VARIOUS FORMS OF MONEY LAUNDERING IN DRUG TRAFFICKING

The market for illegal drugs is the largest criminal market in the European Union (EU). The drugs trade in the EU is conservatively estimated to generate around EUR 24 billion in revenue each year.
The market for cannabis remains by far the largest drugs market in the EU. There has been a further increase in the indoor and outdoor cultivation of herbal cannabis in and close to consumer markets.

Around 33% of the Organised Crime Groups (OCGs) active in the EU on an international level are involved in the production, trafficking or distribution of illegal drugs.
More OCGs are involved in cocaine trafficking than any other criminal activity in the EU. The significant increase in production in Colombia has resulted in intensified trafficking activity to the EU.

75% of the OCGs involved in the drugs trade in the EU deal in more than just one illegal drug.

The Balkan route remains the main entry route for the bulk of the heroin trafficked to the EU. However, there has been a partial shift in the trafficking of heroin from the Balkan route to the Caucasus route.
Drugs are now widely traded online on various platforms.

The sale of drugs via Darknet marketplaces is a significant threat and continues to expand.

The scale of money laundering activities in the EU is significant, reflecting the immense profits generated by the OCCs involved in the drugs trade and other serious and organised crime.

However, the global anticrime laundering framework implemented by law enforcement and other authorities in the EU has shown to have a poor success rate in identifying and seizing illegal funds generated by criminal organisations. Barely 3% of criminal proceeds are confiscated by relevant authorities at EU level.
Money laundering is also being carried out in many countries in Central Europe. A growing number of criminal organizations are using methods such as offshore accounts and financial institutions as well as technology to facilitate their operations. A recent study estimated that 3% of the gross domestic product in Europe is lost due to money laundering. This money is often used to fund terrorist activities and other illegal activities such as drug trafficking and arms smuggling. In some cases, these OCGs have been able to launder their profits by investing in legitimate businesses or real estate. However, this is not always possible and the most successful OCGs have been able to launder their profits by setting up their own networks of money laundering syndicates, which have specialized in laundering the proceeds of other OCGs in exchange for a fee. In some cases, these OCGs have been able to launder their funds by investing in legitimate businesses, real estate, and other ventures across and outside the EU. However, this is not always possible and the most successful OCGs have been able to launder their profits by setting up their own networks of money laundering syndicates, which have specialized in laundering the proceeds of other OCGs in exchange for a fee.
Almost all organised criminal groups (OCGs) carry out their activities for one reason: profit. Criminal finances encompass both the crimes that generate vast sums and the methods used to launder these in order that they can be enjoyed and reinvested.

The widespread acknowledgement of the importance of tackling money laundering and criminal proceeds has led to a greater emphasis on conducting financial investigations and gathering financial intelligence. In response, a global anti-money laundering framework has developed over time, and one of its cornerstones is the reporting of suspected criminal financial flows (known as STRs) from the private sector, acting as gatekeepers to the financial system and legal economy, to Financial Intelligence Units (FIUs).

The reports sent by the private sector contain valuable information that can enhance ongoing investigations and often trigger entirely new ones. A number of cases have demonstrated the importance of this system: it would not be possible to effectively combat OCGs operating in the EU or affecting the EU from abroad without pursuing their finances, both for intelligence purposes and as a target.

There is no single name for, or definition of, a suspicious transaction report (STR), often known as a suspicious activity report (SAR). However, it is generally understood to mean a report compiled by the regulated private sector (most commonly banks and financial institutions, but also non-financial designated professions) about financial flows they have detected that could be related to money laundering or terrorist financing.
In 1989 the Financial Action Task Force (FATF) - an inter-governmental body - was created. Since then it has set international standards in the fight against money laundering, and their recommendations form a blueprint for the EU’s anti-money laundering framework.

FATF’s recommendations and the need for a more unified approach to anti-money laundering across the EU led to the First European anti-money laundering Directive in 1991. The Directive (updated three times in 2001, 2005 and most recently in 2015) underpins the EU anti-money laundering frameworks in place today, through minimum requirements to be implemented by the EU Member States. The Directive created the master design for the current EU anti-money laundering architecture. A cornerstone of this framework is the designation of entities obliged to report suspicious transactions to a central authority, known as a Financial Intelligence Unit (FIU).

The STR regime exists to prevent and detect the abuse of the financial system by criminal groups seeking to launder the profits of illegal activities.
In 2014 the Tax and Customs Authority in one MS conducted a key anti-money laundering operation that culminated in the provisional arrest of the former Prime Minister. The case was an investigation related to tax fraud, corruption and money laundering, involving sums in excess of 20 million euros.

The role of STRs in the case was pivotal: the entire investigation was initiated because of a set of STRs filed by banking entities, informing that EUR 600,000 had been deposited by way of structuring into the bank account of a former Prime Minister. Sums were transferred from his mother's bank account, justified by way of the sale of an apartment (which was over invoiced) to the former politician's close friend.

On-going investigations indicated that this close friend was in fact a front man, used to manage an amount of EUR 20 million belonging to the former Prime Minister — sums incompatible with his declared income and corruption seen as the probable source of funds.

The reporting behind the case revealed the use of several money laundering methods including: the use of front men to manage bank accounts; fake and over-invoiced purchases to justify the integration and use of funds; false employment and service contracts; the use of cash couriers to transport money between the front men and the beneficial owner.
The Fourth anti-Money Laundering Directive sets out those sectors, both financial and non-financial, which have obligations to file reports around suspicious transactions or activities with their national FIs. Some countries may also implement further categories of obliged entities through domestic legislation (for example, Spain includes NGOs and security and cash transport companies).

As regards the designated non-financial sector, three categories of obliged entities report most frequently to the FIs – the gambling industry, public notaries and accountants.

Case example: Operation Gambling

A recent case reported across open sources deals with the Italian Operation Gambling in which Italian authorities arrested 41 persons and seized assets worth EUR 2 billion in a massive illegal gambling and money laundering operation. Italian authorities took down a huge network of companies involved in online betting, headquartered in Malta and controlled by the 'Ndrangheta, the notorious Calabrian criminal organisation. Police believe the firms, including the six that were operating out of Malta, were used to launder vast sums of illicit cash. The case has raised some concerns around the online gambling market and the potential for its abuse by criminal organisations. The implementation of the Fourth anti-Money Laundering Directive which extends scope beyond physical casinos to the gambling sector more generally, may have a significant effect on Malta given the size of its online gambling industry (with over 400 licences granted).

Italian police crack mafia's 2bn euro gambling empire as it seizes betting shops and companies belonging to notorious 'Ndrangheta' organised crime syndicate

- The prosecution stems from Italian entrepreneur Renzo through Africa
- It then laundered the incredible wealth through a huge gambling empire
- Police seized assets including 150 betting shops and 80 companies
- Italian police said it would be a "serious blow" to the gang
On 24 January 2015, law enforcement and judicial authorities from France, the US, Germany, Belgium, Italy, the Netherlands and Spain, supported by Europol and Eurojust, took action against a prominent OCG responsible for the laundering of profits from cocaine sales throughout Europe.

Building on long-standing ties to South American drugs cartels, the OCG's modus operandi involved the use of cash couriers travelling across Europe by car to collect the proceeds of crime, followed by the purchase of expensive cars, luxury watches and jewellery. These high value goods were then exported to Lebanon where they were sold and the proceeds placed into the financial system for onward transfer to cartels in South America.

Financial investigations revealed that in 2014 alone, the group spent EUR 26 million in cash to purchase luxury watches, without triggering any STRs. The sums involved in 2015 are thought to have been even higher, by which time the group was laundering an estimated EUR 1 million per week. The targeted OCG was mainly composed of Lebanese nationals also suspected of being involved in financing terrorism through Hezbollah's military wing. In the wake of coordinated days of action, one of the main suspects of Operation Cedar was designated by US OFAC (Office for Foreign Asset Control) for his involvement in the financing of terrorist activities.
Examples include virtual currency exchangers, NGOs, and security and cash transport companies (only Spain reported that the latter two categories are obliged entities under national AML legislation).
The initial stage of proceeds of crime is channelled through the financial system. This stage involves the placement of funds into a financial system that may utilise any means of financial intermediation. The placement of proceeds of crime into the legitimate financial system is considered the most risky as it allows for the complete removal of proceeds of crime from the criminal. This is done by the conversion of laundered money into legitimate financial instruments, effectively concealing the origin of the funds.

The second stage is the layering stage, in which the laundered funds are made to appear complex in order to conceal their origins. This is done by mixing the laundered funds with other legitimate funds in order to create a complex financial structure that is difficult to trace.

The final stage is the integration stage, in which the laundered funds are made to appear legitimate. This is done by using the laundered funds to purchase legitimate assets or to engage in legitimate business activities.

There are countless means of laundering the proceeds of crime, all of which have certain factors in common:

- the need to conceal the origin and true ownership of the proceeds;
- the need to directly or indirectly maintain control over the proceeds;
- the need to change the form of the proceeds in order to either shrink the huge volumes of cash generated by criminal activity or sever the link with underlying criminality.
CASE EXAMPLE: PROFITS AND PIZZA

One case investigated by Italian Authorities concerning the criminal activities of the Mafia Clan 'Fistuzari' led to the seizure of 14 businesses (restaurants, discos, bars etc.) These cash-front businesses were all owned and managed at arm's length by the Mafia through family members, associates and strawmen. Criminal profits from the groups' illegal activities were used to acquire the companies and finance business costs (payment for suppliers, labour, rents etc.). A discrepancy between the profits the businesses made and reported to tax authorities and their actual running costs alerted authorities to their possible use in the laundering of criminal proceeds.

Some of the businesses, such as nightclubs, offered an added advantage in that they provided an ideal market place for the group to conduct its illegal activities – the sale of drugs. Drug sellers received payment for their illegal activities through 'legitimate' wages paid to family members employed by the clubs as service staff (e.g. waitresses) which were in fact paid out of criminal funds.

In addition to their portfolio of criminal businesses, the clan also ran a protection racket extorting up to 10% of profits from local businesses and service providers (such as valets). The estimated value of the seized businesses amounted to some EUR 15 million which had been injected from criminal cash proceeds.

1983: The Year of the Drive against the "White Cart"
Our alternative banking & payment services make lives easier.

The 5th Anti-Money Laundering directive will:

- enhance the powers of EU Financial Intelligence Units and facilitating their increasing transparency on who really owns companies and trusts by establishing beneficial ownership registers;
- prevent risks associated with the use of virtual currencies for terrorist financing and limiting the use of pre-paid cards;
- improve the safeguards for financial transactions to and from high-risk third countries;
- enhance the access of Financial Intelligence Units to information, including centralised bank account registers.

ensure centralised national bank and payment account registers or central data retrieval systems in all Member States.
The EU Approach: EU Policy Cycle

- EU Policy Cycle for organised and serious international crime 2018-2022
- Work to Anticipate Threat of Crime in Europe
- Strengthening the EU's ability to confront organised crime
- Hitting the increasing trend of international organised crime
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The EU's response to organised crime is based on a multi-faceted approach, combining international cooperation, national and European measures, and a strong focus on the prevention of crime. The EU's strategies are designed to tackle the root causes of crime and to disrupt the networks that underpin it. This is achieved through a range of policies and initiatives, including the strengthening of the EU's border management, the enhancement of law enforcement capacity, and the promotion of public-private partnerships. The EU's approach is underpinned by a commitment to ensuring that justice is done and that victims are properly supported. The EU's efforts to combat organised crime are ongoing and will continue to adapt to the evolving threats that it faces.
Case Examples

**Operation Kouri** targeted a large criminal organization based in France, but operating in several other Member States (Belgium, The Netherlands and Spain) and beyond (Morocco and The United Arab Emirates), specialized in performing high end money laundering services to major international trafficking cartels (hashish and cocaine).

At the end of November 2016 a joint investigation team (JIT) consisting of investigators and judicial authorities from France, Belgium and the Netherlands, took action against the money laundering ring resulting in the arrest of 59 suspects and the seizure of 31 kg of cocaine, 2.9 kg of hashish, 2 submachine guns, 4 money counting machines, 7910 kg of gold (worth over 800,000 EUR) and more than 7 million EUR in cash, making this operation the second biggest cash seizure in Europe during the year of 2016. Cepol assisted the competent law enforcement agencies by organizing and funding several operational meetings, provided a full scale analytical support and real-time intelligence analysis as well as forensic and technical support by deploying Mobile Offices to all involved Member States during the action days.

**Operation Santa Lucia/Contini Blanca**, led by Spain, Italy and Germany, focuses on an OCG involved in the transport of large amounts of drugs to Italy. The OCG is linked with the "Camorra" and uses infrastructures and companies to launder their proceeds by themselves. For that purpose, the OCG moves the financial system, and by using middlemen operates multiple bank accounts, exploiting products such as loans and stock market trading. Moreover, trade-based money laundering is also a way of concealing their criminal funds by buying/selling companies, vehicles and jewellery that are controlled by the OCG.
Thank you!
Support to international financial and money laundering investigations
Economic Crimes
How much is lost every year because of VAT fraud?

Due to the very nature of fraud, it is difficult to put a precise figure on VAT losses due to fraud, it is thought to be several billion euro each year.
MTIC - "White Collar Crime"
Disappearing into the ether?

The involvement of virtual financial institutions or schemes in VAT-fraud.

From tangible to digital transformation VAT fraud.
Volatility of Organized Fraud
The causes of this volatility: Violent attacks
What's next?

- Green certificates/EES
- Electricity
- Carbon credits
- Game consoles
- Computer games
- Computer components
- iPods
- Phones
- Mobile phones
- Gold/Silver/Platinum/Copper

MTIC VAT-fraud

Goods/services
Carbon credit fraud or VAT fraud in emission allowances trading
Recent development
€ 5,000,000,000

Estimation by Europol

Damage for European Taxpayer
643 Million – only in May 2009
France – Operation National
Prison terms 3-4 years to 7 years & 10 months
6 Men sentenced to imprisonment (UK, DE & FR nationals)
Approx £300 Million
Conspiracy to evade VAT August 2009–April 2010
Germany – Operation ODIN
Carbon Credits Fraud – Member States’ Successes
The case of the missing carbon credits

By Chris Lang, 25th January 2011

The European Trading System (ETS) is a market for trading in carbon credits, established in 2005. The ETS provides a mechanism for reducing greenhouse gas emissions and ensuring that the global temperature does not rise beyond 2 degrees Celsius above pre-industrial levels.

The ETS has been in operation for over a decade and has become one of the largest and most successful carbon markets in the world. However, in recent years, there have been concerns raised about the security of the ETS and the possibility of carbon credits being stolen or duped.

In January 2011, a significant theft of carbon credits was discovered. The theft involved the theft of 475,000 EU carbon credits, which were worth approximately 800,000 euros at the time of the theft.

The theft was discovered on 18th January 2011, when the carbon credits were reported missing from the ETS registry. The ETS registry is a database that tracks all the carbon credits traded on the ETS.

The theft was investigated by the Estonian police, who spent several months tracking down the perpetrators. The investigation revealed that the carbon credits were stolen from an account in the Czech Republic and then sold to someone else.

The carbon credits were probably stolen on 18th January 2011, around 11:00 am, when a bomb was placed in the building by the thieves. The building was then set on fire, and the carbon credits were sold to someone else.

The theft of the carbon credits has raised concerns about the security of the ETS and the possibility of carbon credits being stolen or duped. It is believed that the carbon credits were stolen in order to make a profit.

The European Commission has launched an investigation into the theft of the carbon credits, and steps are being taken to improve the security of the ETS.

In conclusion, the theft of the carbon credits is a serious issue that has raised concerns about the security of the ETS. It is important that steps are taken to improve the security of the ETS and prevent similar incidents from occurring in the future.
national registers
Information from some
Problem to access
• Information between MS
• Cross check
• VAT declaration
• VIES
• Emission registers
• Recapturative statement

EL's Community Independent Transaction Log (CITL)

Carbon Credits - EU ETS Scheme
UMBS

Tangolo

UK HMRC Operation

Bank (FCIB)

First Curaçao International

ITMC fraud-facilitating vehicles
developments in the use of
- Holding company based in Panama.
- Both UMBS EF and Online had their base of operations in Wembley, London.
- 1570 members by 14 February 2007 (date of field to HMRC).
- 865 of 848 EF members transferred to Online.
- Opened account with Techmocash P/L NZ.
- UMBS Online Inc 27 November 2006 under New Zealand law.
- Ceased trading 26 November 2006.
- UMBS EF blacklisted on Swedish FSA website.
- Shares transferred and listed on various regulatory exchanges.
- Director linked to suspect MITIC companies in Portugal.
- External payments amount to €42 million.
- Internal transfers exceed €2 billion.
As SCU, UMBS had
several features making it attractive to MTC fraudsters. Why SCU? 

- Involvement of several jurisdictions
- Obscuring transaction details
- International transactions
- High-quality online banking software; high speed
- Banks offer services normally limited to fully licensed authorities
- Supervision by the Swedish Financial Supervisory Authority
- Exemption from license requirements and concept was legal
Other virtual financial institutions at risk
Current developments
Fraud Logics

Excise Frauds – use of different products

Fake declaration for zero-rated VAT

Oil products from EST Europe – VAT fraud

(on paper lubricant oil used as gasoline)
Consquences seized.

Illegally released. For consumption and kind of products, goods are considered as

Consignment is not authorized to receive this

If the place of delivery is fictitious or the

punishable as well as those of excisable products.

Infringements in movements of Lubricating oils are

consumption tax: 787.81 Euro/1.000 Kg.

In Italy, Lubricating oils are subject to national

National consumption tax on Lubricants
Lubricant oil expeditorions from Poland

(Jan-Nov 2015)
Dispatch from Pl
According to data from Polish tax warehouses 503 million litres of alcohol entered into free circulation between June 2011 and July 2013 in the EU Member States without the payment of taxes, the excise tax content of which is almost 270 million EUR, the VAT content of which is almost 122 million EUR which amounts to a damage of almost 400 million EUR in Member State budgets. In 2014, 216,5 million litres were existed from warehouses. The Hungarian National Tax and Customs Administration – NTCA, estimated:

«Black market»

Value of the Illegal Trade
The dichloromethane is highly volatile.

Composition: Gasoline 92% - 95% diisopropyl ether 5% - dichloromethane 2%

In Hungary, actually produced in the former Yugoslavia, etc.

Commercial name: ENOL 103; THINNER 5

Example:

The ENOS and is not excluded duty as well.

The product is chemically solvent or diluent thus is not monitored in
387.40090) in a mix with Gasoline. During an inspection the new
they use solvent or diluent (combined nonmcontrollers code

The different OCGs has started to produce and sell new

Evolution of the fraud market: new products
Arrested Individuals: 34
Judicial Authority: 751
Individuals Reported To The
Seized Vehicles: 146
Energy Products (Kg): 1,818,000
Seized Products:

Over the last 5 months...