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# Fighting Trade-Based Money Laundering

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*John Cassara, a former U.S. intelligence officer and Treasury Department special agent, [published a book last month](#) about trade-based money laundering. In an interview he discusses the issue, how to fight it and what it would take to achieve trade transparency. The interview was condensed and lightly edited for clarity.*

***Trade-based money laundering received a lot more attention in 2015 than in years past. Your book's title identifies it as "the next frontier in money-laundering enforcement." Why, and what does it portend for 2016?***

**Mr. Cassara:** It's the next frontier for anti-money laundering enforcement because the U.S. and international community have spent time and resources developing countermeasures against the

other money laundering methods identified by the Financial Action Task Force. The FATF identifies three types of money laundering in the world: First is through financial institutions, second is bulk-cash smuggling and the third is trade-based money laundering. That's what we've spent the least amount to combat.

It's the least known, and I think it's the largest and most prevalent method of money laundering. We're getting killed by the old-fashioned ways of laundering money; it's been around since long before the advent of modern banking.

***Trade-based money laundering involves multiple methods of laundering money. Can you explain what ties them all together?***

**Mr. Cassara:** I explain this in the book; trade-based money laundering is very broad. There's value transfer, transfer mis-pricing and mis-invoicing, underground financial systems, hawala and others. What do they all have in common? It's trade, and trade fraud, because it all revolves around invoice fraud and manipulation.

***The Wall Street Journal [had a story](#) on Wednesday diving into the world of hawala. What is it, why would it be used for money laundering and what are the risks involved?***

**Mr. Cassara:** There's a chapter in the book on hawala, and in the chapter I define hawala: It basically equates to money transfer without money movement. By that, I mean: Money is transferred but it doesn't physically move. The majority of hawala transfers are perfectly benign; they're the remittances of wages. The authorities don't want to interfere with that. Hawala means trust.

The risk, however, is these transfers are completely out of our radar screen. There's a complete lack of transparency; they completely avoid financial reporting requirements, for the most part. In the book, I quote Osama bin Laden, who basically said al Qaeda exploits the cracks of the international financial system. They know what our requirements are and they take steps to avoid our countermeasures; and they use financial systems they're aware of, like hawala, trade-based money laundering or value transfer.

It's not [the Western] way of doing business, but it's theirs. It's important we understand their financial systems but we have to be aware that there aren't really any good countermeasures.

***Are there ways to effectively fight trade-based money laundering, and if so, how well are the authorities doing it?***

**Mr. Cassara:** There are, in fact, ways to effectively combat trade-based money laundering, and this is one of the reasons I'm optimistic. Theoretically, I think it's possible to curtail it. The great thing about trade is that data exists: Every country in the world has a customs service, where they track what goes in and out at the border. We know, basically what the worldwide price of "commodity x"

should be, give or take. By using data and sophisticated analytics, those anomalies should pop right out, and they do—when people look.

In theory, it's possible to create a world of trade transparency. We're not even close to being there, but we're seeing the first tentative steps going in that direction.

***What would it take to achieve trade transparency?***

**Mr. Cassara:** I think one of the best countermeasures is one I invented before leaving government. It's a trade transparency unit, analogous to a financial intelligence unit. Instead, you're looking at trade data. It can overlap with all sorts of data, but the concentration is on trade.

If you enter into an agreement with trading partners, or enter into a customs mutual agreement, you have permission to share targeted trade data for, say, suspicious transactions. If you do that, the anomalies pop right out.

Right now, there are a dozen trade transparency units around the world. Most are in a loose association; I would like to see an expansion of that concept. It's doable.

The reason I'm so optimistic about this is because a trade transparency unit generates revenue for countries. It cracks down on trade fraud all over the world. I've done enough training and mentoring and teaching overseas to know that sometimes the carrot works better than the stick.

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