

# *Just in Time*

## FATF Evidences on Money Laundering from Environmental Crime

Sep 2021

# At a Glance

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# 01

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## Introduction

Scope and Definition



# Introduction 1/2

**Environmental crime** has brought results exceeding the financial costs, including for the planet, public health and safety, human security, and social and economic development.

It is evaluated to be among the one of the most profitable proceeds-generating crimes in the world:

- Considering 2018 returns, it is estimated to be equivalent to **US\$110-281 billion annually**
- Two-thirds of environmental crime is consisted of by forestry crime, illegal mining and waste trafficking

The focus on environmental crimes in risk assessment and financial investigations has been restricted to date.

The **shortcomings** are represented by:

- Insufficient coordination between AML/CFT authorizes and actors executing environmental crime and protection policies
- Lack of powers/recourses for law enforcement to investigate and trace the incomes from environmental crime



# Introduction 2/2

## Scope and Definition

**Environmental crime** is an umbrella term to describe the criminal causing harm to the environment. FATF has recently published a report focused on following **crimes**:



# 02

## Properties of Financial Flows from Environmental Crime

Overview

Financial Flows and Crime

Possible Convergence across Crime Areas

Channels for Environmental Crime



# Properties of Financial Flows from Environmental Crime 1/4

## Overview



Usually, environmental crimes take place in resource-rich developing and middle-income countries, generating profits from larger and more advanced economies, except for waste trafficking. Some malefactors concentrate on one or more environmental crimes and depend on networks to transfer the products and facilitate the financial flow.

This illegal act can also form a part of a more widespread criminal enterprise involved in several unlawful activities (e.g., human and drug trafficking, corruption and tax evasion): in these cases, the financial flows produced by environmental crime would be mixed within the larger criminal network.

The combination of environmental crime (e.g., mixing illegal stones with their legal counterparts) in the early stage of the supply chain makes it hard to discriminate between rightful and illicit financial flow: it requires depth coordination amidst AML authorities and specially qualified environmental inspectors.

Besides, not all countries consolidate data based on crime type and the available information does not always allow comparisons. In addition, the discrepancies in the national definition of environmental crime represent an additional challenge for flow quantification.

# Properties of Financial Flows from Environmental Crime 2/4

## Financial Flows and Crime



### Forestry Crime

As stated in the [Introduction](#), this illegal activity involves also unlawful logging and land clearing, and it represents the most notable criminal activity based on the gains generated (the latter are evaluated between USD 51 to 52 billion annually). The relevance of it is also remarked by World Bank that estimates a governments loss in terms of tax revenue equal to between USD 6 and 9 billion annually (from illegal logging alone). However, considering the various ways to transfer money outside the banking system, this results in an underestimation of illicit financial flows. Moreover, it brings major unfavorable impact on land use and tenure, human habitation and sustainable livelihoods and causes climate, land and asset degradation.

The forestry crime looks concentrated in rainforests of Central and South America, Central and South Africa; Southeast Asia and parts of Eastern Europe (Russia included).



### Illegal Mining

This illicit activity is estimated as USD 12 to 48 billion a year in terms of criminal earnings, where the illegally mined gold and diamonds are viewed as the most significant source materials. All stakeholders (e.g., regulators, non-governmental organizations and the industrial sector) are conscious that recent global raises of gold prices have emphasized the issue and made the unauthorized mining of gold more attractive. The mining sector is used by criminals for 2 activities: 1) generate profits via illegal mining; 2) launder the earnings of other crimes using the cash-intensive activities. Then, criminals commit this crime to conceal financial flow of other felony (e.g., trafficking of drug). For this reason, the AML/CFT requirements of FATF Standards should be extended to dealers in precious metals.

Generally speaking, this offences is committed in remote areas with limited presence of supervisory authorities: South America and Africa are the principal sources of illegal mining actives,



### Waste Trafficking

The criminal syndicates plays a relevant role for this crime in many advanced economies: North America and Western Europe are the principal source and transit countries for illegal waste trafficking.

The latter crime produces an estimated USD 10-12 billion annually, but the clean-up cost from such unlawful activities are often far more significant for governments. Based on collected data, the financial flows associated to mentioned crime can be transnational, regional or even domestic and they are often merged with legal waste trade proceeds.

# Properties of Financial Flows from Environmental Crime 3/4

## Possible Convergence across Crime Areas



Source: UNODC/RHIPTO

# Properties of Financial Flows from Environmental Crime 4/4

## Channels for Environmental Crime



### Channels for Environmental Crime

#### **“Front” and Shell Companies**

Above enterprises are used to mix proceeds from illegal mining, logging and waste trafficking within their lawful business accounts. Usually, these companies are characterized by large number of transactions with low individual profit margin, and they work in natural resource markets. Another indicator of potential criminality is given by lower level of output respect to the official production capacity.

Moreover, also shell companies are used with this purpose: in an Italian case, shell business located overseas has been used to move funds back and forth under the guise of invoices for processing their waste.

#### **Frauds related to cross-border trading**

This criminal act includes falsification of documentation and false invoicing. The common “path” for environmental crimes with legal and illegal goods can create challenges in distinguishing between trade-based money laundering (i.e., TBML) and trade-based fraud. For TBML, the primary objective is to use the trade system to clean the proceeds. The complex and significant volume of transactions in the sector can allow criminals to use trade as a guise to move money across countries.

#### **Use of Regional and International Financial Sectors**

Regional financial districts as well as commodity trading and trade finance firms located in all regions of the world seem to play an important role due to the irregular financial flows associated with environmental crimes.

Moreover, the underground money value transfer services (MVTs) has an important role to facilitate laundering from environmental crimes, and particularly illegal mining.

# 03

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## Challenges



# Challenges 1/5



**In context of environmental crime, FATF recognized 6 areas identifying and disrupting these illegal acts.**

## **Understanding and awareness of Money Laundering Risks**

1

There is a need to strengthen understanding of ML risks from environmental crimes: when they are considered, the focus is on logging and mining crimes. A key challenge is represented by 2 “steps”: 1) retrieve sufficient and accurate information on illicit financial flows related to such crimes and manipulate them in order to perform an accurate risk assessments.

During the assessment phase, competent authorities should consider the convergence with corruption risks, organized crime, trade fraud and TBML. Jurisdictions should ensure that they consider all sources of relevant information on risks and develop a “top down” approach. The data sources that should be considered are:

- Crime statistics (number of offences, volume of damages, conviction rates),
- Financial flow data on import/export (comparing domestic production and consumption data with export data),
- Analysis by the financial intelligence unit (FIU),
- Tax and company ownership information.

As remarked by FATF Report, “**any efforts to respond to laundering from such crimes should be integrated into wider AML/CFT and environmental crime strategies**” [1].

Furthermore, the private sector can increase awareness of their group-wide exposure to environmental crime.

# Challenges 2/5

## 2

### Legal Frameworks

From the FATF survey, most countries have criminalized environmental offences nor via specific criminal offences (e.g., illegal harvesting of logs) or through more general unlawful acts (e.g., illegal exploitation of natural resources). On the other hand, there are some nations without a robust framework on environmental crimes, some nations display a marked lack of strong legal frameworks and a relevant impact on international cooperation to fight these offences.

We can identify several approaches for environmental crimes:

1. "**All crimes**" approach, i.e. a predicate offence carrying a minimum threshold would automatically be considered as a predicate crime to money laundering. This procedure is used by 49% of interviewees.
2. "**Designated Predicate**" method, i.e. when the forestry crime, illegal mining and waste trafficking are specified as a prerequisite for money laundering. It is used by 26% of interviewees.
3. For the remaining interviewees it can be observed that:
  - the 9% of them have not declared environmental crimes as predicate infraction;
  - the 16% of them have an unclear framework.

The above results represent an important discrepancy among the sanctions for these crimes.

This behavior increases the criminal perception as "low risk, high reward" for forestry crime, illegal mining and waste trafficking.

# Challenges 3/5

## 3

### Domestic Co-ordination

Inadequate cooperation amid AML/CFT authorities and protection agencies in most countries represents an obstacle to counter the so-called phenomenon of "green" crime.

However, for these violations, relevant agencies often involve experts outside of traditional AML/CFT agencies: this cooperation needs proactive channels in order to be incisive. A crucial factor underlying this challenge is the non-conventional and specialized nature of environmental crime detection and investigation. In many states, environmental agencies have a key role to fight environmental crime.

Usually, the latter organizations are often non-traditional law enforcement partners have not the proper knowledge and resources to perform financial inquiries with the risk to underestimate relevant financial evidence. On the other side, we have AML agencies, FIUs and law enforcement agencies that do not consider environmental crime as a priority area.

Therefore, domestic coordination and cooperation among all the involved actors have a lead role to avoid this crime because, the latter, takes place in isolated rural and resource-dependent regions (typically they are geographically distant from administrative and financial centres) which it makes harder the identification of these offences.

# Challenges 4/5

## 4

### **Detection and Investigation of ML**

The actors involved in the detection and disruption of money laundering threats should use financial intelligence and all relevant information in order to support the financial investigation. From the FATF study, the number of financial inquiries related to environmental crimes is quite low in most jurisdictions. A reason for this evidence is given by the gaps in relevant authorities' detection capabilities for these crimes.

Consultations among countries showed that most FIUs and relevant authorities have not implemented relevant red flags, training, typologies or analysis tools to support in recognizing the financial activities linked with illegal mining, illegal logging or waste trafficking. The result of the actual framework is an unsuccessful analysis of environmental crimes.

In addition, for the same reason, also the private sector respondents (FIs and NPOs) see evidence of difficulties in identifying the transaction of environmental crimes.

To fix the above gap, the USA need to examine their national-level sanctions regimes as a useful instrument to inform the private sector on individuals involved in organized environmental crimes and provide an administrative freeze on assets pending legal measures.

# Challenges 5/5

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## **Effective International Co-operation**

Criminal organizations take advantage of the missing cooperation among jurisdictions to transfer financial flows or goods from environmental offences. Discussion among nations for this project highlights that while authorities are conscious of the global nature of transactions and the need to exchange information beyond borders, it has been found a lack of significant number of examples as regards successful collaboration on money laundering cases for environmental crimes on a regular basis. Therefore, there is an increasing need to strengthen global exchange among source, transit and demand countries for environmental crime supply chains and related laundering. However, we have the example of successful internal collaboration among States: Egmont and Interpol support information exchange, directly supporting financial investigations.

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## **The Role of the Private Sector**

Next to financial institutions, we the private sector represents an important contribution in supporting the detection of transaction anomalies. Often, banks work in an inadequate information context due to unreliable registries or incomplete information: the private sector could support all the involved actors to build a clear and complete picture of risks from all available data and establish whether projects pose criminality risks. The FATF report points out the significance of proactive discussion between the public and private sector on risk environment: in this way, the private sector should comprehend better the key risk indicators.

# 04

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## Conclusions



# Conclusions

The FATF report remark on the importance to increase the awareness of money laundering arising from environmental crime. In order to optimize the resources of all the actors involved in environmental crime detection, it appears necessary to define roles and responsibilities among public sector authorities when environmental degradation is related to money laundering and requires investigation. The first tool to combat money laundering from environmental crimes is given by the **implementation of FATF Standards** considering, e.g. the enlargement of cross-border communication or disclosure systems to incorporate precious metals and stones, considering the country risk profile and position within criminal supply chains.

We have **3 priority actions**:



Even if countries do not have natural resource industries inside their boundaries, they should consider the ML intimidations from environmental crimes.

Countries should ensure that AML/CFT authorities and FIUs have adequate tools, in terms of powers and operational capacity, to stop laundering from environmental offences.

Countries should promote the exchange of risk information between private and public sectors and support the due diligence activity of supply chains.

# Sources and Literature

[01] **FATF.** *Money Laundering from Environmental Crime*. FATF Report, July 2021.

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# Company Profile

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