

DEA Museum Lecture Series, February 28<sup>th</sup>, 2013

John Cassara: Trade Based Money Laundering – The Next Frontier

Sean Fearn: Ladies and gentlemen, good morning and welcome, welcome as we kick off this 10th year for the DEA Museum Lecture Series. It's a series that's intended to explore both historic and contemporary issues surrounding federal drug law enforcement and DEA and look for lessons learned that are applicable today. I'm Sean Fearn and on behalf of all of us here at the DEA museum, I want to welcome you and a special welcome to those who are joining us watching this program via our webcast around the world. Just a quick note, as a courtesy both to our guest speaker and to your fellow audience members here in the auditorium, if you wouldn't mind please silencing your electronic devices. Also, there's going to be a period for questions at the end of this program, both for those who are here live in the auditorium.

And then for those watching live on the webcast you'll notice up at the top of your window there's an opportunity where you can, ask the speaker a question. We'll be taking those, live at the end of the presentation. Money laundering it is a massive billion dollar a year business. Just a quick statistic, that between 2008 and 2011 DEA alone seized assets totaling over 3.1 billion dollars. Indeed it is all about following the money. And our guest speaker this morning is retired treasury special agent John Cassara and he is going to talk about just that money laundering. John began his 26 government career as a covert intelligence officer during the cold war. He later served as a treasury special agent in both the United States secret service and the United States custom service where he investigated money laundering, trade fraud and international smuggling.

He was an undercover arms dealer for two years. Fascinating. Assigned overseas, , he developed expertise in Middle East money laundering, value transfer and underground financial systems. He also worked six years within treasury's financial crimes enforcement network. Mr. Cassara's final assignment was with treasury's office of terrorism and financial intelligence. Since his retirement, he has lectured in the United

States and around the world on a variety of transnational criminal issues. John has authored or co-authored several articles and books including “Hide and Seek: Intelligence Law Enforcement and the Stalled War on Terrorist Finance” as well as “On the Trail of Terror Finance: What Intelligence and Law Enforcement Officers Need to Know.” He is currently a consultant with SAS, the analytics company. Please help we welcome this morning to the stage Mr. John Cassara.

[applause]

John Cassara: Good morning. Again, my name is John Cassara. I am absolutely delighted to be here in this beautiful fac-, facility at the DEA museum to talk about a topic that I think is extremely important and that I promise that you will all hear a lot more about in the coming months and years and that is trade-based money laundering and value transfer. In fact, as you just heard, I’ve been kind of in this anti-money laundering, counter-terrorism financing space for well over 20 years. And I can say with conviction I truly think this topic is the next frontier in international money laundering enforcement. Now, I know we have a very diverse audience. And many of you probably know quite a bit about trade-based money laundering. There are others that are here or are listening in that know very, very little.

But you’re all probably saying to yourselves, “Well, what does trade-based money laundering have to do with me?” Well, that’s what we’re going to talk about this morning. We’re going to start off by defining what trade-based money laundering is. I am going to give you, , a little bit of an, some examples of the magnitude of the challenge, of the problem that trade-based money laundering poses to law enforcement. And then at the end we’re going to talk a little bit about counter measures. And interspersed I’m going to give you lots and lots and lots of examples. And I’m going to kind of limit my examples to trade-based money laundering dealing with narcotics trafficking as a predicate offense. Goodness knows, trade-based can be used with a variety of specified unlawful activities particular fraud.

But this morning we'll just talk about narcotics laundering and trade-based money laundering. Again, as you heard, this is kind of an informal presentation that I welcome questions. I think we have to save the m to the end, but I'll be around. So, shout them out at the end or, or get them to the front. I'll be around afterwards to chat and I look forward to having a dialogue with you. You just heard that I spent a large portion of my career overseas. And I particularly delighted in spending time in the developing world un-, , sub-Saharan, Africa, the Middle East, parts of South Asia. And I became very interested, very engaged with what we today call underground finance or alternative remittance systems. The kind of counter valuation, over and under invoicing, things that we're going to be talking about. And this really drove home to myself and people around the Washington D.C. bureaucracy after 9/11, we found out that some of these underground systems were engaged with terror finance.

And about 2002, 2003 I had a very, er, interesting conversation with a Pakistani. To put it charitably, this guy was involved with the gray markets. And he said something to me that made a profound impression on me. It really s-, it really hit me hard because I knew he was right. We are talking about this topic of underground finance and moving money and value transfer and he said to me, "Mr. John, don't you know that your enemies are transferring money and value right under your noses? But the West doesn't see it. Your enemies are laughing at you." And this struck me hard because I knew he was absolutely correct because we were looking in all the wrong places to combat terror finance into a lesser extent money laundering. So, if nothing else, this puts things in perspective. This is what we're going to be talking about.

Still to begin with, the experts in the financial action task force, again, not a task force in the conventional law enforcement sense of the word, but rather the renowned anti-money laundering counter-terrorism finance policy making body basically said there are three major categories of laundering money, three. Now, obviously, there are literally countless ways of laundering money. But if you had to divide them in three portions, if you will, the three large ones are through international financial networks, banks, non-banks financial institutions, where the majority of our counter measures

have been focused, [unintelligible] cash smuggling, huge problem in this country and around the world. But then trade, people scratch their, "But trade? We don't care about trade and money laundering." Well, again, that's what we're going to be talking about.

Why is trade-based money laundering the next frontier? First of all, let's define it. According to those experts again at the financial action task force, it's the process of disguising the proceeds of crime and moving value, right? Value, the key word. Through the use of trade transactions in an attempt to legitimize their illicit origins. You're going to hear me refer to value transfer throughout this morning's presentation. Just like traditional money f-, money laundering if you will through financial institutions, the criminal organizations they mix or what we call co-mingle illicit monies with licit monies. It's the very volume of financial transactions to make it very, very difficult for people like you and I to follow the money. Well, the exact same things happens in the world of trade. There trillions of dollars' worth of trade moving back and forth, alright?

So, it's very, very difficult to spot those occasional suspect transactions. And just like traditional money laundering through banks, if you will, trade-based money laundering varies drastically. Variations on the theme. I wish I could say it was just the black [unintelligible] market [peso] exchange or it was just under and over invoicing, whatever it is. Varied and complex and making it our job very, very, very difficult. And if we're talking about trade-based, we have to at least mention globalization, how the world is in fact is getting smaller and how there is in, incredible, almost exponential growth in trade over the last say generation and it's only going to pick up. But it only stands to reason that if you have a tremendous growth in globalization, you have a corresponding growth in world trade fraud. I had been in a lot of different countries and I've been following this issue for many, many years.

I can tell you with absolutely certainty the trade fraud occurs in every country if nothing else to circumvent taxes and transfer money and value. But I can also tell you that it is not generally understood. It is not adequately monitored. It is not investigated. That's the challenge. Magnitude of the problem. Just to put things kind of in a round

numbers, very, very good organization Washington D.C. called Global Financial Integrity. Few years ago they released a report examining how much money, if you will, the developing world lost between 2001 and 2010 from illicit financial flows primarily due to trade mispricing which is another way of saying value transfer, right? Trade value transfer. Approximately six trillion dollars, six trillion dollars. That's almost half, well, that's almost double rather U.S. national budget.

Now, I wish I could say what's happened in the United States and getting you some good numbers, the numbers aren't there because another part of this problem, or this challenge, is this problem has never been systematically examined by the government of the United States. The closest number, if you will, that I can find was put forth about 2006 by an academic, Dr. Johnson [Donowitz], sometimes known as Dr. Z. Many of you have probably heard of him. He was only examining transferring money value out of the country via looking, by examining undervalued exports and overvalued imports. Basically, back in 2006 numbers he was talking almost 200 billion dollars. 2006 number 200 billion dollars. That's only gone up. 200 billion. And I know this encompasses a lot of different things, but put things in perspective again your own DEA website will guesstimate there's about 60 billion dollars of illicit proceeds generated every year through narcotics trafficking.

So, let's begin by describing how this works. It generally begins with the invoice, the invoice. And something to understand is that when a buyer and seller are working together the price of an invoice could be whatever those, those two parties want it to be, okay? This is a pen. This is a very, very nice pen that somebody gave me, alright? Let's say this pen has a true value, whatever that true means, of say \$10.00, alright? But if you were selling thousands of pens and you were describing this pen, the value of this pen on an invoice, you could easily make the value of this pen be \$20.00. You're over invoicing it. You could easily make this value of this pen be say \$1.00. I was based in -- not quite sure what's happening here, but I was based in Rome Italy for six years assigned to the American Embassy combating Italian-American organized crime, the

Mafia, by looking at the flow of money going back and forth between Italy and the United States.

And I soon found out that our organized crime adversaries were using a wide variety of ways to launder money. One of the things they were doing was misusing the international gold trade. And very frequently, in fact every day there would be gold couriers going from Milan's Milpensa Airport flying into JFK. Gold in Italy is one of their largest industries. It's an incredible industry in Italy. They take regular gold, raw gold if you will, and manufacture it, Italian design, 18 karat gold and these couriers flying to JFK with a satchel full of gold. Something similar to this. And when they got into JFK they would declare this gold. Say hypothetically they'd say, "Alright, this is x amount of kilos of gold s-, worth." pick a number. "\$400,000.00." But is it really? Is it really say 18 karat Italian gold? Maybe it's say, , 22 karat Saudi gold. Maybe it's 12 karat Walmart special gold. Maybe it's not worth \$400,000.00 and maybe it's worth \$600,000.00 or maybe it's worth \$20,000.00 or maybe it's gold-plated lead, right? Value transfer in the form of gold.

Do you think customs is going to spot something like that? I used to work in customs. The answer is no, not normally. Most frequent forms of trade-based money laundering falsely described goods, multiple invoicing of goods because, again, you want to give a rationale or reason for sending payment. Over and under invoicing, which we're going to talk about shortly. And I'm just putting in and services. Just a very, very quick time out. I continue to do a lot of training, technical assistance, mentoring overseas and I hear a lot from my counterparts. It could be an intel services or law enforcement about service-based laundering, right? Again, criminal organizations they have a lot of money to launder. They need a reason, a rationale to send money abroad. It could be marketing surveys. It could be oil exploration fees. It could be legal fees. I was in, um, Serbia and they were telling me the Serb authorities about organized crime using service-based laundering.

There was concert promotion fees that were generated. People would go in, they would examine putting on rock concerts, this type of thing, generate a lot of paperwork. Money would be sent overseas to [Cyprus] in payment for this alleged service. Mr. John, can you help us follow the money? H, it was not much I could do, okay? Service-based laundering. Same types of things involved, but we're going to concentrate this morning on trade-based, on commodities. The largest money laundering case I ever worked it was not a sexy case. This one was not dealing with drugs. It had nothing to do with weapons and high technology. It had to do with textile fraud, garments, garments, shirts, for example. They were manufactured in places like India and China transshipped through the Middle East, East Africa and sent into the commerce of the United States in violation of our quota laws. Basically, I'm simplifying things, you'd have a made in China shirt or made in India shirt. Take out the label made in China and put a label in made in [Omad], made in the UA, made in Kuwait, made in Jordan, made in Tanzania, and send it in as a product of those countries. Huge operation.

100 million dollars' worth of textile fraud and all that money was laundered. I recruited an informant, and informant in the Middle East, part of the conspiracy. She gave me the proverbial smoking gun document, very hard to get a hold of particularly in the Middle East, from the primary conspirator, a guy named [Ali Onzar]. He's an Indian freight forwarder in Dubai. He says, "If, look it, if you want to join this conspiracy, this is what I want you to do." And he was sending us out to textile manufacturers in the region. "Suggest you send us some blank invoices." Think what you can do with blank invoices. "This is how much I'm going to charge you to counterfeit documents. This is how much I'm going to charge you to re-export, to re-label, to take a container and to unstuff it and then restuff it again."

This is going on all over the world today just this. And how does this work? Let's talk first of all about overvaluation to facilitate money laundering. Say somebody wants to export cargo with the value of \$100,000.00. So, just like in that example of [Ali Onzar], that freight forwarder in Dubai, they get the invoices, the bills of lading, the export documents. They falsify all of this stuff to show a value of \$200,000.00. So,

\$200,000.00 is send payment which includes that \$100,000.00. You think customs or law enforcement or for that matter a banker is going to see something like that? No. As long as the parties in the transaction don't get too greedy, they're not going to spot it. Now, everybody has debts. You can pay them in different ways. And one of the ways you can pay your debts is by undervaluing something. In this case [Michelo's] one, \$200,000.00 is part of a previous business transaction.

So, he decides to pay his debt by under invoicing. He sends \$500,000.00 worth of goods, but only invoices one for \$300,000.00. The extra value of the goods covers the original debt. Everybody's happy and the authorities are completely unaware. If you take nothing else out of this presentation, take away this slide, this cheat sheet if you will, okay? When I was an investigator, criminal investigator, special agent, we used the expression, "Make something agent proof." Okay? So, if you're thinking about how is money moving out? How is moving money in? This is it. If you want to move money out, you import goods at overvalued prices or you export goods at undervalued prices. If you want to move money in, you import goods at undervalued prices or export the goods at overvalued prices.

So, if you're trying to figure out what's going on right under your noses, start with this. True examples. These came from that academic I referred to, Dr. Z, John [Zindonowitz]. Okay? He was examining true U.S. imports, true U.S. exports. And I put this up here to make some points, hopefully to get a few chuckles. Do you know that we are importing plastic buckets from the Czech republic at \$972.00 a bucket? That we are importing briefs and panties from Hungary at \$732.00 a dozen? Cotton dish towels from Pakistan at \$153.00 a dish towel. Iron bolts from France at \$3,000.00 a kilogram and toilet tissue from China at four, eh, at, , \$4,000.00 a kilogram. That's crazy. We are exporting live cattle to Mexico at \$20.00 a cow. We are sending bulldozers to Columbia s-, for \$1,700.00. Color video monitors to Pakistan for \$22.00. And missile launches to Israel for \$52.00.



Do you remember what I was just talking about over and under invoicing and value transfer? You think that we're investigating this? Do you think this is getting any attention? No, it's not. It's not. And what's really frightening to me is when I go overseas and I do this training and I do this mentoring and I'm talking to foreign counterparts and I say, "The United States is the best in the world. We have the best law enforcement, the best customs services. And if this is happening with us and we're not doing anything about it, what do you think's happening in your country?" We can also examine by looking at, at anomalies and, for example, weight, the weight of a shipment. Do you know that briefcases were imported into the port of San Francisco for Indonesia and each briefcase weighted 98 kilograms, 200 pounds. Whew, okay?

Male Voice 1:           What was in them?

John Cassara:           Probably lead. What? Okay? We're importing pens into Los Angeles from Malaysia and each pen weighs 8.7 kilograms. Carpet coming in from Pakistan it's 62 gila-, kilograms per square meter. This is absurd, but it is happening. As I said, I spent the majority of my career in U.S. Customs, legacy customs. Proud of the fact, okay? Customs now, HSI Ice if you will, does a great job. But as good as customs is, alright, this is the challenge that we face. Okay? And it's not just customs by the way. Each year approximately 20 million containers enter into the United States by sea, rail and truck. If we are lucky, if we are lucky, only five percent are physically examined inbound, probably less than two percent outbound. If you're a professional money launderer or smuggler, take those odds. And this number is expected to triple by 2020.

That's the challenge. How do we target these? How? Well, again, this what we're going to start talking about now. As I said, I do a little bit of contracting for industry. Industry has done an incredible job over the last five years, revolutionary changes in data technology. Industry calls this examination of big data sets, for example, trade data, financial intelligence and other type of data, big data. And we're not going to talk now about data mining and analytics, all those are some credible, incredible innovations coming our way. But we're talking about trade-based money laundering, I want to

impress upon you where some of this data comes from. Now, this is a very basic diagram, okay? I put this up here not to insult anybody, but just to point out, okay?

If you have an exporter and an importer and they, again, have some type of an agreement, alright? They probably each have banks. Maybe the importer arranged a letter of credit or some other type of payment mechanism. You've got insurance companies. You've got [unintelligible] transportation. You have shipping companies, freight forwarders, customs brokers, customs services and on and on and on and on. For you investigators out there, along this diagram there is information to be had, information that is generated, sources to be developed. This is where we get our information from. The other thing you should be aware of if you're not is what's called the harmonized terra schedule. This harmonized terra schedule is something that almost every country in the world abides by. It was put together by the World Customs Organization. And basically what it is, is the HTS, harmonized terra schedule, categorizes just about every commodity in the world with a six to 10 digit classification number.

So, for example, the lower numbers, something that's not very sophisticated: animal and vegetable products, wheat, corn, maize, this type of thing. Okay? The higher numbers are more sophisticated: machinery, helicopter spare parts, this type of thing. Alright? So, this is how we track things. This is how countries around the world track things. So, how does this work in practice? Okay? before I get there I just want to put this thing up. When I was doing some research, of course, I was kind of surprised by this statistic that the majority of the world's commerce moves by sea. That I kind of knew intuitively. But commerce moving my air freight constitutes the largest percentage of economic value. I didn't know that. I guess a lot of it has to do with, for example, things like those gold couriers, precious cargos go primarily by air freight.

But what's important to remember, whatever conveyance it is there is data. There is documentation. There are sources. Alright, real case, drug money laundering, trade-based money laundering. This is an older case courtesy of U.S. Customs. But I put this

up here because I think it really is a very demonstrative illustration of what we're talking about here. Let's look at this top graph. Okay? The horizontal like here represents time. The vertical line here represents volume. Guyana, the small little country of Guyana does produce some gold, not that much, but it produces gold. And you can see here over time everything's about right and then all of a sudden here there must have been some type of miraculous gold strike because what the authorities were doing was exporting massive quantities of gold into the commerce of the United States. This gold, by the way, was the proceeds of drugs, proceeds of drugs. We recognize that. We talked to the authorities in Guyana.

They arrested eight individuals not necessarily because they were concerned about trade-based money laundering, because they were concerned about lack of payments of [tariffs] and duties. So, what did the criminal organization do? They move next door to neighboring Suriname where you can see right here the spike. Suriname's not exporting gold until right there when we squeezed that balloon, right? And it, balloon pops up right there. I love this because we talk about this in law enforcement all the time squeezing that balloon. Well, right here you can see visually how that happened. This is a great slide. This is also trade-based money laundering and I'm assuming narcotics trafficking. And we can talk about this afterwards. This kind of thing is going on today. We are examining the importation of gold coming in primarily from the Caribbean, Latin American countries, right?

Let's start here with this red line. Again, time and volume. I'm sorry, time and value. This red line is what they call four nine gold, 99.99% pure gold, gold bars, okay? Pure gold. You can see here over time s-, the price is slowly going up, market forces, a little bit of inflation. It's the way it should be. But these blue dots it's another harmonized terra schedule s-, category. It's in effect gold scrap, gold scrap. That gold scrap can almost be anything. It can be gold fillings. It can be gold they take out of computers. I had a customs inspector once tell me, "You can get a 40 foot shipping container, fill it with metal shards, old m-, metal parts, refrigerators, bicycle parts, whatever it is, stand on top of it, get a salt shaker filled with gold dust, sprinkle that gold dust over the top of

that container and then for customs classification purposes you would now have gold scrap.” So, that is background. Why are we importing gold scrap at prices higher or even close to gold bullion? It doesn’t make any market or economic sense. It makes all the sense in the world if you want to launder money, drug money and that’s exactly what’s going on here. If you understand this slide, you understand trade-based money laundering. Real example again. We are in a sense, in this particular case, we are exporting refrigerators to Columbia, okay? This dark purple color here is coming primarily data from our shippers export declarations.

This lighter kind of a bluish color here comes from corresponding imports from Columbia, their data. Look, if I am exporting 1,000 widgets from here to Columbia and each widget costs \$100.00, when those widgets end up in Columbia we should still have 1,000 widgets and each one should cost \$100.00, right? That’s not happening here. The difference between the peaks and the valleys is the transfer of drug money in the form of refrigerators. And it’s only right here when we married up our data with the Columbian data and we took joint enforcement action to just stop. You all get it? Okay. Same thing, DVD players, peaks, valleys, value transfer in the form of DVD players. Same thing courtesy of ICE, Immigration and Customs Enforcement. Frozen chicken, peaks, valleys, value transfer in the form of frozen chicken. Now, if I am a professional money launderer, I can launder money with anything. I can launder money with pens, with frozen chicken.

I would prefer if I had a lot of money to launder to use something like gold which has a higher value so you get, you can launder more, more of a return if you will. But you can launder money with, with literally anything which, again, makes our job that much more difficult. This case many of you probably heard about before. It’s an older case now. It took place, I don’t know, roughly 2002, 2003. Operation Meltdown. Talk about different forms of trade-based money laundering. You all are familiar with how difficult it is today for people to, money launders to walk into a bank with a satchel full of cash and deposit it, right? It’s not like the old Miami Vice days. You can still do it, but it’s going to generate a lot of financial intelligence reporting from the banks, currency

transaction reports, probably a suspicious activity report. The bad guys try to stay away from that.

So, they had all this drug money in the areas around New York, New Jersey. So, what do they do? They went to various jewelry stores and they bought up gold, gold necklaces, gold bracelets, gold earrings, melted, smelted it down. The price of doing business. They put it in these forms, machine parts, tools, nuts and bolts, spray painted it black, put a layer of grease on it and shipped it out of the country to Columbia. This, ladies and gentlemen, is a form of trade-based money laundering, laundering drug proceeds in the form of nuts and bolts that are gold. How do we find out about it? Informants. Financial intelligence is going to pick that up. I was telling the same story to some colleagues in Jordan. I was doing some training out there and they said, "Oh, Mr. John, you think that's bad? This is what happens in Jordan." The bad guys, right? Drug proceeds. They bought up gold. They melted, they smelted it down.

They wanted to get it out of the country. So, what do they do? They transformed it. They put it in the form of a license plate. They spray painted it green and white, put it on a car and drove right across the border. Trade-based money laundering and value transfer in the form of a license plate right under our noses. I know many of you have done a lot of traveling. And probably like me, you go to places in Africa or elsewhere for that matter, and you see the growing presence of our Chinese friends and colleagues. And they are establishing in major cities and the remote villages equivalent of say Dollar Stores in this country, right? Except overseas it'd be charitable to call these dollar stores. The quality of this merchandise is even less. So, how do they launder money with this kind of stuff? Oh, very, very easily. Again, you need a rationale or reason to send money overseas.

So, what they do is they contract for the purchase of this manu-, Chinese manufactured junk, right? But it's over invoiced considerably. Money is sent overseas for payment. This stuff comes into the country. Sometimes that when the stuff comes in on a container the people don't even claim it. There's no reason for. It's part of a wash.

It's the price of doing business. So, I was told in places like Mexico some, w-, the reason why s-, eh, the black markets in these countries have so much of this junk is because r-, things just like this, okay? Trade-based money laundering and value transfer. Laundering via polypropylene. Polypropylene, things like this make plastic products out of it, alright? As you can see here, drug money launders exported polypropylene pellets from the United States to Mexico. This got the attention of they say here bank investigators.

I think they mean compliance officers in the bank, right? And they say, "This cannot be right." Okay? 'Cause they were examining this stuff. And these compliance officers estimated that the operation was hiding about one million every three weeks. And it turns out it was drug money. But the reason I'm putting this up here besides to demonstrate just one more thing that trade-based money launders can use, you've seen frozen chicken and now we're seeing polypropylene pellets, is this is a great quote from one of the individuals involved with this scam. He says, "You generate all this paperwork on both sides of the border showing that the product you're importing has a lot of value, when in reality you paid less for it. Now, you've got paper earnings of millions of dollars. You didn't really earn that, but it gives you a piece of paper to show the authorities." See? That's it. That's it in a nutshell. Barter trade, another form of trade-based money laundering.

Do you know, for example, that in certain areas of Afghanistan, Pakistan, the going rate for a kilo of heroine is a color television set? There's no dollars traded or rupees traded or Afghanis, the local currency traded. Last time I was in Afghanistan they were telling me the criminal warlords, if you will, they have a commodity they control narcotics. They want luxury SUV's. They trade one commodity for another commodity. I was in South Africa, the authorities were telling me [pilfore] diamonds from South Africa are being traded for the synthetic drug Mandrax. Commodity for commodity swap. Here in this county it's in the news. We have drugs going south. I'm sorry, we have drugs coming north. We have weapons going south. Here is a case took place just last year in western Kentucky. Local crime. Drugs were obtained from sources in Texas

and Mexico which were brought to Indiana for distribution. They swapped guns for drugs. Firearms are transported to the Cartel [Algofo]. Trade-based money laundering.

And where, by the way, are the financial intelligence reports for something like this? There isn't any. There's a great quote by Osama Bin Laden. We're not talking terra finance now, but there's a great quote by Osama Bin Laden, one of his few quotes about terra finance, and he said, "Don't you realize that Al Qaeda and other jihadist groups are aware of the cracks in the western financial system as they are in the lines of our own hands?" These are the cracks. This is what they're taking advantage of. We, U.S. law enforcement, policy makers and treasure, we put these so called barriers in front of our adversaries. You think they're going to go right into the barrier? Give them some credit. They're going to go around them and that's what they do and that's what trade-based money laundering does. Here's a good case a few years ago, Angel Toy Company in south Los Angeles. Not the best area in the world. If you guys are curious, get online. You can see pictures of Angel Toy Company, right? It's a, it was legitimate toy wholesaler.

The only question is that periodically there would be some customers that would come to Angel Toy Company and drop off, again, satchels full, bags full of dirty money. In fact, some of the people involved with Angel Toy Company would then take this money, structure it, deposit it into financial institutions. Kind of the, , post investigation analysis showed that the people structured 76 cash deposits and directed over eight million to be wired to a toy factory in China, alright? So, the toy company in China then legitimately manufactured toys, lot of teddy bears, dolls and this kind of stuff. So, then what happened? They sent those toys that were really purchased with drug dollars to Columbia where there was an affiliate of Angel Toy Company in Columbia. They sold those toys for pesos. The pesos were then given to the narcotics traffickers.

The money was washed via toys. Trade-based money laundering. Kind of a spinoff of black market peso exchange using toys. Two of the individuals involved with this were sentenced I think was 36 months. One of the reasons I get so excited about

this topic is because, and I'll tell you a story in just a few minutes, about because I think trade could possibly be the back door, examining trade could possibly be the back door to entrenched forms of underground finance. Things like the black market peso exchange in [Howala] and [Fi Ching]. What is an alternative remittance systems? They're found all over the world. Okay? You can have [Howala], you all know about [Howala], same system in the neighboring Pakistan. For example, if you're talking Afghanistan, the same system is called [Haundi], right? It's the same thing. You can have the Fi Ching.

You can have the gift services. You can have [pidal] in the Philippines. And I'm not going to spend any time on talking about this, but what's important to understand is in all these systems there's only so many ways you can settle accounts or balancing the books between these brokers. You can use banks and they do. You can use cash couriers and they do. But historically and culturally, particularly in the areas of the Middle East and other parts of the world, trade, trade is used to provide counter valuation and that's exactly what is happening here, trade. The same type of over and under invoicing I was talking about the [Ali Onzars] of the world. I don't have time to get into this. We have an expert sitting right here with us, Gretchen Peters. She just left, alright? I've written quite about, bit about the misuse of the Afghan transit trade. If anybody's curious, you can read some stuff I wrote. It's, it's on my website [www.joc-, JohnCassara.com](http://www.joc-JohnCassara.com). A lot of articles about this.

But to summarize again, Afghanistan produces, what, 90% roughly of the world's opium which is refined into heroine. It's one of the few things Afghanistan produces that outsiders value. It is sent out of the country. Anybody been to Kabul? You seen the booming city. All that stuff being built, okay? Cement, plumbing, electrical fixture, everything, everything comes in through this Afghan transit trade route, right? In Afghanistan, only five percent of the people use banks. How is this stuff being paid for? It's being paid through [Howala] and being paid through value transfer via, via this type of narcotics out trade goods in system. I once had a conversation with a freight forwarder in Dubai. And I'm sure all you agents in the audience remember significant



interviews you've had. You probably have hundreds of them. But there are one or two that you keep in the back of your mind.

Somebody said something that made an impression. Well, here's another one that made an impression on me. I was talking to this guy in Dubai. And, again, I was trying to impress upon him what he was doing was in a form of money laundering. But we were talking again about value transfer and underground finance and counter valuation. And he says to me with obvious sincerity, "Mr. John, money laundering? But that's what we do precisely. It's a part of a way of life, a part of doing business." It's the way of their culture out there. They don't necessarily recognize it as being wrong. It's just the way things are. After these two conversations, I had a thought, "How can we combat this?" Right? They're laughing at us. They're using us for terra finance. What can we do? Well, you heard I was in [FINSIN] for six years, the American Financial Intelligence unit. And I'm thinking to myself, "Alright, I'm familiar with the Egmont group of financial intelligence units.

Worldwide there's about 132 of them today. Why couldn't we do something similar for trade? Because every country in the world has a customs service. You have to keep track of what comes in and what goes out for nothing else. So, just like in that example of DVD players, of gold, of refrigerators, if you compare one set of country data with another set of country data, you can spot those anomalies. If countries establish trade transparency units, we would have transparency. And is exactly what happened. I presented this to the interagency community about 2003. They actually bought off on it. Became part of our 2007 national anti-money laundering strategy. Our trade transparency unit is located at HCI ICE in downtown Washington, D.C. But the great thing is it's now starting to expand.

They're approximately eight, nine, 10 TTU's around the world. We've got one in Mexico. We've got one in the tri-, or we've got them in the tri-border area. It's expanding, okay? The next frontier. This is where we're going. Red flags. Depends whether you're an agent, an analyst, an investigator, customs, whatever, but you're

looking for anomalies. You're looking for discrepancies. You're looking for a-typical financing. You're looking for carousel transactions like that gold I was talking about that goes into Miami and into the cologne free trade zone and down into Latin American, the Caribbean and it cycles. It's like a carousel. And every time it goes in and every time it goes out it generates paperwork and payment. But the best indicator for law enforcement, and I don't care whether you're an agent working the streets, I don't care if you're an analyst in a cubicle or whether you're driving a patrol car in some town in western Kentucky, JDLR, it just doesn't look right. Use that sixth sense of yours.

If it doesn't make any market or economic sense, take a closer look. A toy wholesaler in South Los Angeles, right, shouldn't be involved with taking in all this dirty money and then sending that money to China. Shouldn't happen that way. So, now you're probably thinking, "Well, this sounds interesting. Where do I go to get information?" Well, I try to demonstrate we collect a lot of data and all points to those trade transactions they generate data. It's just a few banks, freight forwarders, insurance companies, transport companies, customs services, human sources. The all-time best way of breaking into some of these systems, human sources. For those of you that work sources, ask them, task them. But to do that you have to understand how this stuff works. That's part of the process heightening the awareness. Trade transparency units I no longer work for customs.

I don't work for ICE. I cannot speak for them, although, I talk to them very regularly, alright? They're going through some growing pains right now, but they've got a tremendous data available. They're getting some things distributed. They want to work with DEA, right, on significant cases. For more information, this is how you get a hold of them, get more information on TTU's. So, just kind of in summary here, why is trade transparency important? It promotes fair competition. In the United States you hear it all the time. We can compete with anybody as long as it's on a level playing field. Legitimate people involved with trade businesses will welcome trade transparency. It combats fraud. It combats corruption. It's a revenue enhancer.

Many, many times I go overseas to the developing world and I'm talking to my overseas friends and colleagues about money laundering or terra finance and they say, "John, thanks for coming all the way out here, but we really don't care. This doesn't really affect us." And then I say, "Well, you might not be interested in money laundering and terra finance, but let me show you how you can enhance your revenue by cracking down on this type of thing." And then they become very interested. This is so-, a lesson we have to learn. Too often when we go overseas we hold a stick. We should offer them a carrot. And everybody responds to the opportunity to get in more revenue particularly today. Combats money laundering and illegal value transfer. Potentially, it's the back door to underground finance. So, the bottom line is in money laundering the guiding principle you follow the money. In trade-based money laundering, it is follow the value trail. And as I said before, we will all be hearing a lot more about this topic. It is the next frontier in international money laundering enforcement. Thank you.

[applause]

Sean Fearn: We, , we have an opportunity for some questions. I, I do want to ask the folks in the audience if you have a question for John, we have Vince over here on, , the right-hand side aisle and, and Jason on, on the left. You could just wait for a microphone to come over to you, , so that not only everybody here can hear your question, but also the folks on the web. , for those of you who are watching live, you can submit a question now and we've got Catie standing by on her iPad ready to receive that and relay it to John. So, if you have questions for John Cassara, Jason? Oh, okay. You're next.

Male Voice 2: Yes, um, , two questions. One, you mentioned that customs will inspect about two to five percent of containers. And I know that they're graded, you know, according to the risk profile of them. But wouldn't customs therefore with that kind of a sample, which is small, but it's still significant, be able to get, , a sense of, , how much trade overall is problematic using the broad term of, you know, undervalued, overvalued improperly classified 'cause different products or different terra freights? And

the second question related to that is, isn't while, eh, billions and billions may be laundered for the purposes of, , illegal drug money transfer, isn't the vast majority of those that are undervaluing or overvaluing goods really doing it for tax avoidance issues? Thank you.

John Cassara: Two good questions. First of all, in the magnitude, the difficulties in determining the magnitude of trade-based money laundering in this country, I go back to when I first proposed trade transparency unit initiative back in 2003 and I talked to officials in the Department of Treasury. And I, I don't want to give privileged conversations away. But at that time I was told it has never been systematically examined and there were some internal bureaucratic reasons why. Subsequently, it could have been examined, but I'm not aware of it and I certainly haven't seen anything in the public domain. So, although I know the TTU group within customs and probably to a lesser extent this involves IRS, has access to a lot of this data.

I don't think the government has ever really given a good reliable or put together a reliable study on the magnitude of this issue. The other one, your final point is you're correct that, although I don't think we can again quantify it with any kind of specificity, most of what we're talking about here has to do with tax avoidance. It's trade fraud, customs fraud. Most of it is, alright? But number one, not in the United States, but in most countries around the world tax evasion is a predicate offense for money laundering, alright? Eh, and there's a movement to bring that here to this country. I don't think it's going to happen for political reasons, but never the less it is a predicate offense in many countries of the world.

And the other reason is if you think about it from an enforcement standpoint trying to get countries to take action on this, as I said at the end, certain times they're not so much interested to combat money laundering and terra finance. They need that carrot. So, if by examining this stuff, they get revenue from this, so much the better. Eventually, they'll take that next step and they'll put two and two together and they say, "Yeah, this is money laundering here."

Male Voice 3: Even if you, um, have trade-based money laundering operations, except for the bartering aspect of it, don't you still have to take bushels full of cash and somehow get it into a legitimate, , banking or ec-, , financial system so that Angel Toys when they send millions of dollars to China they'll do that with cash, they somehow do that electronically with a money transfer. So, don't the, the traffickers still have a problem of getting cash into a legitimate or at least an appearingly legitimate banking system?

John Cassara: I think the answer to that question it depends in large part on the venue. Of course, you know that many areas of the world certain economies are cash based. So, that's what they use. And for people to go in with a lot of cash it really isn't going to raise the eyebrows. In this country, you're absolutely right. But, as you all know from say, for example, being experts on the black market peso exchange, there are a number of different ways using smurfs, runners, mules, whatever you want to call it that place or structure, you know, dirty money in various ways and various formats if you will to get that money into the formal financial system to purchase these items.

Male Voice 4: You touched on it a little bit, but I'm curious to understand that in your travels of, you know, around the world, are these countries actually beginning to buy into this trade-based or are they -- you touched on it a little bit, but like, for instance, Dubai, , and you can walk through their airport with five million dollars in cash in their, in the suitcase and, and, and declare that you're a cell phone salesman. Are they beginning to realize that, "Okay, these people are not cell phone salesmen. They're actually money launderers." A lot of money is also crossing that border by people just walking in across the border. Are they beginning to buy into, to this plan or, or just looking away?

John Cassara: It's, it's a good question and one I really appreciate. I back in the '90's, , I used to go to Dubai quite a bit. My investigations, um, used to say in the old days all roads led to Rome. When I was doing my criminal investigative work, all roads

led to Dubai. Whatever I was looking at even back in the '90's seemed like that investigative trail all went to Dubai. And at that time they really didn't want to talk about this. After 9/11 they started do a little bit more. , I'm not going to talk about what Dubai has done over the last 15 years or so, but I got almost tired of talking about this to people back in Washington, D.C. I used to be called Mr. Dubai when I walked the corridors of, of the various agencies and departments here.

Kind of pounding my fist on the table, "Look at Dubai." Dubai has done a lot. They need to do more. You're talking about, for example, the Iranian situation today. Do you know, for example, there's something like, , 8,000 Iranian import/export companies in Dubai alone? That Dubai is the most important city in the world to the Islamic Republic of Iran after Tehran? That a lot of the capital flight, if you will, that leaves Iran goes into Dubai often in the form of trade-based money laundering and value transfer and that there's an active [howala] network between Dubai and Iran that basically is using again trade's counter valuation? There's a lot more than can be done. The answer the second part of your question, I do some studies every year for the U.S. Department of State.

I helped write and edit the International Narcotics Control, , Strategy Report Volume II on money laundering. So, I read reporting that comes in every year from our various posts overseas. And we first started talking about this right after 9/11. I'm, I'm editing this year's [Inkster] report and I'm pleasantly surprised about the amount of reporting that is now in trade-based money laundering. And reporting that's coming, for example, our embassies, our econ officers. This was unheard of just five years ago. So, we're making progress.

Catie Drew: Alright, we have a question from a web viewer. How do you prove that the money is from illicit sources? Is it necessary or is the TBML enough of a criminal activity?

John Cassara: You always want to see if you can find what we call the specified unlawful activity, okay? The United States I think we recognize something like 300 plus specified unlawful activities or predicate offenses for money laundering and it could be narcotics trafficking. It could be stolen cars. It could be weapons trafficking. But what you're going to try to do is to find that predicate offense. So, if you recognize trade-based money laundering going on, what you want to do is to link it back to that predicate offense.

Catie Drew: I have another question from a viewer, but also several questions asking if you could put the TTU slide back up again. And the next question then is, are there any countries in Latin America and the Caribbean which currently stand out as red flags having high activity in trade-based money laundering?

John Cassara: That's getting operational and I have to say with all sincerity I'm not involved with operations anymore. Um, I'm not seeing classified, , intel anymore. Um, but I do read open source. And I, I, I'm really reluctant to point fingers at a particular country or region just because I just don't think it's appropriate. Um, but it doesn't take a lot of imagination to, , identify those countries.

Male Voice 5: Are you seeing, um, foreign intelligence services, foreign nation states using this, um, procedure to forward their national their security goals or foreign policy goals? I think, for example, of supporting combatants in a place like Syria. The reason I ask this question is because if it's so useful the nation states, maybe they are somewhat inhibited and m-, more reluctant to, to ep it down because it's useful for their foreign policy. Is this a major issue? Minor issue? Don't know?

John Cassara: I think it's not only trade-based money laundering, it's money laundering in general. , first of all, there's a, almost a cause and effect with corruption in certain areas in the amount of money laundering that goes on. I encourage all of you to take a look at, um, Transparency Internationals 2012, , International Corruptions Perception Index. It's online. The countries in the world that have the, the worst

corruption, for example, the Afghanistans and the Pakistans and the Guyana's and the, and some of these other countries, they have some of the worst money laundering going on, okay? Now, are government officials part in parcel in this? Do government officials have the political will to crack down on, on money laundering or trade-based money laundering?

Often times not because they want to keep their institutions weak because they don't want the financial intelligence unit or the customs service or other government entities in the course of their investigations to basically say, you know, we've got government officials involved. And, again, without giving away trade secrets if you will, I can't tell you how many times I've been in areas of the world particularly in the Middle East when I talk to my foreign counterparts and we start talking about this and these guys get very, and gals sometimes, get very, very frustrated saying, "John, we try to follow the money trail. We try to follow the value trail, but it gets to a certain level and we're told by our supervisors to back off because the person involved is related to somebody in the ruling family." It's fact of life.

Catie Drew: Alright, I have a request from a web viewer. Can you put up the slide again about over/under invoicing and moving money in or out? And then another question, is TBML itself enough of an offense to indict or arrest?

John Cassara: Hold on just a minute. Do you want to find that slide for me?

Sean Fearn: Yeah.

John Cassara: Is trade-based money laundering enough to indict or -- I think, again, it goes back to the question that we had earlier. What you want to do is you want to find that predicate offense for money laundering, alright? Almost by nature, if somebody's involved with trade-based money laundering, you've got money laundering. But you want to hook it back to, again, the stolen cars. You want to hook it back to narcotics trafficking. You want to hook it back to trade fraud. If you just see trade-based



money laundering, ugh, that's fine. That's a methodology for money laundering. But by definition, money laundering is the hiding or the disguising of the proceeds of a criminal activity. You got to go back to that criminal activity. Anybody else?

Sean Fearn: Last chance. Okay. John, thank you very much.

John Cassara: You're welcome.

Sean Fearn: , Catie Drew on behalf of us at the DEA Museum, and the DEA Educational Foundation of, , a small token to present you. , and thank you for joining us today for this first in our, , spring 2013 lecture series. , a special note for those that are here live, immediately following this program, , John'll be in the DEA Museum gift shop signing copies of his book. , you saw it earlier up on the slide, "On the Trail of Terror Finance: What Law Enforcement and Intelligence Officers Need to Know."

John Cassara: And, by the way, if I might add, there's a whole chapter in there on trade-based money laundering and a lot of the other things we talked about today.

Sean Fearn: Great. Thank you, John. , one last final note, our next, , lecture in the spring series, , the lecture for the month of March will be held on Thursday, March 7th at 11:00 a.m. Eastern, , right back here on the topic of the proposed mergers of DEA into FBI back in the 1970's, '80's, '90's and 2000. It's going to feature a fascinating panel of retired senior executives. We have three former administrators coming in, , Peter [Bensinger], Bud [Mullan] and Rob [Boner] as well as a former DEA deputy administrator, Steve Green and a panel of retired senior executive services, , folks. I hope you will join us back again on March 7th for a very important, , program. And, again, thank you all very much. John, thank you for joining us today.

John Cassara: You're very welcome. It's my pleasure. Thank you.