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Policing Trade to Nab Terrorists

New Effort Spots Illegal Exports Masking Money Laundering

By **ROBERT BLOCK**
March 11, 2006; Page A4

WASHINGTON -- The U.S. government has quietly launched a program to crack down on the use of trade by drug lords, gangsters and terrorist financiers to mask money laundering.

Law-enforcement agencies traditionally have focused on money-laundering activity through banks, but the use of international commerce to move money undetected from one country to another is one of the oldest techniques used by criminals to avoid government scrutiny.

It works like this: If an imported product is overvalued, the exporter receives an inflated price for the product, and wealth is shifted from the importer to the foreign exporter. Normally, this wouldn't be a profitable deal for the importer, but if the parties are in cahoots they can share the proceeds. Likewise, when a money launderer converts illicit cash into goods and then sends them abroad at below market prices, the importer can resell them at real market prices and thus transfer value out of a country under the noses of authorities.

In the first formal effort to combat these techniques, the U.S. in January teamed up with the governments of Argentina, Brazil and Paraguay to create "Trade Transparency Units" that allow the countries to share detailed information about each others' import and export transactions. Armed with a U.S.-designed data-mining computer program, investigators sift through the information looking for anomalies in commerce that could indicate terrorist financing or other criminal activity.

"The idea behind the scheme is simple," said Charles Allen, deputy head of the Trade Transparency Unit at U.S. Immigration and Customs Enforcement. "If a foreign business says it is exporting \$100 worth of hammers to the U.S., but the importer's paperwork is for \$1 million of machine parts, something is wrong. What goes out should match what comes in. If they don't, then we take a look to see if there is a connection to criminal activity." His agency, dubbed ICE, runs the program with \$2.25 million provided by the State and Treasury departments.

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Although difficult to quantify, some experts believe as much of 67% of U.S. money being washed abroad may be moved out of the country in undervalued exports. According to an analysis of U.S. trade figures by John Zdanowicz, an international-trade expert at Florida International University, a total of \$391.1 billion moved in and out of the U.S. in irregularly priced trade in 2004. The goods include dishtowels priced at \$153 per towel sent from Pakistan to the U.S. and bulldozers priced at \$1,700 each sent from the U.S. to Colombia.

You Paid How Much?

U.S. officials are investigating the use of suspiciously priced goods to launder money through trade. Some suspicious items:

Undervalued U.S. Exports

PRODUCT	PRICE	DESTINATION
TV antennas	\$0.30/unit	Malaysia
Color-TV cameras	116.44/unit	Kuwait
Passenger motor vehicles	377.72/unit	Jordan
Bulldozers	5,909.09/unit	Saudi Arabia
Mayonnaise	0.13/lb.	Lebanon

Source: John Zdanowicz/Florida International University

Overvalued U.S. Imports

PRODUCT	PRICE	ORIGIN
Dates	\$230/kg	Tunisia
Rice	94.52/kg	Pakistan
Footballs	142.50/each	Malaysia
Pasta	24/kg	Pakistan
Women's synthetic panties	479.53/dozen	Morocco
Bread	17.26/kg	Malaysia

Mr. Zdanowicz and others believe this is the preferred method of terrorist financiers because low-priced goods seldom attract the attention of customs authorities, who are

usually concerned with higher-priced, more-taxable goods.

Washington holds particularly high hopes that the program will shed light on the tri-border region covering parts of Argentina, Paraguay and Brazil, where a large illicit economy thrives, resulting in trafficking in everything from drugs to arms to counterfeit car parts. It is also thought to be a haven for terrorist financiers. Intelligence and military experts say the region harbors radical Islamist terrorists and represents a growing threat to U.S. security interests.

Historically, trade has been mislabeled or undervalued to avoid paying duties or to smuggle prohibited goods across borders. "This is not something we can afford to ignore anymore," said Julie L. Myers, assistant secretary for Immigration and Customs Enforcement.

"For too long, criminal organizations have benefited from the barriers created by a lack of information-sharing about trade. This program brings down those barriers and exposes some of the practices affecting billions of dollars."

Despite the urgency brought on by antiterror efforts, the program took years to develop. The notion of using trade data to track dirty money initially faced resistance from U.S. law-enforcement agencies that didn't understand it, according to ICE officials. And though the idea gained traction after the Sept. 11, 2001, terrorist attacks, the program was stalled by interagency feuding for control. In 2004, ICE began a pilot project with Colombia that led to some high-profile arrests linked to gold smuggling.

The key to the effort is a software program that mines trade data for discrepancies between exports and imports. It can also link exporters to importers and commodities over time. The U.S. has provided funds to Paraguay, Brazil and Argentina to help purchase computers and the software program, known as DARTT, as well as to train personnel units in each country.

Mr. Allen says the program has already resulted in leads involving the smuggling of gold, computer parts and other commodities in and out of the U.S.

Officials from Brazil, Argentina and Paraguay say they embraced the program because it allows them to investigate and recoup unpaid or underpaid tariffs. Many developing countries are dependent on customs duties as a vital source of revenue.

"For us, this is a very important concept because these trade transparency units should help us in not only combating transnational crime such as money laundering but also trade fraud," says Marcos Vinicius Pinta Gama, head of Brazil's Transnational Crime unit at the Foreign Ministry.

Panama, the Philippines and India, excited about the program's potential to identify tax fraud, have all expressed an interest since learning about the program from the State Department. But a shortage of funding is preventing a further rollout at this time, Ms. Myers says.

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