Australian Government

AUSTRAC

Fintel Alliance

Australian BORDER FORCE

PREVENTING

TRADE-BASED MONEY LAUNDERING IN AUSTRALIA

FINANCIAL CRIME GUIDE OCTOBER 2022

ACKNOWLEDGMENTS

This financial crime guide was developed by Fintel Alliance, a public-private partnership led by AUSTRAC.

Thank you to all of our partners who contributed to this financial crime guide.

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HOW TO USE THIS FINANCIAL CRIME GUIDE

This financial crime guide has been developed to assist government agencies and financial service providers to understand and identify **trade-based money laundering**, and where appropriate, report suspicious financial activity.

The indicators and behaviours in this financial crime guide can be used by financial service providers to review their profiling and transaction monitoring programs to target, identify and stop financial transactions associated with trade-based money laundering.

Trade-based money laundering schemes vary in complexity and can be challenging to detect as they can involve multiple parties and jurisdictions and misrepresent the price, quantity or quality of imported or exported goods.

No single indicator will be a definitive way to identify if a business is being used or exploited for trade-based money laundering activities. Financial service providers should use a combination of indicators highlighted in this report and business knowledge to conduct further monitoring and identify if there are reasonable grounds to submit a suspicious matter report (SMR) to AUSTRAC.

ABOUT FINANCIAL CRIME GUIDES

Financial crime guides provide information about the financial aspects of different crime types. They include case studies and indicators that can be used to identify if this offending could be occurring.

They are developed with AUSTRAC's Fintel Alliance partners, relevant government agencies, and industry partners. This guide was developed by Fintel Alliance in partnership with the Australian Border Force.

SUSPICIOUS MATTER REPORTING

If you identify possible indicators of trade-based money laundering or other criminal activity through financial transactions and determine you need to submit an SMR, include clear behavioural and financial indicators in your report. This will help AUSTRAC and our law enforcement partners to respond and take action.

For more information, see the various available resources regarding effective suspicious matter reporting.

ABOUT FINTEL ALLIANCE

Fintel Alliance is a public-private partnership led by AUSTRAC that brings together government, law enforcement, private and academic organisations to:

- support law enforcement investigations into serious crime and national security matters
- increase the resilience of the financial sector to prevent criminal exploitation
- protect the community from criminal exploitation.

Fintel Alliance partners include businesses from the financial services, remittance and gaming industries as well as law enforcement and security agencies in Australia and overseas.

IMPORTANCE OF PARTNERSHIPS

Public-private partnerships are globally recognised as an effective way to identify, target and disrupt illicit financial transactions associated with trade-based money laundering.

Fintel Alliance established a working group to bring together experts, analysts and practitioners on the complex topic of trade-based money laundering. Fintel Alliance partners recognise trade-based money laundering as a serious risk and use the public-private partnership to identify, target and disrupt this offending to protect businesses, the community and the Australian economy.

INTRODUCTION

Criminals are using increasingly sophisticated methods to disguise the proceeds of crime and integrate the resulting funds back into the financial system. Criminals engaged in trade-based money laundering use the trade of goods and services to move illicit money into and out of Australia and around the world.

International trade is an attractive avenue for the movement of the proceeds of crime and presents different risks and vulnerabilities that are exploited by criminals and other complicit parties. Characteristics that make trade attractive for money laundering include:

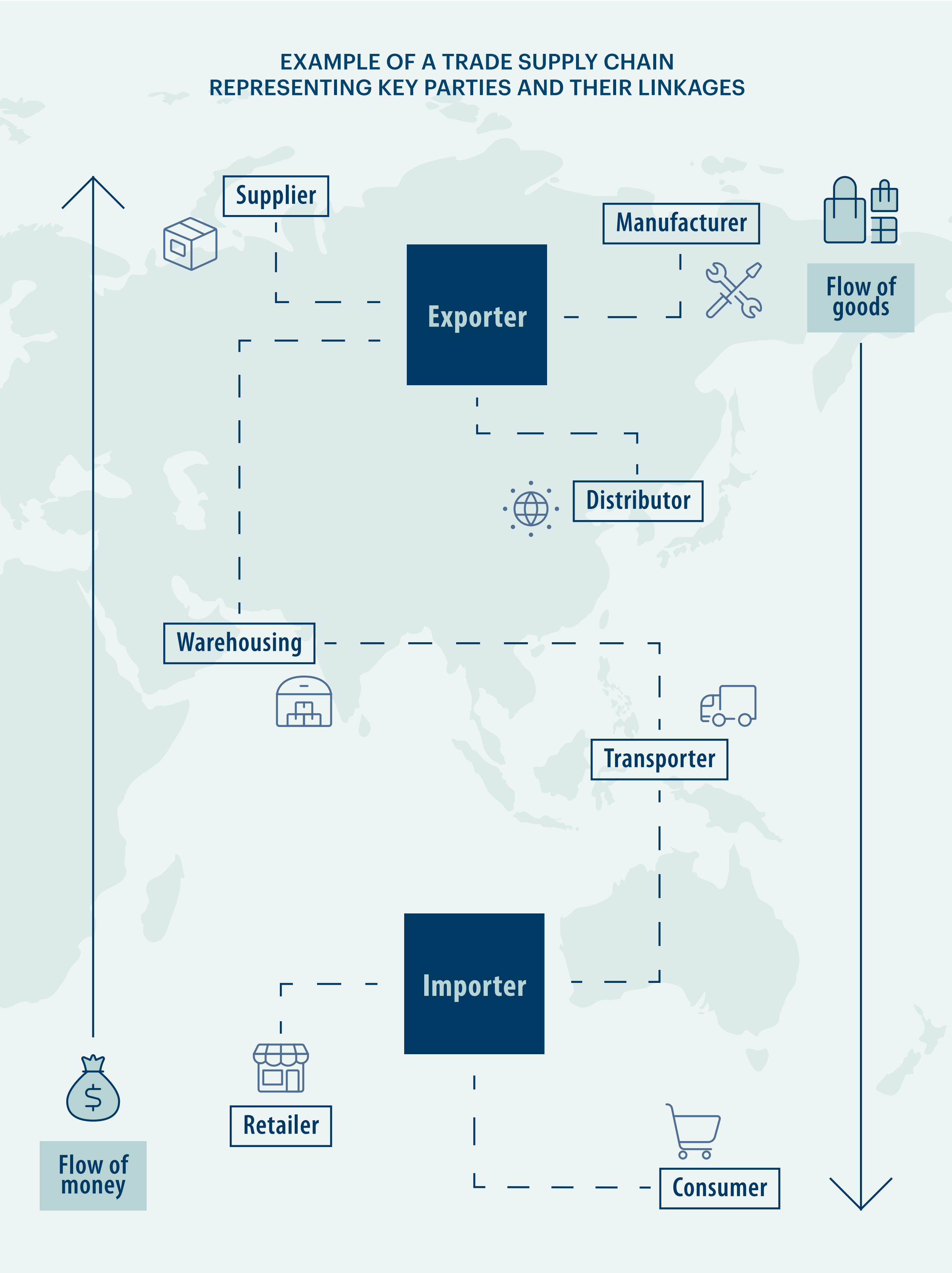
- The significant volume of trade flows that occur around the world every day. This environment enables criminals to obscure their transactions and decrease the risk of detection.
- The complexities involved in trade finance products and import/export processes. These complexities assist in preventing the detection of this crime type, as does the comingling of legitimate and illegitimate funds within trade activity.
- Related financial transactions are commonly fragmented, making it challenging for reporting entities to use transaction monitoring processes as they are unlikely to have oversight of the whole transaction chain.
- The multiple **supply chains**, processes, parties, transactions and jurisdictions involved in the trade process, as well as the speed of transactions, create additional challenges in detecting trade-based money laundering.

Trade-based money laundering is a broad activity that can overlap other criminal activities, making it difficult to identify. The broadest definition of trade-based money laundering encompasses any criminal activities where trade is used as the channel of disguise or justification.

The growth of world trade has led to an increase in money laundering, **proliferation** and terrorism financing vulnerabilities. As controls applied to other money laundering techniques become increasingly effective, the use of trade-based money laundering is expected to become more attractive, revealing the ability of criminal groups to continue adapting to the changing environment in which they operate.

For these reasons, financial service providers must remain vigilant in their efforts to combat trade-based money laundering. Financial service providers, particularly those engaged in trade financing, should understand the associated money laundering, proliferation and terrorism financing risks associated with trade-based money laundering. They should also have appropriate risk-based systems and controls in place to respond to criminals seeking to harm the Australian community and profit from their crimes.

The intelligence and information shared by the financial services sector is critical in helping AUSTRAC and its government partners identify and dismantle criminal networks moving the proceeds of crime through the Australian financial system.


EXAMPLE OF A TRADE SUPPLY CHAIN
REPRESENTING KEY PARTIES AND THEIR LINKAGES
Supplier
Manufacturer
Exporter
Flow of goods
Distributor
Warehousing
Transporter
Importer
Retailer
Consumer
Flow of money

WHAT IS TRADE-BASED MONEY LAUNDERING?

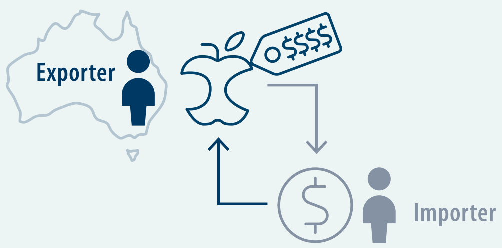
The Financial Action Task Force (FATF) defines trade-based money laundering as the process of disguising the proceeds of crime and moving funds through the use of trade transactions in an attempt to legitimise their illegal origin or finance activities. As the FATF notes, the aim of trade-based money laundering is not the movement of goods, but the movement of money, which the trade transactions facilitate. There are several trade-based money laundering techniques used to move the proceeds of serious crimes from one jurisdiction to another to make them appear legitimate.

The source of trade-based money laundering funding can be derived from a range of crimes, including:

- drug trafficking
- corruption and foreign bribery
- tax evasion and tax related fraud
- illegal wildlife trafficking
- evasion of customs and excise tax
- smuggling of illicit goods and precursor chemicals
- fraud and identity crime.

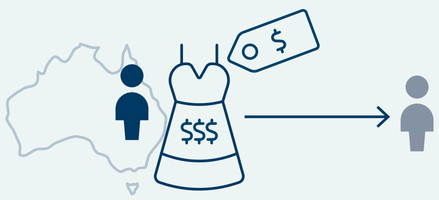
ILLICIT FUNDS CAN BE MOVED OUT OF AUSTRALIA BY:

Importing goods at overvalued prices



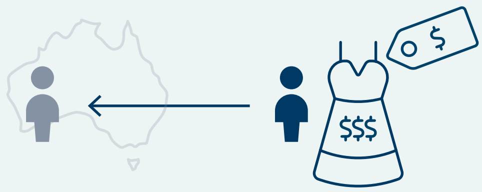
OR

Exporting goods at undervalued prices



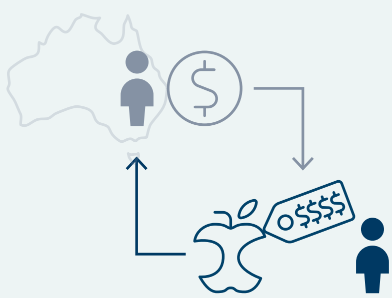
ILLICIT FUNDS CAN MOVED IN TO AUSTRALIA BY:

Importing goods at undervalued prices



OR

Exporting the goods at overvalued prices



WHAT GOODS ARE USED FOR TRADE-BASED MONEY LAUNDERING?

Criminals do not favour one type of product and will use any form of goods to facilitate trade-based money laundering. Criminals prefer goods that are difficult to value or fluctuate in price to reduce the risk of having them being valued accurately. In Australia, goods at a high risk of being used for trade-based money laundering include recycled textiles, sugar, cement, precious gemstones, bullion, tobacco, liquor, scrap metals, solar panels, luxury cars, mobile phones and meat products.

Services-based money laundering presents additional money laundering and terrorism financing risks. Services-based money laundering exploits the trade of services or other intangibles to disguise and legitimise the movement of illicit proceeds. Services could include software, virtual assets, trademarks, financial, gambling, consultancy and advisory services.

This financial crime guide does not focus on services-based money laundering financial indicators. For more information read the FATF Trade-Based Money Laundering Trends and Developments report.

THE AUSTRALIAN FOOTPRINT

Australia has a developed economy, relative economic wealth and a considerable reliance on international trade, which provides investment, jobs and opportunities for individuals and businesses. Trade benefits most Australians through access to an increased range of goods at competitive prices.

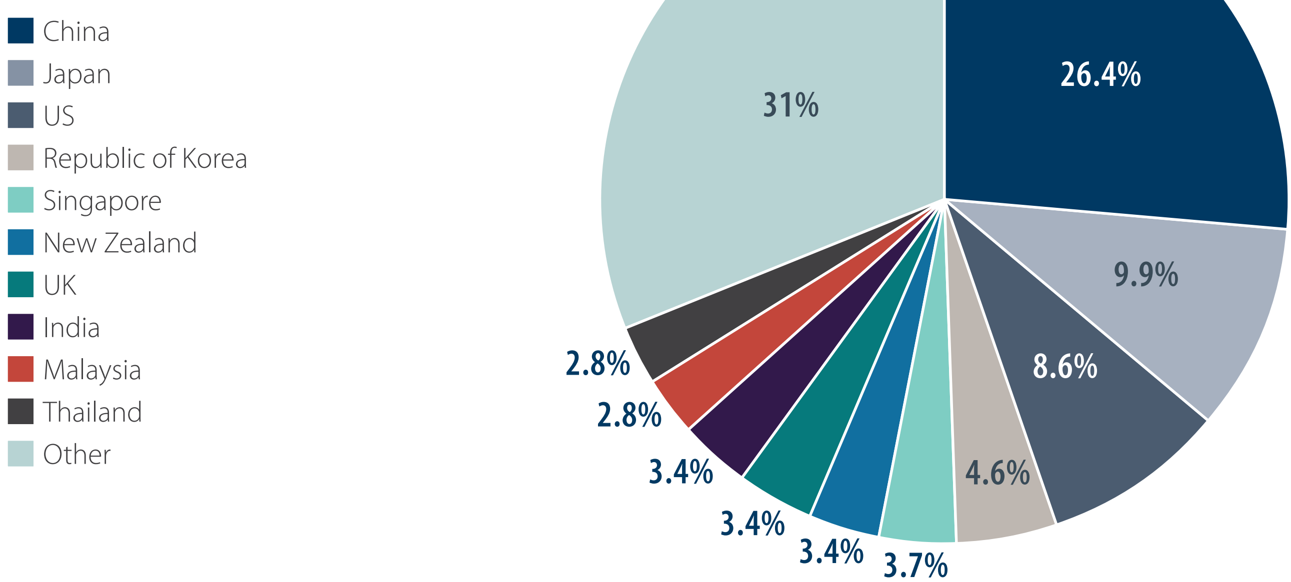
Unfortunately, international trade is recognised as an attractive channel for criminal organisations and terrorist groups to move the proceeds of crime across borders. Trade is targeted by transnational serious organised crime syndicates with support provided by either witting or unwitting professional facilitators to enable access to international finance and trade systems.

Combatting trade-based money laundering requires collaboration between government, law enforcement and financial service providers. The global nature of international supply chains means no single authority will see the complete trade picture.

Trade-based money laundering is a transnational threat which is not restricted by national borders.

AUSTRALIA'S TOP 10 TWO-WAY TRADING PARTNERS

Information from the Department of Foreign Affairs and Trade identifies that Australia's top ten trading partners account for 69% of Australia's two-way trade[1].



1 dfat.gov.au/sites/default/files/trade-investment-glance-2020.pdf

TRADE-BASED MONEY LAUNDERING METHODOLOGIES

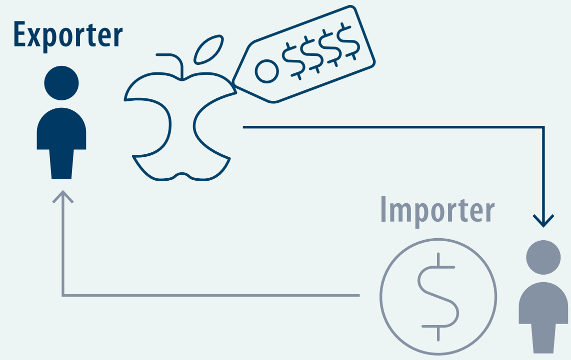
Trade-based money laundering in Australia involves a range of techniques that enable illicit funds to be moved from one jurisdiction to another. These techniques are used to misrepresent or obfuscate the value of goods to enable the movement of funds obtained by illicit means. Australian law prohibits dealing in the instruments or proceeds of crime as well as customs fraud.

In addition to the misrepresentation of value, trade-based money laundering can also involve the misrepresentation of quality, quantity, and weight.

In Australia, trade-based money laundering can be categorised into the following seven techniques:

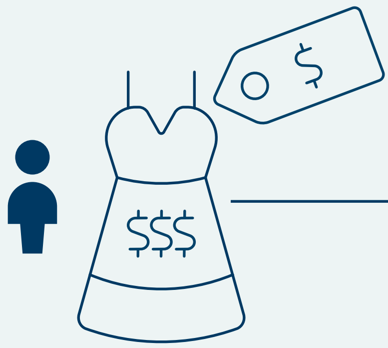
1 Over invoicing or under shipping

The importer transfers money to the exporter by paying above market value for the goods.



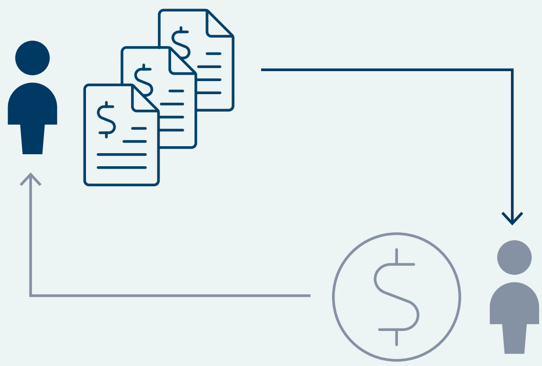
2 Under invoicing or over shipping

The exporter transfers value to the importer by shipping goods that are worth more than the invoiced amount.



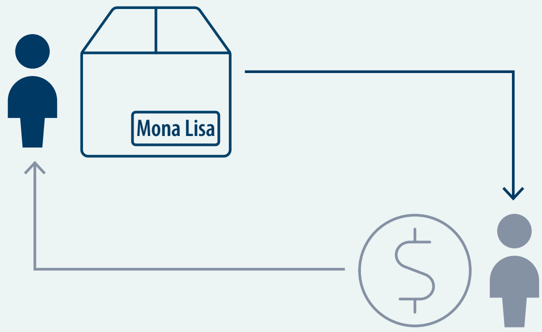
3 Multiple invoicing

The exporter issues more than one invoice for a shipment to transfer greater value to the exporter.



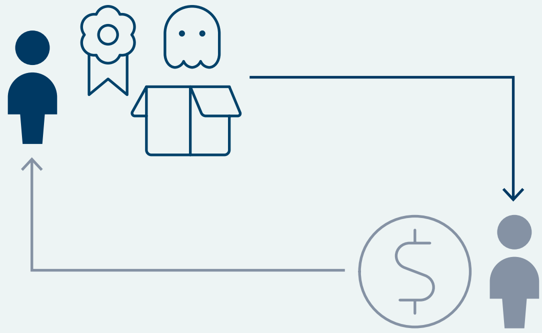
4 Falsely describing goods

The importer transfers value to the exporter by describing the goods as being of a higher or lesser quality, and therefore of a higher or lesser value, than they actually are.



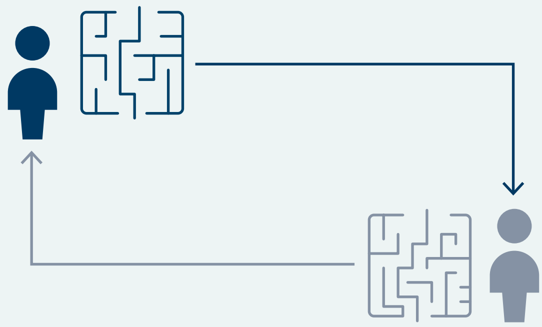
5 Phantom or ghost shipments

No goods are physically shipped and all documentation is falsified to enable the full value of the phantom or ghost shipment to be laundered.



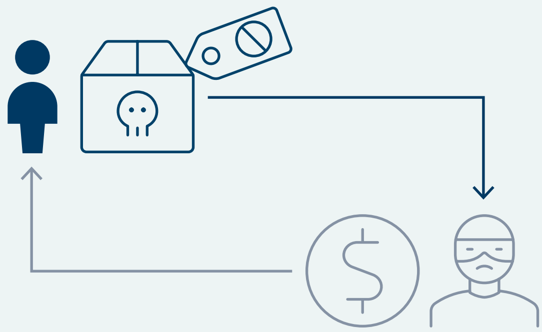
6 Carouseling and obfuscation

This involves importing and exporting the same goods repeatedly between the same parties using a separate set of invoices each time. Parties may structure transactions to avoid alerting authorities by omitting, disguising or falsifying information.



7 Illicit cash integration

Illicit cash is used to purchase goods that are moved from one jurisdiction to another before being sold, with the illicit funds available in another country.



TRADE-BASED MONEY LAUNDERING INDICATORS

The indicators in this guide can be used by financial service providers to review their profiling and transaction monitoring programs to identify, target and disrupt financial transactions associated with trade-based money laundering.

Each indicator in this guide should trigger enhanced customer due diligence. Financial service providers should use a combination of customer and financial indicators, combined with knowledge of their business to monitor, mitigate and manage risks associated with any unusual activity.

Where a suspicion is formed, financial service providers must take steps to reduce any risk and submit an SMR to AUSTRAC.

CUSTOMER INDICATORS

BUSINESS KNOWLEDGE, EXPERIENCE AND HISTORY

- Customer has limited or no import/export knowledge or history.
- Customers are suddenly involved in the import/export of goods, having never been involved in this type of activity previously, including sole proprietor entities.
- Customer is unfamiliar with the intended use of the product being purchased.
- There is no open source footprint of the company or director/beneficial owner.
- Adverse media holdings exist on the company or director/beneficial owner.
- Open sources relating to the company indicate a different industry compared to the goods being imported/exported.
- The products requested do not fit or align with the customer's primary business activities.
- Customer is a director/beneficial owner to companies operating in seemingly unrelated industries e.g. car export and grain import.
- Customer operates a complex corporate structure, which does not make any apparent business sense or the transaction involves the use of multiple shell companies.
- Businesses or companies are controlled by the same group of people.

MOVEMENT OF FUNDS

- Customer appears to conduct business exclusively with a single counter party.
- Customer prefers to pay cash even if they qualify for open credit terms.
- Customer utilises a payment method of unnecessary risk or via a third party.
- Debtors for the customer's **trade finance** are associated with the customer.
- Trade is undertaken between associated parties.

DOCUMENTATION AND PRIVACY

- Customer requests an unusual degree of confidentiality or deviation from established 'know your customer' processes.
- Customer provides evasive or incoherent responses to enquires on why pricing patterns, goods or jurisdictions have changed dramatically.
- Customer is unable to produce appropriate documentation to support a requested transaction e.g. invoices.
- International payments involving multiple entities appear to have connected addresses, contact details and/or key personnel.

FINANCIAL INDICATORS

OPEN ACCOUNT TRADE INDICATORS

Open account trade is when buyers and sellers agree to the terms of trade and payment timeframes. In this type of transaction the goods are shipped and delivered before the payment is due. The payment is then made within the agreed timeframes between the buyer and seller.

The buyer is responsible for making the payment and typically involves the use of financial institutions to facilitate the payment process. For open account trade, financial institutions do not usually have visibility of documentation to provide evidence of the underlying trade.

Payments and Transactions

- Transactions are in round dollar amounts.
- Unexplained changes in the volume and/or value of transactions.
- Evidence of consistent and significant cash payments, including to previously unknown third-parties.

Business

- Unexplained rapid growth of a newly formed business in an existing market.
- Transaction amounts that are inconsistent with the scale of a business's regular activities and/or customer profile.

Customer

- Customer receives a large volume of cash deposits via automatic tellers machines (ATMs) and bank branches in a broad geographical area.
- Customer appears to conduct business exclusively with a single counter party.
- Customer sends or receives consecutive payments domestically or internationally where payment reference details are the same e.g. the same invoice number.

Movement of funds

- Transactions involve multiple parties and the transfer of ownership or the use of intermediaries to disguise the true nature of a transaction.
- Transactions are made between related parties e.g. entities with the same directors or directors who are known to each other, such as family members.
- Funds are pooled in the account of a company based in Australia and then sent back offshore.
- Funds are sent back and forth multiple times between the same entities e.g. the importer and exporter roles are reversed.
- The transaction involves payment by cash, wire transfer, postal money orders etc. from a third party with no obvious connection to the transaction.

DOCUMENTED TRADE FINANCE INDICATORS

Documented trade finance is a service provided by financial institutions to facilitate the payment of goods through invoice financing and payment guarantees. These operations typically encompass 'documentary trade' such as **letter of credit** and document collections e.g. trade finance loans, payable finance and receivables finance.

Trade financing is used to reduce domestic or international trade risks such as foreign currency fluctuations, creditworthiness and concerns of non-payment. However, trade-based money laundering techniques can include falsified documents and evidence that is supplied to financial institutions.

Value of goods

- Value of goods on the invoice is inflated/deflated compared to market value.
- Significant price difference for the same or similar goods previously traded by the customer with no logical explanation for the price difference.
- Additional charges are included on documentation e.g. a premium handling service fee.
- Advance payments to sellers in high risk jurisdictions used with no subsequent shipment taking place.

Falsified information

- Transport documentation cannot be verified.
- Multiple or duplicate invoices and documents for the transportation of the same goods.
- Duplication of information across documentation, such as importer/exporter, goods, vessel details, seal numbers, container numbers or invoice numbers (which may be falsified).
- Obvious alterations to documents, such as seals or stamps from other banks, letter heads and invoices that appear to have been superimposed on other letters or obvious alterations to documents.
- Significant discrepancies on official documentation for the description, value, quality or quantity of goods.
- Letters of credit are for a new or recently registered overseas company which is purportedly a subsidiary of an established parent entity; however, there are no clear links between the two.
- Letters of credit are amended frequently.
- The shipment does not make economic sense e.g. the use of a 40-foot container to transport a small amount of low-value merchandise.
- **Bill of lading** describes cargo in a container that contains sequential numbers or does not show container numbers.
- Inconsistent font/text used for inserted details recorded on the bill of lading.

Customer

- Customer cannot produce appropriate supporting documentation e.g. invoices, bill of lading and copies of documents presented instead of originals to claim payment.
- Customer appears to conduct business exclusively with a single counter party.

Shipment

- Size of the shipment appears inconsistent with the scale of the exporter/importer's regular business activities and/or customer profile.
- Freight, exporter/importer or customs costs are unusually high, with no logical explanation.
- There are no freight exporter/importer or customs costs for purported previous trade.
- Bill of lading has the incorrect shipping registration details.
- Packing is inconsistent with the goods e.g. perishable goods not being shipped in refrigerated containers.
- Jurisdictions involved in the trade transaction are deemed higher risk for money laundering or terrorism financing activities.

Movement of funds

- Importer/exporter roles are reversed on different documents.
- Goods are exported to countries without strict foreign exchange/import controls and have known weaknesses in their anti-money laundering, counter-terrorism financing and anti-bribery and corruption frameworks.
- A freight forwarding firm or residential address is listed as the product's final destination.
- Multiple lines of credit are requested where the accompanying shipping manifests appear inaccurate e.g. different ports, seals or container numbers.
- Rapid transactions sent offshore are linked to letters of credit with a new/recently registered overseas company which appears to have been set up as a shell company e.g. the offshore company has no office, website, phone number or business activity.
- The transport route is unusual or indirect, does not make geographic sense, appears to cross a sanctioned country or involves jurisdictions for no apparent economic reason.

ILLICIT CASH INTEGRATION

Illicit cash integration takes advantage of trade supply and demand. Through this process, the proceeds of crime are used to purchase goods in one jurisdiction and are shipped for use or consumption in another where these items may be unavailable, or in short supply. Illicit cash integration enables the proceeds of crime to be moved from one jurisdiction to another through the trade process, with the sale of the goods in the destination country enabling the funds to appear to have come from a legitimate source.

Surrogate shopping or '**daigou**' is a process that can be targeted by organised crime groups to move the proceeds of crime through trade between different jurisdictions. The purchase of readily available goods that are in high demand in the destination jurisdiction presents an opportunity for trade-based money laundering.

ILLICIT CASH INTEGRATION INDICATORS

- Domestic transfers or card purchases are to pharmacies and luxury stores.
- High cash activity on a customer's account.
- Layering of funds between multiple companies.
- Funds are ultimately withdrawn in cash or sent overseas via international payments.
- An absence of legal documents showing the nature of the commercial relationship between coordinators and shoppers.

CASE STUDY: SYDNEY-BASED MONEY LAUNDERING SYNDICATE TARGETED

An investigation targeted a Sydney-based money laundering organisation which resulted in three arrests. The money laundering organisation attempted to launder over $100 million in cash from transnational serious organised crime groups out of Australia.

The funds were the proceeds from the sale of illicit drugs in Australia. These illicit funds were used to purchase low value consumer goods, such as dairy products, cosmetics and cleaning products, for subsequent shipment and sale in another jurisdiction. The movement of the purchased goods enabled the proceeds of crime to transfer out of Australia without creating a financial footprint.

Members of the money laundering syndicate were arrested and charged with dealing in the proceeds of crime. The offenders were sentenced between three to seven years imprisonment for the offending.

PREVENTING MONEY LAUNDERING THROUGH TRADE

AUSTRAC recognises that most trade is legitimate and involves the legal movement of goods within Australia or from one jurisdiction to another. However, financial service providers, should assess and understand the risks associated with the services they offer.

To address these risks, financial service providers should identify and understand the associated money laundering and terrorism financing risks and have appropriate risk-based systems and controls in place as part of their AML/CTF programs.

REPORT SUSPICIOUS MATTERS TO AUSTRAC

Observing one of these indicators may not suggest illegal activity on its own. When you conduct further monitoring and observe other activity that raises suspicion, you should submit an SMR to AUSTRAC.

High-quality, accurate and timely SMRs give us the best chance to identify, target and disrupt trade-based money laundering to help protect businesses and the Australian community.

To find out more visit: austrac.gov.au/smr.

WHEN TO SUBMIT AN SMR TO AUSTRAC

If you see something suspicious and report it to police, you must also report it to AUSTRAC.

You must submit an SMR to AUSTRAC if you suspect on reasonable grounds that a customer is not who they claim to be, or the designated service relates to terrorism financing, money laundering, an offence against a Commonwealth, State or Territory law, proceeds of crime or tax evasion.

FOR MORE INFORMATION

If you have questions about your AUSTRAC compliance obligations, please email contact@austrac.gov.au or phone 1300 021 037.

The Australian Border Force operates a Border Watch program to educate, inform and encourage members of the community and industry to report suspicious border-related behaviour and activities. You can read more about the program on the Australian Border Force website.

ADDITIONAL RESOURCES

This financial crime guide provides insight into trade-based money laundering offending in Australia including indicators and case studies. For further information, download the following reports:

FINANCIAL ACTION TASK FORCE AND EGMONT GROUP

- Trade-Based Money Laundering – Risk Indicators
- Trade-Based Money Laundering – Trends and Developments
- APG Typologies Report

THE WOLFSBERG GROUP

- The Wolfsberg Group, ICC and BAFT – Trade Finance Principles

GLOSSARY

NAME	DESCRIPTION
Bill of lading	A legal document issued by a carrier to a shipper detailing the type, quantity and destination of the goods being carried. A bill of lading is a document of title to the goods and a contract of carriage. It must accompany the shipped goods and be signed by the carrier, shipper and receiver.
Letter of credit	An instrument issued by a financial institution guaranteeing payment to the beneficiary, on condition that all the terms and conditions of the letters of credit have been complied with. Letters of credit are a payment method used for the sale of goods between exporters and importers.
Daigou (surrogate shopping)	A business model that relies on personal shoppers in one jurisdiction purchasing consumer items which are unavailable, or in short supply, in another jurisdiction and then shipping those items for consumption or use in that second jurisdiction.
Open account trade	When buyers and sellers agree to the terms of trade and payment timeframes. In this type of transaction, the goods are shipped and delivered before payment is due. The payment is then made within the agreed timeframes between the buyer and seller. The buyer is responsible for making the payment and typically involves the use of financial institutions to facilitate the payment process. For open account trade, financial institutions do not typically have visibility of documentation to provide evidence of the underlying trade.
Proliferation financing	Defined by the FATF as the provision of funds or financial services used for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials.
Services-based money laundering	Exploits the trade of services or other intangibles to disguise and legitimise the movement of illicit proceeds. Services could include software, virtual assets, trademarks, consultancy and advisory services.
Supply chain	A network of entities involved in creating, manufacturing, transporting and distributing any type of goods from a seller to a buyer/consumer. The supply chain includes suppliers, distributors, importers, exporters, transportation providers and consumers.
Trade-based money laundering	The process of disguising the proceeds of crime and moving profits through the use of trade transactions in an attempt to legitimise their illegal origin or finance their activities[2].
Documented trade finance	A financial institution service that facilitates the payment of goods through invoice financing and payment guarantees. These operations typically encompass 'documentary trade' such as letter of credit and document collections e.g. trade finance loans, payable finance and receivables finance.

2 fatf-gafi.org/media/fatf/content/Trade-Based-Money-Laundering-Trends-and-Developments.pdf

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