

**The Next Frontier in  
International Money Laundering Enforcement**



# **TRADE-BASED MONEY LAUNDERING**

**JOHN A. CASSARA**

Foreword by Chip Poncy

**WILEY**

# Trade-Based Money Laundering

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# Foreword

My introduction to the name John Cassara 13 years ago created an early and instantly classic memory in my emerging career as a counter-illicit financing policy official at the U.S. Department of the Treasury. I was traveling through the Middle East on a Treasury mission to facilitate implementation of anti-money laundering (AML) systems and to explain and inform our evolving strategy to counter the financing of terrorism (CFT). Working with allies and other financial centers, the United States had recently fused many elements of the CFT strategy with global AML standards and was pressing for worldwide implementation as a collective security priority following the terrorist attacks of 9/11. After joining the Treasury mission only months before, I was both honored and a bit anxious participating in these pivotal discussions with experienced senior policymakers and AML/CFT practitioners from such a crucial region. On the margins of these discussions, and on more than one occasion, I was asked an unusual question: “Are you John Cassara?”

The clear respect, bordering on awe, with which the question was asked made the answer as disappointing as it was awkward. I returned to Washington with some frustration and abundant curiosity—who is John Cassara?

Upon my return, I quickly learned that being confused with John Cassara was a tremendous compliment. John’s legendary status in the global financial investigative community at that time was mirrored by his reputation among peers across the U.S. federal government. In John’s storied if not unique career in public service, he served a combined 26 years as a clandestine case officer with the Central Intelligence Agency and as a Treasury special agent with both the U.S. Secret Service and U.S. Customs.

In the 13 years since the trip that introduced me to the name John Cassara, I have had the privilege of working directly with John on multiple cases and issues. John’s insights and advice, including after

his retirement from government service, helped shape my perspective as I assisted Treasury leadership in creating a new strategic policy office focusing on all aspects of the counter-illicit financing mission. John's thinking informed our efforts to strengthen and expand the global commitment to combat illicit finance, including in partnership with the interagency community, the Financial Action Task Force and the global AML/CFT community, and the private sector. I have continued to rely on John's experience, talents, and insights since joining the private sector in 2013.

Throughout our relationship, John has demonstrated consistent leadership in pushing for urgent reforms required to strengthen the counter-illicit financing mission. And yet, John has never alienated those of us who might take a different view on particularly complex challenges or dimensions of this evolving mission.

I am immensely proud to call John a friend and deeply honored that he asked me to write the foreword for *Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement*, his fourth book.

John's latest writing comes at a crucial time in the evolution of AML/CFT regimes and the expanding role of financial and economic power as instruments of national and collective security. In the generation since the 9/11 terrorist attacks, there is no doubt that U.S. leadership and global commitments have successfully demonstrated the effectiveness—and indeed, the increasing necessity—of financial power in combating the greatest collective security threats we face. From al Qaeda and global terrorism to the proliferation of weapons of mass destruction and the threatening activities of rogue states such as North Korea, Iran, and Syria, the United States has increasingly relied on financial power to protect and advance our national and collective security.

Despite these unequivocal successes in the evolution and application of financial power to help combat our gravest threats, the global AML/CFT community continues to struggle in systematically advancing more fundamental objectives of AML regimes. As John clearly demonstrates, traditional quantitative and qualitative metrics on money-laundering prosecutions and forfeitures present a troubling picture of relative stagnation. More fundamentally, we lack a clear,



systemic, and shared understanding of the nature and scope of money laundering risks. These fundamental shortcomings exacerbate increasingly evident challenges of the private sector in applying a risk-based approach to AML/CFT programs and controls.

These concerns are particularly troubling given the ongoing expansion of transnational organized crime and the illicit financing networks that support such activity. Numerous threat assessments and corresponding strategies document the continued growth and reach of these networks and the criminal groups they support. Such growth includes opportunistic convergence and increasing infiltration of legitimate economic activities, strategically important industries, and governing elites in a number of states around the world. This is a grim picture.

Fresh thinking is needed to change this reality and address long-standing cracks in global AML/CFT regimes. In this book, John makes a compelling case to begin necessary AML/CFT reform by focusing on trade-based money laundering. He is incredibly well-suited for this, bringing his career AML/CFT investigative experience together with his expert understanding of global trade controls. John's insights on trade-based money laundering, gained from over three decades of professional experience investigating illicit finance, will be invaluable to the full range of AML/CFT stakeholders seeking to strengthen the counter-illicit financing mission.

The AML/CFT world is ready to listen. As John describes, recent developments across the regulatory, law enforcement, financial intelligence, and counter-illicit financing policy communities indicate a renewed interest in trade-based money laundering. From regulatory guidance and examination to FinCEN advisories and the 2015 U.S. National Money Laundering Risk Assessment, authorities are refocusing on the deep-seated, systemic AML/CFT vulnerabilities presented by various forms of trade-based money laundering. My consulting experience over the past two years has indicated this renewed interest is shared by the private sector, particularly in the global banking industry.

This book will encourage the continuation and intensification of these efforts. It stands alone as a comprehensive and practical guide on trade-based money laundering and value transfer. And it will prove to be an invaluable resource for the global financial community and

AML/CFT authorities as we collectively renew our efforts to better understand and attack money laundering systematically, beginning with trade-based money laundering—truly the next frontier in international money laundering enforcement.

— Chip Poncy

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# Preface

Not long after the September 11 attacks, I had a conversation with a Pakistani entrepreneur. This businessman could be charitably described as being involved in international gray markets and illicit finance. We discussed many of the subjects addressed in this book, including trade-based money laundering, value transfer, hawala, fictitious invoicing, and countervaluation. At the end of the discussion, he looked at me and said, “Mr. John, don’t you know that your adversaries are transferring money and value right under your noses? But the West doesn’t see it. Your enemies are laughing at you.”

The conversation made a profound impact on me. I knew he was right. Spending the better part of a career as a special agent with the U.S. Customs Service, I conducted investigations both in the United States and overseas. Over the years, I developed sources and expertise in many of the indigenous, ethnic-based, underground financial systems that are found around the world. I knew firsthand that the common denominator in many of these underground financial systems was trade-based value transfer.

At the time of the conversation, the U.S. government and the international community had not focused attention or resources on the misuse of international trade to launder money, transfer value, avoid taxes, commit commercial fraud, and finance terror. It was completely under our radar. Our adversaries—criminals, terrorists, kleptocrats, and fraudsters—were operating in these areas with almost total impunity. And unfortunately, many years after that conversation and the tremendous expenditure of resources to counter illicit finance, trade-based money laundering and value transfer are still not recognized as significant dangers. Perhaps as the Pakistani businessman implied, it is because the subterfuges are “hiding in plain sight.”

After I “retired” from a 26-year career in the U.S. intelligence and law enforcement communities, I tried to draw attention to the intertwined threats of what the U.S. military calls *asymmetric warfare*, threat

finance, international money laundering, and trade-based value transfer. I wrote two nonfiction books: *Hide & Seek: Intelligence, Law Enforcement and the Stalled War on Terror Finance* (Washington, D.C.: Potomac Books, 2006) and *On the Trail of Terror Finance: What Law Enforcement and Intelligence Officers Need to Know* (Washington, D.C.: Red Cell IG, 2010). I continued my efforts by writing articles, consulting, and speaking before various industry and government groups. Realizing that some are not enthusiastic about whitepapers and PowerPoint presentations, I wrote *Demons of Gadara* (CreateSpace, 2013)—the first novel that revolves around the themes of threat finance and trade-based value transfer. I tried to teach by telling a story.

This book is a continuation. It is designed as a straightforward, accessible, and user-friendly resource that is primarily directed toward anti-money-laundering/counterterrorist finance (AML/CFT) professionals such as compliance officers in financial institutions and money-service businesses. I hope to provide insight into opaque financial systems and trade scams that often impact their work. I believe concerned investigators, analysts, and policymakers in government will also find the book valuable.

Value transfer and underground finance are increasingly popular in academia. I have been particularly pleased to hear from students who share my belief in the importance of this topic and find this new field of study fascinating. This book is not written by an academic but, rather, by someone who has worked and supported value-transfer investigations in various international locations. I will try to convey—in a plain speaking and practical style—some lessons learned by personal experience and observations.

I would like to emphasize that this book is *not* a general AML/CFT primer. I am making the assumption that the reader has working knowledge of money laundering, terror finance, and many of our countermeasures. Instead, this book will focus on trade-based money laundering and value transfer—a specific methodology plus a few representative subsets and variations. Moreover, this book will not go into detail on trade finance. For those readers who feel they need a brief introduction to money laundering and terror finance to better understand some of the challenges and countermeasures surfaced in this book, see Appendix A.

## HOW THIS BOOK IS ORGANIZED

Trade-based money laundering and value transfer are very broad topics. Chapter 1 introduces the magnitude of the problem, gives a general definition, and makes clear that the international trading system is abused by money launderers, terrorists, tax cheats, and many who engage in a variety of financial crimes. Chapter 2 provides an overview of basic trade-based laundering techniques that are referenced in succeeding chapters. Case examples and illustrative diagrams are used frequently throughout the book. The trade-based schemes are not United States centric, but rather come from around the world.

Chapters 3, 4, and 5 discuss prominent underground financial systems such as the black market peso exchange, hawala, and fei-chien. Historically and culturally, all of these systems—and others like them—are based on the misuse of international trade. Chapter 6 discusses why and how the international gold trade is prominently used to launder staggering amounts of illicit proceeds. Chapter 7 briefly describes commercial trade-based money laundering, such as diversion, misinvoicing, and transfer pricing. Since trade-based money laundering is so broad, Chapter 8 covers miscellaneous topics that do not neatly fit elsewhere, such as barter trade, the misuse of free trade zones, and others. Chapter 9 discusses how trade is monitored for enforcement purposes and includes insight on innovative countermeasures. Chapter 10 discusses red-flag indicators that can be used by both industry and government to help spot forms of trade-based money laundering and value transfer.

Finally, the conclusion contains recommendations for increasing trade transparency, awareness, and enforcement. And although I try as much as I can to stay away from jargon, acronyms, and technical terms, in order to simplify things for the reader there is a glossary of frequently used terms. In addition, where applicable, chapters contain both abstracts and “cheat sheets” of important points covered.

## SOURCING

The sourcing for this book is a mix of personal observation and experience and information in the public domain. Some sections draw from

my previous books and articles, updated and adapted as necessary. In certain sections, I borrowed heavily from *On the Trail of Terror Finance: What Law Enforcement and Intelligence Officers Need to Know*. The book was co-authored by Mr. Avi Jorisch. Both the Financial Action Task Force (FATF) and the Asia Pacific Group (APG) have produced valuable studies on trade-based money laundering. Web materials such as statistics, investigations, and guidelines are available but change frequently. Recent case examples are used as well as others that are dated. The reason I included some older cases is because they are in the public domain and still representative of current threats.

I have found that both government and academic reporting on money laundering and related topics are often prone to *circular reporting*, wherein analysis is used and reused often enough to make identifying the original source difficult. I assure the readers that to the best of my ability, I have practiced due diligence in my sourcing, and that this book represents my good-faith effort to make the subject matter as interesting, accurate, well-sourced, and current as possible.

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# Acknowledgments

Financial institutions, money services businesses, and their anti-money laundering compliance and program officers have long been considered “the first line of defense” in financial crimes. Due primarily to my experiences as a criminal investigator for the U.S. Treasury Department and later during an assignment at the Financial Crimes Enforcement Network (FinCEN), I have been an enthusiastic consumer of the financial intelligence or Bank Secrecy Act (BSA) data they produce. Unfortunately, for a variety of reasons, practitioners in the financial industry do not get the feedback, recognition, and thanks they deserve for the time and resources expended in implementing increasingly robust “know your customer” and industry AML/CFT compliance programs. So I would like to take this opportunity to say “thank you.” I appreciate your hard work and understand that most of you enthusiastically work with government to help secure our financial systems. Thus I am encouraged that many recognize that trade and value transfer is the “next frontier” in international money laundering enforcement. I am hopeful that industry and government can partner to develop common sense and non-onerous guidelines and reporting that promote trade transparency.

To my colleagues in the intelligence, defense, and law enforcement communities, I hope this book will help explain the opaque nature of value transfer that is so prevalent in many of the challenges we face. I would like to extend my appreciation for all that you do to keep us safe.

I would also like to convey my heartfelt gratitude to some friends and colleagues who so generously shared their time, knowledge, and expertise in the preparation and review of the manuscript—especially Raymond Baker and the staff at Global Financial Integrity; Lou Bock, retired senior special agent, U.S. Customs Service; David B. Chenkin, managing partner, Zeichner Ellman & Krause LLP; Hector X. Colon,

special agent and unit chief/director, NTC-Investigations & TTU, Homeland Security Investigations; Mark Laxer, vice president of Data Mining International, Inc.; Rob Siberski, retired HSI (legacy U.S. Customs) senior special agent; and Dr. John S. Zdanowicz, professor of finance and president of International Trade Alert, Inc.

And, as always, my gratitude to Cristina for her love and support.



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# About the Author

John A. Cassara retired after a 26-year career in the federal government intelligence and law enforcement communities. He is considered an expert in anti-money laundering and counterterrorist finance, with particular expertise in the growing threat of alternative remittance systems and forms of trade-based money laundering and value transfer. He invented the concept of international “Trade Transparency Units,” an innovative countermeasure to entrenched forms of trade-based money laundering and value transfer. A large part of his career was spent overseas. He is one of the very few to have been both a clandestine operations officer in the U.S. intelligence community and a special agent for the Department of Treasury.

His last position was as a special agent detailee to the Department of Treasury’s Office of Terrorism Finance and Financial Intelligence (TFI). His parent Treasury agency was the Financial Crimes Enforcement Network (FinCEN). Mr. Cassara was also detailed to the U.S. Department of State’s Bureau of International Narcotics and Law Enforcement Affairs (INL) Anti-Money Laundering Section to help coordinate U.S. interagency international anti-terrorist finance training and technical assistance efforts.

During his law enforcement investigative career, Mr. Cassara conducted a large number of money laundering, fraud, intellectual property rights, smuggling, and diversion of weapons and high technology investigations in Africa, the Middle East, and Europe. He also served two years as an undercover arms dealer. He began his career with Treasury as a special agent assigned to the Washington field office of the U.S. Secret Service.

Since his retirement, he has lectured in the United States and around the world on a variety of transnational crime issues. He is an industry adviser for SAS, the analytics company. Mr. Cassara has authored or co-authored several articles and books. See [www.JohnCassara.com](http://www.JohnCassara.com).