



WORLD CUSTOMS ORGANIZATION

*WCO Research Paper No. 36*

# **A Survey of Customs Administration Approaches to Money Laundering**

(March 2016)

*Chang-Ryung Han and Robert Ireland*

## **Abstract**

Since the global financial crisis of 2008, global anti-money laundering (AML) efforts have focused on overseas capital flight. The World Customs Organization (WCO) conducted a survey to examine Customs administrations' mandates and capacities to fight money laundering via the international trade system. A total of 117 Customs administrations (65.0%) out of 180 responded to the survey. This survey discovered that most Customs administrations surveyed perceive money laundering activities in their jurisdictions as serious so as to require further or special attention; in particular, they think that smuggling of cash is the most widely used money laundering channel. In response to money laundering threats, most Customs administrations stated that their AML power is limited. In terms of organizational structure, however, independent Customs agency-type Customs are more active than the other types of Customs administrations. In fighting against money laundering, the surveyed Customs administrations cooperate with the financial intelligence units (FIUs) more than other competent authorities and perceive cash declarations as the most effective information. Many Customs administrations have limited responsibilities in tackling capital flights, informal fund transfer systems, and foreign currency exchangers.

## **Key words**

Money laundering, Customs enforcement

## **Acknowledgements**

This paper was written by Chang-Ryung Han and Robert Ireland of the WCO's Research Unit. The authors are grateful to Rachel McGauran, Thomas Cantens, Michelle Medina Millian, and Norbert Steilen for their suggestions.

## **Disclaimer**

The WCO Research Paper Series disseminates the findings of work in progress to encourage the exchange of ideas about Customs issues. The views and opinions presented in this paper are those of the authors and do not necessarily reflect the views or policies of the WCO or WCO Members.

## **Note**

All WCO Research Papers are available on the WCO public website: [www.wcoomd.org](http://www.wcoomd.org). The author may be contacted via [research@wcoomd.org](mailto:research@wcoomd.org).

-----

Copyright © 2016 World Customs Organization.

All rights reserved.

Requests and enquiries concerning translation, reproduction and adaptation rights should be addressed to [copyright@wcoomd.org](mailto:copyright@wcoomd.org).

## 1. Background

The issue of money laundering<sup>1</sup> first came into prominence in the 1970s when organized crime groups began to launder their criminal proceeds through legitimate businesses under their control. National-level anti-money laundering (AML) efforts were ratcheted up to a highly structured international regime after the 9/11 attacks in 2001 in order to prevent financial institutions and non-financial entities from being exploited by terrorist groups (Reuter and Truman, 2004; Tsingou, 2010). Global AML efforts have been reinvigorated since the global financial crisis of 2008 but with a different focus (Everest-Phillips, 2012). Many countries have sought to secure their tax base and repatriate taxation sources that remain hidden overseas in order to overcome their fiscal deficit exacerbated by the global economic downturn. In particular, many developing countries, in which the majority of people live below the poverty line, are faced with the scourge of flight of capital overseas, which would otherwise have been allocated for economic development purposes. Thus, it has become more important than ever to curtail illegal financial flows which are facilitated by money laundering activities throughout the world.

Global Financial Integrity (2015), a leading research entity for the curtailment of illicit financial flows, has diagnosed that illegal financial flows mostly take the form of "mis-invoicing", the majority of which circulates via the international trade system. As Customs administrations are tasked with enforcing compliance with international trade rules, there has been a shared expectation within the global Customs community that Customs administrations would play an important role in tackling money laundering activities exploiting the international trade system. However, other international entities, such as the Financial Action Task Force (FATF), have implied that Customs administrations' AML role is limited to deterring the smuggling of bulk cash and goods subject to excise taxes such as tobacco (FATF, 2012; 2015). Moreover, they have granted limited acknowledgement to the prominence of Customs administrations in the fight against money laundering via the international trade system, despite their admission that Customs administrations would somehow join the fight against trade-based money laundering (TBML) (FATF, 2006). Other law enforcement authorities, such as the police and tax authorities, are sometimes regarded as more proper authorities to tackle money laundering via the international trade system, even if the international trade system is neither their natural domain nor area of expertise.

Nonetheless, due to a dearth of information concerning the mandates and capacities of member Customs administrations, in responding to such views on limited acknowledgement of Customs administrations' AML role, the World Customs Organization (WCO) is endeavoring to enhance Customs administrations' prominence in the fight against money laundering via the international trade system. It is extremely challenging or may be unnecessary to determine which authority is more competent to tackle in a certain type of money laundering activities because cooperation among law enforcement authorities is required for more effective and efficient fight against money laundering. However, in order to optimize the global AML capacity, it is necessary and beneficial to discover and realize law enforcement authorities' potential appropriately. As Customs administrations are stationed in a strategic position to deal with the flows of both goods and corresponding money in the international trade system, they have a great potential in tackling money laundering via the international trade system in an effective and efficient manner. Thus, the WCO conducted a survey to assess Customs administrations' potential for and approach to AML.

---

<sup>1</sup> There are several definitions of money laundering. Among them, the definition by the FATF is frequently used: money laundering is "the processing of criminal proceeds to disguise their illegal origin in order to legitimize the ill-gotten gains of crime" (Schott, 2006:I-2).

## 2. Method and data

The role of Customs administrations in the fight against money laundering has been minimally analyzed in a systematic manner. In order to capture the overall landscape and variations on Customs' mandates and capacities, a survey method is preferable to other methods such as experiments or case studies. The WCO thus undertook a survey of member Customs administrations which was conducted from November 2015 to February 2016 with the objective of collecting: (1) perceptions of Customs administrations on money laundering problems in their jurisdictions; (2) the scope of mandates of Customs administrations in the fight against money laundering; (3) resources of Customs to mobilize for AML; and (4) cooperation with competent authorities and foreign Customs. This analysis of the responses to the survey has focused on describing univariate distribution and the bivariate relationship.

A total of 117 Customs administrations (65.0%) out of 180 member Customs administrations responded to the survey. When responses are categorized into six Regions according to the WCO's regional classification system, the highest response rate is recorded in the Europe (EUR) Region (82.4%), whereas Customs administrations of the West and Central Africa (WCA) Region are underrepresented (30.4%) in this survey (Table 1).

Table 1: Response rates by regions

	Overall	MENA	ESA	WCA	AMS	EUR	AP
No. responses	117	11	14	9	19	42	22
Response rate (%)	65.0	61.1	58.3	39.1	61.3	82.4	66.7

Customs administrations were categorized into three types according to their organizational positions within their governments (i.e., ministry department, independent Customs agency, and revenue authority)<sup>2</sup>: out of 117 Customs administrations surveyed, 39.3% were ministry departments and 29.1% of respondents were revenue authorities. Considering the composition of member Customs administrations (56.8% are ministry departments, 77.1% are independent Customs administrations, and 66.7% are revenue authorities), the independent Customs agency type of Customs administration demonstrated the highest response rate (Table 2).

Table 2: Response rates by organization types

	Ministry department	Independent Customs agency	Revenue authority
Number of responses	46	37	34
Response rate (%) among the responded Customs	39.3	31.6	29.1
Response rate (%) among the same type of Customs	56.8	77.1	66.7

<sup>2</sup> The WCO Annual Reports categorize the 180 member Customs administrations into four types: ministry department (45.0%), independent Customs agency (25.0%), revenue authority (28.3%), and border protection (1.7%) (WCO, 2015). For the convenience of analysis, the border protection type of Customs administrations is merged with the independent Customs agency-type of Customs administrations.

### 3. Mandate

Information is scant concerning the mandates that Customs administrations may possess for AML purposes. Even if the mandates of national Customs administrations are determined domestically, as Customs administrations implement similar functions at borders and cooperation between them is essential for efficient AML activities, information about Customs administrations' mandates for AML will prove beneficial for the global AML endeavors. This survey has examined the mandates with the angles of depth and scope.

The depth of AML power refers to how profoundly Customs administrations can address money laundering cases irrespective of predicate offences that they are authorized to pursue. This survey divided the depth of Customs administrations' AML power into four levels according to their levels of engagement: (1) conducting an examination or investigation of a money laundering case "on its own", (2) tackling money laundering only via a "joint operation" with a competent authority, (3) merely collection of money laundering related information and "referral" to competent authorities, and (4) irrelevance to money laundering (Table 3). Only 27.4% of the Customs administrations surveyed reported that they could examine or investigate money laundering cases independently. 42.7% of respondents forwarded the information that they obtain with respect to money laundering to other competent authorities. 6.8% of the administrations answered that AML had nothing to do with them. When the organizational types are taken into account, more independent Customs agency-type Customs administrations (29.7%) have an examination or investigation function than the other types of Customs administrations (28.3% for ministry department type and 23.5% for revenue authority type) and the rate to answer that AML is irrelevant to them is lower in independent Customs agency-type Customs administrations (2.7%) than the other types of Customs administrations (8.7% for ministry department type and 8.8% for revenue authority type). This implies that independent Customs administrations are more active than the other types of Customs administrations in the fight against money laundering.

Table 3: Depth of AML power (%)

	Irrelevance	Information collection	Joint operation	Examination
Overall	6.8	42.7	23.1	27.4
Ministry department	8.7	43.5	19.6	28.3
Independent Customs agency	2.7	45.9	21.6	29.7
Revenue authority	8.8	38.2	29.4	23.5

Many Customs administrations' shallow AML power is affirmed in the answer to a question regarding their perspective on AML activities (Table 4). Most Customs administrations surveyed (82.9%) responded that disclosure of money laundering activities is a mere by-product of the fight against predicate offences, such as tax evasion and other illicit activities. Only 9.4 percent of Customs administrations actively examine or investigate traders or trade transactions for the purpose of disclosure of money laundering activities.

Table 4: Way of conducting AML activities (%)

By-product of fight against predicate offences	Solely for fight against money laundering	Don't Know
82.9	9.4	7.7

The extent of Customs administrations' AML mandates can be measured with the number of predicate offences that fall within their purview. The more predicate offences Customs administrations can tackle, the more extensive their mandates. However, as there is no definitive way of assessing the number of predicate offences, this survey does not attempt to enumerate them but rather focuses on identifying broad categories of predicate offences applicable to any jurisdictions (Table 5). Most Customs administrations surveyed reported that they are authorized to tackle evasion of trade taxes and smuggling of tobacco and alcohol (76.1% and 73.5% respectively) as predicate offences of money laundering. This is unsurprising as they are all traditional enforcement targets of Customs administrations (Han, 2015). However, despite the relatively small number, the fact that some Customs administrations are tackling cross-border transactions in services (21.4%) and domestic transactions (13.7%) is intriguing.

Table 5: Predicate offences that Customs administrations can tackle (%)

Tax evasion	Smuggling of tobacco and alcohol	Smuggling of Illicit drugs	Smuggling of counterfeits	Smuggling of wildlife	Smuggling of weapons	Smuggling of cultural objects	Fraudulent transactions in services	Fraudulent capital transactions	Domestic transactions	DK
76.1	73.5	65.0	65.8	67.5	64.1	59.0	21.4	16.2	13.7	14.5

As criminal proceeds that are generated from predicate offences are funneled into money laundering channels in order to dilute the connection of proceeds to predicate offences (Schott, 2006), AML endeavors have concentrated on these channels and developed tailored AML responses accordingly (FATF, 2005). The FATF have identified the following five major money laundering channels: financial institutions, informal fund transfer (IFT) systems, smuggling of monetary instruments, international trade systems, and professional enablers. As a result, this survey asked member Customs administrations which channel is most widely used in their jurisdictions (Table 6). 45.3% of Customs administrations surveyed answered that smuggling of monetary instruments is selected as the most widely used money laundering channel in their jurisdictions, whereas only 11.1% of respondents chose the international trade system.

Table 6: The most widely used money laundering channel (%)

Financial institutions	Informal fund transfer systems	Smuggling of monetary instruments	International trade system	Professional enablers	Don't Know
12.8	4.3	45.3	11.1	1.7	24.8

Most Customs administrations have identified themselves as key players with respect to trade compliance. This perspective does not stand in accord with the FATF's view that Customs administrations' activities against TBML are not salient as their locus in the international trade system (FATF, 2008). Thus, in order to decipher the relationship between the two different opinions, this survey inquired which authority is the primary competent authority capable of tackling money laundering via the "international trade system" (Table 7); with a surprising result. 53.0% of respondents answered that the financial intelligence unit (FIU) was the primary competent authority; 16.2% of respondents selected the police as the primary authority. Only 12.8% of respondents considered that they themselves played the primary role in the fight against money laundering via international trade system. In other words, most Customs administrations have perceived that their roles and activities are quite limited in the fight against money laundering in their territories. In

particular, when the organizational types are considered, more revenue authority-type Customs administrations (17.6%) perceived themselves as the leading authority against money laundering via the international trade system than the other types of Customs administrations (10.9% for ministry department type and 10.8% for independent Customs agency type). Independent Customs agency-type Customs administrations (21.6%) selected the police as the primary authority more than the other types of Customs administrations (13.0% for ministry department-type and 14.7% for revenue authority-type).

Table 7: The primary competent authority against money laundering via international trade system (%)

	Customs	Tax authority	Police	Financial supervisory authority	FIU	Other	DK
Overall	12.8	1.7	16.2	7.7	53.0	5.1	3.4
Ministry department	10.9	2.2	13.0	6.5	58.7	4.3	4.3
Independent Customs agency	10.8	-	21.6	5.4	54.1	5.4	2.7
Revenue authority	17.6	2.9	14.7	11.8	44.1	5.9	2.9

There may be several factors that hinder Customs administrations from becoming the primary actor in the fight against money laundering via the international trade system. The majority of respondents (61.5%) answered that a narrow, or non-existing, mandate regarding AML activities is the most impeding factor for Customs administrations in playing a leading role in the fight against money laundering activities exploiting the international trade system (Table 8).

Table 8: Impeding factors in playing as a primary actor in the fight against money laundering via international trade system (%)

No / Narrow mandate	Lack of relevant information	Lack of cooperation	Lack of resources	Lack of experience	Other	DK
61.5	8.5	1.7	8.5	9.4	1.7	8.5

#### 4. Extent of money laundering

It is extremely challenging to measure or even guesstimate the extent of illegal activities including money laundering. Crime data that law enforcement authorities maintain do not necessarily reflect the prevalence or frequency of crime events taking place in their jurisdictions and are influenced by various factors including the performance of law enforcement (Coleman and Moynihan, 1996). Nonetheless, crime data of law enforcement authorities are useful in gauging changes in crime occurrence when they are collected over multiple years and analyzed from a longitudinal perspective. Thus, maintenance of crime data can be interpreted as one of the key corporate endeavors to reduce criminal phenomena concerned (Han and Nelen, 2015). Thus, although statistics regarding money laundering do not necessarily function as an indicator to reflect

the prevalence or frequency of money laundering, this survey asked member Customs administrations whether they maintain money laundering detection statistics (Table 9). Surprisingly, it turns out that only 26.5% of Customs administrations surveyed have such aggregate-level money laundering detection records. Possession of such records relates to the role that Customs administrations play in the fight against money laundering: if they play an auxiliary role in AML, they have few incentives to follow up how their information, once referred to other competent authorities, contributes to money laundering investigations. 80.0% of the Customs administrations that are confined to an information collection role do not maintain aggregate-level money laundering detection records, whereas 59.4% of the Customs administrations with examination or investigation power for AML do.

Table 9: Maintenance of money laundering detection statistics (%)

	Overall	Irrelevance	Information collection	Joint operation	Examination
No	73.5	100	80.0	92.6	40.6
Yes	26.5	-	20.0	7.4	59.4

Among the many reasons that most Customs administrations surveyed (73.5%) do not compile money laundering detection statistics (Table 10), the main reason disclosed is that as another competent authority compiles money laundering statistics, Customs administrations do not record their AML activities in the form of aggregate-level statistics (51.2%). 30.2% of Customs administrations surveyed answered that as they maintain aggregate records for “predicate offences” detection, they do not need to maintain statistics for the detection of money laundering activities which are derived from predicate offences.

Table 10: Reasons for absence of money laundering detection statistics (%)

No priority	Focus on predicate offences	Individual detection records	Compilation by another authority	No detection
12.8	30.2	8.1	51.2	3.5

As a way of gauging the extent of money laundering with respect to member Customs administrations’ jurisdictions, this survey asked about their perception of the seriousness of money laundering in their jurisdictions (Table 11). Most Customs administrations surveyed responded that money laundering in their jurisdictions is very serious or somewhat serious so as to require special or further attention (35.9% and 31.6% respectively). In particular, when the AML power depth of Customs administrations is considered, an old maxim can be applied to the perception of seriousness of money laundering: “the more you know, the better you see.” 50% of the Customs administrations with examination or investigation power perceived money laundering activities as very serious in their jurisdictions, whereas only 22.0% of Customs administrations being confined to information collection answered that money laundering activities were very serious. 20.0% of the Customs administrations confined to information collection only perceive money laundering as not serious, whereas only 9.4% of the Customs administrations with examination or investigation power diagnosed money laundering as not serious.



Table 11: Customs administrations' perception of seriousness of money laundering (%)

	Negligible	Not serious	Somewhat serious	Very serious	Don't know
Overall	6.0	13.7	35.9	31.6	12.8
Irrelevance	-	-	12.5	12.5	75.0
Information collection	4.0	20.0	42.0	22.0	12.0
Joint operation	14.8	11.1	29.6	33.3	11.1
Examination	3.1	9.4	37.5	50.0	-

## 5. Ways to fight money laundering

Tools that Customs administrations can mobilize vary from an annual strategic plan to cooperation with other competent authorities, even if usage of such tools is conditioned by their mandates. Annual strategic plans of Customs administrations are a reflection of the political will of Customs administrations' leadership. Thus, whether an enforcement target is included in an annual strategic plan can be revelatory of how seriously and actively a Customs administration will address the target. According to this survey, only 53.0% of Customs administrations surveyed deal with money laundering in their strategic annual plans. The more Customs know, the more responsive they are: 75.0% of the Customs administrations with examination or investigation power deal with money laundering in their strategic annual plans, whereas 50.0% of the Customs administrations being confined to information collection include money laundering in their annual plans (Table 12).

Table 12: Inclusion in an annual strategic plan (%)

	Overall	Irrelevance	Information collection	Joint operation	Examination
No	47.0	100	50.0	51.9	25.0
Yes	53.0	-	50.0	48.1	75.0

Even if the activities pursued against money laundering (e.g., examination, joint operation, or information collection) are conducted by field officers, the very existence of a control tower to plan and coordinate AML activities also shows the vigor and diligence of Customs administrations to the issue of money laundering. With respect to a specialized unit regarding AML activities (Table 13), 21.4% of Customs administrations surveyed have such a special unit at their headquarters; 42.7% of the administrations dealt with money laundering issues in a relevant unit of their headquarters together with other enforcement targets; and 35.9% of the administrations responded to the survey answered that they do not have a central unit to coordinate money laundering activities conducted in field. When the AML power depth is taken into account, it has proved that the more active, the more focused: 46.9% of the Customs administrations with examination or investigation power have specialized AML units at their headquarters, whereas only 8.0% of the Customs administrations relying on information collection have such units. 40.0% of the Customs administrations being confined to information collection do not have a central unit to coordinate AML activities in field, whereas only 15.6% of the Customs administrations with examination or investigation power manage AML activities without such central units.

Table 13: Specialized unit for fight against money laundering (%)

	Specialized unit	General unit	No organization
Overall	21.4	42.7	35.9
Irrelevance	-	12.5	87.5
Information collection	8.0	52.0	40.0
Joint operation	22.2	40.7	37.0
Examination	46.9	37.5	15.6

There is no doubt about the value of information to law enforcement. An important determinant of the ability of law enforcement authorities to fight crime is information (Skogan and Antunes, 1979). Like other law enforcement authorities, Customs administrations make use of a variety of sources of information to detect and investigate illicit trade. Thus, this survey asked member Customs administrations what kinds of information they use in the fight against money laundering (Table 14). Information that Customs administrations most selected are Customs declarations and accompanying trade documents (e.g., invoices) (86.2%), declarations for cash or information regarding cash smuggling disclosure (84.0%), and information from other competent authorities (81.9%). This suggests that Customs administrations make use of conventional and domestic information sources more than new information sources, such as FX transactions data, in the fight against money laundering.

Table 14: Information used in fighting money laundering (%)

Customs declarations and trade documents	Cash declarations	Customs declarations and trade documents by foreign Customs	Anonymous reports	Information from other competent authorities	SARs or STRs	FX transactions data	Other
86.2	84.0	64.9	53.2	81.9	67.0	41.5	5.3

Among the various types of information that Customs administrations use in the fight against money laundering, this survey asked which information is the most effective in the fight against money laundering (Table 15). Cash declarations were the most common source of information selected by Customs administrations (29.9%). This finding closely relates to the money laundering channel that the Customs administrations perceive as most vulnerable. An interesting observation is that suspicious activity reports (SARs) or suspicious transaction reports (STRs) by financial institutions or FIU are selected as one the most effective information sources for Customs administrations combat against money laundering.

Table 15: The most effective information in fighting money laundering (%)

Customs declarations and trade documents	Cash declarations	Customs declarations and trade documents by foreign Customs	Anonymous reports	Information from other competent authorities	SARs or STRs	FX transactions data	Other	DK
14.5	29.9	4.3	4.3	6.8	12.8	2.6	1.7	23.1

Cooperation with other competent authorities is also an important tool for Customs administrations in the fight against money laundering since cooperation among law enforcement authorities works as a complement to overcome the insufficient resources of each authority and helps law enforcement authorities to examine criminal phenomena from various perspectives (Rosenbaum, 2002; Sampson et al., 1988). As Customs administrations not only ask other authorities for cooperation but also receive requests for cooperation from other authorities in tackling enforcement targets including money laundering, this survey inquired about Customs administrations' cooperation in terms of reciprocity (Table 16). According to this survey, majority of Customs administrations surveyed identified FIU as the most popular cooperation partner authority (48.7% for request for cooperation and 54.7% for being requested for cooperation respectively). The police (17.1% for request and 13.7% for being requested) are more frequently chosen as their cooperation partner authority than tax authorities (2.6% for request and 5.2% for being requested). Such a lack of cooperation with tax authorities is slightly surprising as tax authorities have a long history of cooperation as a partner authority of Customs administrations, and are regarded as a leading authority to tackle capital flight overseas (Arezki et al., 2013).

Table 16: Customs administrations' cooperation partner authorities (%)

	Tax authority	Police	Financial supervisory authority	FIU	Other	Irrelevance
Request	2.6	17.1	6.8	48.7	9.4	15.4
Being requested	5.1	13.7	6.8	54.7	8.5	11.1

Customs administrations' cooperation with other authorities takes various forms. When their cooperation forms are simplified into information exchange and joint operations (Table 17), for the fight against money laundering, information exchange (67.5% and 81.2% respectively) are chosen more than joint operations (38.5% and 30.8% respectively) in both requesting and receiving requests for cooperation from other competent authorities. However, information exchange is requested more by other competent authorities (81.2%) than Customs administrations (67.5%), whereas joint operations are requested by Customs administrations (38.5%) more than other competent authorities (30.8%). This implies that Customs administrations may be perceived as an auxiliary authority rather than an equal level cooperation partner to other law enforcement authorities.

Table 17: Customs administrations' cooperation methods with other competent authorities (%)

	No request	Information	Joint operation
Request	23.9	67.5	38.5
Being requested	15.4	81.2	30.8

As FIUs function as a clearinghouse regarding money laundering (and in hindsight are revealed to be the major cooperation partner authority of Customs administrations in the fight against money laundering), this survey inquired about Customs administrations' cooperation forms with FIUs (Table 18). As envisaged, information exchange is the most common form of cooperation. An interesting observation is that only 17.1% of Customs administrations surveyed second their officers to FIUs.

Table 18: Customs administrations' cooperation with FIUs (%)

No or little cooperation	Meeting	Information exchange	Joint operation	Secondment	Other
25.6	62.4	65.0	29.1	17.1	2.6

Cooperation between different law enforcement authorities can prove to be extremely challenging. There are many challenges involved in cooperation with different authorities. Only 16.2% of Customs administrations surveyed reported that no or few challenges are involved in their cooperation with other competent authorities. 38.5% of the administrations are hindered by a lack of a legal basis in attempting cooperation. Lack of resources was identified by 23.9% of the administrations.

Table 19: Challenges for Customs administrations' cooperation with other competent authorities

No challenge	Lack of a legal basis	Lack of a channel for communication	Lack of mutual trust	Lack of resources	No incentive	Other
16.2	38.5	7.7	9.4	23.9	0.9	3.4

## 6. Special targets

Many developing countries have suffered from the scourge of capital flight via mis-invoicing, which often takes advantage of the complexity of the international trade system (Baker, 2005; Boyce and Ndikumana, 2015). However, many Customs administrations do not seem to have a clear mandate against money laundering exploiting the international trade system. Nonetheless, in the hopes that Customs administrations may contribute to curtailing capital flight overseas via the international trade system, this survey asked member Customs administrations about their approaches to capital flight overseas (Table 20). 57.3% of Customs administrations reported that they are irrelevant to capital flight overseas. Only 12.8% of Customs administrations can independently examine capital flight overseas as a form of money laundering.

Table 20: Customs administrations' approach to capital flight overseas (%)

Irrelevance	Examination of capital flight overseas on its own	Referral capital flight cases to other competent authorities	Examination of capital flight overseas via joint operations
57.3	12.8	23.9	4.3

Whereas TBML does mean that money (criminal proceeds) other than trade payments are transferred via the international trade system, trade payments which are supposed to be processed via the international trade system are laundered via channels other than financial institutions, such as cash smuggling, IFT systems, and foreign currency exchangers. Thus, this survey inquired how Customs administrations address unconventional channels processing trade payments. First, with respect to use of smuggling of cash as a channel for laundering trade payments (Table 21), 43.6% of Customs administrations answered that they do not examine smuggling of cash in light of a channel for laundering trade payments. Only 15.4% of Customs administrations examine the connection of each case of cash smuggling to money laundering.

Table 21: Customs administrations' approach to cash smuggling

No examination	Examination when necessary	Examination of each cash smuggling
43.6	41.0	15.4

In addition, only 39.3% of Customs administrations surveyed reported that they have observed laundering of trade payments via smuggling of cash for the past three years. In particular, more Customs administrations from AP region (50.0%) answered that they observed laundering trade payment via the cash smuggling channel than other regions (Table 22).

Table 22: Customs administrations' observation of smuggling of cash for trade payments (%)

	Overall	MENA	ESA	WCA	AMS	EUR	AP
No	60.7	63.6	71.4	66.7	63.2	59.5	50.0
Yes	39.3	36.4	28.6	33.3	36.8	40.5	50.0

Second, this survey inquired as to Customs administrations' approach to IFT systems (Table 23). IFT systems are known not only as a fund transfer conduit for migrant workers who have difficulty in accessing formal financial institutions in foreign countries but also a channel for money laundering and terrorist financing (FATF, 2013; van de Bunt, 2008). Episodes whereby trade payments are transferred via the IFT system in order to evade taxes have been reported from time to time. However, Customs administrations' approach to IFT systems has not been extensively examined (Han and Ireland, 2013). As envisaged, 69.2% of respondents stated that they rarely deal with issues regarding IFT systems. 23.9% of the administrations reported that they would examine IFT systems when trade payments are suspected to be processed via IFT systems.

Table 23: Customs administrations' approach to IFT systems (%)

Irrelevance	Examination of IFT involving trade payment	Examination of IFT irrespective of involvement of trade payment	Registration of IFT systems
69.2	23.9	6.8	3.4

However, 80.3% of respondents indicated that they have rarely heard about the connection between IFT systems and trade payments over the last three years (Table 24). It is not clear whether this is because laundering trade payments via IFT systems is rare or Customs administrations do not have the capacity to disclose such a connection. Compared with the other regions, more Customs administrations from ESA and AP regions (28.6% and 27.3% respectively) testified their observations regarding the processing of trade payments via IFT systems.

Table 24: Customs administrations' awareness of employment of IFT systems for trade payment (%)

	Overall	MENA	ESA	WCA	AMS	EUR	AP
No	80.3	81.8	71.4	88.9	78.9	85.7	72.7
Yes	19.7	18.2	28.6	11.1	21.1	14.3	27.3

Third, this survey also touched upon Customs administrations' approach to foreign currency exchangers, which are known to be entangled with small scale cases of money laundering (FATF, 2010). As foreign currency exchangers are usually used by travelers, they are suspected to be involved in travelers' cash smuggling, which is a typical enforcement target of Customs

administrations. However, 77.8% of Customs administrations surveyed reported that they have nothing to do with foreign currency exchangers. That may be because foreign currency exchangers are traditionally under central banks' control.

Table 25: Customs administrations' approach to foreign currency exchangers (%)

Irrelevance	Examination of foreign currency exchangers around borders or bonded zones	Examination of all foreign currency exchangers	Registration of foreign currency exchangers
77.8	9.4	12.8	4.3

## 7. Implications

Customs administrations simultaneously deal with several enforcement targets at borders and face different expectations from stakeholders involving various targets. Whereas stakeholders of some targets (e.g., wildlife smuggling) demand Customs administrations' active engagement, some stakeholders take for granted Customs administrations' passive response to some targets. Customs administrations have purported that they as a whole play a pivotal role in tackling trade-based money laundering (WCO, 2015). However, such opinions have rarely been echoed by global stakeholders. The global Customs community has generally not addressed the discrepancy between Customs administrations and the global stakeholders in the perception of Customs administrations' role in the fight against money laundering. This survey may provide an important clue as to why: most Customs administrations have limited mandates (actually more than envisaged) which are required to fight extensive money laundering activities exploiting the international trade system. Consequently, their prospects with regards to their role in the combat against money laundering are not overwhelmingly positive. In order to gauge Customs administrations' prospective of money laundering in their jurisdictions, this survey asked member Customs administrations about their plan for investment in anti-money laundering activities in the near future (Table 26). More than half of Customs administrations surveyed (56.4%) responded that they do not have specific plans to invest financial and human resources in the fight against money laundering. However, 65.6% of the Customs administrations with examination or investigation power regarding AML have specific investment plans, whereas only 32.0% of the Customs administrations playing the role of information collection have such plans.

Table 26: Customs administrations' AML investment plan (%)

	Overall	Irrelevance	Information collection	Joint operation	Examination
No	56.4	100	68.0	48.1	34.4
Yes	43.6	-	32.0	51.9	65.6

This finding does not mean that as most Customs administrations' mandates for AML are limited, Customs administrations would be advised to stay away from the fight against money laundering. Some Customs administrations actively engage in the fight against a variety of money laundering activities (APG, 2012; Han et al., 2015). They should be regarded as leaders to follow rather than outliers to disregard. In particular, the fight against money laundering via the international trade system requires international cooperation, which can be facilitated between authorities with similar mandates and capacities. Most Customs administrations should make endeavors to obtain an adequate mandate with regards to AML, corresponding to their potential, as well as endeavor to hone technical expertise to better tackle money laundering. The WCO may be able to advocate for a more expansive mandates for Customs by garnering further support on the part of global stakeholders.

## References

- Arezki, R., Rota-Graziosi, G., and Senbet, L. (2013). Capital Flight Risk. *Finance and Development*, 50(3): 26-28.
- Asia / Pacific Group on Money Laundering (APG). (2012). APG Typology Report on Trade Based Money Laundering. Sydney South: Australia.
- Backer, R. (2005). *Capitalism's Achilles heel: Dirty Money and How to Renew the Free-Market System*. Hoboken: John Wiley & Sons.
- Boyce, J. and Ndikumana, L. (2015). Strategies for Addressing Capital Flight. In S. Ajayi and L. Ndikumana (eds.), *Capital Flight from Africa: Causes, Effects, and Policy Issues*. New York: Oxford University Press.
- Coleman, C. and Moynihan, J. (1996), *Understanding Crime Data: Haunted by the Dark Figure*. Buckingham: Open University Press.
- Everest-Phillips, M. (2012). The Political Economy of Controlling Tax Evasion and Illicit Flows. In P. Reuter (eds.), *Draining Development?: Controlling Flows of Illicit Funds from Developing Countries*. Washington D.C.: World Bank.
- Financial Action Task Force (FATF). (2015). *Money Laundering Through the Physical Transportation of Cash*. Paris: FATF.
- Financial Action Task Force (FATF). (2013). *The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing*. Paris: FATF.
- Financial Action Task Force (FATF). (2012). *Illicit Tobacco Trade*. Paris: FATF.
- Financial Action Task Force (FATF). (2010). *Money Laundering Through Money Remittance and Currency Exchange Providers*. Paris: FATF.
- Financial Action Task Force (FATF). (2008). *Best Practices on Trade Based Money Laundering*. Paris: FATF.
- Financial Action Task Force (FATF). (2006). *Trade Based Money Laundering*. Paris: FATF.
- Financial Action Task Force (FATF). (2005). *Money laundering and terrorist financing typologies, 2004-2005*. Paris: FATF.
- Global Financial Integrity (GFI). (2015). *Illicit Financial Flows: The Most Damaging Economic Condition Facing the Developing World*. Washington D.C.: GFI.
- Han, C. and Ireland, R. (2013). Informal Funds Transfer Systems as a Target of Customs Enforcement. *World Customs Journal*, 7(1): 3-11.
- Han, C. and Nelen, H. (2015). Decoupling Policy and Practice in the Fight against Wildlife Smuggling. *British Journal of Criminology*, doi: 10.1093/bjc/azv109.
- Han, C., Nelen, H., and Joo, Y. (2015). Documentary Credit Fraud against Banks: Analysis of Korean Cases. *Journal of Money Laundering Control*, 18(4): 457-474.
- Reuter, P. and Truman, E. (2004). *Chasing Dirty Money: The Fight Against Money Laundering*. Washington D.C.: Institution for International Economics.
- Rosenbaum, D. (2002). Evaluating Multi-Agency Anti-Crime Partnerships: Theory, Design, and Measurement Issues. *Crime Prevention Studies*, 14: 171-225.
- Sampson, A., Stubbs, P., Smith, D., Pearson, G., and Blagg, H. (1988). Crime, Localities and the Multi-Agency Approach. *British Journal of Criminology*, 28(4): 478-493.
- Schott, P. (2006). *Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism*. Washington D.C.: World Bank/IMF.
- Skogan, W. and Antunes, G. (1979). Information, Apprehension, and Deterrence: Exploring the Limits of Police Productivity. *Journal of Criminal Justice*, 7(3), 217-241.
- Tsingou, E. (2010). Global Financial Governance and the Developing Anti-Money Laundering Regime: What Lessons for International Political Economy? *International Politics*, 47(4): 617-637.

- van de Bunt, H. (2008). The Role of Hawala Bankers in the Transfer of Proceeds from Organized Crime. In D. Siegel and H. Nelen (eds.), *Organized Crime: Culture, Markets and Policies*. New York: Springer.
- World Customs Organization (WCO). (2015). *Customs Enforcement Guidelines on Countering Money Laundering and Terrorist Financing*. Brussels: WCO.
- World Customs Organization (WCO). (2015). *WCO Annual Report 2014-2015*. Brussels: WCO.



## Appendix I: Participating Customs administrations

### Middle East and North Africa Region

Algeria	Bahrain	Egypt	Jordan
Kuwait	Morocco	Qatar	Sudan
Syria	Tunisia	UAE	

### West and Central Africa Region

Burkina Faso	Cameroon	Chad	DR Congo
Gabon	Ghana	Nigeria	Sao Tome and Principe
Senegal			

### East and Southern Africa Region

Angola	Botswana	Kenya	Madagascar
Malawi	Mauritius	Mozambique	Namibia
Rwanda	Seychelles	South Africa	Uganda
Zambia	Zimbabwe		

### America Region

Argentina	Bahamas	Brazil	Bermuda
Canada	Chile	Colombia	Costa Rica
Dominican Republic	Ecuador	Guatemala	Haiti
Jamaica	Mexico	Paraguay	Peru
United States	Uruguay	Venezuela	

### European Region

Albania	Armenia	Austria	Azerbaijan
Belgium	Bosnia and Herzegovina	Bulgaria	Croatia
Cyprus	Czech Republic	Denmark	Estonia
Finland	France	Georgia	Germany
Greece	Hungary	Ireland	Italy
Kazakhstan	Latvia	Lithuania	Luxembourg
Moldova	Montenegro	Netherlands	Norway
Poland	Romania	Russia Federation	Serbia
Slovakia	Slovenia	Spain	Sweden
Switzerland	The FYR of Macedonia	Turkey	Turkmenistan
Ukraine	United Kingdom		

### Asia - Pacific Region

Afghanistan	Australia	Bangladesh	Bhutan
Brunei Darussalam	Cambodia	China	Hong Kong, China
India	Indonesia	Japan	Korea
Malaysia	Mongolia	New Zealand	Nepal
Pakistan	Singapore	Sri Lanka	Thailand
Tonga	Vietnam		