

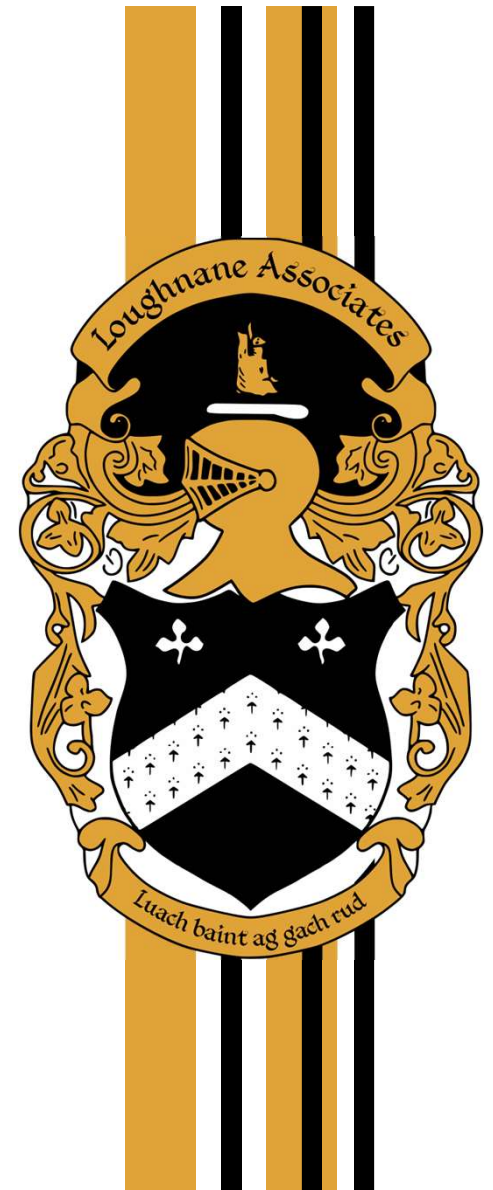
# Trade Based Money Laundering

Presented by  
Robert Bacon

**Loughnane Associates LLC**  
*Value Touches Everything*



**Huxley Orion**



# TBML



- **Definition:**

“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” (2006 FATF)

- **The purpose of the scheme**

- To exploiting an international commercial set up that matches geographies between licit and illicit trade
- So criminals can justify using financial institutions’ services



**Conceptual breakdown...**

**1. Understanding the Markets & Flow of Funds**



## Conceptual breakdown...

### 1. Understanding the Markets & Flow of Funds

#### KEY ARGUMENT

- If you understand the basic trade mechanism from a supply and demand point-of-view, and...
- If you understand how the flow of trade and the corresponding financial flow mechanisms (and wealth) function support trade, then...
- You can detect and investigate how threat networks use trade mechanisms to serve as a smoke screen for illicit trade.



# KEY TO DECIPHER AND UNDERSTAND TBML

- **Geography of global trade**

- Production & demand
- Logistics & operations
- Financial and ancillary services

- **Geography of illicit trade**

- Production & demand
- Logistics & operations
- Financial and ancillary services





## Agroindustry trade

- Commodities flow north
- Funds (payment) flows south

## Transportation

- Shipping (land, sea & air)

## Supporting services

- Logistics
- Banking
- Insurance
- Ports of exit & entry



“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.”

TRADE-BASED MONEY LAUNDERING, United States Government Accountability Office. 2020 report.

When the illicit products periodically flows from one country to another – supply →demand, and when the volumes of funds reach the hundreds to millions of USD per shipment, they will most probably use TBML



**Conceptual breakdown...**

**2. Recognizing the threat players**





## Conceptual breakdown...

### 2. Recognizing the threat players

#### KEY ARGUMENT

- If you understand the basic TCOs, terrorist groups, and rogue states that move great amounts of money and wealth, then you can estimate that...
- They will use TBLM as a general mechanism to move illicit products and funds
- Therefore, you must have general knowledge of who the threat players are



# Threat Network Categories that Exploit TBML

TRADE BASED MONEY LAUNDERING THREAT ACTORS					
DRUG CARTELS	TERRORIST ORG.	INSURGENCIES	TCOs	GANGS	STATE ACTORS
 <p>TIJUANA CAF CARTEL ABELIANO FELIX</p>	 <p>AI SHABAAB</p>	 <p>ELN NATIONAL LIBERATION ARMY</p>	 <p>NDRANGETHA</p>	 <p>MS13</p>	 <p>NORTH KOREA</p>
 <p>C.D.S CARTEL DE SINALOA</p>	 <p>HEZBOLLAH</p>	 <p>LORD'S RESISTENCE ARMY</p>	 <p>BRATVA RUSSIAN</p>	 <p>LATIN KINGS</p>	 <p>IRAN</p>
 <p>Los Soles - Venezuela</p>	 <p>لا إله إلا الله رسول الله محمد</p> <p>ISIS</p>	 <p>Tigray People's Liberation Front</p>	 <p>TRIADS</p>	 <p>Bloods BLOODS</p>	 <p>SIRYA</p>



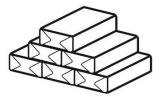
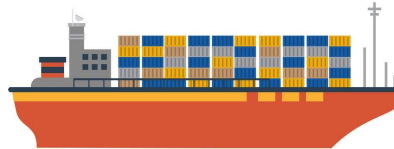
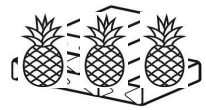
Conceptual breakdown...

### 3. The mechanics of TBML



### Case descriptive data

- Illicit market → drugs (cocaine)
- Supply origin → Colombia/Peru
- Shipping point → Colombia
- Logistics → Maritime
- Port of entry → New Jersey
- Method → Pineapples and drugs



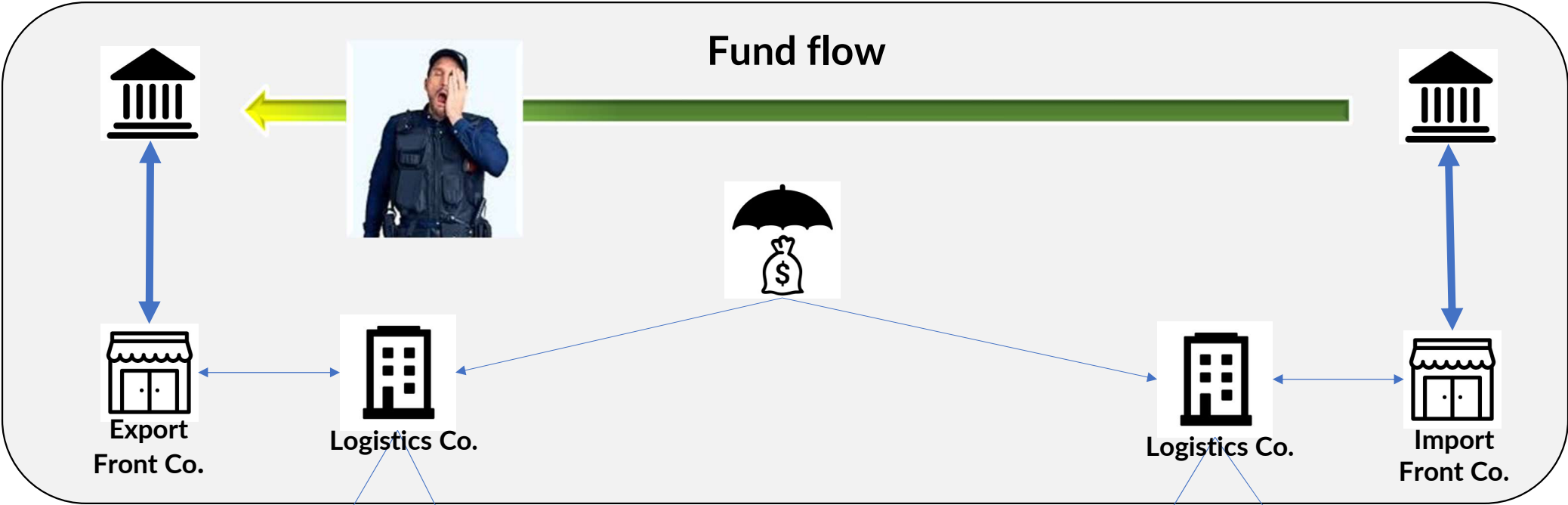
Supply

Demand

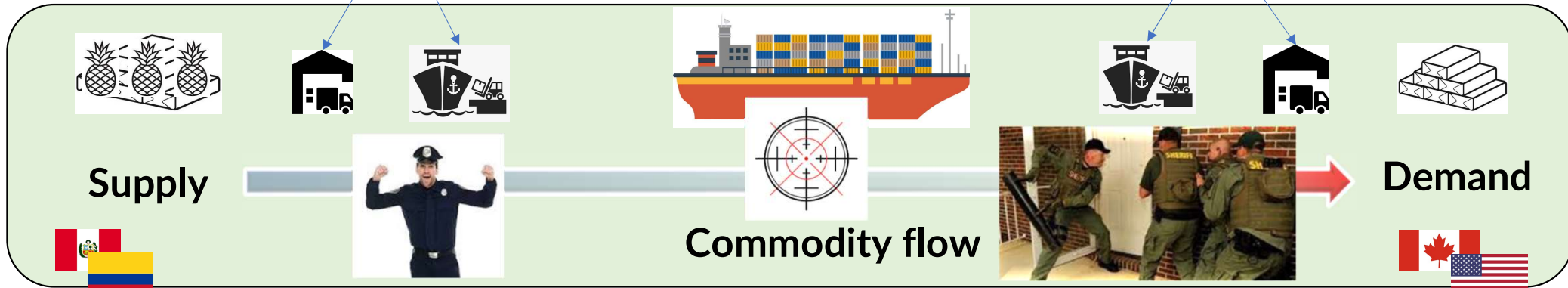
Commodity flow



# Fund flow



# Commodity flow



**Conceptual breakdown...**

**4. Document exploitation & evidence trail**



## Conceptual breakdown...

### 4. Document exploitation & evidence trail

#### KEY ARGUMENT

- If you understand the basic of how international trade occurs...
- Then you will know what counterparties participate in trade.
- If you know what counterparties support an export/import operations, then you will know what are the expected documents, record data, and information of commerce operations. If so, then...
- You will know exactly what documents to collect to progress your criminal investigation that has a TBML component.



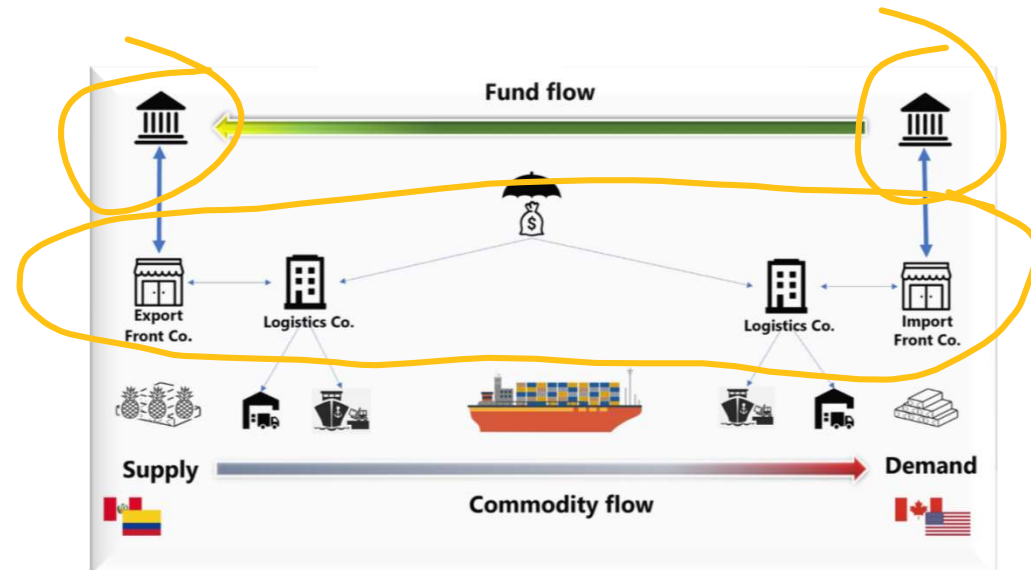
# Document Exploitation & Evidence Collection

Leaves a document trail from:

- Banking
- Insurance
- Customs
- Logistics

The three basic trade documents:

1. Bill of lading
2. Policy of insurance
3. Invoice





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# Document Exploitation & Evidence Collection

Seller (exporter) payment document

## Letter of credit

- Title/transport document
- Invoice
- Packing list
- Certificate of origin
- Inspection certificate
- Buyer seller data
  - Address, phones, others
- Etc.

Date: \_\_\_\_\_

IRREVOCABLE LETTER OF CREDIT NO. \_\_\_\_\_

**Beneficiary:**

City of Overland Park, Kansas  
8500 Santa Fe Drive  
Overland Park, Kansas 66212

**Applicant:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Amount:** \_\_\_\_\_

**Expiration Date:** \_\_\_\_\_

Attention: Chief Financial Officer

We hereby establish our Irrevocable Letter of Credit No. \_\_\_\_\_ in favor of the City of Overland Park, Kansas ("the City") for the account of \_\_\_\_\_ (applicant/developer) and authorize you to draw on \_\_\_\_\_ (the Bank) up to an aggregate amount not to exceed \$ \_\_\_\_\_, for the \_\_\_\_\_ (purpose of letter of credit).

This Letter of Credit is available by payment with \_\_\_\_\_ (the Bank) against presentation of your draft(s) at sight drawn on \_\_\_\_\_ (the Bank) and accompanied by the original of this Letter of Credit and original amendment, if any.

The sight draft drawn under this letter of credit must bear on it face the clause "Drawn under \_\_\_\_\_ (the Bank) Letter of Credit No. \_\_\_\_\_ for full or partial payment.

This Letter of Credit will expire \_\_\_\_\_ (the stated expiration date) at the counters of \_\_\_\_\_ (the Bank), \_\_\_\_\_ (the Bank address) at the close of the Bank's business day, unless otherwise extended as hereinafter set forth. . As used herein, the term "business day" means a day on which the Bank is open for the purpose of conducting a commercial banking business.

Demand for payment as per "Exhibit A" may be made in the form of a fax, by courier, us postal service mail or other telecommunication facility. A fax or other written demand for payment must be followed by the appropriate original sight draft specified above within three (3) business days of the sending of such telecommunication.

If demand for payment is made by you hereunder at or prior to 12:00 p.m. C.S.T./C.D.T., on a business day and such demand for payment conforms to the terms and conditions hereof, payment shall be made to you of the amount demanded, in immediately available funds, not later than 3:00 p.m., C.S.T./C.D.T., on the same business day. If the demand for payment does not conform to the terms and conditions of this Letter of Credit, the bank shall give you prompt notice not later than 3:00 p.m., C.S.T./C.D.T., on the same business day.



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**r2**

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# Document Exploitation & Evidence Collection

Seller (exporter) payment document

## Open accounts

- Wire transfer between importer and exporter
  - Name
  - Address
  - Account numbers (buyer & seller)
  - Very general reason for transfer explanation, e.g.,  
“invoice # 1234”



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Fund flow



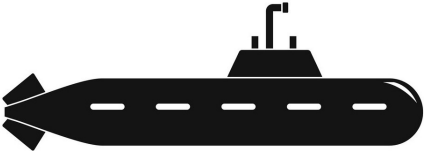
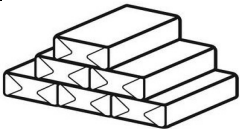
Supply



Demand



Commodity flow

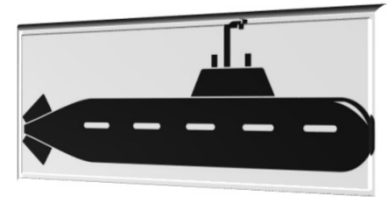


*How can it be done?*



# TBML schemes

- Over-invoicing shipments



- Multiple invoicing for the same shipment

- Phantom shipping



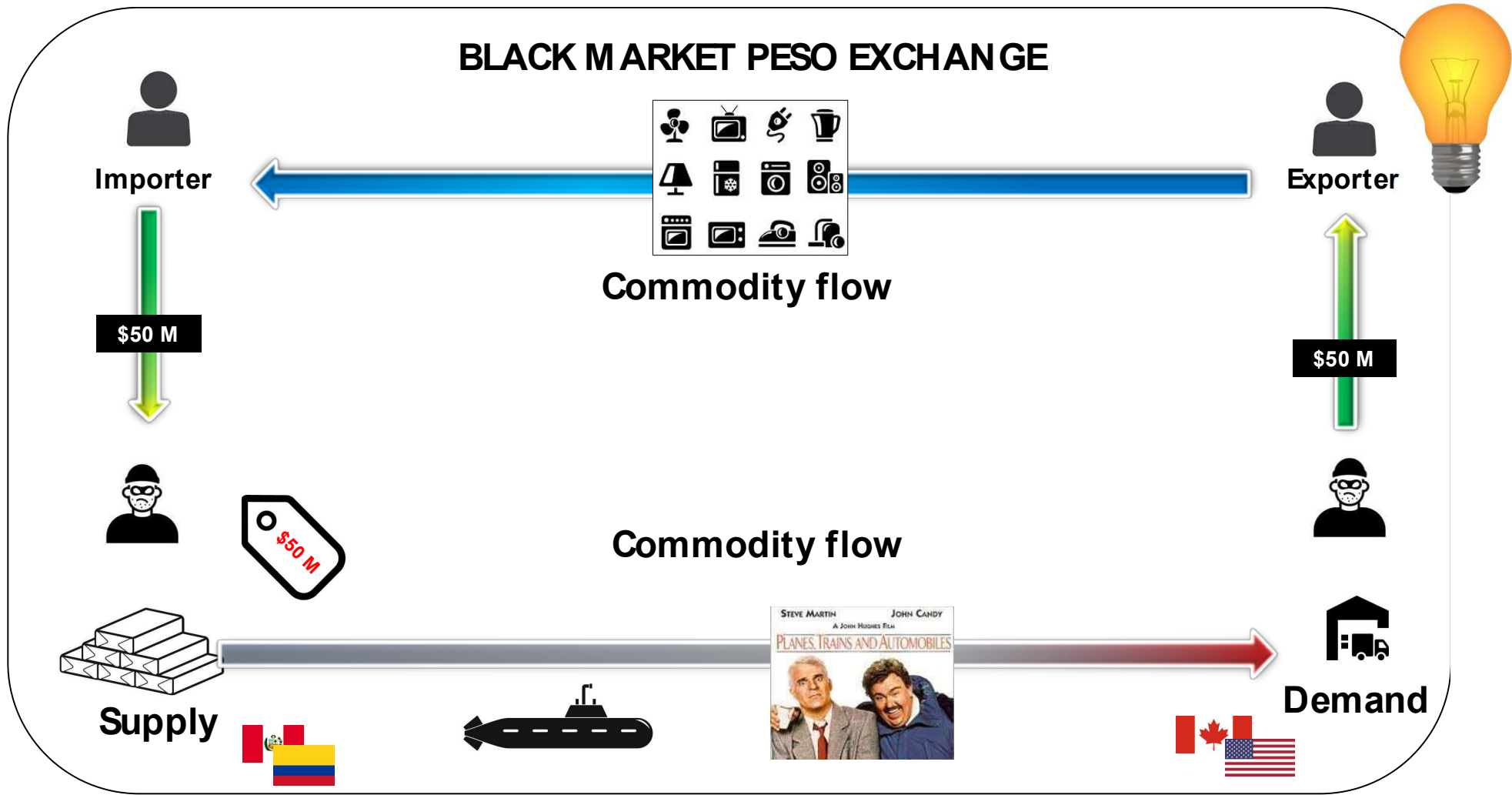
Container full of  
rocks

On Paper only  
shipment

- BMPE & value transfer



# BLACK MARKET PESO EXCHANGE





# If TBLM is suspected, these are specific questions that must be answered

These questions need to be asked at an import/export services counterparty

- If the target has frequent commercial involvement with high-risk geographies or destinations of funds
- If the letters of credit suffer many amendments
- Excessive defaults on trade finance guarantees
- Trade structure is unnecessarily complex
- Trade in high-risk goods
- Traded goods details discrepancies



## Example of undervalued export – TRANSFER OF VALUE

1. Local criminal (wholesaler) has \$1m of illegal proceeds and need to make payment to supplier in Mexico (supplier) Product → cocaine.
2. Local criminal purchases 200 gold watches for \$5000 each (real market price) and **pays** a total of \$1m.
3. Local exporter sell the 200 watches to a Mexican importer for \$5 each. (\$1k total)
4. Mexican importer receives the watches and is invoiced for \$1000 and **sends payment** to local exporter.
5. Mexican importer retails the watches for real market price (\$5000 each).
6. Mexican importer moves funds to Mexican drug supplier as payment for cocaine received in the U.S.

OUTCOME: Local criminal moved \$1,000,000 value using a \$1,000 payment transaction using wire transfers and commercial bank accounts.

Technique: UNDER INVOICING



## Slide 23

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r1      Insert visual of the mechanics of TBLM  
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# Example of undervalued export – TRANSFER OF VALUE

1. Let's work this case...

WHAT WOULD YOU DO IF THE CASE BECOMES A LEAD THAT FALLS WITHIN YOUR MISSION AUTHORITY?

Incorporate PE related data....

1. Who would you target? Who are the persons of interest?
2. What documents can be obtained?
3. What open-source research is needed?
4. What government databases can be queried?
5. What information can field officers collect?
6. What undercover actions can be taken?
7. ETC.....



## Slide 24

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## Detection - Analytic triage.

- Initial lead
  - What is the threat?
  - What is the threat baseline?
  - Is there a historic trail?
- Preliminary research and node identification
  - Persons
  - Entities
  - Gatekeepers
  - Commodities
  - Geographies
  - Financial services
- Compiling preliminary data
  - LEA Databases
  - Commercial data aggregators
  - Open-source precursory research



# Working the case

## The Initial Disposition

- Identify underlying crimes & illicit markets
- Develop preliminary argument & hypothesis
- Preliminary theory of the case
- Identify evidence
- Determine standard of proof
- Next step (recommendations)



# Developing the criminal investigation

- Mapping out the network
- Identifying underlying crime
- Identifying commercial infrastructure
- Identify the flow of funds
- Identify the flow of commodities







**Additional resources:**

- Trade transparency units
- FinCEN
- Egmont Request
- Other

**Operational concept**

- TASKFORCE CONCEPT
- MULTIAGENCY
- MLAT



**What is your argument?**

**Premises**

**Conclusion...**



# Questions?

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