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FATF REPORT

# Money Laundering Through the Physical Transportation of Cash

October 2015





The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

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## TABLE OF CONTENTS

ACRONYMS.....	2
EXECUTIVE SUMMARY.....	3
1. THE SCOPE AND EXTENT OF THE PROJECT .....	6
1.1 The background to the project .....	6
1.2 The Objectives of the project.....	7
1.3 The Prevalence of the use of Cash.....	7
1.4 Legitimate cash usage.....	11
1.5 Legitimate Cross Border Cash Transportation .....	13
1.6 Criminal usage of cash .....	27
1.7 The status of the problem .....	29
1.8 Predicate offences generating cash proceeds .....	30
1.9 Estimating the value of cross-border transportations of criminally derived cash.....	31
2. WHY CRIMINALS USE CASH MOVEMENT.....	33
2.1 Drivers and push-pull factors influencing criminal cross-border transportation of cash.....	33
2.2 Raising cash.....	36
2.3 Moving cash .....	36
2.4 Storing the cash .....	44
2.5 Using the cash .....	45
3. METHODS AND TECHNIQUES.....	49
3.1 Routes and Route Selection.....	49
3.2 Currencies .....	52
3.3 Denominations.....	54
3.4 Methods of physical transportation of cash - Passengers and Natural persons .....	57
3.5 Cash Declaration requirements .....	60
3.6 No attempt to conceal .....	63
3.7 Concealment on the person .....	64
3.8 Concealment in passenger’s baggage.....	65
3.9 Concealments in vehicles and accompanied freight .....	68
3.10 Re-use of concealments of illicit goods .....	70
3.11 Abuse of legal business structures.....	70
3.12 Methods of physical transportation of cash - Cargo and Mail .....	71
3.13 No attempt to conceal.....	73
3.14 Techniques of concealments of cash in cargo .....	73
3.15 Techniques of concealment of cash in mail.....	76
4. CONTROLLING CROSS BORDER TRANSPORTATION OF CASH .....	80
4.1 Controls at borders – roles and responsibilities .....	80
4.2 Methods used to detect and prevent criminal cash shipments .....	85
4.3 Indicators .....	88
5. CHALLENGES TO THE DETECTION AND CONTROL OF CROSS-BORDER TRANSPORTATION OF CASH .....	94
5.1 At Borders – National co-operation.....	94
5.2 International Co-Operation.....	96
5.3 Legislative Issues.....	98
5.4 Typologies and guidance.....	100
ANNEX JURISDICTIONS WHO RESPONDED TO THE QUESTIONNAIRE .....	102
BIBLIOGRAPHY AND REFERENCES .....	103

## ACRONYMS

<b>AML</b>	Anti-money laundering
<b>BCS</b>	Bulk cash smuggling
<b>BNI</b>	Bearer negotiable instruments
<b>CDD</b>	Customer due diligence
<b>CFT</b>	Countering the financing of terrorism
<b>CVIT</b>	Cash/Valuables in Transit
<b>EC</b>	European Commission
<b>ECB</b>	European Central Bank
<b>FSRBs</b>	FATF-Style Regional Bodies
<b>GAFILAT</b>	Financial Action Task Force of Latin America
<b>IMF</b>	International Monetary Fund
<b>MENAFATF</b>	Middle East and North Africa Financial Action Task Force
<b>MSB</b>	Money service business
<b>UNODC</b>	United Nations Office on Drugs and Crime
<b>UPU</b>	Universal Postal Union
<b>WCO</b>	World Customs Organization

## EXECUTIVE SUMMARY

Despite the increasing prevalence of non-cash payment methods in developed economies, cash remains an important means of settlement across the globe, with an estimated USD 4 trillion in circulation and between 46% and 82% of all transactions in all countries being conducted in cash.

Similarly, cash is still widely used in the criminal economy and it remains the raw material of most criminal activity. In many cases, even when the proceeds of a crime are initially generated in electronic form (such as the theft of funds from a bank account), criminals choose to withdraw the funds from a bank account in cash, transport it to another country, and pay it into another account in order to break an audit trail. The physical transportation of cash across an international border is one of the oldest and most basic forms of money laundering<sup>1</sup>, but this report shows that it is still widespread today. There are no fully reliable estimates for the amount of cash laundered in this way, but the figure would seem to be between hundreds of billions and a trillion US dollars per year. The majority of countries surveyed during the compilation of this report were of the opinion that cash smuggling is an increasing problem.

Physical transportation of cash as a method of money laundering is not restricted to a particular type of crime. Although many jurisdictions report the use of this typology by drug trafficking organisations, it is also linked to the illegal trafficking of other commodities, such as alcohol and tobacco, and it is also used widely by criminals involved in other activity including tax fraud, weapons and arms smuggling, organised immigration crime and the financing of terrorism. There are no cash smuggling methods more associated to one form of criminality than another, and no guarantee that criminals committing the same type of crime will move their proceeds in the same way and by the same route.

Instead, the methods used to physically transport criminal cash are dependent on a decision making process undertaken by the criminal. This process begins with the criminal deciding what the purpose of the cash movement is (for example, to break the audit trail, to pay a supplier, to bank it in another jurisdiction etc.). This will dictate the ultimate destination, which will in turn inform the method used, and ultimately the route chosen. At all stages, influences such as risk, familiarity, simplicity and the demands of partners will affect the decisions made. Understanding the decision making process can assist in developing control techniques by authorities tasked with combatting the problem.

Once the cash has been moved to its destination and used for its intended purpose it will eventually enter the legitimate financial system and will be recycled by banks and other financial institutions. Countries that use their own unique currency have the opportunity to monitor the repatriation of their currency from overseas, and while this is by no means straightforward, proper analysis can in some cases identify high risk routes, money laundering networks and drive national programs to raise awareness of risk.

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<sup>1</sup> Techniques which can be used for money laundering, can also be used for terrorist financing (see Box 31), so the report is also of interest for combating terrorist financing.

### *Key findings:*

Notwithstanding the influence of criminal decision making on the methods used, some common features and trends emerge from the study of the information gathered during the compilation of this report.

- The use of physical transportation of cash distances the criminal proceeds from the predicate offence that generated them, and breaks audit trails.
- The amounts of cash being concealed in cargo and adapted freight being far in excess of what can be carried by a natural person.
- The currencies most frequently encountered in consignments of criminal cash – the US dollar, the euro, the British pound, the Swiss franc, etc. – are the most stable, widely used and readily traded in the world
- Although by no means universally seen, high-denomination notes are often used to reduce the bulk and weight of criminal cash when concealment of the cash is a prerequisite to smuggling it
- Criminals exploit mechanisms of cash declaration systems, particularly as a method of lending a veneer of legitimacy to criminal cash introduced into the legitimate financial system
- Because of the legitimate demand for cash, it is moved in huge quantities on a daily basis across the world, by natural persons (whether carried on their person, in their personal effects, or in a vehicle), in cargo and mail. However it appears that although most countries have a reasonable knowledge and understanding of transportation of cash by natural persons and have comprehensive measures in place to monitor and control this issue, substantially less have any appreciation of the legitimate movement of cash in cargo and mail, and pay little attention to this phenomenon despite the amounts moved in cargo being much larger than those being moved by natural persons. A possible reason for this lack of knowledge is that although FATF Recommendation 32 sets standards for the control of physical cross-border transportation of cash by natural persons, cargo and mail, its focus on ‘natural persons’ may help explain why many jurisdictions seem to consider that their obligations under this recommendation to be limited to having in place a disclosure or a declaration system for transportation of cash by natural persons only.

When transported in cargo, cash is treated as a form of goods and in most cases only a basic customs declaration is required – most countries do not require a specific cash declaration in addition to the normal customs declaration. The amount of detail required on this declaration is minimal – not even the actual value of the cash is required – which means that, in most cases, there will be insufficient information available to customs to form a view on whether the shipment is suspicious or not. Some countries noted that this absence of ability to form a suspicion restricted the ability of their

customs authorities to open and inspect shipments, require the provision of further information and exercise effective control of cash in cargo.

These factors can significantly hamper efforts to identify consignments of criminally derived cash. There are indications from research carried out by some countries that criminal groups have become aware of this and seek to infiltrate large amounts of cash into the legitimate system used by banks and other financial institutions to transport cash traded between themselves, effectively hiding it in plain sight.

Every physical transportation of cash across international borders involves at least two countries, and most of those surveyed raised the importance of effective international co-operation in controlling the phenomenon. Countries need to make every effort to share information and intelligence and facilitate the gathering of evidence by international partners in order to ensure that efforts to combat money laundering are not hampered unnecessarily. Similarly, in many countries several agencies need to work together to control borders and it is of paramount importance that these agencies are not hindered by issues such as poor communication and co-ordination of resources.

## 1. THE SCOPE AND EXTENT OF THE PROJECT

### 1.1 THE BACKGROUND TO THE PROJECT

Cash remains a significant raw material for criminal groups and is used by choice as an anonymous financial instrument by a wide range of criminals, even in complex money laundering systems.

Physical transportation of cash (i.e. bulk cash smuggling (BCS) and cash couriers) as a means of money laundering continues to be a problem in many countries worldwide. It is an issue that concerns both developing countries with cash based economies as well as countries with developed and sophisticated financial systems. Despite there being an incomplete understanding of the issue globally, responses to the questionnaires imply that the increasing robustness of Anti Money Laundering (AML) regimes in the financial sector has led to the increasing prevalence of physical transportation of cash as an alternative method to move the proceeds of crime and ensure its security by keeping it away from the traditional financial system. Criminals who need to make use of their ill-gotten gains are looking for options as more preventive measures are implemented by the traditional financial sector.

Having adequate measures in place to detect and prevent illicit cross-border transportation of cash and bearer negotiable instruments (BNIs) is a requirement of all countries. It is covered by Recommendation 32 of the FATF standards<sup>2</sup>, and the associated interpretive note, which defines physical cross-border transportation as ‘... any in-bound or out-bound physical transportation of currency or BNIs from one country to another country. The term includes the following modes of transportation:

- physical transportation by a natural person, or in that person’s accompanying luggage or vehicle;
- shipment of currency or BNIs through containerised cargo or
- the mailing of currency or BNIs by a natural or legal person.’

To date, there has been no global study and typology report issued by FATF dedicated to BCS and cash couriers. However, the issue of BCS and cash couriers has been referred to in a number of FATF typologies reports in addition to the FATF international best practices paper *Detecting and Preventing the Illicit Cross-border Transportation of Cash and Bearer Negotiable Instruments*, published in February 2010. The issue of physical transportation of cash has also been referred to in some studies conducted by FATF-style regional bodies (FSRBs) and the Egmont Group. This paper is intended to complement, not replace, the 2010 FATF best practices paper. While the 2010 paper sets out a range of policy responses, this paper is intended to develop the knowledge base about the methods and trends used by criminals to smuggle cash to further inform policy work in this area.

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<sup>2</sup> The FATF Standards comprise the FATF Recommendations and their Interpretive Notes.

The project was proposed by the Middle East and North Africa Financial Action Task Force (MENAFATF) secretariat and the Netherlands authorities and adopted by the FATF in October 2013. The UK volunteered to co-chair with Tunisia. The project was the subject of discussion at the joint experts meeting in Doha, Qatar in December 2013. The project team meetings were very well attended, with as many as 70 delegates attending and contributing and presentations were delivered by the Financial Action Task Force of Latin America<sup>3</sup> (GAFILAT), the Kingdom of Saudi Arabia, Lebanon, MENAFATF, the Netherlands, the State of Qatar, the World Customs Organization (WCO), the UK and the USA.

Interest in, and collaboration with the project remained strong throughout 2014 with in excess of 60 countries contributing information and case examples in response to a questionnaire devised by the co-chairs and issued by the FATF secretariat in March 2014. As recently as October 2014 the UAE requested to join the project team, and the typology was further discussed, and additional presentations and case examples presented over two days at the Typology Workshop jointly held by MENAFATF and EAG in Doha in December 2014.

## 1.2 THE OBJECTIVES OF THE PROJECT

The main aim of the project is to fill the knowledge gap identified by the FATF in course of the review of the work done, and to explore and understand the extent, scope and operating models of using physical transportation of cash in ML schemes<sup>4</sup> to provide a basis for identification of policy implications that may ultimately help in the effort to improve its prevention, detection and disruption.

- In order to achieve that goal, the key objectives of this project are the following:
- To develop an understanding of the scope and extent of the problem of the physical transportation of cash on a global and regional level through data collection and reviewing of existing literature.
- To identify trends, methods and techniques used for ML through physical transportation of cash and provide a compilation of case examples.
- To identify the main challenges and problems faced in the detection and disruption of physical transportation of cash.
- To compile a set of red flags and/or indicators and any other information that might be used later for developing best practices on preventing, detecting and disrupting ML through physical transportation of cash.

## 1.3 THE PREVALENCE OF THE USE OF CASH

The definition of 'cash' in the Oxford English Dictionary is 'money in coins or notes, as distinct from cheques, money orders or credit'. The Oxford American Dictionary further qualifies the definition as

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<sup>3</sup> Formerly known as the *Financial Action Task Force of South America (GAFISUD)*.

<sup>4</sup> And also terrorism financing (TF) schemes.

‘money in any form especially that which is immediately available’. Dictionaries in other widely spoken languages, such as Spanish, Mandarin and Arabic, give very similar definitions.

The concept of cash has existed for millennia. It was the original type of money which was in existence long before the advent of the modern banks and other financial institutions which have become an integral and indispensable part of modern life. Yet despite the proliferation of such financial institutions, cash is still the preferred method of settlement for goods and services for billions of people in the world today. There are many reasons for this. Not the least of these is the fact that there are still 2 billion adults in the world today who do not have access to banking services<sup>5</sup>. For these people, cash is still the only thing that they can use to procure the goods and services that they need to live their lives day to day. It is no coincidence that many of the poorest and least developed countries of the world have economies that are predominantly cash based.

However cash is still prevalent as a method of payment in many of the world’s biggest economies. This infers that there are factors other than ease of access to financial services that influence the preference to use cash rather than more advanced instruments, such as cheques, credit and debit cards to settle transactions.

These factors include;

- **Cultural issues.** In some countries, the bulk of the population are inherently mistrustful of any form of officialdom, such as governments and large financial institutions. They feel the need to conduct their day-to-day activities, including financial activities, with a minimum of official scrutiny. They may also wish to hide the value and location of their assets from the government, perhaps for tax purposes. In these countries cash is seen as an anonymous instrument which facilitates these needs.
- **Cash is widely accepted.** Numerous studies<sup>6</sup> have demonstrated that, in most countries, even those with highly developed financial systems, cash is the preferred method of payment for low value transactions. Very few retail outlets in the world that sell day to day items such as food or clothing will refuse to accept cash, and most AML regimes recognise this when dictating *de-minimis* levels for suspicious transaction reporting.
- **Cash is quicker.** A cash transaction is conducted in real time and payment is received immediately. Transactions through the banking system can take days, weeks or months depending on a host of variables such as delays in clearance, non-banking days, credit terms etc.
- **Cash reduces spending.** Academic studies<sup>7</sup> suggest that persons purchasing goods and services with cash tend to spend less money overall as they are more ‘connected’ with the transactions they are undertaking. These studies find that the use of debit and credit cards has the effect of

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<sup>5</sup> World Bank (2015).

<sup>6</sup> Bagnal, J., Bounie, D. et al (2014)

<sup>7</sup> For example: Knouse, K.C. (1996).

making a transaction feel less 'real', meaning that the holder of the card is less likely to budget effectively.

- **Cash reduces indebtedness.** Persons who transact only in cash can only spend money that they actually possess, as opposed to persons who use debit and credit cards, which can result bank overdrafts and credit card bills.
- **Discounted Goods.** In many countries it is possible to negotiate a lower price when paying for goods and services in cash, as some banks charge a fee for processing credit and debit card and cheque transactions. Some businesses may also be selling goods 'off record', thus evading sales or value added tax, meaning they can afford to sell goods at a lower price.
- **Interest and fees.** Persons buying and selling goods for cash are not charged interest on credit balances or fees for operating a bank account, meaning that for small businesses overheads can be reduced and profits increased.
- **Cash is dependable in a crisis.** Large-scale natural disasters, such as floods or earthquakes, can cause widespread disruption to critical infrastructure such as transport links, buildings and power supplies, which in turn affects the operation of financial institutions. In these circumstances, cash can often be the only method of conducting any form of financial transaction.
- **Store of value.** In volatile economies, or in jurisdictions threatened by war or natural disasters, cash is often used to store wealth in a way that is considered safer than a financial institution. In some areas, the use of a foreign currency that is perceived to be more stable or secure than the local one (such as the US dollar or the euro) is used for this purpose.

Yet there are numerous disadvantages to using cash to fund anything other than very small transactions;

- **Large amounts of cash are heavy and bulky.** In countries where high denomination banknotes in the local currency are not printed, or not widely available, the amount of cash required to make a major purchase, such as a car, is invariably physically big and heavy. In the UK, GBP 10 000 in a mixture of used GBP 5, GBP 10 and GBP 20 notes weighs in excess of 1 kg and is a pile of banknotes 13 cm high.<sup>8</sup> This has obvious drawbacks in terms of storage and transport to where they are needed.
- **Large amounts of cash are vulnerable to theft.** If a person or business chooses to keep their wealth in cash in a non-secure location such as their house or business premises, or to carry it about their person, then they are much more vulnerable to opportunist or planned theft. Such thefts are often

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<sup>8</sup> Source: Bank of England data sourced by UK authorities.

carried out using the threat of, or actual violence. Large amounts of cash stored or carried in this way are unlikely to be covered by home or personal insurance, meaning that the owner has no recourse in the event of a loss.

- **Cash hoarding restricts wealth.** Storing using and cash outside financial institutions restricts access to currency markets, meaning that the cash cannot be used for investment purposes, and cannot therefore generate interest and additional income for the beneficial owner. This is all the more important as money declines in value through inflation; in volatile economies this decline can be extremely rapid.
- **The use of cash restricts purchasing options.** Cash cannot be used to purchase goods in certain circumstances, for example using online portals, and in some countries governments have placed restrictions on the maximum value of cash transactions, or have imposed strict AML regulatory requirements on businesses accepting large amounts of cash in payment for goods and services<sup>9</sup>.
- **Making remote payments requires the cash to be transported.** Purchasing goods and services from persons or businesses situated a long way from the purchaser generally requires that the cash for the purchase be transported to the vendor (assuming that neither the purchaser nor the vendor wish to have the cash paid into a bank account). This obviously presents security and logistical problems and results in additional costs. Similar problems are faced by persons wishing to gift money to relatives and/or friends.
- **Cash is costly to count and process.** For businesses, counting and processing cash efficiently requires additional investment in security, distribution, staff recruitment, training and equipment. For businesses and financial institutions; these costs cannot always be passed on to the customer. Large banks and other financial institutions often find it more economical to outsource cash handling systems to specialist companies, which may be cheaper but which creates additional requirements in respect of contract arrangements etc.
- **Restricted access to other financial services.** Deliberately choosing to conduct transactions in cash rather than through a bank means that a person builds up less of a financial 'profile', which can be a hindrance when that person wishes to save or invest their earnings, or to apply for another financial produce such as an emergency loan, or insurance on their house or car.

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<sup>9</sup> See section 2.5

## 1.4 LEGITIMATE CASH USAGE

The total value of cash in circulation in the world was estimated in 2009 to exceed USD 4 trillion<sup>10</sup>. Figures from the European Central Bank (ECB) and the US Federal Reserve point in the same direction, although they only give an indication for an order of magnitude of the legal circulation of banknotes, as they represent only two currencies out of the top 5 currencies in the world<sup>11</sup>.

In 2014, there were around 17.5 billion euro banknotes in circulation with a total value of EUR 1.02 trillion.<sup>12</sup> 20-25% of the banknotes were held by people outside of the euro area.<sup>13</sup>

In 2014, there were about 3.4 billion US dollar banknotes in circulation with a total value of USD 1.3 trillion<sup>14</sup> (partly held outside of the US as well).<sup>15</sup>

The use of euro banknotes outside of the euro area cannot be estimated with exact precision, but the ECB estimated around EUR 143 billion worth of euro banknotes to have been in circulation outside the euro area at the end of 2013. This was around 16% of the total euro currency in circulation in that month in the euro area.<sup>16</sup>

This estimate is regarded as a clear lower bound, given that the banking channel is just one of the several channels through which euro banknotes leave and re-enter the euro-area. According to the ECB, anecdotal evidence suggests that the outflows of euro banknotes via non-mainstream financial institution channels (*e.g. via tourism or workers' remittances*) are, for most countries, greater than the inflows via such channels.<sup>17</sup> Therefore, the net shipments by banks offer an incomplete picture of true net flows of banknotes. Other estimates suggest that around 25% of euro currency in circulation (potentially slightly higher) were circulating outside the euro area at the end of 2013.

Movements of currency across US borders cannot be precisely measured for several reasons<sup>18</sup>. There is no legal requirement to monitor movements of USD10 000 or less, and many tourists and migrants carry amounts considerably less than this across US borders on a daily basis. In addition, even when there is a legal requirement to report currency flows, mechanisms are not always in place to capture the data; also some reporters might not comply with requirements.

The Federal Reserve provides currency on demand to numerous international customers from within the USA. This banknote shipping business is highly concentrated and data available from this process currently captures the vast majority of banknote shipments that cross US borders through

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<sup>10</sup> Hewit, Mike (2009)

<sup>11</sup> According to Swift, the 3 other top 5 currencies are the Japanese Yen, British Pound and Chinese Yuan (Swift, 2015).

<sup>12</sup> ECB (nd a and nd b).

<sup>13</sup> ECB (nd a).

<sup>14</sup> Federal Reserve (2015a and 2015b)

<sup>15</sup> "The Federal Reserve estimates that the majority of the cash in circulation today is outside the United States" (Federal Reserve Bank of New York, 2013)

<sup>16</sup> ECB (2014), p. 23.

<sup>17</sup> ECB (2014), p. 23.

<sup>18</sup> Judson, R. (2012), p.4.

commercial banking channels.<sup>19</sup> However the data does not cover US banknote flows among other countries, which can be substantial.<sup>20</sup>

Moreover, in countries with underdeveloped banking sectors, US dollar banknotes are used to settle transactions of all magnitudes and even in some countries with developed banking sectors and stable currencies, US dollars are the preferred currency for travelers, cross-border trade, settlement of large cash transactions and for transactions in the informal sector.<sup>21</sup> Nonetheless, the Federal Reserve has developed several statistical models for estimating the stocks and flows of US currency abroad. These models suggest that around USD 751 billion was in circulation outside of the US in 2003.<sup>22</sup>

A recent study published by the ECB<sup>23</sup>, found that throughout seven major developed economies around the world, including Australia, Canada and the USA, cash was still used extensively, particularly for low-value transactions. The number of cash transactions differed widely between the jurisdictions but were between 46% and 82% of the total number of transactions. The value of such transactions as a percentage of the total was in excess of 50% in Austria and Germany, whereas in Canada, France and the USA it was only about 25%. Moreover, this study found that the use of cash decreases with transaction size; in all countries examined cash was predominant for the smallest 50% of transactions. The study also found a direct correlation between the use of cash and acceptance of credit and debit cards at the point of sale.

Therefore, even in countries with sophisticated financial systems and a wide range of payment options, banks and other financial institutions need cash on a day-to-day basis in order to conduct their normal business activities and to service their customers. Cash will be required for loading into ATMs, for passing across the counter and for foreign exchange purposes, such as for sale to holidaymakers visiting a foreign country, amongst other reasons. Financial institutions receive cash on a day-to-day basis, for example from private or business customers depositing it into their bank accounts.

In recognition of this, the project team agreed that, in order to identify physical cross-border transportation of criminally derived cash and to understand the drivers behind this activity, it was necessary to study the legitimate cash market. By doing so, not only would it become possible to define 'red flags' for identifying criminal cash movements, but it would also aid in the identification of vulnerabilities in the legitimate systems that could be exploited by criminals.

In order to facilitate this, section 2 of the questionnaire was entirely focussed on gathering data regarding the scope and extent of legitimate cash movements. Countries were asked about the following subjects:

- methods used to move legitimate consignments of cash;

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<sup>19</sup> Judson, R. (2012), p.4-5.

<sup>20</sup> Judson, R. (2012), p.5.

<sup>21</sup> US Treasury (2006).

<sup>22</sup> J. Botta (2003), p. 155.

<sup>23</sup> Bagnal, J., Bounie, D. et al (2014).

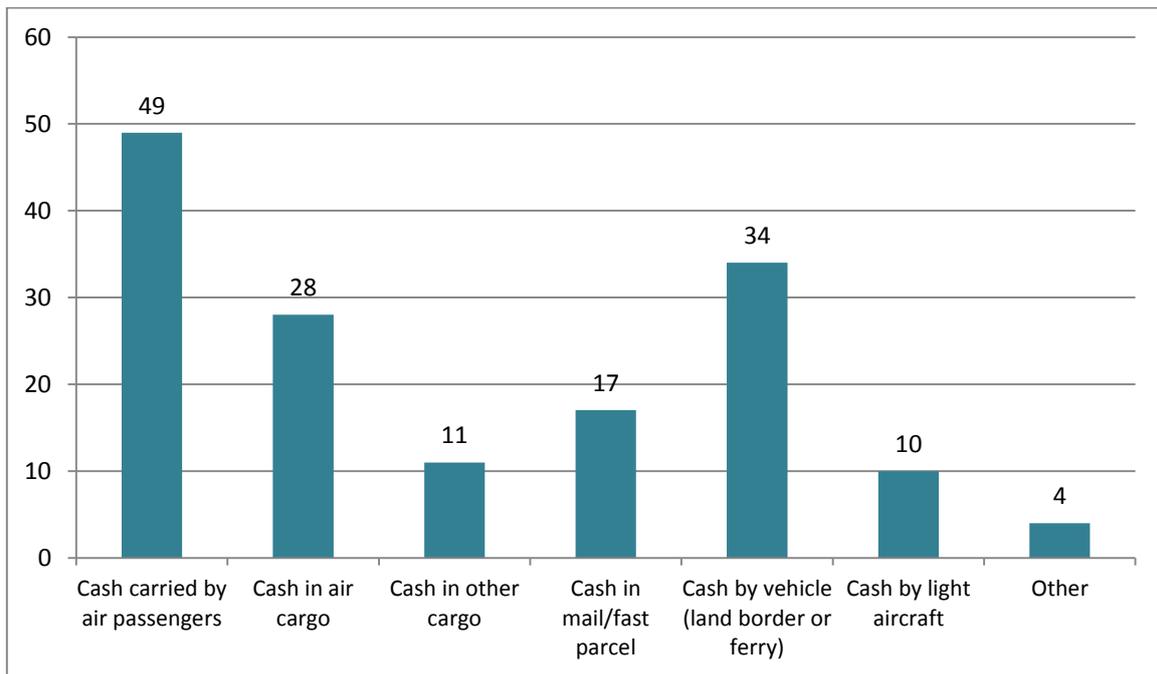
- the extent of the legitimate cash movements into, transiting and out of their country;
- the types of legitimate cash movements;
- the way in which movements of cash are recorded at their borders.

## 1.5 LEGITIMATE CROSS BORDER CASH TRANSPORTATION

Every day, around the world, businesses and persons transport cash according to their own particular needs, perhaps for the purposes of spending money whilst on holiday, or to pay for goods and services purchased in another country. In the EU for example, where there is a common currency, many countries sharing land borders and a right for any EU citizen to live and work in any EU country, cross-border cash movements take place for legitimate purposes extremely frequently.

In addition, banks and other financial institutions need cash for their day to day operations, in the currency of the country where they operate, and also in numerous other currencies according to the demands of their business, and also that of their customers. This legitimate demand for cash from financial institutions cannot always be serviced from the local market and the reserves of the country in which the bank or branch is physically located, either because the reserve does not have sufficient stocks of the required currency at a particular time, or because the relevant financial institution does not have an agreement with the local reserve to supply it. Accordingly, banks and other financial institutions buy and sell banknotes on global markets, both to meet their demands for cash, and also to enhance their profits by taking advantage of exchange rate fluctuations. The result of this is that cash is physically transported in huge volumes across international borders on a daily basis.

It was apparent from the questionnaire responses that this phenomenon of legitimate cross-border cash transportation was not well understood generally. In the questionnaire, countries were asked to state which methods, in their experience, were most frequently used to transport legitimate consignments of cash across their borders. A summary of the responses are shown in the chart below. The responses showed that most countries were aware that air passengers and persons in cars carry cash legitimately across borders. However, substantially fewer had any experience of cash moving in cargo and mail for legitimate purposes, and yet huge amounts of cash (the equivalent of tens, and sometimes hundreds of millions of US dollars in a single shipment) are transported between major financial institutions by air cargo every day, shipments that are generally subject to very little scrutiny by customs authorities.

Chart 1. **Methods used to move legitimate consignments of cash out of and into a country**

Graphic showing the methods that are used to move legitimate consignments of cash into and out of countries.

Respondents to the questionnaire were also asked if they knew how much cash was moved legitimately across their borders. Again, the majority (60%) said that they knew how much was transported legitimately by air passengers, but substantially less had any knowledge about the value of cash movements in cargo (32%) and mail (21%).

This general lack of knowledge and/or understanding is significant. Without a thorough understanding of the methods and techniques of legitimate crossborder cash transportation, the customs procedures and documentation applicable and the mechanisms that drive these methods and techniques, it can be very difficult for the authorities in a country to be able to tell if a shipment of cash is legitimate or not. Moreover, without this understanding, countries will not be able to assess whether their legislative processes are sufficient to allow their customs and border authorities to control cross-border cash transportation effectively. However, any regulated financial institution involved, e.g., in the case of a (real) bank-to-bank transaction, falls under AML/CFT legislation so that to this extent cash transportation is already regulated (implying compliance management and specific rules defined by supervisory authorities). National authorities can take this into account to identify priorities and operational procedures, including the role of Customs and supervisory authorities. Furthermore, an objective assessment requires specialised expertise which is primarily available in the financial sector and their supervisory authorities.

In line with FATF Recommendation 32, most countries now have in place some form of cash declaration system, a legal requirement for natural persons entering and leaving the country to declare cash in excess of a certain value. However only a few countries have such a system in place for cash in cargo and mail; most rely on the customs procedures applicable to general movements of goods.

### 1.5.1 CONTROL OF LEGITIMATE CASH MOVEMENTS - NATURAL PERSONS

Specific cash declaration systems (as opposed to general customs declarations) are used by most countries in the world for natural persons (passengers). In some countries, the central bank places restrictions on the amount of currency that can legally be exported, and who can export it, and also what can be done with it once it has been exported. For example, Pakistan prohibits the export of in excess of PKR 3000 (Pakistani Rupees) by natural persons, and stipulates that this currency can only be exported by natural persons who intend to keep it for use when they next return to Pakistan. The exchange of Pakistani Rupees for another currency is prohibited.<sup>24</sup> Similarly, in Tunisia, only the Central Bank has the authority to conduct cross-border transportations of cash in cargo<sup>25</sup>.

It is not surprising that most countries that responded to the questionnaire said they had some idea of the value of cash shipped by passengers as most have some form of cash declaration or disclosure system in place, in accordance with FATF Recommendation 32. However, these systems only record amounts above the declaration threshold level – anyone carrying less than this amount need not make a declaration and so those details will not be recorded.

Cash declaration systems are covered by the interpretive note to Recommendation 32, which states that, *inter alia*, all countries should implement a system requiring either all travellers to declare or disclose any currency they are taking in out of a country, either orally or in writing, or only those carrying in excess of a certain value (the interpretative note states this should be USD or EUR 15 000 or equivalent, but many jurisdictions specify a lower amount). In addition the interpretive note states that travellers should be required to make truthful declarations, that penalties should apply for false or non-declaration, and that the relevant authorities should have powers to detain cash and conduct enquiries in such cases.

The questionnaire distributed for this research included questions in relation to the cash declaration systems in effect in the responding country. The responses indicate that the methods by which this recommendation is implemented vary considerably from one country to another, with some countries saying, for example, that all cash declarations by natural persons are checked for accuracy (by counting the cash), whilst others say this is only done occasionally<sup>26</sup>. The responses also reveal that some countries keep detailed statistics on the amount (value) of cash that is transported into, out of or through their country by legitimate financial institutions (as opposed to natural persons), whereas others keep no such records and effectively have little oversight of the matter.

The responses also reveal that there is little collaboration between neighbouring countries when establishing cash declaration systems, resulting in significant incongruences. For example, Guatemala's system requires the declaration of any amount of cash being taken into or out of the country, whereas Mexico and Honduras, with whom it shares lengthy land borders, only requires the declaration of amounts in excess of USD 10 000. Likewise, Brazil's entry and exit declaration

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<sup>24</sup> State Bank of Pakistan (2014).

<sup>25</sup> Source: Tunisian authorities.

<sup>26</sup> Recommendation 32 makes no reference to extent to which verifications of cash declarations should be carried out

threshold is BRL 10 000 (Brazilian real), (about USD 3 900), whereas those in its neighbours Colombia, Peru etc. are USD 10 000.

Perhaps inevitably, case examples reported by a number of countries show that criminal groups have learned that they can exploit cash declaration systems for criminal purposes by various means, including:

- using the fact that cash has been declared on entry as a way of legitimising criminal cash paid into a bank account,
- re-using cash declarations several times for the same purpose, or
- over-declaring cash on entry (where there is no confirmatory count) to cover the receipt of criminally derived cash in the country of import.

These issues are examined in more detail in Section 3.

### **1.5.2 CONTROL OF LEGITIMATE CASH MOVEMENTS - CARGO**

A significant percentage (21%) of countries who responded to the questionnaire stated that import and export of cash consignments in cargo and mail are not declared at customs at all. A possible explanation for this may relate to the interpretation of customs legislation – some countries do not acknowledge cash as a type of goods, and consequently they do not require customs declarations (or, for that matter, any other types of declarations) for cash in cargo and mail.

For customs purposes, including import, transit and export, cash (banknotes) are a type of goods and subject to the same procedures as other goods; a customs declaration is required. In the international "Harmonized System", developed by the WCO, cash (banknotes) is given a unique goods nomenclature code: 4907 ("Unused postage, revenue or similar stamps of current or new issue in the country in which they have, or will have, a recognised face value; stamp-impressed paper; banknotes; cheque forms; stock, share or bond certificates and similar documents of title<sup>27</sup>").

"The Harmonized Commodity Description and Coding System (generally referred to as "Harmonized System" or simply "HS") is a multipurpose international product nomenclature developed by the WCO. It comprises about 5 000 commodity groups; each identified by a six digit code, arranged in a legal and logical structure and is supported by well-defined rules to achieve uniform classification. The system is used by more than 200 countries and economies as a basis for their customs tariffs and for the collection of international trade statistics. The HS contributes to the harmonisation of customs and trade procedures, and the non-documentary trade data interchange in connection with such procedures, thus reducing the costs related to international trade. It is also extensively used by governments, international organisations and the private sector for many other purposes such as

- internal taxes,
- trade policies,
- monitoring of controlled goods,

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<sup>27</sup> World Customs Organisation (nd)

- rules of origin,
- freight tariffs,
- transport statistics,
- price monitoring,
- quota controls,
- compilation of national accounts, and
- economic research and analysis.

The HS is thus a universal economic language and code for goods, and an indispensable tool for international trade. The HS is governed by "The International Convention on the Harmonized Commodity Description and Coding System"<sup>28</sup>.

As cash is a normal cargo consignment a custom declaration has to be lodged. These declarations are always recorded in customs systems. However, neither the denomination or currency need to be specified in the declaration. The customs declaration requires only the weight of a shipment and a proper description of the goods. Opinions between countries differ when it comes to the need to state the value in the customs declaration. Some countries think it is not necessary, as the commodity code for banknotes has no VAT or duty implications so a value would not be required.

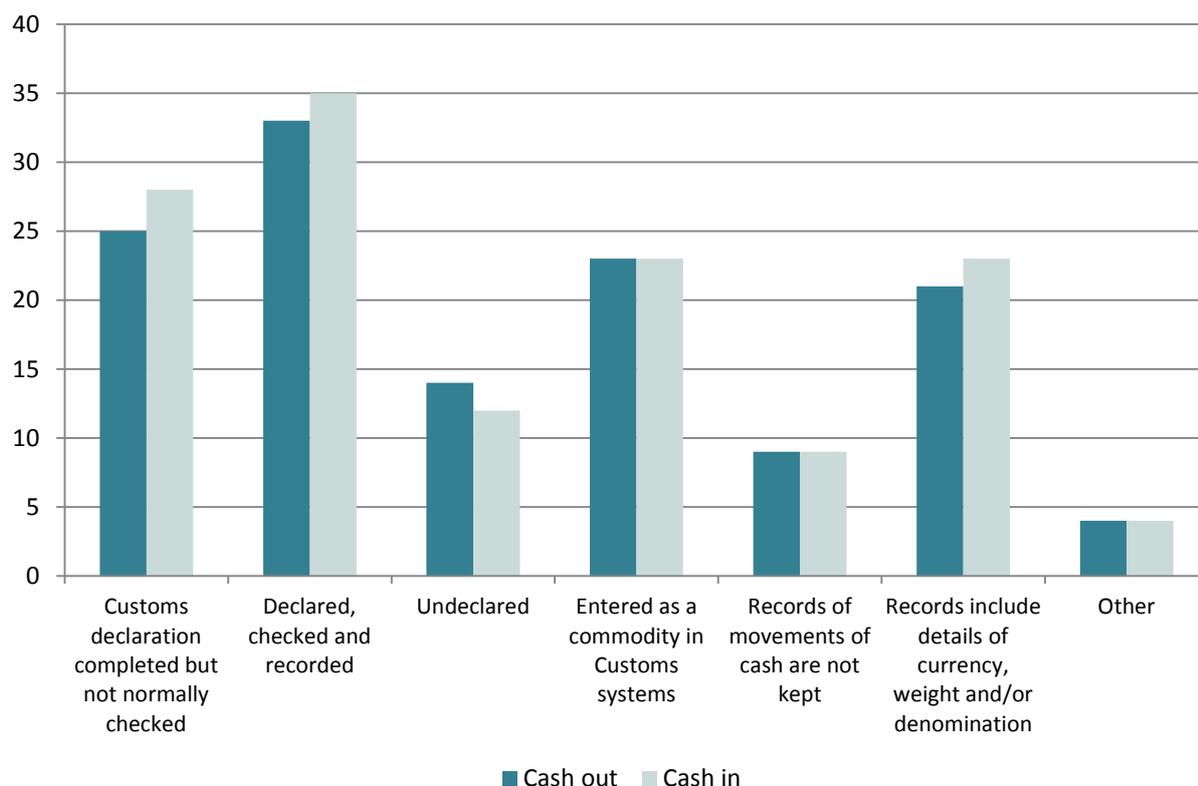
Other countries are of the opinion that the value of the goods declared at customs is always an obligatory element of the declaration, for example as it is mandatory in legislation on statistics. This cannot be the normal transaction value, as the cash has not been bought by the owner (as is mostly the case with all other goods). This means that the intrinsic value of the cash has to be declared (the value of the paperwork, the ink, etc.). In a summary declaration, however, no value at all has to be stated. Apart from the customs declaration, some 20 countries state that they use a specific cash declaration form more or less like the declaration to be used for passengers. In most cases this cash declaration has a threshold of USD 10 000.

Although there is a specific tariff code for banknotes within the HS, some jurisdictions have observed that not all freight forwarders or shippers use the correct commodity code when completing customs clearance documentation. A wide variety of other codes have been incorrectly applied, such as those for 'printed matter'. Because there is no customs duty implication on shipping banknotes, there are no revenue implications for doing so, and in fact not using the correct tariff code can add an extra layer of security as it can help to mask the value and nature of the shipment. This can make it very difficult for national authorities to identify shipments of banknotes, and gather statistics on the trade.

The questionnaire asked counties to detail how movements of cash in cargo and mail were recorded or controlled at their borders. The chart below summarises the responses.

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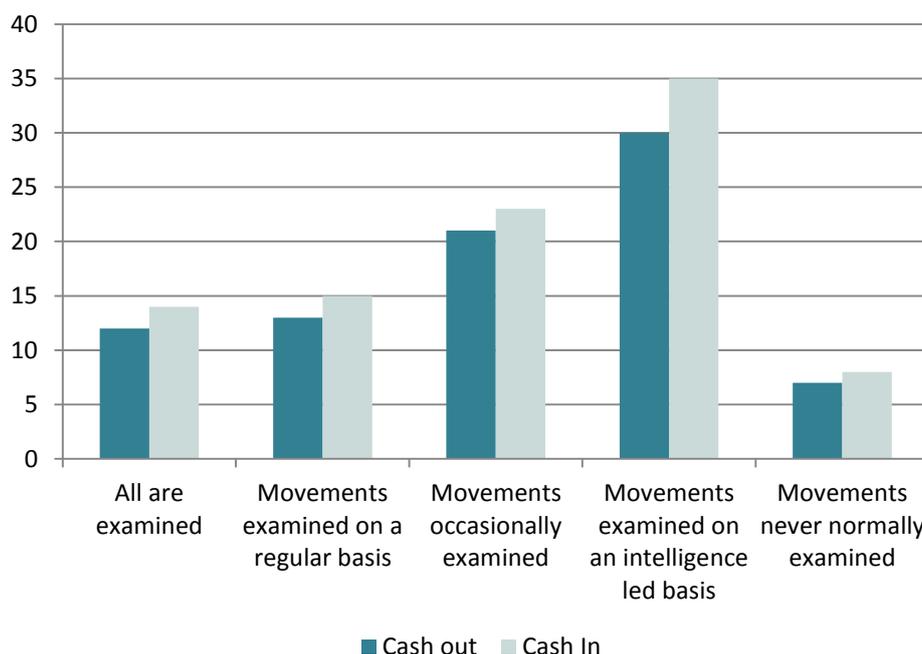
<sup>28</sup> World Customs Organisation (nd)

Chart 2. **Movements of cash in cargo and mail**

The chart above shows that most countries stated that shipments of cash in cargo and mail were declared, checked and recorded. However, as the value of the cash is not normally stated on the customs documentation, the checks that are made cannot routinely include the actual value of the shipment (as opposed to the value of the paper, print etc.), which explains why most countries have little or no idea of the value of the cash that is shipped using this method. The fact that there are few figures available is confirmed by the fact that most other countries stated that movements of cash were subject to a customs declaration that was not checked, entered simply as a customs commodity, not declared at all or that they kept no records of cash moved in this way.

Countries were also asked to state what controls were exercised on movements of cash in cargo and mail, other than those transiting their country. The next chart summarises their answers. Some countries stated that they examined all such movements, and about the same number said that they examined them on a regular basis. However, more countries indicated that they only examined them occasionally. The option most commonly selected was that movements were selected for examination on an intelligence-led basis. However, due to the way the customs documentation in respect of these shipments is completed, there is little intelligence available on which to make a judgment (these issues are discussed in more detail in section 4 of this report.). Eight jurisdictions stated that such movements were never examined at all.

Chart 3. Controls exercised on movements, other than transit, of cash in cargo and mail



The questionnaire also asked respondents to state why movements of cash were selected for examination; options given were violation of customs regulations, suspicion of money laundering, notifying unusual transactions, profiling or routine selection. All of these reasons were selected, with no one reason standing out from the others.

The countries listed in the table below stated that they have, in addition to the regular customs declaration, a specific system in place that requires the declaration of all transport of cash in cargo and mail above a certain threshold. The threshold is in many cases is USD 10 000, similar to many cash declaration systems for natural persons.

Table 1. Specific declaration form for cash movements in cargo and mail

**CARGO**

- |                            |                   |
|----------------------------|-------------------|
| 1. Argentina               | 10. Korea         |
| 2. Australia               | 11. Malaysia      |
| 3. Azerbaijan              | 12. Mauritius     |
| 4. Bermuda                 | 13. New Zealand   |
| 5. Colombia                | 14. Panama        |
| 6. Guyana                  | 15. Qatar         |
| 7. Israël                  | 16. Uruguay       |
| 8. Jordan                  | 17. United States |
| 9. Kingdom of Saudi Arabia |                   |

**MAIL**

- |                            |                   |
|----------------------------|-------------------|
| 1. Argentina               | 10. Korea         |
| 2. Australia               | 11. Malaysia      |
| 3. Azerbaijan              | 12. Mauritius     |
| 4. Bermuda                 | 13. New Zealand   |
| 5. Bulgaira                | 14. Panama        |
| 6. Colombia                | 15. Qatar         |
| 7. Israël                  | 16. Uruguay       |
| 8. Jordan                  | 17. United States |
| 9. Kingdom of Saudi Arabia |                   |

The US<sup>29</sup> and Australia indicated that such a declaration is also obligatory for transit shipments in cargo and mail. Although not explicitly stated, it seems that this is the case in most of the other countries with a specific cash declaration as well.

**Box 1. The global banknote trade**

There is a significant global market in trading of currencies for profit between banks and between banks and non-bank financial institutions. This trade serves to fulfil not only the day to day cash needs of the institutions involved, but also as a means of generating profits by speculating on and taking advantage of exchange rate fluctuations. Banknotes are often traded in packages of mixed currencies, such that a business with a need for euros may only be able to obtain them as part of a package which includes US dollars, Japanese yen etc. In these circumstances the unwanted currencies will be sold on wherever possible to other banks and other financial institutions such as money service businesses (MSBs). Less common currencies will often be sold on as quickly as possible to avoid unfavourable exchange rate fluctuations.

Major international currencies such as the US dollar and the euro are held in reserves away from the countries where they are issued and printed. In the case of the US dollar, the Federal Reserve Bank of New York (FRBNY) operates the Extended Custodial Inventory Programme, where US dollars still in the ownership of the FRBNY are held in secure locations in segregated vaults owned and managed by private sector banks in Frankfurt; Hong Kong, China; London; Singapore and Zurich.

Currency traded both nationally and internationally is generally physically transported by specialist Cash/Valuables In Transit (CVIT) companies who have access to a wide variety of high security measures, such as secure cash centres, safes, cash counting and processing facilities, secure packaging and armoured vehicles. Some of the large CVIT companies also provide a complete 'end to end' service that involves collection, consolidation, counting, customs documentation and clearance and delivery to the intended destination.

Legitimate shipments of cash between financial institutions in different jurisdictions can be transported in a variety of ways, including by the postal service, CVIT company armoured van or in air cargo. The common factor between all shipments of this nature is that the cash handler has strict protocols and procedures in place to ensure that, in event of a challenge from one of the parties to the transaction, or a serious incident occurring, any losses are covered by their insurance and the company and its staff are indemnified against legal action.

In most cases these procedures will include an independent count of the cash, following which it is sealed in tamper evident packaging to guard against external interference (it is worth noting here that any examination of the consignment by customs authorities will immediately be evident because of this). International airports that function as freight hubs will usually have high-value freight sheds, with stringent security measures in place to process high-value shipments.

The percentage profits involved in this activity are small. Currency pairs (the currencies traded against one another, for example USD and EUR or GBP and EUR) are usually traded in exchange rates quoted to four decimal places, and profits often involve differences of one or two 'pips' (a pip

<sup>29</sup> Department of the Treasury (nd).

is a difference of one hundredth of one percent in an exchange rate), meaning that currencies have to be traded in large volumes to make the process worthwhile.

Because of the small profit margins involved, it is important for financial institutions to keep the costs involved in the process as low as possible. This includes the costs related to counting, packing and shipping the cash; these costs are included in the fees charged by the CVIT companies to the financial institutions. In order to minimise these costs, cash is generally shipped in a way that makes processing and counting as easy as possible. The cash is usually packed in blocks of 100 notes of the same currency and denomination, secured with a plastic strap, with blocks of 100 notes subsequently combined to make bigger blocks of 1000 notes, also secured in plastic straps. These blocks are then sealed in robust plastic sacks, with each sack secured with a uniquely numbered seal (the tamper evident packaging referred to above).

Although a shipment of cash may contain multiple currencies and notes of different denominations, each sack will generally contain a set amount of only one denomination of notes of one currency (although some shipments may contain a single sack of 'left over' multiple currencies and denominations that are not sufficient in themselves to make up a complete sack). The customs documentation will usually not give a full value of the shipment, but there may well be additional documents available from the shipping company, including packing lists detailing what currencies and denominations should be in each sack. As mentioned above, the shipping company will have an insurance policy specifying a maximum value of cash that can be transported in a single shipment, and so the shipments will not exceed that value.

Packaging and shipping the cash in this way makes it much easier to count and process and reduces costs to a minimum. Any other type of packaging, such as multiple currencies and denominations in a sack (other than in the circumstances described above), or blocks of notes of varying sizes without the correct banding or strapping dramatically increases processing and counting costs and would be rejected by the beneficial owner of the cash due to the impact on their profits. The financial institutions who volunteered this information to the project team stated that packaging of this nature could be considered as a 'potential indicator of criminal origin of the cash.

In addition to the measures carried out by the CVIT companies, banks and other financial institutions are obliged under their domestic laws to conduct extensive customer due diligence (CDD) enquiries in respect of all of their customers. Typically, this will involve enquiries into the business model of the customer – whether the cash is sourced from its own internal operations, or whether the customer is acting as a consolidation point for other cash rich businesses in the local area. If this is the case, the CDD will extend to obtaining additional information, such as a breakdown of these points of origin of the cash. The financial institution may also conduct research into the customer's market, perhaps to satisfy themselves that the volume and breakdown of the cash they are purchasing is consistent with local conditions (a bank in a destination popular with European tourists may sell more cash in euros during the summer, for example).

The effectiveness of these CDD enquiries is extremely important as the security of a system is only as strong as its weakest point. For example, if the customer bank is acting as a consolidator of cash from smaller businesses, it is important that potential risks are taken into account in the CDD process. If the business model or relationship is one that is assessed to be higher risk in principle, the bank may decide that enhanced due diligence enquiries are appropriate, possibly including

having a good understanding of their customer's client base.

Recent work undertaken by both the UK and the Netherlands' authorities has identified that the customs control of large, (ostensibly) bank to bank shipments of banknotes may often not be as rigorous as it could be (or, in many cases, are not controlled at all). Because there are no outward reasons for suspecting these shipments, they are not (and in some cases, due to a lack of the necessary authority, cannot be) routinely selected for examination, and in most cases banknotes transiting a country are not examined at all. In addition, examples of poor practice by CVIT companies, such as removing shipments of banknotes from customs controls before they have been customs cleared, have been identified.

*Source: UK authorities, based on liaison and interviews with international companies involved in currency trading and the associated cash transportation.*

### 1.5.3 CONTROL OF LEGITIMATE CASH MOVEMENTS – MAIL

The Universal Postal Union (UPU), established in 1874 by the Treaty of Bern, is the second oldest worldwide international organisation. With 192 member countries, the UPU is the primary forum for cooperation between postal sector players. As a specialised organisation of the United Nations the organisation sets the rules for international mail exchanges.

Member countries provide the International Bureau of the UPU with the name and address of the operator or operators officially designated to operate postal services. The designated operator is any governmental or non-governmental entity officially designated by the member country to operate postal services and to fulfil the related obligations arising out of the Acts of the Union on its territory. Member countries ensure that their designated operators accept, handle, convey and deliver letter-post items.

Letter-post items are:

- priority items and non-priority items, up to 2 kg;
- letters, postcards, printed papers and small packets, up to 2 kg;
- parcels up to 20 kg.

This means that other shipments that are not part of the UPU definition should be treated as cargo, and all cargo procedures are then applicable. This also applies to international courier companies. Consignments handled by these companies are not 'caught' by the above definition. On other legal grounds, however, the same prohibitions and legal constraints as for letter-post are applicable for these companies.

The treaty also defines restrictions and general prohibitions (such as narcotics and psychotropic substances, obscene or immoral articles, etc.), general exceptions to the prohibitions and any extensions of the prohibitions on a country by country basis.

Article 18.6 UPU sets rules on coins, banknotes and other valuable articles, stating that..."It shall be prohibited to insert coins, bank notes, currency notes or securities of any kind payable to bearer, travellers' cheques, platinum, gold or silver, whether manufactured or not, precious stones, jewels or other valuable articles..."

However, some countries have used the possibility of making exceptions (extensions of the general prohibition) in the treaty itself. For example regarding letter-post some countries do not accept registered items containing cash and equivalent items. Other countries do not accept insured parcels containing such items.

The key point is that the UPU restrictions and prohibitions (and national extensions) are not directly binding for the designated operator and the persons using the postal service. All of the prohibitions should be implemented in national postal legislation. Even where this is the case, in general terms, it is not the task of customs to control these prohibitions (80% of the responding countries stated that customs is the prime responsible agency<sup>30</sup>). This will only be the case when violating the prohibitions has been criminalised in that national legislation. Otherwise, not complying with the prohibitions will just mean that the sender didn't comply with the regulations of the designated postal operator.

Some countries' questionnaire responses stated that the UPU prohibits sending cash in mail. As this is not actually the case, these countries may have been referring to a prohibition in their own national (postal) legislation based on UPU guidelines. Another explanation could be that these countries are not fully aware of the legal situation regarding cash in mail as this is not seen as a risk or as something of interest to them. One of the conclusions, however, is that countries differ widely in their approach to cash control in mail. Some of them treat this as being prohibited, other countries treat it as if it is permitted.

#### Box 2. Prohibition of sending mail in post - France

France prohibits sending currency, coins and precious metals by mail by their national *Décret n° 2013-417 du 21 mai 2013 portant modification du code des postes et des communications électroniques*.

In this legislation which was enacted, the French government decreed that it is forbidden to send all forms of currency - coins and cash and all forms of precious metals – coins, bars and jewellery by mail.

*Source: France.*

For all letter-post consignments with legal constraints, such as cash, a specific customs declaration has to be submitted: the CN 22 or CN 23. Apart from the customs declaration, some 20 countries state that they use a specific cash declaration form more or less like the declaration to be used for passengers. This cash declaration has a threshold of USD 10 000 in most cases.

Some countries have separate systems for postal clearance, while others have integrated postal clearance functions into their national customs systems. It is, however, not unusual that even when customs clearance procedures in one country are automated, this functionality is missing in clearance of postal items.

<sup>30</sup> Most probably this percentage will be even considerably higher, as clearly some countries did not answer section 3 question 1 in the right way. For example, a country with a prohibition and licensing scheme for cash in mail most definitely will have a controlling agency, but the country's answer was "none".

Customs control of letter-post has at least one difference with normal customs control that makes control more difficult. If customs want to open letter-post within a customs control, they are confronted with legal issues regarding the confidentiality of correspondence (for example, in the UK, opening a letter is treated as an interception of a communication in the same way as a telephone interception; this cannot be done without a warrant signed by the home secretary).

Besides these special procedures to open letter-post, there is also the enormous volume of letter-post to be considered: in 2013 3.5 billion items were carried by postal systems worldwide. Considering these amounts and the simplified customs procedures regarding letter-post, modern risk management tools are not very useful.

Responses to the questionnaires indicate that many (but not all) countries do not pay attention to the phenomenon of cash transportation in mail. It seems clear that if countries only look superficially, by simply examining formal declarations of cash in mail, in all probability they would conclude that there is no reason to give cash in mail any attention as it would seem that there is very little to study.

Only two countries provided details in respect of legitimate cross-border shipments of cash in mail. One of those countries paid special attention to this issue during over a defined period of time, to gain an insight into this phenomenon, and to establish if there were any money laundering (ML) and terrorism financing (TF) issues at stake. This research revealed that there were very few formal import and export declarations made (just 1 in 2013). However, over the period that the project ran, the customs authorities in that country made numerous detections of cash concealed in mail. This led them to conclude that cash is transported in mail items quite frequently, but is hardly ever declared at customs, regardless if it is a legal or illegal transportation of cash. One of the outcomes of this exercise was that the customs authorities in that country found it had insufficient legal powers to effectively control ML and TF risks in cargo and mail. As a result, that country is in the process of drafting new ML and TF specific legislation on cash in cargo and mail.

The above mentioned research appears to imply that the phenomenon of cross-border transportation of criminally derived cash in mail may be a higher risk that most countries appreciate. However, it is important to consider also the experiences of Germany and France who also conducted focused exercises to study the issue. The outcome of both of these exercises was that, despite the examination of a very large number of fast parcels and mail, no (undeclared) cash was identified.

The fact that the experiences of three ostensibly similar European countries were very different is in itself significant. Such differences would imply that there may be regional or local factors at play which affect the phenomenon, e.g., the fact that it is public knowledge in some countries (Germany) that international post and parcels are regularly controlled/scanned by post and customs and that they can be opened, while in other countries/regions it is public knowledge that a judicial decision is needed to open post and parcels, or that no regular controls are implemented in this area. Taking these facts into consideration, it appears that more needs to be done to understand the issue<sup>31</sup>.

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<sup>31</sup> Due to the fact that it is common knowledge that post and parcels are regularly controlled and opened in Germany, the German authorities consider their cases of criminal cash in mail and fast parcels presented in Box 22 and Box 28 to be exceptions.

#### 1.5.4 ESTIMATING THE VALUE OF LEGITIMATE CASH MOVEMENTS – NATURAL PERSONS

Responses to the questionnaire reveal that, because many countries do not keep records of how much cash crosses their borders for ostensibly legitimate purposes, it is not possible to come up with an accurate figure of how much legitimate cash is being transported across the globe, as opposed to sitting in treasury reserves<sup>32</sup>. Likewise some countries do not verify or check the accuracy of cash declarations made by natural persons at their borders. In many cases, declarations that are made are not subject to any form of confirmatory scrutiny, so there is no guarantee that what has been declared was the amount that was transported.

In August 2010, the European Commission (EC) produced a report<sup>33</sup> compiled from data from all but one EU countries which analysed the effectiveness of EU cash controls. (EC regulations dictate that natural persons must declare cash in excess of EUR 10 000 when entering or leaving the EU – there is no requirement to declare intra-EU cash movements.)

This report identified that, between July 2007 and July 2009, natural persons entering or leaving the EU declared a total of approximately EUR 80 billion. No figures were available for the amount of cash transported between financial institutions. In the same period, cash detections (i.e. cash movements by natural persons that were not declared for some reason, but instead were detected by customs or other authorities) amounted to EUR 1.6 billion.

It is likely that the actual amount of cash derived from criminal activities transported across EU borders was significantly in excess of this figure, however no reliable estimates for this trade currently exist.

#### 1.5.5 ESTIMATING THE VALUE OF LEGITIMATE CASH MOVEMENTS – CARGO & MAIL

The questionnaire responses provide more insight into the extent of the legitimate cash movements into, transiting and out of countries. On average<sup>34</sup>, at least 65% of the countries that answered the relevant questions indicated that they did not know how much cash is legally transported out of and into their country through cargo on a yearly basis, and 71% of the countries did not know how much cash is legally transported through mail.

This means that only 35 % of the countries that responded would be able to reveal the extent of cash legally transported out of and into their country through cargo and mail on a yearly basis<sup>35</sup>. This figure coincides more or less with the 20 countries that, according to the questionnaires<sup>36</sup>, use a specific declaration system for cash in cargo and mail, and the approximately 30 countries that

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<sup>32</sup> Alternatively, cash in a foreign denomination may circulate domestically, e.g. in countries with a cash based and dollarised economy.

<sup>33</sup> European Commission (2010).

<sup>34</sup> The average of the number of countries that reported on import and the countries that reported on export.

<sup>35</sup> These figures represents the cash declared at customs (by means of a customs declaration or specific cash declaration). As most of this cash has not been checked on ML and TF, formally countries do not know if all of this cash is legal.

<sup>36</sup> When asked additional information of some of these countries, the project group found that legally nor in practice not all of these countries has a specific declaration system for cash in cargo and mail.

state they have a specific database (other than the normal customs declaration database) that records the import and export of banknotes in cargo and mail<sup>37</sup>.

Nevertheless, only 7 countries were able to provide information on the extent of cash legally transported out of and into their country through cargo on a yearly basis<sup>38</sup>. For the other countries, there is no understanding on the extent of legitimate bulk cash movements across their borders and the total amount of physical cash movements declared. The conclusion seems to be justified that cash in cargo and mail is not an item of interest of almost all countries; most of them don't pay attention to this phenomenon, again highlighting that the concept of cross-border transportation of cash in cargo & mail is, with a few exceptions, not very well understood.

This conclusion is underlined by the fact that 39% of the responding countries indicate that legitimate cash movements transiting their country in cargo and mail, are not subject to any form of control, declaration or examination. Almost a third of the responding countries do not know if these movements are subject to any form of control.

The above mentioned 7 countries specified how much legitimate cash on a yearly basis moved into, through and out of their countries in cargo and mail<sup>39</sup>. The figures for 2013 for cargo are:

- the import of cash ranged between USD 26 million and USD 108 billion;
- the export of cash ranged between USD 8 million and USD 296 billion;
- transit of cash ranged between USD 3 million and EUR 3.4 billion<sup>40</sup>.

In these 7 countries, around USD 500 billion legitimate cash crosses the border in cargo on a yearly basis. Extrapolating, this would mean that each year USD several trillion in cash is moving across the world's borders.

The details submitted by some of the 7 countries lead to the conclusion that on average, a transportation of cash in cargo contains EUR 3 million, ranging between EUR 100 000 and EUR 150 million per transportation. As a matter of course, a container, even a small one, can contain much larger amounts of cash than a passenger can carry. Compared with the amounts of cash transported across the border by passengers, the amounts transported each time are incomparably higher in cargo.

Overall, the questionnaire responses indicate that, with a few notable exceptions, most countries do not pay a great deal of attention to the phenomenon of cash in cargo and mail. Based on the limited international research that has been carried out in recent years (see section 1.9) an educated guess of the amount of cash being transported across borders in cargo and mail could be several trillions

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<sup>37</sup> See for a more detailed description section 1.6.

<sup>38</sup> There are 21 other countries which reported figures and/or text on the extend of cash legally transported out of, through and into their country through cargo, mail and by passengers. In fact, they reported a total figure without distinguishing between the three (mail, cargo, passengers). It can be assumed that in almost all cases this total figure is only related to passengers.

<sup>39</sup> It is worthwhile noting that, as 4 out of these 7 countries have no specific declaration for cash in cargo and mail, they won't have a specific database for these data. It can be assumed that the figures given are based on their national customs declaration database.

<sup>40</sup> Only two countries gave figures on transit. It is hard to find any figures related to transit, because in transit situations, a summary goods description may suffice, which makes it more difficult to assess the type of goods.

of US dollars each year, worldwide. The amounts of cash transported each time are incomparably higher in cargo than by passengers (and, it would seem, in mail). Individual consignments of up to USD 150 million in cargo are not unusual. Cross-border transportation of cash in mail is mostly an unknown quantity, but the experiences of one country suggest that it may well be vulnerable to money laundering and terrorism financing.

## 1.6 CRIMINAL USAGE OF CASH

Criminal markets continue to generate large amounts of cash that pass up the supply chain for criminal goods or form the raw material that criminals and money launderers need to process.

Criminals frequently need to use a significant portion of the cash that they have acquired to pay for the illicit goods they have sold, to purchase further consignments, or to pay the various expenses incurred in transporting the merchandise to where it is required. Despite the advantages and disadvantages of dealing in cash (detailed earlier in this report), for criminal groups, there is often little choice. The criminal economy is still overwhelmingly cash based<sup>41</sup>. This means that, whether they like it or not, criminals selling some form of illicit product are likely to be paid in cash. The more successful the criminals are and the more of the commodity they sell, the more cash they will generate. This can cause criminals significant problems in using, storing and disposing of their proceeds. Yet despite these problems, cash is perceived to confer some significant benefits on them.

The principal benefit is often said to be that **cash is anonymous and leaves no audit trail**. The anonymity of cash is often quoted as one of the main reasons for its use in the criminal economy and there is no doubt that, up to a certain level, this is the case. Demonstrating the provenance of small amounts of cash can be problematical for law enforcement officials. For example, so the sale of dealer quantities of prohibited drugs for cash, can be harder to identify and prove when payment is received in cash. The dealer may be able to give an acceptable (or at least, non-disprovable) account of the wad of cash in his wallet. However the reality is that cash is only truly anonymous in smaller amounts. Criminals tend to be able to justify holding small to medium levels of cash when challenged. However the possession or movement of large amounts of cash with no explanation of their origin or purpose becomes increasingly difficult for criminals and criminal groups.

Once the amount of cash exceeds these limits, there is a general expectation that the person in possession of it will be able to account for it if required. Even in cash-based economies, if a large transaction is undertaken there will generally be some record of it somewhere – a receipt, an entry in a ledger, the physical existence of the goods sold or purchased, evidence of withdrawal from a bank etc. Therefore, the inability of a criminal to adequately account for the large amount of cash in his possession – the fact that it is anonymous – can actually be a hindrance, rather than an advantage.

This absence of a legitimate explanation is a major drawback when trying to introduce funds into a bank or other financial institution. Thanks to the FATF Recommendations, and specifically Recommendations 10, 11 and 20 concerning customer due diligence and reporting suspicious transactions, most financial institutions across the world would now question the origin of a large

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<sup>41</sup> This has been concluded in several studies, such as the 2015 report of the Europol Police Office *Why is cash still king. A strategic report on the use of cash by criminal groups as a facilitator for money laundering* (Europol, 2015).

amount of cash that someone was trying to pay into a bank account. Accordingly, criminals seek to avoid such issues by retaining the cash they have generated, and if it is required elsewhere, simply physically moving cash across international borders.<sup>42</sup>

As AML measures are progressively tightened across the world, criminals will face ever increasing difficulties when attempting to place their cash into the legitimate financial system. It seems likely, therefore, that the phenomenon of money laundering through the physical transportation of cash is likely to progressively increase

The way criminally derived cash moves will be covered in more detail later in this report, but based on the questionnaires and the case examples submitted, the most prevalent methods are as follows;

- **By cash courier.** In the context of this report, as cash courier is a person who has been recruited by a criminal organisation to transport criminally derived cash across an international border on their person. The courier may have the cash concealed within his clothing, on his body (for example in a money belt or similar), concealed in his luggage (either within his personal effects or within the structure of the luggage itself) or even concealed internally. Cash couriers may use air, sea or rail transport to cross an international border.
- **Concealed within a method of transport.** This refers to the cash hidden within the structure of the method of transport, rather than in any form of cargo. Methods of transport can include cars, lorries or maritime craft ranging from small pleasure boats to larger vessels such as container ships and ferries. In these circumstances, the person in charge of the vehicle may be fully aware of the concealed cash and complicit in the smuggling attempt. Alternatively, the driver of a vehicle may genuinely not know that the vehicle he is driving has cash concealed within it. Similarly, members of a ship's crew may have hidden the cash in a void on the vessel without the knowledge of the captain or the rest of the crew.
- **In containerised or other forms of cargo.** Cash is heavy and bulky and there is a limit to the amount that a cash courier can carry, either about his person or in the structure of his luggage. Likewise, the physical bulk of cash can restrict the amount that can be concealed in voids in the structure of vehicles or other modes of transport. If a criminal organisation wishes to move very large amounts of cash, often their only option is to conceal it in cargo that can be containerised or otherwise transported across borders.
- **Concealed in mail or post parcels.** Some countries report examples of sophisticated concealments of cash within goods sent by regular mail or post parcel services. Although these concealments tend to be smaller than those within vehicles, or on the person of cash couriers, the use of high denomination banknotes can result in seizures of significant value.

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<sup>42</sup> Source: based on research by UK authorities.

- **Hidden in 'plain sight'**. Research conducted in the course of gathering information for this paper, and also by the customs authorities in contributing jurisdictions, has identified that some criminal groups have, by taking advantage of the limited requirement for information regarding cash shipments in customs declarations, or by falsifying such documentation, been able to infiltrate large quantities of criminally derived cash into the systems used by legitimate financial institutions to transport cash intended for use in regular financial systems. The extent of this criminal exploitation is currently unknown.

## 1.7 THE STATUS OF THE PROBLEM

In April 2014, the project team distributed a questionnaire to FATF and FSRB members which asked responders to give their assessment of whether the phenomenon of ML through physical transportation of cash was increasing, static, declining or fluctuating, and why they thought this was the case.

Two-thirds of the respondents recognised cash smuggling as a significant risk, and of those, half reported that it was an increasing problem. However the remaining third of respondents were unable to assess the scale of the problem in their country.

One country stated that the phenomenon was declining, as a result of improved border controls which were believed to have made it harder for criminals to move cash across the country's borders undetected, and this had resulted in a steady decline in the amount of cash seized.

The countries that said that the problem was increasing gave a variety of reasons for their answers. These included:

- **An increase in the robustness of banking controls.** As AML/CFT measures become more effective and better enforced, criminals find it more difficult to introduce cash into the financial sector, and are forced to physically transport it across borders instead. This was the most common reason cited.
- **An increase in criminal activity.** Some countries perceived that the level of acquisitive crime in their jurisdiction (or a neighbouring jurisdiction) had increased, leading to an increase in the level of criminally derived cash generated.
- **Lax border controls, or a lack of resources or will to implement border controls effectively.** Some countries believe that certain criminal groups have identified that border controls are ineffective in some areas and take advantage of these weaknesses to move cash with little risk of detection.
- **Economic and/or political instability.** In countries where the regular financial system is disrupted due to conflict or serious instability, all types of persons, including those engaged in criminal activity, will seek to move their assets to somewhere safer.

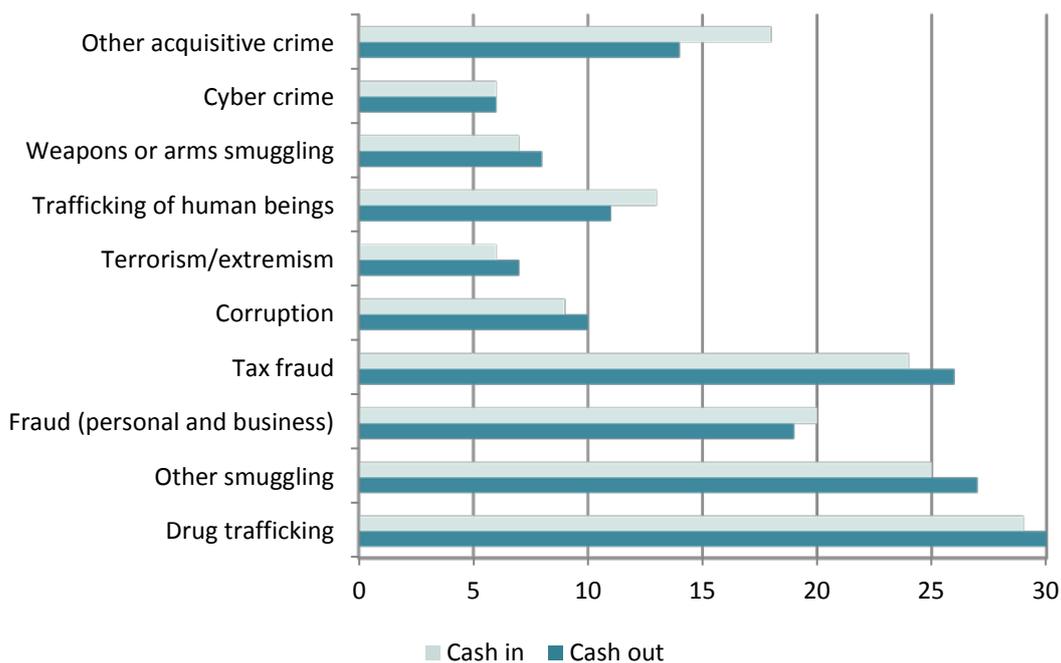
Conversely, some countries remarked that their perceptions of an increase in the problem were based on the results of an increase in the robustness of their border controls and an improvement in their detection capabilities. This raises the question of whether the problem of cross-border transportation of cash is actually increasing, or whether the countries concerned were simply getting better at detecting it.

### 1.8 PREDICATE OFFENCES GENERATING CASH PROCEEDS

It is clear from the completed questionnaires and case examples received in the course of the information gathering phase of this project that criminally derived cash physically transported across international borders originates from an extremely wide range of predicate offences. One of the questions in the questionnaire dealt specifically with this topic, and provided 12 options for types of offences, with an additional option of ‘other’ and a request to provide details of any offences not specified in the question. The question also asked countries to differentiate between cash smuggled into their jurisdiction, and cash smuggled out.

All of the predicate offences suggested were selected by at least six of the countries responding to the questionnaire. The responses were as follows:

Chart 4. Predicate offences generating cash proceeds



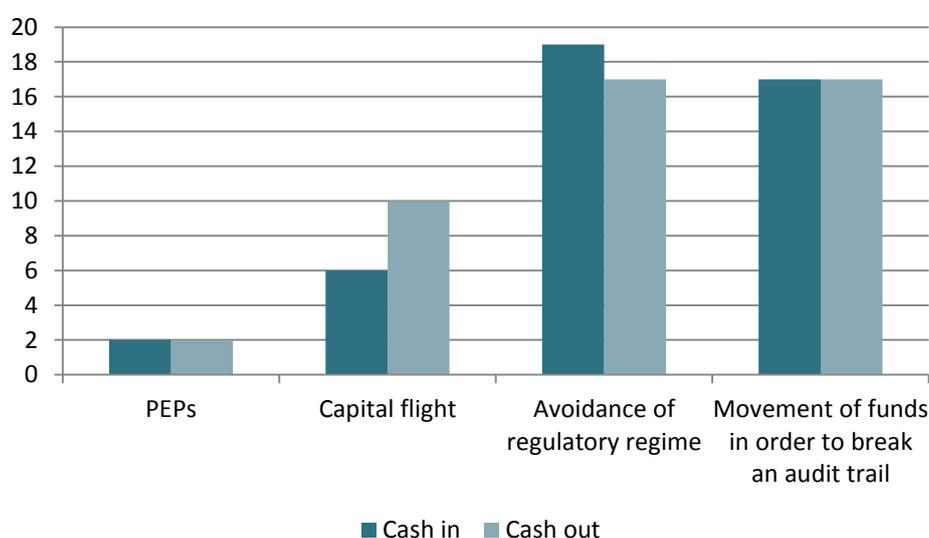
The responses show that the most frequently encountered predicate offence is drug trafficking, although smuggling of other goods (alcohol, tobacco etc.) and tax fraud also feature heavily. The above chart also shows that there is a broad correlation between the reasons behind the movement of cash into countries and those linked to movement in the opposite direction, although this does not necessarily mean the cash always follows the reverse routing of illicit goods.

Analysis of questionnaire responses indicates there are no predicate crimes that are more commonly associated with one method of cash smuggling than another. The method chosen to move the cash is influenced more by the intended use of the funds and the destination to which they are to be moved than by the nature of the crime itself. This issue is explored in more detail in Section 2 of this report.

### OTHER FACTORS INFLUENCING CROSS-BORDER CASH TRANSPORTATION

The same question of the questionnaire also asked countries if movements of cash could be linked to factors other than just predicate offences. The graphic below illustrates the responses.

Chart 5. Other factors link to movements of cash



As can be seen all of the options available were selected, with the desire to avoid the regulatory regime in a country, and the desire to break audit trails being major factors. Again, there was a broad correlation between reasons behind the movement of cash into countries and those linked to movement in the opposite direction. The sole exception to this is capital flight, with significantly more countries reporting this as a phenomenon linked to cash leaving their country than entering it. These issues will be covered in more detail in the next section.

### 1.9 ESTIMATING THE VALUE OF CROSS-BORDER TRANSPORTATIONS OF CRIMINALLY DERIVED CASH

Calculation of the size of something that is by its very nature designed to be concealed, is obviously a problematic exercise, and there are no reliable figures available for the amount of money laundered globally each year. In 1998, the International Monetary Fund (IMF) estimated the figure to be between 2 and 5% of gross domestic product (GDP), but made no attempt to subdivide this amount into money laundered through physical transportation of cash and that laundered by other methods.

In 1999, John Walker estimated this figure to be over USD 2.8 trillion,<sup>43</sup> and in 2005 Baker estimated that more than USD 1.1 trillion was transported across international borders through illicit cash flows globally.<sup>44</sup> In 2009, the United Nations Office on Drugs and Crime (UNODC) calculated from a meta-analysis of the results from various studies that it was likely that the extent of all criminal proceeds was about USD 2.1 trillion.<sup>45</sup> From this figure, cross-border money flows related to transnational organised crime activities were estimated to be around USD 0.87 trillion (USD 870 billion) in the same year.

In order to attempt to gain a 'ball park' understanding of the scale of the problem, the questionnaire included a request for the responding jurisdictions to detail how many ML-related cash detections they had made in the preceding three years, and the total amounts detected. Only about 60% of the countries who responded to the questionnaire answered this question, and not all of these provided a figure for the number of cases and the amount.

When converted into US dollars, the figures provided by those who responded to the questionnaire totalled just over 31 000 cases of ML-related cash detection, representing a little over USD 900 million in three years. This suggests a (very approximate) minimum figure of about USD 300 million detected globally each year<sup>46</sup>.

Studies by the USA and the UK suggest that only a very small percentage of the total cash smuggled each year is intercepted. This being the case, it does not seem unreasonable to suggest that the total amount of cash physically transported for ML purposes globally is in the order of hundreds of billions of dollars, an order of magnitude broadly comparable with the academic studies referenced above.

Clearly, the abovementioned figures are only an indication of the amounts linked to transnational illicit financial flows; however they give an indication of just how big the scope of the problem is.

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<sup>43</sup> Baker, R.W. (2005).

<sup>44</sup> Baker, R.W. (2005).

<sup>45</sup> UNODC (2011).

<sup>46</sup> In 2012 the UK assessed that over EUR 500 million in high denomination Euro notes was sold by currency exchange MSBs in the UK in a twelve month period, and that the overwhelming majority of this was purchased by criminals using them to reduce the bulk of the cash for smuggling purposes. In the same period less than 1% of this figure was intercepted outbound at UK ports.

## 2. WHY CRIMINALS USE CASH MOVEMENT

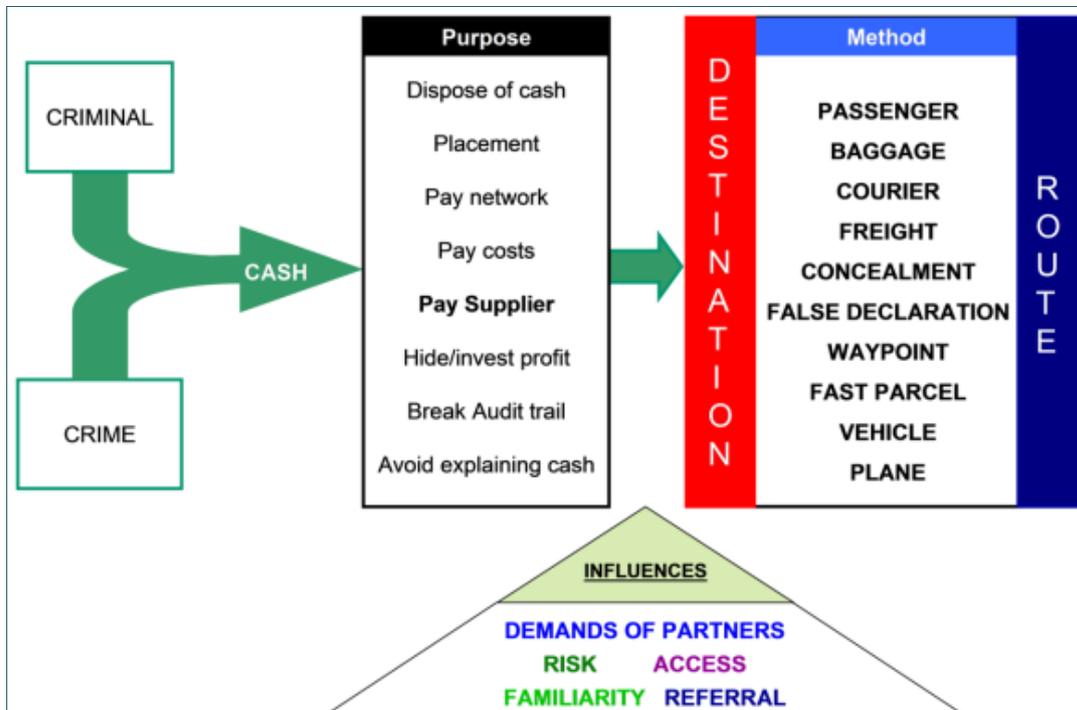
### 2.1 DRIVERS AND PUSH-PULL FACTORS INFLUENCING CRIMINAL CROSS-BORDER TRANSPORTATION OF CASH

Individuals move cash across borders for a range of reasons, both legitimate and illegitimate. This section seeks to explore in more detail why cash is moved for criminal purposes.

When considering why criminals seek to launder money by physically transporting it across borders, it is useful to consider what the criminal’s primary objective is for doing so in the first instance. In general, these objectives can be summarised as RAISING, MOVING, STORING and USING<sup>47</sup> funds, and it is only after deciding on the primary objective or objectives (the ‘Why’) that a criminal will move on to the methods used to achieve the objectives (the ‘How’, and equally important, the ‘Where’). These objectives are discussed more fully below.

There are numerous factors, which can be referred to as ‘push factors’ or ‘pull factors’, which will influence why criminally derived cash is moved from one jurisdiction to another and which go hand in hand with the criminal’s requirement to raise, move, store and/or use the proceeds of his criminal activity. These factors are illustrated in the graphic below.

Graph 1. Criminal decision making influences purpose and method of cash movement



Source: UK authorities.

<sup>47</sup> 'Raise, Move, Store, Use' is an explanation developed by UK Law enforcement to describe processes in a number of financial crimes, including terrorism finance and money laundering.

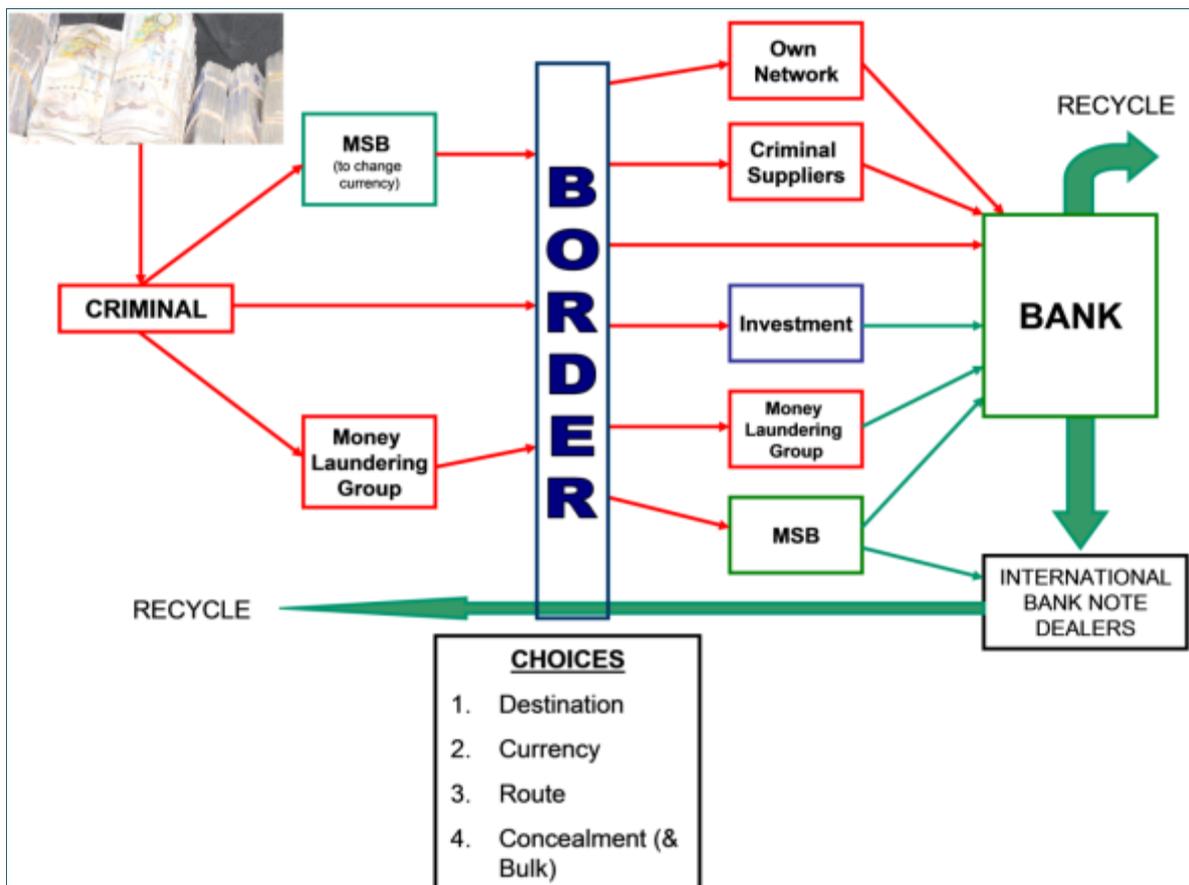
The process starts on the left hand side of the graphic, with the criminal committing the crime that generates the cash. The criminal must then decide what he wants to do with it (pay his costs, pay his supplier, invest the profits etc.)- this is the next step in the chain: the PURPOSE.

It is only once the purpose is decided that the DESTINATION will become apparent; this will be dictated by the purpose. The next step will be to decide how to get the cash to the destination; this will then lead to the next decision: the METHOD, (cash courier, concealment in a vehicle, use of freight etc.), and, closely associated and interrelated to the method and destination, the ROUTE chosen.

At all stages of the decision making process other factors will have an influence – these are shown at the bottom of the above graphic. These include: the risks of choosing one route and destination over another, the availability of (or access to) a particular method (such as a suitable vehicle), familiarity with a system that has worked before etc.

Throughout the process, the cash will follow a route dependant on the decisions of the criminal; however, ultimately it will re-enter the legitimate financial system and will be ‘re-cycled’. The graphic below is an illustration of what can be termed the ‘Cash Cycle’.

Graph 2. The cash 'Cycle'



Source: UK authorities.

Starting from the left, the criminal may take his cash to an MSB to exchange the cash into another currency; he may engage the services of a professional money laundering network, or he may use his own resources to move the cash across the border. These choices will depend on factors such as the destination chosen, the currency in which the cash is needed at the final destination, and the chosen routing (and whether any concealment is needed).

Once in the receiving jurisdiction, the cash may be used for a range of purposes – to pay the costs and expenses of the criminal’s own network or to pay for further supplies of illicit goods, to invest in assets etc. It may also be passed to an MSB, or banked, as part of an exercise in breaking the audit trail of the money. At some point, possibly a considerable time later, the cash will re-enter the regular financial system, not necessarily due to any action taken by the criminal group. At this point, the bank will either recycle it for use within its own systems – for the purpose of stocking ATM machines, for example – or the cash will be traded on the international currency markets.

The push/pull factors impacting on criminal organisations often differ significantly from those that apply to the movement of legitimately acquired funds, and can therefore help in detailing indicators used to identify movements of criminal cash. In general terms, the main drivers of cash movement for legitimate purposes are business efficiency and cost considerations, coupled with imbalances in the supply and demand for cash (for example, tourism and business transactions, particularly in countries with cash-based economies). All businesses seek to reduce overheads and the financial sector is no different in that respect. Legitimate businesses will also endeavour to comply with local rules concerning anti money laundering (AML) and countering the financing of terrorism (CFT), (not least because failing to do so can result in significant fines, criminal prosecutions and public censure, all of which are bad for business).

Given the tendency of financial institutions to guard their reputation, it is highly unlikely that a developed financial institution or other business in the regulated sector would want to engage in any practices that might affect its ‘bottom line’ (at least, if it thought there was a risk of this type of activity being discovered). This being the case, it is unlikely that a bank would, for example, prefer to ship cash from a country with a high degree of regulatory oversight to one with less stringent controls for no other reason than to bank it there, or indeed to move cash anywhere without a strong business reason for so doing; as has been stated earlier, cash is heavy and bulky, and is expensive to process, ship and store securely.

Studies carried out by law enforcement agencies in the UK and elsewhere suggest that the most significant driver of cash movement for criminal purposes, in contrast, is safety (as described above, ‘safety’ in this context meaning in a manner calculated to avoid the scrutiny of law enforcement, or other criminal groups). Academic studies<sup>48</sup> suggest that criminals are more likely to be risk averse when contemplating making a gain, than when contemplating making a loss; in other words, they are likely to be more willing to take risks when seeking to hide their criminal profits from the authorities. Cost, although a factor, is a secondary consideration.

Thus, criminals are more likely to use complex series of transactions with no obvious business purpose, including withdrawing cash from a bank in one country and paying it into a bank in

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<sup>48</sup> For example, Johnson and Payne (1996).

another.<sup>49</sup> Serious and organised criminals who often seek to launder large amounts of cash may see the risk of detection at air and sea ports as being lower than the risks associated with leaving an evidence trail, and having proceeds of crime reported officially when transactions are undertaken through the formal financial system.

### 2.2 RAISING CASH

'Raising' is the first stage of the process, and, in money laundering terms, refers to the actual generation of the criminal proceeds. In other words: committing the crime that results in the acquisition of the cash. This can be the sale of a consignment of drugs or some other illicit commodity, tax fraud, the acceptance of a bribe etc.

In the case of terrorism financing, 'Raising' has a different context. It is possible that funds used for terrorist purposes are derived from some other form of criminal activity, such as drug trafficking, fraud, kidnap for ransom etc. However, it is often the case that the funds have been derived from a legitimate source. For example, the terrorist may have some form of legitimate occupation from which he earns a salary, and he may use some of his salary to purchase components for an improvised explosive device, or to send overseas to make a donation to a terrorist cause.

Similarly, cash moved across a border may have a legitimate origin. As mentioned in Section 1.8, a number of countries identified capital flight as a reason for funds moving across their borders. Capital flight can be defined as 'a large scale exodus of financial assets and capital from a nation due to events such as political or economic instability, currency devaluation or the imposition of capital controls'<sup>50</sup>. The capital being moved does not necessarily have to be derived from criminal activity, although anecdotal evidence suggests that, at least in some cases, the capital being moved to a place of safety may be derived from tax fraud or other illicit activity.

The main driver for capital flight, as is suggested by the definition, is that the funds are perceived by the beneficial owner as being under threat for some reason, and the owner wants to move them to a place of safety. Reasons for the capital being moved in cash may include:

- the avoidance of strict exchange controls,
- the cash having an illicit source, or
- cultural considerations, such as the source country having a cash based economy where banks and other financial institutions are not trusted.

### 2.3 MOVING CASH

'Moving' refers to a criminal's desire to remove the proceeds of his criminal activity from the location where it was generated, or to move funds held in another location to a place where they are needed. The reason for moving criminally derived funds from the jurisdiction in which they were generated will vary from country to country depending on the economic and social factors there. The most prevalent drivers include;

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<sup>49</sup> Source: based on research by UK authorities.

<sup>50</sup> Investopedia (nd).

### 2.3.1 DISTANCING THE PROCEEDS OF CRIME FROM THE PREDICATE OFFENCE.

One of the primary drivers for laundering money derived from criminal activity is to conceal its illegitimate origins, and one of the simplest methods of doing this is to remove it from the jurisdiction in which the predicate offence was committed. (In the context of this paper, this is viewed as being distinct from breaking the audit trail – see section 2.3.3).

The movement of funds in the form of cash from one country to another fulfils numerous requirements for a criminal. Primarily, it makes the tracing of the proceeds of a crime very difficult for the authorities. Police investigating a crime may never be able to identify the money generated from it if they have been unable to identify any evidence leading them to believe that the cash has been smuggled out of their jurisdiction. Even if the cash is detected in the destination country at some stage of the process, the legal and practical implications of information and intelligence exchange and evidence gathering between the countries of origin and destination can frustrate law enforcement efforts to prosecute offenders and seize the cash.

Long exposure to law enforcement techniques has led criminal groups to appreciate this situation, with the result that, in many cases, one of their first considerations is whether the benefits to be gained from distancing the cash from the crime by transporting it across an international boundary outweighs any other factors, such as the risk of detection at a border.

### 2.3.2 DEMAND

This is a driver closely related to the need to make use of the funds. Cash may be exported because it is needed somewhere else, perhaps to pay for further consignments of illicit goods. It may also be for some other reason, such as the desire to purchase an asset, or simply to ensure that anyone investigating the criminal's activities is unable to trace, and therefore confiscate, his ill-gotten gains. Similarly, funds may be imported because the criminal has completed a laundering process overseas and wishes to move the laundered funds to a location where they can be used, or perhaps because the country into which the cash is imported has less diligent regulatory oversight and it is easier to place the cash into the banking system there.

The reason for the movement of the cash to the second jurisdiction may also be that that is where the criminal needs it or wants it, regardless of any other factors, such as the controls in place. The local conditions in the destination country might mean that the cash can more easily be banked there. The criminal might intend to spend the money on an asset, such as a property or a vehicle, and needs the payment to come from a bank account, as a large cash payment would be considered suspicious. Similarly, a payment from an overseas bank account with no apparent connection to the purchaser might also be viewed with suspicion.

The person transporting the cash might also be doing so because he has no choice in the matter. He may not be the beneficial owner of it, but that person has directed him to facilitate the transportation.

#### **Box 3. Bulk Cash Smuggling across the US/Mexico Border (and efforts to combat it)**

The United States and Mexico share a land border in excess of 2 000 miles in length, with 417 official Points of Entry, which poses significant problems for both countries in their efforts to combat organised crime. In recent years, the growth of Mexican groups involved in a wide variety of

organised criminal activity, including drug trafficking, organised immigration crime, corruption and weapons trafficking, has led to a significant growth in the volume of cash smuggling across the border with the US. Recent estimates as to the scale of the issue made by academics, accountancy and audit firms and the Mexican government range from USD 6 billion to USD 36 billion annually, with a generally accepted figure being around USD 25 billion. (The US and Mexico governments assess that, despite there being other methods available for moving criminal proceeds across the border, bulk cash smuggling is still used for the great majority of the proceeds generated).

In addition to the flow of drugs, illegal immigrants and firearms from Mexico into the US, there are numerous 'pull factors' within the Mexican criminal economy that contribute to the problem. Firstly, the Mexican Peso is seen by criminal organisations as being less stable than the US dollar, meaning that criminal groups prefer to have their proceeds in Dollars as there is less risk of it losing its value in the financial markets. Secondly, the Mexican criminal groups prefer to pay their bribes and operating expenses in US dollars; and finally the ultimate suppliers of the drugs that are smuggled into the US, the Cartels in Colombia and other South American countries, prefer to be paid in US dollars.

Exactly what proportion of the smuggled cash is used for the purchase of further shipments of cocaine from the suppliers in Colombia and other South American countries remains unclear; estimates range from half to 80%.

#### **How the cash is moved**

Cash derived from regional drug sales is generally taken to a central counting house in one of several US cities, including Atlanta, Boston, Chicago, and Los Angeles. The cash in its original form is usually in low denomination notes, and is converted to USD 100 or USD 50 bills, either at the consolidation points or in the original cities of sale. This is done primarily to reduce the bulk of the cash and make it easier to conceal.

Once the cash has been exchanged for larger denomination notes it is usually vacuum sealed to further reduce the bulk, and concealed in the structure of cars or articulated trucks that are hitherto unknown to law enforcement, meaning they have no reason to raise any suspicion if they are stopped. The crime groups often use the same trucks to transport cash south that have been used to transport drugs in the opposite direction.

The potential impact of any seizures is reduced by a variety of means, including regular rotation of transport vehicles and restricting the size of individual shipments to between USD 150 000 to USD 500 000, so that if any one vehicle is stopped the loss is not significant to the criminal organisation concerned and so does not significantly disrupt its operations. Typically multiple cars are sent, each carrying a relatively small percentage of any given cash shipment.

The Mexican criminal organisations constantly rotate drivers who drive the cash shipments from the consolidation centre to the designated border town close to the drug trafficking centre of the particular trafficking organisation. The cash is either aggregated and vacuum packed in a safe house on the US side of the border before being shipped into Mexico, or, increasingly frequently, the drivers continue directly into Mexico to deliver the money. This change is believed to be due to a number of factors, including a growing US law enforcement emphasis on monitoring the sales of particular equipment such as money counting machines and different types of packing equipment.

**Efforts to combat the problem – The Merida Initiative.**

In 2008, The US and Mexico signed the first letter of Agreement for the Merida Initiative, pledging to work together to counter the threat of drug related organised crime and the associated issue of Bulk Cash Smuggling on both sides of the US – Mexico Border. So far the US government has dedicated USD 2.3 billion to the programme, which has four ‘pillars’ encompassing a wide range of activities. The pillars are;

- disruption of the capacity for organised crime to operate;
- institutionalise capacity to sustain the rule of law;
- create a 21<sup>st</sup> century border structure, and
- build strong and resilient communities.

Examples of the activities put in place include;

- supply of specialised aircraft (fixed wing and helicopters) to the Mexican navy and police
- installation of a secure cross-border telecommunications system, providing a method of intelligence and information exchange between security forces;
- provision of specialised training and equipment for Mexican law enforcement and prison agencies, prosecutors and other justice sector personnel in cash detection and other matters
- provision of over 400 dogs trained to detect cash (and also drugs, weapons and explosives)
- supply of specialised non-intrusive scanning equipment enabling the detection of cash and other commodities concealed in vehicles
- supply of a sophisticated border control system providing expedited clearance for pre-approved low risk travellers
- creation and expansion of drug treatment centres and courts in Mexico.

*Sources:*

1. Farah, D. (nd)
2. US Homeland Security (2010).
3. ‘Merida Initiative’, US Department of State (nd).

Some countries will be net consumers of illicit goods. Criminal demand for controlled drugs in the UK, for example, is significant, which means that a large proportion of the proceeds of the sale of the drugs tends to be exported in order to facilitate more supply. However compared to the amount imported, a relatively small amount of drugs is exported from the UK to other jurisdictions. This means that inward payments for the supply of these drugs are less significant than the outwards flow, and accordingly cash smuggling outbound is more likely to be drug trafficking related than cash smuggling inbound.

The place of origin of the supply of the illicit goods will act as a push factor in deciding where cash will be smuggled to. In the case of the UK, a large proportion of the drugs consumed by users is

sourced from intermediaries in near Europe, particularly the Netherlands and Spain. Accordingly, cash smuggling related to payments for further supplies of goods are smuggled to these countries. Conversely, cash intended for use as a payment relating to the purchase of assets, such as property, is often smuggled from the UK to more distant destinations such as Dubai and Thailand.

### 2.3.3 BREAKING THE AUDIT TRAIL

There are clear indications from the questionnaires that a significant driver of the decision to move cash from one jurisdiction to another is to break the audit trail. In other words, it will make it difficult for anyone in the receiving country to establish that the cash is the proceeds of crime in the originating country, thus facilitating easier usage of the cash at the destination. (As referenced in section 2.3.1, breaking the audit trail in the context of this paper is distinct from the act of removing cash from the jurisdiction in which it was generated; instead, breaking an audit trail refers to the use of cash smuggling as a method of frustrating any attempt to trace the movement of funds from one place to another.)

In some cases, the transportation of the cash to another jurisdiction to facilitate placement into the regular financial system may be a precursor to its transfer by bank back to the country of origin. One of the most significant issues raised by contributors to the questionnaire was the problem of the exchange of information between different jurisdictions. This issue will be discussed at greater length later in this report (section 5.2), but the responses clearly suggest that one of the main reasons why cash is moved from one country to another is because it makes it considerably more difficult for law enforcement, and banks and financial institutions in the receiving jurisdiction to establish the provenance of the funds.

#### **Box 4. Physical transportation of cash to break the Audit Trail**

In November 2013 the Tunisian authorities received a suspicious activity report concerning the actions of a Tunisian national, who was resident in an overseas country but who maintained two personal bank accounts, in Euros and convertible Tunisian Dinar, in Tunisia. The report disclosed that between June and November 2013 the accounts had been credited with in excess of EUR 2.7 million, mostly in cash. The individual had no previous convictions and no business activities in Tunisia.

When questioned, the individual concerned stated that the funds were derived from the sale of property in his country of residence. Checks with customs authorities showed that the individual had declared cash when entering Tunisia from his country of residence on eight occasions between January and November 2013. The amount declared totalled EUR 2 662 000 (It was suspected that the sole reason for the cash declarations was to facilitate the banking of the cash in Tunisia – foreign exchange regulations in Tunisia dictate that cash in foreign currencies imported into Tunisia cannot be banked without being accompanied by a cash declaration form).

After the cash had been banked it was electronically transferred back to the individual's country of residence, to the accounts of corporate bodies (and on one occasion to an account held in the individual's own name). The reason given for the transfers were 'settlement of a loan' and, in the

case of the transfer to the personal account, 'sale of shares in a company'.

Enquiries carried out in the individual's country of residence revealed that he had been the subject of a suspicious activity report in May 2013 concerning a deposit of EUR 220 000 in cash to an account held by him there, which was then transferred to a family member in Tunisia. The reason given for the transfer was the purchase of machinery. The individual was also employed for a minimal wage by an agency organising temporary work placement, and had never owned or had title to any property. One of the companies that had been the beneficiary of some of the transfers from Tunisia was under investigation for tax irregularities.

The Tunisian authorities concluded that the cash was connected to tax fraud in the individual's country of residence.

*Source: Tunisian authorities.*

#### 2.3.4 AVOIDANCE OF REGULATORY OVERSIGHT

Many developed countries have a highly sophisticated financial sector with rigorous regulatory oversight. This is a 'push' factor, influencing the transportation of cash out of developed countries, as it is difficult to introduce large amounts of cash into the regulated sector without attracting law enforcement scrutiny. Hence, criminals will often seek to physically move the cash to a location where it can more easily be banked.

Similarly, a 'pull' factor may be that criminals perceive the destination jurisdiction to have weaker AML/CFT controls, and that the introduction of a significant amount of cash into the financial system there will attract less attention than it would in the originating country. In fact, this perception may be incorrect and the AML/CFT controls in place at the second jurisdiction may be just as robust as those in the first. This misperception may be down to other factors, such as the second jurisdiction having a largely cash based economy where large amounts of cash are viewed with less suspicion.

There may also be certain regulatory factors in the destination country that may influence the decision to move cash there. For example, the banking sector in the destination country may apply a higher degree of confidentiality to financial transactions. This can be advantageous to a criminal; if the difficulties of the initial placement can be overcome, there can be less chance of anyone being able to establish the true provenance of the funds.

The personal taxation regime in the jurisdiction in question may also be more lenient than that in the criminal's country of birth or primary residence. If the criminal has gone to significant trouble to conceal the criminal origin of his funds, and has been able to present them as legitimate income, it makes sense that he would wish to avoid additional expense by paying as little tax on them as possible.

In the questionnaire circulated as part of the project, countries were asked to consider whether one of the reasons criminally derived cash was brought into their country was that their country is known as a legitimate international financial centre. The purpose of this question was to establish if this could be a significant factor in criminal decision-making. Anecdotal evidence suggests that proceeds of 'white collar' crime such as tax fraud, fraud against the private sector, bribery,

corruption etc. tends to gravitate to major financial centres. Fifteen countries responded positively to this question; unsurprisingly, most were countries with highly developed economies and financial sectors, such as the UK, the USA and Australia.

**Box 5. Cash Placement facilitated by the absence of legislation regarding cash movements**

Lebanese Customs identified a group of travelers (eight in total) who had the same travel pattern, being multiple trips made from a European country (A). Some of them had made frequent travels in an eight month period. Customs officers intercepted the travelers and examined their baggage.

It was found that the travelers were carrying large amounts of cash, in mixed low denomination Euro banknotes and that the amounts ranged between EUR 135 000 and EUR 600 000. When questioned, they gave different justifications for the source of the cash. The preliminary investigation findings were forwarded to the relevant Law Enforcement Authority.

Investigations revealed that the travelers/couriers used to meet in a hotel room in country A, where they were given cash by a national of country B. They were told that the money was from the proceeds of stock market investments and contract business and were paid between USD 1 500 and USD 2 000 to transport the cash to Lebanon. Investigations also revealed that the travelers/couriers worked for two individuals based in Lebanon. In the absence of further information on the origin of funds transported into Lebanon, the cash was returned to the travelers. Based on an existing Memorandum of Understanding between the Lebanese Customs and the Financial Intelligence Unit of Lebanon (SIC), put in place to capture substantially the movement of funds pending the issuance of the cross-border transportation of funds Law (currently in the Lebanese parliament), the case was forwarded to the SIC.

The SIC initiated an investigation by circulating the names of the travelers/couriers and the two individuals that hired them for their services to all banks in Lebanon. Findings revealed the existence of several accounts. Analysis on the said accounts reflected multiple cash deposits. The SIC decided to freeze related bank accounts with a consolidated balance of approximately USD 1.6 million and forwarded its findings to the General Prosecutor.

Lebanon experienced difficulties in obtaining information on any investigations that took place in countries A and B. The decision to freeze the funds was taken by the Lebanese FIU based on suspicion and on media reports from country A, detailing a money laundering scheme. This information derived from the media coverage was provided by the Lebanese Embassy in country A rather than the authorities there. As a result, no judicial action was taken in Lebanon, although the freezing of the funds was maintained.

*Source: Lebanese authorities.*

**Box 6. Avoidance of regulatory oversight in originating country**

A South African national arrived at Auckland international airport from South Africa in May 2011. The passenger was already of interest to the authorities due to current investigation file relating to his company and undervaluation of goods exported to New Zealand. A baggage search located undeclared cash in a false bottom suitcase and the passenger's wallets, which equated to:

- ZAR 532 000 (South Africa rand)
- EUR 200 015
- NZD 10 215 (New Zealand dollar)
- AUD 20

Total NZD 436 030 equivalent

The passenger stated that at the airport on departure, a friend gave him the cash to take back to South Africa. The passenger then said the cash was going to buy his daughter a vehicle.

The New Zealand authorities concluded that this was an attempt to bypass South African exchange controls (by illicitly holding capital off shore and not returning it to South Africa as was required), and suppress company income for purposes of tax fraud in South Africa, linked to possible tax fraud by a New Zealand subsidiary.

The New Zealand authorities alerted the South African Revenue Service of possible tax offences and breaches of the exchange control regulations committed in South Africa.

*Source: New Zealand authorities.*

**2.3.5 ACCESSING A SERVICE NOT AVAILABLE IN THE SOURCE COUNTRY**

Some case examples and responses to the questionnaire indicate that a factor in deciding to move cash to a particular location is that the destination country might offer access to a service that is not available in the country of origin. This may be associated with the avoidance of regulatory oversight, but it may also be affected by other issues. For example, it may be that foreign exchange regulations in the originating country prohibit the exchange of cash into a particular currency, or that the currency required is not available in sufficient amounts without alerting the authorities.

**2.3.6 FAMILIARITY**

An often overlooked factor in the decision to physically transport cash from one country to another is that this is what the criminal has always done. All human beings, criminal or not, are creatures of habit, and there is a common adage in the English language which states that 'if it ain't broke, don't fix it', which in effect means that if something works or does the job it's supposed to, there is no reason to change or interfere with it. Thus, if a criminal involved in importing cannabis from country X to country Y has discovered that a reliable and low-risk method of transporting cash from country Y to country X to pay for further consignments is to exchange it for high denomination notes and then to give it to a trusted lorry driver who is involved in legitimate freight transportation between

the two countries, he is likely to carry on using this method unless some outside influence comes into play.

The advantages to the criminal of using a tried and tested method, apart from the fact that he knows that it works and can calculate the risks, include the fact that he will be more able to calculate and therefore control his costs, and he will also be able to establish what went wrong in the event that the cash is lost or seized.

### 2.3.7 REFERRAL

Another important, but often overlooked, factor in criminal decision-making is the influence of other criminal groups. Often, criminal networks involved in a similar activity exist in parallel to one another, and the individuals within those networks know each other and may even migrate from one network to another. As a result, methods and techniques used by one group become known to another, and may even be recommended by one group to another.

Using the above example, a criminal group involved in cocaine trafficking from country X to country Y may approach the group involved in importing cannabis, and ask that they use the same driver to export cash. They may also decide that the system is sound, but recruit someone else to move the cash on their behalf. Similarly, if the cocaine trafficking group needs to move cash to a third country they may decide to use a driver involved in legitimate freight transportation to that country. Likewise, if a criminal network has used the services of a specialist money laundering group to move money on its behalf, an associated criminal network may ask to be introduced to the money laundering groups to use its services.

## 2.4 STORING THE CASH

‘Storing’ refers to a criminal’s desire or need to keep funds in a safe location (‘safe’ in this context meaning beyond the reach of law enforcement, or other criminal groups). This may be because the money is to be used as a ‘contingency fund’ in the event of a crisis, or simply because the relevant criminal enterprise has been so successful that the amount of cash held exceeds the criminal’s laundering ability.

The decision to store funds in the form of cash may also affect the nature of the cash used for this purpose. The ECB has frequently stated<sup>51</sup> that one of the principal uses of the EUR 500 and EUR 200 banknote is for store of value purposes. A larger value can be concentrated in a smaller volume, which makes the cash easier to keep in a safe, for example (although research conducted as part of this project shows that the same high value/low volume advantage is frequently used by criminal groups for the purposes of moving large amounts of criminally derived cash across international borders in small concealments).

It is important to emphasise that the use of cash for store of value purposes, and the cross-border transportation of cash in order to facilitate this, is common and is not necessarily linked to any form of criminal activity. As stated in section 1.8, a common reason for cross-border transportation of

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<sup>51</sup> Most recently in a speech by Yves Mench, Member of the Executive Board of the European Central Bank, in a speech at the Bargeldsymposium of the Deutsche Bundesbank, Frankfurt 19 May 2014.

cash is capital flight. Although there are occasions when the driver for this will be of an illicit nature, such as tax fraud, the funds may also have an entirely legitimate origin and its cross-border transportation is simply to avoid market events such as the devaluation of a currency.

Any type of currency can be used as a store of value, but the most common ones are the major international currencies such as the US dollar and the euro. These currencies are seen as more stable and less prone to currency speculation and significant variations in exchange rates. In addition, there are numerous countries in the world whose economies are significantly 'dollarised'<sup>52</sup> or 'euroised'<sup>53</sup>, or where the usage of these currencies for various purposes, including tourism, is widespread. As a matter of course, it is useful for stored cash to be useable in as many places as possible without the need for conversion into a less common currency, with the costs and difficulties that this would entail.

## 2.5 USING THE CASH

'Using' refers to the use of the criminally derived funds to purchase assets, or for normal, licit day-to-day transactions. It also refers to the use of criminally derived funds to generate further criminal proceeds, for example by using part of the proceeds of the sale of a shipment of drugs to pay for the next shipment. If the use of the cash at the destination is the primary objective, then there will be influencing factors that the criminal will need to consider when deciding how and where the money must be moved. There is little point in placing the cash in a financial institution, if the criminal's supplier in an overseas jurisdiction needs the payment in cash, or does not have access to an account into which it can be transferred.

For example, the cash may need to be declared on import into a jurisdiction in accordance with local laws and regulations, in order to give the appearance of a legitimate origin or to facilitate its introduction into the banking system. It may be held in low denomination notes, to make it easier to spend (retail outlets will usually not accept, or at least will question, very high denomination banknotes) and it may be kept or used in smaller amounts that are more easily explainable – by the sale of a vehicle, for example.

Likewise, if the reason for moving the cash is to pay a supplier for further consignments of goods, or to pay the expenses involved in the trafficking of a commodity, the supplier may need the cash in a different currency to the one in which it is currently held. If this is the case, then the criminal will need to have access to a currency exchange facility as well as a method of transportation.

This is the case in the UK due to the fact that, in contrast with most of the rest of Europe, it uses its own currency. This can be a complicating factor for criminals sourcing drugs and other illicit goods from near Europe as the European supply chain for such goods frequently requires payment in local currency. This impacts on the methods criminals in the UK use to transport cash as they will often need to exchange local currency into Euros as a precursor to smuggling it out of the UK. As a result, this has led to a significant and otherwise unexplainable demand for large quantities of high

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<sup>52</sup> Examples include Egypt, Somalia and several South American countries.

<sup>53</sup> Examples include Kosovo and Montenegro – source as footnote 27.

denomination Euro banknotes in the UK, and a criminal market has developed to satisfy this demand.

The other major use for criminal proceeds in another jurisdiction is the purchase of assets. Assets can be used for a number of purposes, all of which are desirable for criminals. The first, and most obvious, is that the criminal wishes to enjoy the benefit of his criminal activities, by purchasing a large house in a desirable location, an expensive car, a gold Rolex watch or similar. Second, the criminal may wish to use an asset as a store of value. Property values in most major financial centres, such as London and New York, are either stable or rising steadily and purchasing a property, even if it is left vacant, can result in a healthy return on the criminal's investment in a relatively short space of time. Third, using cash to purchase a property, which is then sold soon afterwards, has the advantage of turning the cash into a balance in a bank account from an ostensibly legitimate source, thus aiding the laundering process, and finally, a title to a property (or any other high-value asset) can be exchanged between criminals as a way of settling a debt.

If the purchase of an asset is the intended use, then the cash will have to be imported into a jurisdiction in such a way that its introduction into the banking system arouses no suspicions. To this end, a criminal may choose to declare the cash on entry and try to use the cash declaration to deceive bank staff by presenting it as 'proof' that the cash must have a legitimate origin.<sup>54</sup> It may also be necessary to transport the cash into a jurisdiction with relatively lax regulatory oversight first, in order for it to be banked there, and then transferred electronically to the ultimate destination.

**Box 7. Cash smuggled to other jurisdictions for investment in property**

This case concerned a very large ML organisation from Colombia and the Netherlands, partly family, led by a woman of both Spanish and Colombian nationality. The group directed Ecuadorians, Colombians and Venezuelans who travelled the world with suitcases full of money. The money was taken to Spain and to various South American countries, where it was used for investments in property. The group probably worked for various clients. The main suspect was arrested at Schiphol airport in 1996 and sentenced to five years' imprisonment for drug trafficking. Her brother was arrested in 2003 carrying EUR 7 million. The suspects alternately lived in Cali, Colombia and the Netherlands for ten years. The suspects were not (or no longer) engaged in cocaine trafficking themselves.

The investigation showed that the suspects organised money transports for more than EUR 50 million with profits of over EUR 5.5 million. A few money transports were intercepted. Several suspects also stood trial for drug trafficking preparations and possession of drugs and firearms. More than one million euros were found in the house of one of the suspects, which was hidden above a ceiling tile and in a vacuum cleaner bag.

The case also resulted in the seizure of: 38 premises in Cali, Colombia, money, money counting machines, passports, weapons and the contents of accounts.

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<sup>54</sup> See also sections 3.5 and 5.1.

***The technique used for smuggling the cash***

Cash, probably originating from cocaine trafficking, was flown by the various suspects to South America. Money launderers organised money transports from the Netherlands in order to pay cocaine traffickers in Colombia.

For this purpose, couriers were used who were paid travel and subsistence expenses, and were put on a plane with prepared suitcases and backpacks. These were usually Colombian women who had little money and were given the chance to travel to their country of birth.

Moreover, the women were paid well for their services as a courier.

In one case, a woman was intercepted carrying EUR 204 000 in the telescopic handles of her suitcase.

The suspects collected large amounts of money, preferably in convenient EUR 500 notes. They rolled the money, put carbon paper around it and hid it as a large roll inside the telescopic handles of the suitcases.





*Source: Netherlands authorities.*

A significant factor in a criminal's decision to transport cash to another country may be the ease with which he can use it to purchase high-value items in that country. Many countries consider the use of cash to purchase assets, such as cars, as a ML risk and/or a vehicle for tax fraud (although others disagree that this is the case) and have introduced legislation restricting the amount of cash that can be used in a single transaction. Within the EU, there is a wide variation of practices. Some countries place a limit on the amount of cash that may be used to purchase all goods, or certain types of goods (these limits vary between EUR 1 000 and EUR 15 000), whilst some countries impose no limits at all. Other countries do not impose a limit, but instead require businesses accepting large amounts of cash to implement procedures designed to identify (and discourage) the use of cash by criminals to purchase high-value goods.

### 3. METHODS AND TECHNIQUES

#### 3.1 ROUTES AND ROUTE SELECTION

The choice of the route to move the cash between jurisdictions will depend on a number of influencing factors and will be determined only after the purpose, destination and method of transportation have been decided. Thus, the decision-making process for a criminal wishing to move EUR 100 000 from the Netherlands to Spain to pay a supplier will be different to that used by another criminal wishing to move the same amount of money from the UK to Spain. The criminal in the Netherlands already has the cash in the form of euros, and may simply decide to put it in a holdall in its existing form, in low-denomination notes, put it in the boot of a car and drive it across Belgium and France land borders into Spain. This choice is more likely than transporting it by air, as EUR 100 000 in low-denomination banknotes is quite heavy and bulky and would be easily detected during baggage scans at an airport. In theory, the cash could be exchanged for high-denomination banknotes, but this would bring with it the risk of being questioned at a bank or financial institution and/or reported to the authorities and inevitably would attract additional costs.

In this case, the choice of route will therefore be influenced by the fact that air transport is a less viable option. Also, under the Schengen agreement, there are no restrictions on movements within the EU, and there are therefore no risky manned border crossings that have to be negotiated during the journey. Millions of vehicles make similar journeys every day and there is very little chance that a customs or police official will select the wrong car for inspection, especially if obvious red flags are avoided, such as ensuring that the car is in good condition and speed limits are adhered to.

For the criminal in the UK, a number of other factors apply. The amount of cash, the purpose and destination are the same, but the method, and therefore the route, will be different. The UK is also an EU member state, but being an island and using its own currency are factors that come into play. The cash will be in the form of low denomination British pounds and so will need to be exchanged for euros in the UK first. Given that this has to be done anyway, the criminal may choose to obtain the euros in high-denomination notes from a 'friendly' MSB at the same time, to facilitate concealment. All of the UK's borders are manned at least some of the time so there is a much greater risk that the cash may be detected by law enforcement at the UK's borders. Concealment of the cash is therefore much more important. Once the cash is in the form of high-denomination notes, and is now much reduced in bulk and weight and more easily concealed, the criminal may choose to give the cash to an air passenger on a tourist flight to Spain. Alternatively, if the risks of discovery by customs officials at the airport were considered to be too high, the criminal might choose to drive it to Spain instead via the channel tunnel and through France (however this would take much longer and would have no cost advantage).

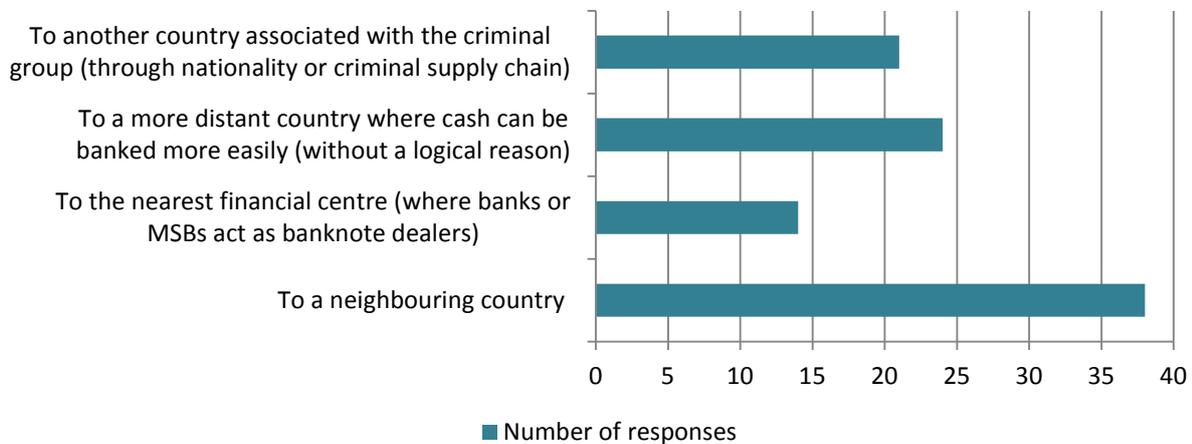
In the same way, any change in the currency and nature of the cash, the intended purpose, destination and method will have an effect on the route the criminal chooses. This being the case it is by no means guaranteed that criminals in the same country, and shipping the same amount of cash to the same destination will use the same routes and methods. Likewise, there is no guarantee that cash derived from the same type of predicate offence will always be transported in the same

manner to the same place. It is not possible to state with certainty that, for example, because cash has been detected in the false bottom of a suitcase destined for Spain, it is derived from drug trafficking, or that all proceeds of cigarette smuggling will go to a particular country.

**3.1.1 OUTBOUND TRANSPORTATIONS OF CASH**

Two questions on the questionnaire dealt with the issue of the destination and purpose of outbound criminal cash and the purpose and origin of inbound criminal cash. In respect of cash exported, the intention of the question was to establish if it was more common for the cash to be transported only as far as a neighbouring country rather than further afield, and if this was the case, what the reasons might be. The graphic below illustrates the responses.

**Graph 3. Where cash is exported and ML is suspected, where does the cash go?**



All of the choices offered received a significant positive response, and many countries selected more than one option.

The data suggests that the most popular option for criminals (38 responses) is to move the cash to the nearest country; more countries selected this option than those indicating the purpose was to make it easier to bank the cash or related to the ethnic make up of the crime group. As discussed in section 2.3.1, a possible explanation for moving the cash is the desire to distance it from the place where it was generated, rather than the desire to avoid regulatory scrutiny or to make a payment related to the criminal supply chain.

This being the case, it seems likely that the principal desire of a criminal group is that, having made a large amount of money by committing an acquisitive crime in one country, they wish to take steps to prevent the authorities in that country from detecting their ill-gotten gains by making it harder to locate them. Transporting the cash to the nearest available country is the easiest, and presumably cheapest way of achieving this aim.

The significant number of responses for these other options, however, does demonstrate that the ability to place the cash in the legitimate financial system, and the necessity to pay for further illicit goods, or to pay the expenses incurred in transporting them, are significant influencing factors in route selection.

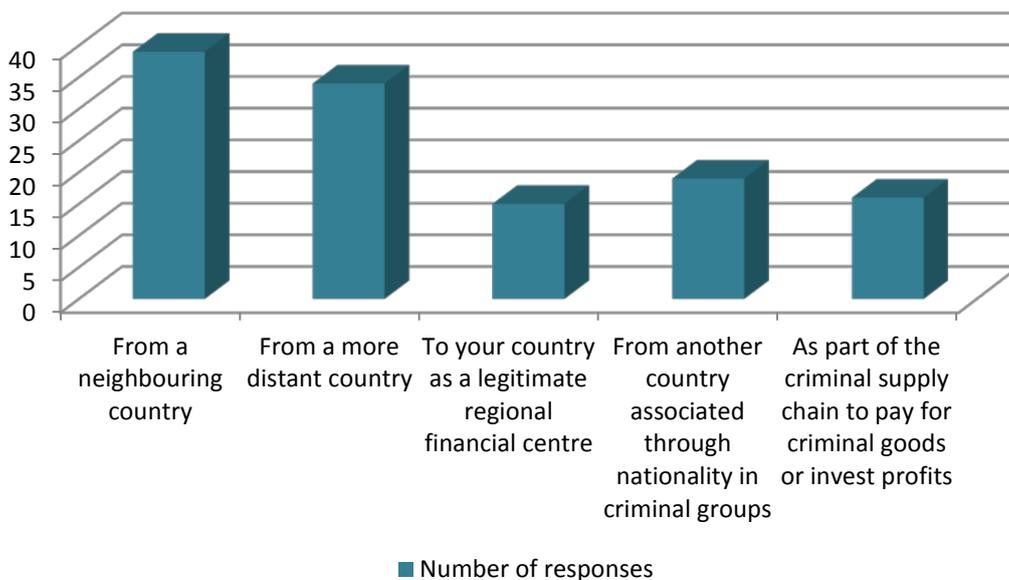
Fourteen countries believed that cash was sent to the nearest financial centre. This closely correlates with the number of countries (15) who believed that their country is a legitimate regional financial centre, and that cash was brought into their country because of this. Respondents to this question included France, Italy, the Netherlands, Panama, South Africa, the UK, and the USA, suggesting the major financial centres do act as a ‘pull factor’ for cash derived from criminality. This is understandable, as regional financial centres tend to be politically and economically stable, and have a greater number and greater range of small, medium and large businesses located there. Correspondingly, they have a larger concentration of banks and other financial institutions, meaning that the criminal would enjoy more opportunities for disposing of large amounts of cash without drawing attention to himself.

Regional financial centres are usually major cities such as Dubai, London, and New York. These cities are often seen as places of opportunity for the less well-off from many countries. This tends to make them more ethnically diverse, meaning that criminal groups that are ethnically homogenous are more likely to ‘fit in’ without attracting attention.

### 3.1.2 INBOUND TRANSPORTATIONS OF CASH

The most commonly selected options in respect of origin and purpose of inbound movements of criminal cash broadly correlated with those for outbound cash (see graphic below). In particular, the most commonly encountered point of origin for inbound cash was a neighboring country. This lends more weight to the theory that the primary driver behind the cross-border transportation of criminal cash is to distance it from the place where it was generated. Moving it the shortest distance possible whilst achieving that aim is the preferred option. However, the fact that nearly as many countries believe that cash is also imported from more distant jurisdictions may indicate that cost and convenience can be less important than the actual distancing process.

Graph 4. **Where cash is imported and ML is suspected, where does the cash come from?**

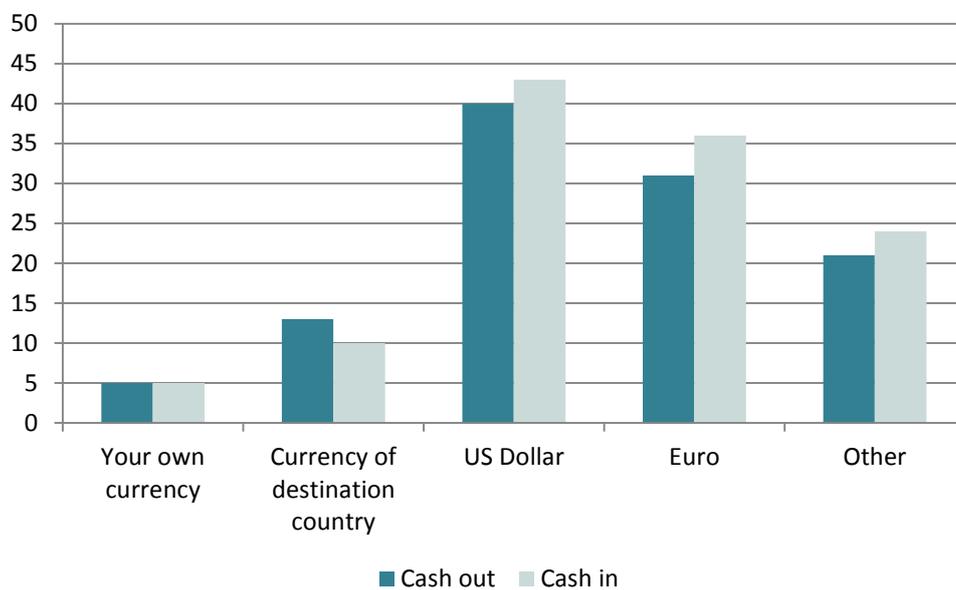


Less significant than the removal of the cash from the jurisdiction where it was generated The questionnaire responses illustrated in the above graphic indicate that an association between a destination country and the ethnicity of a crime group (an ethnically homogenous crime group operating overseas but importing cash into their country of origin, for example), or the need to pay suppliers or expenses, are important considerations.

### 3.2 CURRENCIES

Countries were asked to identify the currencies most often encountered in consignments of suspected criminal cash transported out of and into their jurisdiction. The graphic below summarises the results.

Graph 5. Currencies most often encountered in suspected criminal cash transport



Perhaps unsurprisingly, overwhelmingly the most frequently encountered currencies were the US dollar and the euro. A large number of currencies were identified in the ‘Other’ category, of which the most frequently encountered were, in order of frequency, the British pound, the Swiss franc and the Chinese yuan, the Canadian dollar, then the Hong Kong dollar, Japanese yen and Russian ruble. All of these currencies were identified in jurisdictions other than where they are used as the main currency, indicating that the cash concerned had either been smuggled into that jurisdiction, or that it had been exchanged into this currency before the transportation took place.

Two features that nearly all of the most frequently encountered currencies have in common are that they are either noted for their long-term stability<sup>55</sup>, or are widely used and traded, or both. Clearly, it makes sense for persons wishing to hold money in the form of cash for a prolonged period of time to choose a currency that is going to hold its value on international currency markets and is useable in the widest range of countries. The above currencies are those that best fit those requirements.

<sup>55</sup> The ‘top six’ are often acknowledged to be the US dollar, the euro, the Japanese yen, the British pound, the Swiss franc and the Canadian dollar (Lee, R., 2013).

Altogether, a total of 34 currencies, other than the US dollar and the euro, were identified in consignments of suspected criminal cash. One of the most striking features of the currencies identified was their regional variation - currencies such as the Saudi riyal and the Qatari riyal were only seen in the Middle East, for example. Moreover, the 'other' currencies identified were very often those of the country immediately adjacent to the country discovering them. Again, this gives weight to the theory that, in many cases, criminally derived cash is simply transported to the nearest possible foreign jurisdiction as a method of separating it from the crime that generated it.

### 3.2.1 CASH REPATRIATION

Where a country uses its own unique currency, it has the opportunity to gather data concerning the jurisdictions from which its currency is repatriated. This in turn has the potential to tell where its cash is exported to, and by extension, why. Cash in a currency that cannot be used in a jurisdiction, perhaps received in the course of a currency exchange transaction, is generally repatriated to the issuing country by being traded, often as part of a basket of currency, on international currency markets.

The British pound, for example, is only used as currency in the countries that make up the United Kingdom (England, Scotland, Wales and Northern Ireland) and various overseas territories with British ties such as the Channel Islands, the Isle of Man, Saint Helena, Tristan de Cunha etc. Therefore, with very few exceptions, any British pounds found in an overseas jurisdiction must have been transported there or, possibly, hoarded, or traded in the course of currency speculation (the British pound is the fourth most traded currency on international markets and, in terms of value, the third most held in reserves).

In 2008, the UK authorities conducted an in-depth exercise to study the repatriation of the British pound from overseas, drawing on information from customs data and banks and other financial institutions involved in trading on currency markets. Notwithstanding the popularity of the currency as a store of value and on international currency markets, and the distorting influence of regional cash consolidation centres such as Austria and Dubai, studying the phenomenon revealed a lot about where cash was transported to illicitly.

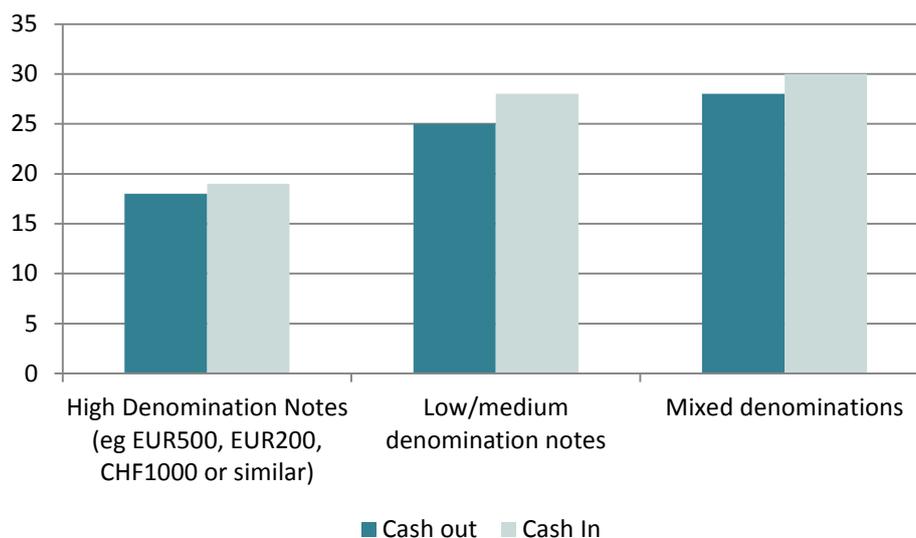
For example, the exercise showed that the amount of British pounds being repatriated from southern Spain was far in excess of what could be justified by international cash trading or the tourist trade. It was also far in excess of what was being repatriated from similar sized countries with similar economies (such as France and Germany). After further study to rule out other factors, the conclusion was that southern Spain was a popular destination for criminally derived cash smuggled out of the UK.

Similarly, in-depth study of data provided by a financial institution involved in international currency trading identified that a large amount of British pounds was being repatriated to the UK from northern Belgium. Law enforcement bodies requested further information from the financial institution who, from their internal paperwork (such as packing lists) were able to identify three branches of a particular bank where the cash had entered the Belgian financial system. When the locations of these branches were plotted on a map it showed that they were in close proximity to an industrial estate known as a consolidation and distribution point for smuggled cigarettes, indicating that the cash could have been linked to excise duty evasion.

### 3.3 DENOMINATIONS

One of the questions in the questionnaire asked countries to specify what denominations of notes they encountered in consignments of suspected crime-linked cash. The question covered cash both exported and imported, and the options offered were high denominations (E.g. EUR 500, EUR 200, CHF 1000 or similar), low/medium denominations, or a mixture of both. The answers are summarised in the graphic below.

Graph 6. **Denominations encountered in consignments of suspected crime-linked cash**



As can be seen from the data, high-denomination notes are frequently, but not always, encountered. Low/medium denominations or a mixture of both high and low denominations are more frequently seen. There is also a significant disparity between countries which might otherwise be expected to show similar results. For example, the UK reports that far more high-denomination euro and US dollar banknotes are sold by MSBs in the UK than can be explained by legitimate demand, and that there have been many convictions for money laundering of MSBs knowingly selling these notes to criminal groups whose main reason for purchasing them was to reduce the bulk and weight of criminal cash to a minimum to facilitate cash smuggling. A similar preference by criminals of EUR 500 and EUR 200 banknotes is noted by the authorities in the Netherlands.

#### Box 8. **The sale of high-denomination banknotes to criminals to facilitate cash smuggling**

In the UK in recent years, there have been numerous money laundering prosecutions of Money Service Businesses (MSBs) selling high-denomination euro and US dollar banknotes to persons they knew or suspected to be involved in criminal activity (usually drug trafficking). The evidence in these cases shows that the banknotes purchased were smuggled out of the UK and the reason high-denomination banknotes were used was to reduce the bulk and weight of the cash to a minimum to facilitate concealment.

A significant case concerned a person, K, who between 1994 and 1996 had operated an MSB in the UK which had sold a total of GBP 70 million worth of high-denomination banknotes to criminal customers (in pre-euro days, these were Dutch guilders, Austrian schillings, Deutschmarks etc.).

Almost none of the purchases of these banknotes from currency suppliers, and the onward sale to the criminal customers, were declared in the records of his business. K was prosecuted for money laundering, convicted, and sentenced to 14 years imprisonment (the highest sentence available for money laundering in a UK court).

K appealed to the UK High Court and in 2007 his conviction was quashed on the basis of a technicality. In the meantime he had been released from prison, and whilst he was waiting for the result of his appeal, he set up another MSB, in the names of his wife and son, and almost immediately re-commenced purchasing high-denomination foreign banknotes and selling them to criminal customers.

Law enforcement officers in the UK investigating the criminal activities of a separate MSB involved in similar activity chanced upon evidence indicating that K had re-commenced his previous activities. A separate criminal investigation was launched, and evidence was gathered of known drug traffickers visiting K's MSB and purchasing large amounts of high denomination euro and US dollar banknotes. K was arrested and his business was searched. The new investigation revealed that, once again, almost none of the purchases of the high-denomination banknotes from currency suppliers and the onward sale to customers were detailed in K's records. This time, the total value of the banknotes sold to criminal customers over an 18-month period was approximately GBP 190 million.

Faced with overwhelming evidence, K pleaded guilty to money laundering charges and was sentenced to 11 years imprisonment. His wife and son pleaded guilty to charges in respect of breaches of the regulations for running an MSB.

*Source: UK authorities.*

In Germany, however, the most common occurrence is for seizures of low to medium denominations in the context of ML linked to drug proceeds generated within the EU, in particular when Spain, France, Italy, the Netherlands and Germany are involved. The German authorities have evidence that cash of this nature is seized in its 'raw state', apparently because criminals are deterred from changing small to high-denomination notes, due to the risk of being detected and reported by the financial sector in accordance with AML/CFT rules. Furthermore, during these AML operations, the cash is not found hidden in the car, apparently due to the fact that there are regular controls, for example, on the transit motorways from Spain to Germany via France. In the context of such controls, cash smugglers learned very quickly that if money is hidden in a car in the same way that drugs would be hidden, the smugglers could not credibly refer to any legal business as the source. Hiding the cash and the use of high-denomination notes therefore no longer play a significant role in their plan. This identified modus operandi therefore contributes to the absence of high-denomination notes in cash payments of thousands of euros as an indicator of money laundering in cases as described in this paragraph.

#### **Box 9. Physical transportation of cash to break the Audit Trail**

Case review and analyses on investigation in ML through cash couriers associated with export of second hand cars.

Funds originating from drug trafficking operations in Europe are gathered and temporarily stored in different European countries. Money laundering groups/ organisations arrange the collection of those funds by cash couriers. The funds are physically transported from one European country to another (e.g. from Spain or the Netherlands to Germany). The transportation of funds is conducted by car on a weekly basis, the funds are not specially concealed (for example, packed in plastic bags and stored under the front seats). The value of the transported sums varies between EUR 40 000 and EUR 500 000; less frequently it goes up to EUR 1 million. The majority of the detected funds are regularly in small denomination of EUR 10, EUR 20 or EUR 50 notes, which is a clear indicator of drug sales on retail level. When running into a cash control the cash couriers regularly try to explain the transportation of the funds with an intended purchase of used cars or building machines.

Once in Germany, the cash couriers distribute the money to different small companies, mostly operating in the second-hand car market. All those companies are managed by the cash couriers, or other persons, with the same ethnic background. Being very cash-intensive, the companies are used as a simple legitimisation for their legal income in Germany as well as cover up for their ML-activities. There is always an intermingling of legal and illegal businesses (e.g. integration of drug-related money as well as tax fraud)

Investigation showed that the funds carried by the cash couriers were up to ten times higher than the annual turnover declared to the German Tax Authorities.

The cash is used for purchase of building machines and cars on the second hand market (grey market) in Germany which are then legally exported to the Middle East. The settlement for the exported goods is carried out over foreign accounts which belong to the car companies mainly located in the financial centers in the Middle East. If cash is needed, couriers will bring the money back into Germany with a proper declaration to the customs authorities. The customs declaration forms are used to legitimise the drug funds transported from various European countries to Germany later on.

The predicate offences for this typological scheme have been trafficking of heroin as well as cocaine.

*Source: German Authorities.*

The answer to these apparent discrepancies lies in the fact that, once again, other factors influence what denominations will be used when contemplating money laundering through the physical transportation of cash; these are the purpose, destination and method. An in-depth study of the questionnaire responses and the case examples reveals that high-denomination notes are most likely to be encountered when there is an element of concealment involved in the transportation of the cash.

The reason for this is self evident and has already been discussed in this report. Taking the British pound as an example, measurements of the size and weight of the relevant banknotes shows that GBP 250 000 in 'street cash', a mixture of GBP 10 and GBP 20 notes, weighs between 15-20 kg and is bulky enough to fill an average size sports holdall. The same value in EUR 500 notes would weigh about 0.6 kg and would fit in a fat envelope. High-denomination notes therefore facilitate concealment of large values of cash; by the same token, if the concealment is already available (such

as a specially constructed 'hide' in a vehicle, for example), the use of high-denomination notes means that it is possible to transport a far higher value at a time.

#### Box 10. Examples of the size and weight of the relevant banknotes



Source: UK authorities.



Suitcase filled with EUR 500 banknotes – 12 000 notes, value EUR 6 000 000. The cash weighs about 12 kg.

Source: Netherlands Authorities.

### 3.4 METHODS OF PHYSICAL TRANSPORTATION OF CASH - PASSENGERS AND NATURAL PERSONS

As has already been stated, it is clear from the responses to the questionnaire most countries directed the bulk of the resources dedicated to tackling money laundering through physical transportation of cash towards natural persons. This may be as a reflection of the wording in Recommendation 32, which is titled 'cash couriers'.

**FATF Recommendation 32. Cash couriers \***

Countries should have measures in place to detect the physical cross-border transportation of currency and bearer negotiable instruments, including through a declaration system and/or disclosure system.

Countries should ensure that their competent authorities have the legal authority to stop or restrain currency or bearer negotiable instruments that are suspected to be related to terrorist financing, money laundering or predicate offences, or that are falsely declared or disclosed.

Countries should ensure that effective, proportionate and dissuasive sanctions are available to deal with persons who make false declaration(s) or disclosure(s). In cases where the currency or bearer negotiable instruments are related to terrorist financing, money laundering or predicate offences, countries should also adopt measures, including legislative ones consistent with Recommendation 4, which would enable the confiscation of such currency or instruments.

However, the “Glossary of specific terms used in this Recommendation” in the Interpretive Note to Recommendation 32 confirms that the scope includes shipment through containerised cargo and mailing:

**Glossary of specific terms used in this Recommendation**

**Physical cross-border transportation**

refers to any in-bound or out-bound physical transportation of currency or BNIs from one country to another country. The term includes the following modes of transportation:

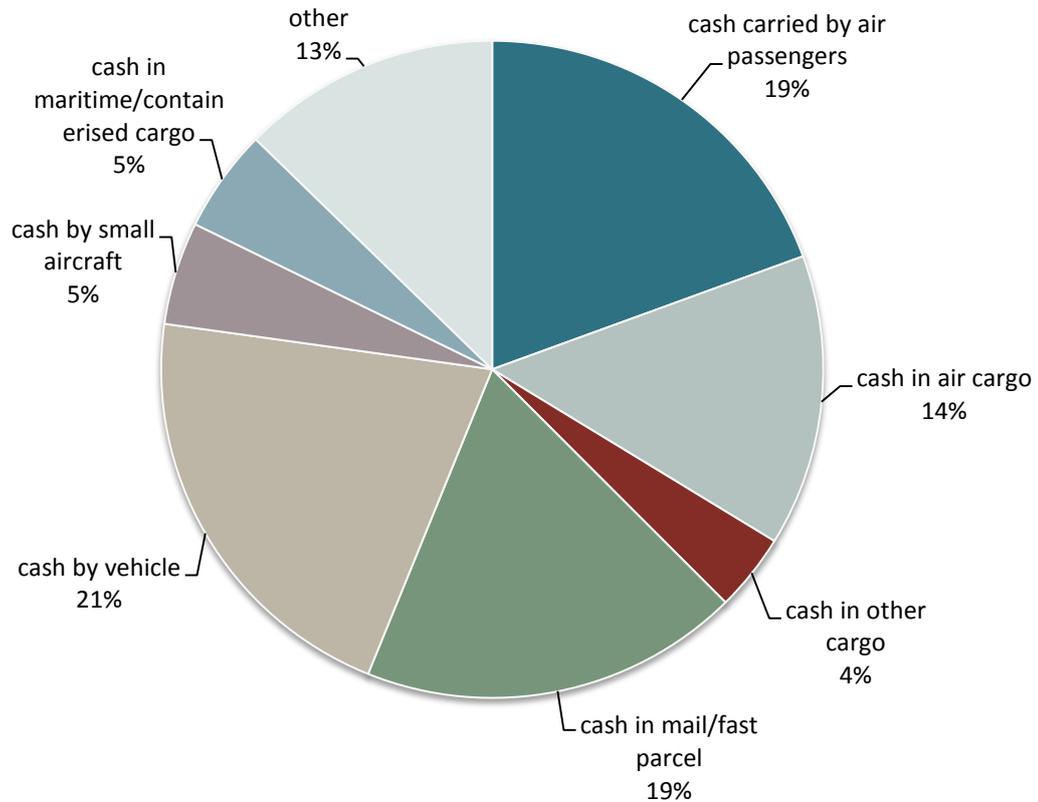
- (1) physical transportation by a natural person, or in that person’s accompanying luggage or vehicle;
- (2) shipment of currency or BNIs through containerised cargo or
- (3) the mailing of currency or BNIs by a natural or legal person.

While the FATF Recommendations cover cash transported by natural persons, mail and cargo, there is a focus on ‘cash couriers’ both in the title of Recommendation 32 and in its correlating interpretative note.

This focus on ‘natural persons’ may help to explain why from the questionnaires it appears that many jurisdictions seem to consider that their obligations under Recommendation 32 are limited to have in place a disclosure or a declaration system for transportation of cash by natural persons.

The questionnaire asked countries to rank the methods of cross-border transportation of cash they encountered most frequently in descending order. The graphic below illustrates the results.

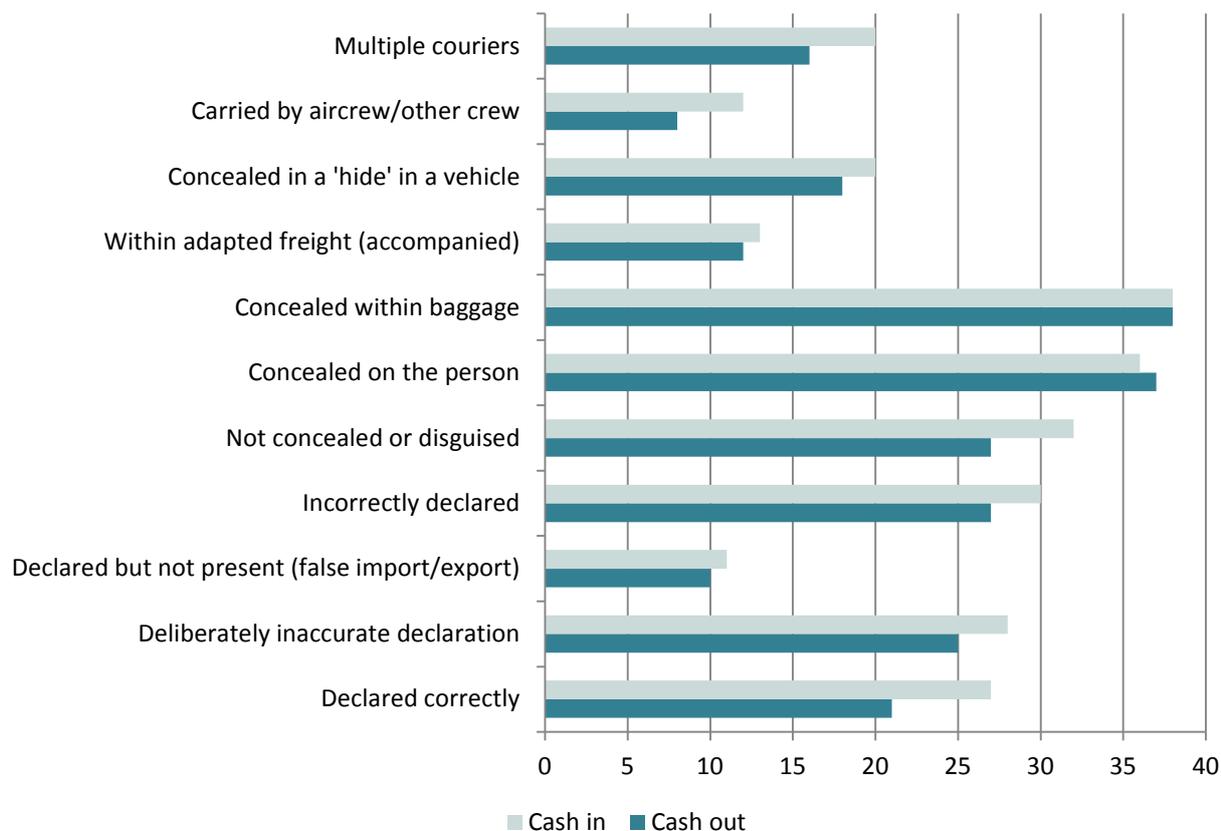
Graph 7. **Most frequently encountered methods of cross-border transportation of cash**



These results show that, in actual fact, many countries do encounter cash movements in air & other cargo and mail (37%). This would imply that countries are choosing to direct their resources against natural persons despite them knowing that cash is moved in other ways. This may indicate an incomplete awareness of the risks involved.

Countries were also asked to detail what, in their experience, were the most common techniques used by criminals when physically transporting cash. The data in respect of natural persons is expressed in the graphic below; it shows that the techniques encountered are broadly similar for cash detected both inbound and outbound.

Graph 8. Most common techniques used by criminals physically transporting cash



The techniques can be broadly split into the following categories; criminal cash being declared in some fashion; no attempt being made to conceal criminal cash; concealment on the person (internally, 'body packed' or within items of clothing); concealment in a passenger's baggage; and concealment within vehicles and adapted freight, these techniques are discussed in more detail below.

### 3.5 CASH DECLARATION REQUIREMENTS

As set out above, it is a requirement of FATF Recommendation 32 that 'countries should have measures in place to detect the physical cross-border transportation of currency and bearer negotiable instruments, including through a declaration system and/or a disclosure system' and most countries that are committed to the FATF Recommendations have introduced such a system. The wording of Recommendation 32 makes the purpose of these systems clear; it is to assist in the detection of both licit and illicit cross-border transportation of cash and BNIs, and the wording of the recommendation makes it clear that countries should also have effective and proportionate sanctions in place for breaches of the declaration requirements.

It is, however, clear from both the responses to the questionnaire, the case examples submitted and the discussions during the typology meetings in Qatar in November 2013 and December 2014 that criminal groups are finding ways of turning cash declaration and/or disclosure systems to their

advantage. One issue appears to be that in some countries, passengers completing a cash declaration do not routinely have the declaration checked by the authorities to see if what is written on the declaration form matches with reality (in some countries this is hardly ever done). There is also very little control exercised over the 'customer copies' of the cash declarations (most are completed in at least duplicate, with at least one of the copies being retained by the declarant), meaning that there is nothing to stop the same form being re-used (see bullet 3 below).

There are numerous ways in which a criminal can use a cash declaration requirement to his advantage. These are all real examples of techniques that have been encountered by countries responding to the questionnaire, or taking part in discussions at meetings of the project group;

- **Cash declarations used to lend a veneer of legitimacy to criminal cash.** Countries which acknowledge that they rarely check cash declarations report numerous examples of persons regularly importing large amounts of cash from jurisdictions linked to drug trafficking, who complete a cash declaration on entry into a country, then take the cash to a bank and pay it into an account. When challenged by bank staff, they produce the cash declaration, which the bank staff accept as 'proof' that the cash must have a legitimate origin as it was declared to the authorities and not seized. Cash derived from other criminality may also be accurately declared in order to circumvent local requirements in respect of banking the cash (see earlier case example from the Tunisian authorities).
- **Cash declarations used to create a false record of import or export.** A cash declaration form is completed and submitted, but not checked, when a passenger enters a country, but no cash was actually imported or exported. Instead, the criminal goes to a bank or other financial institution and pays in the cash derived from crime in the destination country to the value of the false declaration, which is accepted as legitimate in the same manner as the previous example (examples have been reported where a passenger declares cash in, say, three currencies but only two are actually present, the absent third currency is then 'made up' from criminal cash in the destination country).
- **Cash declarations re-used.** Cash is genuinely imported or exported and is declared accurately and correctly. The criminal then takes possession of additional cash derived from criminality in the destination country and goes from bank to bank with the same declaration, using the declaration multiple times to lend a veneer of legitimacy to the additional tranches of criminal cash. The bank staff examine the cash declaration form but do not retain it or make a note of the details, so no-one is able to detect that it has been re-used. A variation on this theme is an adaptation of the example above, where a completely fictitious declaration is used multiple times.
- **Cash declarations that are incomplete.** The criminal declares a large amount of cash at a border control and is challenged by the authorities to

produce the cash. The correct amount of cash is produced, it is counted and the authorities are satisfied with the declaration and the subject is allowed to proceed. Had the authorities searched the subject and his effects, however, they would have discovered that he had additional cash in his possession that he had not declared. The subject is later challenged by the authorities away from the border and can truthfully and verifiably state that he made a cash declaration which was verified satisfactorily by the authorities.

- **Cash declared at one end of a journey but not the other.** In this situation the subject may correctly declare the cash on leaving a jurisdiction, for example at an airport, where the authorities do not routinely check declarations. He has no intention of declaring it inbound at his destination as the cash has a criminal origin and he intends to put it to criminal use. However he is intercepted at the destination and the cash is discovered. The subject then claims the failure to declare the cash was an oversight and uses the declaration made at the beginning of the journey as ‘insurance’, effectively giving the cash a veneer of legitimacy as in the first example (see case reported by Israeli authorities below).

#### Box 11. Example of a deliberately incomplete cash declaration

In October 2013, a Jordanian person arrived at Amman airport coming from Turkey and he declared an amount of JOD 153 000 (Jordanian dinar) (approximately USD 215 000)

After checking the amount and counting the money, it was found that the person was actually in possession of the following, in total equivalent to about USD 290 000:

- AED 384 125 (Emirates dirham)
- SAR 74 300 (Saudi riyal)
- JOD 85 486
- QAR 113 238 (Qatari riyal)
- ILS 31 460 (Israeli shekel)
- EGP 11 091 (Egyptian pound)
- BHD 169 (Bahrain dinar)
- KWD 710 (Kuwaiti dinar) and
- LBP 747 000 Lebanese pound

The money was seized and the Jordanian court levied a penalty of 3% of the cash seized.

*Source: Jordanian authorities.*

**Box 12. Declaration at one end of a journey but not the other**

The authorities in Israel were alerted by customs officials in another jurisdiction about an Israeli citizen, a diamond dealer, who had made cash declarations on at least 20 occasions, totalling about USD 2.2 million whilst leaving that country to travel to Israel. The Israeli authorities discovered that the individual had not declared any of the cash when entering Israel. An investigation was commenced.

The subject refused to co-operate with the investigation, claiming that the money was from a legitimate source, using the fact that he had declared the money whilst leaving the other jurisdiction to support his claim. The subject was aware of the money laundering laws in Israel.

The cash was suspected to be linked to tax fraud.

At the conclusion of the investigation the subject was fined ILS 400 000.

*Source: Israeli authorities.*

**3.6 NO ATTEMPT TO CONCEAL**

As the graphic in section 3.4 shows, in some circumstances no attempt is made to conceal cash when it is transported from one country to another. This can be the case when the transportation is across a land border which is either only manned occasionally or not manned at all (as is the case with all land borders within the EU, see case reported by the German authorities, Box 9).

**Box 13. No attempt to conceal cash**

In 2008, Slovenian customs officials at a land border intercepted a person leaving Slovenia for Croatia by car. Customs noticed a bag on the rear seat of the vehicle and checked the contents. They found a huge amount of low-denomination banknotes. The cash was seized and counted. In total, there were more than 400 EUR 20 notes, more than 400 EUR 100 notes and more than 8 000 EUR 50 notes, totalling in excess of EUR 500 000. The cash was related to drug trafficking.

Customs had stopped the vehicle because the driver was of Serbian nationality, using a Portuguese passport and driving a car owned by a third party with Italian number plates.

In this case, the Slovenian authorities experienced significant difficulties evidencing the criminal conduct of the subject in another jurisdiction. Eventually they had to use information in a newspaper from the overseas jurisdiction (which reported the drug trafficking activities of the subject) to produce enough evidence to convince the Slovenian authorities to forfeit the cash.

*Source: Slovenian authorities.*

In the above case, as with the previous example from Germany (box 9), the cash was in its 'raw state': low-denomination euro notes derived from sales of controlled drugs in Slovenia. The euro is accepted unofficially by many businesses in Croatia, so there was no real imperative to exchange the

cash before removing it from Slovenia. At the time of this event, Croatia was not part of the EU. As a result of Slovenia's accession to the EU Schengen agreement, controls at the Slovenia/Croatia border were increased in 2007 as this was now an external EU border (and the cash should have been declared under EU regulations). However, as with most land borders in Europe large numbers of vehicles travel between the two countries on a daily basis and the chances of being intercepted were low.

### 3.7 CONCEALMENT ON THE PERSON

As shown in Graph 8, concealment of cash on (or in) the body, or within the luggage of a person travelling between two jurisdictions, was overwhelmingly the most common technique encountered by countries that responded to the questionnaire. It is important to note, however, that the resources of the customs authorities to check natural persons of most countries are concentrated more at air, sea and land boundaries than anywhere else, so there is an argument to say that the reason these techniques are most commonly encountered is because those are the ones that most countries look for.

Countries were asked to provide case examples, and well in excess of 100 examples were submitted from a wide variety of countries all over the world. There are too many to list individually but the following are examples:

#### **Box 14. Cash concealed on a person intended for Islamic State (ISIS/ISIL) in Syria**

In April 2014, a female traveller, M, was intercepted at outbound customs controls at London Heathrow airport on her way to Turkey. She was asked if she was carrying any cash. She produced 40 EUR 500 notes (EUR 20 000) from her underwear. She was also in possession of an additional EUR 1 000 made up of four EUR 200 notes and two EUR 100 notes.

M admitted she had been given the cash by a close friend, W, and asked to take the cash to Turkey, where she would hand it to W's husband or one of his associates. W had offered her EUR 1 000 to undertake the trip. W's husband had previous convictions for drug trafficking and firearms offences, but had recently converted to Islam and had travelled to Syria to fight for Islamic State. M claimed she had been told by W that the money was for the deposit on a house, and she did not know W's husband had joined Islamic State.

W was also arrested and evidence, including messages, photographs and videos, were recovered from her mobile phone showing her husband involved in jihadist activities. It was believed that W was preparing to travel to Syria with her two young children to join her husband.

At their trial, M was acquitted of funding terrorism, but W was convicted and sentenced to 28 months imprisonment.

*Source: UK authorities.*

**Box 15. Cash transported by aircrew**

A money laundering syndicate was suspected of using airline pilots and crew to smuggle millions of dollars' worth of cash out of Australia to Vietnam. Authorities suspect that the money was the proceeds of drug sales in Australia and payments for drugs imported into Australia.

The cash was given to the pilots by owners of several remittance service businesses, and authorities suspect the money laundering network used pilots to smuggle more than AUD 10 million from Australia to Vietnam over an 18-month period.

Searches of AUSTRAC's information database identified that one of the suspect Vietnamese pilots had previously declared AUD 19 000 on an international currency transfer report (ICTR). Since that declaration, the pilot had made no further reports of currency being carried into or out of Australia.

The suspect pilot was arrested after attempting to smuggle AUD 500 000 out of Australia without declaring it. He pleaded guilty to charges of money laundering under the *Criminal Code Act 1995* and was subsequently jailed for four-and-a-half years for smuggling a total of AUD 6.5 million out of Australia.

*Source: Australian authorities.*

**Box 16. Outbound cash seizure destined for the USA**

In October 2013, at the Bermuda airport, a 46-year old Bermudian male presented himself at the US border control to travel to Atlanta. Officers were suspicious of his demeanour and appearance. When questioned, he admitted he had made a false declaration as to the amount of cash in his possession; whilst he had stated he had USD 1 800 he changed that to USD 8 000.

An initial search resulted in the seizure of USD 10 750 from his wallet and pockets.

The man was detained, he and his luggage searched. Officers body searched him and found he had a home made money belt containing USD 29 900. On searching his carry-on luggage officers seized USD 10 556 hidden in a Worldview Travel cardboard pouch.

When questioned, he stated that local gang members had forced him to carry the USD 50 000 because a drug deal had gone wrong. They had ordered him to take the cash to Atlanta where he would be met. He added that USD 1 206 was his cash from work. He had originally been given all the money in the money belt, but had split it up as it was too bulky under his shirt.

An investigation by the FIU showed that the subject had limited finances and was living within his means. He pleaded guilty to an offence of possession of the proceeds of criminal conduct and received a suspended sentence. The cash was confiscated.

*Source; Bermuda Authorities.*

**3.8 CONCEALMENT IN PASSENGER'S BAGGAGE**

As the above example from Bermuda shows, one of the influencing factors regarding whether cash is carried on the person or in their luggage is its physical bulk and weight. In the UK example (box 14),

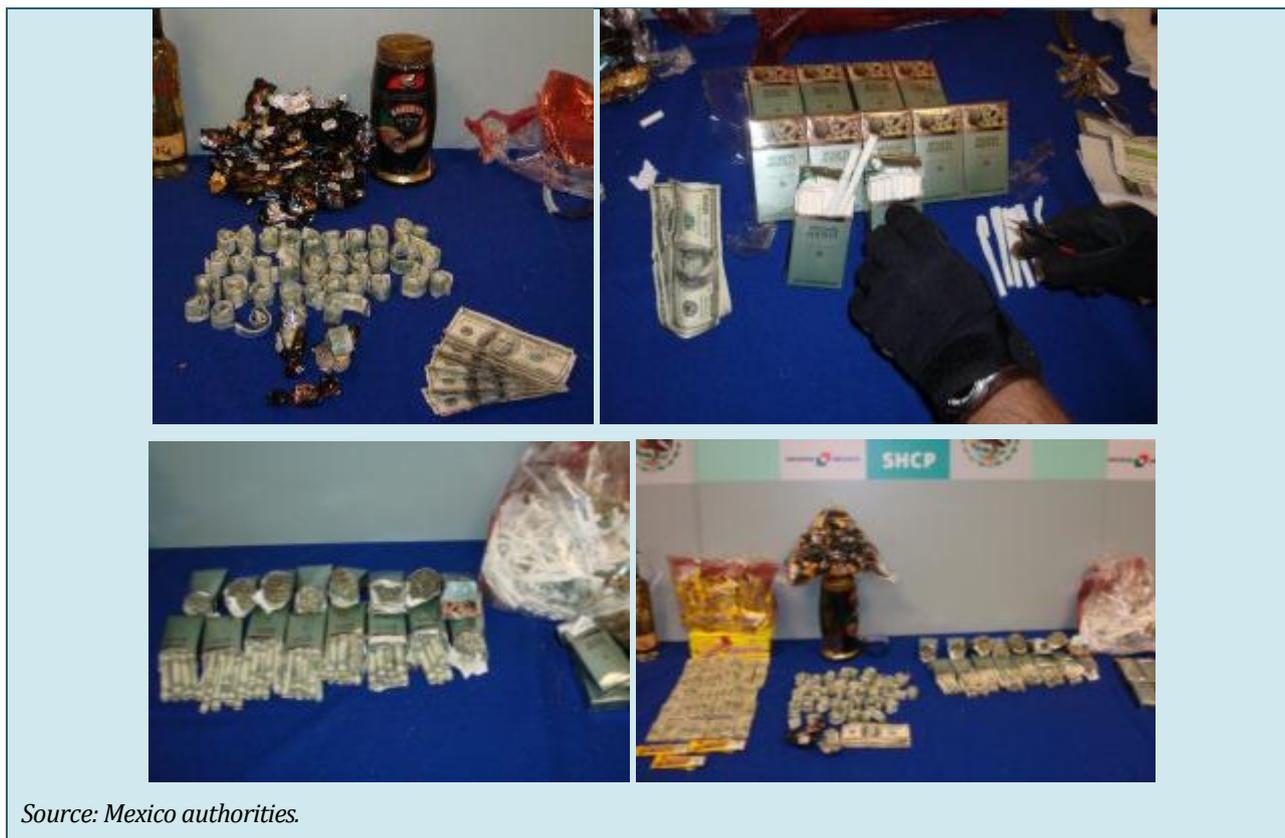
the courier was able to hide the cash in her underwear as is was made up of high-denomination euro banknotes that reduced its physical size to the minimum possible. However there will be occasions when even the use of high-denomination banknotes will make it impossible for the cash to be concealed about a courier's person. If there is no other transportation option available, the cash will have to be placed in the courier's baggage instead, either simply hidden within the clothing, within the fabric of the luggage itself, or hidden within other items inside the suitcase.

**Box 17. Cash concealed inside items in a passenger's luggage**

On 7 January 2011 , at the international airport of Mexico City, customs officers performed a routine luggage inspection of passengers on flight number bound for Lima, Peru. A cash detector dog made a positive indication on a suitcase, which was sent to the mobile X-ray unit to be inspected.

The inspection showed irregular images that did not match the usual baggage of a passenger. Subsequently, customs staff opened the baggage in the presence of the passenger who owned the suitcase, for a thorough inspection of its interior and contents. Hidden inside a bag of candy and cigarettes packages they found a total of USD 151 000 in USD 100 banknotes .





Source: Mexico authorities.

#### Box 18. Cash concealed in the structure of luggage

On 4 October 2005, customs officials at the Ministro Pistarini (Ezeiza) international airport, Argentina, inspected the luggage of A, just arrived on a flight from Mexico. The luggage consisted of one bag with a backpack inside it. During the inspection the officials assessed that the backpack felt too thick. Both bags were emptied of their contents and X-rayed. The images displayed were suspicious. The customs officials cut the bags open and found that both had a double bottom containing US dollars wrapped in plastic wrap. Nine packs were found inside the two bags. The backpack contained four packs, three containing USD 25 000 and one containing US 23 000. The bag contained five packs, two with USD 50 000, two with USD 60 000 and one with USD 30 000, a total of USD 348 000.

On the same day, customs officials also inspected the luggage of R, who had also arrived from Mexico on the same flight. His luggage was a garment bag. The officials detected excessive rigidity while searching the garment bag. Agents emptied the contents and X-rayed the bag, and again, identified suspicious items. The agents cut the bag open and found a double bottom containing US dollars wrapped in plastic wrap. Eight packs were found, six containing USD 40 000 each and two containing USD 15 000 each, totalling USD 270 000.

The defendants were charged on the basis of “having entered the Argentinean National territory on 4 October 2005, from México DF in the MX 1691 flight, with USD 618 000, and having declared on the customs forms that they were entering with less than USD 10 000. The money was hidden in the luggage... (and) they reported receiving, as profit, that money from criminal source in order to give

it the appearance of a lawful source”. The subjects received a penalty of imprisonment in abeyance, special disqualification for six months for the exercise of trade, total disqualification for six years to serve as public officers and the seizure of the money (USD 618 000).

*Source: Argentinian authorities.*

### 3.9 CONCEALMENTS IN VEHICLES AND ACCOMPANIED FREIGHT

Many countries share land borders, and where this is the case, a common method of cash smuggling is to conceal it within the structure of a vehicle or within freight carried on the vehicle. The advantage of doing this is that, in general, more cash can be concealed than would be the case with a foot passenger, and the concealment is generally more difficult to identify. As the graphic in section 3.4 shows, a significant number of countries identify this technique.

Of course, the method of transport does not have to be a wheeled vehicle; some countries also report the use of others, such as boats and light aircraft.

#### Box 19. Cash concealed in adapted accompanied freight

On 19 September 2013, at the San Emeterio tactical inspection station, located near Sonoyta, Sonora, an articulated truck with a trailer loaded with 2 058 boxes of fresh apples entered the station to clear customs formalities. After reviewing the cargo documentation, the vehicle and its cargo were sent for customs inspection. The inspection was performed by a non-intrusive scanning system in order to search the vehicle and its trailer for undeclared goods. The scan showed up irregularities in the backside of the trailer just before the rear axles. As a result, officials carried out a physical verification of the goods. Inside the boxes they found a total of USD 1 310 010 in various denominations.





Source: Mexico Authorities.

#### Box 20. Cash concealed in a specially constructed 'hide' on a Yacht.

On 5 April 2008 several law enforcement agencies in St. Vincent and the Grenadines conducted a joint operation. These agencies included the Coast Guard, Rapid Response Unit, Narcotics and the Financial Intelligence Unit. The aim of the operation was to board, and conduct searches on, two yachts suspected to be owned by defendant A. Prior to the operation, the St. Vincent and the Grenadines Financial Intelligence Unit (SVG-FIU) and the Royal St. Vincent and the Grenadines Police Force (RSVGPF) received intelligence from the law enforcement authorities in Bermuda indicating that defendant A had a large cache of money on the island of Bermuda and wanted to smuggle same into St. Vincent and the Grenadines.

During the operation on 5 April 2008, law enforcement officials boarded two yachts, yacht A and yacht B, which were anchored in the territorial waters of St. Vincent and the Grenadines. The main conspirator defendant A was present on yacht B with his children and other minors. Defendants B and C of Trinidad and Tobago and Bermuda respectively were on yacht A. The officers conducted preliminary searches of both vessels and nothing illegal was found. However, all mobile phones were seized and kept as evidence. The yachts and the occupants were taken to the main coast guard base where a more thorough search was conducted on the yachts.

The search of yacht B revealed nothing illegal, and defendant A was released from custody. Yacht A, which intelligence revealed had sailed from Bermuda to St. Vincent and the Grenadines, despite defendant C, the captain of that yacht, informing Bermuda customs that he was sailing to the Azores, was also searched. The search of Yacht A lasted for approximately seven hours before Officers decided to remove some liquid foam insulation that had hardened from around the water tank in one of the cabins of the yacht. Having removed the foam, the officer discovered US dollars in vacuum-sealed bags. Defendant C was questioned and informed the officer that other monies were around the water tank in the other cabin. Officers removed the foam from around this water tank and found US dollars in vacuum-sealed bags.

The SVG-FIU seized the monies and secured it as evidence. Forensic testing was conducted on the monies however no material evidence was recovered. Defendants B and C were charged with money laundering offences and defendant A was also subsequently arrested and charged with money laundering offences. The US dollars recovered from the yacht amounted to USD 1.76 million.

Defendants A and C were found guilty of the offences for which they were charged. Defendant B was acquitted.

*Source: St Vincent & The Grenadines Authorities.*

### 3.10 RE-USE OF CONCEALMENTS OF ILLICIT GOODS

Countries report numerous examples of cash being transported in the same concealments that originally contained illicit goods, such as drugs. This is a sensible option for the criminal as it means that only one method of transportation is needed and if the concealment was secure enough to successfully ship an illicit commodity it is likely that it will be secure enough to ship cash. However as stated previously it will by no means always be the case that cash and drugs will be shipped this way. It will only be done if it suits the persons at both ends of the criminal transaction; if the supplier of the goods has shipped them from country A but wants the payment at Country B, for example, this technique will not be suitable and another will be used.

#### Box 21. Cash transported in re-used concealments previously used for transporting drugs

Police investigations and FIU analysis identified an organised group that was laundering money from drug trafficking from South America.

One of the techniques that the group used to import drugs from South America was to import boats fenders. They would hide the drugs inside the boat fenders, and after opening them and taking the drugs out, they would place cash in high-denomination notes in the same concealment. The boat fenders were sent back to the country of origin as defective goods.

Police made several cash seizures. It was also established that there were links between the money seized and drug trafficking organisations.

The investigations revealed that the criminal organisation used several money laundering systems at the same time; cash was also transported by air passengers.

A total of EUR 7.2 million in cash was seized, 11 people were arrested and 2 000 kg cocaine was seized.

*Source: Spanish authorities.*

### 3.11 ABUSE OF LEGAL BUSINESS STRUCTURES

Several of the case examples submitted, such as the one from the Spanish authorities above, demonstrate that criminals often use 'front companies' or other legal business structures to lend a veneer of legitimacy to their activities. In many jurisdictions it is very easy to establish a limited company, which is a legal entity in its own right, and can be controlled by members of the criminal group. Once a business has been established it can open a bank account which can be used to deposit cash derived from illicit activities (especially if the business claims to be cash intensive, such as a bar, a night club or similar).

In addition, as was the case in the Spanish example, a business can be set up which claims to legitimately trade with businesses in other jurisdictions. This can then be used as 'cover' for the transport of goods between the two countries, which then can be used to conceal cash. If the goods are sufficiently large and the trade generates sufficient volume then large amounts of cash can be concealed in unaccompanied cargo.

### 3.12 METHODS OF PHYSICAL TRANSPORTATION OF CASH - CARGO AND MAIL

The questionnaire asked countries about their perception of the extent of the illegitimate cash movements into, transiting and out of their country. Countries were asked how many cash smuggling cases (cash couriers, cargo and mail) they had had in the last 3 years and what the amounts involved were. Countries could also mention their experience with the methods used for the physical movement of cash for suspected criminal or money laundering purposes – countries could tell if criminal cash has been transported by passengers, in (different forms of) cargo or in mail/fast parcels.

#### Box 22. USD 89 000 criminal cash in postal packages

Based on a routine check by customs, an investigation by the joint financial investigation group of police and customs forces in Berlin lead to the discovery of USD 89 000 which were forwarded from the US to Berlin.

Perpetrators, which were unknown to this time, had sent five packages containing electric devices to various beneficiaries in Berlin by post. The money (solely USD 100 bills) was hidden in these devices.

After an information exchange with US authorities it was possible to assign the funds to a group of criminals, which had acquired at least USD 4 200 000 000 through criminal activities (mainly fraud and cybercrime). The money was seized.

*Source: German authorities.*

Two countries stated that they did not believe that cross-border flows of criminally-derived cash take place in their countries. Twenty-two countries stated that they did not have experience in how cross-border flows of criminally-derived cash take place<sup>56</sup>. However, most of the countries reported the amount of the cash smuggling cases they had the last three years and/or the amount of cash involved.

Only one country, however, made a clear division between cases regarding passengers and cases regarding criminal cash in cargo and mail. However, by combining the answers of both questions mentioned above, the project group was able to determine that 27 countries<sup>57</sup>, or almost one-third of all responding countries, in the last 3 years had cases of cross-border transportations of criminal

<sup>56</sup> Nevertheless, some of these countries answered the questions in section 1 of the questionnaire reporting some cases of cross-border flows of criminally derived cash.

<sup>57</sup> Countries explicitly reporting in answering the first question of the questionnaire they had no cases the last 3 years but mentioning experience with cases in cargo and mail in the second question have not been counted in this number.

cash in cargo and/or mail. In total 19 of these 27 countries reported that they have dealt with cash smuggling cases in cargo and 19 countries had cases in mail.

Analyses of these 27 countries based on cross connections between different questions/answers in the questionnaire did not reveal a clear picture of why some countries were able to submit information on cash smuggling cases in cargo and mail and how they were able to detect these cases, while other countries were not able to do this. It might be expected, for instance, that the presence of specific regulations on anti-money laundering and terrorism financing regarding cash in cargo and mail would be a decisive factor, but this could not be concluded from the questionnaires. For instance, 13 of the 27 countries did not have a prohibition and/or a license requirement for cash in cargo and mail, and only 7 of the 27 countries have a specific declaration form for cash in cargo and/or mail. Of the 19 countries that have such a declaration form only 6 reported cases.

Precise figures for the number of cash smuggling cases relating to cargo and mail, and the amounts involved, could not be retrieved from the questionnaires, because the reported cases and amounts were not divided into cash carried by passengers, cargo or mail by any of the participating countries (except one). It was possible to conclude, however, that the actual number of cash smuggling cases<sup>58</sup> identified in cargo and mail was very limited, in total not more than hundred cases world-wide in the last three years. In the questionnaire responses, countries made it clear that almost all the cases detailed related to cash in the possession of passengers. This is no surprise as almost all countries appear to have strictly implemented comprehensive legislation on cash carried by passengers. This was also reflected in the answers on the question to indicate, in descending order, the most frequently encountered methods of cross-border transportations of criminal cash: cash couriers were the most numerous in all except one country<sup>59</sup>.

It is worth noting that, while several countries reported cash smuggling cases in cargo and mail, many countries pay no attention to this phenomenon as there is no need to do so in the absence of relevant legislation. One country which reported several cases in mail, for instance, states that customs does not give priority to inspecting mail items containing cash because customs lacks the legal authority to do so regarding anti-money laundering and terrorism financing. Consequently, all findings in this country are 'chance hits'. Customs only makes these discoveries within the context of selection and inspection of other goods and risks. This description will most probably fit all other countries without specific cash and/or anti money laundering and terrorism financing legislation.

The occurrence of cash smuggling cases is remarkable also for another reason. In the circumstances described above, it would seem that criminals do not need to smuggle cash. Instead, they could make a rational choice to simply declare all cash transported. As long as criminal cash is transported the same way legal cash is, customs are not able to identify any difference between criminal and legal money – "the best way to hide a tree is in the forest". On the other hand, when customs, by chance, find a concealed amount of money, it is immediately clear that this is criminal money. Absence of regulation and effective enforcement through appropriate allocation of authority is an encouragement for criminals to use this easy way of transporting criminal or terrorist money.

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<sup>58</sup> The terms "smuggling cases" and "illegitimate cases" used in the text have the same meaning.

<sup>59</sup> An other reason for being the number one in that ranking is that cash couriers are only able to transport a limited amount of cash. Multiple couriers have to be used in order to get a reasonable amount of cash across the border. In contrast to a container that could transport the big amount at once.

Recent research underlines this conclusion<sup>60</sup>. There is such a thing as ‘ingenuity fallacy’, which means that money laundering often takes place in a much easier way than one would think based on theory. If criminals can do it the easy way they won’t do it the hard way.

### 3.13 NO ATTEMPT TO CONCEAL

Information from some countries indicates that criminal groups may have found a way of infiltrating cash into the outwardly legitimate bank-to-bank shipment system, such that it can be ‘hidden in plain sight’.

#### Box 23. Criminal cash infiltrated into the legitimate bank to bank cash shipment process

The cash (total value: several million euros) was detected at an EU airport in transit from a bank in North America to a bank in the EU. Customs checks identified several clear money laundering indicators;

- Large amounts of EUR 500 notes
- The secure carrier had never before transported cash to the destination country; this country was a customer-country of another well-known carrier

A criminal investigation was started as customs of the transiting EU country reported a suspicion of money laundering to the FIU and the Police. The subsequent criminal investigation examined the background to the cash shipment, and also the bank concerned in North America in order to establish the suspected criminal origin of the money.

The case involved cooperation between the Police and Public Prosecution Service in the North American country involved and the Police in the EU country.

The investigation revealed that the case was the subject of a global investigation. The results so far are large confiscations, arrests and forfeitures.

*Source: Netherlands authorities.*

### 3.14 TECHNIQUES OF CONCEALMENTS OF CASH IN CARGO

As has been discussed earlier in this report, potentially far more cash can be concealed in cargo than can be carried by passengers, or concealed in a vehicle. Yet, the questionnaire responses indicate that in most countries the resources dedicated to detecting cash transported in cargo are a fraction of those dedicated to controlling air passengers. As explained in section 5.3, this may be related to the absence AML and CTF regulation for cash in cargo in the majority of the countries. This, in turn, may be related to the current wording of FATF Recommendation 32 (see section 3.4).

<sup>60</sup> Soudijn (2015).

**Box 24. Bulk cash smuggling in cargo at Mexican border**

On 9 September 2009, Mexican customs officials on duty at Manzanillo seaport, carried out an inspection of two 40 ft shipping containers. The containers both contained 20 x 1 000 kg super-bags filled with ammonium sulfate, making a total of 40 super-bags. A physical examination of the super-bags and their contents revealed six concealed block shape packages. When opening the blocks, officials found USD 11 054 695, mostly in USD 100 banknotes. The goods were manifested for export to Colombia.

**Comment:** Although the predicate offence linked to the seizure of the cash is not known, it is highly likely that the cash is related to the trafficking of cocaine. The cargo was manifested to Colombia, which is a major cocaine source country.

Also of note is the fact that only 6 of the 40 super bags of chemicals contained blocks of cash. Clearly, much more cash could have been concealed, had the criminals behind the shipment felt it necessary to do so.



Source: Mexican authorities.

**Box 25. Cash concealed in a shipment of vehicles for export**

This case began due to a random customs control on an export shipment of a large quantity of vehicles consigned to Mexico. In the gear box of one of the vehicles (a pickup truck) customs discovered EUR 825 000 (the gear box was a spare part). This was clearly smuggling: the money was hidden and not declared.



*Source: Netherlands Authorities.*

**Box 26. Suspicious bank to bank shipment of cash transiting Schiphol Airport**

This case started with a customs control at Schiphol Airport on an international cash transport (transit) of EUR 425 000. It was a bank-to-bank consignment (South America – Schiphol Airport - Germany) that, at that time, took place several times each week. This was remarkable, not only because of the regularity of the transports, but also because in air cargo this is a relatively small amount.

The name of the sending bank changed officially several times. The top managers too, changed rather often, and these managers were known to be managers in dozens of trusts in the region as well. Final consignee and other parties concerned were hidden. The consignment consisted of:

- 780 notes of EUR 500
- 75 notes of EUR 200
- 100 notes of EUR 100
- 200 notes of EUR 50

In total EUR 425 000

The transportation route ceased to be used after Netherlands customs started examining the shipments.

*Source: Netherlands authorities.*

**Box 27. Operation Pacific Rim – US Homeland Security Investigations (HSI)**

Bulk cash smuggling is one of HSI's primary investigative priorities. As part of the effort to combat bulk cash smuggling, HSI established the Bulk Cash Smuggling Center in 2009. Between fiscal years 2003 and 2013, HSI bulk cash smuggling investigations led to the arrest of more than 2 300 individuals and seizures of more than USD 547 million. The center is an operational, intelligence-driven investigative unit that combats bulk cash smuggling from both national and international perspectives. It disrupts pipelines used to move currency derived from illicit activity including drugs, weapons, human trafficking, foreign political corruption and contraband.

In Operation Pacific Rim, HSI, working closely with the Colombian national police and Mexican authorities, dismantled a major drug trafficking organisation - an industrial and transportation empire with a profit margin measuring USD billions. Drug smugglers - responsible for 42 percent of Colombian cocaine entering the United States from 2003 to 2009 - brought tons of cocaine into the United States on yachts and semi-submersibles along the Mexico/United States maritime border. HSI began Operation Pacific Rim in September 2009 after scoring a previous victory in an investigation where they seized USD 41 million in Colombia and Mexico.

From FY 2009 to date, HSI's international partners continue to play a central role in Operation Pacific Rim. HSI works closely with the Colombian national police, Mexican authorities, and partners in Ecuador, Argentina, the Netherlands, Spain, Morocco and Panama, as well as the US Drug Enforcement Administration. This HSI-led investigation spanned the globe and effectively disrupted one of the most powerful and sophisticated bulk cash smuggling and drug trafficking organisations in the world.

Bundles of shrink-wrapped bulk cash concealed within containerised (conex containers) shipments of fertilizer were intercepted at seaports in Colombia and Mexico and also in armoured vehicles. The ports of Buenaventura and Manzanillo are key points of a well-known route used for smuggling cocaine northward to Mexico and then on to the United States, and for sending cash back into Colombia.

This transnational drug trafficking organisation that was generating the cash was a prolific cocaine source of supply, responsible for nearly half of the cocaine smuggled from Colombia into the United States between 2003 and 2009 - approximately 900 tons with an estimated street value of USD 24 billion.

The 'kingpins' of the Colombian drug trafficking organisation created a double problem for themselves in that they made so much money from their illegal narcotics trafficking that they couldn't launder it all. In addition, the huge scale of the drug trafficking and money laundering operations made concealing it from the authorities almost impossible.

*Source: US Authorities.*

**3.15 TECHNIQUES OF CONCEALMENT OF CASH IN MAIL**

Few countries report seizures of cash in post and mail, in all probability because most are not looking, some lack the required legislation, and some appear to think that Universal Postal Union (UPU) guidelines prohibit the practice when in fact they do not. It is clear from the cases that have been submitted that the practice does take place, although the amounts are relatively small when

compared the amounts of cash detected in cargo, for the simple reason that mail items are usually much smaller.

#### **Box 28. Cash in postal items**

At the customs offices in Hamburg and Hanover, the German postal administration detected nine packages, all part of the same shipment, which had been sent from the US to Germany

According to the declaration of content the parcels contained documents (without a declared value), books, videos and CDs. One parcel was declared as a present.

However, a closer inspection of the parcels revealed approximately USD 158 000 in cash.

Based on these detections, money laundering investigations were initiated against German senders and receivers of the parcels.

The funds were seized by order of the public prosecutor, because there was reason to assume that the money originated out of ML activities.

Proof was obtained that the funds originated from a theft in the US in which approximately USD 3.4 million was stolen.

*Source: German authorities.*

#### **Box 29. Cash concealed in priority mail**

HSI Honolulu and HSI Seattle were proactively investigating a criminal organisation responsible for the movement of illicit bulk cash currency as it relates to the distribution and sale of methamphetamines. In December 2013, a priority mail parcel was selected for examination at the Honolulu international mail branch, following a positive indication from a cash detection dog. The parcel was shipped from Guam to the state of Washington. Examination of the priority mail parcel revealed USD 42 000.

*Source: US Authorities.*

#### **Box 30. Cash in courier parcels associated to trafficking synthetic drugs**

Over a period of time, 23 courier packages and 29 envelopes were found containing cash. The 23 courier packages contained a total of EUR 92 430. The 29 envelopes contained a total of EUR 1 800 and BRL 14 500 (Brazilian real) (equivalent to approx. EUR 3 100). One parcel, contained a CD-cover, concealing two so-called confidence travel cards by VISA. The amount these cards represent is unknown.

Customs received information from courier company TNT Post regarding 37 EMS/ parcels that had been delivered to the suspect in the period 27 November 2008 to 4 February 2010. It is unknown whether these parcels contained cash.

As a result of the above, in the period between 24 August 2012 and 16 November 2012, a total of another 106 letters (envelopes) containing pills, shipped by PostNL and addressed to PO boxes in

Brazil were identified. The 114 envelopes concerned contained a total of 28 555 pills containing MDMA (popularly known as Ecstasy).

A total of five parcels were intercepted which had been shipped by UPS from Brazil. In each of these parcels a plastic Confidence Travel Card was found, mentioning, among other things, the words “Euro”. These cards are so-called prepaid debit cards.

It is suspected that the amounts in euros credited to the five Confidence Travel Cards concerned were the proceeds of the delivery of XTC pills by the suspect to buyers in Brazil.

An associated seizure, revealed envelopes containing cardboard strips impregnated with LSD.

On 14 July 2011 the district court in the Netherlands sentenced the suspect in this case to a non-suspended prison sentence of 24 months and on 13 February 2012 he was released on parole.

*Source: Netherlands authorities.*

**Box 31. Examples of criminal money transported in mail and fast parcels**



2013. Cash concealed in the sides of the cardboard box of a mail parcel.

Total: EUR 4 200.



2013. Cash concealed in kitchen rolls. (Note – the concealment involves paper hidden in paper,

so the banknotes were not visible using X-ray equipment).

Total: EUR 182 000.



2013. Cash concealed in a box of children's nappies/diapers.

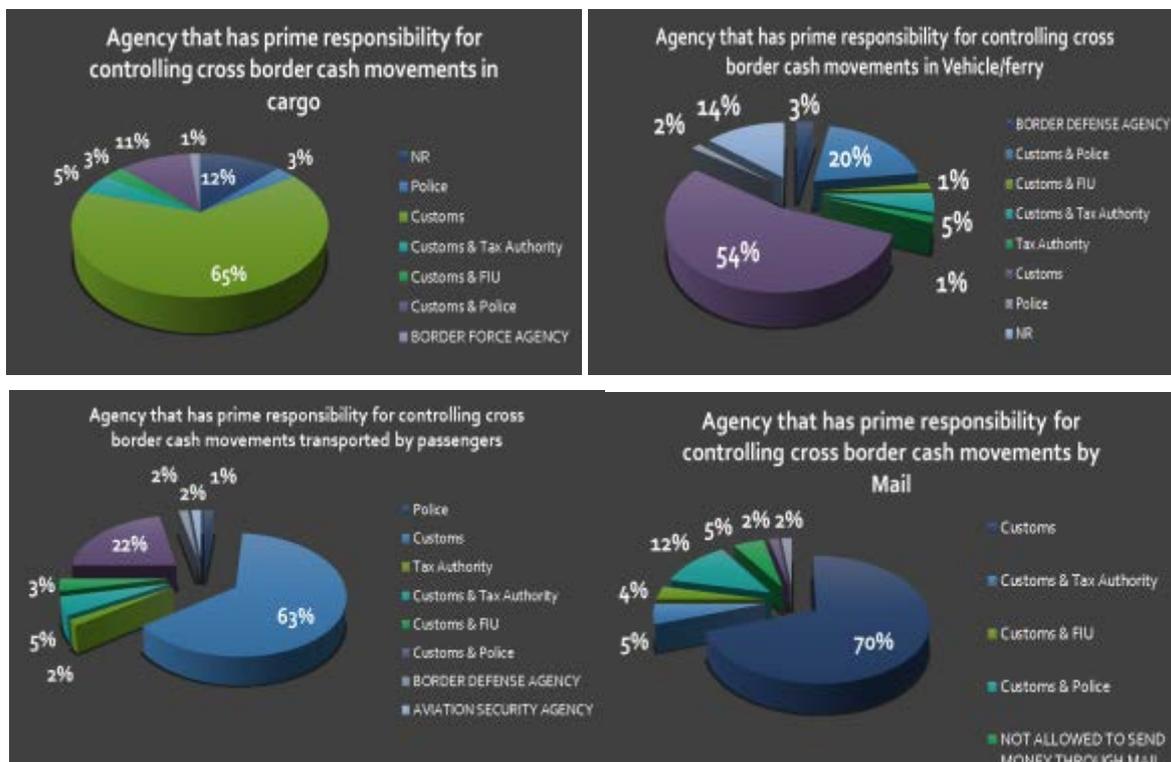
Total: EUR 28 500.

*Source: Netherlands authorities.*

## 4. CONTROLLING CROSS BORDER TRANSPORTATION OF CASH

### 4.1 CONTROLS AT BORDERS – ROLES AND RESPONSIBILITIES

The questionnaire asked countries to specify which agency had prime responsibility for controlling cross-border transportations of cash in cargo, vehicles/ferry, passengers and mail. For all of these different methods of transportation, the most common answer was the customs authorities. However, it was notable that, for all four methods a significant number of countries responded that it was the responsibility of both customs and the police, as shown in the graphics below.



Source: Tunisian authorities, based on questionnaire analysis

Customs and other similar border authorities clearly have a significant role to play in combatting money laundering through the physical transportation of cash, a role that is highlighted and promoted by the WCO. However, customs authorities can only play an effective role when national legislation provides them with sufficient authority to act.

The important role of the police in controlling cross-border transportation of cash is not surprising. In many countries, the customs officials have an administrative role, and the responsibility for conducting criminal investigations rests only with the police. In these situations, a detection of cash thought to be of criminal origin will likely be referred to the police for investigation. Similarly, the police often have other, non-customs related responsibilities (such as crime and national security) at a border, in the course of undertaking which they may encounter consignments of criminally derived cash.

In addition, countries were asked if the responsibility for recording, examining and investigating cash movements was split between different agencies. Thirty-four countries said it was, whilst 19 said it was not. They were also asked if one agency had to, or needed to, work with other agencies to effectively examine, investigate or seize cash. Forty-four countries answered that this was the case, whilst 11 said no. Clearly, these results show that effective co-operation between the agencies concerned is of vital importance to maintaining an effective deterrent to cash smuggling.

### *Natural persons*

Countries were also asked a series of questions relating to the legal authorities held by the agencies controlling the borders in certain circumstances. The first of these was whether agencies routinely examined passengers to identify suspected criminal cash. Fifty countries said yes and only four said no. This is not surprising, given that, as mentioned earlier, the data clearly shows that the bulk of the resources of most countries is dedicated to controlling natural persons, in accordance with those requirements of Recommendation 32 for which detailed guidance is included in the Interpretive Note.

Most countries (44 out of the 52 that answered this question) stated that the level of proof required to detain cash for further investigation was 'reasonable suspicion', although in order to forfeit cash, more countries needed to prove that it was criminally derived to a level beyond reasonable doubt (19 out of 48 countries). This coincides with the cases of criminal cash in cargo that have been submitted. In almost all the cases, the starting point was a suspicion of money laundering from an investigative agency upon which customs acted. This means, in practice, that hardly any customs control on cash shipments from an AML or CTF point of view will be and can be exercised, as the information available from a customs declaration is so limited (see below) that the level of proof needed to detain the cash and to exercise further inspection will seldom be reached.

Another issue arising from the questionnaire regarding Recommendation 32 is the definition of "currency and bearer negotiable instruments". Some 33% of the responding countries felt the definition is too narrow (whereas 23% of the countries did not answer this question).

The case examples submitted by a number of jurisdictions demonstrated that money laundering and terrorism financing also takes place with other valuables, comparable to currency and bearer negotiable instruments. A number of countries, suggested broadening the definition of "currency and bearer negotiable instruments" with commodities such as:

- Precious metals / Diamonds/ Gold/ Gemstones;
- Jewellery/ Watches;
- Prepaid cards;
- Cash cards/ Stored value cards;
- Casino chips;
- E-money (electronic types of money like electronic wallets or Bitcoins);

- Other commodities/instruments that can easily be transferred into cash/Each transmissible instrument in such form that the property of the title can be transferred to one or more persons.

### *Cargo and Mail*

Countries were then asked if these border control agencies had the power to routinely search consignments of cash in cargo and mail from an AML perspective. The answers were overwhelmingly affirmative; 43 said yes and only 8 said no. Once again, this is not surprising as most countries have granted their customs (and police) the legal powers that they believe are required for the effective management of money laundering risks in respect of natural persons. However, further research suggests that in many cases the agencies concerned in fact do not have the power to conduct searches routinely, i.e. without a suspicion of money laundering.

The Harmonised System tariff code for banknotes attracts no VAT or customs duty, and the only details required on the customs documentation is the weight of the consignment and a proper description of the goods. Thus, the description on such a consignment need only say 'banknotes 1 000 kg' to comply with these requirements. There is no need, for example, to record the beneficial owner of the banknotes, the details of the financial institution where they started the journey, or the details of the recipient. Because specialized CVIT companies with depots in the origin and destination locations usually carry out the shipment and the customs declaration, it is frequently the case that the names and addresses of the dispatching and receiving depot of the CVIT company will be shown on the documentation as the addresses of the sender and receiver of the cash.

This, coupled with the fact that research has shown that the cash may be entered under the wrong tariff code (such as the ones for waste paper or printed matter, for example), means that customs authorities will often have almost no information at their disposal to assess whether the cash is a legitimate bank-to-bank shipment, or a consignment of criminal cash hiding in plain sight.

This issue goes to the heart of how customs authorities exercise their authority. No customs authority in the world is resourced sufficiently to examine every single consignment that crosses the borders they control. Nearly all will have to make some sort of reasoned judgment about which consignment to select for examination – in other words they will carry out some kind of profiling exercise. But in this circumstance, there is almost no information on which to base that kind of decision. As long as the customs documentation states that the shipment contains banknotes and their correct weight, the goods have been entered correctly and there is no objective reason for customs to suspect there might be anything suspicious about the cash. In other words, their powers to carry out further investigations and to demand the provision of further information are limited.

However, information gathered in the course of this project has shown definitively that criminal groups have been able to infiltrate very large volumes of cash into the bank-to-bank cash shipment system. It is therefore important that customs are able to inspect shipments and require the disclosure of additional information to enable them to address this risk effectively. The question that has arisen is whether, in the absence of any objective reason for suspicion, they have the legal power to do so (see also section 4.1 for an in-depth analysis of the (lack) of legislation/legal power). One country has examined this issue in detail and has concluded that their customs authority does not have the legal power. They are currently in the process of amending their national legislation to correct this situation.

This being the case, the next three questions in the questionnaire were carefully worded and designed to establish whether agencies tasked with controlling cash in cargo and mail had the legal authority to interfere with a consignment, or require the disclosure of additional information about it, if there were no obvious reasons for suspecting that it was connected to criminal activity.

- The first question was ‘Where cash movements are superficially part of normal business, can the relevant agency inspect consignments and make further investigations to determine whether the movement is suspect?’ Forty-seven countries answered yes to this, whilst only eight said no.
- The second question was ‘Do these agencies have the power to routinely search consignments of cash in cargo and mail from an AML perspective?’ Thirty-six countries answered ‘yes’ and eight said ‘no’.
- The third question was ‘If there is no apparent violation of customs regulations or banking rules, does the relevant agency have the power to detain a consignment of cash in cargo or mail for further inspection and/or investigation?’ Thirty-three countries answered ‘yes’ and twenty-one said ‘no’.

Overall, most countries believed that there were few restrictions on what their customs and other agencies had the legal authority to do, and it is possible that this is the case. However, the experience of one of the countries contributing to the project suggests that some countries may not have given the matter enough serious thought and studied their domestic legislation in enough detail to spot any loopholes that may exist. The effect of this is that most countries will continue to find it extremely difficult to detect any cross-border transportations of criminally derived cash in cargo and mail, and accordingly the matter will continue to be a considerable threat until these issues are addressed.

If countries do not pay greater attention to the issue of cash in cargo & mail, including gaining a better understanding of the legitimate trading of cash on international markets and the way that it is transported around the globe in consequence, they will be unable to use profiling and targeting tools effectively. Therefore, they will not be able to develop an effective response to the problem of criminal ability to infiltrate criminal cash into the legitimate systems used by banks and other financial institutions.

**Box 32. Establishing the nature and frequency of cross-border cash movements – Operation HANNIBAL**

In mid-2014, in response to the close involvement of CTAF, the Tunisian FIU, in the typology working group studying money laundering through the physical transportation of cash, and inspired by a similar exercise conducted by the Netherlands authorities in 2008, the Tunisian authorities conducted a 60-day project in which all transportations of cash into and out of Tunisia were monitored and recorded.

The exercise was supervised by CTAF, and conducted jointly by Tunisian customs and the Ministry of the Interior, in conjunction with all Tunisian banks. The objectives of the operation were;

- To identify different methods of money laundering and terrorism finance through the physical transportation of cash in order to enhance international community efforts in tackling these issues
- To detect, at a national level, the trends of legal importation and smuggling of cash as well as the methods used and its final destination.
- To use the outcomes of the exercise in the preparation of Tunisia's National Risk Assessment and make recommendations on ways of tackling organised crime ( money laundering, financing of terrorism , smuggling etc. ).
- To make practical recommendations for the best use and sharing of human and logistical resources on a risk-based approach.

The operation was wide ranging, and encompassed;

- The monitoring of physical transportation of currency across all Tunisian land, sea and air borders for a two-month time period . The targeted transactions were:
  - Smuggling of cash across the border during imports and/or exports.
  - Currency transactions reports (declared) at import, export and transit levels.
- Tracking the destination of reported currency through post-monitoring mechanisms carried out by national customs, banks, and Interior Ministry (Department of Foreign and Borders).
- Estimating the value of imported foreign currencies not regularised pursuant to Exchange Control Regulations.
- Attempting to determine the final destination of these funds and their potential links to money laundering and terrorism financing.

Information was exchanged using a specially commissioned secure area of the website of the Central Bank of Tunisia and monitored on a daily basis by CTAF. Over 17 000 reports were received, including 2 575 from banks and 14 983 from customs. Of the reports from customs, 28% were received from land borders, 9% from sea ports and 63% from airports.

Of the foreign currency detected, 94% was made up of US dollars, euros and British pounds, with only 6% in currencies of Arab states. Of the reports of movements of foreign currency, 2 935 originated from land border points, 1 348 from sea ports and 9 349 from airports.

As well as gathering a huge amount of valuable data concerning the value, nature and scope of foreign currency crossing their border, the Tunisian authorities detected a number of crimes including;

- A seizure of EUR 1 447 000 from a concealment in a car at a land border crossing; the seizure is believed to relate to the financing of terrorism



X-ray image of the car from which EUR 1.447 million was seized. Note blocks of money hidden under rear seat

- A seizure of USD 2 300 000 from a failed attempt at smuggling at an airport
- A seizure of USD 2 850 000 at an airport, which was being exported using a forged banking license.

In addition, further crimes, including importing and exporting currency without the required notice and the necessary license, cash smuggling, counterfeit currency and breaches of money laundering and terrorism financing laws were identified.

*Source: Tunisian authorities.*

## 4.2 METHODS USED TO DETECT AND PREVENT CRIMINAL CASH SHIPMENTS

### 4.2.1 CASH DETECTION DOGS

A number of the cases reported by respondents to the questionnaire have highlighted the importance and usefulness of cash detection dogs (see box 17 and box 29). Many countries now report that they are routinely using them to facilitate selection of passengers for inspection at ports and airports. One of the features of the Merida Initiative, the programme established to tackle bulk cash smuggling across the US-Mexico border, is that well over 400 dogs have been trained and deployed to detect not only drugs and firearms but cash as well. However they almost certainly also have a very important role to play in detecting illicit cash shipments in concealed in cargo and mail. The sheer size and volume of mail at mail depots, and cargo at ports and airports, makes profiling and control extremely difficult. Especially, as most countries pay little attention, and devote few

resources to the phenomenon. The use of cash detector dogs at container depots and other cargo consolidation points is a valuable asset too in selecting cargo and mail for examination.

#### 4.2.2 X RAYS

As is the case with cash detection dogs, many countries are now using x-ray machines to identify cash concealed in a whole range of vehicles and goods, and a number of cases detailed in this report have resulted from x-ray scans (see box 19). The particular value of x-rays is that they can detect cash shipments even in the most cleverly constructed concealments that otherwise would be missed altogether by the human eye. They also facilitate much faster and more efficient screening of vehicles and persons, meaning more can be controlled and limited resources better utilised.

#### 4.2.3 CONTROLLED DELIVERIES

The technique of controlled delivery is one that has been used for a number of years in many jurisdictions as a way of identifying and arresting persons involved in the trafficking of illicit substances such as drugs, counterfeit cigarettes, stolen goods etc. However, the case examples submitted suggest that the technique is under-used when it comes to large consignments of cash; only one such case was recorded.

The reason for this may be that, in respect of illicit substances such as controlled drugs, it is relatively easy to replace the drugs with a similar low-value substance, thus ensuring that, if anything goes wrong, the authorities have not suffered the embarrassment of losing a high-value consignment of illegal goods. Clearly, this is much more difficult with cash, as it is difficult to find anything that has the same look and feel of a large bundle of banknotes, and the value of the consignment often precludes any risk of loss. In the example below, the US authorities mitigated the risk of losing the subject, vehicle and cash en-route to the handover location by flying them from Mississippi to Colorado in a military transport aircraft, a facility that is not going to be readily available in most cases. Nonetheless, as can be seen from the result, the technique can be put to effective use if the risks can be mitigated.

#### Box 33. Successful controlled delivery

In April 2012, US Homeland Security Investigations (HSI) Resident Agent in Charge (RAC) St. Louis was contacted by the St. Louis County Police Department to adopt a USD 264 925 bulk currency seizure resulting from a probable cause traffic stop. HSI St. Louis special agents responded to adopt the seizure and conduct a post-seizure investigation, during which the subject agreed to co-operate and conduct a controlled delivery of the currency. In support of the controlled delivery, the National Bulk Cash Smuggling Center coordinated with the US Air Force Reserve to obtain a C-130 cargo aircraft to transport the HSI St. Louis agents, suspect, and vehicle to Greeley, CO. Additionally, HSI St. Louis co-ordinated efforts with HSI RAC Greeley and ultimately executed the controlled delivery, which resulted in additional seizures including USD 232 530 in US currency, 3 691 kilograms of cocaine, two vehicles, and one handgun. An additional suspect who was also arrested, agreed to co-operate and set up a meeting with a US-based cocaine distributor for the criminal organisation.

HSI Greeley and the Weld County Drug Task Force were subsequently successful in organising a

meeting with the co-operating defendant and the suspected US-based cocaine distributor for the organisation. The suspected cocaine distributor was apprehended and an additional USD 125 000 was discovered and seized. Furthermore, a fourth subject was arrested while trying to deliver 3.4 kg of cocaine to the co-operating defendant. The co-operating defendants successfully arranged a meeting with the suspected leader of the Mexican-based criminal organisation who travelled from Mexico to Greeley, CO where he was eventually arrested by HSI agents.

*Source: US Authorities.*

#### 4.2.4 STATISTICAL ANALYSIS OF DATA

As has been discussed, most countries do keep some sort of record of the cash declarations made by passengers at their borders. This is a valuable source of information and can be exploited by conducting statistical analysis alongside other datasets, such as records of criminal convictions, police intelligence databases, suspicious activity reports and taxpayer information. This analysis, identifies criminal trends in legitimate and non-legitimate cash movement, which can assist in the targeting and deployment of resources. In addition the information can also assist in identifying other criminality, such as drug trafficking and tax fraud.

#### 4.2.5 RESTRICTION ON PROVISION OF HD NOTES

Analysis of information resulting from money laundering convictions in the UK over a three-year period from 2008 to 2011 identified numerous cases where criminals were purchasing huge volumes of high-denomination euro banknotes from criminally complicit currency exchange MSBs in the London area. The UK does not use the euro as its currency and extensive research could not identify any substantial legitimate demand for high-denomination euro notes in the UK. It was clear from the evidence obtained during the money laundering prosecutions that the high-denomination banknotes were being used by criminals to facilitate the concealment of cash as an aid to smuggling it out of the UK.

#### Box 34. UK Project QUAVER

As a result of a research project, the UK's Serious Organised Crime Agency (SOCA) had been able to demonstrate, to the satisfaction of banks and other financial institutions in the UK, that the overwhelming demand for the EUR 500 note in the UK was from criminals wishing to use it to facilitate cash smuggling. As a result, banks and other financial institutions voluntarily ceased supplying the EUR 500 note in the UK with effect from the end of April 2010.

SOCA Project QUAVER (which has continued seamlessly in the transition from SOCA to the National Crime Agency, or NCA) was established as a recognition that the traditional approach to tackling the problem of complicit MSBs - arrests & prosecutions - was resulting in criminal convictions but was not having any effect in reducing the scale of the problem. MSBs who had previously sold nothing other than EUR 500 notes before April 2010 shifted smoothly to supplying nothing other than the same value of EUR 200 notes instead. Criminal groups were quickly able to identify replacements for prosecuted MSB owners as MSBs had discovered that they could charge criminals large amounts

of money for their services which the criminals were happy to pay.

Project QUAVAR sought to address the problem by concentrating on 'influence activity' – delivering briefings on the problem and how to identify the risks to banks involved in currency supplies to wholesale MSBs. Wholesale MSBs involved in currency supply to the smaller complicit MSBs, and MSB trade forums. The messaging was that banks and wholesale MSBs were now in a position to identify and report suspicious activity in the currency exchange sector to the authorities, and to avoid becoming involved in it; and that if they failed to report it, and simply carried on regardless, then they would be prosecuted for money laundering themselves as they were now in possession of enough information to form a reasonable suspicion.

The verbal briefings were followed up with a series of documents detailing exactly how criminals obtained and made use of high -denomination banknotes, and the results of the study on the criminal and legitimate uses of high-denomination banknotes in the UK (which clearly showed there was no appreciable legitimate use of such banknotes in the UK and that the purchase of large amounts of them was a clear indication of money laundering).

As a direct result of Project QUAVAR, the sale of high-denomination banknotes in the UK has now fallen to a small proportion of its previous magnitude (at least GBP 500 million of high-denomination euro banknotes were being sold in the UK per year), the bank that sold the bulk of the high-denomination notes to wholesale MSBs sold its foreign banknote trading division to a rival business, and intelligence from law enforcement agencies shows that criminals now find it far harder to source high-denomination euro banknotes in the UK, meaning that they have to smuggle low denomination notes instead, which is obviously more problematical due to the increase in size and weight of shipments.

*Source: UK authorities.*

### 4.3 INDICATORS

The following can all be considered to be potential indicators of money laundering through the physical transportation of cash in respect of natural persons, cargo and mail. They are intended for use by all agencies who need to work together and exchange information and intelligence to control borders effectively, including customs, police and other law enforcement bodies. They include information that can be gathered in respect of natural persons or cargo shipments by researching their available details on law enforcement intelligence databases.

It is very important to note that these are indicators only, and are intended to be an aid to profiling and a prompt for further investigations and enquiries, rather than as definitive descriptors of criminal activity warranting immediate action. Applicability of multiple indicators may be a grounds for suspicion that the funds concerned are from an illegal source, especially when the courier is not able to answer questions adequately. These indicators are drawn from numerous sources, including questionnaire responses and other FATF and FSRB papers (including 'International Best Practices: Detecting and Preventing the illicit cross-border transportation of cash and bearer negotiable instruments', 19<sup>th</sup> February 2010).

### 4.3.1 NATURAL PERSONS

- Requests to purchase, or possession of, large amounts of foreign currency without a plausible explanation. Studies carried out by the UK authorities in the course of project QUAVER established that the average amount of foreign currency exchanged by someone legitimately intending to use it as holiday money was in the range of GBP 350 – GBP 450.
- Possession of large amounts of money without an adequate explanation.
- Possession of money supposedly for business reasons while travelling to countries where cash payments are restricted
- Cash is only declared when passenger is intercepted, especially if the passenger first denied having money with him or declares that he carries the money for third parties.
- Requests to purchase, or possession of, large volumes of high denomination banknotes. Very few retail businesses in the EU will accept anything higher than a EUR 50 note for a routine purchase.
- Cash deposits in bank account (possibly indicating previous transportations of cash)
- Illogical travel patterns. For example less than 24 hours between inbound and outbound travel bookings, travelling to non-tourist destinations, convoluted routes for no apparent reason; vague or contradictory details of destinations or reason for travel.
- Little or no luggage
- Repeated short notice travel to the same destination
- Tickets bought for cash at very short notice at higher than normal prices
- Tickets purchased by someone other than the traveller
- Multiple individual travellers who appear to be involved in similar unusual movements or show similar travel patterns;
- Contradictory stories of apparently associated passengers
- Travel patterns that mirror smuggling patterns of illegal goods (i.e. drugs) and human being trafficking routes;
- Demeanour of passengers. Nervous, aggressive, evasive – clothes and baggage inconsistent with ‘cover story’, overreacts to the presence of detection animals and/or refuses to be in the vicinity of detection animals and/or other detection equipment (i.e. x-ray machines)
- Passenger has a connection (nationality, destination, origin, previous travel etc.) with a risk area or jurisdiction. E.g. those with specific crime issues; jurisdictions with non-functioning state institutions etc.

- Traveller has a criminal record indicating connection with Predicate offences (e.g. drug trafficking, OIC, etc.);
- Traveller has a history of lost or stolen travel documents;
- ID documents appear to have been falsified
- ID documents appear to be brand new
- Passenger has dual nationality
- Passenger's suitcase is 'sealed' (e.g. by wrapping in cling film etc.)
- Has refused to consume food and drinks offered on vessel, indicating that currency might be hidden in body;
- Uneasy movement or unusual body shape due to bulk cash hidden on body;
- Passenger has an iron in his luggage. Banknotes are sometimes ironed to make them easier to pack into small spaces.
- Passenger is a politically exposed person or otherwise a person of interest;
- Passenger leaves baggage at border/(air)port;
- Passenger aborts attempt to cross border;
- Last-minute check-in or boarding
- Previous use of cash declaration forms to legitimise banking large amounts of cash. As per previous discussion in this report; this can potentially be identified by FIU analysis of suspicious transaction reports
- Consignments of British Pounds contain large volumes of Scottish and/or Northern Irish banknotes. Widely acknowledged in the UK to be a reliable indicator of criminal origin of cash (but only if the traveller is not coming from Scotland or Northern Ireland)<sup>61</sup>
- Implausible explanations regarding the potential use or origin of the cash. For example 'I took EUR 20 000 overseas to purchase a car but couldn't find one I liked so I brought the cash back with me'.
- Volume of the currency in possession of the traveller exceeds currency/monetary control threshold of country of issuance;
- Cash is carried in several currencies;
- Currency withdrawn close to the border;
- Possession of large amounts of currency from jurisdictions unrelated to the traveller;
- small denomination, damaged and/or dirty banknotes;

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<sup>61</sup> Further information on this issue is available on request from the UK National Crime Agency Expert Laundering Evidence team, contactable using the email address [expert.laundering@nca.x.gsi.gov.uk](mailto:expert.laundering@nca.x.gsi.gov.uk).

- Banknotes carried in concealed form (more than necessary to prevent against theft);
- Possession of illegal goods (i.e. narcotics, endangered species, counterfeit goods);
- Traveller is in the possession of a (new) (pre-paid) mobile phone with unknown and/or few number(s) saved in the phone book;
- Possession of stored value cards that cannot be endorsed in destination country.
- Passenger appears to have detailed knowledge of and/or shows interest in the declaration/disclosure system and/or procedure;
- Passenger leaves jurisdictions with more currency than when the traveller entered the jurisdiction;
- Passenger failed to comply with declaration requirements at origin
- Travel document pages appear to be damaged to conceal past travel;
- (suspected) use of different travel documents to conceal past travel;
- Nationality stated on the travel document does not match the traveller.
- Amounts declared/disclosed do not match the actual amounts carried;
- Traveller does not object when presented with the possibility that the currency/BNI will be seized by the authorities.
- Possession of numerous cash declaration forms
- Cash is only declared when passenger is intercepted
- Cash is concealed even though it has been declared

#### 4.3.2 CARGO AND MAIL

- Method of packing in respect of bank to bank cash shipments. Most banks prefer new notes which are usually bank banded in blocks of 100 notes, and each block banded with others to make a bigger block of 1 000. All should be a single currency and denomination and heat sealed. Banknotes are commonly transported in strong hessian or plastic sacks and each sack should only contain one currency. The seal on the bag should match the paperwork. There may be a packing list in the sack and this should match with the contents. International cash trading is based on very small margins of exchange rates so messy packaging, multiple currencies per sack, bundles of different sizes of different denominations, bundles wrapped with elastic

bands etc. are much more expensive to count and process and can be viewed as a potential indicator of criminal origin of the cash.<sup>62</sup>

- Cash transport is presented as a bank-to-bank transaction, but is not carried out by a Cash / Valuables in Transit Company.
- Uneconomic cash shipments. Shipment is of a very small amount of cash, why was it not simply banked and wired?
- Odd or illogical routing
- Cash is claimed by someone using fake documents - to identify himself or making fake claims concerning ownership of the money
- A frequently used shipment route stops after interference of the authorities / there is a decrease in the apparently legal activities after a criminal investigation
- No contact from the shipper or beneficial owner after a consignment has been inspected
- The owner or carrier of the cash in cargo changes their story concerning the origin and destination of the money
- The owners and carriers of the cash in cargo have different stories concerning the origin and destination of the money
- Cash is transported in high denomination banknotes
- The nature or volume of the currency does not match the point of origin
- Business sense – Why are the goods being shipped if they are readily and cheaply available in the destination country
- No economic justification for the goods or the routing.
- Goods appear to be re-used. The same goods appear to be being shipped to the same destination multiple times.
- Companies do not exist or appear not to trade
- Goods shipped or posted from high risk jurisdictions
- Paperwork is very basic, or appears to have been altered. It may also contain material errors such as spelling mistakes in names of companies, countries etc. The paperwork is not consistent with the goods.
- Beneficial owner of the cash is unclear or appears to have been disguised
- Different qualities of banknotes (some new, others old, worn and torn)
- False customs declaration

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<sup>62</sup> Based on interview with major well known international financial institution involved in trading on international currency markets.

- Value of declaration too low for content
- Parcel shipped from/to drugs source country
- Name and address details on parcel are unclear, vague and/or falsified
- Signatures and handwriting inconsistent

#### 4.3.3 VEHICLES

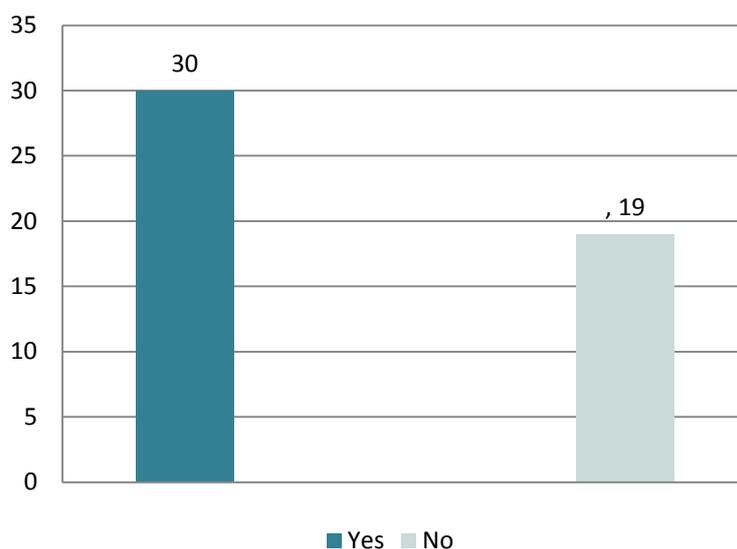
- Driver of the vehicle is not the owner
- Nationality of the driver and the nationality of the vehicle do not match
- Demeanour of driver – nervous, sweating, excessive smoking etc.
- Older vehicle
- Vehicle not insured, or insured in the name of someone who is not the driver
- Vehicle recently purchased
- Vehicle purchased for cash
- Signs of tampering – scratches or fingerprints on wheel rims or around panels, stray sealant, new screws, smell of chemicals etc.
- Inaccessible parts of the vehicle – parts of the boot/trunk, beneath seats etc.
- New wiring or electrical items (possibly electronically operated access to concealment)
- Goods carried by vehicle are uneconomic to ship
- Goods don't match paperwork
- Driver and passengers give contradictory stories
- Driver displays any of the traits detailed given for natural persons above
- Use of rental cars

## 5. CHALLENGES TO THE DETECTION AND CONTROL OF CROSS-BORDER TRANSPORTATION OF CASH

### 5.1 AT BORDERS – NATIONAL CO-OPERATION

Perhaps one of the most telling responses to the questionnaire was that to the question of whether customs officers received specific training to identify money laundering through the physical transportation of cash. Again, not all countries answered this question, but the responses of those that did are illustrated in the graphic below;

Graph 9. Are customs officers specifically trained to identify money laundering through physical transportation of cash?

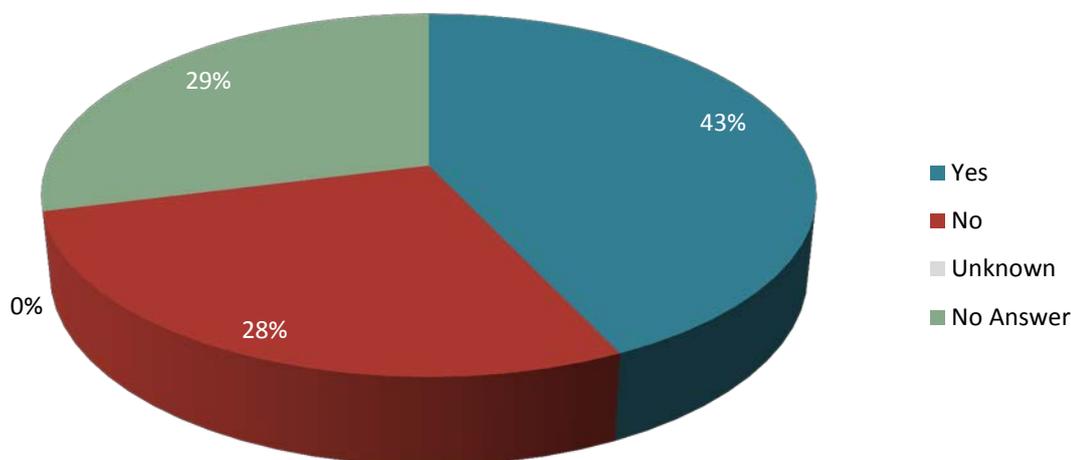


Nearly 40% of respondents do not give their customs officers specific training in how to identify cash based money laundering. This is somewhat surprising, given that cross-border transportation of cash is one of the most basic and widespread methods of money laundering. Most countries who do deliver such training agree that it is a special skill.

A second issue is that, for the majority of respondents, customs and other agencies (mainly the police) need to work together to control borders. This may be for a number of reasons, such as the policies are set by one agency but enforced by another, or because customs do not have the authority to conduct criminal investigations. Whatever the reason, effective internal co-operation is essential in order to effectively control the problem.

Analysis of the questionnaire responses highlights that, for a number of countries, their FIU have an important role to play in collating and analysing records of cash declarations and cash seizures. At least 43% of the countries that have a customs database or some other system that records the import and export of banknotes in cargo and mail, grant their FIU access to these databases.

Graph 10. Does your FIU have access to this database?



The figures and statistics for cash declaration and importation in cargo and mail are available to the FIU in approximately 58% of the countries. When the information is not available to the FIU (24% of the countries), it is generally because the information is not shared on a standard basis. In that case, the custom declaration system could generate the figures and statistics concerning cargo and mail for the FIU when needed. 17% of the countries did not know if figures and statistics for cash movement in cargo and mail were available to their FIU.

Resources are another issue. No country has the manpower to police all of its border crossings, all of the time (and within the EU there is a specific agreement that all EU citizens have freedom of movement across between all EU member states). Therefore, countries have to make decisions on where to place their limited resources, which has to be done on the basis of risk profiling. However the questionnaire responses suggest that some countries do not have a full appreciation of the risks, especially in respect of the effective control of cargo and mail, and so may not be in a position to make fully informed judgements.

Some countries do not yet have access to, or make use of, some of the tools mentioned in this paper, such as X-ray facilities, body scanners and cash detection dogs. These are worthwhile investments for any country as they are proven to be effective in detecting illicit movements of cash when targeting or profiling cannot always be relied upon to deliver results.

It seems clear from the number of respondents that highlighted the issue that cash declaration systems, whilst acting as an important tool in the drive to cut cash smuggling, and a valuable source of information about such things as values of cash being moved and the routes that it takes, can also be turned to the advantage of criminals. The principal way in which this may happen is the use of cash declaration paperwork to lend a false veneer of legitimacy to criminally derived cash introduced into the legitimate financial system..

Bank staff appear to have too little understanding of the systems in place and an insufficient appreciation on how cash can be made to appear legitimate by the use of a cash declaration form. In fact, there are indications that bank staff are actively encouraging people to produce cash declaration forms as an indication of bona fides, without checking to see if a declaration was checked at the border or even if it was actually made (rather than just filling out a form). Moreover, the presence of a cash declaration in some cases appears to 'blind' bank staff to obvious questions as regards the source of the funds in the overseas jurisdiction, and why the cash was imported as cash rather than being banked overseas and sent by electronic transfer.

## 5.2 INTERNATIONAL CO-OPERATION

During discussions of this typology, and in responses to the questionnaire and case examples submitted, the single most common challenge raised by countries was that in international co-operation. Clearly, all cash smuggling attempts have two ends, in two different jurisdictions. However, with a few notable exceptions, such as the Merida Initiative between the US and Mexico, the level of co-operation between countries at all levels appears to leave ample room for improvement.

### 5.2.1 INTELLIGENCE EXCHANGE

There are obvious benefits to the free and open sharing of intelligence between jurisdictions, assuming that legal issues can be overcome. Intelligence sharing makes countries aware of issues like similarities and differences between their legal arrangements, cultural and diversity issues (such as trends within ethnic groups) and current trends in typologies and methods. It can also raise awareness of features unique to a particular jurisdiction, for example the fact that large amounts of Scottish and Northern Ireland banknotes in a consignment of British pounds is a reliable indicator of criminal origin of cash.<sup>63</sup>

At present, there is no global framework for co-operation and exchange of data. Most countries are member of the Egmont Group of Financial Intelligence Units. However, unless data on cash seizures, cash declarations and customs information in respect of cash movements in cargo and mail (legitimate or otherwise) is routinely shared with the FIU (which again emphasises the need for national as well as international co-operation) this information will not be available, or at least not readily accessible, for sharing with another jurisdiction. In this respect, it is worth mentioning that in case of suspicion of money laundering or terrorism financing 39 countries share information on cash movements in cargo and mail with the country of origin or destination and 3 countries even share this information if there is no suspicion (spontaneous information sharing).

The WCO maintains a comprehensive database (the Customs Enforcement Network, or CEN), a valuable tool which holds large amounts of information about customs seizures and offences, acts as a website containing enforcement-related publications, and provides a separate secure system (CENcomm) to facilitate communication between users at an international level and to hold operational data in respect of criminal cases. The system can be used for a wide range of analytical

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<sup>63</sup> See footnote 41.

purposes and can highlight new and emerging trends and methods, as well as providing statistical data that would be invaluable to most countries.

The problem is that usage of CEN and CENcomm is patchy at best. Some countries regularly input large amounts of data into the system, whereas some countries appear not to use it at all. Clearly, this has the effect of diminishing the usefulness of the data and any analysis of it that is carried out. It is not possible to state with certainty that the reason that one smuggling route appears to be prevalent is because it actually is, or because a country has decided to take special interest in it. Other countries may experience cash smuggling on a much larger scale through other routes but if they do not enter information into the system no-one will be able to benefit from their experience.<sup>64</sup>

It seems clear that efforts to tackle money laundering through the physical transportation of cash would be more effective if countries were more willing, or more readily able to exchange intelligence, either through CEN, the Egmont system or by any other means, for example by Memoranda of Understanding.

### 5.2.2 EVIDENCE GATHERING AND SHARING

A closely related issue is that of the exchange of evidence between countries. It is of paramount importance that this matter is properly handled by countries since, as has already been made clear in this paper, one of the main drivers of money laundering through the physical transportation of cash is the separation of the cash from the crime that generated it, by the simple expedient of moving it to another country. As has also been discussed, each cash movement involves at least two countries and if any criminal prosecution is to succeed, it is vital that one country is able to obtain evidence to support its case from the other. The project team has been made aware of numerous cases where requests for legal assistance have not been serviced in an appropriate timeframe (or indeed at all) by the counterpart country.

Most countries will deal with requests for mutual legal assistance from another country by preparing and submitting an International Letter of Request, or ILOR, unless the matter is covered by other statutes or conventions to which both are signatories. Discussion of the practical implications of these processes is not relevant to this paper, however the general principle is that a court in one country requests a court in another country to obtain evidence on its behalf.

One of the main challenges faced by this procedure is that countries sometimes have no appreciation of the legislative processes in the country from which they are seeking to gather evidence, or are unable to understand if the request is actually practical or even possible to comply with in that country. This will have a direct impact on the ability, and willingness, of the receiving country to service the request in an appropriate timeframe. It may be that the information requested is not centrally collated or recorded, for example, and obtaining what is sought might involve the receiving country in a marathon country-wide paper chase and the interviews of dozens of witnesses. It may also be that there is a legal impediment in the receiving country which prohibits the disclosure of the information requested, or that the information provided in the ILOR is insufficient to convince a court that coercive powers should be used to obtain the information.

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<sup>64</sup> Source – WCO presentation at Joint Expert’s Meeting, Qatar December 2013.

Alternatively, the ILOR might not make it clear to whom the request for assistance would best be directed; to police or to customs authorities, for example.

Another issue is the fact that some jurisdictions receive a great many ILORs and do not have the resources to deal with them all in a timely manner. It is a natural desire of an investigating authority that the receiving country should deal with the ILOR without delay, but if the ILOR is only the most recent of twenty that have been received that week, it is unlikely that the delay will be looked on patiently by the requesting jurisdiction. Furthermore, if the request is vague, would involve a huge amount of resource to service, or is simply not legally possible, it is likely to be relegated to the bottom of the pile. An additional problem with this is that any future requests from the same country in a similar case are likely to be given similarly low priority.

At least part of the answer to these issues is better intelligence and information sharing. Countries need to have good relations with the countries from whom they are most likely to request legal assistance. They need to be able to call someone in the receiving country who will be able to advise them on the sort of information that might be available (and what will not be), how to word the request, who to send it to, and what the likelihood is of it being serviced in an acceptable timeframe. This is a matter not only for the central authorities but for the agencies themselves. Sharing information and closer co-operation are the key to ensuring an effective response to the problem.

### 5.3 LEGISLATIVE ISSUES

As has already been discussed, there is an issue for some countries in that, although they have a comprehensive legal framework in place to address cash smuggling by natural persons through ports and airports, they may not (without realising it) have the necessary legal tools to properly address issues in respect of cash in cargo and mail. In particular, where a shipment is (reportedly) between two financial institutions and the (sparse) customs paperwork contains all of the information legally required under customs regulations. They may not have the legal authority to detain shipments for further information or to require the disclosure of further information. If this is the case, they may also lack the legislative tools needed to investigate appropriately. In addition, there may be issues when dealing with cash that passes through a country in transit from one destination to another.

The detection of the physical transportation of cash itself is usually insufficient for establishing a well-grounded suspicion of a money laundering offence, needed in order to initiate an investigation by law enforcement agencies. At the same time in some countries, Customs would not have the authority to conduct its own research/inspection, even though the circumstances would raise questions. The latter appears primarily to be an issue of lack of legislation.

In addition, the law in some countries requires that, in order to prove a money laundering offence, investigators also need to prove the predicate offence that generated the money being laundered. This can be a significant difficulty, particularly where the predicate offence took place in another country. This again highlights the vital importance of effective international co-operation in tackling money laundering through the physical transportation of cash.

### 5.3.1 PROHIBITION AND/OR LICENSING OF CASH IN CARGO AND MAIL

Some countries have enacted other legislation on cash in cargo and mail in addition to their national legislation relating to specific cash declarations. In 16 countries, it is prohibited to transport cash in cargo and mail without a license. For one country, the response to the questionnaire appears to suggest a total prohibition, as this country did not mention the possibility of applying for a license. Five countries mention in their questionnaire response that they do not have a prohibition, but a license is required for cash to be transported in cargo and mail.

In conclusion, 21 countries forbid cash transportation in cargo and mail without a license. In 10 of these countries, a specific cash declaration (in addition to the normal customs declaration) is also required. Eight countries have no licensing system in place, but do require a specific cash declaration, meaning that in total 29 countries have specific legislation in place on cash in cargo and mail.

The legislation varies considerably between the countries. Countries provided the following details in their questionnaire responses:

- the threshold for applying for a license is the equivalent of USD 10 000 or USD 5 000;
- only banks authorised by the central bank have the right to conduct cross-border transportation of cash in cargo and mail;
- The central bank issues a license to permit the export of currency in cargo or mail and applies a threshold which is subject to exchange control restrictions;
- transfer of funds has to be subject to prior approval issued by the central bank for commercial institutions, and non-profit organisations require prior approval for this from the Ministry of Social Affairs;
- courier services need to be registered with the Chamber of Commerce and hold the necessary licenses;
- exporting the national currency above a threshold requires a license from the central bank;
- the licensee is required to comply with money laundering legislation;
- transporters have to comply with reporting requirements.

It is important to note that a substantial part<sup>65</sup> of the legislation of the 29 countries is of a monetary nature. Only some of the 29 countries actually have legislation regarding money laundering and terrorism financing in place. Also, only in some cases do customs or other authorities have the legal power to check cash in cargo and mail in respect of money laundering and terrorism financing. (This also highlights the importance of international cooperation, when addressing transnational transportation of criminal cash).

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<sup>65</sup> From the questionnaires it was not possible to find out exactly how many countries have just monetary legislation.

### 5.3.2 CASH IN TRANSIT

Due to customs legislation, some form of customs declaration is obligatory in all cases of cash transiting a country in cargo and mail, and customs has the legal power to check these consignments. The formalities to check transit movements of cash in cargo and mail, however, are even less extensive than in case of import and export. A brief declaration and description of goods is sufficient. That means, for example, that a transit declaration for a parcel containing second-hand books will look exactly the same as that for a box with a large amount of cash in it (assuming the cash is not declared). If there are no grounds for suspicion, and when there are no specific legal obligations relating to the transportation of cash, such as a specific cash declaration or a prohibition on transporting cash without a license, these transiting cash movements are not checked in relation to money laundering and terrorism financing. Checks only take place within the domain of customs regulation (e.g. correct declaration), but following the current risk-based approach (no tax on cash and no other legislative burdens) no consignment containing concealed cash will be selected for customs inspection. When there is a reasonable suspicion, transiting cash movements are selectively examined for money laundering and terrorism financing purposes.

Nevertheless, 39% of the responding countries indicate that legitimate cash movements *transiting* their country in cargo and mail, are *not* subject to any form of control, declaration or examination. Almost a third of the responding countries do not know if these movements are subject to any form of control. It can thus be assumed that in most countries there is no control on the transit of cash.

In responding to the questionnaire, some European Union member states mentioned a EU-wide problem regarding the limited scope of Regulation (EC) No 1889/2005 of the European Parliament and of the Council of 26 October 2005 on controls of cash entering or leaving the Community. This Regulation is directly applicable in all EU member states. The barrier here is that this EU law only sets rules for cash transported by passengers (natural persons) and to cash (bearer-negotiable instruments including monetary instruments in bearer form such as travellers' cheques).

The EC is currently conducting a review of the implementation and scope of this regulation, and has sent a separate questionnaire of this issue to all member states. In the light of the responses received as well as additional analysis by the EC, this process could result in changes to the regulation.

## 5.4 TYPOLOGIES AND GUIDANCE

Some countries, when asked about challenges they faced in developing an effective response to the problem of money laundering through physical transportation of cash, mentioned the following issues;

- There is a perceived lack of clear and usable typologies and best practises; both from an international and national perspective. Research, including a literature review, in the course of the preparation of this report did identify that, although many individual countries and FSRBs had studied the issue, there has been no single paper that comprehensively pulled together all of this experience. Hopefully this paper will go some way to addressing this issue.

- There are no profiles available that target packages and cargo that may contain undeclared (and/or criminal) cash (essential for the risk-based approach of customs). Again, this paper is designed to address this issue.
- There is a lack of relevant information available to judge whether cash being transported across borders may possibly be connected to money laundering. As described above, this could be addressed by greater international co-operation and data sharing, and potentially by closer co-operation with the WCO.
- Once cash has been discovered in cargo or mail, barriers exist regarding the rapid and timely exchange of information between countries regarding the origin/ source of the cash. It would appear that closer co-operation between countries (particularly those who share land boundaries or ties such as ethnicity or frequency of travel by citizens between them) would be an advantage, such that the countries become more aware of the unique circumstances in each other jurisdictions, and the barriers that they need to address to enable the necessary information sharing.

## ANNEX

### JURISDICTIONS WHO RESPONDED TO THE QUESTIONNAIRE

Argentina	Italy	Qatar
Australia	Jersey	Saint Vincent & the Grenadines
Austria	Jordan	Sao Tome & Principe
Azerbaijan	Kazakhstan	Saudi Arabia
Belgium	Korea	Sint Maarten
Bermuda	Latvia	Slovakia
Bulgaria	Lithuania	Slovenia
Canada	Luxembourg	South Africa
Colombia	Malawi	Spain
Czech Republic	Malaysia	Sri Lanka
Denmark	Malta	Sweden
Egypt	Mauritius	Thailand
Fiji	Mexico	Trinidad & Tobago
Finland	Mongolia	Tunisia
France	Montenegro	Turkey
Georgia	Netherlands	Turks & Caicos
Germany	New Zealand	United Kingdom
Greece	Norway	United States
Guyana	Panama	Uruguay
Hungary	Peru	Vietnam
Isle Of Man	Poland	Yemen
Israel	Portugal	

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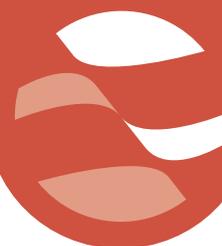
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## **MONEY LAUNDERING THROUGH THE PHYSICAL TRANSPORTATION OF CASH**

In order to break the audit trail, criminals often choose to remove their illicit assets from their bank account and transport these funds to another country to spend it or reintroduce it into the banking system. This report identifies the methods and techniques that criminals use to transport funds across the border and highlights the main challenges that relevant border control agencies face to detect and disrupt these transports.

This report provides a series of case studies and other information for use by all agencies, who need to work together and exchange information to control their borders.

