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TRADING WITH THE ENEMY: TRADE-BASED MONEY LAUNDERING IS THE GROWTH INDUSTRY IN TERROR FINANCE

HEARING

BEFORE THE

TASK FORCE TO INVESTIGATE TERRORISM FINANCING

OF THE

COMMITTEE ON FINANCIAL SERVICES

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TRADING WITH THE ENEMY: TRADE-BASED MONEY LAUNDERING IS THE GROWTH INDUSTRY IN TERROR FINANCE

Wednesday, February 3, 2016

U.S. HOUSE OF REPRESENTATIVES,
TASK FORCE TO INVESTIGATE
TERRORISM FINANCING,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The task force met, pursuant to notice, at 10:01 a.m., in room 2128, Rayburn House Office Building, Hon. Michael G. Fitzpatrick [chairman of the task force] presiding.

Members present: Representatives Fitzpatrick, Pittenger, Ross, Barr, Rothfus, Schweikert, Williams, Poliquin, Hill; Lynch, Sherman, Meeks, Green, Himes, and Sinema.

Ex officio present: Representative Waters.

Also present: Representative Royce.

Chairman FITZPATRICK. The Task Force to Investigate Terrorism Financing will come to order. The title of today's hearing is, "Trading with the Enemy: Trade-Based Money Laundering is the Growth Industry in Terror Finance."

Without objection, the Chair is authorized to declare a recess of the task force at any time.

The Chair now recognizes himself for 3 minutes for an opening statement.

On March 25, 2015, under the leadership of Chairman Jeb Hensarling, the House Committee on Financial Services adopted a resolution creating the Task Force to Investigate Terrorism Financing. The aim of this task force has been to assess the effectiveness of our current money-laundering and counter-terror finance efforts and tools when faced with a world containing new and evolving threats.

With Ranking Member Stephen Lynch, Vice Chair Robert Pittenger, and a bipartisan group of 21 Members, the Task Force has been able to conduct five hearings, and several briefings and information sessions, as well as a CODEL to meet with regional partners and discuss their efforts to counter terrorism financing.

The initial 6 months of operation shed significant light on multiple issues with regards to counter-threats finance and anti-money laundering initiatives. First was the discovery of the various revenue streams ISIS utilizes to fund its terror operation, and the

ways in which the United States may effectively counter them, such as continuing to target ISIS oil infrastructure, working with regional allies to close porous borders, and a better police to travel with foreign fighters.

Second, the task force brought about a consensus that there is a need for greater information-sharing throughout the financial system and between government agencies, as well as an increased integration of government databases. Finally, it became evident through witness testimony and numerous briefings, that Congress needs to act on beneficial ownership and to provide the appropriate agencies sufficient resources to address current challenges.

Building on what we know and have learned, this session will take a much closer look at several lesser-known methodologies that have been mentioned in previous briefings and hearings, including trade-based money laundering, terror-funding streams from Latin America, developing our regional partners' capabilities to combat terror financing, and the funding of foreign-based terrorists.

Today, we aim to take a closer look at trade-based money laundering, 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. This practice allows hundreds of billions of dollars to be laundered annually and cannot be allowed to continue.

It is our hope that with the help of our expert witnesses, this body will walk away with a better understanding of the problem as well as an effective measure to curb and combat this practice. On Monday, DEA and European authorities were able to uncover a massive Hezbollah drug and money-laundering scheme that was intent on providing financial assets to militants in Syria. This development depicts the scale of this problem and the urgent need to devote more focus towards it.

Unless there is any objection, I will ask for unanimous consent to put this DEA release into the record.

Without objection, it is so ordered. This hearing marks the beginning of another 6 months of investigation, and an additional step towards snuffing out the resources necessary for these nefarious groups to grow and to thrive.

I now recognize for an opening statement the ranking member of the task force, the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman, and I thank Chairman Hensarling, Ranking Members Water, and Vice Chair Pittenger for holding today's hearing. I also want to thank our witnesses for helping this task force with its important work. This hearing will give us a much-needed opportunity to examine the trade-based money laundering nexus to terrorism financing.

Trade-based money laundering involves using trade and products or commodities for value in order to divert and obscure the true nature of illicit wealth. Currently, there is ample opportunity for terrorist groups to exploit the international trade system, with low risk of being caught. According to the Financial Action Task Force (FATF), key characteristics of the international trade system, including the enormous volume of trade flows and the complexity therein, can arise from the practice of co-mingling illicit funds with the cash flows of legitimate businesses, and the limited recourse to

verification procedures or programs to exchange customs data between countries, have made it both attractive and vulnerable to illicit exploitation.

A few years ago my colleagues at FinCEN briefed me on an elaborate trade-based money laundering scheme that was linked to the terrorist organization Hezbollah. Under the scheme, the Lebanese-Canadian Bank and multiple foreign-exchange houses facilitated the laundering of South American drug proceeds through the Lebanese financial system and through trade-based money laundering schemes involving cars and consumer goods. Cars would be purchased in the United States and shipped to Senegal and other areas of West Africa. The proceeds from the car sales would be funneled back to Lebanon through bulk cash deposits among conspiring exchange houses.

Now as the Chair has noted, we are back at it again with the Lebanese-Canadian bank, and the same stream of illicit funding has been encountered again. I note that our witnesses, Lou Bock and John Cassara, suggested that a network of global trade transparency units (TTUs) would help us bring the opaque system used by Hezbollah and many others into the light of day, and I am inclined to agree.

The United States is already at the forefront of trade transparency. In 2004, the United States created the first transparency unit within the Department of Homeland Security to analyze data in order to identify global trade-based money laundering trends. A further expansion of TTUs would allow the United States to trade paperwork and set international standards for trade.

And as Lou Bock and John Cassara propose, we need a system of TTUs that is analogous to the Egmont Group's financial intelligence units. I am happy to see that Dr. Nikos Passas of Northeastern is with us today, and he recommends highly that we need to collect this data in one place so it can be easily analyzed.

So in closing, I just appreciate the work of the Chair and the Vice Chair, and the work of our witnesses as well. This is important work that needs to be addressed.

I would like to yield 1 minute to the ranking member of the full Financial Services Committee, Ms. Maxine Waters.

Ms. WATERS. First, I would like to say that I am pleased that our committee voted to extend the mandate of our Task Force to Investigate Terrorism Financing for an additional 6 months, and I commend the good work of the task force, work that they have done during the past year under the leadership of Ranking Member Lynch, Chairman Fitzpatrick, and Vice Chairman Pittenger.

By providing the opportunity to hear from a wide range of experts, we have been better able to understand the threats we currently face, as well as the challenges we must meet in order to overcome the identities, intentions, and resources of fanatics who are plotting violence against innocent people both here and abroad. I very much welcome the topic of today's hearing and I look forward to this examination into the scope and dimension of trade-based money laundering and the threat it poses to our security.

The written testimony of our witnesses makes an overwhelmingly persuasive case that trade-based money laundering is one of the most widespread, pernicious, and least understood forms of

money laundering. Although the enormity of the problem may be daunting, I hope as we learn more about the issue, we will be able to hone in and act on some discrete policy responses within our committee's jurisdiction, in particular those that address the role financial institutions play in detecting and disrupting trade-based money laundering schemes.

I look forward to the witnesses' statements, and I yield back the balance of my time.

Mr. LYNCH. At this point, Mr. Chairman, I would like to yield 1 minute to Ms. Sinema of Arizona.

Ms. SINEMA. Thank you, Chairman Fitzpatrick, and Ranking Member Lynch. Arizona's top export market is Mexico, and cross-border trade is essential to our economy. Despite its importance to Arizona's economy, cross-border trade is often used to facilitate international money laundering. For the past 20 years, official figures put Mexican exports to America well above American imports from Mexico. According to Global Financial Integrity, the discrepancy can be attributed to Mexican groups using trade-based money laundering to bring dollars into Mexico.

We need to find ways to stop trade-based money laundering, while promoting the efficient and cost-effective movement of goods and services across borders. Given the volume and complexity of trade-based money laundering, how can we do more to counter the misuse of international commerce and the threat it poses to our national security? How can we address this national security threat without limiting access to banking services for legitimate enterprises in border States like mine? I look forward to hearing more from our witnesses today about how we can better combat international money laundering without creating costly red tape and inhibit commercial trade flows.

Thank you, Mr. Chairman. I yield back.

Chairman FITZPATRICK. The Chair now recognizes the vice chairman of the task force, Mr. Pittenger, for 1 minute.

Mr. PITTENGER. Thank you, Chairman Fitzpatrick, and thank you to Chairman Hensarling and Ranking Member Waters, and I particularly want to thank Ranking Member Lynch of this task force for its continued dedication to these issues and all the Members who have committed their time and efforts in this important work. And thank you to the witnesses who have come and brought their experience to this task force.

Criminal enterprises have relied on this method of illicit financing for years. However, many believe that this is an emerging technique now being used by terrorist groups to finance their violent and oppressive operations.

With over $100 billion flowing in Iran, the world's largest state sponsor of terror, the risk of terror financing has never been greater. Similarly, the Administration has done nothing to diminish the number of ISIS soldiers on the battlefield in Iraq and Syria. ISIS members have remained consistently 20,000 to 30,000 soldiers for the past several years despite over 10,000 Saudi air strikes.

Since we have not removed ISIS from the battlefield, they will continue to require resources to fund their oppression. As we enter into the new year, Congress should prioritize efforts to stop the flow of money and resources to terrorist organizations. We must

ensure that organizations like the Financial Crimes Enforcement Network (FinCEN) receive the resources and intelligence necessary to combat trade-based money laundering and other methods of illicit financing.

With that, I thank the Chair and the ranking member once again, and I yield back.

Chairman FITZPATRICK. And I recognize the gentleman from Texas, Mr. Williams, for 1 minute.

Mr. WILLIAMS. Thank you, Chairman Fitzpatrick, and thanks to all of the witnesses today for being here. As previous task force hearings have explored, the use of trade to launder money is nothing new and is most definitely on the rise. Although trade-based money laundering is widely recognized as one of the most common ways terrorist organizations seek funding, it is my hope that this task force continues to explore solutions to an ever-growing problem that often hits too close to home.

When I talk about that, I am talking about my home. As a second generation auto dealer, my industry has not been immune to trade-based money laundering. Through the sale of used cars as well as other legitimate products, terrorist organization have funneled billions of dollars through U.S. markets.

While many high-profile cases have been discussed in prior hearings, criminal organizations will continue to exploit new methods when it comes to laundering money unless strict government oversight enforcement is improved.

It is my belief that this task force has an important role to play in the combating of terrorist financing, and I look forward to hearing from our witnesses on how best to do it, and especially on how my industry can do what they need to do to stop it. So thank you, Mr. Chairman. I yield back.

Chairman FITZPATRICK. The gentleman yields back. We now welcome our witnesses. First, Mr. John Cassara is a former United States Intelligence Officer and Treasury Special Agent. Mr. Cassara has over 26 years of experience in the Federal Government intelligence and law enforcement communities. He is an expert in anti-money-laundering and terrorist financing. Mr. Cassara invented the concept of trade transparency units and recently released a book on that topic this past fall entitled, "Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement."

Mr. Cassara has lectured around the world on a variety of transnational crime issues. He is currently an industry adviser to the analytics company SAS. He holds a master's degree in international management from the American Graduate School of International Management in Phoenix, Arizona. He also graduated magma cum laude from the University of California, San Diego.

Second, Mr. Louis Bock is a former Senior Special Agent at U.S. Customs and Border Protection. Mr. Bock has had a successful career as a U.S. Government criminal investigator with experience targeting trade fraud and money laundering with the United States Immigration and Customs Enforcement, U.S. Customs and Border Protection, the Department of Agriculture, and the Drug Enforcement Agency.

Mr. Bock was named the godfather of trade-based money laundering by Mr. Cassara in his recent book due to his pioneering efforts to systematize the analysis of trade data. Mr. Bock holds a bachelor's degree in behavioral and statistical measurement from Brooklyn College, and a master's degree in education and behavioral and statistical measurement from King College.

Third, Mr. Farley Mesko is co-founder and chief executive officer of Sayari Analytics. Mr. Mesko started after spending 5 years building the C4ADS, a non-profit organization focused on data-driven technology enabled analysis of conflict and security issues. Sayari Analytics conducts open source resource of public records to uncover financial and other networks of illicit actors.

Prior to his time at C4ADS, Mr. Mesko was a special correspondent for the East African Magazine. Mr. Mesko holds a bachelor's degree in environmental studies and government from Bowdoin College. At this time, I will ask Mr. Lynch to recognize and introduce his constituent from Northeastern University.

Mr. LYNCH. Thank you for that courtesy, Mr. Chairman. Dr. Nikos Passas is a professor of criminology and criminal justice at Northeastern University, one of our fine institutions in Boston. And he is co-director of the Institute of Security and Public Policy. He has served as corruption program director at the Ethics and Compliance Officer Association, and as an adjunct law professor at Case Western Reserve University.

His law degree is from the University of Athens, his master's degree is from the University of Paris, and his Ph.D. is from the University of Edinburgh Faculty of Law. He specializes in the study of corruption, illicit financial trade flows, sanctions, informal fund transfers, remittances, terrorism, white collar crime, financial regulation, organized crime, and international crimes.

He has published more than 200 articles, books, chapters, and reports in 13 languages. His next book is entitled, "Trade-Based Financial Crime and Illicit Flows," and another is entitled, "Corruption and Crisis in Greece." So welcome, Dr. Passas.

Chairman FITZPATRICK. The witnesses will now be recognized for 5 minutes each to give an oral presentation of your testimony. And without objection, the witnesses' written statements will be made a part of the record. Once the witnesses have finished presenting their testimony, each member of the task force will have 5 minutes within which to ask questions.

For the witnesses, on your table there are three lights: green; yellow; and red. Yellow means you have 1 minute remaining, and red obviously means your time is up. Be advised that the microphone is very sensitive so please make sure you are speaking directly into it. With that, Mr. Cassara you are recognized for 5 minutes.

STATEMENT OF JOHN A. CASSARA, FORMER U.S. INTELLIGENCE OFFICER, AND TREASURY SPECIAL AGENT

Mr. CASSARA. Good morning. Chairman Fitzpatrick, Ranking Member Lynch, and members of the task force, thank you for the opportunity to testify today. It is an honor for me to be here. Not long after the September 11th attacks, I had a conversation with a Pakistani entrepreneur. This businessman could charitably be de-

scribed as being involved in international gray markets and illicit finance.

We discussed many of the subjects addressed in this hearing including trade-based money laundering, terror finance, value transfer, hawala, fictitious invoicing, counter-valuation, and others. At the end of the discussion he looked at me and he 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."

That businessman knew that the United States and the international community had devoted attention, countermeasures, and resources to counter a variety of money laundering and terror finance methodologies. However, trade-based money laundering (TBML) for the most part has been ignored. TBML is defined 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.

The key word in that definition is "value." The magnitude of TBML has never been systematically examined. Nevertheless, one academic study examining the 2013 U.S. trade data found that almost $220 billion of the illicit value was moved out of the United States in the form of value transfer. That figure represents almost 6 percent of U.S. trade.

Approximately $340 billion was moved into the country via suspect trade transactions representing about 9 percent of U.S. trade. TBML is also involved with tax evasion, export incentive fraud, VAT fraud, capital flight or the transfer of wealth offshore, evading capital controls, barter trade, underground financial systems such as fei-chien, the Chinese flying money system, the black market peso exchange and commercial trade-based money laundering such as trade diversion, transfer pricing, and abusive trade misincoming.

In discussing terror finance, TBML is also intertwined with hawala, the misuse of the Afghan transit trade, Iran and Dubai commercial connections, the tri-border region in South America, suspect international Lebanese-Hezbollah trading syndicates, nonbank lawless regimes such as those in Somalia and Libya, the ISIS regime in Syria and Iraq, and many more.

So considering all of its varied forms, I can make the argument that trade-based money laundering is perhaps the largest and most pervasive money laundering methodology in the world. Unfortunately, it is also the least understood, recognized, and enforced. In its primary form, TBML revolves around invoice fraud and the associated manipulation of supporting documents. The primary techniques are over- and under-invoicing of goods, multiple invoicing of goods, and falsely described goods.

For example, did you know that we are importing plastic buckets from the Czech Republic and each bucket costs $972? Do you know that we are importing toilet tissue from China at the price of over $4,000 a kilogram? And that we are exporting live cattle to Mexico at $20 a head? Because of the magnitude of U.S. and global merchandise trade, these transactions and millions of others like them are not recognized, and simply get comingled.

Successful enforcement efforts are practically nil. Nevertheless, I am hopeful. First of all, theoretically, international trade transparency can be achieved because of the exponential growth in data and the incredible advances in analytics. I am also optimistic because trade transparency is also a revenue enhancer. I have found that the carrot of empowering our partners to strive for trade transparency and increased revenue can be much more effective than the stick of heavy-handed measures that have proven to be unsuccessful.

I have a number of recommendations in my written statement, and in my new book, "Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement." These include reaching a consensus on the magnitude of the problem, a Financial Action Task Force recommendation on TBML, and supporting the trade transparency unit initiative.

Thank you, and I would be very happy to answer any questions you may have.

[The prepared statement of Mr. Cassara can be found on page 67 of the appendix.]

Chairman FITZPATRICK. Thank you, Mr. Cassara.

Mr. Bock, you are recognized for 5 minutes.

STATEMENT OF LOU BOCK, FORMER SENIOR SPECIAL AGENT, U.S. CUSTOMS AND BORDER PROTECTION

Mr. BOCK. Good morning. I would also like to thank the chairman and the members of the task force for this opportunity. I appreciate your interest in the program that I have helped to develop for the past 25 years.

My name is Lou Bock, and I am a retired Senior Special Agent who worked as an investigator with DEA and USDA, later at Customs, which later became ISDHA. I worked on and supervised financial fraud and intelligence programs. For much of my career, I generated and worked large, complicated criminal cases involving trade fraud and money laundering schemes totaling billions of dollars.

I did so with the help of a team of import and tax specialists, agents, and analysts. We identified patterns of criminal behavior that stretched across large volumes of trade and financial data. The software methodology that my team and I pioneered was successfully deployed in over two dozen countries.

This led, with the insight and vision of John Cassara, to the development of trade transparency units (TTUs). I believe that TTUs have veered from their initial financial and Customs focus in part because of the changing culture within the Department of Homeland Security. Cassara writes in his book, "Trade Based Money Laundering," that the forced merger with the former INS, and expansion of Customs missions into immigration enforcement, has not been successful.

Its expertise, skill sets, budgets, and staffing were deluded. The resulting dysfunction within the DHS has been less well-documented. DHS has neither the Customs nor financial expertise to make the TTU a success. The loser here is our ability to tackle trade-based money laundering and trade and tax revenue loss on a grand scale.

It is a missed opportunity to target funds belonging to terrorist groups such as ISIS, which necessarily do participate in their local trade. What is needed in support of a TTU? Detailed transactional import and export data, as well as records of the movement of money for the United States and partner nations.

Movement of trade goods should include bills of lading and manifest records for both imports and exports of the United States. Intermediate container movements, which are readily available, are also useful. ESA data which includes suspicious activity reports will greatly enhance the targeting veracity of the items mentioned above.

At present, the existing DHS TTU's attention is focused 90 percent on South America. That perhaps makes some sense given that DHS' focus is on immigration and drugs. However, I believe this view does little to attack current evolving terrorist threats. The real money flowing to ISIS involves trade from the Middle East, Europe and including Turkey.

With the proper focus on terrorist financing and trade-based money laundering, housed in a financial organization such as FinCEN, which has existing agreements with revenue agencies, we can make a serious dent in the core funding sources of entities such as ISIS.

I recommend the creation of a reinvigorated TTU with an associated budget line from Customs. I also think that a TTU should be housed at FinCEN under Treasury. Treasury is an agency capable of addressing the nexus of trade-based money laundering and tax revenue loss within the existing international agreements.

I believe DHS ICE is not a revenue agency and the Treasury Department is. Giving FinCEN this focus immediately, and full access to the necessary trade data, is the obvious next step, whatever the eventual status of the TTU initiative is within DHS.

Let's return to our earlier vision: focus and effectiveness, built on a rapidly increasing number of TTUs analogous to the Egmont Group's financial intelligence units.

I would like to get back on track with this. Thank you for listening.

[The prepared statement of Mr. Bock can be found on page 42 of the appendix.]

Chairman FITZPATRICK. Mr. Mesko, you are now recognized for 5 minutes.

STATEMENT OF FARLEY M. MESKO, CO-FOUNDER AND CHIEF EXECUTIVE OFFICER, SAYARI ANALYTICS

Mr. MESKO. Chairman Fitzpatrick, Ranking Member Lynch, and members of the task force, I want to thank you for the opportunity to be here today. I want to dive deeper into the real-world example of Hezbollah terror financing through TBML. It was referenced in the opening statements by the Members.

I want to do so in order to illustrate some of the challenges and opportunities in targeting these schemes. 2011 is part of a larger sanctions package. U.S. regulators and law enforcement identified a Cotonou Benin-based group of import-export companies known as the Alissa Group that dealt primarily in used-car imports into West Africa from the United States, Canada, and Europe.

Treasury data from the original 2011 action indicates that at least 6 of the sanctioned companies shared an address in Cotonou. Several also shared the same phone number and key personnel.

We went to the public records in the Chamber of Commerce in Cotonou and Benin, and found that another company co-located with the Alissa Group at the time of the original 2011 designation was Ramadi SRL. And further, that a new company, Abou Merhi Lines began to use the same shared address and phone number shortly after the 2011 sanctions designation.

It took 2 more years to identify the Ramadi SRL as a participant in the original scheme. And 2013 FinCEN 311 designation. It took another 2 years on top of that to identify and sanction Abou Merhi Lines in 2015. These entities were operating for years out of the same location in Benin, with the same address, and the same phone number, by the same key people.

What I haven't mentioned so far is that in addition to the Ramadi SRL and Abou Merhi Lines, public data shows that at least five other companies and two individuals were and possibly continue to be active at the shared Alissa Group address in Benin, in some cases listed in care of Alissa Group on their public documents and operating in the used vehicle trade.

I share this example because it illustrates several key points about detecting and deterring trade-based money laundering.

First, that sanctions, 311 actions, and indictments are a starting point and not an endpoint in the government's efforts to target money launderers and terror financiers. Networks change over time but they rarely go away, and TBML networks in particular often leave a large footprint companies and individuals as a result of their efforts to seem legitimate.

Working in our favor, more often than not there is a trail leading back from these seemingly legitimate entities to already known and already identified illicit actors. The data to help us draw these connections is often publicly available. It may not be easy to find, but it is out there.

Working against us, however, is the fact that the types of relationships that we should be concerned about within a network don't always comport with the types of relationships that regulators have told banks, insurance companies, and the transportation sector that they need to be concerned about.

This is an area where I think the task force could have real impact, and the clearest example in my mind is that of the singular focus on majority ownership by Treasury's Office of Foreign Assets Control (OFAC) when they guide financial institutions in their dealings with related parties, especially designated nationals such as those identified as part of the Alissa Group sanctions package.

OFAC has stated that banks need only block transactions related to parties on 50 percent or more by an SDN, but only "urges caution when dealing with parties where an SDN has a significant minority interest or may exercise control by means other than majority ownership."

Never mind the lack of clarity on what regulators mean in practical terms when they urge caution. But what about an entity in a terror financing network that is 49 percent owned by a narcotrafficker working with Hezbollah? What about entities that share

key personnel, identifiers, and selectors with a group of SDNs and operate in the same industry segment, in the same place as those SDNs?

Do we really want to allow financial institutions, transportation companies, insurance brokers—whomever it is, to service these clients? It strikes me that especially in the terror financing context, and doubly true in the case of the complex webs of relationships that characterize TBML, clarifying and expanding the scope of what the private sector needs to be concerned about is long overdue.

I thank you for the opportunity to be here today, and I look forward to your questions.

[The prepared statement of Mr. Mesko can be found on page 78 of the appendix.]

Chairman FITZPATRICK. Thank you, Mr. Mesko.

And Dr. Passas, you are recognized for 5 minutes.

STATEMENT OF NIKOS PASSAS, PROFESSOR OF CRIMINOLOGY AND CRIMINAL JUSTICE, NORTHEASTERN UNIVERSITY

Mr. PASSAS. Good morning, Chairman Fitzpatrick, and Ranking Member Lynch. Thank you for the kind introduction. Vice Chairman Pittenger, distinguished members of the task force, it is an honor to testify before you.

The threat of trade-based money laundering is serious, but effective responses are feasible and within reach. The switch to turn the lights on to what is now shadowy economic activities is in your hands. I will list the challenges and outline some solutions.

Despite substantial efforts against money laundering, too little attention is paid to trade, which constitutes the biggest security and crime liability, a black hole undermining the entire control framework. Even if all current rules were to be perfectly enforced throughout the world, billions of dirty funds could still be moved undetected.

Trade can hide both illegal shipments and illicit finance. Countering the finance of terrorism is about financial vigilance: to understand the operations of terror groups, respond effectively and strategically. For this, financial information and commercial flows must be monitored. Most of our attention focuses on the first two, while trade is neglected and is wide open to abuse.

Many terror groups have used commodities for finance, including ISIS. Some work was done in 2003 at FinCEN on trade-connected hawala and other informal value transfer systems, a term I coined back in the 1990s, but no proper assessment of trade vulnerabilities or updated hawala review has taken place.

When it comes to trillions of dollars in annual trade, our vision is blurred. Relevant information is scattered. Some of it is collected by Customs, FinCEN, the Department of Commerce, and port authorities and counterparts overseas.

Other data are in the hands of banks, insurance companies, logistics companies, importers, and exporters. No one has the full picture because no one aggregates the data in one place. Banks are expected to focus on transactions and check-the-box monitoring that yields massive false positives, rather than centering on the

highest risks, identifying offenders and working more closely with controllers.

Finally, the value of open source information helpful for investigations and due diligence relative to criminal networks, beneficial ownership, adverse news, and corruption is underestimated. Yet, it can point to knowledge gaps, misunderstandings, and new insights. The answer is to stop missing opportunities.

The necessary data are not in one place but do exist, hawala is a challenge but also an intelligence resource because intermediaries can help. Agencies should share information. Businesses and academia can assist with new data collection and policy useful analysis.

Our view is blurred unnecessarily. It is like having a 4K TV that we use for analog programs. The means are there to create a feed for a high-definition picture of illicit trade and finance. Several data types can be assembled. Inbound and outbound manifests on what goods are received, where, when and who is involved. Import and export declarations when goods enter or leave the economy.

Some of it is published online, and some is provided by companies for a fee. Business documents, BSA, trade finance, insurance, storage, crime, medical, satellite imaging, and cash movement data can be added too.

Concrete steps the U.S. Government should consider include the following: ensure that government data are gathered and analyzed in one place—FinCEN would be ideal. Assemble private and open source data through a trusted third party such as a university that securely stores and analyzes them in a consolidated way, collaborates with FinCEN to identify irregularities, generate typologies and red flags, map criminal networks, issue guidance, and produce evidence-based investigative clues. Update information on hawala in the United States and regions of concern. Methods keep changing and adapting, and we need to know what changed

None of this is new. At Northeastern, we collaborated with FinCEN, DHS, and NIJ to do exactly this kind of work on hawala, gold, diamonds, and tobacco trade. Working with the Arizona attorney general, we combined MSB and trade data to analyze a TBML case involving textiles in the United States, Mexico, and China.

Partners in Europe and the Middle East stand ready to be enlisted in a collective action targeting, for example, ISIS, a group with enemies in and around the territory controls. Instead of shooting in the dark, we can shed light on black markets and go after well-defined targets.

Official networks and records, networks to produce new data, technology, analytical capacity, experience, and willingness to collaborate are all there. I urge you to turn the switch. Thank you.

[The prepared statement of Dr. Passas can be found on page 81 of the appendix.]

Chairman FITZPATRICK. We thank the witnesses for their testimony. We will now go to members of the task force for 5 minutes of questions each. I will first recognize myself.

Mr. Bock, given your longstanding experience in seeking to uncover trade-based money laundering schemes, are you satisfied with the U.S. Government's efforts since the 1990s to uncover and ultimately dismantle this type of illicit activity? And obviously, we

know that there have been some great successes, but we are most interested in where you think the U.S. Government can do better.

Mr. BOCK. When the effort is made to collect the data and organize it and analyze it, lots of material is created. The biggest problem I have seen in my experience with both the Customs Service and with DHS was that once you found something, you had difficulty bringing it to people who were interested in making the cases.

The priorities out in the field—it was easier for the agents in charge to have arrests made for small quantities of dope or for illegal aliens. In the cases that we came across, such as gold, it is mind-staggering how much money moves there and the amount of things that look good but confuse people. As a result, it needs lots of resources to make the cases, and that is something that the field is not very often interested in doing. And that is our biggest problem.

This case you had in the papers today with DEA is a large case. There wasn't a lot of energy in the field to makes cases like this. That is my biggest complaint. And we had a difficult time getting it out to the field.

Chairman FITZPATRICK. On the issue of information-sharing between agencies, we can think back to the 9/11 Commission. One of the big criticisms of our intelligence agencies was that they were doing a pretty good job individually in a stovepipe setting, but they weren't sharing information with each other.

Mr. Bock, how would you grade the cooperation between law enforcement and the other Federal agencies—Customs, Border Protection, ICE, the Financial Crimes Enforcement Network? Are they sharing information with each other, and is there opportunity for improvement there?

Mr. BOCK. Yes, they are sharing the information. The financial networks are part of the system that we were using in the trade transparency units within DHS. However, it is difficult to get things—I have to be careful with this.

The things that come from the atmosphere that are captured, it is difficult to get that information put into a report to identify and say, here is some further evidence. It is one thing to say, we see a massive trade flow problem, there are unbelievable amounts of gold coming from a country that doesn't have it. It is another thing to have somebody tell you, we know where the bank accounts are and we know of people making these transactions, and then not being able to tell anybody about it.

So that, in my experience, has been the biggest problem. I think that would have convinced many people to take the cases.

Chairman FITZPATRICK. Mr. Cassara, while you say it is logical that the early trade transparency units were sort of originating in and around Latin America, what was a little surprising is there was not a movement of those TTUs beyond that region. Why do you think that was the case?

Mr. CASSARA. I think originally, when the TTUs were first stood up back about 2004, 2005, it made sense to kind of focus on Latin America in general. They were specifically concerned about the black market peso exchange methodology. and this was considered one of the primary countermeasures that we had.

The concept, in fact, has proven successful. We have about a dozen TTUs right now and there been about a billion dollars of seizures. But at the same time, it is like operating with one hand tied behind your back because the system has never really had, has never really accelerated, has never reached that next level, and there are a lot of reasons behind that we could get into, but a lot of it had to do with lack of resources, lack of personnel, raiding of personnel and resources, et cetera.

There have been countries around the world that have wanted to create TTUs. In fact, that was the original concept behind the TTUs: to have an Egmont-like financial intelligence umbrella for trade transparency units. I still think that is feasible. I think that is the next frontier in international money-laundering enforcement. I think we will be moving in that direction, but we can't continue the status quo. We are just treading water and I think we need to get to the next level.

It is certainly attainable. We just have to have the will to do it. And as I keep harking back in my testimony, this should be a no-brainer. We can do that. The data exists and it is a revenue enhancer. Why wouldn't we want do it?

Chairman FITZPATRICK. I now recognize the ranking member of the task force, Mr. Lynch, for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman. Several of the witnesses today have mentioned the fact that we have deployed a lot of anti-terrorist financing assets. We have them in ICE, we have them at the Treasury in FinCEN, but they are somewhat scattered. And I know Mr. Bock and Dr. Passas, you both mentioned that more properly the resources should be deployed at FinCEN because it is a revenue agency, part of Treasury. They are doing a great job on the FIUs.

Members of this task force and committee were involved very early on when we were standing up FIUs in Afghanistan and Jordan and Morocco, so is it the general feeling of the panel that that should take place? Mr. Cassara?

Mr. CASSARA. I spent 6 years of my life at FinCEN. I was the Customs Liaison to FinCEN. This was in the late 1990s, in the era around 9/11.

Mr. LYNCH. Yes. I don't have a lot of time. I am just trying to get an assessment of whether you think that is a good idea or a bad idea?

Mr. CASSARA. My personal opinion is no, it is not a good idea. TTU belongs in what is Customs, and a lot of this has to do with Customs, the Custom-Customs agreements we reach with other countries. The other thing is, we can debate FinCEN, but in my opinion, FinCEN has never achieved its full potential, and there is a host of issues over there right now. I don't think they are ready for the TTU.

Mr. LYNCH. Okay. Mr. Bock?

Mr. BOCK. I think you can look at Colombia. OEF is there, FIU, and they are spectacularly successful with what they are doing. They have taken some of the information all the way back for 14 years ago when we gave them to it, and they working on the gold cases now. Even as we speak, they are making the cases. So—

Mr. LYNCH. All right.

Mr. Mesko, do you have an opinion on this?

Mr. MESKO. I will defer to my colleagues on where this thing should be housed, but I think what I would say is that I would encourage whatever form it takes to properly include open source data and better integration with the private sector.

Mr. LYNCH. Okay, fair enough.

Dr. Passas?

Mr. PASSAS. I agree that it has to be in the same place. With Customs, it hasn't worked as well as it could. The advantage of FinCEN is that you have the A1 group in the network for collaborations with sister agencies overseas, so this kind of consolidation is easier.

Mr. LYNCH. Okay. My next question: When we stood up these FIUs, we initially had resistance from some of the banks because we were asking for cash transaction reports, we were asking for suspicious transaction reports (STRs), a lot of paperwork for the banks. And in the early days, we weren't really set up to process all that, so some of it was a waste.

Are we getting pushback? Look, I represent the Port of Boston, and we get a lot of bulk cargo coming in there. We are not Long Beach, we are not Manhattan, and we are not New Jersey, but we have a lot of cargo coming in. Should I expect pushback, should the committee expect pushback from the shipping community in terms of trying to put this overlay of analysis on everything that they are doing? Have we experienced that?

We have some of these set up. Have we experienced pushback from our shipping consortiums here and overseas?

Mr. BOCK. If I can answer that, I believe that they would very much want to give us the data. It was my experience after 9/11 that Commissioner Bonner demanded the information and they gave it to us willingly.

Mr. LYNCH. Yes.

Mr. BOCK. Now, it is a problem that is very large and it needs resources to process the data. But they are not against giving it. It is something that they transmit constantly.

Mr. LYNCH. Certainly, it would shield them from some liability if they were cooperating with us.

Mr. BOCK. I believe that is true, but they would need a little bit of protection on their own because you can find lots of little things they do wrong and they would—that is their main concern, a lot of "gotchas."

Mr. LYNCH. I see, yes.

Dr. Passas?

Mr. PASSAS. The private sector does not want to deal with terrorists or financiers, so the general will is there. The data are collected with no new cost for them to add, and consolidating the risk management is a cost-saver.

Mr. LYNCH. Okay. My time has just about expired.

Thank you. I yield back.

Chairman FITZPATRICK. I now recognize the gentleman from North Carolina, Mr. Pittenger, for 5 minutes.

Mr. PITTENGER. Thank you, Mr. Chairman. Is there any reason why the data could not be shared with Customs and with FinCEN in a joint effort in collaboration? Mr. Bock?

Mr. BOCK. No. The data belongs to FinCEN and to Treasury. These are collection documents that are used to collect taxes and duties. They actually belong to Treasury. To hold them from FinCEN is kind of silly.

Mr. PITTENGER. Mr. Cassara, any more comment on that?

Mr. CASSARA. Approximately 2004-ish, 2005, right when the TTU was being stood up, there was a delegation that went over to FinCEN. And what we tried to do at the time was to co-locate the TTU with the FIU, because that, as Lou has made perfectly clear, is the ideal. But FinCEN, at the time, turned it down. They did not want any part of it.

Mr. PITTENGER. Thank you.

There has been some criticism regarding the lack of robust intelligence support on the ground in the Middle East. What would you do to enhance that, to effectively address trade-based money laundering?

Mr. BOCK. The difficulty isn't that they will share it. They make it available, but you have to have such high clearance to get to it. And then once you find the material, it is an arduous process to get it downgraded to the point where you can use it in the field. I don't know—I am not an expert in that field, but I can tell you that I found really good stuff there. I just couldn't give it to anybody.

Mr. PITTENGER. Yes, sir?

Mr. CASSARA. I have done a lot of training, technical assistance mentoring in the Middle East. And what I found is that in most countries of the world, customs services do not follow the U.S. model. They are not enforcement-oriented. They are involved with, say, inspection and control.

So when they find something that perhaps is suspicious, they are content to, say, maybe collect a duty and all these other things, but they don't hand it off to an investigative body. There is a lack of capacity, a lack of training as well. There are corruption issues involved. It is not a simple formula.

But if you can make the right connections, there are things that can be done. And the other thing I get back to, again, is that it is a revenue-enhancer. So this should be the carrot to drive their cooperation.

Mr. PITTENGER. Thank you.

Dr. Passas?

Mr. PASSAS. Yes, this is one of the additional reasons why open source data is a good thing to look at. Sometimes the news and the information is in the local newspaper. It may be in another language, but there is easily accessible technology to get that so that everybody can read the local newspaper and put it together.

Mr. PITTENGER. Very good.

As we have discussed, the Egmont Group and its working through the trade transparency units, enhancing that, what obstacles to you see going forward to overcome with this information-sharing prototype? If we were to try to advance that further, what should we be looking out for?

Mr. BOCK. Using again the example in Colombia, in order to get around this, we actually set up two units. We had a unit with DIAN, with is their treasury, and as a Customs officer, I was able

to communicate directly with DIAN. DIAN wasn't the law enforcement agency. The ULIEF was their FIU. And ULIEF is the one that is prosecuting these cases, to my understanding, at this point.

So, it was a small thing to have two operations set up. But the two operations in Colombia don't talk to each other. It was okay because we were talking to both of them.

Mr. PITTENGER. Very good. Thank you.

I yield back.

Chairman FITZPATRICK. The Chair now recognizes the ranking member of the full Financial Services Committee, Ms. Waters, for 5 minutes.

Ms. WATERS. Thank you very much. I have a number of questions I would like to get some clarification on.

And I suppose the big question for, I guess Mr. Bock and Mr. Cassara is: Do you believe action should be taken to require the disclosure of beneficial ownership information upon incorporation? And to require financial institutions to check that information against lists of known terrorists and those who are known to finance terrorism before new accounts can be opened on their behalf?

Mr. CASSARA. As a criminal investigator, yes, we should require beneficial ownership information, not only because it is the right thing to do—obviously, if we are trying to follow the money and value trails, there is a labyrinth of hidden financial networks. And without beneficial ownership information, it makes it very, very difficult to follow those trails.

The other thing I would like to bring to the task force's attention, is because again I have done work overseas, and time and time again, I have been asked by our counterparts overseas: "But Mr. John, I am following the dirty money trail from my country, and it leads to your country. Have you ever heard of this place called Delaware or Nevada or Wyoming? Can you please help us get information?"

And there is nothing we can do. It is embarrassing. Thank you.

Ms. WATERS. Mr. Bock?

Mr. BOCK. That is not my area of expertise. I handle documents and things, and computer operations. I can't answer that.

Ms. WATERS. Would anyone else like to share information or thoughts on that? If not, let me just ask a very basic question.

I thought that "know-your-customer" in banking really meant to know your customer, which would mean that you would know who the people are. You would have disclosure of beneficial ownership, on and on and on. Am I incorrect in thinking that "know-your-customer" should mean all of that?

Mr. PASSAS. It is good to remember that due diligence and the idea of "know-your-customer" came from the private sector at the beginning. It was the Wolfsberg Group that identified that as a problem for their own business. You don't want to give money to someone you do not know. You do not want to do business with someone you do not know.

So, that is something for self-protection. And for their bottom line, private entities will, and do. The question is: How much detail? And are you going to do that with the partners of the partners? And how are you going to handle correspondent relations and things overseas?

And that is where the details need to be worked out on what gets outsourced to the private sector, and what is the duty for guidance on the part of the authorities. When the authorities give good guidance, fantastic results can come when you have targeted action on the part of the banks. But when the general culture is to go out and check for everything, then we get a sea of data and we have a hard time analyzing from the government side.

Ms. WATERS. Let me just say that without even dealing with the issue of terrorism and just money laundering, for example, we have been in this discussion for many, many years. I can recall the discussions we had about Mexico and about the fact that banks were basically serving as private bankers for drug dealers coming out of Mexico some years ago. I don't know what is going on now.

And we talked a lot about making the financial institutions a lot more responsible. And it was not just Mexico. It was Africa and it was a lot of other places. All of that discussion seems to have been lost and it is not a part of the discussion as we deal with terrorism. And so, I hear some of the recommendations, and I wonder about them.

But I am going to continue to listen and I'll leave you with this thought. For Mr. Bock or for those of you who are talking about expanding the role of FinCEN, I have often wondered if FinCEN wasn't always overloaded, always with too much responsibility for looking at everything from $10,000—over $10,000 transactions, which just comes in by the boatloads and other kinds of things. And would they really be able to deal with what we are trying to focus on, terrorism and money laundering through trade?

Mr. PASSAS. Right after 9/11, I worked with FinCEN for 3, 4 years. We worked on hawala as well as diamonds, gold, tobacco, and a number of other items. The problem was that there weren't enough resources to focus on everything. It is a question of resources. It is a question of how many analysts you are going to have; how many people will do meetings; how many people will do analysis; how many people will do the liaising with other agencies that need to investigate.

So once you get down to that and you give the guidance, then you can get better results.

Ms. WATERS. Thank you very much.

And I yield back.

Chairman FITZPATRICK. The gentleman from Florida, Mr. Ross, is recognized for 5 minutes.

Mr. ROSS. I thank the chairman.

And I thank the panelists for being here.

Over the several months that we have had this task force and we have had our hearings, we have learned of various sources of funding for terrorism financing. There have been the black markets, prostitution, human trafficking, and just theft. And now we are looking at trade-based money laundering.

This is a general question to the panel. What is the most common form of trade-based money laundering that is out there today that is benefiting the terrorist organizations? Whomever?

Mr. PASSAS. Mis-invoicing. You mis-declare the destination, the value or the quantity of a product: cargo theft, counterfeiting and trade diversion.

Mr. ROSS. Anybody else? Mr. Cassara?

Mr. CASSARA. As a follow-up to that, I would like to add that in my opinion, the commodity of choice for trade-based money laundering is now, and has been for a long time, gold—the misuse of the international gold trade.

Just to give you a very, very quick visual—

Mr. ROSS. It was exempt, wasn't it, as a form of currency, from some of the sanctions?

Mr. CASSARA. Gold has unique properties. It is both a commodity and a negotiable instrument, if you will. There are couriers every day, for example, that travel from Milan's Malpensa Airport to, say, Karachi, Dubai. And they declare gold.

And they declare this gold as $500,000 worth of gold. And they have all the documentation. But is that 18-carat Italian gold chain? Is that 24-carat Saudi gold or Indian gold? Is it 12-carat Walmart specials at $500,000, $50,000, or $750,000?

That is the way trade-based money laundering works.

Mr. ROSS. And how do we track that? Through the TTUs? Or can you do it through the TTUs?

Mr. CASSARA. A TTU can spot anomalies in the data.

Mr. ROSS. Right.

Mr. CASSARA. Then what is required is you have to write a report, and the report has to be given to an agent, a Customs agent or—

Mr. ROSS. Right. And I guess my concern is this, first of all, we just released over $100 billion in assets to the central bank of terrorism, which is Tehran. We know that they give money to terrorist organizations such as Hezbollah and Hamas, and then down to the Houthis. We feel confident they are going to continue to do this even at a greater level.

How do we prevent, or at least be able to follow through TTUs, if necessary? Is that what we are going to need, are we ever going to get them with Iran? How do we go about now making sure that trade-based money laundering isn't becoming a predominant factor and a source of funds with Iran?

Mr. MESKO. One thing that I think I can offer here is—as we just heard from Mr. Cassara, the typologies of trade-based money laundering are notoriously difficult to detect, which for someone from my perspective means that we should be focused not just on typologies but on the actual networks. The data to help map these networks and relationships is far more easy to access—

Mr. ROSS. And that is done with the TTUs, as I understand it, correct?

Mr. MESKO. Whether it is the TTUs or whether it is the financial sector or whether it is the transportation sector, they all have pieces of the puzzle to bring to the table.

Mr. ROSS. Dr. Passas?

Mr. PASSAS. With Lou Bock actually, in an afternoon we sat down, and we found hundreds of millions of dollars of irregularities that we passed on and nobody acted on. You could see diamonds, rough diamonds coming from countries that don't have mines. You could see brokers declaring themselves as importers of record. You could see the value disparities huge, so mis-invoicing was massive.

When you have these things, these are obvious. You put it together with the networks and the open source information, and no matter what you call it, the entity that has all the information together can turn the lights on.

Mr. ROSS. And that is the point that I think I want to get at here, is regardless of how well we can do in tracking, including the relationships that we have with our trading partners through TTUs, and Mr. Cassara you hit upon this in your opening statement, it is all about enforcement.

Prosecutorial discretion—whomever it may be. Mr. Bock, as you explained when dealing with Colombia, one side doesn't speak to the other side but at least they are speaking to us. But when it comes time to find where the source is, what do we do? Is not enforcement probably the biggest hurdle that we have to overcome, and how do we go about enforcing? Mr. Cassara?

Mr. CASSARA. It is a real challenge but I want to emphasize what you just said. It all comes down to enforcement. We can pass all the rules, regulations, and laws in the world but it comes down to enforcement.

And the other thing I would like to drive home for those of you who are concerned about areas of the world where adversaries operate, in the United States we have the best, most robust customs enforcement in the world. We have the best data in the world. We have the best analytics in the world. We have the most motivated—

Mr. ROSS. I agree.

Mr. CASSARA. —staff in the world, and we are doing a horrible job at—

Mr. ROSS. It is the rules of engagement. We are not able to engage. So if we have somebody from Treasury in Qatar, we are still not able to do anything about it.

Mr. CASSARA. Exactly, so look at where our adversaries are in the Middle East, South Asia, in other places in Latin America and whatnot, and they—it is not happening.

Mr. ROSS. I agree. And I appreciate all of your testimony. My time has expired.

Thank you. I yield back.

Chairman FITZPATRICK. The gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. Thank you, Mr. Chairman.

There was some mention of stovepiping, and I want to say a few words in defense of stovepiping, because back in the old days it used to be called a "need-to-know basis." After 9/11, we decided we needed to connect the dots and so everybody in the intel community got to see all the dots. Bradley Manning got to see all the dots and he told the world about all the dots. So we need a balance of letting people in the intel committees see the dots and protecting our dots of information.

I think that there are people at Treasury who have done an outstanding job on terrorist financing, but there are aspects where we are just not serious. The witnesses have brought some of that to our attention. Outside the realm of this task force, I would point out that—and perhaps this has changed recently—our policy used

to be that we didn't bomb oil tankers hauling ISIS oil because the drivers might be civilian.

Had we refused to bomb Nazi trains during World War II because the conductor was a civilian, we might live in a very different world today. And also, I don't see why they are using trade when our IRS allows you to get a tax deduction for giving money to terrorist organizations.

I brought to the IRS's attention 5 years ago a group that was funding ViVa Palestina and Hamas, gave them the videotape, and as of now, the only indication that anything has happened is that the organization itself puts on its website, "The IRS may eventually take away our tax-exempt status," and implies you ought to give money to them now so that you can get your money to Hamas and get your tax deduction. So there is a certain lack of seriousness in some parts of Treasury, the IRS.

Mr. Cassara, you talked about not showing beneficial ownership, that Wyoming and Delaware—how big a problem is this and should we simply have a Federal statute that says, "If you form an entity anywhere in America that makes use of interstate commerce, that is engaged with our interstate banking system, you have to disclose beneficial ownership in publicly available State or Federal records." How are we going to criticize the Cayman Islands if we have Delaware? Mr. Cassara?

And how helpful would it be to know the beneficial ownership of the entities involved in business and trade?

Mr. CASSARA. It would be extremely beneficial for law enforcement to have beneficial ownership information. I am certainly not an attorney, I am not a legislator—I couldn't attempt to even craft the appropriate language, but all that I can say is that the system as it operates now is not working and yes, it is hypocritical, because we are quick to criticize others, and we have to look at ourselves in the mirror when it comes to beneficial ownership information.

Mr. SHERMAN. How big a problem are the tax havens? They are not just tax havens, they are transparency havens. We could prohibit U.S. banks from doing business with those countries that act as tax havens and shield beneficial ownership information. How useful would it be if every one of these tax havens in fact was cooperating with us at least as much as, say Britain as an example? Mr. Bock?

Mr. BOCK. One of the problems that in my opinion spawned the black market peso exchange was Colombia's effort to control their currency. Early on in the 1990s, they wanted all transactions to be funded through banks. The banks then reported who was doing the imports and the exports. That is what spawned the black market peso exchange.

It is called counter-trade. People have legitimate money in the United States, selling coffee and things that they send to the United States, had a surplus of money in the United States. It was natural for some people who needed tractors in the United States to say, give me that money and I will pay for the tractors. Perfectly legitimate. We drove people with the legislation away from the banks. And that black market peso, you can't follow anywhere, except to one thing. When it is black-market-peso-funded, they usu-

ally smuggle it into the country. That is an easy way to find black market peso.

Mr. SHERMAN. You say they smuggle the currency or they smuggle the goods?

Mr. BOCK. The goods.

Mr. SHERMAN. Gotcha.

Mr. BOCK. Because the goods enjoy a benefit. They don't have—they are not reported to DIAN. The banks report to DIAN what goods are coming in.

Mr. SHERMAN. So if you want to avoid Customs, you take money that has been moved to the United States to avoid Colombian taxes, or scrutiny, or currency controls—

Mr. BOCK. That is correct.

Mr. SHERMAN. —you also get to avoid the Customs as well if you can smuggle the goods—

Mr. BOCK. And on top—

Mr. SHERMAN. Dr. Cassara, I know, wants to say something that we—

Mr. CASSARA. I just want to follow up on what Lou Bock said. This concept of counter-valuation is extremely important to understand because it is a common denominator for most underground financial systems, alternative remittance systems in the world, whether it again be hawala misused by terrorists or Chinese flying money systems. It is this concept of counter-valuation, or balancing the books through value transfer, through value in one country being shifted via over- or under-invoicing and other methods to another country.

So if you want to get at these underground financial systems abused by our adversaries, we need to promote trade transparency.

Chairman FITZPATRICK. The gentleman's time has expired. The gentleman from Texas, Mr. Williams, is recognized.

Mr. WILLIAMS. Thank you, Mr. Chairman. Mr. Cassara, I think you said that every TPP signatory country should establish a trade transparency unit so that countries can share data and help combat trade fraud. So one of my questions is, how do think other countries involved in TPP would respond to a request like this?

Mr. CASSARA. Again, in my statement I said I don't have a position on the pros and cons of the TPP, but I am quite certain that if the TPP and other international trade initiatives of that type, they will promote trade, and what happens is the misuse of trade gets lost in the noise.

So I think what would be beneficial to all countries is to have true trade transparency. And I think they will actually be willing participants because—I go back again—it is a revenue-enhancer and it cracks down on trade fraud.

Mr. WILLIAMS. You don't think it would be a deal-breaker?

Mr. CASSARA. I do not.

Mr. WILLIAMS. Okay. Good.

Mr. Mesko, in your testimony you talked about an example of trade-based money laundering that I stated earlier, which is personal to me. In fact, I have had the pleasure of discussing this case in great detail with your colleague, David Asher, who has also testified before this task force. I guess what struck me most from the conversation I had with Mr. Asher was that—and some of the com-

ments you have made today, is how obvious the entire scheme was, or seemed to be.

For example, Dr. Asher showed me aerial shots of what they were bringing the used cars in, and how over a short period of time, they grew larger and larger. As you stated in October of last year, another company was sanctioned by the U.S. Treasury for alleged participation in the same trade-based money laundering scheme identified in 2011, involving used cars. That is almost 4 years after the original scheme was discovered. The scheme seemed to go on for years and years without any action being taken. So one of my questions is, is that normal? Is it routine for the names to change and businesses to go on operating?

Mr. MESKO. I think it is absolutely normal and it just shows that all it takes is incremental adjustments to the networks for these schemes to continue to operate. Now what I do want to say though, is that I don't want to fault law enforcement and regulators necessarily for the time it takes to build cases.

What I think is potentially more important here is that in order to get law enforcement and regulators the best intelligence, and particularly the best financial intelligence available, from the financial sector, from the transportation sector, from insurance, wherever it may come from, there needs to be a better focus on intelligence, true intelligence, within those institutions and knowing how to use data to better target the people that we really care about, that we know we care about, rather than the mom-and-pop money laundering, the $10,000 in structured cash deposits here and there, which sort of dominates the money laundering space within financial institutions.

Mr. WILLIAMS. Is the U.S. Government not providing adequate resources? What would you—

Mr. MESKO. I can only really speak from the position of the financial sector at this point.

Mr. WILLIAMS. Is it all about resources, or does Congress need to give more authority in this space?

Mr. MESKO. I think one thing that could be potentially very useful, and I think that it has been discussed several times here today, is we talked a lot about the question of stove-piping on the government side. But within financial institutions, and between financial institutions, there is a tremendous amount of this stove-piping as well.

A local regional branch, say, of a money-center bank that operates in Mexico has a tremendous difficulty sharing adverse information on clients or customers with global headquarters, whether that is in New York or London or wherever. That is to say nothing of banks sharing information in between different institutions.

So I think that one way that this task force could have a tremendous impact is clarifying the guidance on what—at the very least in the United States—information banks can share with each other on the compliance side. They do it every second of every day on the commercial side. That is how the global economy works. But there is very, very little information-sharing on the compliance side.

Mr. PASSAS. One thing that you may want to think a little bit about is realigning the thinking between regulators and law enforcement on our side. Because the regulators want the banks to

do what they are doing now, which is the massive transaction monitoring, whereas law enforcement wants to concentrate on targets.

When we concentrate on targets, we get better results, much more focus. We did that with child pornography, we did that with human trafficking. Much better results there. Much better use of the private sector in that respect.

Mr. WILLIAMS. Just quickly, we have heard lots of numbers. What is the number on used-car sales that we are sending back and forth? What would that number be? A million dollars?

Mr. MESKO. At the high end, hundreds of millions.

Mr. WILLIAMS. Okay. Thank you, Mr. Chairman. I yield back.

Chairman FITZPATRICK. The gentleman from Texas, Mr. Green, is now recognized.

Mr. GREEN. Thank you, Mr. Chairman. Let me thank you and the ranking member for the service that you are rendering in hosting these hearings. I would also like to thank the witnesses for appearing today, and make one observation. Looking at and judging your body language, you are all very resolute. You really have come to conclusions that you absolutely believe in. So I want to just compliment you on being so strong-willed, if you will, with reference to what you said.

Now, I will tell you, when I heard $972 for a plastic bucket, that got my attention. My question to you, sir, is, is this commonplace or a rarity? Because I understand what you mean about the value of transfer. How frequent do we have these occurrences of buckets, or a cattle for $20. You did say cattle for $20.

I am from Texas. From time to time, I wear a big hat. But I have no cattle. In Texas, that means you are really not very much of a cowboy or rancher. But when you tell me that you are selling cattle for $20, even I understand that there is a problem.

How is it that you are able to acquire this intelligence? And I am not sure whether you are implying in some way that others know about it, but they are not acting on it.

Mr. CASSARA. I would like to briefly answer that question, and then turn it over to the true expert, Lou Bock.

Mr. GREEN. If you can do it really briefly, I probably spoke too long myself. But I had to get that point out. I want to hear some others.

Mr. CASSARA. Some of these things could simply be outliers, so what it is going to require is field investigation. And that is not happening. But to answer your question, yes, it happens all the time. And I know Lou can add to that.

Mr. BOCK. Let me give you a better example that happens all the time. It has happened for a long time. We were looking years ago at the movement of gold, all different types of gold. You are all familiar—you have wives or girlfriends, people you buy jewelry for. Twenty-four carat gold, best quality you can get. You can look to a market indicator and know what that is trading for. Anybody can do this.

In a $13-per-unit market, we had stuff coming in from countries where gold never existed. It was being called scrap and was being brought into the United States for $30 a unit. There is nobody going to pay that. It is common sense.

I can't tell you about the cattle, because as John said, they are outliers. But we can see consistent patterns of over-invoicing of goods of different quality, diamonds consistently. Now, why are they doing it? Some of it is because of money laundering. They are illegally transferring profits from drugs. Some of it is tax avoidance. There are any number of good reasons why they may be doing it.

The problem is it is consistent, it is going on all the time, and it is difficult to get somebody to—we had a guy actually go into a place and ask, "How are you getting goods from this country, gold in particular, and it doesn't exist?"

And the guy said to him right to his face, a criminal investigator, "It is not coming from there. We are smuggling it from someplace else."

To me, that would—

Mr. GREEN. Let me ask, as we go to another area quickly, would legalizing drugs have a positive or a negative impact on this illicit trade? Yes, sir?

Mr. PASSAS. Money launderers, traffickers of all kinds of things, and terrorism financiers, take whatever opportunity is available to them. If you legalize one, they will turn to something else because that is where the profits are going to be. When you ask how often these $900 buckets are identified, you can see them everywhere.

Licorice, we import from everywhere below a dollar a unit. And when it comes to Syria it goes to $26, $29. You go to Taiwan, it goes to $200. We show exports of chicken to Colombia. You look at Colombia, no imports of chicken from the United States. Where did the chicken go? We lost the chicken, right?

Now, any commodity you look at, you have no idea. If you sit down with Lou Bock in an afternoon, you are going to see that with any commodity you look at, legal commodity, you will find that problem.

Mr. GREEN. Let me get one more question in, please. If we do some of the things that I contemplate doing, my suspicion is that we will have some legitimate business persons who will give a little bit of pushback. I am being a bit euphemistic with my terminology. What would you say to the legitimate business people who will voice their concerns in a legitimate way?

Mr. BOCK. One of the problems we experienced when we first brought this out was we did not want to tell the foreign governments exactly who the U.S. exporters were, because there are so many things that are going on where pricing is over and under, they are moving money from one place to another.

I am making this up, so please don't—Lou Bock Enterprises, I sell tons of electronic goods. The minute you find somebody who has deep pockets and is doing some various small infraction, that is who they go after. We want them to go after the people who are truly laundering money. We don't want them looking at General Motors. We don't want them looking at IBM. They are doing something. It may be tax fraud, but it is not what we are looking for.

Mr. GREEN. Can Mr. Cassara respond? I see that he wants to, Mr. Chairman.

Chairman FITZPATRICK. Can you do so quickly, Mr. Cassara?

Mr. CASSARA. Just to my opinion on your last question, I think legitimate businesses will welcome trade transparency because it is a level playing field—particularly American businesses should welcome this.

Chairman FITZPATRICK. The gentleman from Kentucky, Mr. Barr, is recognized.

Mr. BARR. Thank you, Mr. Chairman. And thanks to our witnesses.

To Mr. Cassara, thank you for your career in addressing trade-based money laundering. I know you have—in your testimony, you stated that trade-based money laundering and value transfer, including all its varied forms, is perhaps the largest and most pervasive money laundering methodology in the world.

My question to you is a pretty simple one. Compared to other forms of terror finance, how problematic is trade-based money laundering as a method for terrorists?

Mr. CASSARA. I believe trade-based money laundering is a major problem. But it depends on the part of the world you are talking about. Certainly, if you are talking about South Asia, you are talking about Afghanistan, Pakistan, the Afghan transit trade, it is absolutely huge. Areas in Libya and Somalia, it is huge. In other areas, perhaps not as important.

But what is overlooked is the fact of trade-based value transfer, particularly the counter-valuation we were talking about earlier and its relationships to all kinds of indigenous, underground financial systems employed by our adversaries. We have not focused on that. We should.

Mr. BARR. A common theme has kind of come up in all the testimony, at least that I can discern. When Mr. Mesko's testimony—I think he puts it probably most succinctly where he says that nobody has the whole picture. In other words, nobody is making full use of the range of data available to them in the public domain.

The key to detecting and preventing increasingly complex TBML schemes is data integration within the government, within the private sector, between the two, and for all stakeholders. Everybody needs to aggregate the information to connect the dots, so to speak.

And others have said something similar to that. So to that end, is the solution Mr. Cassara's invention, which is these TTUs? And what is the key to standing up more of them in other places around the world?

Mr. MESKO. I will let them speak to the TTU question. But I think one sort of illustrative way of thinking about this is, let's say that all of our different banks are stove-piped. They are not sharing their compliance data with one another. We have five top banks in Mexico, and we go in and we say, "Look, one of them says I used this open-source data. I found that there were some relationships of concern with this party. He has been transacting with a known Hezbollah operative," whatever the case may be.

That account gets closed down. Without information-sharing between those banks, he just goes around the corner to a peer institution and opens another account. I think that is the problem I am trying to—that I am trying to address in that testimony.

Mr. BARR. Dr. Passas?

Mr. PASSAS. And that is the problem with the cost and the duplication of the effort, because if one bank finds me as a terrorist financier and chases me away, they do not tell anyone else about this. And I go all around until I find a bank that will welcome me and I will change my name in the process. So if you have one place that does the consolidated risk management and red flags that then you get that saving.

Mr. BARR. Is part of the problem that we don't have TTUs involving trade transactions outside of the United States where the United States is not a party? How do we encourage countries where there is a trade transaction—a fraudulent trade transaction and the United States is not a party? I would think that would be because we have a more sophisticated and aggressive approach to this problem that a lot of these illicit transactions are occurring between parties where the United States is not in the middle.

Mr. PASSAS. In my experience, in many different countries you have different government structures. So you have the customs on one hand and you have the entity that does the FIU function. They are located in different parts. Some times it is police, sometimes it is the central bank, sometimes it is a ministry.

Having one definition where everything has to fit may not be the way to go forward. Define the function and the kind of information that needs to come together and then find what are the entities in different countries that need to contribute. So it is the concept of what needs to be done. The data integration and analysis and the sharing and then move with a labelling.

Mr. BARR. Mr. Cassara, is there any way we can encourage more TTUs in other parts of the world?

Mr. CASSARA. I would like to see regional TTUs. For example, we are talking about threat finance. One of the reasons we established TTUs originally was to get at terror finance. So if you had a regional TTU—for example Afghanistan, Pakistan, Dubai, that whole area there—would be great. You could set up another one around Iraq and the surrounding areas—Turkey and other logical trading partners.

I would like to see TTUs in theory under the HSI-ICEu umbrella but they don't have to be. Any country can stand up their own TTU using trade data, financial intelligence, and other data they have.

Mr. BARR. Thank you.

I yield back.

Chairman FITZPATRICK. The gentleman from Maine, Mr. Poliquin, is recognized.

Mr. POLIQUIN. Thank you very much, Mr. Chairman.

And I thank everyone for being here.

I think we can all agree that one of the primary or the primary responsibility of government is to keep American families safe. And I think we can also probably agree that for all kinds of reasons, we are losing the war on terror. Now, we can turn this around. We all know we can do that and one of the key things to do that is in fact make sure we choke off the funding that goes to terrorist organizations, which is in part what this is all about.

Now, we also all know that a stable government—whatever type of system it is—promotes a stable economy and when you have both that are stable you have more opportunity, better lives, better

jobs, better futures. And that in itself promotes more stability and less likelihood to embrace terrorist organizations.

Now, Mr. Cassala, I would like you to talk a little bit if you can, please, about what spots around the world you have seen where in particular the activity of stealing goods, selling them cheaply in order to provide funding for terrorist organizations, is starting to or has destabilized local economies and therefore local governments, and therefore breeding grounds for terrorist activities that can keep our families in jeopardy?

Mr. CASSARA. Global Financial Integrity, a non-profit—in fact there are a few representatives of it sitting behind me—has done some incredibly useful studies about illicit financial flows from the developing world. And literally, trillions of dollars—about $1.3 trillion if I am not mistaken—over the last 10 years has gone out of the developing world, mostly through abusive trade mis-invoicing.

This type of thing directly affects the developing world, it affects the standard of living, it enables kleptocrats, it is all different kinds of wealth transfers and this is a type of thing on almost a social level that breeds corruption. It also brings unstability.

Mr. POLIQUIN. Sure. So Mr. Cassara, let's drill down a little bit more on that if we can. Is there a way that we can use the data that is available to us through all the good work that is done in the non-profit sector, the private sector, and various governments around the world, to identify or give a head's up to countries who may in fact be susceptible to this sort of activity that would destabilize their economies and therefore their governments, and therefore invite terrorist activity?

Is there a way we can identify the types of products or goods and services that they should be on the lookout for because of the inherent nature of the country itself or the existing economies? Is there a way we can mine the data to give them a head's-up so we can work with them?

Mr. CASSARA. There are some real experts here that have a very, very good understanding of the data that is available. But the kind of thing that you just talked about—yes, it is possible to do that. It is possible to do that. And the other thing, because we just briefly touched on corruption, for example—the great enabler, the great facilitator for a lot of this stuff that goes on in this areas—in theory, that analysis could be done outside of the countries. It could be done here. It could be done in our intelligence communities.

Mr. POLIQUIN. Dr. Passas, you were about to try and—

Mr. PASSAS. I can give you one example, and that is the pharmaceutical industry.

Mr. POLIQUIN. Say that again?

Mr. PASSAS. The pharmaceutical industry. There you have not only mis-invoicing but you also have counterfeiting, which is a public health as well as a cost issue. And you also have cargo theft, and we do not know who is stealing, who is selling and who is making use of the funding. We haven't looked.

What we know in the private sector is that these are problems that affect the bottom line and the public health of the sick populations. But no one is looking. We need to look.

Mr. POLIQUIN. Who would be the entity that in fact would perform that function, to the best of your knowledge?

Mr. PASSAS. We have started an initiative with a number of pharmaceutical companies to do exactly that. We are in the initial stages but in Boston, at Northeastern, we are beginning this.

Mr. POLIQUIN. Okay. Thank you very much, gentlemen. I really appreciate this. We need to learn as much as we can to stop this and keep our families safe.

Thank you, Mr. Chairman. I yield back my time.

Chairman FITZPATRICK. The gentleman from Arkansas, Mr. Hill, is now recognized.

Mr. HILL. Thank you, Mr. Chairman.

I thank this distinguished panel for being with us. And I appreciate your leadership. Clearly, in this war on terrorism, diplomatic, military, and financial means are all equally important to winning this global war. And so I commend the chairman and the ranking member for renewing our task force.

On standing up TTUs in select regions so setting a priority to do that, what is the enabling organization to do that? How do we diplomatically through the Treasury, on a multi-lateral basis, carry out that mission and then aid that being accomplished in a region, Mr. Cassara?

Mr. CASSARA. Part of that, as you said, is kind of a multi-pronged approach. Some of this does get done via the State Department. Some of it gets done via funding by the Bureau of International Narcotics and Law Enforcement Affairs—INL. Of course we have Customs attaches assigned overseas and they also participate in the facilitation of that. There are a lot of delegations that go back and forth. So it is a multi-pronged effort. There is not one particular model.

Mr. HILL. During the Bush Administration, when Treasury was standing up with—and as you talked about, Mr. Bock, unfortunately moving bureaus into the new Homeland Security Department, I agree with the comments made that some of that has not been done in the right way. There was a lot of high-level engagement on terror finance, trade-based terror finance, money terror finance.

My question is, to your knowledge does the NSC staff treat this as a top priority and therefore do a coordinative effort on the White House staff to keep a focus on this international security apparatus? Because to your point, these interagency things just don't get done. You have Commerce people, you have Customs people, you have DEA attaches out in our embassies, and everybody works up their chain of command.

And so, while I think Treasury is in charge of this in a general way, had they exhibited that in a regular sort of NSC briefing process? Who wants to tackle that one? And I know you don't work in the government now. You are giving your opinion about how it should be done.

Mr. CASSARA. In my opinion, this whole issue of trade-based money laundering there continues to be a lack of awareness. And you mentioned for example DEA, IRS, even FinCEN, whatever. As far as trade-based money laundering and associated issues, at the Federal, State, and local levels, there still is a lack of awareness and understanding of this. There just is.

Mr. HILL. Anybody else want to add anything? Dr. Passas?

Mr. PASSAS. Yes. This relates also to the need-to-know question that was raised earlier. You don't need to know necessarily the details of the information. All you need is the target. When you know what the target is, then you can give a head's up to institutions that collect that information, reverse engineer that into indicators of abuse and red flags and then you can have a guidance that everybody looks out for. That is a much better way to do it and you do not have to reveal methods or sources—anything. Because then it becomes a law enforcement case that is usable in court.

Mr. HILL. Right. I have been a banker for 30 years, and I am certainly familiar with the money laundering aspect of it, and I have been a Treasury official in my past. So I respect both sides, but you talked about massive false positives and that is a theme that we have heard about consistently over the past months of this task force. We collect a lot of data but nobody does anything with it. And the very people who could help us on a targeting basis are not privy to how to help in a way.

So to me, setting priorities, how that is done, sharing information and having liability protection and sharing that information like we have in SARS now for civil liability in a loan-type situation. Integrating that data and then focusing on it is the only way we are going to tackle this. And our vice chairman, Mr. Pittenger, had an excellent roundtable on Bank Secrecy Act issues where 80 percent of the cash transaction people in the world were sitting at that table.

And they said, "We could be so much more effective if you just would tell us what you are looking for."

We do that in criminal investigations. In my old bank branches, an FBI agent or a U.S. attorney would walk in and say, "Hey, we need to know all about Joe," and that was just to a branch manager. There was no legal person involved in it.

And I don't think we need to have this information-sharing. Instead of collecting the hay, we just need to be told where the pen is, and let us go get them.

Mr. PASSAS. I think it is exactly right. And the banks right now, all they care about is avoiding heavy sanction and reputational damage. They are not looking for bad guys. They are not looking for offenders, and terrorist financiers

Mr. HILL. And they are spending millions on it. Thousands of people working on that box-checking piece. But they are all willing to do, I think, they are all very—

And when you are targeted to do a better job on behalf of the American people by being—letting in, is you say, not without the sources and methods now, but just, "Here is the target list. You need to help us."

Mr. PASSAS. And the targets can be formed with this work. If you look at the diagrams in my written statement, it just jumps out like a fly in the milk. And that is not the sort of thing that you need any clearance for. It is out there. It is public.

Mr. HILL. Thank you for your forbearance, Mr. Chairman, on the time. I yield back.

Chairman FITZPATRICK. The gentleman from Arizona, Mr. Schweikert, is recognized.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

In many ways, Mr. Hill was actually sort of grabbing some of the direction I wanted to go.

My understanding is, as of yesterday, we now have nine running banks that have access to the SWIFT system. How does that work in a world where an institution anywhere in the world now has the traditional backbone moving money through? SWIFT and its charter is supposed to eliminate dodgy actors. But in this case, we know a couple of those nine actually have some really interesting things in their history.

So if you are collecting data, but it is coming through the legitimate backbone—and this may be more for Mr. Mesko with your data analytics background—comes in in a very legitimate platform, but parts of that transaction may be also moving bad actors' money. How do you segment it?

Mr. MESKO. Excellent question. Unfortunately, I don't think there is necessarily an easy answer to it. Our financial sector and the financial sectors in our partner nations, friendly nations, are always going to be at the mercy of the controls that their downstream—that their correspondent partners have, their banking partners in emerging markets and frontier markets have in place.

Mr. SCHWEIKERT. If you use the term "frontier markets," can I beg of you to go a couple of steps further? Let's use a Hezbollah example where they had some very legitimate-looking front ends that had, what was it, Lebanese banking interests or relationships. In some ways, you just put them back into the mainstream system. How do you identify the bad actors here when the conduit is what the international system uses?

Mr. MESKO. Right. And I think—I have obviously spoken a lot on open source today, and the use of open-source data, and how you can map these networks and identify bad actors. I don't want to leave you with the impression that you are going to necessarily find to some degree—some evidentiary standard that some transaction coming out of Lebanon is linked to Iran, or whatever.

I think the point is that, as Dr. Passas said as well, we need to refine our understanding of what the actual typologies are of these new threats, so that banks, whether or not they can put the full picture together, can get better information to law enforcement, and to regulators, to be able to pursue—

Mr. SCHWEIKERT. Dr. Passas, I see you. A little bit of refining. I have a personal fixation that we are allowing our own networks to be used against us.

Mr. PASSAS. Right. Well, the crooks like to hide in the crowd. That is the way it happens. In the economic crime, in organized crime, in terrorism finance, it is the same thing. So the whole point is to find in the big crowds the bad elements, the irregularities. That is what these analytics do. This is the process that has been in use.

In fact, we have been doing this with Lou Bock to find precisely what is wrong. We were in the Dominican Republic for 3 days. It was a gold case that was more than $100 million, as it turned out. It was just there.

Mr. SCHWEIKERT. Okay. In the last 60 seconds I have, we had some testimony in one of our earlier hearings that the confluence of terrorism, people who were producing fake products, copyright-

type infringements, cartels, and in many ways they were using some of the very same brokers to wash money. It was actually a profession.

My question: Professional money laundering, what is the fee structure these days? Are they guns for hire? Do they care whether they are washing and moving money for terrorism or a drug cartel? And how formal are those networks out there now for moving money around for these bad actors?

Mr. PASSAS. It depends on the terrorist group that you look at. It depends on the commodity and the part of the world you are looking at. If you are looking at the Islamic State, you want to see who is buying oil, who is buying antiquities, who is providing the finance, who is driving it around, who is providing insurance. Maybe there can be barter deals. So you want to see who are the supporters, who are the facilitators—

Mr. SCHWEIKERT. And I know I am out of time, but if you look over the last couple of decades, we had a number of terrorism groups that financed their bad activities through opium, through cocaine, whether it be FARC, whether it be in Afghanistan. And so it was almost a bilateral trade mechanic where they were selling an illicit commodity, gaining cash, and then buying their weapons of destruction. So I have a great interest in the movement of both the commodity and the cash.

With that, I yield back, Mr. Chairman.

Chairman FITZPATRICK. The gentleman from Pennsylvania, Mr. Rothfus, is recognized.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Mr. Cassara, I just want to follow up a little bit—Congressman Williams had brought in the subject of TPP, which you mentioned in your testimony.

You suggest that every TPP signatory country should establish a trade transparency unit, and share appropriate targeted trade data to spot anomalies that could be indicative of trade fraud and money laundering. Do you know whether this was ever proposed by the Administration during the TPP negotiations?

Mr. CASSARA. I do not know.

Mr. ROTHFUS. Should it have been?

Mr. CASSARA. Short answer, yes.

Mr. ROTHFUS. You mentioned in your written testimony that there is a network of operational trade transparency units which includes the following 11 countries: Argentina; Australia; Colombia; the Dominican Republic; Ecuador; Guatemala; Mexico; Panama; Paraguay; Peru; and the Philippines.

Of these, the United States currently has free trade agreements with seven: Australia; Colombia; the Dominican Republic; Guatemala; Mexico; Panama; and Peru. To your knowledge, do any of these trade agreements include provisions that directly relate to trade transparency, or otherwise advance the goal of establishing TTUs?

Mr. CASSARA. I do not know. I'm sorry.

Mr. ROTHFUS. Mr. Bock, according to a December 2015 report by the non-profit group Global Financial Integrity, the largest exporter of illicit money over the last decade has been China. Moreover, last September U.S. authorities charged a group of Colom-

bians with participating in a China-based criminal operation that laundered more than $5 billion from the United States, parts of Africa, Europe, and countries in Latin America.

According to the indictment, the Guangzhou organization used Chinese casinos, currency exchange houses, and export companies and factories to receive billions of dollars in illicit drug proceeds. With that said, how big of a problem is China with respect to trade-based money laundering?

Mr. BOCK. As I remember it, the relationship between Colombia and the United States was that Colombia gave us data that was only U.S.-centric. And John had mentioned before about regional trade transparency units. It depends on the agreement we have. If the country only gives us the information between their country and our country, that is all we can focus on.

This material you are talking about in China would have been nice to see, but I don't know whether or not they are supplying it to us. It would have been found if we had been looking at the entire Colombia database. These countries want to share each other's data.

And if we can act as a broker—for instance, Colombia very much wanted to see what Panama was doing. The arrangement was between Colombia and the United States; and Panama and the United States. I don't know if they ever got together and created the regional TTU. But all these countries want to share the data, especially if they can have our data in exchange.

Mr. ROTHFUS. Can any of the panelists address what we could be doing to better address trade-based money laundering with China?

Mr. PASSAS. I think one way—in my view, you always provide incentives for people to do the right thing. And I think the incentive is the revenue raising and the fighting of illicit financial flows. That is a top concern in China as well. And I think that can be the focus of attention.

Mr. ROTHFUS. Mr. Cassara, the 2007 national money laundering strategy identified attack trade-based money laundering at home and abroad as one of its key goals. An action item in the strategy was the stablishment of TTUs in the Philippines and Malaysia. To date, however, there are no TTUs formally established outside of the Western Hemisphere. What has the President and his Administration done, if anything, to carry out this goal?

Mr. CASSARA. It is a very difficult question to answer. I am not privy to internal conversations, obviously, within the Administration. But the reason we are here is that not enough has been done to combat trade-based money laundering in general, establish trade transparency units in particular, which is part of the U.S. national anti-money laundering strategy.

Mr. ROTHFUS. General question for the panel: Do we know of any countries where government officials are actively and affirmatively facilitating trade-based money laundering as opposed to some kind of neglect? Do we have any information on that? Anybody?

Mr. BOCK. There have been times when we pointed out to different governments that there were big issues with very large industries, and for some reason, unbeknownst to me—

Mr. ROTHFUS. What would some of those countries be?

Mr. BOCK. Most of the countries in South America.

Mr. ROTHFUS. Okay.

Mr. BOCK. When you have something that is a linking to the largest industries in the countries, they are protective of their industries. Whether it is corruption, I am not sure.

Mr. ROTHFUS. I yield back.

Chairman FITZPATRICK. Without objection, we are going to recognize the gentleman from California, Mr. Royce, for 5 minutes for questions.

Mr. ROYCE. Thank you, Mr. Chairman. I appreciate that.

I guess the real surprise here is just how much money we are talking about in terms of revenues to these governments in the Western hemisphere, and across the developing world. You are talking about hundreds and hundreds of billions of dollars in terms of helping us balance our books and helping those governments as well.

So I think civil society, if it was really focused on just how much money you are talking about here, would bolt upright in terms of trying to figure out a structure in which to capture this information in order to try to capture the revenue flows back to the governments related to this.

The World Customs Organization, is that the entity that we should consider may be the platform for enforcement if we were to work internationally or is it the OECD? Is it their financial action task force that has that 40 plus 9 recommendations?

Is there a way to maybe incorporate this into that entity with the understanding there of how much we are talking about in terms of potential revenue? And therefore, that certainly could compensate for taking on that added burden on the part of that institution.

Where would you begin, and first, what would be the practical problems with establishing such a platform? And second, what would be the political problems maybe in doing it?

Mr. PASSAS. If I could, I will be doing this in the near future at the International Anti-Corruption Academy, to engage in concrete collective actions against lack of integrity, including in trade. So the answer to your question is all of the above. GFI and other NGOs are engaged in this. The OECD is focused on that.

There are U.N. conventions against transnational organized crime, against terrorism finance and against corruption, that have the relevant provisions that all countries on the planet are bound by. So you have the handles to do all this, and what you can do then with the incentive for revenue raising and better governance and therefore development for investment in all the things that—the good stuff that comes after this, you provide the incentives for integrity.

You bring all of the actors together. They contribute their brains and the data. You do the analysis, you feed it back, you turn the lights on. That is why I was saying that the answer is within reach.

Mr. ROYCE. Would anyone else care to comment?

Mr. BOCK. Since 9/11, either myself with people who work for me and the group that I managed, visited 40 countries on behalf of Commissioner Bonner, who was in charge of customs at the time. And we were trying to extend our borders out with the container

security initiative. Of the countries that we visited, and some of these were former Soviet countries, every single person we demonstrated the program to asked, "Where do we get a copy of this?"

I had permission to give this to the law enforcement people. And we often made it available. They got the program. We handed it—we own the program, so we were able to give it to them.

We had countries that don't give us anything. The Netherlands wanted to hand us a disc and actually did hand us a disc and said, here is our data. We couldn't go back to our organization. The programmers wanted the Netherlands to pay for the processing of their data.

When we had funding, we were able to take this data and do it. The biggest problem is going to be that when you have a country—the United States has a different bookkeeping system than everywhere else in the customs world. That is a blanket statement.

Most other countries use a system called ASYCUDA. We don't use that. Their data is in one format, and we don't accept it, according to our IT people, unless they present it in our format. It costs a lot of money to do this. We could just as easily have it done ourselves. And we did while we were funded. Now, when you go out to somebody, they want money to convert the data.

These people just want to give it to us, as long as we share with them. And I would be willing to bet that we could extend this thing to 40 countries, probably within very short order, if we had money to do it.

Mr. CASSARA. In the international community, the Financial Action Task Force (FATF) makes things happen regarding anti-money-laundering and counterterrorism finance. One of the recommendations I have in my book and in my prepared statement is that I believe we should go to our U.S. Department of the Treasury, which heads up our U.S. Government Financial Action Task Force delegation, and ask them to study the possibility of having trade-based money laundering be the next FATF recommendation.

Mr. ROYCE. I thank you, Mr. Chairman. And I thank the panel and I thank you for your continued focus on this. And I think later we can have some conversations between the Members here who—some like Mr. French Hill, who got a little bit of understanding from being over in Treasury as to some of the bureaucratic impediments.

Maybe we can keep a dialogue going, Mr. Chairman, with the panel, as we try to work with some of the government agencies here on the next step. But thank you again for the hearing.

Chairman FITZPATRICK. Great. The gentleman from New York, Mr. Meeks, is recognized.

Mr. MEEKS. Thank you, Mr. Chairman. And thank you to the panelists. I have been listening to some of the questions and some of your testimony. And this is complicated.

I guess I will direct my first question to Mr. Bock because—and just thinking about it, what makes this hard, I think, to fight against TBML, among other things, and I—another reason why I wanted to make sure I come down, I am a big guy who believes in trade.

And the world is much smaller and interconnected when we are trading back and forth. We enter into trade agreements and you

look at the enormous volume of trade flows which obscures individual transactions and provides abundant opportunity for criminal organizations to transfer value across borders.

The complexity of it, as I think that you were just talking about, associated with foreign exchange transactions and then the additional complexity that can arise from the practice of co-mingling illicit funds with the cash flows of legitimate businesses and then the limited recourse to verification procedures or exchange customs data between countries.

So, when I look at how complicated all these challenges are, it becomes clear. And then, what you were just talking about on our side, looking on our side of what we can do in our government, but wouldn't it seem that there should be—we are doing some kind of international harmonization with cross-border systems of verification and data exchange?

Do you see any harmonization of international cooperation to combat TBML?

Mr. BOCK. I think that we are on the right path to it. The government already—all the governments follow a harmonized system of tariffs. That is a description of the goods. And when we look at the rest of the world, they are all in harmony with the way they do their business.

We are the ones who are out of harmony, but we are the biggest economy. And we set the rules. We did it long before anybody else did, so we are set in our ways. We can easily adjust our data to match the rest of the worlds. It is not difficult. The problem is, we need the wherewithal to do it, and of course, I am not with the government anymore so I am not asking you for any money.

But the agencies need the money to normalize our data with the foreign countries.

Mr. MEEKS. So it would be a matter of money. It wouldn't be like—one time, we were the ones still using inches and everybody else is using centimeters. And so, we just couldn't get used to change to a different dialogue.

So that complicated it, as far as differences are concerned. Is it just a matter of trying to—some financing and some money to put it all on pause so we can do some harmonization?

Mr. BOCK. That is what I would say, yes. We have already—the government has already paid to take our data and make it match everybody else.

Mr. MEEKS. Yes, sir.

Mr. PASSAS. In addition to that, what you have is pretty standardized private sector records and data. People, beyond what the governments require, need to communicate. So the equivalent of the SWIFT messaging that you have for financial transactions exists with respect to trade transactions.

It is massive, however, and you need infrastructure to receive it and analyze it. But that is part of the data set that you can put together.

Mr. MEEKS. And the other thing that comes into mind, because when we do these trade agreements, I have been a big proponent of it, but I will also want to bring in some of the less-developed countries because I want them to get involved in the global economy.

But of course, less-developed countries by nature have huge informal economies where it is hard to sometimes trace and verify even a legitimate commercial transaction. So, what would you say? Do they—how do we bring them in? Do they have even the capacity to work with us also to meet some of these challenges?

Mr. BOCK. Look, even if the countries don't even have computers in them, all the countries that supply goods to these foreign countries, to this country, have records. They get there on a ship. That ship is making records of how it got there. It is telling everybody this thing one from our place to your place.

Whether the person who got it tells us anything, we can still know what is going on. And that is the part we are trying to push here. When I read to you about the manifest data, these cut—the shipping companies actually gave us the data of all the worldwide movements of cargo. We put it in a database.

Mr. BOCK. You could watch all the zigs in the zags of the container. We built a system around that. They are willing to do that. It costs them nothing to give us that. All we have to do is put a computer in place to make it work. That gives you a chance to look into the country that does not have the data. And that is where the value comes from building this thing and it may sound crazy, but it actually works and we had it working. It was funded. I don't want to get into that part of it all, but when the funding went away all the advancement of moving this forward kind of came to a halt. And I think in fact so did the acquisition of new TTUs because you need some money to go back and forth and whatever. I don't want to lecture you. Does that help you?

Mr. MEEKS. It's very informative—

Mr. PASSAS. Could I add something to that? When the American Embassies were bombed in Africa, in the court—in the trial that we had in New York we had part of the evidence—the $1,000 that went from Kuwait and Yemen to Nairobi to help finance it. So that was way before 9/11 and the new rules requiring records for informal remitters. They had those records that were produced in evidence. There are records. It is a myth that there is no paperwork trail to follow in informal economies and in informal hawala business.

We have used in the United States and in Britain indicators of abuse so that you can identify which transactions are okay—honest money from migrants to their families—and what is not. This is the kind of red-flagging exercise that we can do even in places where you only have paper records and no computers. And you combine all of that together with the other data that we have.

And the World Bank and it is like USAID and so on. They do governance and capacity building everywhere in the world. It can be part of that program.

Chairman FITZPATRICK. Without objection, with the permission of the panel, we are going to have an expediated second round of questions. We will begin with Ranking Member Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

Dr. Passas, in your testimony—or I might have read it in one of your previous articles—you took the position that the work we are doing with hawalas is perhaps overdone, that the amount of attention that hawalas have received is probably too much. Is that be-

cause you feel that we have bigger fish to fry with trade-based money laundering, or do you feel that hawalas are so small or the risk is so small that we shouldn't be focusing on them as much?

Mr. PASSAS. There are risks with hawala and we do have cases both of terrorism finance and trade-based money laundering or other money laundering that goes through them. They can be of use just like any financial instrument or institution. Not as much perhaps because what we have not done well is to actually leverage the information nodes in the hawala networks. When you go to ask the right questions, you get the right answers.

In Mumbai, the attacks of Mumbai and the Indian parliament, those cases were solved because of hawala collaboration. In Dubai, the Dubai police and the DEA made a big money laundering case with trade because of hawala information.

Mr. LYNCH. Right.

Mr. PASSAS. They are a resource. We are not using it. Instead, we are regulating as if it were a formal institution and we are requiring things they cannot provide, and as a result we do not have the kind of collective action with the Somalis. We had a meeting, and in fact we lost a dear colleague. He was assassinated in Somalia last year. He was trying to separate the good from the bad money in Somalia.

You can do this. There are ways of achieving this, but what we have done is just regulate them in a way that requires things that cannot be accomplished. They are ready to collaborate. They are ready to provide the evidence. They are ready to put the data in a clearinghouse that can be analyzed. That is what we need.

Mr. LYNCH. Yes. The problem for us is—you are right and we were very early on. When we were setting up FIUs, we saw that there was a gap on hawalas. So we asked the host governments to begin to register hawalas and hawaladars. So that much—at least we have them on the grid in many cases. And many of them keep meticulous records of each and every transaction because the success of any hawaladar is really on their reputation.

And so, there is a huge risk of reputational damage if they are seen as facilitating funds for a terrorist organization and they are—it is over for them. But still, the informal nature of that value transfer system, in my mind, means we need to do more with them and not less.

Mr. PASSAS. The Federal regulatory regime is fine. The problem that we have is the state regulatory regime that requires all kinds of resources that are not available. And I can share that with you in detail. With respect to the risks, they know their customer much better than banks sometimes, especially in parts of the world where banks aren't there. This is an intelligence asset. This is an ally against terrorism.

The Islamic State and Shabaab are going after these guys. They are enemies. That is what I meant by saying they have enemies everywhere. Let's use the enemies and go after the easy—the low-hanging fruit like ISIS and like al-Shabaab that everybody is against and we can bring all that together. So that information can be leveraged—that information can be provided and once we have the communities together they can smell the rat, they do not want

terrorists, they will work with us. That is the best community policing against terrorism.

Mr. LYNCH. One last quick question, we are having a very, very difficult time in Somalia. All of the traditional banks and money processes are out of there now, so the only opportunity I think we have in the short term is really to deal with the hawalas in that area. Is that something that you think is possible or should we try to stay away from that?

Mr. PASSAS. It is possible, and what we had was we were with the 18 companies from Somalia. We were in Vienna, the United Nations, and we were trying to do exactly this. That is how our French colleague was killed.

Mr. LYNCH. Right.

Mr. PASSAS. And a British former Scotland Yard colleague. It can be done and it must be done. And there is an initiative—the Safe Corridors—that is under way. There has been work also by NGOs on looking at what the impact of current regimes is. There are questions about risk and how we define it and how we do the derisking in a way that we do not grow the systemic risk. There are handles, there are ways of doing this and I can send you separately if you wish the recommendations that we worked out.

Mr. LYNCH. Okay. We are having problems—even Somali families in the United States are having difficulty getting remittances back to that country because there is no institution that we can go through right now. But I thank you and I will take any recommendations you have off-line. Thank you.

Chairman FITZPATRICK. Vice Chairman Pittenger is now recognized.

Mr. PITTENGER. Thank you, Mr. Chairman.

Mr. Mesko, I would like you just to clarify what you mean by non-indexed data.

Mr. MESKO. Certainly. A better term for that might be "un-Googleable," not available on search engines.

Mr. PITTENGER. Okay. That is helpful. I would like to summarize some of what you all have presented today, which has been extraordinarily helpful. As I see it from Mr. Bock, you said that this data is accessible. The countries have it, they want to present it, we need to consolidate it, we need to analyze it, and then through that we need to be able to have an enforcement capacity, all of which requires funding. And is it your assessment that those resources are available through the revenue from this expanded transparency?

Mr. BOCK. Yes, absolutely. Over the years we have had cases that countries—Argentina, Peru—had $100 million recoveries. We have a United States case where they recovered $100 million of tax on freon back in the days of the ozone-depleting chemicals, the hole in the sky. They recovered $100 million. This whole project didn't cost $30 million.

Mr. PITTENGER. Very good—

Mr. BOCK. Twenty years.

Mr. PITTENGER. My last observation is that water finds its way downhill, and if it hits a block here, it goes another way. Another way the speaker has put it quite well is in ice hockey, you look where the puck is headed and not where it is today.

And as you assess the funding requirements for these terrorist organizations, and certainly we have a continual need to track and intercept the transfer of money through these financial institutions. I am particularly concerned about Iran with these banks now that are open to SWIFT access.

But given if we will utilize the data and share the data, I know FinCEN has extraordinary data capacities if it can be shared with the private sector as well as with their own government.

Yet while we are somewhat effective in that, it seems to me that our adversaries recognize that we haven't been effective in TBML. Do you believe that this will as such be a growing factor that we should be looking at, that should be more the focus? They are pretty smart people. They know what we are good at and what we are not good at.

Mr. BOCK. When you have all this data amassed, the beauty of it all is it is like fishing in a barrel, okay? They can do what they want to hide. You catch them here. We have stopped things. There have been big cases that Customs made, D.A. made, poll a cop and this and that. And you could see when you squeeze it here, it popped up somewhere else. If you have the database in place, and you are looking at trade, you can see it.

When we squeeze one place—Mexico went up. All of a sudden, Mexico was shipping gold. It is exactly—the analogy of water is perfect. It will find another level, but if you have the data in a place where you are looking back, you can see the bulges elsewhere. And that is probably the most interesting part of this whole exercise for me. You can do some predictive work.

Mr. PITTENGER. Thank you. This has been extraordinarily helpful. I very much appreciate you being with us. I yield back.

Chairman FITZPATRICK. I would like to again thank our witnesses for their testimony here today and it is our hope that if you have continuing thoughts or suggestions for us that you will provide it either to individual Members or to the panel as a whole.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

Without objection, this hearing is adjourned.

[Whereupon, at 12:11 p.m., the hearing was adjourned.]

A P P E N D I X

February 3, 2016

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Lou Bock

SENIOR SPECIAL AGENT, RETIRED

Verbal Testimony

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Good morning

I would like to thank the chairman and the committee for this opportunity and your interest in the program that I had helped to develop for the past 25 years.

My name is Lou Bock, I'm a retired Senior Special Agent who worked as a criminal investigator at the DEA, USDA, and fraud, financial and intel at Customs/Treasury and, later, ICE/DHS. For much of my career I generated and worked large, complicated criminal cases involving trade fraud and money laundering worth billions of dollars. I did so with a team of import and tax specialists, agents, and analysts, by detecting patterns of criminal behavior that stretched across large amounts of diverse trade and financial data including import/export, manifest, BSA, and other data sources. The software and methodologies that my team and I pioneered were successfully deployed in over three dozen countries which led, with the insight and vision of John Cassara, to Trade Transparency Units or TTU's.

Unfortunately, today's TTU initiative has been largely ineffective in terms of revenue collection or in targeting major patterns of fraud or obtaining significant convictions. The TTU has veered from its initial financial and customs focus, in part because of the culture of the agency in which it is administered, DHS. Cassara writes in Trade-Based Money Laundering, "The forced merger with the former Immigration and Naturalization Service and expansion of Customs' mission into immigration enforcement has not been successful. Its expertise, skillsets, budget, and staffing were diluted...The resulting dysfunction within the DHS has been well documented." DHS has neither the customs nor financial expertise to make the TTU initiative a success. The loser here is our ability to tackle trade-based money laundering and tax revenue loss on a grand scale along with a missed opportunity to target funding flowing to terrorist targets such as ISIS which, of necessity, do participate in global trade.

What data is needed in support of an efficient, functional TTU? Detailed, transactional import and export data, as well as movements of money data, for the United States and partner nations, are key. Movement of goods data ideally will include bill of lading / manifest records, both for import and export for the U.S. and

partner nations, as well as intermediate container movements. BSA suspicious activity reports greatly enhance targeting capabilities. It is important to point out that commercially available sources of data can supplement, and in many cases replace, government data sources where key nations (or even some US agencies) choose not to participate in data sharing. The targeting magic occurs when this data, and TBML-specific analytic tools, are used by knowledgeable financial analysts.

Existing DHS TTU focus is 95% South America. That perhaps made some sense given DHS's focus on immigration and on drugs but does very little to attack the evolving terrorist threats. The real money flowing to ISIS involves the Middle East and frequently involves Europe including Turkey. With a proper focus on terrorist financing and trade based money laundering, with a home in a financial organization such as FinCEN, we could make a serious dent in the core funding sources of entities such as ISIS.

I've attached to my testimony some background information including previous success stories both in the U.S. and other countries. That information, along with what I've said here today, leads me to a strong recommendation.

I recommend the creation of a reinvigorated TTU, with an associated line item from Congress, and move it to FinCEN under Treasury, an agency capable of addressing the nexus of TBML and tax revenue loss. Giving FinCEN this focus immediately, and full access to the necessary trade data, is the obvious right step whatever the eventual status of the TTU initiative within DHS. Let's return to our earlier vision, focus, and effectiveness, built on a rapidly increasing number of TTU's analogous to the Egmont Group of Financial Intelligence Units. We have the opportunity to lead and help our nation and indeed the world, while generating a huge revenue surplus. Let's get back on track. Thank you for listening.

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Lou Bock

SENIOR SPECIAL AGENT, RETIRED

BACKGROUND / BACKSTORY

Backgrounder / Backstory

Lou Bock Testimony

I'm a retired Senior Special Agent who worked as a criminal investigator at the DEA, USDA, and fraud, financial and intel at Customs/Treasury and, later, ICE/DHS. For much of my career I generated and worked large, complicated criminal cases involving trade fraud and money laundering worth billions of dollars. I did so with a team of import and tax specialists, agents, and analysts by detecting patterns of criminal behavior that stretched across large amounts of diverse trade and financial data including import/export, manifest, Bank Secrecy Act, and other data sources. The software and methodologies that my team and I pioneered were successfully deployed in over three dozen countries which led, with the insight and vision of John Cassara, to Trade Transparency Units or TTU's.

To give you some sense of my history targeting crime, I would like to provide you with some background on myself and on some of the cases I've been involved with, along with the methodologies I've developed and used to identify financial and trade fraud. I want you to understand that I know what I'm talking about: I've been doing this for 25 years and I know that trade-based money laundering (TBML) and associated crimes are solvable problems. We already know how to do this--we just need to have the will to implement the proven methodologies and assign a team with the appropriate mission.

Originally, I was assigned to the Customs Service headquarters Fraud Division, to develop a system whereby non-technical individuals such as criminal investigators or intelligence analysts could access core Customs databases. Specifically, we were to look at Customs import documents and look for problems or anomalies that would be indicative of over or under invoicing / valuation of goods. Once we found these indications, we could investigate the activities for fraud against the revenue of the United States Customs Service.

Specific data that we were looking at was maintained by the main United States Customs data center in Newington, Virginia. Newington housed one of the largest computer centers in the United States, consisting of a number of mainframe computers. Their core database was updated by a system that was approximately 40 years old at the time and was accessible to the user by way of a special application that queried the data by essentially asking one question at a time.

You could search by product, port, importer or document number. It worked fairly well if you knew exactly the items you were searching for; with the specific importer or document number, you could find out all the details of a given transaction. The system had little flexibility and there was no possibility of examining the bulk of the data as a way to identify trends.

It was decided that the best way forward was to leave this archaic system as it was, in order to prevent disruption of the entry process. We then proceeded to develop an approach with which we downloaded chunks of data from the mainframe and analyzed it separately.

The first document that we applied this treatment to was the Customs entry form known as the CF 7501. This document is used to describe the goods being brought into the United States and entered for consumption. You can think of it as is short form tax return. The importer usually through a Customs broker would file the CF 7501 when he or she was required to settle the account as to duty and taxes owed on the goods brought into United States from another country.

The system we started to develop simply took a copy of some of the data fields from the CF 7501 that would be relevant to the detection of fraud. The first attempt at this was named the Numerically Integrated Profiling System (NIPS). Our method of distributing NIPS to the field was to send the NIPS program and required 7501 data to the field.

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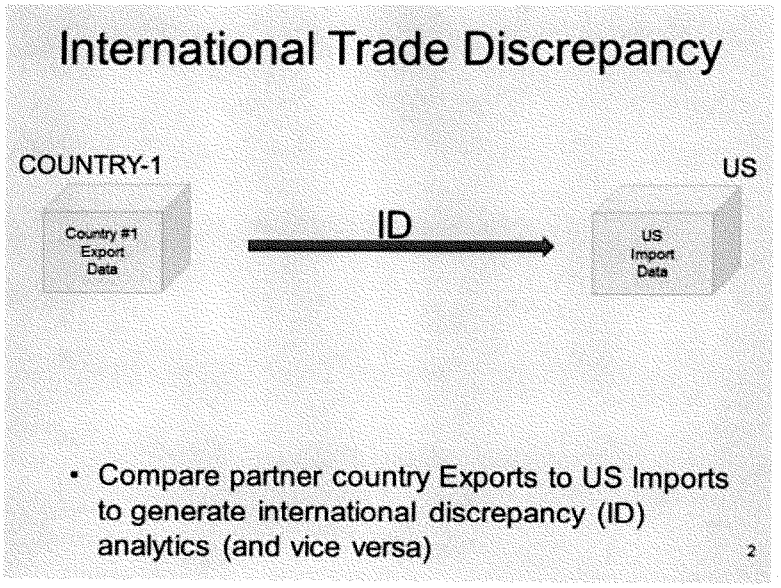
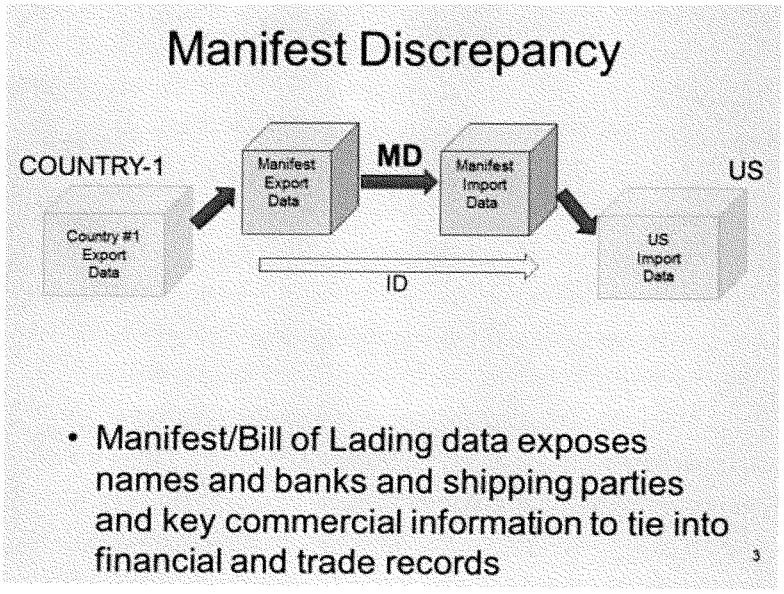
The success of this initiative led to many different types of data being added into the analytical process over time. One type of data which proved enormously useful, particularly to identify trade discrepancies with other countries, was the addition of other countries' trade data. One outgrowth of this way of looking at trade data was the definition of an analytical methodology now known as the International Discrepancy Analysis. This is the core analytical approach invented, implemented, and successfully deployed by me and my team to understand trade fraud.



The dramatic success of this endeavor led to requests for more types of data from the field. These included data showing the movement of goods from the foreign country known as the manifest or the bills of lading. These transportation documents included such information as who shipped the goods to the United States, who was to receive them in the United States, what ship they arrived on,

when they arrived, what ports were involved, as well as commercial description of the goods.

When you combine manifest with CF 7501 data you can find discrepancies. Some of these discrepancies may show that the route or the port of lading does not agree with the country of origin supplied on the Customs form 7501. This is useful to determine if the government has been furnished with a false country of origin. Violations of sanctions and of various treaties, as well as quota regimens, were detected in this manner. This led to the creation of the analytical approach known as Manifest Discrepancy.



Once we had taken steps to address trade data discrepancies, the next data element that we sought to include in our analysis were the financial data sets, primarily drawn from the Bank Secrecy Act (BSA) data. Financial documents include:

- Currency Monetary Instrument Report (CMIR)--this document details the importation and exportation of money and financial instruments equal to or greater than $10,000. CMIR data fields include: owner of the money, the transporter of the money, parties to the transactions (complete with names and addresses), the from and to countries, and the dollar value of the instrument. Includes passport numbers.
- Currency Transaction Report (CTR). Reports banks and financial institution transactions equal to or greater than $10,000. Includes bank info, account number, owner of the money, party making the transaction, dollar value. Also includes names and social security numbers.
- 8300. Cash transactions to purchase items equal to or greater than $10,000. Includes name of seller and buyer parties, addresses, social security numbers and other identifying data, and dollar value.
- Wire transfer data
- Suspicious Activity Reports (SAR). Derived from banks, casinos, and money service bureaus. Contains written reports identifying transactions that the banks feel are suspicious.
- Many additional financial data sources

The addition of these financial data sources opens up an entire new world of analytic possibilities as we begin the search for Financial Discrepancies:

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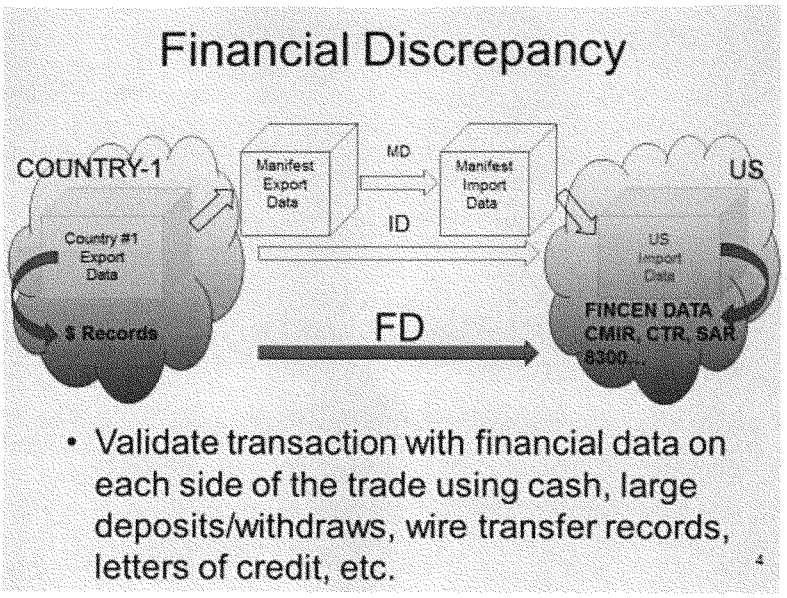

The documents listed above are often located on mainframe computers found at various USG agencies. Each document's data required normalization, which we learned how to do, before effective targeting could be accomplished. The methodology requires that each document's fields to be used by the advanced TBML targeting system is formatted in specific ways. We integrated these various types of documents in order to supply the user/analyst with answers to their law enforcement-related questions: *who, what, when, and where.*

Using this overall analytic idea, we approached the Treasury Department of the country Colombia (DIAN), under Plan Colombia, and set up a joint effort using both countries' imports and exports to one another. Money was allocated to allow our team to normalize the Colombian detailed import and export data. At this point, we

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were looking at all detailed U.S. import and export transactions, and Colombian data to match, for several years. The project immediately led to the discovery of major discrepancies between each country's imports and exports. Some discrepancies were in the dollar value, and in other situations it was the quantities that were seriously misaligned. Examination of the data showed that in many cases, the imports and exports between the two countries matched nearly perfectly, which indicated to our team that the significant problems we were uncovering were not data quality issues.

In the case of Colombia, the differences in value were mainly higher when the goods arrived in the United States. This is commonly called over-invoicing or overvaluing goods. This would usually have the effect of raising the amount of duty and taxes paid on imports. It is fairly common to see undervaluation because that would reduce the money owed in taxes. The overvaluation was, therefore, perplexing. The explanation supplied by financial investigators was that overvaluation was an illegal means of moving money out of the United States. Simply put, if you pay more for an item, money leaves the higher priced country to the lower priced country.

One might say this is counter intuitive. Why pay more US taxes and duties by overstating the amount of a given transaction? The answer is the overvaluation had involved items where there was no taxes or duties.

More was learned from that early experiment. We discovered that in the case of missing goods--where more left the United States than arrived in Colombia--it was simply smuggling that was occurring. We identified ways in which Colombia was losing significant revenue sources, which without our analysis would have been very difficult to detect. More importantly, the analysis identifies goods financed by the Black Market Peso Exchange (BMPE).

Because of oddities in the Colombian system of checks and balances, which is different than the system in the U.S., Colombia required that all dollar transactions have to originate through a Colombian bank. These banks were required to notify DIAN of goods they finance before the goods actually arrive in-country. By being financed outside the bank (by way of the illegal BMPE), DIAN was unable to watch

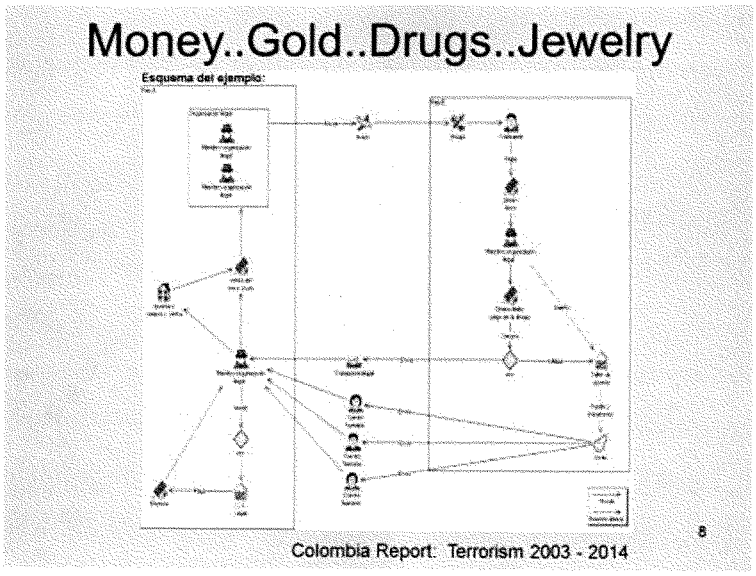
for or otherwise control these importations. Based on our pioneering efforts, many criminals and schemes in both Colombia and in the U.S. were identified and stopped.

Based on our string of successes working with Colombia, John Cassara and I proposed that the State Department fund the creation of Trade Transparency Units (TTUs). Once the funding was obtained, we set out and added six additional countries to the TTU project. This took place while I was still managing the TTU's at U.S. Customs.

I'm here today because I greatly believe in the mission of trade transparency and financial controls but I'm also frustrated that we have not made enough progress, or given enough focus, to the critical importance of the financial side of the trade transparency issue. Even our partners, including Colombia, are moving beyond us and are taking the idea of our initiative further and more effectively than we have. Colombia has effectively unified the financial and trade analytic components and leveraged into their equivalent of FinCEN an analytical unit looking at financial and trade data.

As an example, here is a chart from a Colombia report on the fraudulent movement of money, gold, drugs, and jewelry. I would love to explain to this committee how the chart below depicts the illicit movement of money and the role the U.S. should be playing to address these issues.

17 17



We need a new initiative, a new focus, which leverages the learnings from our previous efforts, learns from partner countries, but focuses on the critical financial and trade fraud issues facing the United States.

Within the United States and around the world, I have worked on a great variety of different cases involving trade fraud and money laundering. Below are a few examples.

Historical geographic focus:

- Colombia
- Panama
- Guyana

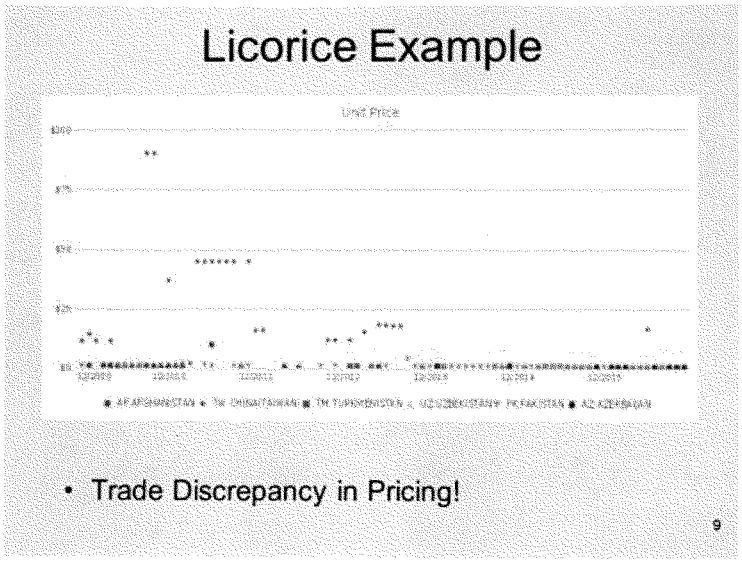
- Peru
- Argentina
- Brazil
- Canada
- Mexico / NAFTA
- China
- US/Laredo
- Many more...

Additional commodities and areas of fraud:

- Gold
- Chicken
- Licorice
- Tobacco
- Freon
- Coins
- Watermelons
- Garlic
- Tax credits
- Jewelry
- In-Bond
- T Shirts
- Many more...

For example, perhaps you wouldn't think licorice (listed above) would hold a great deal of interest but the following graph shows how we were able to identify over $100 million in fraud:

19 19



As I look at the current situation in the U.S., I see the data necessary to do the correct investigations is scattered, partially gathered in a few place, but nobody is looking at it with the right perspective. There is not, to my knowledge, a financial focused initiative within a financially knowledgeable entity such as FinCEN, nor is there any significantly funded effort to apply the things we already know to the current problems of trade based money laundering.

In conclusion, I hope this committee understands the following:

- Trade based money laundering (TBML) has been around for a very long time but it is of exponentially growing importance to the U.S.
- The financial nexus of trade is key
- Addressed appropriately we can help the U.S. and partner governments increase revenue collection dramatically while cutting down on illicit financing of many activities including terrorist financing

 20

- There is significant synergy between TBML and the existing FinCEN mission

 21

Lou Bock

SENIOR SPECIAL AGENT, RETIRED

Additional Background:

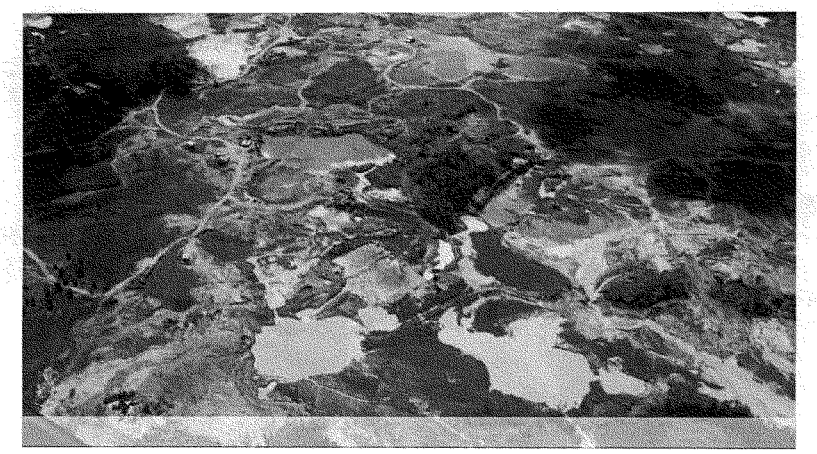
Tracing Colombia's Gold (*Colombia Reports* article)

COLOMBIA REPORTS INTELLIGENCE
On the ground intelligence and weekly reports for investors, risk analysts and policy makers

Economy

Posted by Grace Brown on Sep 1, 2015 | 4 Comments

Tracing Colombia's gold from savage jungles to Swiss watches



Colombia's gold is almost exclusively exported to the United States and Switzerland. This gold is mined both legally and illegally, then sold to exporters in Medellin before being sent to North America and Europe.

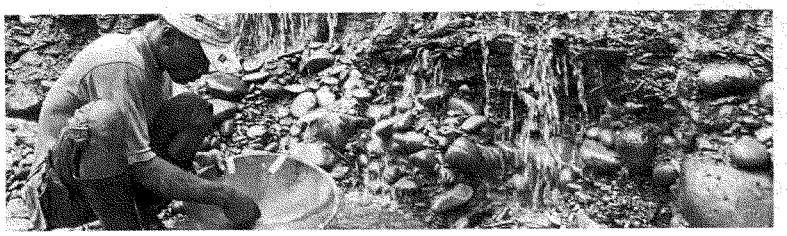
Colombia exported 310 metric tons of gold between 2010 and 2014. Curiously, this is more than the government's production figure of 287 metric tons.

Investigative journalism website Ojo Publico traced the precious metal's route from Canadian-run mines and jungle regions under the control of illegal armed groups, to

23

companies including Republic Metals Corporation from the United States and Swiss group Metalor.

The miners



The majority of gold mined in Colombia comes from the western provinces of Antioquia, Choco, Cauca and Nariño, according to government statistics.

Only 17% of the total amount of gold mined in the country is formally recognized to come from authorized mining zones, directed by companies such as Gran Colombia Gold from Canada or the Colombian Mines Corporation, also from Canada.

In a number of cases, locals and multinational mining companies have clashed because of opposing interests.

On top of financial criminality and social tension, the illicit trade is also linked to environmental devastation. Data from the Ministry of Environment and Sustainable Development show that in 2014, there were 17,000 hectares of deforestation and at least 19 rivers were contaminated.

Colombia's gold rush

The other 83% of Colombian gold is mined under informal conditions without license, often by artisan miners, and reportedly constitutes more than 50 metric tons mined per year.

Profiles

FARC

Urabeños

The miners are frequently victim to extortion by the FARC guerrilla group, or Los Urabeños, a neo-paramilitary group that has become the country's most powerful drug trafficking organization.

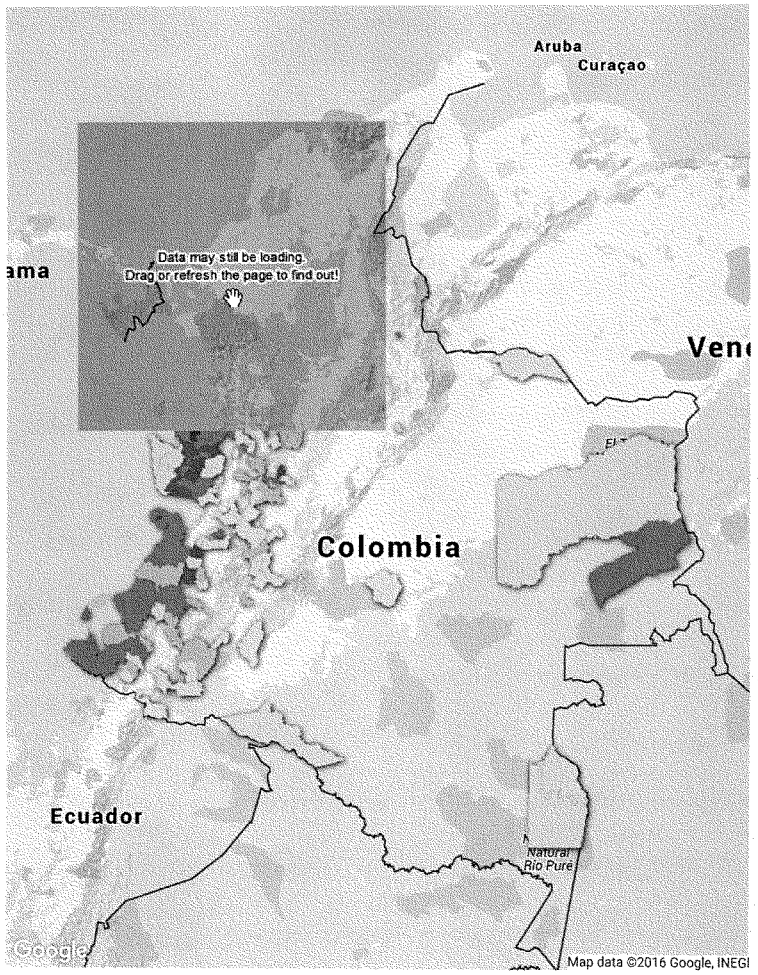
These illegal groups in some cases forcefully appropriate entire mining operations or provide the machinery necessary to extract the gold from the ground.

In 2014, the police force seized 739 kilos of gold with a value of more than $26 million that would have financed organized crime, according to Colprensa, Colombia's news agency.

Some of the main non-authorized areas of production controlled by armed groups are in the provinces of Antioquia, Choco, the Amazon and Caqueta.

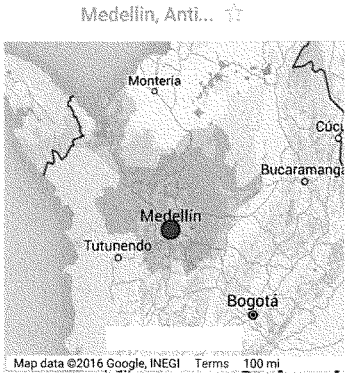
Following its extraction, 93% of the gold is then transported from these areas and other parts of the country, to Medellin, Colombia's second largest city, where a number of traders buy the gold and export the precious metal to customers abroad.

Where Colombia's gold is extracted



The traders

Out of the ten principle Colombian exporters of gold, nine are based in Medellin, which is geographically very close to the centres of Colombian gold production. The remaining Giraldo & Duque is based in the southern city of Cali. In the past five years, these groups exported 92% of the gold that left Colombia.



Among the top three of these exporters, Goldex SA is the most significant to have been investigated by Colombian authorities for being involved in one of the largest money-laundering networks in the country.

The president of Goldex is currently in jail awaiting trial for money laundering and terrorism charges after authorities found out that the company was allegedly laundering money for paramilitary groups including the Urabeños.

Leading Colombia gold trader arrested for money laundering

One of Goldex's foreign clients Metalor, claimed to have stopped doing business with the company upon hearing the money laundering allegations in September 2013, but records show that they continued to receive deliveries until June 2014.

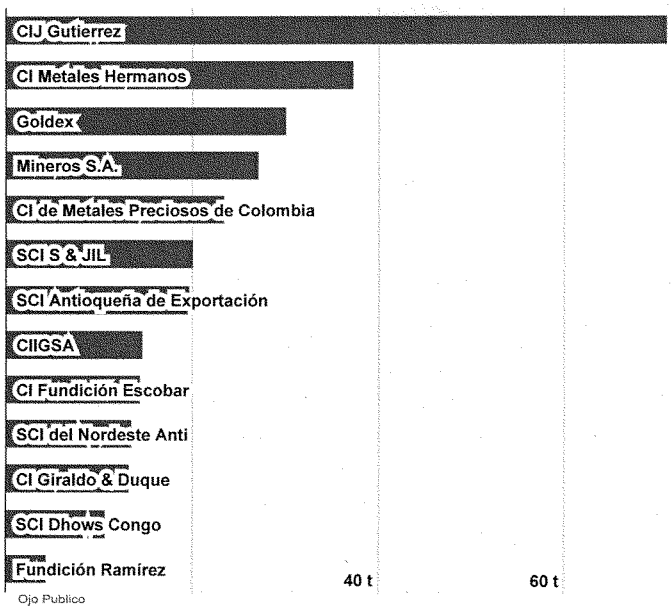
At the time of the investigation, Colombian police said that six other suspicious companies were being investigated for money laundering.

This year, the disgraced company resumed business with Metalor, sending it almost a ton

of gold.

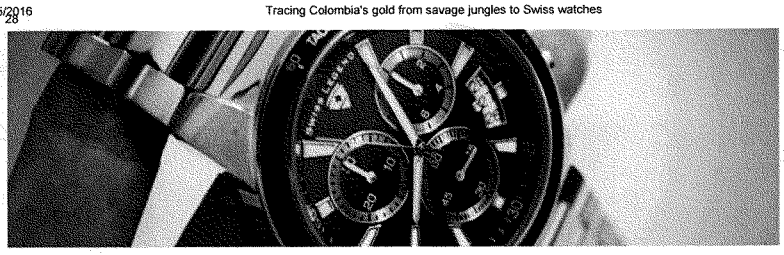
In July, Colombia's president Juan Manuel Santos declared a war on the illicit trade that is reportedly worth $2.5 billion a year.

Who is trading the gold

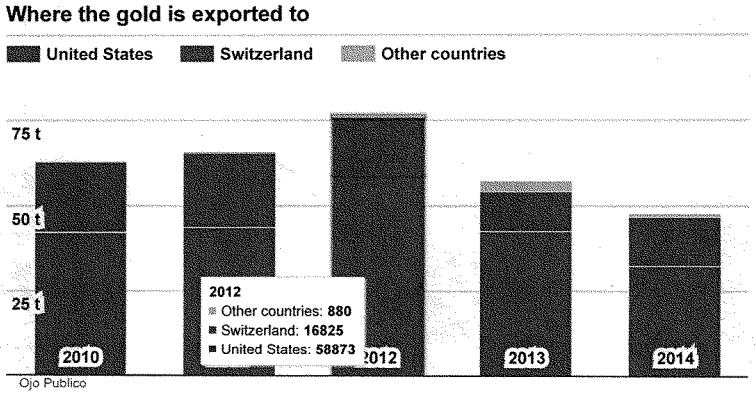


Ojo Publico

The buyers



Republic Metals Corporation from the United States and Swiss group Metalor are two of the main buyers of Colombian gold, receiving 40% and 23% respectively of the total amount exported. Both groups belong to the London Bullion Market Association (LBMA), the established wholesale market that sets the international price of gold.

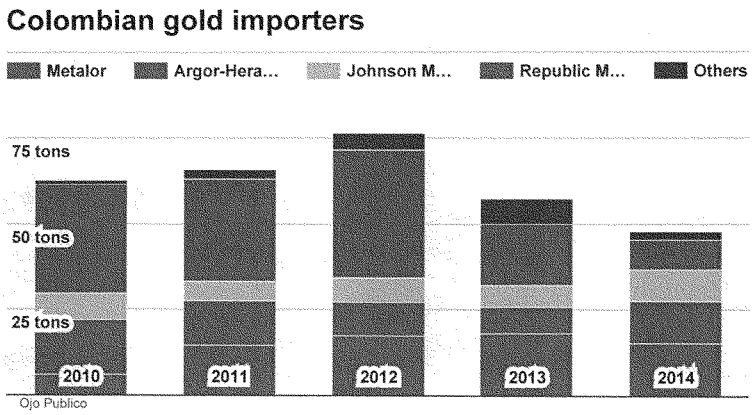


Metalor, also a certified member of the Responsible Jewellery Council, is suspected to have been involved in a variety of illegal gold dealing across South America. Records show that Metalor bought US$521 million between 2009 and 2013 from gold trading company ASPeru who have been linked to illegal mining in Peru.

OjoPublico reported that Metalor has imported hundreds of metric tonnes of illegal gold from exporting firms linked to money laundering.

Republic Metals Corporation, one of Metalor's competitors, has also been tied to

allegations of purchasing contraband gold. As a former client of Goldex, reports say that RMC closed all accounts with Goldex in 2013 after suspicions were raised.



Julia Principe, top Peruvian money laundering prosecutor, and Gustavo Romero, the head of Peru's tax authority, confirmed that RMC and Metalor are under investigation by prosecutors and police for money laundering cases linked to illegal mining in Peru.

Between them, both Metalor and Republic Metals Corporation to date have financed the gold rush by purchasing 196.5 metric tonnes of gold from Colombia

On July 31, the government said that they will take action to fight the criminal groups that hide behind mining who commit all sorts of "destruction to the environment, to public order, and finance groups outside of the law."

Among a variety of measures to stop the illegal trade, the government said that police will be allowed to destroy illicit machinery, higher penalties will be incurred and traffic control

COLOMBIA REPORTS

exports gold mining

From The Web

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Nicholas Cage's Net Worth Will Shock You

John A. Cassara

Written Statement for the Hearing On

"Trading with the Enemy: Trade-Based Money Laundering is the Growth Industry in Terror Finance"

Before the Task Force to Investigate Terrorism Financing

Of the House Financial Services Committee

February 3, 2016 at 10:00 A.M.

Chairman Fitzpatrick, Ranking Member Lynch and members of the Task Force to Investigate Terrorism Financing, thank you for the opportunity to testify today. It is an honor for me to be here.

Not long after the September 11 attacks, I had a conversation with a Pakistani entrepreneur. This businessman could charitably be described as being involved in international grey markets and illicit finance. We discussed many of the subjects addressed in this hearing including trade-based money laundering, terror finance, value transfer, hawala, fictitious invoicing, and counter-valuation. 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. 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 screen. Our adversaries – terrorists, criminals, 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 threats. Perhaps as the Pakistani businessman inferred, it is because the subterfuges are "hiding in plain sight."

The Financial Action Task Force (FATF) has declared that there are three broad categories for the purpose of hiding illicit funds and introducing them into the formal economy. The first is via the use of financial institutions; the second is to physically smuggle bulk cash from one country or jurisdiction to another; and the third is the transfer of goods via trade.[i] The United States and the international community have devoted attention, countermeasures, and

resources to the first two categories. Money laundering via trade has for the most part been ignored.

Trade-based money laundering and value transfer (TBML) is a very broad topic. FATF defines 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."[ii] The key word in the definition is *value*.

Magnitude of the Problem

There are no official estimates on the magnitude of TBML as a whole. Since the issue impacts national security, law enforcement, and the collection of national revenue it is remarkable that TBML has never been systematically examined by the U.S. government.

I would like to give you just a few examples to demonstrate the enormity of the problem.

Dr. John Zdanowicz, an academic and early pioneer in the field of TBML, examined 2013 U.S. trade data obtained from the U.S. Census Bureau. By examining under-valued exports ($124,116,420,714) and over-valued imports ($94,796,135,280) Dr. Zdanowicz found that $218,912,555,994 was moved out of the United States in the form of value transfer! That figure represents 5.69% of U.S. trade. Examining over-valued exports ($68,332,594,940) and under-valued imports ($272,753,571,621), Dr. Zdanowicz calculates that $341,086,166,561 was moved into the United States! That figure represents 8.87% of U.S. trade in 2013.[iii]

I believe the United States has the most professional and vigorous customs enforcement service in the world. So if almost 6 to 9 percent of our trade is tainted by customs fraud and perhaps trade-based money laundering, what does that mean for the rest of the world, in particular countries with weak governance and high corruption?

By examining other forms of TBML the magnitude of the problem increases further. For example, TBML is also involved with customs fraud, tax evasion, export incentive fraud, VAT fraud, capital flight or the transfer of wealth offshore, evading capital controls, barter trade, underground financial systems such as hawala and the fei-chien – the Chinese "flying money system, the black market peso exchange (BMPE), and commercial trade-based money laundering such as trade diversion, transfer pricing, and abusive trade-misinvoicing.

The amount of trade-misinvoicing is staggering. According to Raymond Baker, the head of Global Financial Integrity (GFI) and a worldwide authority on financial crime, "Trade misinvoicing – a prevalent form of TBML – accounts for nearly 80 percent of all illicit financial outflows that can be measured by using available data."[iv] According to a 2015 study by GFI, "Illicit financial flows from developing and emerging economies surged to $1.1 trillion in 2013." By just focusing on developing economies, cumulative illicit outflows were approximately $7.8 trillion between 2004 and 2013 in the GFI study, the last year for which data are available.[v]

TBML is found in every country in the world – both developed and developing. But the massive transfer of wealth offshore through abusive trade misinvoicing is particularly harmful to countries with weak economies, high corruption, and little adherence to the rule of law. The developmental, human and societal costs are staggering.

Trade-based value transfer has existed long before the advent of modern "Western" banking. In areas where our adversaries operate, trade-based value transfer is part of a way of life. It is part of their culture; a way of doing business. TBML is related to terrorist finance. In just one example of TBML and terrorist financing, a Pakistani madrassa – a fundamental Islamic religious school – was linked to radical jihadist groups. The madrassa received large amounts of money from foreign sources. It was engaged in a side business dealing in animal hides. In order to justify the large inflow of funds, the madrassa claimed to sell a large number of hides to foreign customers at grossly inflated prices. This ruse allowed the extremists to "legitimize" the inflow of funds which were then passed to terrorists.[vi]

In addition, trade-based value transfer is often used to provide "counter-valuation" or a way of balancing the books in many global underground financial systems - including some that have been used to finance terror. Trade-based value transfer is found in hawala networks and most other regional "alternative remittance systems."

The World Bank estimates that global remittances through official channels like banks and Western Union will reach $707 billion by 2016. Nobody has reliable estimates of remittances through *unofficial* channels. However, the International Monetary Fund believes, "unrecorded flows through *informal channels* are believed to be at least 50 percent larger than recorded flows."[vii] Thus according to these World Bank and IMF estimates, unofficial remittances could be well over $1 trillion!

Our countermeasures for underground money remitters like hawaladars are not effective. Requirements for registration, licensing, and filing of financial intelligence have all failed – not only in the United States but in other countries where they have been tried. I believe that a systematic examination of TBML and value transfer and their links to underground finance could be the "back door" into hawala and other problematic alternative remittance systems – some used by our terrorist adversaries. Yet the U.S. and the international community have virtually ignored trade's role in underground financial systems.

TBML is also intertwined with the misuse of the Afghan Transit Trade, Iran/Dubai commercial connections, the Tri-Border region in South America, suspect international Lebanese/Hezbollah trading syndicates, non-banked lawless regimes such those in Somalia and Libya, territory controlled by ISIS in Syria and Iraq, and many more. The promotion of international trade transparency could provide clarity for these opaque value transfer systems.

To summarize, the argument can be made that TBML and value transfer, including all its varied forms, is perhaps the largest and most pervasive money laundering methodology in the

world. Unfortunately, it is also the least understood, recognized, and enforced. In comparison to the annual volume of tens of trillions of dollars in international general merchandise trade, successful enforcement efforts are practically nil.

How Does TBML Work?

In its primary form, TBML revolves around invoice fraud and associated manipulation of supporting documents. When a buyer and seller work together, the price of goods (or services) can be whatever the parties want it to be. There is no invoice police! As Raymond Baker succinctly notes, "Anything that can be priced can be mispriced. False pricing is done every day, in every country, on a large percentage of import and export transactions. This is the most commonly used technique for generating and transferring dirty money." [viii]

The primary techniques used for involve invoice fraud and manipulations are:

- Over-and-under invoicing of goods and services
- Multiple invoicing of goods and services
- Falsely described goods and services

Other common techniques related to the above include:

- Short shipping: this occurs when the exporter ships fewer goods than the invoiced quantity of goods thus misrepresenting the true value of the goods in the documentation. The effect of this technique is similar to over invoicing.
- Over shipping: the exporter ships more goods than what is invoiced thus misrepresenting the true value of the goods in the documentation. The effect is similar to under invoicing.
- Phantom shipping: No goods are actually shipped. The fraudulent documentation generated is used to justify payment abroad.

Invoice Fraud

Money laundering and value transfer through the over- and-under invoicing of goods and services is a common practice around the world. The key element of this technique is the misrepresentation of trade goods to transfer value between the importer and exporter or settle debts/balance accounts between the trading parties. The shipment (real or fictitious) of goods and the accompanying documentation provide cover for the transfer of money.

First, by under-invoicing goods below their fair market price, an exporter is able to transfer value to an importer while avoiding the scrutiny associated with more direct forms of money transfer. The value the importer receives when selling (directly or indirectly) the goods on the open market is considerably greater than the amount he or she paid the exporter.

For example, Company A located in the United States ships one million widgets worth $2 each to Company B based in Mexico. On the invoice, however, Company A lists the widgets at a price of only $1 each, and the Mexican importer pays the U.S. exporter only $1 million for them. Thus, extra value has been transferred to Mexico, where the importer can sell (directly or indirectly) the widgets on the open market for a total of $2 million. The Mexican company then has several options: it can keep the profits; transfer some of them to a bank account outside the country where the proceeds can be further laundered via layering and integration; share the proceeds with the U.S. exporter (depending on the nature of their relationship); or even transfer them to a criminal organization that may be the power behind the business transactions.

To transfer value in the opposite direction, an exporter can over-invoice goods above their fair market price. In this manner, the exporter receives value from the importer because the latter's payment is higher than the goods' actual value on the open market.

Invoice Manipulation Made Simple!

To move money/value out:

- **Import goods at overvalued prices or export goods at undervalued prices**

To move money/value in:

- **Import goods at undervalued prices or export goods at over-valued prices**

For example, Figure 1[ix] below shows the fluctuating value associated with thousands of refrigerators exported from Country A to Country B via a series of shipments. The darker shade represents the declared value of the refrigerators upon export from Country A, and the light shade represents their declared value upon arrival in Country B. The horizontal line represents the time period over which these shipments occurred. The vertical line represents the value expressed in dollars. In this case the refrigerators were over-invoiced. The export data came from the "shippers export declaration" (SED) that accompanies the shipments. The import data came from the importing country's customs service. Obviously, the declared export price should match the declared import price. (There are some recognized but comparatively small pricing variables. In addition, the quantity and quality of refrigerators should also match - which occurred in this case.) The difference in price between the dark and light shades represents the transfer of value from the importer to the exporter. In this case, the transfer represented the proceeds of narcotics trafficking.

At the end of the chart the shaded colors start to converge. The colors or values between imports and exports begin to match because data was compared, anomalies noted, and joint enforcement action taken by the two countries involved. Trade transparency was achieved. The comparative stability at the end of the chart reflects true market conditions.

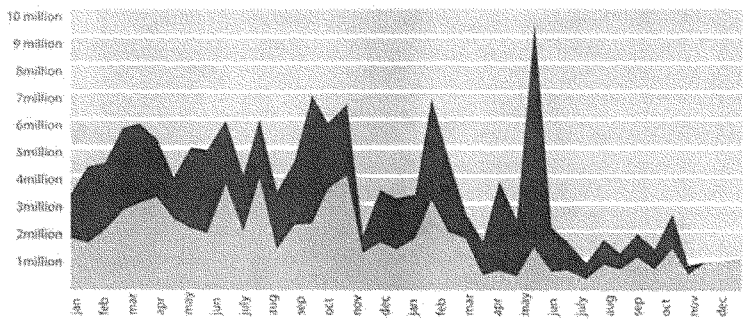


Figure 1

There are incredible examples of trade-mispricing. For example, Dr. John Zdanowicz conducted a study analyzing U.S. trade data.[x] He found plastic buckets from the Czech Republic imported with the declared price of $972 per bucket! Toilet tissue from China is imported at the price of over $4,000 per kilogram. Bulldozers are being shipped to Colombia at $1.74 each! Of course, there are various reasons why the prices could be abnormal. For example, there could simply be a data "input" or "classification" error. However, recalling the above explanation of over-and-under invoicing, the abnormal prices could also represent attempts to transfer value in or out of the United States in the form of trade goods. At the very least, the prices should be considered suspicious. Only analysis and investigation will reveal the true reasons for such large discrepancies between market price and declared price.

Countermeasures – Data, Analytics, and Trade Transparency

Despite the enormity of TBML and the challenges briefly outlined above, I am hopeful. The reason for my optimism is that *theoretically* international trade transparency can be

achieved. As opposed to other money laundering methodologies (for example, bulk cash smuggling) a growing volume of precise data exists that enable analysts and criminal investigators to follow the value transfer trails.

Over the last few years there has been an explosion in both government and commercial data related to trade. Overlaying financial intelligence, law enforcement and customs data, travel data, commercial records, shipping data, etc. further increases transparency and facilitates more clarity. Simultaneously, there has been incredible progress in advanced analytics. I am particularly excited about "predictive analytics" which helps analysts and investigators spot patterns, methods, and trends as well as prioritize investigative leads.

Time and space do not allow me to elaborate on how trade and associated data is produced and analyzed. Other witnesses, including my friend Lou Bock, the "godfather" of TBML, will elaborate on this in their remarks.

In order to champion trade transparency, in 2004 the United States government adopted a proposal Lou and I advanced and created the world's first trade transparency unit (TTU). It is located within Homeland Security Investigations (HSI). (For further information see the TTU website at: https://www.ice.gov/trade-transparency) The initiative seeks to identify global TBML trends and conduct ongoing analysis of trade data provided through partnerships with other countries because one of the most effective ways to identify instances and patterns of TBML is through the exchange and subsequent analysis of trade data for anomalies that would only be apparent by examining both sides of a trade transaction.

A TTU is formed when HSI and any of the United States trading partners agree to exchange trade data for the purpose of identifying comparison and analysis. To help analyze the data, the HSI has developed a specialized computer system. Containing both domestic and foreign trade data, the system allows users to see both sides of a trade transaction, making it transparent to both countries. As in the example of refrigerators in Figure 1 above, TTUs can easily identify trade anomalies that could be indicative of customs fraud, TBML, contraband smuggling, tax evasion, and even underground finance. Of course, investigations are still required. This investigative tool has been proven to be effective. Since the creation of the domestic and international TTU initiative, more than $1 billion has been seized.[xi]

Another reason I am optimistic about the long-term prospects of achieving trade transparency is that it is a revenue enhancer. By systematically cracking down on various forms of customs fraud, hundreds of billions in dollars of lost revenue can be returned to cash-starved governments around the world. This could be particularly helpful in parts of the world where our adversaries operate and weak governments are starved for revenue. In cases where corruption is rife, effective trade analysis can be accomplished outside of the country. I have found that many times when I travel to the developing world and talk about the importance of anti-money laundering and counter-terrorist finance, the reception is sometimes cool. However,

when I explain to the officials how much revenue they can obtain by cracking down on customs fraud they become very interested. In other words, the carrot of empowering our partners to strive for trade transparency and increased revenue can be much more effective than the stick of heavy handed measures that have proved unsuccessful.

Recommendations

1. As noted, I believe TBML could be the largest and most pervasive money laundering methodology in the world. However, we do not know for certain because the issue has never been systematically examined. This is even more surprising in the United States because annually we are possibly losing billions of dollars in lost taxes due to trade-mispricing alone. While not necessarily true for all money laundering methodologies, trade generates data. I believe it is possible for economists, statisticians, and analysts to come up with a fairly accurate estimate of the overall magnitude of global TBML and value transfer. Narrowing it down to specific problematic countries is easier still.

I suggest this Task Force urge the Department of Treasury's Office of Intelligence and Analysis (OIA) to at least examine U.S. related data and come up with an official estimate for the amount of TBML *in all its varied forms* that impacts the U.S. A generally accepted estimate of the magnitude of TBML is important for a number of reasons: a.) It will provide clarity; b). It will focus attention on the issue; c.) From an enforcement perspective, the supporting analysis should provide both excellent insight into specific areas where criminals are vulnerable and promising opportunities for targeting; and d.) A systematic crack down on TBML and customs fraud will translate into enormous revenue gain.

2. In the world of anti-money laundering/counter-terrorist finance (AML/CFT) enforcement, the FATF makes things happen. The FATF recognizes TBML is a huge concern. There is a special FATF typology report on TBML. However, in 2012 when the current FATF recommendations were reviewed and promulgated, TBML was not specifically addressed. It is past time this is done. I suggest the Task Force contact the U.S. Department of Treasury (which heads the U.S. FATF delegation) and urge that the U.S. introduce a resolution calling for the misuse of trade to launder money and transfer value be examined as a possible new FATF recommendation.

3. HSI continues to expand the network of operational TTUs, which now includes Argentina, Australia, Colombia, Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Paraguay, Peru and Philippines. As part of the TTU initiative, HSI provides equipment and increased operational support to these TTU partners to ensure the network's successful development. I believe the TTU concept should be further developed and expanded. In the "next frontier of international money laundering enforcement," I believe a global TTU network should be created that is somewhat analogous to the Egmont Group of Financial Intelligence Units. Two wonderful aspects of this program are that data already exists and trade transparency

is actually a net revenue enhancer – not only for the United States but for partner countries. I urge Congress to create a separate line item for the HSI TTU initiative so as to promote its expansion. Our TTU has been raided of funds and personnel. Without resources, its functional existence is in jeopardy.

I also believe the concept of trade transparency should be built into the US trade agenda. For example, the new Trans-Pacific Partnership (TPP) is set to lower or eliminate tariffs on everything from imported Japanese cars to New Zealand lamb, while opening two-fifths of the global economy to easier trade in services and electronic commerce.[xii] I don't have a position on the pros and cons of the TPP. But the volume of increased trade will provide additional opportunities for trade-based value transfer and money laundering. I suggest we help protect abuse by insuring that every TPP signatory country establish a TTU and share appropriate targeted trade data to spot anomalies that could be indicative of trade fraud at best and TBML at worst.

4. The misuse of trade is a law enforcement issue – not just a customs issue. Unfortunately, I have first-hand experience that there is almost a total lack of knowledge at the federal, state, and local law enforcement levels regarding TBML and the importance of following the value transfer trail. Even though I can demonstrate how TBML affects state and local law enforcement, most often the consensus opinion is, "Trade is a customs issue. It doesn't concern me or my department."

Yet it is precisely because law enforcement officers are on the front lines in their communities and know their operating environment well, they should notice if a local business or commercial activity does not make market or economic sense. For example, a normal business should not remain in operation for long with sporadic commercial activity or when consistently selling goods far above or below market norms. Numerous businesses in the U.S. and elsewhere are involved at the local level in TBML schemes and deal with goods that are frequently manipulated to transfer value. Businesses involved with the black market peso exchange (BMPE) – large and small - are found throughout the United States. Underground financial networks such as hawala and fei-chien are found in local communities and they often depend on trade and local business networks.

Accordingly, I urge my state and local law enforcement colleagues to become more familiar with issues surrounding TBML schemes and how they affect the local community. Where appropriate, trade fraud and associated crimes should be part of their financial investigations education. The State and Local Anti-Terrorism Training (SLATT) program funded by the U.S. Department of Justice, Bureau of Justice Assistance (BJA) is an excellent starting point. The SLATT program is dedicated to providing specialized multiagency anti-terrorism detection, investigation, and interdiction training and related services at no cost to our nation's law enforcement officers, who face the challenges presented by the terrorist and violent

criminal extremist threat – including the detection of opaque underground financial systems sometimes employed by terrorists.[xiii]

With an expanded TTU, there should be more sharing of targeted trade data with local law enforcement. In addition, appropriate U.S. import and export trade data should be made available by the Department of Homeland Security and the Department of Commerce to Treasury's Financial Crimes Enforcement Network (FinCEN). Combined with commercially available data, criminal investigators and analysts should be able to conduct both reactive and pro-active queries into suspicious trade transactions.

We have plenty of laws, rules, and regulations on the books that enable law enforcement to combat financial crimes including TBML. In my opinion, what we need is awareness, consensus to make this a priority, and an emphasis on enforcement.

Other recommendations on combatting TBML and value transfer are included in my new book on trade-based money laundering.

I appreciate the opportunity to appear before you today and I'm happy to answer any questions you may have.

Much of the material in this statement comes from:

John Cassara, *Trade-Based Money Laundering: the Next Frontier in International Money Laundering Enforcement*; Wiley, Hoboken, New Jersey, 2015.

[i] FATF; Trade Based Money Laundering (Paris: FATF, June 23, 2006), p. 1; available online: (http://www.fatf-gafi.org/media/fatf/documents/reports/Trade%20Based%20Money%20Laundering.pdf)
[ii] Ibid
[iii] Analysis given to the author by Dr. John Zdanowicz via June 30, 2015 email.
[iv] "The Economist Highlights the Scourge of Trade Misinvoicing," Global Financial Integrity, May 2, 2014; available online: (http://www.financialtransparency.org/2014/05/02/the-economist-highlights-the-scourge-of-trade-misinvoicing/)
[v] "New Study: Illicit Financial Flows Hit US$1.1 Trillion in 2013," Global Financial Integrity, December 8, 2015; available online: http://www.gfintegrity.org/press-release/new-study-illicit-financial-flows-hit-us1-1-trillion-in-2013/
[vi] Brett Wolf, "The Hide and Hair of Terrorist Finance in Pakistan," *Complinet*, January 17, 2007.
[vii] Dilip Ratha, "Remittances, Funds for the Folks Back Home," International Monetary Fund; available online: (http://www.imf.org/external/pubs/ft/fandd/basics/remitt.htm)
[viii] Raymond W. Baker, Capitalism's Achilles Heel, John Wiley & Sons, Hoboken, New Jersey, p. 134
[ix] Source: John Cassara, "Fighting Terror with Analytics," SAS.com Magazine, (available online http://www.sas.com/news/sascom/terrorist-financing.html)
[x] Dr. John Zdanowicz, *Trade-Based Money Laundering and Terrorist Financing;* available online: https://datapro.fiu.edu/campusedge/files/articles/zdanowiczj3008.pdf
[xi] March 26, 2015, email exchange between the author and Hector X. Colon, he unit chief/director of the TTU
[xii] William Mauldin, "Details of Pacific Trade Pact Fuel Debate," Wall Street Journal, November 5, 2015; available online: http://www.wsj.com/articles/pacific-trade-agreement-terms-herald-public-battle-1446712646

[xiii] The Institute for Intergovernmental Research (IIR) serves as the technical service provider for ongoing training, research, and analysis services to the SLATT Program through the support of grant awards received from the Bureau of Justice Assistance. IIR supports the SLATT Program by providing project coordination activities, training assessment, and meeting coordination. See the IIR/SLATT website for additional information; (https://www.iir.com/WhatWeDo/Criminal_Justice_Training/SLATT/)

Farley M. Mesko

Written Statement for the Hearing On

"Trading with the Enemy: Trade-Based Money Laundering is the Growth Industry in Terror Finance"

Before the Task Force to Investigate Terrorism Financing

Of the House Financial Services Committee

February 3, 2016

Chairman Fitzpatrick, Ranking Member Lynch, and members of the Task Force, thank you for the opportunity to testify here today.

Detecting and preventing trade-based money-laundering (or TBML) schemes is a notoriously difficult task, because such schemes are by necessity deeply embedded in overt and legal trade flows. However, this dependency also presents an opportunity: in order to embed within overt systems of finance and commerce, TBML schemes require seemingly legitimate companies, which require paperwork, disclosures, sometimes even marketing and a web presence. This means the networks that perpetrate TBML schemes tend to leave a broad and publicly discoverable footprint, both digital and physical. Despite the many layers of obfuscation that may be built into a scheme, this footprint often leads directly back to an already-identified threat actor or network, particularly in the context of a sophisticated and persistent terror financing scheme.

TBML typologies evolve and change over time, but the key actors in the networks tend not to. This implies that even as public and private sector entities focus on identifying and screening for *typologies* of TBML, they also need to focus on identifying the *networks*.

I am going to use a case example to illustrate this point.

Case Study

In 2011, as part of a larger sanctions package targeting a Hizballah terror financing TBML scheme, the United States Treasury identified a Cotonou, Benin-based group of companies known as the "Elissa Group." In addition to its alleged participation in this terror financing scheme, the Elissa Group was deeply integrated into seemingly legal streams of international trade and commerce, acting as shipping agent for several large

international freight forwarders who specialized in maritime transport of new and used automobiles. By all accounts, this coordinated US government effort, which also included the designation of a Lebanese bank as a primary money laundering concern, was a success. However, patterns of economic activity subsequent to the designation, and patterns of later US government actions, suggest that this network continued to operate even in the face of exposure.

Treasury data from the original 2011 action indicate that at least six of the sanctioned companies shared an address in Cotonou, Benin, and further open source research revealed that several also shared the same phone number. Subsequent to the designation, a new company, Abou Merhi Lines, began to appear on maritime commercial listings linked to this same address and phone number, operating in the same industry segment as the Elissa Group. Reexamining publicly available bills of lading from prior to 2011 shows that this company owned and managed vessels used by the Elissa Group companies for hundreds of used vehicle shipments. Four years after the original Elissa designation, in October 2015, Treasury sanctioned Abou Merhi Lines for its alleged participation in the same TBML scheme identified in 2011. This suggests that the TBML network likely operated post-designation, through both new and old actors, for at least four years.

Even further, online trade data and public records from the Littoral Department Chamber of Commerce in Benin indicate that at the time of the original 2011 designation, at least six other companies and two individuals were active at the shared Cotonou, Benin address. One of these companies, Rmaiti SRL, was later identified in the 2013 FinCEN 311 designation of Kassem Rmeiti & Co For Exchange. Another company, never publicly identified, was actually listed "care of Elissa Group." These and others were active in used vehicle imports, the same industry used to disguise illicit financial flows in the scheme targeted by Treasury.

In sum, 13 companies and two individuals shared identifiers and selectors in Cotonou, Benin; between 2011 and 2015, eight of these 15 companies and individuals were either sanctioned by OFAC or identified in a FinCEN 311 action, in several cases operating openly for years after the initial identification of the scheme; of the remaining seven co-located companies and individuals, five were overtly involved in the used vehicle trade, and may be operating today.

I chose this example because it illustrates several key points about targeting TBML networks.

First, sanctions, 311 actions, and indictments are a starting point and not an endpoint in the government's efforts to target money launderers (particularly those involved in

complex networks and sophisticated schemes like TBML). Networks change over time in response to interventions from law enforcement and regulators, but they rarely go away.

Second, in addition to focusing on *typologies* of TBML, both public and private sector stakeholders need to focus on the *networks*. Proxies, shell companies, vessels, and other actors may change over time, but more often than not, there is a trail leading back to the same key players, whether it's a common director, shareholder, address, phone number, or otherwise. Further, many thousands of these key players have already been identified by governments worldwide, essentially providing the first level of lead generation for investigators and analysts in both the public and private sector.

Third, there is a tremendous amount of data available publicly to help detect and deter these schemes. Availability of course varies by jurisdiction, and most of these records are non-indexed, non-searchable, in local languages, and sometimes offline, but the information is there if you know where and how to look.

Finally, there are many stakeholders in this fight, from law enforcement and regulators to the transportation industry and the financial sector. Each of them holds some unique data, but nobody has the whole picture, and nobody is making full use of the range of data available to them in the public domain. The key to detecting and preventing increasingly complex TBML schemes is data integration, within government, within the private sector, between the two, and, for all the stakeholders, between proprietary and open data streams.

Thank you again for the opportunity to be here today, and I look forward to questions.

Nikos Passas
Professor of Criminology and Criminal Justice, Northeastern University
Distinguished Inaugural Professor, International Anti-Corruption Academy

Hearing on
"Trading with the Enemy: Trade-Based Money Laundering is the Growth Industry in Terror Finance"
Before the House Financial Services Committee
Task Force to Investigate Terrorism Financing

February 3, 2016.

Introduction

Terrorism is a persistent threat with no quick and easy solution. Anticipating the moves of terrorists and preventing their actions has become a top priority. In order to do so, the U.S. and the international community have introduced financial controls, along with military action and law enforcement techniques, to predict, restrict, and prevent terrorist activities. Countering terrorism finance (CFT) is not only about cutting off funds or mere displacement of sources and methods. Rather, the point is to undermine the finances and support networks of target groups. Conceived as financial vigilance, CFT helps focus on both fund raising and expenditure, as well as on partners, associates, facilitators, support networks, methods of operation and distribution of labor. Key nodes of information, intelligence and support can be identified and targeted as appropriate for more effective and sustainable results. The aim is to understand what they do, how they do it and how to identify the key nodes of critical networks, partners and facilitators, blind eyes and corrupt enablers, so that we can more effectively disrupt their activities and achieve sustainable and long-term success (Passas, 2007).

Trade is not only a critical support system for numerous terror groups, but also the weakest link in the anti-money laundering (AML) infrastructure built since the 1980s. Despite substantial efforts, laws, measures and resources devoted to AML/CFT, there has been no systematic review or consistent action with respect to trade, which constitutes the biggest security and crime vulnerability, a black hole undermining the entire control framework. Even if all current rules were ever to be fully and consistently enforced throughout the world, billions of dollars could still be moved illicitly without detection and sanction. When CFT is not based on the best evidence and analysis the result is missed targets, false positives, false negatives and security weaknesses.

Imports and exports can hide illegal or controlled commodities trade, but they often shield significant illicit financial transactions. This can be accomplished by mis-declaring the quality, quantity, value, origin, destination, and final use of goods. Mis-invoicing, trade diversion, counterfeiting and cargo theft are some of the most common methods (deKieffer, 2008; Passas, 1994; Passas & Nelken, 1993). Multiple terrorist groups are involved in these, so a focus on trade and terrorism is long overdue.

In this statement, I am summarizing some of the most important lessons learned through work I have been doing since 1989 on illicit financial and trade flows, including money laundering, the abuse of hawala and other informal remittance systems, terrorism and proliferation finance and the interface between legal and illegal actors. In a nutshell, the threats are serious but the good news is that effective responses are feasible and

within reach. First I will review the challenges we face and then will outline available practical approaches and solutions.

The Challenges

Three global flows need monitoring and analysis for a clear picture of illicit flows: financial, information and trade. Ideally, these flows must become traceable and analyzed in parallel, so that discrepancies and anomalies can be revealed and studied. Most of our attention so far focuses on finance and information, but even there the work is imperfect and sources not cross-checked. Trade, on the other hand, is for the most part non-transparent, neglected and extremely vulnerable to abuse.

Abuses do occur routinely, not only for money laundering, but also for tax evasion, bribery and corruption, subsidy and other types of fraud, sanctions violations, embargo and quota violations, capital flight, as well as the financing of terrorism and WMD proliferation. The amounts involved are not known with precision but they are certainly staggering and likely exceed $1 trillion per annum. Many terror groups have used commodities in the modus operandi: from the Islamic State and al Qaeda in Iraq to the Kosovo Liberation Army (KLA), Jemaah al Islamiya, Tamil Tigers (LTTE), Hamas, Hizballah, the Partiya Karkerên Kurdistan (PKK) the Northern Alliance, al Qaeda, Groupe Islamique Armé (GIA), the Irish Republic Army, as well as Armenian, Chechen and Georgian paramilitary groups (Cassara, 2015; Freeman, 2012; Passas, 2011a, 2011b; Passas & Jones, 2006; Shelley, 2015).

When it comes to the trillions of dollars in trade volume annually, our vision is blurred for several reasons. First of all, relevant information is not collected in one place for consolidated analysis at the national and international level. Relevant information is collected by Customs, FinCEN, Department of Commerce, port authorities and their counterparts in other countries. Other data are in the hands of banks, insurance companies, brokers, shippers and logistics companies, importers and exporters. No one is getting the full picture because no one collects all of the information in one place.

Secondly, financial institutions are expected to focus on transactions monitoring working with large data that would presumably cover everything but end up identifying much less actionable intelligence than desired. A good deal of compliance work has become an automated tick-the box exercise that yields millions of SARs and massive false positives. These in turn tend to waste the time of personnel that must deal with them, rather than centering on the highest risks, analytical work for typologies or new algorithms, the identification of offenders and closer collaboration with controllers. After all, financial institutions have incentives to avoid heavy fines and reputational damage rather than to discover and chase away bad clients. In addition, financial institutions can only review data about their clients and have no way of accessing either government or other banks' clients and analysis. This leads to costly duplication of work and an incomplete view of the problem.

Thirdly, while some government work has been done on commerce-connected informal remittance and payment networks, such as hawala and black market peso exchange (BMPE), there has been no systematic assessment of trade threats and vulnerabilities in different economic sectors. Even when it comes to Informal Value Transfer Systems (IVTS), a term I coined in a study for the Dutch Ministry of Justice (Passas, 1999), no threat assessment has been done since the studies commissioned by FinCEN right after 9/11 (Passas, 2003a, 2003c). The problem is that these informal

networks evolve constantly and adapt to regulatory and law enforcement practices in different countries and environments in many of which they are outlawed (FATF, 2013). It is essential to keep an eye on these changes and also realize that hawala is not only a challenge for controllers, but can also be an invaluable intelligence asset (Passas, 2008) that can be leveraged in many places including Afghanistan, India and Somalia for both control purposes and assistance to fragile communities. This could address at once and synergistically terrorism finance, crime control, development and humanitarian policy objectives (Passas, 2015a, 2015b, 2016; SIGAR, 2013).

Finally, the value of open source information is under-estimated and under-utilized. Reviewing and working only with classified and private data excludes information on the internet, in the press, public reports and research literature from NGOs and academics. Yet, these sources point to knowledge gaps, misunderstandings, contextual information, insights and items unavailable elsewhere that might contradict conventional wisdom or non-public data and discredit sources we should not rely too much on. This is all particularly relevant to the analysis of illicit networks, identification of true beneficial ownership, adverse media news in local or foreign publications, terrorism finance, sanctions violations, corruption, illicit enrichment and other issues of interest to those in charge of due diligence and investigative tasks.

The Solution

The answer to all of these challenges can be found by simply addressing the opportunities we have been missing up to now. As noted, all of the necessary data are not in one place but do exist. Hawala is not only a problem but also an intelligence asset and resource, if properly handled. Agencies that gather useful information can be encouraged to share it. Open source data are available for analysis. The private sector and academia can assist with additional data, collection in a secure environment, analysis and feedback to both government and business with red flags and guidance. Our view is blurred thus unnecessarily. It is like having a 4K TV that we use for analog programs instead of creating the feed for a high-definition picture of the global illegal trade and finance. The means are there to create it.

There are several data categories that can be collected systematically.

- Inbound Manifest/Movement data are provided to governments by carriers and shippers on goods arriving in a country by road, rail, sea, and air. These records offer details on what goods are received where, when and who is involved.
- Outbound Manifest/Movement Transactions are equivalent data on goods leaving a country.
- Import Declarations to governments when goods enter the economy. These are usually public in aggregate form.
- Export Declarations for goods leaving the economy.

Some of these data are published online, but there are also companies that collect and provide such information for a fee (e.g., Port Import Export Reporting Service - PIERS). U.S. import and export data can be obtained from U.S. Department of Commerce and International Trade Commission websites. Other countries publish theirs in revenue collection and official statistics agencies' websites. The United Nations also publishes trade information.

Port and ship-loading information, Electronic Data Interchange (EDI) records,

which are standardized computer-to-computer documents between businesses can be used for the analysis for shipments, invoices and container movements. Trade finance, insurance, storage, satellite imaging, cash handling and movements data can be added to the database too. In the U.S., for example, Geographic Targeting Orders have been used in different states and yield complete records of Money Service Business (MSB) transactions.

By adding crime statistics, criminal records, reports of investigations, open source literature in multiple languages and qualitative on-the-ground sources, such as interviews from different jurisdictions, we can make case studies, pattern analysis and the mapping of criminal networks much easier, richer in details and policy useful. Oil, trade finance, antiquities, food and agriculture, medical and arms-related data can be tracked and added to the database especially for action against terrorist groups like the Islamic State that control territory, have access to natural resources, engage in trade and perform quasi government functions that leave traces.

A Promising Way Forward

Concrete steps the U.S. Government should consider include the following:

- Ensure that all government data are gathered and analyzed in one place that can liaise also with law enforcement agencies for swift action. FinCEN, for example could be ideal for this purpose.
- With appropriate legal pathways, bring all available private sector trade data and open source data together through a trusted third party, such as a university, that can develop a system to receive, securely store and analyze them in a consolidated way. A university can generate new data and collaborate with government agencies (e.g., FinCEN) to develop patterns, identify irregularities, generate typologies and red flags, issue guidance, and produce evidence-based investigative clues. Many of the problems cited with respect to financial institutions could be resolved with this type of collective action and synergies among business and the government. The university would also help obviate the reluctance of businesses to share information for competitive reasons.

Below are some illustrations of how such analysis has been done in the past in Northeastern's NIJ-sponsored collaborations with FinCEN, DHS and the Department of Justice. It should be emphasized that the examples below do not constitute evidence of serious misconduct and crimes. Disparities may reflect errors, honest mistakes or some special commercial practices, such as inventory management and returned goods. These are clues for follow-up and investigations that can produce the necessary evidence.

The simplest first step is to compare import and export official records to see where these do not match. Items declared as exported from country A to country B, should be about the same the items declared as imported in country B from country A. This is often not the case as shown in tobacco trade statistics between the United States and Japan or Switzerland in the past.

COMTRADE data

JAPAN

Year	Declared Value Imported	Declared Value Exported
2004	$21,975,197	$11,045,812
2003	$26,913,805	$10,869,551
2002	$30,660,816	$22,610,485
2001	$31,778,065	$19,387,160
2000	$27,180,986	$15,871,261
1999	$32,790,176	$30,369,101
1998	$19,489,510	$18,396,887
1997	$11,268,342	$10,639,088

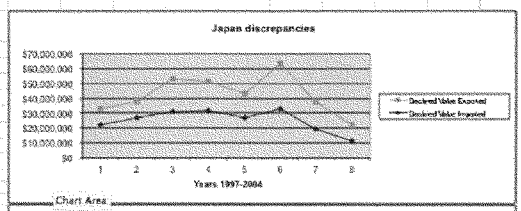
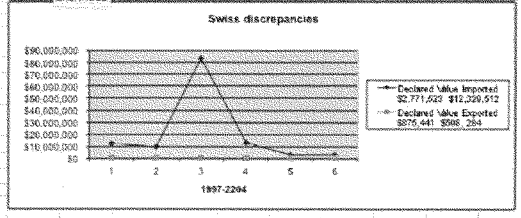


Chart Area

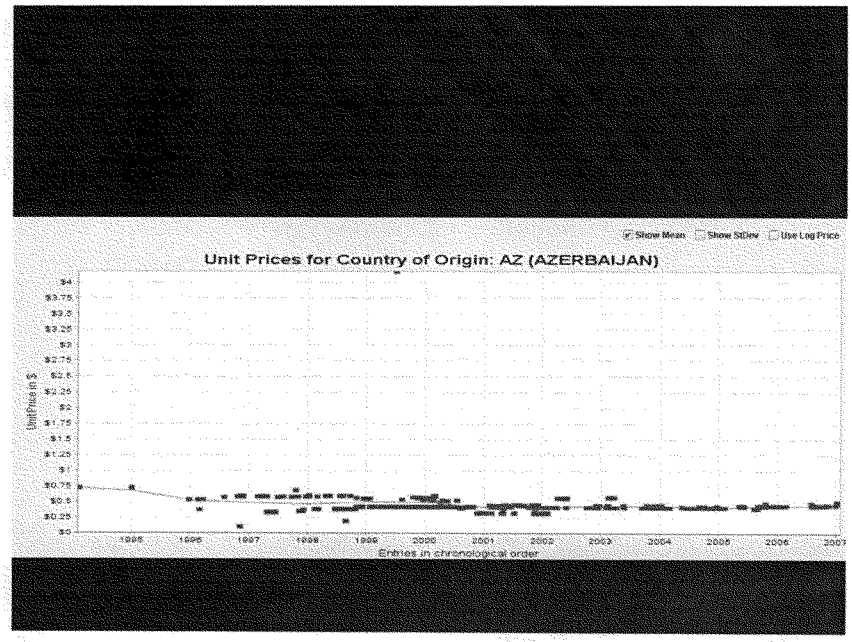
CH

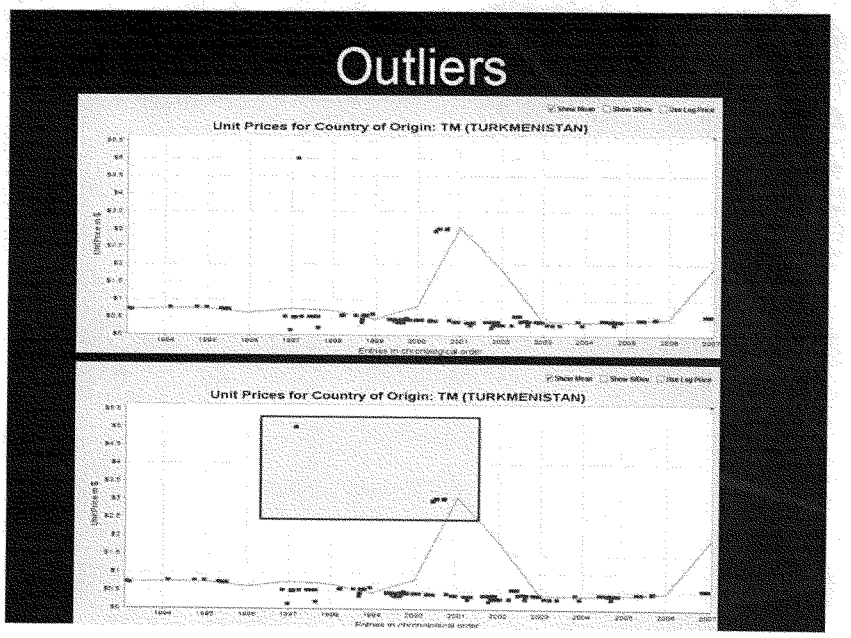
Year	Declared Value Imported	Declared Value Exported
2004	$2,771,523	$875,441
2003	$12,329,512	$508, 284
2002	$12,219,684	$540,791
2001	$9,551,221	$564,012
2000	$83,585,929	$925,925
1999	$13,605,613	$889,134
1998	$3,045,227	$910,532
1997	$3,685,607	$989,907

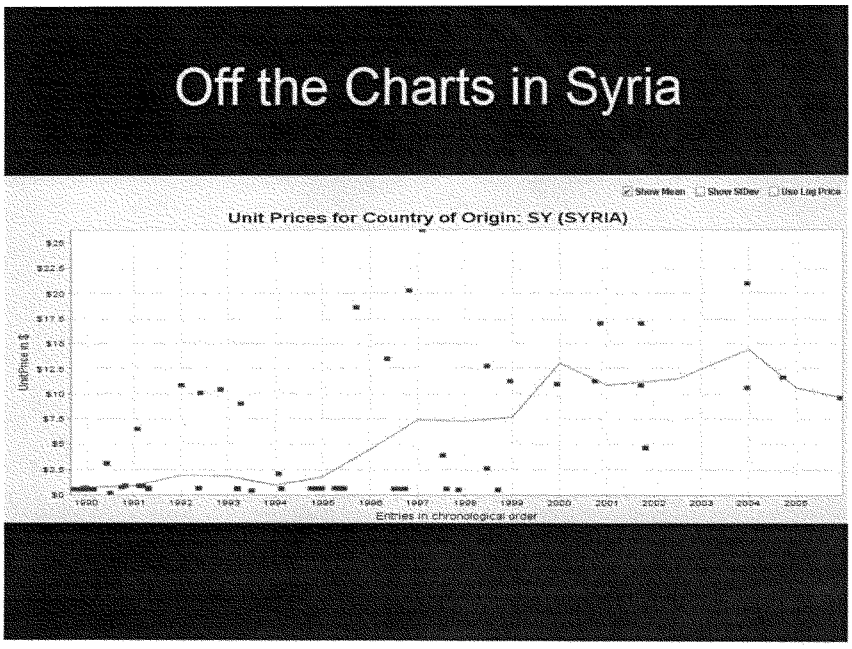


Source: UN Commodity Trade Statistics Database (COMTRADE).

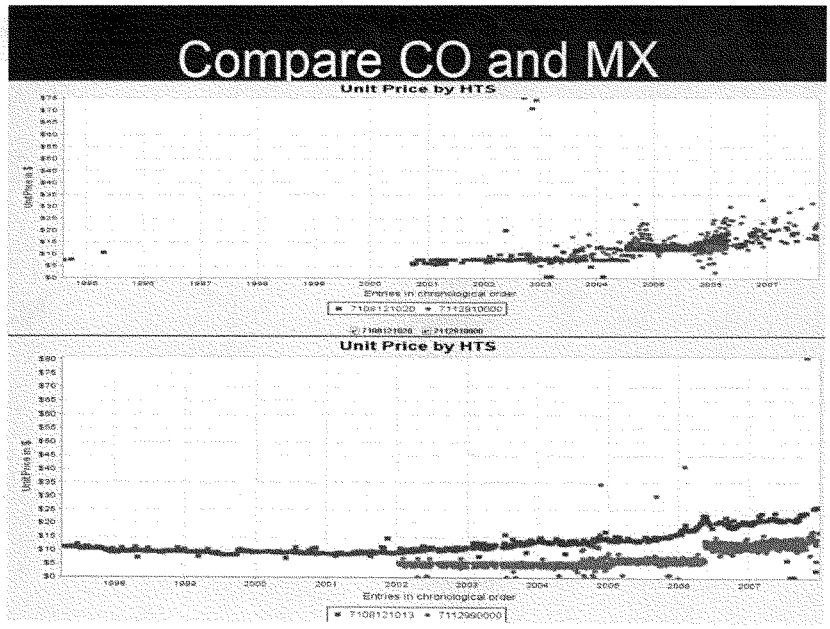
Another type of analysis is comparing declared value per unit for the same commodity in a given time period in different countries. When looking at world market prices for licorice for example, we see that these ranged roughly between $.50 and $.75 in the period between 1994 and 2007. This is what we see by looking at imports from Azerbaijan below. However, when we examine the figures for imports from Turkmenistan during exactly the same time span, we can identify substantial outliers worthy of investigation, as some values go up to $5.00. The numbers go through the roof, when we do the same analysis for Syria during the same period. In fact, the whole pattern of value is completely lost with transactions showing values in the teens and the twenties reaching all the way up to $26.00. It is certainly important for someone to routinely and regularly monitor for such discrepancies and irregularities to find out what explains them and what action must be taken.


Show Mean
Show StDev
Use Log Price
Unit Prices for Country of Origin: AZ (AZERBAIJAN)
Entries in chronological order


Outliers
Unit Prices for Country of Origin: TM (TURKMENISTAN)
Unit Prices for Country of Origin: TM (TURKMENISTAN)



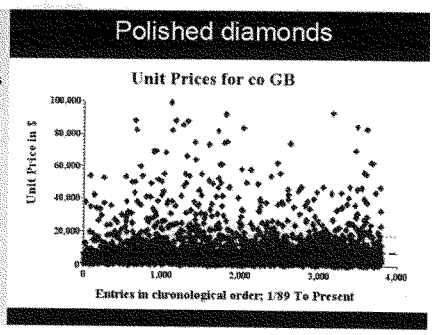
Pricing irregularities that make no commercial sense includes instances where obviously cheaper goods are imported for too high values. Scrap gold (in blue in the figure below), for example, must be much cheaper than pure gold (in red). This is the pattern observed in U.S. imports of gold from Mexico. Scrap and pure gold U.S. imports from Colombia however are all over the place. Some must ask the question who in the U.S. is buying scrap gold for double the price of pure gold and why.



A review of diamond imports into the U.S. show how we sometimes do not know where things are coming from, where they are going and what values are moved: over a period of many years, brokers did not declare to Customs the identity of the real importers of record, but gave instead their own tax ID or someone else's. G. Britain has been declared as the place of origin and provenance of rough diamonds, even though G. Britain has no diamond mines. The declared price of polished diamonds imported from G. Britain ranged between a few dollars to $100,000 showing how diverse the value of stones is and how vulnerable this market is to mis-invoicing.

DATE	CO. OF ORIGIN	CO. OF EXPORT
20030709	GB	GB
20030711	GB	GB
20030715	GB	GB
20030722	GB	GB
20030725	GB	GB
20030821	GB	GB
20030822	GB	GB
20030823	GB	GB
20030827	GB	GB
20030830	GB	GB
20030910	GB	DE
20030925	GB	GB
20030929	GB	GB
20031002	GB	GB
20031007	GB	GB

Rough diamond import declarations



- Such clues and associated red flags can be communicated to banks and all relevant private sector entities for focused action and for their feedback with what information they find on such targets from their end. This can generate valuable new insights into specific targets and help control terrorist finance more effectively. A happy circle will be set off with the private sector making tangible contributions at a much lower cost.
- Update information on hawala and related IVTS methods of operation in the US and other geographic areas of concern. Methods keep changing and adapting to regulatory and law enforcement practices around the world. A new hawala review will be instrumental to more effective AML/CFT as well as control of illegal migration and smuggling. When hawala intermediaries want to help, they can. The Islamic State blackmails and steals a great deal from them too. Victims of extortion, including individuals and hawaladars can be extraordinary intelligence sources. Suspecting that this Committee may examine more in depth remittances, de-risking practices and hawala in the future, I leave a review of this issue and how hawala can be leveraged for CFT and crime control in the appendix to this statement.
- None of this is new. The feasibility of these proposals is demonstrated by the results of work on hawala, IVTS (Appendix) and trade of commodities like gold, diamonds and tobacco (above) at Northeastern in collaboration with U.S. government agencies right after 9/11 (Passas, 2004a, 2004c, 2004d; Passas & Jones, 2007). Other studies have been conducted in partnership with the Caribbean FATF to (free trade zones and financial crime in 6 jurisdictions) and with the Arizona Attorney General's office, when we combined MSB, official and PIERS trade data to analyze a Trade-Based-Money-Laundering case involving the U.S., Mexico and China (Passas, forthcoming). Ongoing work with Europe and M. East-based research organizations furnishes several partners ready to be enlisted in a collective action (offering data, adding resources, facilitating interviews, etc.), for instance targeting the Islamic State. This would be an excellent pilot of the general approach as the Islamic State has enemies in virtually all state and non-state actors in and around the territory they control. Similar universal condemnation and collective action took place in the financial against coalition against child pornography (see http://www.missingkids.com/FCACP), so there is good precedent for acting against serious and specific targets with consensus. Moreover, legal hurdles with data protection in Europe might be lowered as security, refugee and illicit flows have become a top priority there.
- Once positive outcomes are produced, this can be scaled up for other groups and financial crimes to include consolidated and low-cost risk analysis, regularly updated and focused guidance, training and capacity building for business and government officials.

With all this, instead of shooting in the dark, we can shed light on shadowy economic activities and go after well-defined targets. The data, the networks to produce new data, the technology for analysis, the analytical capacity, the previous experience and willingness to collaborate are all there. You have in your hands the switch to turn the lights onto what is now shadowy economic activities supporting the Islamic State, Boko Haram, al Shabab and other terror groups. I urge you to do it.

Appendix to Statement by Dr. Nikos Passas
Hawala mechanics and control opportunities

Contrary to conventional wisdom, hawala and similar informal remittance channels could be a blessing in disguise. Although informal value transfer systems bring in risks and uncertainties, they also create practical and useful opportunities that could be leveraged in parallel with the international community's efforts to gradually build regulatory and governance capacity in fragile environments. In order to appreciate these opportunities, it is helpful to take a closer look at hawala and its modus operandi.

1. **The mechanics and operations of informal financial intermediaries (hawala)**

The word "hawala" refers to money transfer in Arabic. The operations of informal value and fund transfer systems, including hawala, have been described in works freely available online (Passas, 1999, 2003c, 2004b). More recent details on hawala routes and transactions of Pakistani and Indian networks (Passas, 2006; Razavy, 2005) apply to Somali and Afghani hawala as well (Maimbo, 2003; Orozco & Yansura, 2013; Thompson, 2011).

Hawala is a hierarchical network and market in which funds transfers for retail clients are tangential. The intermediaries (hawaladars) – active in different occupations and economic sectors - trade and speculate in currency in parallel to their main business. The basic way it works is as follows: migrants or donor organizations wish to send money from point A (e.g. the UK) to point B (e.g. Afghanistan). Importers and other customers want to send money from B to A. Intermediaries collect the money, organize and send payment instructions from each end and execute payment instructions received on a daily basis. Payment instructions contain a reference point for each transaction, as well as data on amount, payer, beneficiary, so if there is a delay or error, hawaladars go back to their records and sort it out.

Figure 1. Payment Instructions

Example of fax record keeping

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492 SENDER : - HARJIT SINGH RECEIVER : - R.K. GUPTA W / O SANJOY SINGH 128/6 PREET NAGAR LADOWALI ROAD JULLUNDHUR TEL : - 181 12345 DISTT. JULLUNDHUR 1400//=

493 SENDER : - JOHANDER PARTHA RECEIVER : - BHAGWANT SHARMA WIFE OF LATE SEN SINGH SON JOGINDER SINGH HOUSE NEAR THE GURUDWARA VILLAGE DALEWAL P.O. GORAYAN TEL : - 1826 12345 DISTT. JULLUNDHUR 1000//=

494 SENDER : - KANG RECEIVER : - ARJINDER SINGH DEFENCE COLONY MOBILE NO.98141-12345 OR 981 55 123456 JULLUNDHUR 18000//= TOKEN NO. 4AS 689122 (50 INR)

URGENT MESSAGE

THE ORDER NO 494 ABOVE MUST BE DELIVERED BY WEDNESDAY 23RD MAY 2001 OR THE LATEST 24TH MAY 2001 IT IS EXTREMELY URGENT

Source: a case of South Asian hawala (names and numbers have been altered).

Delivery can be made at the hawaladar's office, in a bank account or at the beneficiary's doorstep in local or foreign currency. The exchange rate they offer is much better than that of banks, Western Union or money changers.

Figure 2. Exchanges Rates and Fees

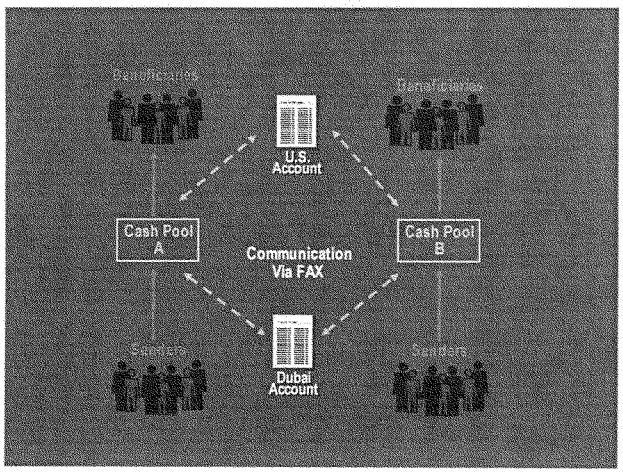
Comparative amounts received in Pakistan for 100 USD from Dubai

Method of remittance	Charges	Total paid	PK Rupees received
Draft (exchange house)	1.36 - 2.722	101.36 - 102.722	5901 – 5910
Draft (Bank)	2.722 - 6.80	102.722 - 106.80	5890
TT (exchange house)	9.52 - 16.33	109.52 - 116.33	5901 – 5910
TT (Bank)	12.25 - 27.22	112.25 - 127.22	5890
Western Union	9.52	109.52	5858
Hawala	NIL	100	5920

Source: Nikos Passas field research in 2005.

Efficient hawala operates with pools of funds on both ends of transactions: one cash pool in a labor-importing country like the USA on one side (pool A) and another cash pool in a remittance-receiving country such as India on the other (pool B). Each hawaladar makes payments for the counterpart's clients and minimizes the need to move money. Asymmetric flows are balanced through transfers to and from accounts held in large financial centers.

Figure 3



Source: Passas (2003c).

If the amounts pooled together in each jurisdiction were the same, there would be no need for either physical or other cross-border funds transfers or currency conversions. The British pounds of expatriates would cover exporters to Afghanistan, for example, while the afghanis of importers could be distributed to family recipients in Afghanistan. However, these pools are asymmetrical because people may remit in multiple directions or wish to receive funds in a third country (sometimes on behalf of another client). Account reconciliation between hawaladars occurs at regular intervals and depends on their relationship. If they are family, this may happen on an irregular basis. If they do not know each other well, they may balance accounts weekly. US dollar accounts in big financial centers (e.g., New York, London, Dubai, Hong Kong, or Singapore)[1] are typically used for this purpose.

So, the generic hawala modus operandi involves three components: (i) sending funds, (ii) delivering funds, and (iii) account consolidation and balancing. As networks

[1] Dubai's role is vital, because it is a commercial and financial hub for Asian, Middle Eastern, and African businesses connected with the West.

evolve and grow, hawaladars engage in arbitrage and shop around for the best dollar, pound, rupee, or other currency exchange rates. Consequently, multiple intermediaries become involved adding to the complexity of hawala networks of operators, agents, sub-agents, clients, and clients of clients. These counterparties and clients may be traders or service providers. Travel agencies, money changers, corner shops, delicatessen shops, music stores, and import/export businesses are all often involved in hawala.

The service is fast, reliable, convenient, cheap and, in some locations, the only option. Recipients can get their money at the speed of a fax and receive their funds even when police confiscate hawala assets. Delivery at the recipient's home benefits women who in some parts of the world do not leave their house unaccompanied. Illiteracy and lack of formal ID cards do not block access to this service, which yields more cash to the recipient than any alternative. Even small savings on the transaction cost represent significant amounts to those dependent on these flows for survival and basic expenses.

The more intermediaries join in, the less transparent transactions become to outsiders or government authorities, even in countries where hawala is authorized. On the other hand, traceability is not lost. On the contrary, because each node of these networks maintains records and knows its immediate counterparts, it is feasible and possibly easier to follow transactions and the money in these networks than in Western financial institutional systems[2]. Despite the mythology of paperlessness in hawala, operators create and keep records (Passas, 2006). The reason is simple: as retail, payment instruction, delivery and reconciliation transactions take place constantly, there is no other way they can keep track of what they are doing and with whom. It is a commonsense, necessary business routine. At least for the legitimate side of their business, they maintain their records for some time. Illegitimate deals may be entered in a different way or records destroyed after reconciliation is done, but this would create a red flag (Passas, 2004a).

For this reason, we need to stress the distinction between transparency (that is, easy access to comparatively mechanized data) and traceability (the ability to find answers to investigative questions by contacting the information-rich nodes of these networks). To the extent these nodes are open to collaboration, this is a great opportunity and low-tech tool for investigators and intelligence collectors, who can trace funds and intermediaries (Cockayne & Shetret, 2012; SIGAR, 2013) and solve important money laundering and terrorism cases.

If hawaladars do not wish to collaborate, they can obscure transactions or information about their clients. Blanket prohibitions of hawala for decades in South Asia and the Middle East (indeed, in any country with capital controls) have strengthened these networks and made them remarkably resilient and adaptable. The state neither can nor should try to abolish hawala – the question is rather how to handle and regulate it (Passas, 2003b). This is why it is helpful to engage in outreach and build communication and collaboration bridges in networks not overseen by government authorities. Such outreach can take place both in countries where hawala is legal (e.g. UAE) and where it is not (e.g. India). A FATF study reported that hawala is per se illegal in 18 out of 33 reviewed countries – 12 of the countries outlawing hawala are in the developing world (FATF, 2013). The outreach and handling of hawala players in different cash societies

[2] For example, someone in the back office can abuse their position of trust and mix individual transactions with correspondent accounts. In such a scenario, even if the bank and its compliance office genuinely want to collaborate with authorities, it is not able to do so (interviews on an actual case in a big financial center).

will necessarily vary and would need to be based on an assessment of risk, capacity and local practices.

Absence of formal oversight does not mean that hawala is not regulated for integrity (Ballard, 2005). While trust may no longer be the most salient feature and condition sine qua non for hawala networks (Joint Narcotics Analysis Centre, 2008), there are in-built self-regulatory processes and mechanisms for dispute resolution and compliance with their own set of rules. One cannot over-estimate the significance of potential loss of reputation, honor and economic viability, as well as collective shame or ostracism suffered by dishonest participants. Violence is very rare, but has occurred in some instances in the past (Passas, 1999, 2004b).

When disputes arise, hawaladars from different locations meet and consult with each other. In some instances, there are also special bodies, such as a commission of elders in Afghanistan who assist with conflict resolution. Costs resulting from fraud or law enforcement action are usually absorbed in a shared and fair way, so individual remitters do not run a risk in established ("mature") hawala networks, esp. in S. Asia.

2. Recommendations

The first and most basic step is to establish the facts and the particular problems to be addressed in a given country, a thorough risk assessment for money laundering and related serious crimes. Well-designed research, solid data and thoughtful analysis will help produce a proper diagnosis and uncover the most serious vulnerabilities, risks and top priorities.

This is not a one-off process. Risks and vulnerabilities identified for each country need to be monitored and updated regularly with the active participation of all shareholders whose insights on irregularities and changes in the socio-political, economic and business environment are invaluable.

Attention thus should be paid to specific sectors, including remittance services and intermediaries. An open mind and shunning of misperceptions will lead to effective measures. Studies indicate that remittances are equally or less vulnerable to abuse than other institutions, contrary to regulator and bank assumptions (Orozco & Yansura, 2013; Passas, 1999; Todoroki, Noor, Celik, & Kulathunga, 2014). Informal remitters may even provide an advantage in fighting terrorism and other crimes. This becomes even clearer when we distinguish between *transparency* and *traceability* of transactions.

Risk assessments may show that in some areas we are exaggerating the problem or over-shooting with controls. For instance, there is no need for enhanced customer due diligence for de minimis amounts. According to a recent survey, Somali expatriates remit an average $2,040 per annum (FSNAU, 2013). The average Somali remittance is £25 in the UK and $170 in the USA (Thompson et al., 2013). Minimal verification is appropriate for trivial amounts, which appear to be the overwhelming majority of remittances to cash societies (Shehu, 2012).

If a risk-based approach is applied to transactions lower than $200, a threshold informally discussed in FATF and regulatory circles, it could be that most transactions to Somalia, Afghanistan and other societies worry authorities and banks needlessly, while adding unnecessary compliance costs. The risk assessment should determine how much of the volume falls into this category. Enhanced due diligence efforts can then focus on large transactions, which may be a comparatively small and more manageable number.

This does not mean that low transaction flows would be left unchecked. A systematic effort could be made to connect sending and delivery actors and to compare their respective data (on clients and amounts). Inconsistencies between the two sides would be investigated and followed up. If no irregularities appear in the volumes of small transactions (i.e., no signs of structuring, nominee arrangements, amount discrepancies, etc.), then the bulk of attention would center on larger transactions. Congress should consider sponsoring and supporting the creation of a clearinghouse that allows the consolidation and analysis of sending and delivery data. Given the current Somali remitter willingness to collaborate, there is a window of opportunity to introduce a tool for the collection and analysis of data in order to detect suspicious activities.

At the same time, it is worth considering ways to leverage hawala information nodes and willingness of participants to collaborate with authorities. Hawala is a headache for controllers and bank compliance officers, but it is also a resource for risk analysis, monitoring, intelligence gathering and investigations. Outreach and good connections within hawala networks provide unique and valuable insights into otherwise non-observable shady networks and operations. It is a problem but also a solution.

The international community can help leverage the local agents' good knowledge of their clients, the ability to "smell a rat" and willingness to collaborate. Despite some arguments that informals in the UAE and Afghanistan resist state regulation, most participants desire to collaborate and contribute to AML/CFT (Todoroki et al., 2014; Vaccani, 2010). Hawala is the only reliable means to investigate AML assets in Afghanistan, for example (SIGAR, 2013). We can raise awareness on this and promote a data linkage with the sending and settlement parts of the hawala process.

This suggests that there might be advantages to informality or at least that money laundering and terror finance risks in cash economies can be managed better. As pointed out elsewhere, "Informal remittance providers are not riskier than other financial intermediaries, while they may extend a helping hand with better governance and control in financial sectors especially in challenging environments. Hawala is a very good business model that helps communities and can foster development and humanitarian support. When traceability is possible, authorities and banks should take advantage of it rather than squander the opportunity to use such a strategic and operational tool" (Passas, 2016).

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HEADQUARTERS NEWS

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DEA and European Authorities Uncover Massive Hizballah Drug and Money Laundering Scheme

7 countries involved in disrupting drug money flow for terror regime

FEB 01 (WASHINGTON) - The United States Drug Enforcement Administration (DEA) today announced significant enforcement activity including arrests targeting Lebanese Hizballah's External Security Organization Business Affairs Component (BAC), which is involved in international criminal activities such as drug trafficking and drug proceed money laundering. These proceeds are used to purchase weapons for Hizballah for its activities in Syria. This ongoing investigation spans the globe and involves numerous international law enforcement agencies in seven countries, and once again highlights the dangerous global nexus between drug trafficking and terrorism.

This effort is part of DEA's Project Cassandra, which targets a global Hizballah network responsible for the movement of large quantities of cocaine in the United States and Europe. This global network, referred to by law enforcement as the Lebanese Hizballah External Security Organization Business Affairs Component (BAC), was founded by deceased Hizballah Senior Leader Imad Mughniyah and currently operates under the control of Abdallah Safieddine and recent U.S.-designated Specially Designated Global Terrorist (SDGT) Adham Tabaja. Members of the Hizballah BAC have established business relationships with South American drug cartels, such as La Oficina de Envigado, responsible for supplying large quantities of cocaine to the European and United States drug markets. Further, the Hizballah BAC continues to launder significant drug proceeds as part of a trade based money laundering scheme known as the Black Market Peso Exchange.

"These drug trafficking and money laundering schemes utilized by the Business Affairs Component provide a revenue and weapons stream for an international terrorist organization responsible for devastating terror attacks around the world," said DEA Acting Deputy Administrator Jack Riley. "DEA and our international partners are relentless in our commitment to disrupt any attempt by terrorists and terrorist organizations to leverage the drug trade against our nations. DEA and our partners will continue to dismantle networks who exploit the nexus between drugs and terror using all available law enforcement mechanisms."

Beginning in February 2015, based on DEA investigative leads, European authorities initiated an operation targeting the network's criminal activities in that region. Since then, law enforcement authorities, closely supported by DEA, have uncovered an intricate network of money couriers who collect and transport millions of euros in drug proceeds from Europe to the Middle East. The currency is then paid in Colombia to drug traffickers using the Hawala disbursement system. A large portion of the drug proceeds was found to transit through Lebanon, and a significant percentage of these proceeds are benefitting terrorist organizations, namely Hizballah.

This investigation is a result of leads developed during the investigation into the Lebanese Canadian Bank.

The combination of aggressive international law enforcement investigations and Treasury's ongoing sanctions (see below) pressure shows the scope of the global commitment to diminish the ability of Hizballah and its financial supporters to move funds worldwide.

Enforcement Action

With DEA and Customs and Border Protection (CBP) working closely with foreign counterparts in France, Germany, Italy and Belgium, authorities arrested top leaders of the European cell of this Lebanese Hizballah External Security Organization BAC last week. The most significant arrest was of the U.S.-designated SDGT Mohamad Noureddine, a Lebanese money launderer who has worked directly with Hizballah's financial apparatus to transfer Hizballah funds via his Lebanon-based company Trade Point International S.A.R.L. and maintained direct ties to Hizballah commercial and terrorist elements in both Lebanon and Iraq.

The CPB National Targeting Center partnered with DEA and international counterparts such as Europol in this investigation. CBP's continued cooperation with the DEA , and European law enforcement counterparts is a vital component in dismantling complex global drug trafficking and money laundering networks as well as enhancing the security of the United States border.

U.S. Treasury Sanctions

Separately, the U.S. Department of the Treasury announced sanctions last week targeted

Hizballah's financial support network by designating Hizballah-affiliated money launderers Noureddine and Hamdi Zaher El Dine, as well as Trade Point International S.A.R.L, a company owned or controlled by Noureddine, pursuant to Executive Order 13224. This order targets terrorists and those providing support to terrorists or acts of terrorism. Noureddine and El Dine were designated for providing financial services to or in support of Hizballah, a Specially Designated Global Terrorist. Trade Point International S.A.R.L. was designated for being owned or controlled by Noureddine. As a result of Treasury's action, all assets of the designated individuals or entities that are located in the United States or in the possession or control of U.S. persons are frozen, and U.S. persons are generally prohibited from engaging in transactions with them.

As part of its designation, Adam J. Szubin, Acting Under Secretary for Terrorism and Financial Intelligence, stated that, "Hizballah needs individuals like Mohamad Noureddine and Hamdi Zaher El Dine to launder criminal proceeds for use in terrorism and political destabilization. We will continue to target this vulnerability, and expose and disrupt such enablers of terrorism wherever we find them."

Participating offices and agencies:

DEA Philadelphia, DEA Miami, DEA Newark, DEA New York, DEA Special Operations Division, DEA Bilateral Investigative Unit, DEA country offices in Europe, as well as Bogota and Cartagena
U.S. Customs and Border Protection
U.S. Treasury Financial Crimes Enforcement Network (FinCEN)
U.S. Treasury Office of Foreign Assets Control (OFAC)
EUROPOL
EUROJUST

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