



Intelligence Collection, Analysis & Production Division

COVID-19 Implications for Trade Fraud

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Highlights

Criminal networks are quickly adapting their activities to profit from public fear of contracting COVID-19, as well as to exploit opportunities created through various government responses to the pandemic. Heightened demand for medical, biotechnology and pharmaceutical products may lead to increased attempts at cross-border profiteering. At the same time, many traditional money laundering channels have been reduced by quarantine measures. In the short-term, these shifts in criminal behaviour may lead to increased use of customs fraud techniques to profiteer from COVID-19 related goods, as well as to launder illicit financial flows to and from Canada through trade (i.e. trade-based money laundering).

However, any increases in the volume of these activities are likely to be offset by a looming global supply chain contraction. Supply of many of the discretionary goods that are used to front customs fraud schemes will soften as the cascading impacts of quarantine measures begin to take hold on the global economy. Unexpected shifts in import or export behaviours that do not align with emerging economic conditions may indicate attempts at illicit activity. Various agri-food, electronics, used clothing and scrap-metal commodities are susceptible to customs fraud and are likely to be used to conceal illicit activities.

Background

1. There is broad consensus from recent government and open source reporting that many criminal networks have quickly diversified in order to profit from the COVID-19 crisis. The range of pandemic restrictions and quarantine measures in place globally have slowed some criminal activity. However, crimes of opportunity that either play on public fear of contracting the virus, or those that exploit personal, private sector and government responses to the crisis, primarily involving the healthcare, biotechnology and pharmaceutical sectors, are believed to be on the rise.
2. In addition to the shifting locus of illegal activity, the pandemic has also created the need for criminal groups to adapt their money laundering tactics. Many of the businesses typically



used by organized crime to launder, including the casino, money services, food and beverage, fitness, general services and retail sectors have either closed or seen their viability decrease substantially as quarantine measures increase. Cross-border money laundering through bulk cash smuggling is also susceptible to border closures and travel limitations (although individual amounts, when identified, could be higher than usual).

3. The importation and exportation of goods through international trade is already highly conducive to both profiteering and money laundering. Criminals routinely take advantage of customs processes by intentionally mis-describing the value, quantity, quality, weights and descriptions of goods to evade duty and regulatory requirements, to conceal the descriptions of goods in order to smuggle, or to launder illicit value and resources to and from Canada.
4. In trade-based money laundering (TBML) schemes, abusing trade processes creates the pretext for criminals to wire money across borders in payment for goods, whether they are shipped or not. In March 2020, Global Financial Integrity, a US-based non-governmental organization estimated that as much as USD \$8.7 trillion in illicit wealth had been transferred from developing countries to the developed world between 2008 and 2017 through abuse of the customs process.
5. Physical examinations of goods by customs services to verify the accuracy of customs declarations can detect many of these activities, however, less than 2 percent of shipping containers are physically examined on average globally for annual exports of close to USD \$18 trillion (World Trade Organization, WTO, 2017 estimates).
6. Many of the examinations that do take place are conducted for public safety and national security purposes, or to verify duty requirements for imported goods. Non-dutiable goods not typically used as fronts for contraband or drug smuggling, as well as exported goods, are far less likely to be examined, and are more likely to be exploited for TBML.
7. Moreover, shippers, freight forwarders, customs brokers and other trade chain participants have no legislated requirement to report suspicious trade transactions to Canada's financial intelligence unit, Financial Transactions and Reports Analysis Centre (FINTRAC), or to the CBSA, which further limits detection and enforcement opportunities.

Analysis

8. An increase in the use of trade fraud techniques to profiteer from both counterfeit and legitimate medical, biotechnology and pharmaceutical goods involved in COVID-19 responses, and to launder illicit financial flows, is expected in coming weeks and months.



The border will be an attractive conduit to exploit, as it remains open to the vital commercial trade activity that is sustaining much economic activity.

9. **Profiteering:** High-demand COVID-19 related goods can be quickly sold, their true prices vary across jurisdictions or may be difficult to verify, and certain criminals may believe that the CBSA has limited ability to examine them. All of which are key characteristics of goods conducive to the price arbitrage that fuels profiteering activities.
10. Medical supplies, such as respirators or hand sanitizer, can be mis-described by criminals using different values, prices, weights or different product descriptions entirely to evade increasing scrutiny and export controls in some jurisdictions. According to the WTO, trade in critical medical products now in severe short supply totaled just under USD \$600 billion in 2019, or about 1.7 percent of total global merchandise trade. Tariffs on many of these goods remain high; on average, the global applied tariff on medical products is 4.8% enhancing the incentive to mis-describe goods to evade duties (most Canadian tariffs are concentrated around personal protective products in Chapter 34).
11. However, these products will almost certainly be subject to heightened scrutiny due to concerns around the potential for corruption, fraud, smuggling, and price-gauging associated with them. Criminal actors, even pandemic profiteers, will be more prone to continue mis-describing more mundane goods (equally susceptible to TBML), such as agri-foods, used clothing, and electronics.
12. **TBML:** COVID-19 further weakens anti-money laundering (AML) controls over global trade and creates further incentives to exploit customs processes for money laundering. Regardless of the type of good used or the source of the illicit funds, the allure of TBML is heightened by the fact that workplace limitations to “flatten the curve” of the virus spread have reduced financial institution capacities for AML due diligence, oversight and suspicious transaction reporting. At the same time, many government organizations have focused their efforts on more immediate public safety concerns and front-line harm reduction efforts.
13. These COVID-19 limitations will be compounded by pre-existing challenges facing both customs services and financial institutions in detecting TBML, including the use of shell and front companies to either hide true ownership or conceal illicit activity within a legitimate business. Staff in both domains also lack training and awareness of TBML, and neither can access the full range of financial transaction, customs, sales and shipping data necessary to uncover laundering activity.
14. Moreover, the volumes of financial transactions that facilitate international trade are immense, but only 20 percent are financed (requiring extensive proof to satisfy bank lending



requirements), while banks merely facilitate the transfer of funds on the remainder, with no supporting information available to uncover and flag illicit activity required.

Implications for the Canada Border Services Agency (CBSA) and Canada

15. In the medium-term, TBML and other customs fraud schemes are likely to revert to “net even”, as the negative impacts of COVID-19 measures increasingly hampers the global economy and drives down trade chains supporting many of the discretionary goods used for TBML.
16. The WTO notes significant declines in container shipping and port throughput, highlighting that the crisis has caused “dramatic” supply shocks which are beginning to cause major trade disruptions. The organization forecasts that global trade volume could decline by as much as 32 percent this year. Trade flows, particularly those linked to countries more affected by the virus and the measures put in place to contain it, should be expected to decrease over the coming months.
17. Increased involvement in international trade during this period is not, in itself, an indicator of higher profiteering or money laundering risk. However, any unexpected import or export activity that does not align with current economic prospects, particularly in relation to the discretionary goods that will be used in both smuggling and money laundering schemes (including electronics, used clothing, forestry products and, particularly, agri-foods), may be related to attempts to transmit illicit financial flows.

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