# MONEY LAUNDERING FROM ENVIRONMENTAL CRIME

### *FOR PUBLIC AND PRIVATE SECTORS*

**Environmental crimes – such as illegal logging, illegal mining and waste trafficking** – generate enormous criminal proceeds each year, with estimates ranging from USD 110 to 281 billion per year.

The same individuals involved in environmental crimes are often engaged in other criminal activities, such as **corruption**, **tax crimes** and **human trafficking**.

Environmental crime is a low-risk, high-reward crime. Despite the significant criminal proceeds and damage to our plant, actions across countries to follow and confiscate the money involved in these crimes have not been in line with the scale of this threat.

The FATF report *Money Laundering and Environmental Crime*, identifies key money laundering risks across illegal logging, illegal mining and waste trafficking, and tools that public and private sector can use to detect and combat laundering from these crimes.

This work builds on the FATF's 2020 study on *Financial Flows From the Illegal Wildlife Trade*.

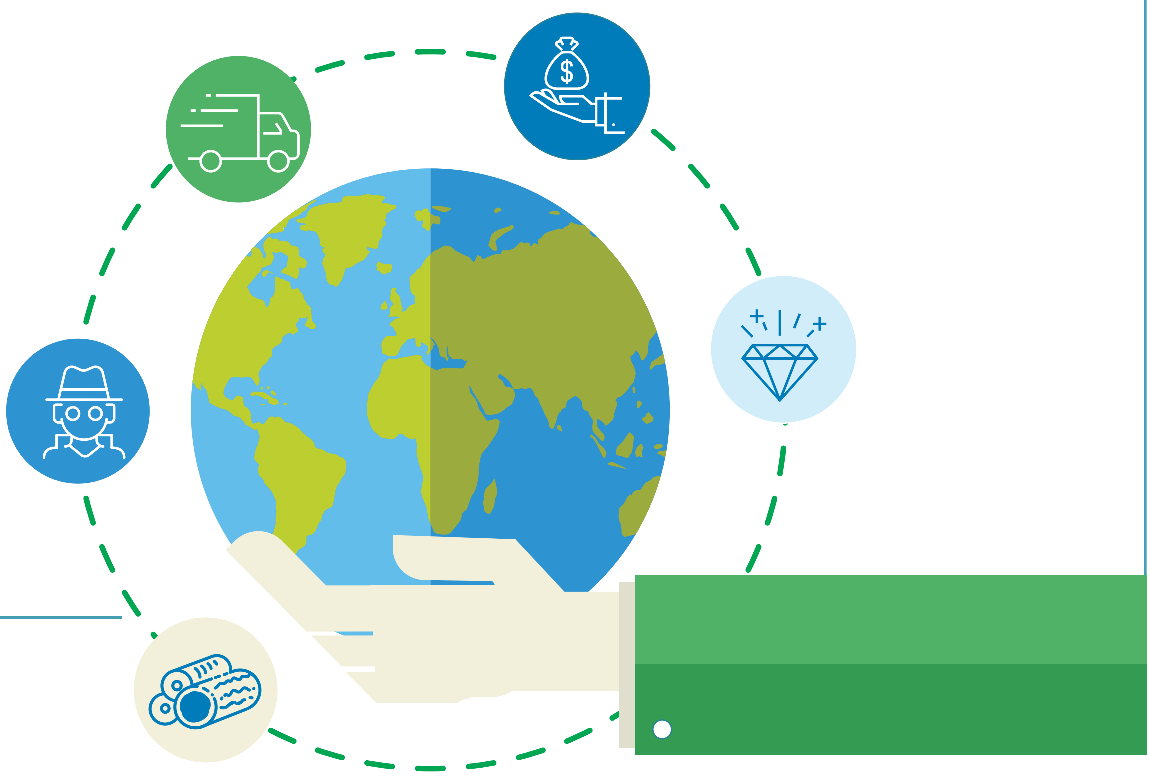
# WHAT ARE THE KEY LAUNDERING RISKS FOR ENVIRONMENTAL CRIMES?

- FATF's report highlights that criminals involved in environmental crimes launder their proceeds through the formal and informal financial sector across countries. This includes financial, trade and company formation centres, which may not have natural resources domestically.

- Criminals frequently mix or "comingle" legal and illegal products early in the resource supply chains to conceal their illicit source, including relying on complicit intermediaries along resource supply chains (e.g. refiners, sawmills). This can make it particularly difficult to differentiate legal and illegal financial flows later on in the value chain.

- Networks for forestry crime, illegal mining and waste trafficking also rely on trade-based fraud, and corruption and bribery of politically exposed persons, to exploit weak regulatory oversight in environmental resource chains.

- These same networks will make use of complex corporate structures, shell companies and intermediaries (e.g., accountants, lawyers, etc.) to conceal financial flows and employ offshore jurisdictions, to facilitate placement and/or layering of funds, which underscores the importance of identifying the underlying owners.



# WHAT SHOULD PUBLIC AND PRIVATE SECTOR DO ?

**Public** sector

**The FATF Standards already provide a useful framework to help authorities combat laundering from environmental crimes.** As a priority, countries should considering whether environmental crimes should be included within broader national ML risk assessments, strengthen their capacity to pursue financial investigations, and conducting outreach to the private sector on financial threats from these crimes.

**Combatting financial flows from environmental crime requires an inter-agency response.** Financial investigators and environmental experts need to collaborate more regularly to strengthen investigations, and environmental policies should consider the money aspect of these crimes.

**Private** sector

**The private sector also has a crucial role to play in combatting financial flows from environmental crimes.** This includes strengthening awareness of key environmental crime threats, and understanding customer profiles, particularly those operating in key resource supply chains.

## THE FATF STANDARDS, *THE FATF 40 RECOMMENDATIONS*

**Criminalise money laundering for a range of environmental offences** (Recommendation 3)

**Identify and assess their money laundering and terrorist financing risks across crime areas, and to take steps to mitigate these risks** (Recommendation 1)

**Establish a framework for the private sector to be aware of their risks, and report suspicious financial transactions** (Recommendation 9-23)

**Of particular relevance for this study, these obligations extend to, among others: banks, dealers in precious metals and stones[1], lawyers and trust and company service providers when carrying out financial transactions.** (Recommendation 29-31)

**From the law enforcement perspective, countries should have sufficient powers to investigate, trace and confiscate criminal assets across crime areas.**

Note: The FATF obligations apply when precious metals and stone dealers engage in any cash transaction with a customer equal to or above USD/EUR 15 000.

# HOW TO DETECT FINANCIAL FLOWS FROM ENVIRONMENTAL CRIMES?

## COLLECTING FINANCIAL INTELLIGENCE FOR ENVIRONMENTAL CRIMES

Authorities need to work together to collect all relevant financial intelligence from the start of investigations. This should include efforts to identify, freeze and confiscate related assets as quickly as possible. See below for examples of relevant financial intelligence.


## POTENTIAL RISK INDICATORS RELATED TO LAUNDERING FROM ENVIRONMENTAL CRIMES

The FATF's report highlights a number of examples of situations that could demonstrate or suggest suspicious financial activity for environmental crimes. However, one risk indicator alone, without additional information about the client or transaction, is not sufficient to suggest illicit activity.

### TRANSACTION AND CASH FLOWS

- Frequent payments from companies in the logging, mining or waste trade sector to individuals or beneficiaries unrelated to the legal person's activity or business.
- Large cash transfers from cash-intensive businesses to beneficiaries in areas known as a source of gold mining and illegal logging and illegal land clearing.
- Transfers from country where the gold smelters are located to source countries for gold, and almost immediate cash withdrawal of majority of the transfer.

### CUSTOMERS

- Unexplained wealth, cash transfers involving senior officials, politically exposed persons (or family members of) with a position of responsibility related to the management or preservation of natural resources.
- Clients that are unable to provide evidence of compliance with local environmental requirements (e.g., proof of permit for environmental activity, export, and land purchase/lease agreements, etc.).
- Intermediaries - such as timber processing facilities, sawmills and metal refineries – with financial activity that is not in line with local production levels.
- Customers with mining or logging licenses operating in or around active conflict zones. PEPs may have interests in these companies, but it is not required.

## ECONOMIC ACTIVITY

- Sudden and unexplained increases in economic activity (formal and informal) in rural or isolated zones, particularly in source countries for illegal logging and mining. This could include unusually high volume of business turnover in cash transactions at businesses providing consumer goods and services in proximity to at-risk zones.

## EXPORT & TRANSFER PRICING

- Trade transactions to finance extractive business involving high-risk jurisdictions – e.g. that have a proven risk of corruption, conflict and/or illegal resource extraction.
- False or questionable statements on bank loans, letters of credit, customs and shipping documents associated with the timber trade.
- Financing for export of environmentally sensitive goods (e.g., round logs) when there is a moratorium, or this has been banned by national authorities.

## WASTE TRAFFICKING

- Persons with minimal experience entering waste management sector, or with suspicious organizational structure or economic activity.
- Large international funds transfer between local waste management sector companies and known source countries for waste trafficking.
- Waste management sector companies with payments or trade invoices for types of waste unaligned with those they are authorised to process.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Download the report at www.fatf-gafi.org