

An aerial, top-down view of a busy port area. The image shows numerous stacks of shipping containers in various shades of grey and blue, organized in neat rows. Several large gantry cranes are visible, extending over the container stacks and the water. The water is dark and textured. The overall scene is industrial and suggests a major hub for international trade.

The Dark Side of Illicit Economies and TBML: Free Trade Zones, Ports, and Financial Safe Havens

Leveraging intelligence, network analytics, and pattern-of-life forensics to disrupt the logistics, financial wherewithal, and corruptive influence of criminals and their complicit enablers across trade hubs, illicit economies, FTZs, and vulnerable ports.

IN FOCUS: THE AMERICAS AND GLOBAL THREAT CONVERGENCE

The International Coalition Against Illicit Economies (ICAIE) / ICAIE Labs

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Executive Summary

In recent decades the convergence of transnational criminal structures and illicit economies have grown to create a clear and present danger to U.S national security interests by siphoning trillions of dollars from legal economies. These funds fuel growing corruption, instability and violence while destabilizing markets in the Americas, and around the world. Criminal actors and threat networks connected through global super fixers exploit advances in technology, transportation and other critical infrastructure for illicit enrichment. In these dangerous times, converging illicit vectors erode our collective governance, prosperity, and security.

Illicit trade, trafficking, and smuggling of counterfeit goods, narcotics, humans, natural resources, WMD, and other contraband impact the security of all societies. Kleptocrats, criminal organizations, terrorist groups, and their enablers exploit networked hubs of illicit trade centered on free trade zones, ports, and other logistical channels of transportation, communications, and trade. This allows the criminal groups profit from an array of illicit activities and corrupt institutions, drain resources for economic development, and compromise the integrity of supply chains. No country is immune from these insidious gaps in the globalized world.

These illicit threat actors often disguise and launder the proceeds of their illegal activities by exploiting anonymous shell companies in jurisdictions designed to be opaque, along with financial havens and multiple forms of trade-based money laundering. These actions take advantage of the seams in the global financial system, and empower criminalized state that partner with transnational criminal organizations and rival state power. Today, trade-based money laundering (TBML) is the biggest methodology to move dirty money across borders, representing about half the money laundered every year globally. Today, trade-based money laundering (TBML) is the biggest methodology to move dirty money across borders, representing about half the money laundered every year globally.

Moving forward, we must implement the lessons learned to disrupt transnational criminal actors and lessen their corruptive influence. To better safeguard the open markets and security of our homeland and beyond we must strengthen the full spectrum capabilities. We must apply “whole-of-society” approaches, combining and leveraging government and private-sector initiatives to develop a unified strategy for interdiction, disruption and prosecutions. This should include enhancing information-sharing targeting the logistics, free trade zones, ports, and financial safe havens that are enable transnational organized crime and damage legal businesses.

We must strengthen our political will at the strategic, tactical and operational levels to break the financial wherewithal of these global super-fixer networks of criminal convergence and find comprehensive, enduring solutions to effectively counter illicit economies and the damage they inflict. This is vital to moving toward international prosperity, fair trade, enhanced national security, and sustainability. The International Coalition Against Illicit Economies (ICAIE) is committed to advancing dynamic public-private partnerships to counter illicit trade and webs of corruption and criminality across borders to help safeguard our collective security.

David M. Luna

Executive Director, ICAIE

Introduction

Global illicit economies now combine to soak up trillions of dollars in commerce across the globe. This siphoning off of vast resources from the more transparent and beneficial legal economies have enormous human, economic, societal and security costs. The consequences are the continual undermining of the rule of law, while serving as primary drivers of endemic poverty, crushing corruption, instability, migrations and violence. On a global level, illicit economies enable kleptocrats to loot their countries, criminal organizations to co-opt states and export violence and terrorist groups to finance their operations.

Illicit economies are pervasive and persistent threats that undermine democracy, erode the rule of law, fuel impunity, imperil the sustainability of economic development strategies, contribute to human rights abuses and enflame conflicts. Across today's global threat environment, criminals and bad actors exploit natural disasters, human misery and market shocks for illicit enrichment. The United Nations has estimated that the illicit funds from crime, tax evasion and money laundering constitutes up to 5 percent of global gross domestic product, or \$4 trillion.

As resources bleed away from benefitting the public good, "States face two fundamental and interconnected challenges: they are often unable to meet the economic needs and expectations of their citizens, and they are unable to elicit the loyalty and allegiance of significant portions of these same citizens."¹ Real power now increasingly rests with a host of autonomous Transnational Criminal Organizations (TCOs), their allied political actors, and private armies with their own resource base so that re-imposing positive state control is extremely difficult.

President Biden, in unveiling the U.S. Strategy on Countering Corruption, correctly noted that corruption "is a cancer within the body of societies," and is a "core national security interest" because it "threatens United States national security, economic equity, global anti-poverty and development efforts, and democracy itself."²

The illicit commodity chains often span significant geographic space and require multiple steps, in multiple countries to be successfully completed. One individual, or criminal and/or terrorist group seldom has the capacity to operate throughout this complex landscape. Instead, they must turn to specialized individuals, often primarily motivated by economic incentives rather than ideology, who can navigate specific links in that chain. These individuals are crucial links between different worlds that do not often overlap. Those who can move the products often have no direct access to the money laundering, procurement and transportation networks for the profits for those commodities. The payments include not only cash, but sophisticated weapons, chemicals or other material that needs to be transported back to the source region or elsewhere.³

The lucrative criminal activities enabling and fueling the multitrillion-dollar illicit economies include the smuggling and trafficking of narcotics, opioids, weapons, humans, counterfeit and pirated goods; illegal tobacco and alcohol products; illegally harvested timber, wildlife and fish; pillaged oil, diamonds, gold, natural resources and precious minerals; and other contraband commodities. Such contraband and illicit supply chains are dependent on a "fixer chain" to move the products and repatriate the profits.⁴



ICAIE recognizes that illicit economies, the fixer networks that enable criminal convergence are threat multipliers that ripple across borders and imperil supply chain security, market integrity, democratic institutions and the rule of law that allow democracies to function.

Nowhere is this more evident than across today's free trade zones, ports, and financial safe havens, where corruption, excessive deregulation and an intentional lack of transparency enable illicit trade to thrive. Free trade zones, poorly regulated ports, beneficial ownership laws and secretive financial hubs are convergence centers for multiple illicit activities and economies criminals exploit the cracks and seams in the global financial and trading systems to advance illicit trade and hide the profits.

¹ Phil Williams, "Lawlessness and Disorder: An Emerging Paradigm for the 21st Century," edited by Michael Miklaucic and Jaqueline Brewer, Center for Complex Operations, (Washington DC: National Defense University Press, 2013), 15-37.
² The White House: U.S. Strategy on Countering Corruption, Fact Sheet, December 6, 2021, accessible at: <https://www.whitehouse.gov/briefing-room/statements-releases/2021/12/06/fact-sheet-u-s-strategy-on-countering-corruption/>
³ Douglas Farah, "Fixers, Super-Fixers and Shadow Facilitators: How Networks Connect," Convergence: Illicit Networks and National Security in the Age of Globalization, Edited by Michael Miklaucic and Jaqueline Brewer, National Defense University, Center for Complex Operations, Washington, D.C., 2013.
⁴ Ibid



Disrupting Unruly Illicit Spaces in FTZs and Ports

Many countries have developed Free Trade Zones (FTZs) to promote and accelerate economic development. FTZs are designated regions that usually lay beyond the economies' customs jurisdiction, and hence, are not subject to customs tariffs or inspections that would apply to imported products.⁵

FTZs are important in global commerce and have been used for centuries to increase trade among countries and businesses and their popularity has soared in the last 50 years. In 1975, there were only 79 FTZs in 25 countries; today, there are over 3,500 FTZs spanning 130 countries, with nearly 1,000 of these established in the past five years. At least 500 more zones have been announced, with the majority of them expected to be operational in the coming years.⁶ Today, FTZs support approximately 68 million direct jobs and account for over \$500 billion in direct trade-related value.⁷

FTZs—also known as special economic zones, free ports, or free zones—are designated transshipment areas that provide benefits such as duty and tax exemptions, simplified administrative procedures, and duty-free imports of raw materials, machinery, components, and equipment, and liberal foreign exchange regulations. All contribute to increased trade, business development, technology transfer, and foreign investment.⁸ While FTZs advance exports, foreign direct investment, and domestic employment they also offer exemptions from certain revenue, financial, and labor requirements.⁹

Evolving in response to global economic development as governments become more dependent on them to stimulate economic growth and investment, FTZs have become synonymous with globalization.¹⁰ However, the standards, supervision, and regulations within these zones have not kept pace with the rapidly-changing global supply chains and “just in time” delivery strategies.

International frameworks governing FTZs currently fail to consider money laundering vulnerabilities and the risk of illegal activity. Perhaps more significantly, certain enterprises operating in FTZs are exempt from national AML legal and regulatory frameworks since their activities falls outside the scope of onshore financial industry providers. As a result, the anti-money laundering requirements, even if they do exist, do not apply to businesses within these special regions.¹¹

The sheer number of FTZs, coupled with the lack of uniform standards, complicates the mission of rationalizing their activity.¹² Standards and rules vary significantly across the globe and even within a same country. Because they exist to facilitate large volumes of commerce, they are inherently more vulnerable to illicit activity.¹³ What the formal economy views as faults and vulnerabilities in FTZs, the criminal economy views as chances for money laundering, illicit commerce, and terrorist financing.¹⁴

⁵ BASCAP, Controlling the Zone: Balancing Facilitation and Control to Combat Illicit Trade in Free Trade Zones, pg. 5

⁶ United Nations Conference on Trade and Development, 2019. World Investment Report 2019. Special Economic Zones.

⁷ International Chamber of Commerce, Controlling the Zone: Balancing facilitation and control to combat illicit trade in the world's Free Trade Zones, 2016.

⁸ OECD, Trade in Counterfeit Goods and Free Trade Zones Evidence from Recent Trends, p.5.

⁹ OECD, Governance Frameworks to Counter Illicit Trade, Enforcement Challenges in Countering Illicit Trade in Free Trade Zones, 2018.

¹⁰ Global Financial Integrity, Free Trade Zones: a Pandora's Box for Illicit Money, October 2019.

¹¹ OECD, Trade in Counterfeits Goods and Free Trade Zones Evidence from Recent Trends, p.5.

¹² FATF, Money Laundering Vulnerabilities of Free Trade Zones, March 2010.

¹³ Royal United Services Institute for Defense and Security Studies, Improving Governance and Tackling Crime in Free-Trade Zones, October 2020

¹⁴ FATF, Money Laundering vulnerabilities of Free Trade Zones, March 2010.

Through illicit commerce and the abuse of maritime containerized shipping, counterfeits, illicit goods and contraband are flooding markets across the region through FTZs. The goods are mostly from China and other parts of Asia. Latin America remains a transit point to the U.S. of fake products, with some posing great danger to all consumers such as counterfeit medicines, vaccines, or personal protective equipment (PPE).

The FTZs of primary concern include Panama's Colon Free Trade Zone, Isla Margarita in Venezuela, Maicao Special Customs Zone in Colombia, Ciudad del Este in Paraguay, the Aruba Free Trade Zone, Corozal Free Zone in Belize, and others. The Tri-Border Area/FTZ in South America has become one of the world's biggest hubs of illicit trade including narcotrafficking, cigarette smuggling, counterfeiting, money laundering, and other criminal activities worth an estimated \$43 billion per year.

The abuse of one FTZ in the region can cause ripple effects globally. For example, the *Cárter del Tobacco*, which has numerous business connections with the *Cartel Jalisco Nueva Generación (CJNG)* and *Los Zetas*, has illegally imported illicit cigarettes from China, UAE, India, Paraguay and other countries, including through the misuse of Free Trade Zones (FTZs) in Panama and Belize.¹⁵ In early 2020, the U.S. Department of Homeland Security (DHS) seized over 420 million smuggled U.S.-made cigarettes transiting to Mexico. This was the single largest illicit cigarette seizure ever recorded in the U.S., with a total value estimated at \$88 million. FTZs/bonded warehouses were instrumental in moving such contraband from the UAE and Panama into McAllen, Texas.

Disrupting Illicit Pathways and ML Risks Across Ports and Free Zones



Free Trade Zones are generally organized around major seaports, international airports, and national frontiers—areas with many geographic advantages for trade; shipping industry moves almost 90% of global goods.

¹⁵ David M. Luna, Countering Corruption and Illicit Trade to Secure Greater Prosperity in Central America, Anti-Comercio Ilícito en Centroamérica: Regulación, Cumplimiento y Seguridad Nacional, AmCham Costa Rica Regional Dialogue, October 21, 2021, accessible at: <https://traccc.gmu.edu/wp-content/uploads/2021/10/AMCHAM-Costa-Rica-David-M.-Luna-Keynote-Address-CENTAM-AIT-and-REGIONAL-SECURITY-21-October-2021.pdf>.

Growing Security Threat Posed by Organized Crime in Ports Across the Americas



In any given year, cargo ships and maritime vessels transport hundreds of millions of containers, comprising close to 90% of the world's goods. The global scale and volume of such trade creates vast opportunities for criminals to hide and move illicit goods to destinations across the world. Maritime trafficking is the favored method of smuggling illicit drugs, counterfeits, and other contraband across the Americas through routes in the Atlantic, Pacific, and the Caribbean Sea/Gulf of Mexico.

There is a growing consensus that escalating security threats demand a more coordinated and unified transnational strategy to enable targeted disruptions of the logistics and fixer networks of transnational organized crime, including targeting unruly spaces in FTZs and ports.

The urgency is due to the fact that cartels and organized criminals have co-opted a growing number of governments at all levels. These "criminalized states" use transnational organized criminal groups as instruments of state policy rather than combatting them, fundamentally realigning the purpose and objectives of the state.¹⁶ The paradigm of the criminalized state is Venezuela, closely followed by Nicaragua and other members of the Bolivarian Alliance of populist authoritarian regimes.

These criminal groups now control critical strategic infrastructure such as major ports and FTZs, while expanding into agriculture, mining and pharmaceuticals. There are multiple examples:

- In Panama, members of the largest business family in the Colón Free Trade Zone (CFTZ) – itself the largest free trade zone in the hemisphere – have been publicly accused by the U.S. government of being among "the world's most significant drug money launderers and criminal facilitators," with clients ranging from Mexico's Sinaloa Cartel to Colombia's FARC rebels.¹⁷ The Waked family businesses of 68 companies in the CFTZ was reported to be directly involved in "trade-based money laundering schemes" using "false commercial invoicing, bulk cash smuggling, and other money laundering methods to launder drug proceeds on behalf of multiple international drug traffickers and their organizations." The leader of the clan reached a plea deal with the U.S. government in 2020.¹⁸

- In the Tri-Border Area of Paraguay, Argentina and Brazil (TBA), the Barakat clan has been sanctioned multiple times for using the multi-jurisdictional hub to launder funds for Hezbollah and other criminal groups. The clan, according to U.S. officials, used "every financial crime in the book, including businesses, to generate funding" for Hezbollah. Assad Ahmad Barakat was extradited from Brazil to Paraguay in 2020, where he awaits trial.¹⁹ In addition, recent intelligence reports in Paraguay indicate former president Horacio Cartes, a cigarette magnate, laundered millions of dollars through falsified cigarette sales using the TBA's lax border controls, as discussed later.²⁰

- In Mexico, the cocaine cartels and other illicit actors wield great influence over the largest seaports including Lázaro Cárdenas, Manzanillo, and Veracruz, where they control smuggling operations for an array of counterfeits, precursor chemicals for fentanyl, other illicit drugs, and a broad array of contraband. These strategic assets enable them to move illicit goods across Mexico, into the United States, and beyond.

In the Northern Triangle of Central America – Honduras, El Salvador, and Guatemala – endemic corruption, grinding poverty and transnational gangs have generated systemic violence and impunity while creating conditions for mass migration and long-term ungovernability. The Mara Salvatrucha (MS-13) gang, along with Mexican cartels, and a complicit kleptocratic network of government officials, have created convergence centers in key ports of the deeply criminalized states of Honduras and Guatemala for multiple transnational criminal networks from China, Russia and Mexico. This in turn leads to increased trafficking of drugs, weapons, human beings, and other contraband leaving many individuals, especially young adults, with the choice of joining gangs or cartels or seek to migrate.²¹

- According to Brazilian Federal Police, the port of Santos, second largest port in Latin America after Colón in Panama, has become one of the biggest cocaine trafficking hubs in the world and biggest illicit transit points of contraband to Europe.²² Criminals are able to bribe government officials across the Andean region to Brazil, and onwards in other connected maritime ports in moving such narcotics. Among the biggest criminal organizations operating out of São Paulo is the First Capital Command (PCC) which has strategic partnerships with the Latin American cartels, Hezbollah, Italian mafia groups, Chinese triads, and other illicit networks.

- In Chile's Port of Iquique, weapons trafficking has increased in recent years as criminals leverage vulnerabilities in the port to commingle guns with other contraband to distribute to other parts of the region. The port is also the center of Shi'ite Islam in Chile, and Hezbollah has a strong foothold there. According to Chilean prosecutors, criminal organizations, including Hezbollah have been taking advantage of Chile's industrial free trade zone, its ports and its border situation to "reach other destinations, or to reach our country more easily with firearms of this caliber."²³

¹⁶ For a fuller discussion of criminalized states in Latin America and the threat they pose to U.S. national security interests see: Douglas Farah, "Transnational Organized Crime, Terrorism, and Criminalized States in Latin America: An Emerging Tier-One National Security Priority," US Army War College Strategic Studies Institute, August 2012.

¹⁷ <https://insightcrime.org/news/analysis/us-panama-nidal-waked/>

¹⁸ Ibid

¹⁹ <https://www.fdd.org/analysis/2020/07/22/hezbollah-operative-extradited-to-paraguay/>

²⁰ "Cartes y su vinculación con investigados por delitos varios," ABC Color, May 30, 2022, accessed at: <https://www.abc.com.py/politica/2022/05/30/cartes-y-su-vinculacion-con-investigados-por-delitos-varios/>

²¹ Douglas Farah and Kathryn Babineau, "The Rapid Evolution of the MS 13 in El Salvador and Honduras From Gang to Tier-One Threat to Central America and U.S. Security Interests," William Perry Center, National Defense University, March 2018, accessible at: https://www.ibiconsultants.net/_upload/mediaandpublications/document/the-rapid-evolution-of-the-ms-13-march-23-2018-final.pdf

²² <https://dialogo-americas.com/articles/brazil-combats-narcotrafficking-in-its-ports/#:YkstrujMKSA>, February 2022.

²³ Weapons Traffickers Target Chile's Port of Iquique, InsightCrime, August 6, 2021, accessible at: <https://insightcrime.org/news/smuggled-weapons-cause-concern-chile/>

The Need to Strengthen Port Security: Criminal Infiltration and Market Penetration

Ports across the Americas continue to be exploited or remain vulnerable to transnational criminal organizations that corrupt officials and strategically use maritime shipping as logistical platforms to move tens of billions of dollars worth of narcotics, precursor chemicals, opioids, counterfeits (electronics, apparel and footwear, tobacco products, pharmaceuticals), stolen cars, pillaged natural resources, illegally -poached wildlife, illicitly-harvested timber; and other goods.

It is worth noting that the problems have multiplied since the People’s Republic of China has begun its massive investments in ports across the hemisphere, where PRC companies often control access to the port or sections of the port where local authorities are not permitted to undertake and inspections or searches without company permission.

An IBI Consultants investigation in 2019 found that China controlled all or portions of 37 ports in Latin America, broken down as follows:



²⁴ IBI Consultants field investigation in Puerto Cortes, May 2018.

²⁵ David M. Luna, "The Impact of China's Illicit Economies to U.S. National Security, Testimony before U.S. Senate Committee on Finance, Fiscal Responsibility and Economic Growth Subcommittee, July 14, 2021, accessible at: <https://www.finance.senate.gov/hearings/defending-and-investing-in-us-competitiveness>.

In addition to illicit goods, Chinese criminals’ illicit finance activities constitute one of the biggest money laundering hubs in the world, introducing and laundering approximately \$1.5 to \$2 trillion of illicit proceeds into the world’s licit economy every year, often through FTZs.²⁶ Shadow banking, Chinese underground banking systems (CUBS), the use of mirror accounts, Chinese capital flight, and alternative remittance systems such as “fei-chein” (flying money) sometimes use trade-based value transfer. It is an ideal vehicle to transfer money/value in the form of trade goods out of the country by importing goods at overvalued prices or exporting goods at undervalued prices. China poses a national security threat as it expands global black markets through such illicit finance, leveraging FTZs and the ports its controls.

The threats to national security threat are further exacerbated through the volume of weapons and drug trafficking in the region, along with the high-volume of uninspected container-based trade through the ports and FTZs. TCOs and/or terrorist groups could easily exploit vulnerabilities to move sophisticated conventional weapons or weapons of mass destruction (WMD). The 2013 case of MiG 21 fighter jets and 240 metric tons of antiquated but functional weapons – including surface-to-air missiles–hidden aboard a North Korean vessel transiting the Panama Canal under tons of sugar shows what is possible. The ship was only stopped because of an intelligence tip and suspicious behavior by the ship captain.²⁷

Trade-Based Money Laundering (TBML) and Service-Based Money Laundering (SBML) are increasingly used by TCOs and their enablers to disguise and launder dirty money by purchasing trade goods (licit and illicit), moving the merchandise across borders, falsifying its value, quality, or quantity, and mis-invoicing or misrepresenting trade-related financial transactions.

TBML is defined as the “process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origin. In practice, this can be achieved through the misrepresentation of the price, quantity or quality of imports or exports.”

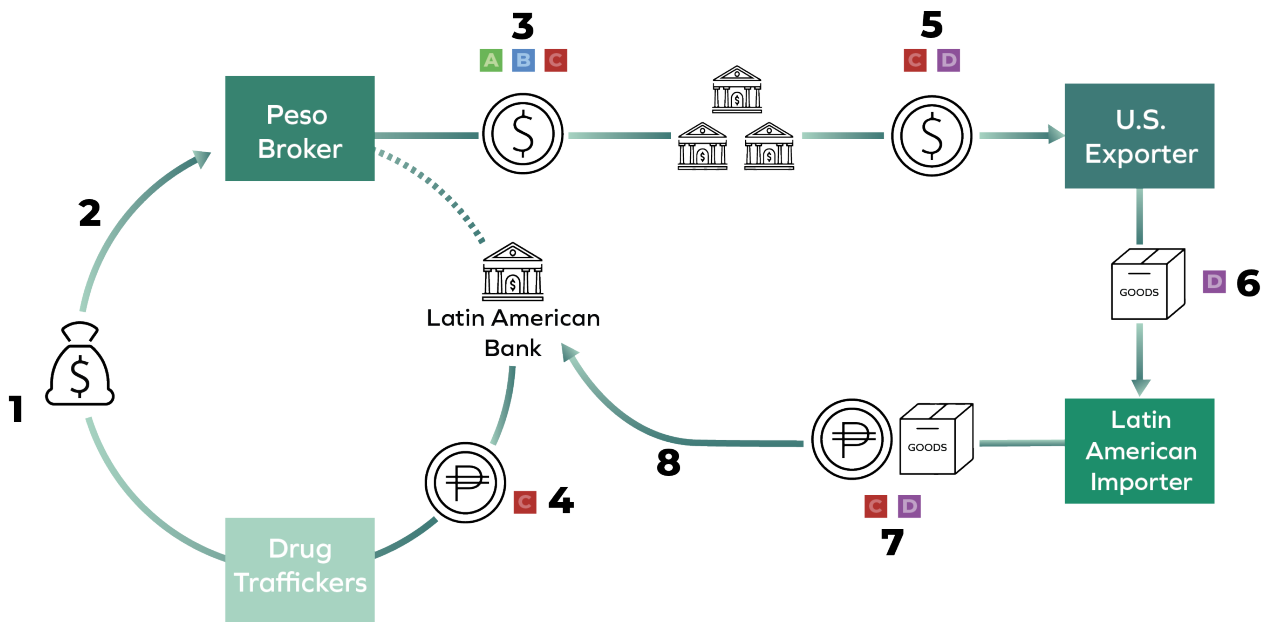
In many cases, TBML can also involve abuse of the financial system through fraudulent transactions involving a range of money transmission instruments, such as wire transfers. The basic techniques of trade-based money laundering include: over- and under-invoicing of goods and services; multiple invoicing of goods and services; over- and under-shipments of goods and services; and falsely described goods and services.

²⁶ John Cassara, “China is the Biggest Money Laundering Threat”, August 21, 2020, accessible at <http://www.johncassara.com/articles.html>.
²⁷ Sam LaGrone, “Panama Finds Two Cuban MiGs on North Korean Ship,” USNI News, July 22, 2013, accessible at: <https://news.usni.org/2013/07/22/panama-finds-two-cuban-migs-on-north-korean-ship>

Similar to TBML, SBML revolves around invoice fraud and manipulation but instead of laundering money or transferring value through trade goods, services are used. Common service-based laundering scams include accounting, legal, marketing, and natural resource exploration fees. One particular TBML strategy, known as the Black Market Peso Exchange, is widely used in Colombia and elsewhere to launder billions of dollars.

Black Market Peso Exchange (BMPE): An Illustration

Although Latin America and the United States are used in the example below, similar arrangements have been widely used in many countries to repatriate the proceeds of various types of crimes. These transactions combine legal and illegal activities and multiple actors across international jurisdictions that wittingly or unwittingly facilitate TBML.



Illustrative steps of a black market peso exchange

- 1. Drug traffickers smuggle illegal drugs into the United States and sell them for U.S. dollars (“narco dollars”).
- 2. Drug traffickers sell the narco dollars at a discount to a peso broker.
- 3. The peso broker consolidates the narco dollars in a U.S. bank account and
- 4. Pays the drug traffickers with pesos from a Latin American bank account.
- 5. The peso broker uses narco dollars to pay a U.S. exporter for legitimate goods on behalf of a Latin American importer.
- 6. The Latin American importer receives the legitimate good and
- 7. Sells them in Latin America for pesos.
- 8. The Latin American importen repays the peso broker with pesos.

Source: Financial Action Task Force, *Trade Based Money Laundering*, June 23, 2006, P. 8.



Financing Dark Commerce: Free Trade Zones (FTZs)

The Financial Action Task Force (FATF) has underscored how FTZs are “misused for money laundering and terrorist financing” from the proliferation of weapons of mass destruc-tions (WMD) to the trafficking of alcohol, cig-arettes, and other high duty items “that are more vulnerable to smuggling and contra-band due to the increased revenue that can be generated by not paying tax.” The FATF also noted that, in recent years, “The lack of transparency in the company formation pro-cess in FTZs permits companies located in FTZs to create layers of transactions which are difficult if not impossible for law enforce-ment to follow.”²⁸ Thus, illicit trade and the convergence of criminality and money laun-dering in one FTZ has security ripple effects globally, regionally and for the United States.

Through the corruptive control of ports and FTZs across the globe, TCOs in Latin Amer-ica are able to expand their international illic-it trade and export criminality and violence to other markets by exploiting hemispheric cross-border trafficking and smuggling corri-dors among inter-connected FTZs.

As described in the U.S. State Department’s 2021 Country Reports on Terrorism, the free trade zones in Panama and the Tri-Border Area of Argentina, Brazil, and Paraguay remain regional nodes for money laundering and are vulnerable to exploitation by sympathizers to terrorist groups. The Library of Congress stat-ed in a July 2010 that Islamist groups operat-ing in the TBA included Hezbollah, al-Qaeda, and Hamas. Such organizations raise funds in the region through narcotics and arms traf-ficking, as well as money laundering schemes, often with the assistance of cartels and orga-nized crime groups.²⁹

²⁸ Ibid.
²⁹ Terrorist and Organized Crime Groups in The Tri-Border Area (TBA) Of South America, Federal Research Division, Library of Congress, 2010

Critical Risks and Vulnerabilities in FTZs: FATF and OECD

Kleptocrats, money launderers, terrorist financiers, and criminal organizations are attracted to FTZs. With the number of FTZs grows and the volume of trade inside them increasing, it becomes easier to take advantage of these zones when lax standards and a lack of transparency are in place. FTZs differ from country to country and sometimes state to state, but governments often fail to monitor them effectively because the zones are treated as foreign entities outside the scope of national law enforcement activities, and are operated by private entities with an interest in expanding profit margins rather than conducting law enforcement activities.³⁰

Because of the lack of oversight many of the same systemic flaws and vulnerabilities exist across all FTZs.³¹ According to the FATF these include:

1. Inadequate Anti-Money Laundering and Counter-Terrorism Financing Safeguards

Numerous policies and regulations governing FTZs are out of date and do not take into consideration ML/TF vulnerabilities or the potential for criminal activity. The majority of countries with FTZs do not apply the same anti-money laundering and counter-terrorism financing legislation in the zone as they do elsewhere in the country.

2. Relaxed Oversight and Lack of Transparency

Customs intervention is frequently limited or non-existent. Commercial operations conducted under such lax standards risk jeopardizing the supervision of the worldwide supply chain. Licensing and monitoring procedures for activities in FTZs are frequently complex and bureaucratic, which can result in insufficient oversight.

3. Flawed System Coordination

FTZs transactions must theoretically be reported to both the zone and Customs authorities, which are two distinct, and usually unintegrated, systems. Due to the absence of a standardized procedure for customs clearance, it is impossible to monitor and identify trends.

The OECD provides a recommended Code of Conduct for Clean FTZs to assist governments and policy makers in reducing and deterring illicit trade conducted through and inside Free Trade Zones (FTZs).³²

³⁰ Ibid., pg. 14.

³¹ FATF, Money Laundering Vulnerabilities of Free Trade Zones, March 2010.

³² OECD/LEGAL/0454, accessible at: <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0454>.



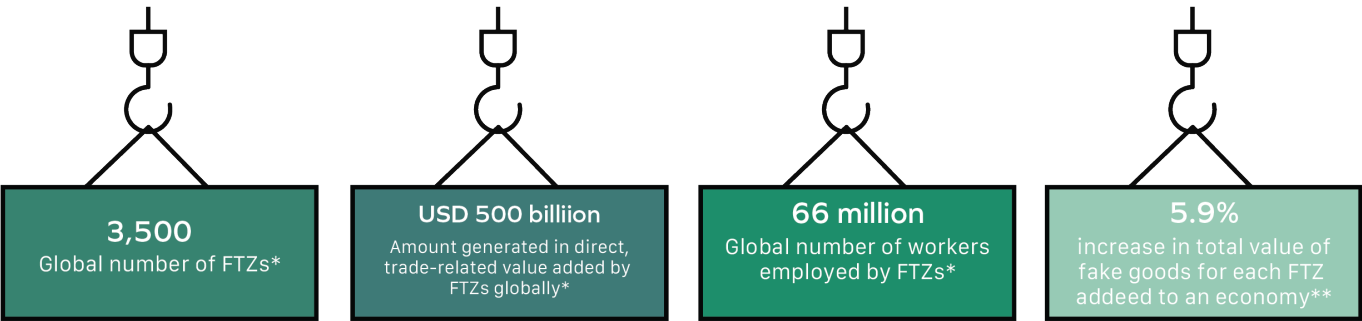
Trade in Counterfeit and Pirated Goods

Illicit trade has an impact on nearly every industry, from automobile parts to everyday goods such as footwear and toys; technology such as phones and batteries; and luxury items such as watches and bags. Illicit trade has a devastating impact on legitimate businesses competing the market, and long-term disastrous consequences for consumers.

Counterfeiters often conceal the illicit provenance of their products through the transit of items through various free zones, where they are often repackaged and re-labeled to disguise the origin and restrict law enforcement agencies' ability to prosecute counterfeiters.³³ According to a 2019 joint OECD- European Union Intellectual Property Office (EUIPO) trade report, international traffic in counterfeit and pirated goods was \$509 billion in 2016. This accounts for up to 3.3 percent of global trade.³⁴

FREE TRADE ZONES

A FREE RIDE FOR COUNTERFEITERS?



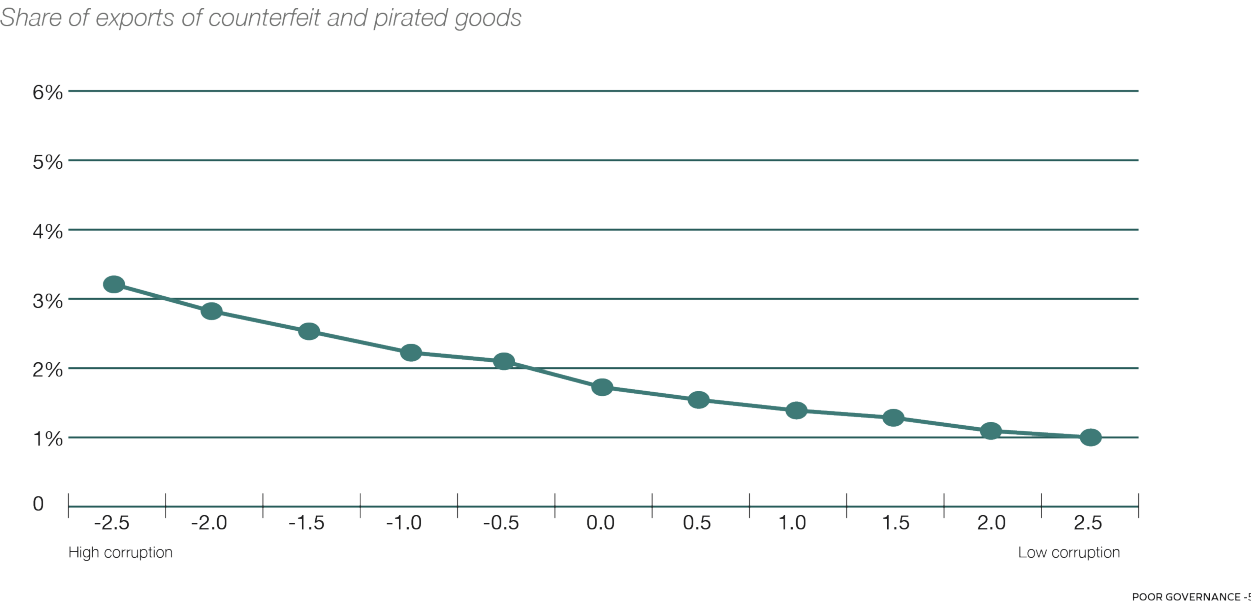
"Trade in Counterfeit Goods and Free Trade Zones"
*ILO, 2014 **OECD/EUIPO, 2018

The 2018 Counterfeit Products and Free Zones identified multiple factors contributing to increased crime in FTZs, and concluded that the existence, number, and size of FTZs all contribute to an economy's export value of counterfeit and pirated goods. For instance, the statistics imply that adding FTZs to an economy boosts counterfeiting by an average of 5.9 percent.³⁵

³³ BASCAP, Controlling the Zone: Balancing Facilitation and Control to Combat Illicit Trade in Free Trade Zones, pg. 5-9.
³⁴ Organisation for Economic Co-operation and Development and European Union Intellectual Property Office, 2019. Trends in Trade in Counterfeit and Pirated Goods. Illicit Trade.
³⁵ ICC, Controlling the Zone: Balancing Facilitation and Control to Combat Illicit Trade in Free Trade Zones, pg. 5-9.

Corruption also has a significant impact on the levels of trade in exported counterfeit and pirated goods across supply chains. According to a Frontier Economics estimate, global commerce in counterfeit goods could exceed \$991 billion by 2022.³⁶

Predicted share of fake exports depending on the level of corruption control



Criminal networks often exploit the international transit or trans-shipment of goods inside an FTZ, where counterfeit goods may undergo mutations, including assembly, manufacture, processing, warehousing, repackaging, and re-labelling. Once finished, the commodities can be imported directly into the host state's national territory or re-exported to another FTZ to continue the process. Given that the declared origin of a product is a critical risk factor for intellectual property rights breaches, this modus operandi conceals the origins of illicit items and hinders law enforcement authorities' capacity to seize illicit products.

Some of Today's Challenging
Free Trade Zones

³⁶ Ibid., pg. 9.

Panama

Colón Free Trade Zone

The Colon Free Zone (CFZ), one of the world's largest, was established in 1948 and has historically served as the key commercial hub for Latin America and the Caribbean. It began in a modest part of Colón with only ten businesses and is presently home to over 3,000 businesses and occupies an area of 1,065 hectares.³⁷ Total trade passing through the zone was valued at \$19.7 billion in 2017, a considerable decline from the CFZ's 2012 peak, when total trade reached an astounding \$30.8 billion. Since then, the CFZ has been impacted by the economic crisis in Venezuela, and an escalating trade dispute between Panama and Colombia over re-exports of footwear and textiles from the zone to Colombia.³⁸

The CFZ is notorious for smuggling. As noted, one of the most influential families in the zone has been accused of criminal activity by the U.S. government. The CFZ is particularly notorious for illicit white cigarettes — cigarettes that are legally produced in one country with the sole intention of being smuggled into other markets. According to the Global Illicit Trade Environment Index, these cigarettes are primarily manufactured in China, India, United Arab Emirates, and Paraguay. Cigarettes are directly exported from the CFZ to Colombia, Dominican Republic, Ecuador, and Costa Rica. Additionally, these cigarettes are transported to other FTZs, such as Iquique, Chile. The reason these cigarettes and many other forms of unlawful trade pass through extra zones such as the CFZ is to facilitate the change of their certificates of origin, a process known as origin laundering.³⁹

The Economist Intelligence Unit highlights Panama's notable distinguishing qualities free trade zones, particularly the integration of illicit drug trafficking and money laundering.

Panama's limited banking regulations, dollarization of the economy, and historically corrupt and lax court system make it a perfect place for money laundering operations on a global scale.⁴⁰ One of the CFZ's most widespread challenges is its proximity to the illegal cocaine trade located in Colombia, Venezuela and Ecuador. An estimated 88 percent of cocaine destined for the US transit through the Central American corridor, often trafficked across the CFZ and Panama en route to the US and European markets.⁴¹

³⁷ Samuda, R. E. (2017). Zonas Francas Panameñas Análisis y propuesta de mejoras para controlar el comercio ilícito., pg. 10.

³⁸ Zona Libre de Colón (2018), Análisis de la Actividad Comercial Correspondiente al Mes de Diciembre de 2017.

³⁹ The Global Illicit Trade Environment Index, Free Trade Zones: Five Case Studies, 2018.

⁴⁰ The Global Illicit Trade Environment Index, Free Trade Zones: Five Case Studies, 2018.

⁴¹ Latin American Special Economic Zones and their Impact on Regional Security, Richard R. Reyes, 2011

Paraguay

Tri-Border Area



MARCO DAS TRÊS FRONTEIRAS

↑ ARGENTINA

PARAGUAY →

BRASIL

The Tri-Border Area (TBA), is located on the common border among Argentina, Paraguay, and Brazil and is primarily comprised of three cities: Puerto Iguazu, Argentina; Ciudad del Este, Paraguay; and Foz de Iguaçu, Brazil.⁴² This area has historically been a smuggler's haven and hub of multiple illicit networks.⁴³ Recently, Venezuela's instability and increased money-laundering enforcement in Panama and the Caribbean have elevated the region's attractiveness to transnational criminal groups seeking to launder illicit funds.⁴⁴ The TBA's economy is believed to be worth approximately \$10 billion. However, estimating an accurate quantity is difficult due to the country's extensive cash market, massive informal sector, and widespread smuggling operations.⁴⁵

The convergence of criminal and terrorist interests pose a significant security risk since it offers the opportunity to transport products across borders with little risk of law enforcement hinderance. Due to the inadequate state regulation of the TBA, organized crime has a vital outlet for transporting unlawful goods and services. For example, it is estimated that 6 billion cigarettes are smuggled via the TBA each year, equal to \$900 million in lost potential Paraguayan tax revenue. The majority is assumed to be used to finance transnational organized criminal and terrorist organizations such as Hezbollah, which has a notable presence in the area.⁴⁶

Recent public revelations that the personal wealth of former Paraguayan president Horacio Cartes (2013-2018), a cigarette magnate even before becoming president, increased \$360 million during his time in office is a case study in how the TBA facilitates corruption and money laundering.

According to a Paraguayan intelligence report,⁴⁷ and Paraguayan media reporting, the former president, before and during his time in office used a broad array of international fixers and super fixers to smuggle billions of cigarettes through the porous border with Brazil.

The millions of dollars in profits were laundered through international banks in Brazil, Spain, China, Argentina and the United States, as well as money exchange houses on the borders. The money was repatriated to Paraguay through a series of shell companies linked through interlocking directorships.⁴⁸

Furthermore, organized crime structures often operate through trust based family and clan ties, particularly the Shi'ite Lebanese trading clans in the case of the TBA that often collaborate with Hezbollah. Ethnic ties and shared ideology help organized crime groups mitigate risks by interacting with more trusted individuals building reliable networks for moving drugs, firearms, and people across borders.⁴⁹ For example, the TBA has witnessed a population influx of 11,000 Muslim immigrants since 2001. This population growth has been exploited by individuals tied to Sunni Islamist groups such as Egypt's Al-Gama'a al-Islamiyah and Al-Jihad, al Qaeda, Hamas, Hizballah, and al-Muqawamah. These Islamic terrorist groups have reportedly used the TBA to raise funds, engage in drug trafficking, money laundering, and plot against their adversaries.

⁴² Latin American Special Economic Zones and their Impact on Regional Security, Richard R. Reyes, 2011

⁴³ The Tri-Border Area: A Profile of the Largest Illicit Economy in the Western Hemisphere, Financial Transparency Coalition, 2009

⁴⁴ The Paraguayan Military and the Struggle against Organized Crime and insecurity, Military Review Online, January 2019

⁴⁵ The Tri-Border Area: A Profile of the Largest Illicit Economy in the Western Hemisphere, Financial Transparency Coalition, 2009

⁴⁶ Latin American Special Economic Zones and their Impact on Regional Security, Richard R. Reyes, 2011

⁴⁷ Intelligence report in possession of IBI Consultants.

⁴⁸ "#PatrónPapers: La Ruta del Dinero," ABC Color, May 30, 2022, accessed at: https://www.abc.com.py/tv/abc-noticias/2022/05/30/patronpapers-la-ruta-del-dinero/?cx_testId=1&cx_testVariant=cx_1&cx_artPos=2#cxrecs_s

⁴⁹ Latin American Special Economic Zones and their Impact on Regional Security, Richard R. Reyes, 2011

Colombia

Maicao Special Customs

Regime Zone

The Maicao Special Customs Regime Zone (Zona de Regimen Aduanero Especial, or ZRAE) was founded in 1999 by joining three neighboring towns of Maicao, Urabia, and Manaure, on Colombia's northeastern Guajira Peninsula, near the country's border with Venezuela. While ZRAE has many of the same problems as other zones in Latin America, some of its operations are distinctive. Goods considered a threat to national security, like weaponry, for example, are prohibited in the zone.

The town of Maicao has also been historically used as a smuggling route for cocaine, counterfeit cigarettes, fuel, and a variety of other illicit goods. The renowned Maicao-based drug trafficker and cigarette smuggler Samuel Santander Lopesierra, known as the "Marlboro Man" because of his dominance in the illegal Marlboro cigarette trade, was elected to the Colombian Congress in 1994. He was arrested in 2002, extradited to the United States and convicted of drug trafficking. He was released in August 2021.⁵⁰

For many years, Maicao operated as a free port, earning a long-standing reputation as a hub of illicit trade. By incorporating it within ZRAE, it appears as though the government sought to conceal it within a bigger free zone. The town of Maicao, located in the northern portion of the continent, has also attracted the presence of Hezbollah, who carried out well-publicized conversion efforts among the Wyuu indigenous communities on the Guajira Peninsula.

Maicao is known for its sizable Arab community dating back to the 18th century. Studies allege that many of today's Arab traders in the locality pay Hezbollah business taxes—

both because of extortion and genuine support.⁵¹ According to the United States Southern Command, Islamist terrorist groups raise between \$300 million and \$500 million each year in duty-free zones such as Maicao.⁵²

Another feature that distinguishes ZRAE is the poor condition of its infrastructure, which makes it impossible for customs authorities to conduct inspections at Bahia Portete—the only port that services the zone. The single 120 kilometer road connecting Bahia Portete to ZRAE remains substandard, and the port itself lacks modern facilities, requiring all goods to be handled manually. Liquors and cigarettes are known to enter the country via Maicao, resulting in a rise in contraband in this region of the country. The country's national tax and customs agency has been forced to strengthen regulations in this area, as taxes on cigarettes and liquor are earmarked for health services—damage that eventually falls on the populace as this fiscal revenue is not collected year after year. The newspaper El Universal de Cartagena de Indias reports that each year, the illegal sale of booze results in a \$300 million dollar loss.⁵³

⁵⁰ Latin American Special Economic Zones and their Impact on Regional Security, Richard R. Reyes, 2011

⁵¹ Venezuela's Toxic Relations with Iran and Hezbollah: An Avenue of Violence, Crime, Corruption, and Terrorism. Christian Vianna de Azevedo, 2018.

⁵² Hezbollah: Financing Terror Through Criminal Enterprise, Testimony of Dr. Matthew Levitt, Washington Institute for Near East Policy, 2005

⁵³ Zonas de Régimen Aduanero Especial, Alejandra Naranjo, Andrea Zapata, 2012.

Belize

Corozal Free Zone

The Corozal Free Zone (Corozal FZ) is a regional hub for trans-shipment located on the Belize-Mexico border. Since its establishment in 1994, the Corozal FZ has mostly imported products from the United States and re-exported them to Mexico and Central America. The yearly number of imports and exports in the Corozal FZ reaches \$400 million, making it significantly smaller in terms of trade value than CFZ in Panama and other major FTZs. Similar to the CFZ, the Corozal Free Zone has seen a significant decline in trade value, approximately 40 percent of businesses within the zone have closed,—mostly as a result of the Mexican peso's depreciation against the US dollar.⁵⁴

However, the Corozal FZ's absence of oversight and porous borders have made it a convergence center for regional smuggling, where enforcement agencies are lax and underfunded. The zone has devolved, allowing for the easy expansion into different types of illicit trade.⁵⁵

Belize's extensive and unpatrolled coastline, coupled with its isolated border crossings, and navigable inland rivers, make the tiny country a growing transshipment point for cocaine, fentanyl precursor chemicals, weapons and human smuggling. Bordered by Guatemala and Mexico and little resistance from the poorly-trained police force, Belize is also a growing center of illicit activity for the MS-13 transnational criminal gang, who often exchange cocaine for cash with Mexican cartels in Belize. Cocaine is then moved north, and this road leads to the Corozal FZ and the Santa Elena Belize/Mexico border crossing. Cross-border activities are enabled by traffickers' use of several unguarded remote border crossings and lax enforcement of customs laws.⁵⁶

Given this reality, it is unsurprising that the Corozal FZ is a center for illicit tobacco that transits the zone and subsequently exits the country via the various "blind spots" along the border. A portion of the merchandise is transferred to Guatemala for distribution throughout Central America, but a large portion is taken north into Mexico.

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⁵⁴ The Global Illicit Trade Environment Index, Free Trade Zones: Five Case Studies, 2018.

⁵⁵ The Global Illicit Trade Environment Index, Free Trade Zones: Five Case Studies, 2018.

⁵⁶ Canada, Mexico, and Central America, International Narcotics Control Strategy Report, 2005.

⁵⁷ U.S. Keeps Belize on List of Money-Laundering Hubs, Louisa Reynolds, 2017.

Dubai

Jebel Ali Free Zone



What happens in one part of the world impacts other parts, an axiom with respect to cross-bordering illicit trafficking flows between Free Trade Zones in the Americas. The UAE's Jebel Ali Free Zone is a good example.

The UAE harbors around 35 FTZs in which local laws do not apply and where Dubai's ruling family retains ultimate decision-making authority.⁵⁸ Each of these FTZs has its own set of commercial regulations, labor laws, and property laws, and is regulated by a separate regulatory authority.⁵⁹ A lax regulatory regime, diverse definitions of beneficial ownership, and a vast number of separate FTZs all contribute to and promote unlawful financial and commercial activity.⁶⁰

FTZs in Dubai permit 100 percent foreign ownership of capital and profit repatriation, and are tax-free on business, personal, and customs income. The statutes governing beneficial ownership within FTZs highlight another vulnerability inherent in this complex regulatory architecture. Beneficial ownership information is intended to deter illicit players from entering the market; however, rather than adopting a standardized definition of beneficial ownership, which would create a unified approach to anti-money laundering (AML) enforcement, each FTZ defines beneficial ownership using significantly different language.⁶¹ As a result, the UAE must contend with more than 45 unique sets of laws and regulations, as well as disparate definitions of beneficial ownership—restraining the Central Bank's capacity to fulfill its designated monitoring duty.

This lack of uniformity becomes problematic as this climate fosters regulatory arbitrage and allows for entities such as al-Qaeda, the Taliban, and Mexican drug cartels to use Dubai as a conduit for money laundering,

smuggling, and terrorist financing operations.⁶² Furthermore, it appears as though the primary mandate of the independent agencies in FTZs is to improve trade flows rather than to monitor cash flows and curtail illicit behavior. Without a national watchdog operating in the zones, regulatory arbitrage opportunities flourish. In 2014 and again in 2018, the UAE implemented stronger beneficial ownership and due diligence requirements—however, while these FTZs have transparent compliance norms and standards on paper, the majority of FTZs operate in secret.⁶³

The most important FTZ in the UAE is the Jebel Ali Free Zone (JAFZA). Ranked as one of the busiest trans-shipment hubs in the world, it accounts for about 32 percent of the total foreign direct investment flowing into the UAE and almost 24 percent of Dubai's annual gross domestic product. JAFZA accounted for 70 percent of all trade value and 97 percent of all trade volume generated by Dubai's FTZs in 2019.⁶⁴ Yet despite the FTZ's great importance to the UAE's economy, the Global Illicit Trade Environment Index conducted by the Economist Intelligence Unit in 2020, argues that the quantity and quality of inspections in the JAFZA are considered low and often lacking completely.

This lax oversight, coupled with the sheer size of the zone's manufacturing base has made JAFZA a major hub for illicit trade, including counterfeit and other intellectual property-infringing goods. In some instances, counterfeit items are assembled within the zone using imported components; in others, raw materials are imported, and counterfeiters manufacture the goods from scratch. Once finished, the counterfeit goods are distributed throughout the region and even internationally.⁶⁵

⁵⁸ Dubai's Role in Facilitating Corruption and Global Illicit Financial Flows, Carnegie Endowment for International Peace.

⁵⁹ Carnegie Endowment for International Peace, Dubai's Role in Facilitating Corruption and Global Illicit Financial Flows. 2020.

⁶⁰ Dubai's Role in Facilitating Corruption and Global Illicit Financial Flows, Carnegie Endowment for International Peace.

⁶¹ Ibid., pg. 28.

⁶² Ibid., pg. 29.

⁶³ Ibid., pg. 57.

⁶⁴ Dubai's Role in Facilitating Corruption and Global Illicit Financial Flows, Carnegie Endowment for International Peace.

⁶⁵ The Global Illicit Trade Environment Index, Free Trade Zones: Five Case Studies, 2018.



Conclusion and Policy

Recommendations

Strengthening Security Across FTZs, Ports

As the U.S. Strategy for Countering Corruption correctly notes,⁶⁶ the trillions of dollars derived from illicit trade and black-market economies pose a national security threat that harms the rule of law, legal industries and democratic governance on a daily basis. These resources, flowing outside of transparent economic structure, support kleptocracies and threat networks that finance conflicts, insecurity, and instability around the world.

In order to disrupt these illicit networks, we must focus on dismantling the fixer networks that provide the logistical and transportation structures that move contraband and dirty money across the globe. Any vulnerability across global supply chains exposes the global community to multiple threats that often overwhelm governments. A breach of one FTZs or port can provide resources for violence, criminality, and economic chaos that imperils the collective security of nations.

There is a growing consensus that we need to empower law enforcement agencies with the robust authorities, tools, and resources to effectively prosecute the fight against transnational organized crime, illicit trade, and money laundering in order to prevent dirty money from eroding the rule of law and our democratic institutions. The newly-created U.S. Council on Transnational Organized Crime can play an important role in the United States, along with the White House’s National Security Council (NSC), to bring a greater unified strategy to ramp up investigations, prosecutions, and judicial action to target criminalized markets, illicit supply chains, and threat finance systems, and dismantle the bad actors and threat networks – and their enablers and facilitators – behind the today’s booming multi-trillion dollar illegal economy.⁶⁷

While FTZs and ports provide opportunities for investment, employment, and development, evidence indicates that criminal organizations take advantage of lax restrictions, administrative inefficiencies, and a lack of transparency inside them—thereby fostering illicit trade.

The primary reasons are the lack of supervision, transparency, and consistent enforcement in FTZs and ports and the lack of uniformity and interoperability in enforcement mechanisms despite the fact that this is the only way for nations to operate collaboratively.⁶⁸ Corruption is also a significant factor in multiplying criminal activities often found in risky FTZs and ports.

To strengthen hemispheric cooperation in the Americas, and globally, to counter cross-border TBML, illicit finance, corruption and criminalized trade, ICAIE is committed to:

⁶⁶ The White House, The U.S. Strategy on Countering Corruption, December 6, 2021, accessible at: <https://www.whitehouse.gov/briefing-room/state-ments-releases/2021/12/06/fact-sheet-u-s-strategy-on-countering-corruption/>.
⁶⁷ The White House, Executive Order on Establishing the United States Council on Transnational Organized Crime, December 15, 2021, accessible at: <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/12/15/executive-order-on-establishing-the-united-states-council-on-transna-tional-organized-crime/>.
⁶⁸ Ibid., pg. 11-12.

1. Strengthening the political will to combat illicit trade and economies across Latin America, the Caribbean in order to comprehensively and holistically combat criminal convergence, related corruption, and money laundering/TBML.

2. Developing, implementing, and evaluating prevention and risk management and mitigation strategies that address the drivers and risk factors of transnational organized crime, illicit economies, and kleptocracy that threaten national security, global commerce, global financial systems and supply chains.

3. Launching innovative public-private partnerships to improve the quality and availability of data, market intelligence, and evidence-based research on illicit economies and share such research in order to better understand the convergence of threats and harms posed by illicit economies. This includes analyzing emerging trends, data analytics, and field research that help inform enforcement and judicial actions to counter transnational organized crime, disrupt threat finance, and prosecute bad actors.

4. Promoting effective measures to deprive kleptocrats, transnational criminal organizations, and threat groups of illicit gains by advocating for robust, harmonized frameworks for financial investigations and trade-based money laundering (TBML). We welcome greater leadership by the executive and legislative branches to create a strong platform against illicit economies and corruption in FTZs, ports, and supply chains. We also welcome the bipartisan Senate Resolution introduced by Senator Bill Cassidy and other U.S. Senators on May 3, 2022 urging Congress to combat international criminal organizations, illicit trade, and the use of trade-based money laundering (TBML), which pose a significant threat to U.S. national security.⁶⁹

5. Encouraging the Financial Action Task Force (FATF) to work with cooperating member countries' customs services as well as the World Customs Organization (WCO) to determine what tools, data, analytic systems and regulatory and investigative authorities' customs services are needed to better detect trade fraud and trade-based money laundering (TBML). The findings should be incorporated into the creation of FATF Recommendation 41 that will specifically focus on countering TBML. The new recommendation will also encourage financial institutions, non-bank financial institutions, designated non-financial businesses and professions (DNFBPs), and money service businesses (MSBs) to include all forms of TBML in their standard due diligence, record keeping, and financial intelligence reporting. FATF Recommendation 41 should also encourage the above reporting entities to also focus on service-based money laundering (SBML) in their AML/CFT due diligence, record keeping, and reporting obligations.

6. Urging the full implementation of the Biden administration's designation of corruption as a core national security interest in order to maintain the fight against kleptocracy, illicit finance, and illicit economies as national security priorities. This includes the development of specific implementation strategies to prevent and combat illicit trade, identify and recover kleptocratic stolen assets impede illicit financial flows.

7. Encouraging the U.S. Congress to pass legislation that requires the Secretaries for Homeland Security; Commerce; State, and Treasury, as well as the Attorney General, to publish the names, location, and risk assessments of hubs of illicit trade and risky zones and ports in Latin America and the Caribbean similar the State Department's INCSR reports, and national security strategy associated with.

8. Encouraging the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) to work with the U.S. Trade Transparency Unit within DHS' Immigration and Customs Enforcement (DHS/ICE) to determine how to improve and expand the international partnership of trade transparency units (TTUs). The initiative should include determining technical capacities, including support and training, for partner governments that are already involved with TTU initiatives as well as other customs services qualified to join the TTU program. The conversation between ICE and INL should include estimates regarding funding, staffing, and the collection and sharing of data and technology.

9. Promoting the appropriate utilization of artificial intelligence (AI), machine- and federated-learning, and other innovative technologies by law enforcement and security agencies to interrogate data and fight crimes associated with kleptocracy, illicit trade, money laundering and TBML.

10. Strengthening and harmonizing legal authorities and sanctions to address new, emerging and evolving forms of criminal activity associated with illicit economies, in order to empower relevant DOJ trade fraud units to increase prosecutions against counterfeiters, criminals, and money launderers exploiting legal vulnerabilities adverse to U.S. national interests.

11. Promoting and facilitating technical assistance including training, to enable law enforcement to effectively prevent and combat predicate crimes associated with money laundering, TBML and illicit economies, addressing the specific challenges and needs of developing countries.

12. Increasing public awareness of how the convergence of illicit economies impact public health and safety, legal economic actors, and the stability of governments, markets, and global supply chains.

13. Providing resources to protect investigative journalists, civil society activists and academic researchers exposing corruption, violent organized criminal activities, terrorist-financed campaigns, malign foreign influence, and the expansion of illicit economies.

14. Encouraging public-private partners across global supply chains including with brand holders, couriers, cargo services, freight shipping services, international shipping, and money service businesses, to combat corruption, money laundering, and illicit trade in FTZs, ports, and hubs of illicit trade overseas.

15. Mobilizing ICAIE / ICAIE Labs as a convergence force for good in bringing together critical market stakeholders and national security networks to counter illicit economies, illicit supply chains, and threat finance systems.

⁶⁹ U.S. Senator Bill Cassidy, Senate Resolution Calling on Congress to Combat Illicit Trade and Money Laundering Crimes, Press Release, May 3, 2022, accessible at: <https://www.cassidy.senate.gov/newsroom/press-releases/cassidy-leads-colleagues-to-introduce-resolution-calling-on-congress-to-combat-illicit-trade-money-laundering-crimes>.

About ICAIE

The International Coalition Against Illicit Economies (ICAIE) brings together committed champions across sectors and communities, including former members of the public sector, companies and prominent organizations from the private sector and civil society to mobilize energies to combat cross-border illicit threats. ICAIE also advances innovative energies through public-private partnerships and transformative solutions to counter illicit economies including in FTZs. ICAIE has also launched **ICAIE Labs** as a market intelligence innovation hub to remove the barriers to effective law enforcement, to identify criminal activity and bring evidence of wrongdoing to the direct attention of the appropriate governmental and police authorities.

ICAIE's intent is to strike the head of illicit networks with the hammer of immutable information, reinforced with solid analysis, and targeted intelligence on specific criminal activities, logistics, and complicit enablers. We leverage communications, financial, geospatial, artificial intelligence, federated learning, and other advanced analytics and technologies to investigate suspicious behavior and map networks. Ultimately, we use counter network operations to provide actionable intelligence, forensics, and enhanced security across the globe.



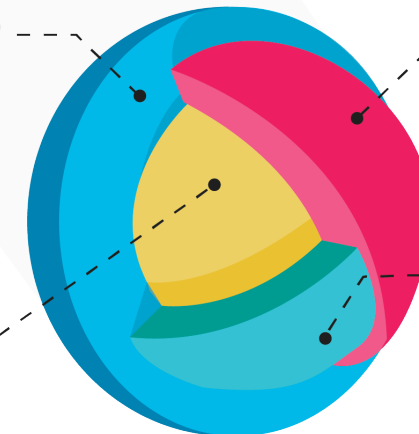
ICAIE Labs

PRIVATE-PUBLIC PARTNERSHIP

- member interests
- Showcase partner capabilities
- Support LEAs
- Protect industry and trade

NEEDS & CAPABILITIES

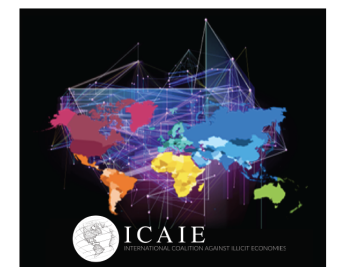
- Client initial problem statement
- Commercial signal intelligence
- Investigations
- Route threat detection
- Virtual surveillance & reconnaissance



RADIATE

- Tool kit expansion
- Partner capabilities
- Database subscriptions
- API ingest to COP
- Build operational analysis

USE CASES



Through ICAIE Labs, we lead a team of highly-skilled service providers and product vendors across the globe to examine data and open sourced information, and map illicit networks. Our multi-faceted, global investigations mine open source data to determine identify types of illicit behavior a network may be involved in specific markets, online marketplaces, or the dark web.

With an eye towards full-spectrum investigations, our ICAIE team bridges the gap between private industries and the government public sector. ICAIE Labs generates deeper investigation and supports judicial action. Further, by using a collaborative technology platform, ICAIE provides tactical and operational data which is designed to be shared with trusted allies and partners to protect our global interests.





ICAIE
INTERNATIONAL COALITION
AGAINST ILLICIT ECONOMIES