

***SUMMARY REPORT OF THE PC-R-EV
TYPOLOGIES EXERCISE (7 DECEMBER, 1998)
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Introduction - The Council of Europe's Select Committee of Experts on the Evaluation of anti-money laundering measures (PC-R-EV), a sub-committee of the European Committee on Crime Problems (CDPC), held its first money laundering typologies exercise on 7 December, 1998 in Strasbourg. This day long meeting preceded the semi-annual plenary meeting of the PC-R-EV. Experts from seventeen member PC-R-EV member states participated. In addition, Belgium, France, Portugal, the United Kingdom, the United States, Interpol and the Financial Action Task Force were represented by experts as well.

The purpose of a typologies exercise is to attempt to identify money laundering trends being used by criminals and criminal organizations in order to assist law enforcement and government regulators to develop prevention and enforcement programmes to combat the money laundering threat. This first annual meeting focused primarily on cash money laundering, though, other money laundering activities practised by criminals were also identified.

In advance of the meeting, PC-R-EV member states were asked to be prepared to address the following issues:

1. What are the major crimes that generate illegal cash proceeds in each state?
2. How is this cash typically laundered?
3. What success has each state had in combating this type of money laundering activity? and
4. What steps should be considered to strengthen national efforts against cash money laundering?

Experts from each of the seventeen PC-R-EV states represented presented their views on this subject. Most of the discussion focused on the origin of criminal proceeds, however, there were interesting cases presented by Slovenia, Cyprus, Hungary and Belgium that revealed successful efforts at combating the problem.

The Origin of Criminal Cash Proceeds

There was considerable consensus among the experts on the major sources of criminal proceeds. This agreement is even more remarkable considering the geographical, historic and relative size differences of the countries participating in the meeting. The money laundering problem derives essentially from four categories of illicit activity: Smuggling, Drug abuse and drug trafficking, Economic Crimes and finally Public bribery and corruption.

Smuggling

Nearly every state identified the issue of smuggling as a significant source of illegal proceeds, though the nature and purpose of the smuggling varied. Arms trafficking, for example, was identified as a lucrative criminal activity because of the strong demand for weapons to support ethnic wars. On the other hand several states identified the smuggling of alcohol, cigarettes and petroleum as important areas of concern. The selling of these goods in black markets meant that taxes were also avoided thus reaping significant criminal profits. Also, the smuggling of vehicles stolen in Western Europe into Eastern Europe, Russia and the Ukraine was a recurring problem and becoming increasingly sophisticated. Finally, a number of countries cited the growing problem of the smuggling of human beings. Smuggling creates difficult problems for law enforcement. Effective smuggling rings can often move the proceeds of their criminal activity into countries without adequate anti-money laundering controls. Furthermore, Customs officials are often bribed to facilitate this criminal activity. There is also the considerable problem of tax evasion created when the smuggled goods are sold in black markets outside of government control or even knowledge.

Drug Use and Drug Trafficking

The issue of drug use and drug trafficking is related to smuggling, but because drug use also creates unique money laundering problems, it is dealt with separately. The issue was identified by over half of the countries as a significant problem and a major generator of cash money laundering. The issue has two important and very distinct aspects. The purchase of drugs such as cannabis or heroin for use is essentially a local crime problem which creates a local money laundering situation. The large scale trafficking takes on the dimensions of the smuggling problem, described above. Cash is the preferred means of exchange for drugs even in countries where other forms of payment are common and available. The cash used to purchase the drugs must be laundered in such a way as to clearly conceal its illicit source. In some countries it is not possible to prosecute a local drug dealer for money laundering, if he is laundering his own funds. Thus there may not be adequate attention to some forms of drug money laundering.

Economic Crimes

Nearly every country identified economic crimes as a significant generator of illicit proceeds. However, the types of criminal activity varied. Countries with more developed financial systems listed bank and securities fraud as areas of concern. Also sophisticated pyramid schemes were identified which resulted in unwary and innocent investors being defrauded. Often the payments to the instigators of the pyramid scheme were paid in cash, requiring the criminal to launder the funds. Fraud against the government was also cited as a significant problem by many of the experts and special attention was directed to the privatization process underway in many of the countries. As most of these countries have moved to devolve government ownership and management

to the private sector, organized criminals have been able in some instances to manipulate the auction or sale process to reap large illegal proceeds. It did not appear that in most cases these schemes necessarily generated large cash proceeds, but clearly they provided the opportunity for criminals to conceal other illegally derived income. This area may warrant further attention at a future typologies exercise meeting.

Public Bribery and Corruption

From the criminal's perspective, smuggling, drug trafficking and economic crime can be carried out most successfully and with reduced risk if public officials can be persuaded to cooperate. Thus the bribery of officials becomes a key part of the conduct of the illegal activity. These bribes are often made in cash, thus forcing the official to disguise the illicit source of the income. The corrupt officials' efforts to launder these proceeds may be an important vulnerability in investigating the criminal organization.

The Laundering of Cash Proceeds

Belgium provided an excellent paper which described its experience and the three major steps in the laundering process. These steps are first, the initial **placement** of the funds into a financial institution or the establishment of legitimate appearing source of the proceeds; second, the **layering** of the funds so that law enforcement cannot adequately trace the funds back to the source by moving it through different accounts in different locations; and third the use of the funds by **integrating** them into the legitimate economy. Most of the discussion was on placement. In cash intensive countries, it has been difficult to have banks report suspicious cash activity. Also, in many jurisdictions the laws either do not exist or are too new to have established a sound basis for understanding how criminal cash proceeds are laundered. It was also noted that some jurisdictions are primarily involved in the layering stage. The crime that generates the proceeds occurs in another jurisdiction. The funds are then deposited via wire transfer into these countries' financial institutions. While the transaction may appear suspicious, without adequate communication with the authorities where the proceeds originated, little knowledge is available to determine whether the funds are criminally derived. This is particularly true in smaller jurisdictions with historically sound financial systems.

Nevertheless, several countries described cases that identified practices which will be valuable to all of the countries in attendance. Slovenia indicated that certain cases involved the use of currency exchange houses which served as businesses to conceal the illegal source of the proceeds. Cyprus also indicated the problem of identifying the source of suspicious funds that were forwarded from other jurisdictions. The Belgium paper also outlined various trends which included exchange houses and foreign couriers who would bring the proceeds into the country from Eastern Europe and deposit them in various Belgian financial institutions.

Steps Underway to address the Problem

Various countries described new laws that had been enacted and broader regulations to implement existing laws. Also many countries were establishing Financial Intelligence Units whose duties will be to work to better understand the nature of the money laundering problem as well as review and analyze suspicious reports from banks and other financial institutions. Nearly everyone agreed that better coordination and information exchange was critical between states. Organized criminals are increasingly effective in operating across national boundaries. Indeed many of the criminal activities identified were by nature international in scope such as smuggling and drug trafficking. Concern was expressed that criminals will exploit national parochialism, if they can. Also it was recognized that change often creates opportunities for new forms of criminal activity and economic change is underway in one form or another in all jurisdictions. From privatization to the introduction of the Euro, there are opportunities to be exploited by criminals. Nearly every country reported serious efforts to address this challenging money laundering problem.

Conclusion

The first typologies exercise of the PC-R-EV focused primarily on the kinds of criminal activity generating illicit proceeds. Much more attention needs to be paid to the practices of criminals in concealing the source of their income and the sharing of case experiences. This session served as an important first step in sharing information and identifying common problems and common solutions. Future efforts are necessary further expand the knowledge of the problem and aid governments in designing prevention and enforcement strategies to combat money laundering.