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## Money launderers wash billions through international trade

By JOSEPH A. MANN  
[ma9jose@aol.com](mailto:ma9jose@aol.com)

Imported plain cotton pillow cases from France that cost more than \$900 apiece and new bulldozers exported to Venezuela that cost \$387 each. Such prices seem highly suspect -- and could be examples of someone using international trade to launder money.

Despite strict enforcement of federal anti-money-laundering laws, criminals are constantly finding ways to transform dirty money -- the proceeds of illegal activities -- into clean cash, and one of their most important routes is laundering money via international trade.

Money launderers are moving enormous sums through ports in Florida and other parts of the country by overvaluing or undervaluing exports and imports, said John Zdanowicz, a professor of finance at Florida International University.

Using a statistical program he developed to track money laundering, Zdanowicz analyzes U.S. government trade figures, calculates average prices for commodities and merchandise and searches the data for abnormally priced products.

The pillow cases and bulldozers are among the products he has turned up that seem to indicate trade may have been used to disguise the movement of money. But since the names of importers and exporters don't appear with government trade figures, Zdanowicz doesn't know who is moving the merchandise -- or the money.

"The front door of money laundering is the banking system," Zdanowicz said. "The government has done a pretty good job of closing the front door, but the back door -- international trade -- is wide open."

In its 2009 report, the U.S. State Department's Bureau of International Narcotics and Law Enforcement Affairs said annual estimates of trade-based money laundering reached into the hundreds of billions of dollars.

Lester Joseph, principal deputy chief at the Department of Justice criminal division, told participants at a recent anti-money-laundering conference in Miami that one of the government's priorities this year is to focus more attention on trade-related laundering.

As a center for world commerce, South Florida offers abundant opportunities for trade-related money laundering. Last year international trade in the Miami Customs District, which includes airports and seaports along the coast from Fort Pierce to Key West, reached an all-time high of \$90.2 billion with exports of \$54.9 billion and imports of \$35.3 billion.

One way money launderers move large sums is by undervaluing exports to a foreign destination or by overvaluing imports. Alternatively, those overseas can use trade to move money into the U.S. by undervaluing goods shipped here or overvaluing merchandise exported from here to other countries.

### **CHEATING ON INVOICES**

Zdanowicz explained how it would be easy to launder \$1 million in cash quickly and move it out of the country: "I'd buy 200 Rolex watches in Miami [at about \$5,000 each] and export them to my partner in Colombia, charging \$5 each on the invoice. My partner there pays me \$1,000 for the shipment, sells the watches at the market rate in Colombia and we've laundered \$1 million.

"I've heard about Corvettes being bought in Miami for \$40,000 in cash and sending them to Latin America, invoicing them for \$500," said Zdanowicz, who also is president of International Trade Alert, a firm that offers consulting services on international trade issues. The cars are then sold for \$50,000 or more, thus making a profit while laundering money.

The over-valuation method works like this: "Let's say my partner in Latin America spends \$1,000 to buy 10,000 pencils at 10 cents each and ships them to me in Miami. The invoice says the pencils are worth \$100 each, and I pay my partner \$1 million. That way, I'm able to move \$1 million out of the country in one operation," he said.

The same thing can happen with international services, such as marketing surveys, accounting and legal services and concert promotions. For example, a company in Venezuela may offer an advertising and marketing plan to a client in Miami for \$2 million, when a plan of this type might cost \$50,000. The Miami company writes a check or makes an international funds transfer, and \$2 million legitimately leaves the country.

### **BOGUS SERVICES**

In some cases, companies bill for services that are never delivered, said Kieran Beer, editor-in-chief of Fortent Inform and [moneylaundering.com](http://moneylaundering.com), which provide news and analysis on international money laundering, regulatory and fraud activities.

While some of the prices used in these examples may seem unrealistic, it is not illegal to overcharge or undercharge for merchandise or services, unless merchandise mispricing is designed to avoid paying Customs duties.

By comparing invoice prices with average world prices, Zdanowicz estimated that \$192 billion was moved out of the U.S. in 2005 via undervalued exports and overvalued imports, and \$189 billion in 2006.

"The IRS and [U.S.] Customs sometimes find these things, but they don't have the capability of analyzing [so much] data," Zdanowicz said. "They're now pressuring the banks to monitor prices. They're trying to pass the buck to them."

To combat trade-related money laundering, U.S. Immigration and Customs Enforcement has set up special operations called trade transparency units in Colombia, Brazil, Argentina, Mexico and Paraguay to detect and track money laundering as well as other illegal activities.

In fiscal year 2008, ICE launched more than 3,500 investigations into money laundering and other types of financial crimes, obtained 823 convictions and seized more than \$260 million, an 81 percent increase over the previous year.

ICE can spot unusual trade pricing patterns and investigate trade fraud and money laundering through Customs inspections at U.S. ports and its trade transparency units in Latin America, said Jere Miles, ICE's Trade Transparency Unit chief in Washington, D.C.

### **LOOKING AT AVERAGES**

Miles said that ICE uses average import and export prices to determine if items are grossly overpriced or underpriced, and also checks documentation. Some Latin governments cooperate with U.S. anti-money laundering efforts because they can lose millions of dollars in Customs duties on mispriced merchandise.

Asked what ICE could do if it detected something similar to the underpriced Rolex watches, he said the agency could ask an exporter to prove that the watches were purchased for \$5 each or investigate where an importer here obtained large sums of money to pay for overpriced merchandise.

### **MASSIVE VOLUME**

But ferreting out trade-related laundering is difficult because of the sheer volume of commerce. "It's a game of numbers. What better place to hide illegal money than in trade because it accounts for hundreds of billions of dollars a year," said Miles.

And trade is just one of many conduits for cleaning up dirty money.

"Money laundering always invents new channels," said Beer. "When it's blocked in one direction, it cuts a new stream, like water. Personally, I think that as long as American demand for illicit drugs continues, there will be a lot of incentive for money laundering and a lot of incentive to produce imaginative ways to move the profits of that trade."

### **CLEVER TRICKS**

Launders may funnel money through layers of supposedly legitimate businesses, invest in real estate and art, use foreign exchange dealers/brokers and move money across borders via stored value cards such as pre-paid gift cards, Internet payments and online gaming.

Or they may turn to more rudimentary methods, simply smuggling large volumes of cash out of the United States into other countries where anti-money laundering laws and rules are lax.

That's the route some drug dealers seem to prefer, and drug money often gets most of the media attention, usually when agents seize piles of cash.

Still, the government admits it finds only a tiny percentage of drug money. Americans spend approximately \$65 billion per year on illegal drugs, according to the Office of National Drug Control Policy, but U.S. seizures by all federal agencies typically total only about \$1 billion.

Despite the magnitude of the money laundering, the federal government claims to be making headway.

"We have made much progress in the field of detecting and prosecuting money launderers," said Ian McCaleb, a spokesman for the Department of Justice. ``For instance, some money launderers have switched to bulk cash smuggling after finding it harder to launder large amounts of money through financial institutions. But criminals are constantly adapting their techniques, and our challenge is to do all we can to stay as far ahead of new money laundering trends as possible."

### **MANY DOUBTFUL**

But others are skeptical and say despite well-publicized successes, the federal government is barely making a dent in money laundering, especially trade-related laundering.

"It depends on who you talk to as to whether all these anti-money laundering actions are working," said Beer of [moneylaundering.com](http://moneylaundering.com).

After 9/11, many federal investigative resources were diverted to anti-terrorist intelligence work, which includes money laundering related to terrorist financing. But this switch in emphasis at the federal level meant there were fewer investigators assigned to general money laundering operations.

The FBI, for example, reduced the number of squads assigned to money laundering, transferring agents to anti-terrorist work.

### **ATTENTION DIVERTED**

Moreover, as the U.S. financial system went into crisis last year, the Treasury Department, other federal banking agencies and state bank regulators focused on monitoring the stability of the financial system, weakening enforcement of money laundering crimes.

Turf wars are inevitable since more than a score of federal agencies and thousands of state, county and local officials and police are involved. Government officials have asked for bigger budgets and more manpower to battle money laundering, but this may not be the answer.

"Money laundering efforts are like anti-drug trafficking measures," said Jerry Haar, an expert on international trade and associate dean of international affairs and projects at Florida International University's College of Business Administration. ``There's only so much money around to hire police and build infrastructure. You can slow down money laundering, but you'll never be able to stamp it out."