same gold to justify multiple payments to its representatives in Colombia, thus transferring proceeds from its U.S. operations.

- In Australia, according to U.S. Embassy Canberra officials, Chinese criminal organizations give Australian dollars from drug sales to individual Chinese nationals, known as Daigou shoppers, who pose as retail shoppers and use the funds to purchase various items in Australia on behalf of buyers in China who want to purchase higher quality foreign goods. The Daigou shoppers then ship the items to the

buyer or deliver them by hand. The buyers in China then pay the Chinese criminal organizations, in Chinese yuan, for the items. Through this TBML scheme, the criminal organizations are able to move their proceeds to China without going through the financial system.

- Finally, in Benin, Lebanese financial institutions linked to Hezbollah were involved in schemes that used TBML to launder funds and move criminal proceeds through West Africa and back to Lebanon, according to State reporting in its 2015 *International Narcotics Control Strategy Report*. The criminals using these schemes wired funds from Lebanon to the United States to buy used cars, which were then shipped to Benin and sold throughout West Africa. The criminals then combined the profits from the sale of these cars with the proceeds from drug sales in Europe and subsequently sent the funds back to Lebanon via bulk cash smuggling and deposited the funds into the Lebanese financial system.

According to information from different U.S. agencies, international bodies, and partner countries, criminal and terrorist organizations use a wide variety of goods in TBML schemes, but HSI analysis has found the most common items are precious metals, automobiles, clothes and textiles, and electronics (see fig. 3). As of 2018, HSI reported that approximately 70 percent of its TBML-related casework involved these four types of goods. However, criminal and terrorist organizations use any number of different goods in TBML scje,es. For example, U.K. government officials told us about a scheme involving the misrepresentation of dental equipment as books in a series of exports from the United States to the United Kingdom.

Figure 3: Examples of Goods Commonly Used in Trade-Based Money Laundering Schemes

| Precious metals | Automobiles | Textiles | Electronics |

Source: GAO. | GAO-20-333

In addition to international trade in goods, available evidence indicates that TBML schemes, at times, involve international trade in services.

According to HSI, under some TBML schemes, shell companies are created that issue invoices for consulting or other professional services which are used to justify the international movement of funds as payment for the invoiced services. U.S. agencies and other sources have noted the potential for TBML schemes involving services such as consulting, accounting, and web design, among others.

Various U.S. agencies, international bodies, and knowledgeable sources have identified a number of "red flags" that may indicate TBML schemes. For example, table 1 includes a list of nine red flag indicators that HSI has identified related to TBML schemes.[16]

Table 1: Trade-Based Money Laundering Red Flag Indicators Identified by U.S. Immigration and Customs Enforcement's Homeland Security Investigations

Red Flag Indicator
Payments to vendor made in cash by unrelated third parties
Payments to vendor made via wire transfers from unrelated third parties
Payments to vendor made via checks, bank drafts, or postal money orders from unrelated third parties
False reporting, such as commodity misclassification, commodity over-valuation or under-valuation
Carousel transactions (the repeated importation and exportation of the same high-value commodity)
Commodities being traded do not match the business involved
Unusual shipping routes or transshipment points
Packaging inconsistent with commodity or shipping method
Double-invoicing

Source: GAO presentation of U.S. Immigration and Customs Enforcement information. | GAO-20-333

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[16]FinCEN also published its own list of red flags in its 2010 advisory on TBML. See Financial Crimes Enforcement Network, *Advisory to Financial Institutions on Filing Suspicious Activity Reports Regarding Trade-Based Money Laundering*, FIN-2010-A001 (Washington, D.C.: Feb. 18, 2010). Examples of TBML red flags published by other organizations include those published by the Bankers Association for Finance and Trade and the Asia/Pacific Group on Money Laundering. See Bankers Association for Finance and Trade, *Combatting Trade Based Money Laundering: Rethinking the Approach* (Washington, D.C.: August 2017) and Asia/Pacific Group on Money Laundering, *APG Typology Report on Trade Based Money Laundering* (Sydney, Australia: Jul. 20, 2012).

Many Countries around the World Face TBML Risks

U.S. agencies have identified a number of countries around the world as being at risk for money laundering more generally and TBML specifically. For example, State's annual *International Narcotics Control Strategy Report* (INCSR) identifies "major money laundering countries," as required by the Foreign Assistance Act. Over the last 5 years, the INCSR has identified, on average, almost 80 countries as being major money laundering countries. In addition, State has identified countries that face TBML-specific risks in the country reports included within the INCSR each year. For example, in our review of the 2019 INCSR, we found that State had cited TBML risks in 26 countries or territories in a number of different regions of the world.[17] Previously, HSI conducted an analysis of TBML-related SARs filed by financial institutions with FinCEN in fiscal year 2012. Of the 474 TBML-related SARs that financial institutions filed during this period, HSI found that 93 different countries or territories were referenced with the five most frequently mentioned being Nigeria, Hong Kong, Mexico, Venezuela, and Panama. More recently, in 2019, HSI identified Mexico, China, Colombia, the United Arab Emirates, Ecuador, Peru, Venezuela, and the United Kingdom as its key countries of TBML concern.

In addition to identifying different countries that are vulnerable to money laundering, the U.S. government and FATF, among others, have identified free trade zones as particular areas of risk for TBML.[18] In a 2010 report on money laundering vulnerabilities in free trade zones, FATF identified approximately 3,000 free trade zones located in 135 countries and noted they had systemic weaknesses making them susceptible to money laundering and terrorist financing.[19] These weaknesses included less stringent AML/CFT reporting requirements, relaxed oversight by responsible government authorities, and weak procedures for inspecting goods, among other things. Similarly, the 2019 INCSR notes that the 114

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[17]To determine this count, we reviewed the country reports in the 2019 INCSR and identified those country reports that included one or more of the following terms: "trade based," "TBML," "black market peso exchange," or "BMPE."

[18]According to FATF, free trade zones are designated areas within jurisdictions in which incentives are offered to support the development of exports, foreign direct investment, and local employment. The specific types of incentives that are offered in free trade zones vary by jurisdiction. In addition, throughout the world, free trade zones are known by various other names, including free zones, freeport zones, port free trade zones, and foreign trade zones, among others.

[19]Financial Action Task Force, *Money Laundering Vulnerabilities of Free Trade Zones* (Paris, France: March 2010).

free trade zones in Colombia are vulnerable to TBML due to inadequate regulation, supervision, and transparency.

Specific Estimates of the Amount of TBML Globally Are Unavailable, but Evidence Suggests It Is Likely Substantial and Has Increased in Recent Years

Available evidence from the U.S. government, international bodies, and knowledgeable sources suggests that the amount of TBML occurring globally is substantial and has increased in recent years. State has reported that the amount of money laundered through TBML schemes may potentially be up to hundreds of billions of dollars globally, every year. Some U.S. officials and knowledgeable sources believe that, based upon available evidence, TBML is likely one of the largest forms of money laundering. In addition, as countries have strengthened their controls to combat other forms of money laundering, various U.S. government reports and officials, as well as knowledgeable sources have stated that there are indications that criminal organizations and terrorist organizations have increased their use of TBML to launder their funds. For example, FinCEN has reported that since the Mexican government increased restrictions on U.S. dollar cash deposits at Mexican financial institutions in 2010, Mexican drug cartels appear to have increasingly turned to TBML as an alternative means of repatriating profits from U.S. drug sales. Similarly, in Australia, as controls on large cash deposits at ATMs have increased since 2017, criminals have increased their use of TBML to hide their profits, according U.S. officials at Embassy Canberra. In addition, the 2020 *National Strategy for Combating Terrorist and Other Illicit Financing* notes that there has been a steady decrease in seizures related to bulk cash smuggling from 2012 through 2018 and states that this decrease could indicate that criminal organizations are increasingly turning to other means to move illicit money, including TBML.

Although various observers believe the magnitude of TBML is large, specific estimates of the amount of TBML occurring around the world are unavailable. A number of academic studies have sought to quantify various aspects of illicit financial flows and money laundering. Although the results of such studies can shed light on the potential volume of TBML, none of those we identified in our literature review sought to develop estimates of TBML specifically. In addition, the studies we reviewed all had certain methodological limitations.

We found, based upon our review of relevant literature, that academic studies seeking to quantity potential illicit financial flows do not provide the exact extent of TBML. These studies capture activities that are generally broader than TBML, such as tax avoidance, trade price manipulation, or trade misinvoicing, which demonstrates the difficulty in

estimating the exact magnitude of TBML activity.[20] For example, one academic researcher analyzed U.S. Census Bureau trade data over time to estimate money moved in and out of the United States through trade price manipulation, which involves prices showing up outside of an expected range.[21] The stated objectives of trade price manipulation in this study include not only TBML, but also income tax avoidance or evasion, among other things. Therefore, measurement of trade price manipulation is generally broader than that of TBML.[22] For 2018 alone, this researcher estimated that trade price manipulation accounted for approximately $278 billion moved out of and $435 billion moved into the United States.

Global Financial Integrity, a nonprofit organization dedicated to studying the cross-border flow of illegal money, has analyzed International Monetary Fund and United Nations data to develop an estimate of potential trade misinvoicing between developing and advanced economies. In a 2019 report, it calculated the illicit financial flows to and from 148 developing countries from 2006 to 2015. For 2015, it estimated that potential trade misinvoicing to and from these 148 developing countries were between $0.9 trillion and $1.7 trillion. Global Financial Integrity defines trade misinvoicing as a method for moving money illicitly across borders that involves the deliberate falsification of the value, volume, or type of commodity in an international commercial transaction of goods or services by at least one party to the transaction. Therefore, measurement of trade misinvoicing is generally broader than that of TBML.[23] Appendix II provides additional details on our literature review and efforts to quantify illicit financial flows, including TBML.

Certain international bodies, such as UNODC, and other organizations have produced estimates on the amount of criminal proceeds and the

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[20]We found that these studies have typically relied on one of four methods: (1) Walker gravity model, (2) unit price analysis, (3) trade mirror analysis, or (4) a theoretical model. Appendix II provides more details on each of these methods.

[21]John Zdanowicz, "Trade-Based Money Laundering and Terrorist Financing," *Review of Law and Economics*, vol. 5, no. 2 (2009): pp. 855–878.

[22]However, certain types of TBML schemes are likely not included in the estimate of trade price manipulation. For example, Black Market Peso Exchange schemes are likely not included because these schemes do not require manipulation of price.

[23]However, certain types of TBML schemes are likely not included in the estimate of trade misinvoicing. For example, Black Market Peso Exchange schemes are likely not included because these schemes do not require falsification of the price, quantity, or quality of a good or service.

volume of money laundering more broadly. For example, in 2011, UNODC conducted a meta-analysis of the results of various studies and estimated that in 2009 the amount of funds available for laundering, including TBML, was likely around 2.7 percent of global gross domestic product, or $1.6 trillion. However, the report's authors noted that the studies reviewed in the meta-analysis contained a range of methodological issues and information gaps.

FinCEN data on SARs related to TBML can also provide an indication of the potential volume of TBML activity that financial institutions have detected.[24] In 2010, FinCEN issued an advisory on TBML that found that financial institutions had filed over 17,000 SARs related to potential TBML between January 2004 and May 2009, involving over $276 billion worth of transactions.[25] In addition, we analyzed FinCEN data from more recent years, using a different methodology, and found financial institutions had filed 7,044 SARs related to TBML from 2014 to 2018, including 1,673 in 2018.[26] FinCEN officials noted that the number of TBML-related SARs is a small portion of the total of 9.6 million SARs it received over this period. However, FinCEN officials also acknowledged that financial institutions may not have enough information on many trade transactions to determine whether there is suspicious activity and whether that suspicious activity is potentially related to TBML schemes. In addition, FinCEN officials noted that suspicious activity related to TBML schemes could be reported under different categories.

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[24]According to FinCEN, although SARs are not proof of illegal activity, they can be useful indicators of the occurrence of a particular form of money laundering.

[25]In its analysis, FinCEN included cases in which the filer of the SAR explicitly stated that the activity related to TBML or Black Market Peso Exchange and SARs that FinCEN deemed TBML-related based upon its queries of information in its SAR database. According to FinCEN, 24 percent of the SARs in its analysis fell into the first category, while 76 percent fell into the second category.

[26]For our analysis, we included all SARs filed with FinCEN, in which the filer of the SAR selected "Trade-Based Money Laundering/Black Market Peso Exchange" as the suspicious activity category or type. Unlike FinCEN, we did not do additional queries to identify other SARs related to TBML that were not specifically identified as such by the filer. Additional SARs related to trade-based money laundering may exist in which the filer of the SAR selected a different suspicious activity category or type. In addition, these SARs do not represent confirmed TBML activity, but only potential TBML activity, as identified by the SAR filer.

Officials and Studies Recommended Various Practices that Countries Could Adopt to Detect and Combat TBML

Officials and reporting from relevant international bodies and selected partner countries, and knowledgeable sources have recommended that governments consider a number of different practices to strengthen their efforts to detect and combat TBML.[27] After reviewing and analyzing these sources, we identified and grouped these recommended practices into the following five categories: (1) partnerships between governments and the private sector, (2) training in detecting and combatting TBML, (3) sharing information through interagency collaboration, (4) international cooperation through information and knowledge sharing, and (5) further research on challenges, such as potential impediments to combatting TBML. In addition, we identified examples of steps the United States and other countries have taken in line with these practices. Officials and knowledgeable sources also noted some potential difficulties to implementing some of the recommended practices that have been identified.

Partnerships between Governments and the Private Sector

Reporting from relevant international bodies and certain partner countries, and knowledgeable sources have proposed that governments develop partnerships with the private sector to combine and collectively analyze information needed to identify potential TBML schemes and trends. Through these partnerships, representatives from the private and public sector could meet on a regular basis to share information on suspicious activity that may warrant further investigation. For example, FATF's guidance paper *Best Practices on Trade Based Money Laundering*[28] stated that governments should consider conducting periodic joint meetings with the private sector to discuss emerging TBML trends. Governments can also provide feedback to private sector entities on what information is helpful as they conduct investigative work. FATF standards on information sharing state that anti-money laundering authorities should

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[27]To identify these recommended practices, we conducted a literature review to identify relevant academic studies and reports prepared by international bodies, partner governments, academics, private sector organizations, and other financial industry representatives on TBML. We then analyzed these sources to identify recommendations that these sources had made regarding practices for detecting and combating TBML. In addition, we interviewed U.S. representatives of relevant international bodies working to prevent money laundering globally, including FATF and the Egmont Group. We also spoke with U.S. embassy officials in six countries and host country officials in three of those countries. Finally, we spoke with researchers, think tank officials, and private sector representatives, referred to as "knowledgeable sources" throughout the report. For a detailed discussion of the methodology, see appendix I.

[28]Financial Action Task Force, *Best Practices on Trade Based Money Laundering* (Paris, France: Jun. 20, 2008).

provide feedback to financial institutions to assist them with complying with AML requirements in the countries in which they are operating. For example:

- **U.S. example:** In 2017, FinCEN publicly launched the "FinCEN Exchange" to enhance information sharing between FinCEN, law enforcement agencies, and financial institutions.[29] FinCEN invites financial institutions to voluntarily participate. As of December 2018, FinCEN had convened more than a dozen briefings with law enforcement agencies across the country, involving more than 40 financial institutions. According to FinCEN officials, through the FinCEN Exchange, the U.S. government and the private sector are able to exchange information on priority illicit finance threats, including TBML. For example, according to Treasury officials, FinCEN convened a FinCEN Exchange focused on TBML in San Antonio, Texas in April 2018. According to Treasury's 2018 *National Strategy for Combating Terrorist and Other Illicit Financing*, the information provided by financial institutions through the FinCEN Exchange briefings has assisted FinCEN in targeting TBML networks.

- **Other country example:** In 2015, the United Kingdom established the Joint Money Laundering Intelligence Task Force as a collaborative mechanism between the U.K. government and the private sector to share and collectively analyze information on money laundering and economic crime threats. The task force brings together a range of private and public sector organizations, including law enforcement agencies and financial institutions. According to U.K. officials, TBML is one of the four priority areas of the task force. The task force has established six expert working groups led by representatives of the financial sector, including a TBML expert working group. Among other things, the TBML expert working group offers experts witness statements on TBML to support criminal prosecutions.

In addition to sharing information with and providing feedback to financial institutions, several knowledgeable sources and reports from international bodies stated that these partnerships should also include a broad range of private sector entities involved in international trade. Several knowledgeable sources have highlighted the need for other private sector entities involved in international trade, such as shipping companies, freight forwarders, and customs brokers, to play a role in working with

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[29]For more information on the FinCEN Exchange, see GAO, *Bank Secrecy Act: Agencies and Financial Institutions Share Information but Metrics and Feedback Not Regularly Provided*, GAO-19-582 (Washington, D.C.: Sept. 26, 2019).

governments to identify TBML activities. One knowledgeable source noted that broader partnerships are important because banks and other financial institutions have a limited ability to detect indicators of potential TBML in a majority of trade transactions. For example, according to the Wolfsberg Group,[30] 80 percent of international trade is conducted through open-account trade.[31] With open-account trade, the transaction is not financed by a bank. Banks are generally not involved beyond processing the buyer's payment to the seller and do not typically receive supporting documentation related to the transaction. Thus, financial institutions have limited visibility over open-account transactions and thus limited ability to identify suspicious activity.

Several knowledgeable sources and reports from certain partner countries also acknowledged that challenges exist to creating partnerships with the private sector. They emphasized that for these partnerships to be successful, governments should ensure all participants trust that any information they share will be handled appropriately. For example, one knowledgeable source noted that countries could develop standards for information sharing between banks, while providing assurances about data security, privacy, and confidential commercial information. In addition, several knowledgeable sources and reports from partner countries stated that countries should address challenges related to privacy laws that prohibit banks from sharing client information or barriers restricting government agencies from sharing intelligence information with private sector partners.

Training for Government Agencies and Private Sector Entities Involved in Detecting and Combating TBML

Relevant international bodies, including FATF, and knowledgeable sources stated that given the complexity of and difficulty in detecting TBML, governments could consider providing additional training to relevant government officials on techniques to detect and counter the threat. Governments would provide the training to government agencies, such as customs and tax collection agencies, tailored to meet the specific requirements and needs of different government authorities.

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[30]The Wolfsberg Group is an association of 13 global banks that aims to develop frameworks and guidance for the management of financial crime risks, particularly with respect to know your customer and AML/CFT policies.

[31]In a typical open account transaction, the importer and exporter agree on the terms of sale and goods are shipped and delivered before payment is due, which is typically in 30, 60, or 90 days. The importer and exporter generally finance open account transactions out of their own cash flow, but may also make other arrangements.

Several knowledgeable sources and reports from international bodies noted that governments should also conduct events and other outreach activities to educate private sector entities. Some stated that such events and outreach activities could help increase the capacity of personnel at banks and other financial institutions to identify the characteristics, emerging trends, and new methods of TBML. According to FATF's guidance paper on TBML, governments could organize conferences on the topic, or develop materials to help inform staff of various private sector organizations who monitor suspicious financial activity and potential TBML risks. For example:

- **U.S. example:** In 2018, FinCEN organized a conference on TBML for several U.S. agencies involved in combatting TBML, including HSI, CBP, and Internal Revenue Service Criminal Investigation, in addition to government officials from partner countries and non-government participants. The conference provided presentations on a range of issues related to TBML, such as the vulnerabilities in the gold industry that make it susceptible to TBML and the evolution of the Black Market Peso Exchange. In 2019, FinCEN organized an additional conference focused on TBML and bulk cash smuggling.

- **Other country example:** The Mexican government is working with State/INL to develop anti-money laundering experts and to build an AML task force. INL also created a training program to certify compliance officers, state auditors, prosecutors, analysts, and regulators in Mexico City on TBML.

Several U.S. embassy officials noted that some partner countries needed to account for additional factors when creating TBML-specific training. They stated that before receiving TBML training, some partner countries needed to build more basic foundational skills. For example, U.S. embassy officials in Colombia stated that their priority is to provide Colombian prosecutors with more basic training on prosecutorial skills, such as presenting oral arguments, before offering advanced training, such as how to build a TBML case.

Sharing Information through Interagency Collaboration

Several knowledgeable sources, partner country officials, and international body reports we reviewed recommended that governments share information and data through domestic interagency collaboration to combat TBML. According to United Kingdom officials and an international body report, sharing trade data and relevant financial information, such as SARs, through an interagency approach is critical because TBML and its predicate crimes often cut across multiple agencies and their authorities and responsibilities. Agencies also bring different skill sets to

investigations, such as expertise on customs enforcement, financial crimes, and trade data analysis. To foster interagency collaboration, several knowledgeable sources stated that governments could consider creating multi-agency task forces or mechanisms to address the challenges posed by TBML. For example:

- **U.S. example:** The El Dorado Task Force is an interagency investigative body that consists of 55 law enforcement agencies in New York and New Jersey, including federal agents, state and local police investigators, intelligence analysts, and federal prosecutors. The task force contains 12 groups, including one focused specifically on TBML. Officials from the El Dorado Task Force stated that as an interagency task force, it is able to utilize the respective expertise of various agencies and analyze multiple sources of information, such as international trade and Bank Secrecy Act data, in its investigative work.

- **Other country example:** The United Kingdom created the National Economic Crime Centre, which involves officials from multiple agencies, including law enforcement and regulatory bodies. The National Economic Crime Centre's mission is to strengthen and prioritize the U.K. government's coordination efforts by combining operational capabilities, data, and intelligence to target economic crime. To target specific crimes, the National Economic Crime Centre has created working groups, including a TBML one, to further cooperation and build expertise.

Several U.S. embassy officials and host country officials stated that some countries may be hesitant to share information with all of the agencies involved in combatting TBML. These officials noted that issues such as corruption and lack of trust between agencies might limit the willingness and ability of countries to share information. For example, several Colombian government officials stated that corruption in their government limits the number of counterparts from other agencies that they can trust to collaborate with on combatting TBML.

International Cooperation through Information and Knowledge Sharing

Several officials from certain partner countries, knowledgeable sources, and reports we read stated that trade partners could share trade data and relevant financial information with each other through bilateral or multilateral partnerships. Officials and international body reports also emphasized how important it is for countries to see both sides of trade transactions in order to detect anomalies that might reveal TBML activities. FATF reports noted governments could work together to create a secure system or mechanism that countries could use to exchange

trade data and financial information. According to the Asia/Pacific Group on Money Laundering's[32] *APG Typology Report on Trade Based Money Laundering*,[33] governments could coordinate international capacity building efforts with partner country counterparts, such as sharing strategies on combatting TBML and emerging trends related to TBML. For example:

- **U.S. example:** As part of its TTU program, HSI has established a formalized bilateral mechanism with a number of partner countries, particularly in the Western Hemisphere, to exchange and conduct ongoing analysis of trade data to facilitate the detection of suspicious TBML-related activities. By sharing these data, HSI and each of its partner TTUs are able to see import and export data for goods moving between the United States and the partner country.

- **Other country example:** The Paraguayan government has taken initial steps to coordinate with several countries in the region to try to increase the sharing of trade information, including Chile, Uruguay, and Argentina. According to a U.S. embassy official in Paraguay, the Paraguayan government also participates in a regional security mechanism with Brazil, Argentina, and the United States to address broader regional security threats, including money laundering activities. Figure 4 shows photos from Ciudad del Este, Paraguay, on Paraguay's border with Brazil and Argentina, a region that has been identified by U.S. and Paraguayan officials as a key hub of TBML activity.

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[32]The Asia/Pacific Group on Money Laundering is a FATF-style regional body that works to promote FATF standards in specific geographic locations and to assess countries' level of implementation of those standards.

[33]Asia/Pacific Group on Money Laundering, *APG Typology Report on Trade Based Money Laundering* (Sydney, Australia: Jul. 20, 2012).

Figure 4: Photos of Commercial Activity in Ciudad del Este, Paraguay in the Tri-Border Area

Source: GAO. | GAO-20-333

U.S. officials and knowledgeable sources, however, noted several challenges to international cooperation related to technology and data uniformity. For example, officials from HSI stated that while international cooperation is critical to combat TBML, changes in government administration and technological limitations affect the continuity and the commitment to information sharing with foreign partners. In addition, U.S. officials and reports we reviewed stated that countries could consider enhancing and creating more uniformity in their data collection efforts so that they could use the data more effectively to combat TBML. For example, U.S. embassy officials and knowledgeable sources stated that countries need a common formatting or trade transactions identifier to allow countries to match import and export data more easily. HSI and partner country officials noted that, without a common identifier, they have faced difficulties connecting the import and export sides of trade transactions as they have sought to analyze trade data to identify potential cases of TBML.

In addition, while some U.S. officials and knowledgeable sources see arrangements for sharing trade data between multiple countries as a possible means of improving detection of TBML-related activities, U.S. officials said that a lack of trust among countries complicates such efforts. U.S. officials and officials from countries we visited noted that countries might be reluctant to share their trade data more widely through

multilateral mechanisms due to perceived risks the sharing of such important information might have on their commercial competitiveness. These officials noted the difficulty in creating a multilateral TTU because of these limitations.

Conducting Further Research on Challenges to Combatting TBML

Multiple knowledgeable sources, as well as reports from international bodies, stated that governments could conduct further research on challenges that reduce their ability to combat TBML effectively, including potential impediments. According to the Asia/Pacific Group on Money Laundering's report on TBML,[34] developing a comprehensive strategy would help governments to address key challenges to combat TBML while also facilitating legitimate trade. In addition, one partner country report highlighted the need for an ongoing assessment of TBML to address challenges as the threat continues to evolve. For example:

- **U.S. example:** In 2015 and 2018, Treasury produced the *National Money Laundering Risk Assessment*, identifying the money laundering threats and risks, including TBML, which confront the United States. The assessments also identify the challenges U.S. agencies face in combating money laundering. For example, the 2018 assessment found that merchants sometimes knowingly accept illicit payments in exchange for trade goods without reporting the transactions and individuals can abuse their professional position at financial institutions by ignoring suspicious transactions.

- **Other country example:** In 2017, the Government of Singapore worked with private sector entities to identify and assess key issues that Singapore faced related to money laundering. As a result of that study, in 2018, the government produced the *Best Practices for Countering Trade-Based Money Laundering* report. The study found that, for example, banks should periodically conduct a risk assessment on risk factors related to TBML and test TBML red flags for effectiveness.

Several knowledgeable sources stated that international bodies could examine any challenges and provide additional guidance to member countries on combatting TBML. According to Treasury officials, FATF is currently examining operational challenges related to TBML to provide additional guidance to member countries on combatting it. These officials indicated that this new study should provide an updated definition of TBML to better distinguish money laundering activity from other criminal

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[34]Asia/Pacific Group on Money Laundering (2012).

activity. Additionally, an official from Treasury's Office of Terrorism and Financial Intelligence said the best practices in FATF's 2008 report were still relevant and that FATF has produced other reports since then related to TBML, such as its 2010 report on money laundering vulnerabilities in free trade zones. In the report, FATF noted a number of challenges related to combating TBML in these zones. For example, it reported that relaxed oversight and lack of data collection in free trade zones make them vulnerable to these schemes.

Knowledgeable sources and reports from international bodies and a partner country also recommended further research about other impediments that challenge the ability of governments to combat TBML. For example, reports from international bodies and a partner country highlighted the ease with which shell companies can be established in many jurisdictions and the lack of transparency regarding the beneficial owners of such shell companies.[35] According to FATF and various U.S. officials, criminal organizations can use shell companies to funnel illicit money through accounts that obscure the source of the funds. FATF recommends in its international standards[36] that countries take measures to ensure relevant authorities have timely access to information on the ownership and control of legal persons.

U.S. Agencies Have Taken Steps to Partner with Countries and International Bodies to Combat TBML, but Opportunities Exist to Enhance the TTU Program

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[35]The FATF standards define a "beneficial owner," as "the natural person(s) who ultimately own(s) or control(s) a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement."

[36]Financial Action Task Force, *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation* (Paris, France: 2012-2019).

U.S. Agencies Provide a Range of Support to Partner Countries Related to Combating TBML

Establishing Information-Sharing Methods

DHS, DOJ, State, and Treasury provide a variety of support to partner countries to assist in combating TBML, including establishing information-sharing methods, funding training and technical assistance, and providing ongoing law enforcement cooperation.

The U.S. government's primary partnership effort focused specifically on combating TBML is HSI's TTU program. Under the program, HSI has set up TTUs in 17 partner countries. HSI established the first TTU with Colombia in 2005 and the most recent one with New Zealand in 2019. HSI's goal with the TTU program is to exchange trade data with its partner TTUs to allow agencies in each country to work together to better identify anomalies in trade data that may indicate TBML. For example, through the analysis of shared trade data, HSI and a partner TTU may be able to determine if there is a discrepancy between the reported value of goods when they leave the United States and the reported value of the goods when they arrive in the partner country (and vice versa). There are four key steps that HSI and a partner country undertake in establishing a TTU, according to HSI officials:

- As a precondition for setting up a TTU, a country must have a Customs Mutual Assistance Agreement or similar information sharing agreement in place with the United States.[37]

- HSI then negotiates a memorandum of understanding (MOU) with the relevant counterpart agency setting out the details of the partnership.

- Once the partner country signs the MOU, HSI provides the partner TTU access to its specialized system for analyzing trade data—the Data Analysis and Research for Trade Transparency System (DARTTS).[38]

- HSI also provides training to the partner TTU on the system's use.

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[37]CBP and ICE negotiate Customs Mutual Assistance Agreements with customs agencies in partner countries on behalf of the U.S. government. According to CBP documents, although the specifics terms vary by country, the agreements, which are legally binding, help to facilitate the exchange of information, intelligence, and documents that will support the prevention and investigation of customs offenses. As of March 2019, the U.S. government had signed 80 Customs Mutual Assistance Agreements with customs agencies around the world.

[38]Access to information in DARTTS varies depending on the user. Authorized U.S. law enforcement officials have access to U.S. trade data, all partner TTU trade data, financial data from FinCEN, and other law enforcement records contained within DARTTS. However, officials from partner TTUs only have access to U.S. trade data pertaining to their country and their own trade data within DARTTS.

Table 2 shows the partner countries participating in the TTU program and how often HSI and each country share data.

Table 2: U.S.-Partner Trade Transparency Units (TTU) around the World

TTU Country	Year Formed[a]	Data Sharing Frequency
Colombia	2005	Monthly
Argentina	2006	Weekly
Brazil	2006	Monthly
Paraguay	2007	Monthly
Mexico	2008	Monthly
Panama	2010	Monthly
Ecuador	2011	Monthly
Guatemala	2012	Monthly
Australia	2012	Monthly
Philippines	2013	Under renegotiation[b]
Dominican Republic	2013	Monthly
Peru	2015	Monthly
France	2015	Biannually
Uruguay	2016	Quarterly
Chile	2016	Monthly
United Kingdom	2017	Annually
New Zealand	2019	Pending[c]

Source: GAO presentation of U.S. Immigration and Customs Enforcement information. | GAO-20-333

[a]These dates reflect when Immigration and Customs Enforcement's Homeland Security Investigations (HSI) first signed a Memorandum of Understanding (MOU) with the partner TTU. In some cases, interruptions in data sharing have occurred since these MOUs were first signed and the MOUs with some countries have been subsequently renegotiated. For example, the TTU in Argentina and HSI stopped sharing data with each other from 2011 through 2015.

[b]HSI is renegotiating its MOU with the TTU in the Philippines, so data sharing is not currently taking place.

[c]HSI signed an MOU with the New Zealand TTU in October 2019, but data sharing has not yet begun.

In addition to the TTU program, U.S. agencies have established other methods for sharing information with partners overseas that support efforts to combat money laundering, including TBML. For example, U.S. officials at Embassy Canberra reported that HSI had set up a pilot program in which the U.S. government shares its Reports of International Transportation of Currency or Monetary Instruments with the Australian

Border Force.[39] By comparing the U.S. information with what the Australian Border Force collects, the Australian Border Force has been able to identify and apprehend a number of bulk cash smugglers, according to Embassy Canberra officials.

U.S. agencies have also worked to organize a number of ongoing or ad hoc forums for sharing information related to transnational crime, including money laundering and other economic crime. For example, DOJ's Office of Overseas Prosecutorial Development, Assistance and Training has organized, with State support, two sessions of the Transnational Criminal Organizations Working Group, which brings together officials from the United States, Colombia, and Mexico to participate in specialized training and to develop joint strategies and best practices for combating transnational criminal organizations that threaten the three countries. According to an Office of Overseas Prosecutorial Development, Assistance and Training official at Embassy Bogotá, combating money laundering, including TBML, was a focus of the group's most recent session in June 2019.

Funding Training and Technical Assistance

State and Treasury's OTA have funded a range of foreign assistance programs in partner countries that provide training and technical assistance related to combating money laundering and economic crimes.

State allocated approximately $90 million in fiscal years 2014 through 2018 to programs to counter financial crimes and money laundering throughout the world. According to State, this funding supported a range of programs, including programs to assist countries in drafting legislation and regulations; training bank regulators and examiners, financial investigators, prosecutors, and judges; and strengthening the ability of FIUs in partner countries to receive, analyze, and disseminate suspicious activity reports, among other things. Although State has not funded any programming that focused exclusively on TBML during this period, it reported that it allocated approximately $5 million in fiscal years 2014 through 2018 for programs that included a substantial amount of information on the investigation, enforcement, or prosecution of TBML. For example, according to State, it has funded a series of projects to reform Peru's criminal justice system that, among other things, helped strengthen the country's ability to fight TBML. More recently, in fiscal year

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[39]Under Bank Secrecy Act implementing regulations, individuals are required to submit a Report of International Transportation of Currency or Monetary Instruments when importing or exporting more than $10,000 in monetary instruments such as cash or traveler's checks. 31 C.F.R. § 1010.340.

2019, State noted that it has allocated approximately $5 million to the WCO for a project focused specifically on TBML. According to State, through this program, WCO will build the capacity of customs agencies to detect and deter smuggling and misreporting used to facilitate TBML.

Treasury's OTA allocated approximately $20 million in fiscal years 2014 through 2018 for projects to counter economic crimes throughout the world. Through these projects, OTA funds advisors—either a resident advisor who remains in the host country for several years, or a group of intermittent advisor who travel to the host country for short-term assignments. According to Treasury, these projects support the implementation of AML/CFT legal and regulatory regimes, as well as host government institutions, that are able to combat economic crimes. Although OTA has not funded any projects focused specifically on TBML, it stated that OTA advisors routinely discuss with their country partners the different methods that criminals use to launder money, including TBML. According to OTA, its assistance has addressed TBML to varying degrees in a number of projects. For example, OTA helped Peru's tax and customs authorities to develop training for the Peruvian National Police Money Laundering Unit on how to best use customs databases to identify potential leads in TBML cases.

Providing Law Enforcement Cooperation

Law enforcement agencies, including DEA, HSI, the Federal Bureau of Investigation, and Internal Revenue Service Criminal Investigation, have also posted personnel overseas that collaborate with law enforcement officials from the host country to work on cases related to TBML. For example, according to HSI data, the agency has opened TBML investigations supported by its personnel at embassies in a number of countries, including Colombia, Mexico, the United Kingdom, the Netherlands, the Dominican Republic, Singapore, and Spain. U.S. law enforcement personnel have also set up U.S.-supported vetted units in partner countries. For example, DEA has established Sensitive Investigative Units in a number of countries, such as Colombia and Paraguay.[40] DEA partners with these units to investigate and disrupt various aspects of drug trafficking organizations' operations, including money laundering activities.

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[40]Sensitive Investigative Units are composed of partner country law enforcement officials. DEA conducts vetting of the officials selected for these units, including polygraph testing, to help ensure that unit members are not corrupt. Through the program, DEA seeks to support these units and develop their capacity to conduct complex investigations targeting major transnational criminal organizations.

HSI Has Shared and Analyzed Data with Partner TTUs, but the TTU Program Faces Various Challenges that Limit Results

Over time, HSI's work with partner TTUs has helped in the successful disruption of certain TBML schemes. For example, HSI reported that the Panamanian TTU provided analysis to support an investigation that successfully disrupted an illicit tobacco smuggling ring involving several Panamanian companies. The investigation led to four arrests and the seizure of over $10 million in cigarettes. In another case, HSI reported that HSI and the Peruvian TTU worked together to support an investigation that disrupted a TBML scheme involving the import of illegally mined gold into the United States from Peru.

While HSI and other U.S. government officials have stated the TTUs in some countries have played an important role in certain investigations, the TTU program has faced challenges that limited its results in disrupting TBML schemes, including:[41]

Insufficient resources or support for the partner TTUs. In recent years, the U.S. government has not provided any funding directly to partner TTUs to support their activities, according to HSI officials. These officials noted that while HSI does not obligate funds to directly support partner TTUs, the agency will fund the travel expenses for its personnel to travel to a foreign country to provide training to a partner TTU. Previously, State had provided a limited amount of funding to certain partner TTUs, including for training and the purchase of computer software, according to State officials. However, State officials reported that State has not provided any funding for partner TTUs since fiscal year 2013, because insufficient evidence of the program's effectiveness and various programming obstacles have led the department to prioritize funding for other anti-money laundering and crime prevention programs over the TTU program. For example, State officials noted that limited support from some U.S. embassies and a lack of HSI staff posted at them negatively affected the TTU program at times. However, State officials noted that they are generally supportive of the TTU concept and would consider providing further funding for the program, if HSI can demonstrate program results. HSI officials noted that they have not sought State funding for the TTU program in recent years, but would be interested in discussing State's expectations regarding program results and pursuing State funding going forward.

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[41]We plan to evaluate additional aspects of ICE's efforts to combat TBML in a future report.

U.S. and partner country officials also noted that host governments have not always dedicated the necessary personnel and information technology resources to ensure the effective operations of the TTUs. For example, HSI officials stated that a lack of funding for partner TTUs has contributed to technology gaps between U.S. and partner country systems.

Slow expansion of program and limited geographic range. Although HSI has established the goal of expanding the TTU program, the expansion has slowed over the last few years and it operates mainly in Latin America, despite the range of countries around the world that face risks related to TBML. HSI officials stated they have had discussions with several additional countries about establishing TTUs, but have not yet been able to finalize agreements with a number of these countries, resulting in only two new TTUs being set up over the last 3 years.

Delays in launching partner TTUs and lapses in their operation. The TTU program has experienced delays in launching TTUs after HSI and the partner governments have signed the MOUs. For example, HSI officials at Embassy Canberra noted that HSI signed the MOU with Australia to establish its TTU in 2012, but it did not become fully operational until 2017. According to HSI officials, this delay was due to significant coordination challenges within the Australian government. Several TTUs have also experienced lapses in their operations. For example, the TTU in Argentina launched in 2006, but the two countries halted information sharing between 2011 and 2015. According to HSI officials, this halt in information sharing was because of U.S. concerns with corruption in the Argentinian government at that time.

Differences in objectives between HSI and partner TTUs. HSI officials noted that one limitation in the TTU program is that partner TTUs frequently focus on revenue collection issues and place less priority on disrupting TBML schemes than HSI does. For example, partner TTUs may seek to identify instances of customs fraud, which can reduce duties collected by customs agencies on imported goods, but they may not pursue the investigation further to disrupt the criminal organizations involved in the scheme.

Limited authorities and lack of interagency coordination in TTU partner countries. Partner TTUs generally operate within their countries' custom agencies, which frequently do not have their own law enforcement authorities, according to HSI and other U.S. officials. As a result, they must coordinate with law enforcement partners within their

countries to be effective. However, HSI officials noted that such coordination does not always take place. For example, HSI officials in Mexico stated that the Mexico TTU has had limited effectiveness because of a lack of sufficient cooperation between Mexican customs and law enforcement officials. Similarly, in Brazil, HSI officials noted information sharing with that country's TTU has been delayed because the TTU lacks ready access to trade data and must purchase it from a different Brazilian government agency.

Data sharing and connectivity. HSI and partner government officials have also noted issues about uploading partner trade data into DARTTS and ensuring these data are in a compatible format. For example, an HSI official in the United Kingdom described a delay of several months in uploading data from the United Kingdom into DARTTS because of data formatting issues. In addition, U.S. officials at Embassy Canberra noted that the Australian TTU has frequently experienced connectivity problems with DARTTS that have challenged the TTU's ability to upload its data to the system.

In addition, HSI and partner TTU officials noted that there are certain limitations in DARTTS, including difficulties in working with cross-border data, that reduce its effectiveness as a tool for HSI and partner TTUs to use in identifying potential cases of TBML. DHS noted that details on these limitations are sensitive and we did not include the specifics in this report.

HSI Has Not Taken Key Management Steps Related to the TTU Program

Although the TTU program has faced a number of challenges, HSI has not taken key management steps that could help guide its efforts, including developing a strategy and a performance monitoring framework. Because the TTU program involves partnerships between HSI and foreign governments, HSI has varying levels of ability to address these challenges through independent action. However, by developing a strategy and a performance monitoring framework, HSI could assess how best to plan for and address these challenges in order to maximize the program's effectiveness.

HSI officials stated that they have not produced any sort of planning or strategy documents specifically for the TTU program. HSI has produced a strategic plan for fiscal years 2016 through 2020 that references the TTU

program.[42] For example, the strategy notes that HSI plans to, "continue to provide operational, analytical, technical, and targeting support on trade-based money laundering and illicit funding investigations being conducted by HSI field offices and partner TTUs." However, the strategy includes only limited references to the TTU program's operations. According to HSI officials, for the TTU program specifically, they only conduct informal, periodic planning, such as identifying countries that they would like to prioritize for inclusion in the TTU program. DHS Directive 101-01 establishes requirements for planning, budgeting, programming, and executing for the department and its component agencies.[43] Among other things, the directive requires agency heads, including the Director of ICE, to establish planning processes and methods to oversee program management and risk management activities for the programs and operations under their purview. HSI officials noted that in addition to the HSI strategic plan, they have used some documents, such as FATF's 2008 report on best practices for combating TBML, to guide the TTU program, but have not prioritized the development of a strategy for the TTU program because of resource constraints. Without such a strategy, however, HSI lacks an important tool to guide its operations, including how best to work with its partner TTUs to identify potential cases of TBML, prioritize potential cases for further investigation, and successfully conduct these investigations. In addition, without a strategy, HSI cannot effectively plan how to grow the TTU program, where appropriate, and establish TTUs in additional priority countries. Although developing a strategy would require an investment of resources, a strategy would help ensure HSI is utilizing its limited resources effectively to achieve the TTU program's goals over the long term.

According to HSI officials, the HSI TTU tracks some information on the results of domestic investigations, including the number of TTU-related cases initiated and arrests made, but it does not have a performance monitoring framework, with specified metrics, that allows it to track the results of its work with partner TTUs. HSI officials also stated they have not conducted any evaluations of the factors that increase or decrease the TTUs' effectiveness. As part of its requirement on planning, programming, budgeting, and execution, DHS Directive 101-01 states that, among other things, the objective of the execution phase is to

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[42]Homeland Security Investigations, *Strategic Plan for Fiscal Years 2016-2020* (Washington, D.C.: Aug. 11, 2016).

[43]Department of Homeland Security, *Planning, Programming, Budgeting, and Execution*, Directive Number 101-01 (Washington, D.C: June. 4, 2019).

account for cost and performance to determine if value has been delivered to stakeholders. The directive also notes that annual analysis and reporting of financial expenditures and performance measure results are key deliverables during the execution phase. HSI officials acknowledged that a performance monitoring framework would be beneficial, but they have prioritized other operational issues because of limited resources. In addition, they noted designing a performance monitoring framework that would allow HSI to measure and evaluate the results achieved through its work with partner TTUs would be challenging because, among other things, enforcement efforts of partner TTUs are not within their control and they do not have access to all partner country information. According to HSI officials, they instead rely on measures such as the number of trade records uploaded into DARTTS and the number of foreign users of DARTTS, among other things. However, without a performance monitoring framework for the TTU program, HSI lacks important information on what successes the program has achieved and how to replicate them with other partner TTUs. In addition, HSI lacks key information on areas where the program is not achieving its intended results and what adjustments to make in response. As with the development of a strategy, working to establish a performance monitoring framework would entail an investment of resources, but once completed it could help HSI in assessing how to maximize the impact of its resource investments in the TTU program. In addition, the performance monitoring framework could help demonstrate results to other stakeholders, such as State, that may wish to consider providing support to the TTUs in partner countries.

U.S. Agencies Have Worked With International Bodies to Develop International Anti-Money Laundering Standards, Share Information, and Strengthen Countries' Ability to Combat TBML

The U.S. government has worked with FATF, the Egmont Group, UNODC, and the WCO to combat TBML. Among other things, the U.S. government has worked with these international bodies to develop anti-money laundering standards, share information regarding TBML methods and specific cases, and provide training and technical assistance to strengthen the ability of countries to combat TBML.

FATF

As a member of FATF, the U.S. government has supported the organization's efforts to develop internationally recognized standards for combating money laundering, terrorist financing, and the financing of the proliferation of weapons of mass destruction. FATF's standards, updated

in 2019, include 40 recommendations.[44] According to FATF, it designed these recommendations to set out the critical measures that countries should establish to:

- identify the risks, and develop policies and domestic coordination;

- pursue money laundering, terrorist financing, and the financing of proliferation;

- apply preventive measures for the financial sector and other designated sectors;

- establish powers and responsibilities for the competent authorities (such as investigative, law enforcement and supervisory authorities) and other institutional measures;

- enhance the transparency and availability of beneficial ownership information of legal persons and arrangements; and

- facilitate international cooperation.

To date, FATF's standards do not include any specific reference to TBML. However, Treasury officials from the U.S. government's delegation to FATF stated that the standards are designed to provide a robust framework to help competent authorities prevent, detect, and mitigate against the misuse of global trade and combat all forms of money laundering, including TBML. For example, the officials noted that FATF's third recommendation identifies the need for countries to criminalize money laundering, which would include TBML activity.

The U.S. government also works with FATF to conduct mutual evaluations of member countries. FATF designed these evaluations, which are periodic peer reviews for each country, to provide a detailed assessment of a country's technical compliance with the FATF standards and the effectiveness of its AML/CFT systems. These evaluations may at times highlight issues related to TBML in countries. For example, FATF's 2014 mutual evaluation of Spain found a significant number of cases involving TBML, particularly those associated with value added tax or other tax fraud schemes.

The U.S. government has also supported FATF's development of several reports on TBML, including a 2006 report on types of TBML schemes and

[44]See Financial Action Task Force, *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation* (Paris, France: 2012-2019).

a 2008 report on best practices for detecting TBML. More recently, FATF published various other reports addressing issues relevant to combating TBML, including the *2010 Money Laundering Vulnerabilities of Free Trade Zones, the 2015 Money Laundering/Terrorist Financing Risks and Vulnerabilities Associated with Gold*, and the 2018 *Professional Money Laundering*.[45] These reports provide a range of guidance to countries on how to detect and combat TBML.

The Egmont Group

FinCEN has worked with its fellow FIUs in the Egmont Group to exchange tactical, operational, and strategic information to assist in efforts to combat money laundering, including TBML. As part of its work with Egmont Group partners, FinCEN shares information on particular cases in response to requests from fellow FIUs, proactively shares relevant information with other FIUs, and requests information from FIUs. According to FinCEN officials, Egmont Group membership is critical to information sharing in support of FinCEN analysis and U.S. law enforcement cases because it provides assurances that members have the appropriate policies and procedures in place to respond to and protect sensitive information. FinCEN and its FIU counterparts follow the Egmont Group's *Principles for Information Exchange Between Financial Intelligence Units*, in addition to the law of each jurisdiction, to foster cooperation while sharing information securely.[46] Generally, Egmont Group members use a dedicated computer system that the organization has developed, the Egmont Secure Web, to share information securely. FinCEN officials stated that they respond to about 1,000 information requests a year from other Egmont Group members. For example, at the request of a foreign FIU, FinCEN conducted research on an import/export company suspected of involvement in TBML, summarizing relevant SARs and identifying other relevant information on the subjects. FinCEN's assessment determined the potential use of a TBML scheme and use of shell companies to obfuscate the flow of funds.

FinCEN has also supported the Egmont Group's efforts to provide training to member FIUs on issues related to money laundering and terrorism financing. For example, FinCEN has helped develop and deliver Egmont

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[45]Financial Action Task Force, *Money Laundering Vulnerabilities of Free Trade Zones* (Paris, France: March 2010); Financial Action Task Force and the Asia/Pacific Group on Money Laundering, *Money Laundering/Terrorist Financing Risks and Vulnerabilities Associated with Gold* (Paris, France and Sydney, Australia: July 2015); Financial Action Task Force, *Professional Money Laundering* (Paris, France: July 2018).

[46]The Egmont Group of Financial Intelligence Units, *Principles for Information Exchange Between Financial Intelligence Units* (Toronto, Canada: Oct. 28, 2013).

Group-sponsored training to FIU analysts on how to understand complex financial data. However, Treasury officials stated that the Egmont Group has not provided any TBML-specific training. Although the Egmont Group has not sponsored TBML-specific training for FIUs, FinCEN officials noted that FinCEN has hosted officials from several partner FIUs at the TBML conferences it held in 2018 and 2019 and has provided its own TBML-related training to partner FIUs. For example, in October 2019, FinCEN provided TBML-related training to Mexico's FIU.

Finally, FinCEN has supported the Egmont Group's development of relevant guidance documents. For example, the Egmont Group developed, in partnership with FATF, a 2013 report called *Money Laundering and Terrorist Financing through Trade in Diamonds*.[47] According to the report, the two bodies decided to undertake the research because they had (1) never conducted in-depth research on the diamond trade and associated money laundering and terrorist financing risks and (2) a number of participants in the bodies had noted indications that the diamond trade was being exploited for money laundering and terrorist financing purposes. More recently, in July 2018, the Egmont Group produced an additional report with FATF, *Concealment of Beneficial Ownership*, which also discussed certain TBML schemes.[48]

UNODC

The U.S. government also partners with UNODC in its work to combat illicit drugs and international crime, including TBML. Among other things, State has provided funding to UNODC's Global Program against Money Laundering, Proceeds of Crime and the Financing of Terrorism. Through the program, UNODC has provided training and technical assistance to a range of member states throughout the world. For example, as part of the program, UNODC places AML experts in countries for up to a year to serve as mentors. These mentors provide a range of support, such as helping countries establish functioning FIUs. UNODC also conducts shorter-term workshops and training sessions, such as mock trial training for law enforcement officers, prosecutors, and judges to enhance their ability to investigate and prosecute money laundering cases. In addition, according to UNODC, under the program, it has developed model

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[47]The Financial Action Task Force and the Egmont Group of Financial Intelligence Units, *Money Laundering and Terrorist Financing through Trade in Diamonds* (Paris, France: October 2013).

[48]The Financial Action Task and the Egmont Group of Financial Intelligence Units, *Concealment of Beneficial Ownership* (Paris, France: July 2018).

legislation that United Nations members can use in setting AML/CFT legal regimes in their countries that are consistent with FATF standards.

The U.S. government has also supported certain UNODC programs that have specifically addressed issues related to TBML. According to a UNODC official in Colombia, UNODC has worked with State INL and HSI to provide training for governments in the region to increase expertise on TBML. The official said that UNODC is prioritizing TBML-specific trainings, particularly to build TBML knowledge amongst new prosecutors. In addition, UNODC headquarters officials noted that State INL has supported the development of a program on TBML that UNODC is planning in the Caribbean.

WCO

The U.S. government also works with the WCO to develop and strengthen the role of customs administrations in tackling TBML. Among other things, CBP has supported WCO's efforts to develop enforcement tools, guidance and best practices, and training for member countries. For example, CBP has supported the WCO's development of its Cargo Targeting System. The system, which is available to all WCO members, is designed to assist customs agencies in conducting automated risk assessments of import, export, and transshipment cargo in order to identify high risk shipments that warrant further investigation. With WCO support, several customs agencies also developed the "Compendium of Customs Operational Practices for Enforcement and Seizures," a tool that provides practical examples for improving enforcement and seizure practices.

With CBP support, WCO has produced a number of guidance and best practices documents that can support efforts to combat TBML. For example, in a 2018 report, the WCO described a number of best practices that customs administrations could consider for combating illicit financial flows via trade misinvoicing.[49] In addition, in 2019, the WCO and the Egmont Group developed a Customs-FIU Cooperation Handbook that provides their members guidance and best practices for enhancing global collaboration efforts between customs agencies and FIUs.

Finally, the WCO has provided training for its member countries to deter illicit activities and combat TBML. For example, through the WCO, HSI special agents with AML and TBML expertise have conducted workshops

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[49]World Customs Organization, *Illicit Financial Flows via Trade Mis-invoicing* (Brussels, Belgium: Nov. 15, 2018).

to assist WCO member countries in their operational efforts. The WCO also organized a joint workshop with the Organization for Economic Co-operation and Development in 2019 that was designed to raise awareness among customs agencies, FIUs, and law enforcement agencies about TBML related to gems and precious metals. In 2019, the WCO also agreed to launch a two-year counter-TBML effort entitled "Project TENTACLE," according to CBP officials. The project will include the delivery of TBML workshops to WCO members through 2021, as well as five operational customs activities that follow each workshop. This project will focus on the Asia/Pacific, Africa, and South America regions. State INL has provided funding for Project TENTACLE, in coordination with experts from ICE and CBP. WCO officials noted the lack of training that many customs administrations have on TBML, and the need for regularized training on the subject.

Conclusions

TBML poses significant national security risks to the United States. Criminal and terrorist organizations use TBML schemes to disguise the origins of billions of dollars in funds generated by their illicit activities. Given the national security threat that TBML poses, it is crucial that the U.S. government develop an effective response to combat it. Because TBML is international in nature and frequently involves complex, difficult to detect schemes that cut across international borders, it is important that the U.S. government respond through domestic efforts and collaborate with partner countries and international bodies to address the problem. As the U.S. government's primary partnership program focused on combating TBML, the TTU program plays a key role in these efforts to collaborate with other countries. Although the TTU program has achieved some successes, it has also faced a number of challenges. However, HSI has not taken key management steps to address those challenges and to strengthen the TTU program. HSI, for example, has not established a strategy for the TTU program. Because HSI does not have such a strategy, it lacks an important guide for its efforts to maximize the effectiveness of its existing TTU partnerships and to prioritize efforts to expand the program to other countries. HSI also does not have a performance monitoring framework that tracks the results of its work with partner TTUs. Without such a framework, HSI does not have a means of systematically tracking progress toward program goals and identifying areas that need adjustments to improve program results.

Recommendations for Executive Action

We are making two recommendations to DHS:

The Secretary of Homeland Security should direct the Director of ICE to develop a strategy for the TTU program to ensure that ICE has a plan to

guide its efforts to effectively partner with existing TTUs, and to expand the program, where appropriate, into additional countries. (Recommendation 1)

The Secretary of Homeland Security should direct the Director of ICE to develop a performance monitoring framework for the TTU program that would enable the agency to systematically track program results and how effectively it is achieving the program's goals. (Recommendation 2)

Agency Comments and Our Evaluation

We provided a draft of the report to DHS, DOJ, State, and Treasury. DHS, State, and Treasury provided technical comments, which we incorporated as appropriate. DOJ noted that it had no comments on the draft. DHS also provided written comments, which are reproduced in appendix III. In its comments, DHS stated it concurred with our recommendation that the Secretary of Homeland Security direct the Director of ICE develop a strategy for the TTU program, but did not concur with our recommendation to develop a performance monitoring framework for the program. In its response to our recommendation regarding a strategy for the TTU program, DHS noted that HSI has a strategic plan for fiscal years 2016 through 2020 that addresses the TTU program. However, it stated that the TTU program would develop, as a complement to the HSI strategic plan, a document that outlines emerging threats and challenges, as well as existing metrics that are used to track program results for the TTU.

In noting it did not concur with our recommendation to develop a performance monitoring framework for the TTU, DHS stated the TTU program already collects a number of statistics each fiscal year related to its program results and can use these statistics to demonstrate program results. DHS also stated that while the TTU program's primary mission is to establish partnerships and provide foreign law enforcement with information tools to facilitate the exchange of data between TTUs, HSI has limited ability to track the activities of partner TTUs and cannot dictate the enforcement actions partner countries take. In our report, we acknowledge that the HSI TTU tracks some information on the results of domestic investigations, as well as other information, such as the number of records in DARTTS. We also acknowledge that because the TTU program involves partnerships between HSI and foreign governments, HSI does not have the ability to independently control all aspects of the program's performance. However, we believe that further action by HSI to establish a performance monitoring framework is warranted for the following reasons. First, although HSI has noted examples of statistics it can use to measure the performance of the TTU program, it does not

have a formally documented framework or process for measuring its performance or reporting performance results. Second, while the TTU program has identified a few indicators it uses in assessing performance, it has not established any indicators with goals for which to measure its results against, making it challenging to assess whether HSI is making progress to achieve the program's goals. Third, even though HSI has some measures, such as the number of TTU-related cases it has initiated or arrests made, HSI officials acknowledged that the agency does not track information on what role the TTU actually played in these cases. As a result, HSI cannot establish the extent to which the TTU, rather than a different HSI office, has contributed to any of the measures. Fourth, although we recognize that HSI does not have the ability to dictate what actions partner TTUs will take and may not have access to all relevant partner country information, HSI does have opportunities to take further action to monitor the outputs of its work with partner TTUs. For example, HSI could work with partner TTUs to collect information more systematically on successful cases that they have initiated. HSI could also collect information on factors that reduced the ability of partner TTUs to successfully pursue cases. Other U.S. agencies have conducted performance monitoring and evaluations on programs that rely on partnership and collaboration with foreign governments.

We continue to believe in the need for a rigorous performance monitoring framework for the TTU program, a key U.S. government effort in combatting TBML. We note that HSI could potentially integrate a performance monitoring framework into the strategy it plans to develop in response to our first recommendation. For example, DHS stated in its comments that HSI plans to document the metrics it will use to measure the TTU program's results in that strategy.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees, the Acting Secretary of Homeland Security, the Secretary of State, the Secretary of the Treasury, and the Attorney General. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff members have any questions about this report, please contact me at (202) 512-8612 or GianopoulosK@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made contributions to this report are listed in appendix IV.

Kimberly M. Gianopoulos
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

This report examines (1) what the available evidence indicates about the types and extent of international trade-based money laundering (TBML) activities, (2) the practices international bodies, selected countries, and knowledgeable sources have recommended for detecting and combating TBML, and (3) the extent to which U.S. Immigration and Customs Enforcement has effectively implemented the TTU program and the steps the U.S. government has taken to collaborate with international partners to combat TBML.

To address all three objectives, we analyzed relevant data and documentation from the Departments of Homeland Security (DHS), Justice (DOJ), State (State), and the Treasury (Treasury). For example, we reviewed U.S. government documents that discuss risks associated with TBML, including Treasury's 2015 and 2018 *National Money Laundering Risk Assessment* and 2015 and 2018 *National Terrorist Financing Risk Assessment* and the Drug Enforcement Administration's annual *National Drug Threat Assessment*. In addition, we reviewed U.S. government strategy documents that provide information on the extent and types of TBML, including Treasury's 2018 *National Strategy for Combating Terrorist and Other Illicit Financing* and State's annual *International Narcotics Control Strategy Report* (Volume II). We also analyzed other U.S. government reporting on TBML, including TBML-related advisories from Treasury's Financial Crimes Enforcement Network (FinCEN), selected cables from U.S. embassies describing TBML issues in their host country, and summary analyses from Immigration and Customs Enforcement Homeland Security Investigation's (HSI) Trade Transparency Unit (TTU). Finally, we conducted interviews with officials from DHS, DOJ, State, and Treasury in Washington, D.C.

We also selected a nongeneralizable sample of six countries to study in greater depth. We conducted fieldwork in three of these countries: Colombia, Paraguay, and the United Kingdom. During our fieldwork in each country, we interviewed U.S. embassy officials from DHS, DOJ, State, and Treasury. In each country, we also interviewed host country officials, including TTU, law enforcement, financial intelligence unit, and financial regulatory agency officials. In addition, in Paraguay, we traveled to Ciudad del Este to observe commercial activity and border operations on Paraguay's border with Brazil and Argentina. For the other three countries we selected—Australia, Mexico, and Singapore—we conducted work remotely. We interviewed, via telephone, U.S. embassy officials in Australia and Mexico, and obtained written responses from U.S. officials at Embassy Singapore. To select these six countries, we considered several criteria, including (1) the type and extent of TBML risk, (2) the

types and level of U.S. collaboration with the country, (3) the presence of
U.S. agencies that work on TBML in the country, (4) the extent to which
the country had implemented recommended practices to identify and
combat TBML (with a goal of covering a range of levels of adoption), and
(5) the country's location (with a goal of covering a range of geographic
regions). The team also considered additional factors based on
recommendations from knowledgeable sources, such as selecting
countries with differing levels of capacity to respond to the TBML threat.

To determine what available evidence indicates about the types and
extent of international TBML, we analyzed documentation from relevant
international bodies including the Egmont Group of Financial Intelligence
Units (the Egmont Group) the Financial Action Task Force (FATF), the
United Nations Office on Drugs and Crime (UNODC) and the World
Customs Organization (WCO). For example, we reviewed these reports:
FATF's 2006 *Trade Based Money Laundering* and 2008 *Best Practices
Paper on Trade Based Money Laundering*; the Egmont Group's and
FATF's 2013 *Money Laundering and Terrorist Financing through Trade in
Diamonds*; UNODC's 2011 *Estimating Illicit Financial Flows Resulting
from Drug Trafficking and Other Transnational Organized Crimes*; and
WCO's 2018 *Illicit Financial Flows via Trade Mis-invoicing*.

To gather further information regarding the types and extent of
international TBML activities, we conducted 15 interviews, covering a
nongeneralizable sample of individuals knowledgeable about TBML and
efforts to combat it, including academic researchers, think tank officials,
private sector representatives from trade organizations and individual
companies, and former U.S. government officials.[1] Throughout this report,
we refer to these individuals as "knowledgeable sources." In selecting
these knowledgeable sources, we conducted initial research to identify
individuals or organizations that had conducted research related to TBML
and prioritized those whose work was frequently cited by other sources.
We also requested recommendations from U.S. agencies and the
knowledgeable sources we spoke with regarding other individuals or
organizations we should meet with during our work. In selecting these
knowledgeable sources, we sought to choose people with different types
of experiences studying and working on issues related to TBML to get a
range of perspectives.

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[1]Some of these interviews included more than one individual.

We also conducted a literature search for studies from peer-reviewed journals, conference papers, dissertations, government reports, industry articles, and think tank publications that sought to quantify the amount of TBML activities. We also asked for recommendations on relevant publications as part of our initial meetings with U.S. agencies and knowledgeable sources. We examined summary level information about each piece of literature, and then from this review, identified articles that were germane to our report. A GAO economist then evaluated the methods used in the research and a GAO methodologist performed a secondary review and confirmed the summarized research findings. We reviewed 10 studies published between January 2009 and July 2019 that were relevant to our research objective on what the available evidence indicates about the extent of international TBML activities. We also reviewed one additional article published in 1999, which was frequently cited in other articles as a pioneer of measuring money laundering and included it in our review.

To identify the practices international bodies, selected countries, and knowledgeable sources have recommended for detecting and combating TBML, we conducted a literature review to find relevant studies and other reports prepared by international bodies, industry groups, think tanks, academics, and foreign governments. We then analyzed these studies and reports to identify recommendations they made regarding practices for detecting and combating TBML. To gather further information regarding recommended practices for detecting and combating TBML and potential challenges in implementing such practices, we interviewed U.S. representatives of FATF and the Egmont Group, conducted interviews with UNODC officials, and obtained written responses to a set of questions from the WCO. We also spoke with U.S. embassy officials in five of the countries we selected for our nongeneralizable sample and obtained written responses from U.S. embassy officials in the sixth country. In addition, we spoke with host country officials in three of those countries. Finally, we spoke with selected knowledgeable sources. Through our work, we identified a range of recommended practices related to detecting and combating TBML. We grouped these recommended practices into five categories. We also identified examples of the steps that the U.S. government and other countries have taken to implement practices in each of these five categories.

To examine the extent to which U.S. Immigration and Customs Enforcement has effectively implemented the TTU program, we collected information on HSI's TTU program, including data on HSI's TTU partner countries, the details on the TTU program's operations, and

documentation on the data system HSI developed to support the TTU
program—the Data Analysis and Research for Trade Transparency
System (DARTTS). We also evaluated HSI's management of the TTU
program by comparing the steps it had taken to establish a strategy and
performance monitoring framework to requirements that DHS has
established related to planning, programming, budgeting, and execution.[2]
To identify the steps HSI had taken, we interviewed HSI officials and
reviewed relevant documentation on the TTU program.

To examine the steps U.S. agencies have taken to collaborate with
international partners to combat TBML, we also obtained and analyzed
foreign assistance data, for fiscal years 2014 through 2018, from State on
financial crimes and money laundering assistance programs it funded and
from Treasury's Office of Technical Assistance (OTA) on economic
crimes assistance programs it funded. To assess the reliability of these
data, we reviewed available documentation and interviewed
knowledgeable U.S. officials. We determined that the State and Treasury
OTA assistance data were sufficiently reliable for our purposes to present
summary information on funding for assistance programs.

We also reviewed other relevant U.S. government documentation
describing training, technical assistance, or other support that U.S.
agencies provided to partner countries to assist them in combating TBML
or money laundering more broadly. For example, we reviewed selected
performance reports for State anti-money laundering programs and
selected end-of-project reports for Treasury OTA economic crimes
programs. To gather information on the U.S. government's collaboration
with international bodies, we reviewed documentation from the Egmont
Group, FATF, UNODC, and WCO describing the key activities of the
bodies. Finally, as part of our work for this objective, to learn more about
U.S. agencies' work with partner countries and international bodies to
combat TBML, we also interviewed U.S. officials in Washington, D.C. and
interviewed U.S. embassy and host government officials in partner
countries.

We conducted this performance audit from January 2019 to April 2020 in
accordance with generally accepted government auditing standards.
Those standards require that we plan and perform the audit to obtain
sufficient, appropriate evidence to provide a reasonable basis for our

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[2]See Department of Homeland Security, *Planning, Programming, Budgeting, and
Execution*, Directive Number 101-01 (Washington, D.C: June 4, 2019).

findings and conclusions based on our audit objectives. We believe that
the evidence obtained provides a reasonable basis for our findings and
conclusions based on our audit objectives.

Appendix II: Results of Literature Review on Trade-Based Money Laundering

To determine the extent of trade-based money laundering (TBML) activities, we conducted a literature search for studies that sought to quantify potential illicit financial flows, including TBML. We considered existing studies from peer-reviewed journals, conference papers, dissertations, government reports, industry articles, and think-tank publications identified through searches the GAO librarian conducted of various databases, such as EconLit, Social SciSearch, and Scopus. We also asked for recommendations on relevant publications as part of our initial meetings with U.S. agencies and knowledgeable sources. After conducting the searches and relying on recommendations, we started the review with 82 studies.[1] To assess the methodological quality of the studies, we relied on generally accepted social science standards. We examined summary level information about each piece of literature, and then from this review, identified 14 articles that sought to quantify potential illicit financial flows, including TBML. A GAO economist evaluated the methods used in the research, eliminated some research if the methods were not appropriate or not rigorous, and then summarized the research findings. In addition, a GAO methodologist performed a secondary review and confirmed our reported analysis of the finding. We further eliminated four studies and eventually identified 10 studies published between 2009 and 2019 that were relevant to our research objective on what the available evidence indicates about the extent of international TBML activities. We also identified one additional article published in 1999, which other articles frequently cited as a pioneer method of measuring money laundering, and included it in our review. See table 3 below for the list of studies included in our analysis.

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[1]These 82 studies include those that discuss the types and extent of international TBML activities as well as those that provide recommendations for detecting and combating TBML.

Table 3: Studies Included in the Literature Review on Trade-Based Money Laundering

Year	Title	Authors	Periodical
1999	How Big is Global Money Laundering	John Walker	Journal of Money Laundering Control
2009	Money Laundering–A Newly Emerging Topic on the International Agenda	Brigitte Unger	Review of Law and Economics
2009	Trade-Based Money Laundering and Terrorist Financing	John Zdanowicz	Review of Law and Economics
2009	Money Laundering in a Microfounded Dynamic Model: Simulations for the U.S. and the EU-15 Economies	Michele Bagella, Francesco Busato, and Amedeo Argentiero	Review of Law and Economics
2009	Measuring Global Money Laundering: "The Walker Gravity Model"	John Walker and Brigitte Unger	Review of Law and Economics
2010	Trade-Based Money Laundering: Responding to an Emerging Threat	Samuel McSkimming	Deakin Law Review
2011	Trade-based Money Laundering: Risks and Regulatory Responses	Clare Sullivan and Evan Smith	Australian Institute of Criminology
2014	A Critical Approach to Trade-Based Money Laundering	Melvin Soudijn	Journal of Money Laundering Control
2018	Illicit Financial Flows, Trade Misinvoicing, and Multinational Tax Avoidance: The Same or Different?	Maya Forstater	CGD Policy Paper
2019	Magic Mirror in My Hand: How Trade Mirror Statistics Can Help Us Detect Illegal Financial Flows	Mario Gara, Michele Giammatteo, and Enrico Tosti	The World Economy
2019	Illicit Financial Flows to and from 148 Developing Countries: 2006-2015	Matthew Salomon	Global Financial Integrity

Source: GAO review of studies. | GAO-20-333

We found that estimating the extent of money laundering is a challenging task given that criminals seek to hide their illegal activities. Still, economic and statistical models have been developed that attempt to quantify the extent of such activities using various published datasets. However, none of the studies we identified in our literature review sought to develop estimates of TBML specifically and all the studies we reviewed capture activities that are generally broader than TBML to include tax avoidance, trade price manipulation, or trade misinvoicing, which demonstrates the difficulty in estimating the magnitude of TBML activity. In addition, according to the literature we reviewed, the studies we identified all had certain methodological limitations.

We found that studies seeking to quantify potential money laundering activities, including TBML, have typically relied on one of four methods: (1) Walker gravity model, (2) unit price analysis, (3) trade mirror analysis, or (4) a theoretical model.

Walker Gravity Model

One of the first researchers that attempted to measure money laundering is John Walker. In a paper published in 1999, he used what became known as the Walker gravity model to estimate the amount of money laundering globally.[2] The gravity model states that the amount of trade from place A to place B depends on the size of the population in A, the "attractiveness" of B to people based in A, and the distance between the two places.[3] The Walker model based the "attractiveness" of a place on four assumptions: (1) foreign countries with a tolerant attitude towards money laundering will attract a greater proportion of the funds than more vigilant countries; (2) high levels of corruption or conflict will deter money launderers, because of the risks of losing their funds; (3) countries with high levels of gross national product per capita will be preferred by money launderers, since it would be easier to "hide" their transaction; and (4) other things being equal, geographic distance, and linguistic or cultural differences, work as deterrents to money launderers.[4]

According to the literature we reviewed, the Walker gravity model has several limitations. First, because the flows of money laundering are unobservable, it is not possible to assess the quality of the formula.[5] Second, although some factors in the attractiveness indicators are plausible, they are still arbitrary.[6] Third, the researcher acknowledged that these figures represent only an interim set of results to show the types of output that would be derived from a fully developed model. These estimates are not his best and final estimates of money laundering around the world.[7] Because of these limitations and considering the estimates are based on data that date to 1995, we did not present the estimates in the report. However, considering the importance of the Walker gravity model in the literature on measuring money laundering, we discussed this model in the report to provide context on methods used to quantify potential money laundering activities.

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[2]John Walker, "How Big is Global Money Laundering?" *Journal of Money Laundering Control*, vol. 3, no. 1 (1999): pp. 25-37.

[3]John Walker and Brigitte Unger, "Measuring Global Money Laundering: 'The Walker Gravity Model,'" *Review of Law and Economics*, vol. 5, no. 2 (2009): pp. 821-853.

[4]Walker, "How Big is Global Money Laundering?" pp. 25-37.

[5]Walker and Unger, "Measuring Global Money Laundering," pp.821-853.

[6]Walker and Unger, "Measuring Global Money Laundering," pp.821-853.

[7]Walker, "How Big is Global Money Laundering?" pp. 25-37.

Unit Price Analysis

A researcher used the unit price analysis to analyze U.S. trade data to quantify the magnitude of suspicious trade transactions.[8] The database contains information at the transaction level that is reported to the U.S. Census Bureau from Shipper's Export Declarations and U.S. Customs Service Entry Summary forms. The model follows the International Revenue Service's definition of suspicious prices, which, according to the researcher, is defined as prices that are outside of the upper- or lower-quartile price range for each commodity in each country. He then aggregated the total dollar amount to come up with an estimate of the amount of suspicious trade. The researcher found that in 2018, total money moved out of United States through under-valued exports and over-valued imports was approximately $278 billion. Total money moved into the United States through over-valued exports and under-valued imports was approximately $435 billion.

According to the literature we reviewed and information we received from the Census Bureau, we found that the unit price analysis approach has several limitations. First, the Census Bureau edits raw trade data received from Customs and Border Protection by automatically correcting unit prices that fall outside of its price parameters, which it establishes using industry analysis, input from public and private entities, and trend data. Of the total amount of export and import records in a specific month, roughly 18 percent to 22 percent contain some type of editing, according to the Census Bureau. The edited data with some extreme unit prices (those that fall outside of price parameters set by the Census Bureau) already "corrected" creates issues for the unit price analysis, which relies on identification of extreme unit prices.

Second, the use of lower- or upper-quartile as price filters is somewhat arbitrary. For example, another study noted a fundamental weakness is that unit price analysis depends on the existence of a benchmark against which "abnormality" can be assessed. A lower benchmark would, in most product categories, produce more prices flagged as suspicious.[9]

Moreover, estimates from the unit price analysis also include other types of illicit activities in addition to TBML, such as income tax avoidance or evasion, among others. Therefore, this measurement of suspicious trade

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[8]John Zdanowicz, "Trade-Based Money Laundering and Terrorist Financing," *Review of Law and Economics*, vol. 5, no. 2 (2009): pp. 855–878.

[9]Samuel McSkimming, "Trade-Based Money Laundering: Responding to an Emerging Threat," *Deakin Law Review*, vol. 15, no. 1 (2010): pp. 37-63.

is generally broader than that of TBML. In addition, because of their focus
on identifying suspicious prices, these estimates exclude other types of
TBML that may not utilize over- or under-invoicing techniques, such as
the Black Market Peso Exchange.

Trade Mirror Analysis

The third approach, adopted by Global Financial Integrity and several
other scholars, uses trade mirror analysis to estimate the amount of trade
misinvoicing. This approach compares what country A reports as an
export to country B and what B reports as an import from A (or vice
versa). The calculation assumes the price and volume declared to both
countries authorities would match after accounting for insurance and
freight costs, and that any further difference between the trades reported
by the countries indicates trade misinvoicing.[10]

In its latest report, Global Financial Integrity measured trade misinvoicing
using two datasets.[11] First, Global Financial Integrity relied on the
International Monetary Fund's (IMF) Direction of Trade Statistics and
selected bilateral trade reports for 148 developing countries trading with
36 advanced economies from 2006 to 2015. Global Financial Integrity
calculated potential trade misinvoicing as the import and export gaps,
netted of the insurance and freight costs differentials. Second, Global
Financial Integrity used United Nations Comtrade data to calculate trade
gaps, where Comtrade gaps are calculated for each of the Harmonized
System six-digit commodity classes[12] available. Global Financial Integrity
found that over the 10-year period of this study, potential trade
misinvoicing amounted to between 19 and 24 percent of developing
country trade on average. For 2015, it estimated that potential trade
misinvoicing to and from these 148 developing countries were between
$0.9 trillion and $1.7 trillion.

According to the literature we reviewed, the Trade Mirror Analysis
approach also has several limitations. First, alternative, legitimate

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[10]Maya Forstater, *Illicit Financial Flows, Trade Misinvoicing, and Multinational Tax
Avoidance: The Same or Different?* (Center for Global Development, Policy Paper 123,
2018).

[11]Global Financial Integrity, *Illicit Financial Flows to and from 148 Developing Countries:
2006–2015* (Global Financial Integrity, 2019).

[12]The Harmonized System is an international nomenclature for the classification of
products. It allows participating countries to classify traded goods on a common basis for
customs purposes. At the international level, the Harmonized System for classifying goods
is a six-digit code system.

reasons for import and export gaps may exist. For example, a researcher noted that "price volatility, transit and merchant trade, and the use of bonded warehouses can result in large trade data discrepancies arising from legitimate trade."[13] Another researcher also noted that major differences in customs import valuation methodologies and customs administration fees could contribute to trade data discrepancies. Moreover, accurate records may not always exist, especially in developing economies.[14]

Second, according to one researcher, the IMF and the United Nations, whose data these studies draw on, warn that the statistics cannot be reliably used in this way. The IMF says, "we caution against attempting to measure [illicit flows] by using discrepancies in macroeconomic datasets…. [O]fficial estimates of trade misinvoicing cannot be derived by transforming trade data from the IMF Trade Statistics and/or United Nations Comtrade, either by individual country or in aggregate."[15]

Moreover, Global Financial Integrity defines trade misinvoicing as the fraudulent manipulation of the price, quantity, or quality of a good or service to shift money across international borders. Therefore, this measurement of trade misinvoicing is generally broader than that of TBML. However, certain types of TBML schemes are likely not included in the estimate of trade misinvoicing. For example, Black Market Peso Exchange schemes are likely not included because they do not require falsification of the price, quantity, or quality of a good or service.

Another study sought to account for various factors that may lead to simple import-export discrepancies.[16] The analysis focuses on under-reporting of Italian exports and over-reporting of Italian imports. The authors used a linear mixed model, where the dependent variable is the discrepancy in mirror statistics. The authors adopted a "residual approach," in which the model controls for the main legal determinants of

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[13]Forstater, "Illicit Financial Flows," p.16.

[14]McSkimming, "Trade-Based Money Laundering," p. 55.

[15]Forstater, "Illicit Financial Flows," p.18.

[16]Mario Gara, Michele Giammatteo, and Enrico Tosti, "Magic Mirror in My Hand: How Trade Mirror Statistics Can Help Us Detect Illegal Financial Flows," *The World Economy*, vol. 42, no.11 (2019): pp. 3120–3147.

mirror statistics gaps,[17] and the estimate residuals are proxy measures of the illegal component of such discrepancies. Using this approach, the authors were able to calculate irregular trade flows at country-sector level and rank countries and sectors by their risk levels.

Theoretical Model

This approach uses economic theory to determine how much launderers would launder if they acted in an economic rationally manner. One study[18] developed a theoretical model for estimating money laundering in the United States and the 15 countries that were in the European Union at the time.[19] According to a researcher, the model assumes that "agents have the option to work partly in the legal economy and partly in the illegal economy. They face transaction costs in the legal sector and costs of being detected in the illegal sector. Two types of firms produce with two different technologies a legal good and an illegal good. The government sets fines, can influence the probability of detection, and can influence the liquidity of the economy. There is a liquidity constraint. If households want more liquid funds, they must engage in the illegal sector. The 'optimal' money laundered depends on the labor services allocated to the legal and illegal sector and on the prices and on the quantities of both goods."[20] The model uses parameters for the U.S. economy and for the European Union macro area and creates simulations to generate equilibrium allocations for money laundering.

According to one study,[21] this model has the advantage of having a solid micro-foundation, which helps to identify rational laundering behavior. However, the model is highly theoretical and has various unrealistic assumptions. For example, according to the model, without liquidity constraint in the economy, there would be no money laundering.

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[17]In the study, the authors used the following legal determinants: GDP per capita of Italy's partner country; distance, a proxy for trade regime commonalities; the tax regime in Italy's partner countries; custom tariffs applied by Italy's partner countries for each sector; variables accounting for the scale of trade entertained by Italy in each sector; and dummy variables for the broadest definition of product lines and for each year of analysis.

[18]Michelle Bagella, Francesco Busato, and Amedeo Argentiero, "Money Laundering in a Microfounded Dynamic Model: Simulations for the US and the EU-15 Economies," *Review of Law and Economics*, vol. 5, no. 2 (2009): pp. 879-902. (2009).

[19]At the time, the EU15 was composed of the following 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

[20]Brigitte Unger, "Money Laundering: A Newly Emerging Topic on the International Agenda," *Review of Law and Economics*, vol. 5, no. 2 (2009): pp. 814–815.

[21]Unger, "Money Laundering," pp. 807–819.

Moreover, one of the parameters used in the model—the probability of being detected—is calibrated using data for the Italian economy from 1998 through 2000. Given the limitations discussed above and because the data date to 1998, we did not present the estimates in the report. However, considering that the theoretical model is one of the methods frequently discussed in the literature on measuring money laundering, we discussed this model in the report to provide context on methods used to quantify potential money laundering activities.

Appendix III: Comments from the Department of Homeland Security

**Homeland
Security**

March 11, 2020

Kimberly M. Gianopoulos
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: Management Response to Draft Report GAO-20-333, "TRADE-BASED
       MONEY LAUNDERING: U.S. Government Has Worked with Partners to
       Combat the Threat, but Could Strengthen Its Efforts"

Dear Ms. Gianopoulos,

Thank you for the opportunity to comment on this draft report. The U.S. Department of
Homeland Security (DHS) appreciates the U.S. Government Accountability Office's
(GAO) work in planning and conducting its review and issuing this report.

The Department is pleased to note GAO's recognition that the U.S. Immigration and
Customs Enforcement's (ICE) Homeland Security Investigations (HSI) Trade
Transparency Unit (TTU) program is the U.S. government's key international effort to
counter trade-based money laundering (TBML), which poses significant national security
risks to the United States. Since TTU was established in 2004, ICE has proactively
investigated TBML to prevent criminal and terrorist organizations from exploiting
international trade and financial systems by disguising criminal proceeds through trade.
ICE remains committed to proactively combatting TBML. This includes identifying
global TBML trends and conducting ongoing analysis of trade data provided through
partnerships with other countries' trade transparency units, which ICE continues to
strengthen. TTU will also continue to work with partner countries to bring greater
awareness to this global problem.

The draft report contained two recommendations, including one with which the
Department concurs and one with which the Department non-concurs. Attached find our
detailed response to each recommendation. DHS previously submitted technical
comments under a separate cover for GAO's consideration.

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions. We look forward to working with you again in the future.

Sincerely,

for

JIM H. CRUMPACKER, CIA, CFE
Director
Departmental GAO-OIG Liaison Office

Attachment

2

**Attachment: Management Response to Recommendations
Contained in GAO-20-333**

GAO recommended that the Secretary of Homeland Security direct the Director of ICE
to:

Recommendation 1: Develop a strategy for the TTU program to ensure ICE has a plan
to guide its efforts to effectively partner with existing TTUs, and to expand the program,
where appropriate, into additional countries.

Response: Concur. The fiscal year 2016 – 2020 ICE HSI Strategic Plan, dated August
11, 2016, outlines HSI's missions, goals, and priorities directing agency activities to
counter transnational organized crime and to protect America's trade, travel, financial
infrastructure, and national security interests. This strategic plan provides a blueprint for
HSI mission achievement, although it does not include information on emerging threats
and challenges, or information on existing metrics that are already used to track TTU
program results.

The strategic plan includes the following TTU strategies:

- Expand TTU partnerships (Strategy 2.1.3);
- Prioritize financial investigations (Strategy 2.5.1);
- Expand outreach and working relationships with federal, state, local, tribal,
  territorial, and international law enforcement agencies (Strategy 2.5.2);
- Continue to produce cross-border financial threat assessments (Strategy 2.5.3);
- Continue to provide operational, analytical, technical, and targeting support on
  TBML and illicit funding investigations (Strategy 2.5.6); and
- Leverage international Attaché offices to provide technical assistance to
  international partners (Strategy 2.5.7).

To complement the HSI Strategic Plan, the TTU program will develop a document to
outline emerging threats and challenges, as well as existing metrics that are used to track
program results for TTU. Estimated Completion Date: March 31, 2021.

Recommendation 2: Develop a performance-monitoring framework for the TTU
program that would enable the agency to systematically track program results and how
effectively it is achieving the program's goals.

Response: Non-concur. The TTU program has performance measures and examples of
success, but cannot access foreign case information or set targets regarding criminal
activity and partner outcomes. No mechanism exists for the bulk sharing of information

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related to case management. TTU can make target recommendations but cannot dictate targets for foreign partner case openings.

The primary mission of ICE HSI's TTU program is to establish partnerships and provide foreign law enforcement with information tools, such as the Data Analysis and Research for Trade and Transparency System (DARTTS), to facilitate the exchange of data between TTUs. In support of this mission, the TTU program collects the following statistics each fiscal year to systematically track program results:

- HSI Enforcement Statistics; including number of:
  o Cases initiated;
  o Criminal arrests;
  o Indictments;
  o Convictions; and
  o Seizure incidents.
- Lines of trade data exchanged;
- Foreign DARTTS users;
- Requests for assistance received from HSI field components; and
- Conferences, outreach events, training courses, and other engagements hosted/participated by TTU.

Using these statistics to track program results demonstrate that the program's activities lead to successful outcomes in domestic criminal cases related to TBML and other financial crimes. For example, as noted in the draft report, HSI and the Peruvian TTU worked together to disrupt the import of illegally mined gold into the United States from Peru. Information and analysis from DARTTS was essential in disrupting this TBML scheme. Collectively, this enables HSI to determine program effectiveness and establishes the TTU program's role as the government's key international effort to counter TBML.

HSI TTU is fulfilling its mission of establishing partnerships with foreign law enforcement by providing them with access to DARTTS for TBML leads, outreach, and training. Although TTU systematically tracks the activities and outcomes of domestic investigations, it has limited access to track the activities of foreign partners and the outcome of their criminal investigations. ICE operates within foreign country customs and law enforcement authorities, and does not share information if the political climate is not supportive to the United States presence.

We request that GAO consider this recommendation resolved and closed.

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Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact	Kimberly M. Gianopoulos, (202) 512-8612, or GianopoulosK@gao.gov
Staff Acknowledgements	In addition to the contact named above, Juan Gobel (Assistant Director), Ming Chen (Assistant Director), Ryan Vaughan (Analyst-in-Charge), Joyce Y. Kang, Pamela Davidson, Leia Dickerson, Neil Doherty, Toni Gillich, Jeff Harner, Georgette Hagans, Grace Lui, Dan Luo, and Aldo Salerno made key contributions to this report.