

Strategic Analysis Paper

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The Cost of Laundering Dirty Money

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Summary

Money laundering is a key capability of criminal groups and enables them to conceal the source of the proceeds of crime from a range of illegal activities such as drug trafficking, sexual servitude, human trafficking and people and weapon smuggling. Weak states and jurisdictions are operating environments particularly targeted by organised criminal groups to “clean” the proceeds of crime, as they offer less risk to their profit or detection.

Analysis

Money laundering is a global problem with significant economic costs. The United Nations Office on Drugs and Crime (UNODC) in 2008 estimated that money laundering accounts for between 2-5 per cent of global Gross Domestic Product, an estimated US\$800 billion - US\$2 trillion.

Australia also shoulders a significant economic cost from money laundering. The Australian Institute for Criminology in 2004 conservatively estimated that the proceeds of crime from money laundering in this nation amounted to \$2.8 billion - \$6.3 billion. Considered an underestimate, that figure does not include the amount lost from revenue through tax evasion. Such estimates mean that the cost to Australia from money laundering over 2004-2014 could therefore amount to \$28 billion - \$63 billion.

As Frank Costigan QC, a former Royal Commissioner, noted in 2007 to a Parliament of Australia Joint Committee on the Australian Crime Commission, the ‘major object of organised crime...in the widest possible definition...is to acquire cash and hide it from the authorities’. Money laundering assists this process for organised crime groups.

Only a small number of money laundering operations are detected and recovered, yet the Australian Federal Police (AFP) continues to identify large-scale transnational organised crime syndicates operating in Australia. In 2008, AFP investigations, focusing on the financial base of criminal groups, identified over 280 money laundering incidents in Australia.

During 2008-09, a Sydney-based Asian organised crime group was identified by the AFP as laundering up to \$5 million per month. Operation Wickenby is an ongoing whole-of-government taskforce which investigates tax avoidance and evasion, and has enjoyed success against money launderers. One referral from the Australian Taxation Office to the

AFP led to the shutting down of a transnational and money laundering outfit believed to involve \$100 million. Another investigation saw the AFP provide support to New Zealand and Vanuatu authorities to close a \$12 million operation and saw 31 people charged with fraud and money laundering.

The mainstream economy is increasingly being targeted by criminal groups to 'clean' their illegally acquired money, and use legitimate business entities to facilitate the money laundering process. This masks where the proceeds of crime have originated from, making this new found wealth appear to have come from legitimate sources. As the proceeds from crime are laundered in this way into legitimate businesses, the visibility of criminal groups is markedly reduced.

In 2009, the Australian Crime Commission (ACC) report on organised crime stated that 'large-scale unanticipated funds transfers that can influence the volatility of exchange rates and interest rates' have occurred. Other impacts from money laundering include the 'crowding out' of legitimate businesses in the marketplace and the evasion of tax payments, which results in Australians carrying a heavier tax burden.

Money laundering processes can range from smuggling cash across borders, using money remitters, gambling, transfers into financial institutions in states with limited Australian law enforcement visibility, and the transfers into other asset types. As larger amounts of money from the proceeds of crime enter the international banking system, it becomes increasingly hard to determine its source.

Organised crime groups constantly seek to reduce the risk of detection, penalty or loss. States and jurisdictions with weak governance structures and justice systems, poor financial regulatory control mechanisms and poorly resourced police forces are targeted by criminal organisations. The AFP states that, as a result of the Global Financial Crisis, weakened financial markets around the globe may provide increased opportunities for transnational organised crime groups to launder money.

Money laundering generally involves a three step process. First, the "placement" of funds involves removing money from the source where it was illegally collected. Whether money is collected from an illicit drug shipment or embezzled from an international aid loan, the dirty money enters the banking system and undergoes several transactions.

The second stage is known as "layering". This is where money on behalf of an entity, such as company "A", is transferred into an off-shore bank or financial institution. It is then loaned to company "B" which is associated with company "A". This second company in turn makes a payment on a false invoice back to company "A".

Stage three is "integration". This is where "clean" money can be used for a variety of purposes, such as purchasing luxury consumer goods or making financial and commercial investments. This 'clean money' is used to support or build legitimate business interests, many of which are a front for ongoing illegal activities, including tax evasion and investment fraud.

Ongoing advances in information technology and modern communication systems mean that the methods to launder money will continue to adapt. The exploitation of poor regulatory and monitoring environments, as well as legal

loopholes within existing legislative frameworks, all conspire to make the task of detecting money laundering difficult.

Deregulation of the financial industry and the growth of black markets and secret financial havens are just some ways that make the task of identifying those associated in criminal activities more difficult. The global financial system and its so-called “megabyte money” allows for multiple, almost instantaneous international money transfers. Some states house offshore banking systems which facilitate the laundering of illegally acquired money, through a combination of lax regulatory and monitoring systems.

As financial controls and legislative reform are implemented in an attempt to deal with an increase in money laundering, fraud and financial crimes, organised crime groups continue to target the mainstream economy to avoid detection.

Australian-based and regional criminal networks recruit people with specialist skills to facilitate their activities and legitimise the proceeds of crime. Specific skills that are targeted include finance, taxation, migration law, accounting, information and communication technology and even forensic auditing. These specialist skills will gain in demand from organised crime, especially as financial controls become tighter.

Underground remittance systems and professional facilitators can be involved in the structure of legitimate business enterprises which mask the proceeds of crime. Often done by legitimate means, sometimes the service provider is unaware of the organised crime association taking place within their business. There is also direct collusion between the service provider and the criminal organisation.

In 2009, UNODC reported an increase in the internationalisation of organised crime in Australia. This has come through partnerships with their international counterparts, such as Outlaw Motorcycle Gangs (OMCG) and Asian organised crime groups. OMCGs have a strong presence in Australia’s illicit drug market and participate in money laundering activities.

The Asia-Pacific region has a long history of organised crime, from the Chinese Triads and the Japanese yakuza which have been around for centuries and spread their activities to other countries in the region, including Australia and Papua New Guinea. Other criminal organisations, such as OMCG, ethnic-based mafias and the like, operate in Australia. Other states to the immediate north of Australia have organised crime groups operating there. For example, West African criminal groups are increasing their presence in Indonesia. The level of sophistication of a particular criminal group influences the way they conduct their operations, yet many will participate in money laundering.

There is also a nexus between criminality, money laundering and the financing of terrorist activities. Organised criminal groups and terrorist organisations have different motives and objectives but they do seek to exploit vulnerabilities in the transport and security sectors. Drug trafficking has financed the activities of several terrorist groups which access markets, supply and distribution networks maintained by criminal groups. There is recognition that society’s vulnerabilities to criminal activity are also vulnerable to terrorist activity.

The Australian Government has an active suite of programmes which are directly involved in efforts to tackle the global problem of money laundering and the financing of terrorism. The Australian Transactions Reports and Analysis Centre (Austrac) is the regulator which enforces the *Anti Money Laundering and Counter Terrorism Financing Act 2006 (AML/CTF)*, the *Financial Transaction Reports Act 1988* and ensures compliance by cash dealers, various financial services providers and the gambling industry.

A specialist financial intelligence unit, Austrac provides information to Australian federal, state, territory law enforcement, security, and social justice and revenue agencies. Austrac is actively engaged with a number of international AML/CTF groups and organisations, including the Financial Action Task Force (FATF), the Asia-Pacific Group on Money Laundering (APG) and the Egmont Group of Financial Intelligence Units.

Australian law enforcement agencies and other government departments are involved in fighting money laundering through a variety of means, including international programmes. There is a particular emphasis and focus by the Australian Government on the Asia-Pacific region. According to Austrac, one of their strategic objectives is to build the capabilities of financial intelligence units in countries within South-East Asia and the Pacific.

The contribution to the APG is complemented by the Anti-Money Laundering Assistance Team (AMLT), an Australian Government programme which comprehensively tackles anti-money laundering and counter-financing of terrorism in eight nations in the Pacific Ocean region. The Strategic Priorities Reference Group sets the strategic direction of the AMLT and consists of the APG, Pacific Islands Forum Secretariat, the Pacific Anti-Money Laundering Program, Pacific Financial and Technical Assistance Centre, Department of Foreign Affairs, Austrac, AFP, AusAID, and several Australian banks.

The Australian Government's ongoing commitment to the FATF on money laundering further demonstrates the depth of the approach required to addressing money laundering. Similar schemes elsewhere, such as FATF-Style Regional Bodies (FSRB), has 180 jurisdictions working against money laundering and terrorist financing. These actions are likely to force organised crime groups to change their methodologies and the locations where money is laundered.

Of note is the ACC's assessment that 'law enforcement responses will, by necessity, continue to be predominantly reactive and directed toward issues affecting single jurisdictions'. However, collaboration across jurisdictions via inter-governmental bodies such as the APG and joint efforts through taskforces, ranging from Australia's Operation Wickenby to the FATF and FSRB, strengthen efforts to identify and deny the financial base of organised crime groups.

Sustained domestic, regional and international cooperation and action must be continued as the incidence of money laundering is likely to grow. It is necessary to consistently demonstrate to society and criminal groups alike that the proceeds of crime do not pay.