



## Proximal Consulting Archived White Papers



The Proximal Consulting white paper series began when Proximal Consulting launched in 1999. The white papers provided precise and detailed information on cutting edge business crime topics during a period when the Internet as a source of business information was in its infancy. We are now making these white papers available again.

Whilst the specific cases and examples used in the white papers are historical, the fundamental issues and potential red flags have remained the same.

**Please note that the white papers are provided as an un-edited archive: any content, laws, regulations or similar were correct at the time of publishing, but may now be out of date.**

## PROXIMAL WHITE PAPER 10 MONEY LAUNDERING & ORGANIZED CRIME: AN OVERVIEW

*"The legal economy has gone global and the crime economy has gone global as well."*

- Arnaud de Borchgrave, Director of the global organized crime project at the Centre for Strategic and International Studies in Washington

The area in which organized crime is most recognisable to you or me is money laundering. A United Nations report concluded that money laundering is the tenth largest global economic activity - and reliable estimates attribute 4% of the world's economy to organized crime. Organized crime needs to legitimize its funds as the problem for these entrepreneurs is that they are cash heavy. This creates a variety of problems, not least of which is the increased likelihood of being robbed and killed.

The illicit drugs industry is reckoned to be worth \$400 billion per annum (that is bigger than the world's oil and gas industry) with 400m regular customers - and \$200 billion of that total is successfully laundered each year. The UN estimates that the share of the illicit drugs industry in the GDP of Peru at 6%, Colombia 7+% and in Bolivia at over 9%. In early 1998 the Mexican government concluded that gangs in that country had overtaken the Colombians as the most powerful drug cartels in the Americas - profits from drugs have been conservatively estimated at £9 billion - 5% of the country's GDP. One discernible side effect of this is the willingness of drug cartels to pay bribes to officials. Drug money underpins property and share prices and much of the local economies. More importantly drugs take up a much larger share of exports: in Bolivia and Afghanistan drugs were the most important export. However the money is not made in the country of origin, but at the retail stage where gross profit margins are, in some cases, 300%.

The types of organized crime groups who want to utilize your services include:

- The Russian Mafia: involved in drugs, immigration, car theft, extortion, fraud, prostitution rackets in Germany, Italy, Belgium and the Netherlands
- The Japanese Yakuza who have over 100,000 members and specialize in commodity futures fraud through Sokiaya, their financial crime experts together with prostitution and debt collection
- Chinese Triads who major in gambling, illegal prostitution and immigration, extortion, fraud, loan sharking, counterfeit currency and drug trafficking. Included in this group are the Sun Yee On Triads from Hong Kong which is alleged to have more than 30,000 members on a global basis and is prominent in Britain, Holland, Belgium and France. One of their more endearing habits is imprisoning young girls as sex slaves
- Turkish/Kurdish gangs who deal in drug trafficking and extortion - reportedly responsible for 80% of the heroin smuggled into Britain each year
- Indian/Pakistani gangs who deal in heroin from the sub continent, credit card fraud and major theft rings
- Italian gangs: the Sicilian Mafia, Neapolitan Camorra and Calabrian Ndrangheta are increasingly active in drugs and fraud. A major enforcement action against Italian organized crime figures in Montreal in 1994 saw the principal lawyer involved confessing to have laundered Can\$ 47.4 million in drug proceeds. In February 1995 counterfeit US currency with a face value of \$132 million was seized in Quebec at a printer who had strong connections to Italian organized crime. Outside Italy these groups are becoming increasingly involved in "legitimate" business enterprises which are then used for money laundering and other illegal activities
- The Colombian Cali Cartel who have emerging links with Jamaican Yardies and Posses. Colombian gangs in particular have sophisticated drug trafficking and money laundering mechanisms which flood Western Europe with hundreds of tons of cocaine each year. It is very common for Colombians to travel on bogus (or bought) British, Spanish and Portuguese passports. The Colombians are also heavily involved in much publicised selling of Cocaine in the United States and if they can't launder the proceeds there they do it in Mexico
- Jamaican Yardies and Posses: cannabis and crack cocaine with a heavy use of weapons to enforce status and territory

- US/Canadian Hells Angels increasingly involved in pushing cannabis, LSD and amphetamines and expanding their criminal repertoire into money laundering, prostitution, theft and extortion

Why would organized crime be interested in your activities? If you represent a bank the answer is all too obvious, but there are of course many other possibilities:

- Organized crime needs cover for drug importation or other smuggling, so if you are importing products legally it has an interest in using your transport system
- It is interested in companies desperate for cash, and not too worried about where that cash comes from. To achieve this laundering conduit it is prepared to lose 50% of its capital

Just like any other business it needs professional services such as lawyers, accountants and financial advisors to knowingly or unknowingly assist in the laundering.

August 2003 – adapted from “Dirty Dealing: The untold truth about global money laundering, international crime and terrorism” (Second Edition published in 2003) by Peter Lilley (Kogan Page)

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Proximal Consulting have unrivalled experience in providing KYC enhanced due diligence background reports on individuals and companies on a global basis. We also offer a complementary range of services including AML training, country risk reports and bespoke investigations.

Our enhanced due diligence reports are tailor-made to our clients' specifications. They are totally different from the usual database-led reports that often fail to meet enhanced due diligence requirements. Our reports present clear, accurate and confidential findings which enable our clients to make informed business decisions and to fulfil their AML obligations.

We work with a variety of global clients including regulatory agencies, law firms, individual companies, private banks, trust companies and other firms in the financial sector.