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International Money Laundering: Research and Investigation Join Forces

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The money laundering industry

In the summer of 1991, perhaps only the dismantling of the Soviet Union received greater national media attention than the shutdown of the Bank of Commerce and Credit International (BCCI) by regulators in several countries. BCCI was convicted of money laundering in Tampa, Florida. In addition, BCCI has, as part of a global plea agreement, pled guilty in the District of Columbia to conspiracy to commit racketeering acts involving money laundering, fraud, and tax evasion, and in New York to charges of money laundering, fraud, bribery, and theft.

The bank has been called "the most pervasive money-laundering operation and financial supermarket ever created,"[1] a "marathon swindle,"[2] and a "steering service for [Colombian] drug traffickers to deposit hundreds of millions of contraband dollars outside the country."[3] Currently the target of investigations in several countries, BCCI will surely rank as one of the most complex schemes of its kind. Even so, BCCI is only one example of the pervasive, worldwide money laundering industry that exists today.

It is probably impossible to determine how much money is laundered either domestically or internationally each year. One way to gain some perspective on the problem is to consider estimates of drug trafficking revenues. Worldwide, people spend as much as $500 billion annually on illegal drugs, with up to $200 billion spent in the United States.[4]

According to the U.S. Department of the Treasury, drug traffickers launder an estimated $100 billion each year in this country alone,[5] with much of the activity channeled through financial institutions. Although drug trafficking fuels the money laundering industry, any assessment of the problem must also consider the funds laundered from other crimes, including fraud offenses, securities manipulation, illegal gambling, bribery, extortion, tax evasion, illegal arms sales, political payoffs, and terrorism. When these crimes are also considered, estimates of the amount of money laundered annually run as high as $300 billion.[6]

International conference: new directions for the National Institute of Justice

In the past decade, drug trafficking and money laundering operations have become more profitable, more pervasive, and more sophisticated. Colombian drug cartels and other criminal organizations operate easily across international borders, forming joint ventures and limited partnerships among themselves and with other groups. They also have access to top legal and financial advisers. Investigations of money laundering and other financial crimes have proved an especially productive way to identify

From the Director

Financial schemes such as money laundering enable white-collar and organized crime offenders to divert billions of dollars each year from the Nation's economy and spend their illegally earned profits with relative impunity. As money laundering strategies become more sophisticated in design and international in scope, regulatory and law enforcement agencies at all levels of government need more advanced methods to prevent and control these offenses.

The National Institute of Justice (NIJ) has conducted a national assessment to evaluate the methods currently employed to combat money laundering in the United States. This assessment examined the enforcement strategies of experienced Federal investigators and prosecutors, and served as the first step in the development of guidelines for State and local officials to choose money laundering responses that are consistent with their needs and resources. Since their publication, these guidelines have served numerous State and local law enforcement agencies in their drug trafficking investigations.

In November 1991, NIJ and the Federal Bureau of Investigation (FBI) cosponsored a conference on emerging economic crimes. The conference served both to train FBI officials in the complexities of international money laundering cases and to pave the way for future research.

This conference and NIJ's ongoing research demonstrate our continued commitment to aiding those on the front lines in the battle against drug trafficking and organized crime.

Charles B. DeWitt
Director
National Institute of Justice

Exhibit 1. **Foreign jurisdictions represented at NIJ/FBI conference**

Austria	Dominican Republic	Mexico
Barbados	France	Panama
Bermuda	Germany	Spain
Canada	Hong Kong	Switzerland
Chile	Italy	Taiwan
Colombia	Japan	United Kingdom

and incapacitate high-level operatives in these criminal organizations. The National Institute of Justice (NIJ) is committed to supporting these enforcement efforts by developing responsive research on money laundering and other financial crimes.

Acting on this commitment, the Institute recently broke new ground by cosponsoring a conference on international money laundering with the Federal Bureau of Investigation (FBI). The conference was a milestone, representing the first time NIJ and the FBI had coordinated an international training program. Law enforcement representatives from 18 jurisdictions (see exhibit 1) attended the conference, which was held in Washington, D.C., in May 1991. Other participants included legal attaches assigned to U.S. embassies in 15 countries, and Institute staff involved in money laundering research.

In his opening address, NIJ Director Charles B. DeWitt stressed that "this conference is the first in a continuing dialog between the Institute, the FBI, and foreign law enforcement to discuss problems facing the international law enforcement community and to draw from this dialog a research agenda." The FBI also expressed high expectations: FBI Deputy Assistant Director Robert Bryant challenged the conference participants to set a goal of seizing $100 million each month worldwide from criminal organizations.

The conference provided a forum for comparing laws and investigative practices that relate to international money laundering. This report draws from conference presentations and other sources to discuss techniques that are frequently part of the international money laundering process. Included are brief case studies of complex money laundering operations, a discussion of Federal and State laws designed to attack money laundering, the results of a special conference session on research priorities, and an overview of current NIJ research initiatives on money laundering and financial crime.

Federal money laundering laws

The Attorney General of the United States defines money laundering as "all activities designed to conceal the existence, nature, and final disposition of funds gained through illicit activities."[7] The money laundering process may simply be mailing a box of cash out of the country, or it may include schemes complex enough to lead to bank takeovers. Many of the techniques that launderers use would be perfectly legal business transactions if the source of the cash were not tainted. As the President's Commission on Organized Crime stated in 1984, "a new lexicon—including phrases like wire transfer, bank-to-bank transfer, CTR [currency transaction report], CMIR [currency and monetary instrument report], shell corporation, margin account, and letter of credit—has moved from Wall Street to the back street."[8]

Money laundering per se did not become a Federal crime in the United States until the passage of the Money Laundering Control Act of 1986 (Pub. L. 99–570, 100 Stat. 3207–18). Until that time, the main tools for combating money laundering were provided in the Bank Secrecy Act of 1970. (See 31 U.S.C. §§ 5311–5326.)

The Bank Secrecy Act requires (among other things) that financial institutions file CTR's on all cash transactions of more than $10,000. CTR's must be filed with the Internal Revenue Service within 15 days of the transaction, and the financial institution must keep copies of them for 5 years. The reports require specific information about customers' identities. In addition, CMIR's must be filed for cash or certain monetary instruments exceeding $10,000 in value that enter or leave the United States.

The Bank Secrecy Act can help authorities flag the movement of illegally acquired cash through financial institutions and across international borders. But the very inclusion of a specific dollar amount has provided an obvious way to skirt the law: money launderers could simply make multiple transactions in amounts less than $10,000 ($9,500, for example). This practice, known as "smurfing," is now illegal (31 U.S.C. § 5324).

Transacting business in the name of a retail firm, real or bogus, that has been granted a bank exemption from the CTR requirement, can avoid the CTR requirement. Still another possibility is to make several small deposits and only one large deposit (which often does not alert Federal officials). Bribing bank officials is yet another way to circumvent CTR problems. Finally, the ultimate solution to CTR entanglements is to establish or gain controlling interest in a bank.

Until the early 1980's, compliance with CTR reporting requirements was lax and penalties for noncompliance were lenient. The President's 1984 Commission on Organized Crime illustrated this problem in a lengthy discussion of the *Eduardo Orozco* case. From 1978 to 1982, Orozco laundered approximately $151 million in cocaine and heroin money through 18 bank and currency exchange accounts in New York City. He frequently delivered the money to financial institutions in cardboard boxes. In one instance, a single deposit totaled $3.4 million in cash. In interviews with Commission members, representatives of four banks said they were uncertain whether they could or would report such suspicious transactions to law enforcement, and were not sure which Federal agency should be contacted.

The Money Laundering Control Act of 1986 created two new offenses related to money laundering and currency transaction reporting violations. It generally prohibits

(1) engaging in financial transactions and international transportations or transfers of funds or property derived from "specified unlawful activity" (18 U.S.C. § 1956), and (2) engaging in monetary transactions in excess of $10,000 with property derived from proceeds of "specified unlawful activity" (18 U.S.C. § 1957). In addition, the Anti-Drug Abuse Act of 1986 prohibited the structuring of currency transactions to evade the CTR reporting requirement (31 U.S.C. § 5324). Also, these offenses and certain violations of the Title 31 currency reporting requirements (such as CTR's and CMIR's) are now predicate acts under the Racketeer-Influenced and Corrupt Organizations (RICO) statute (18 U.S.C. §§ 1961–1968).

Other weapons against money laundering include the forfeiture provisions of §§ 981 and 982 of Title 18, which provide for civil and criminal forfeiture, respectively, for violations of the money laundering statutes, and 26 U.S.C. § 6050I, which requires any person engaged in a trade or business who receives more than $10,000 in cash in a single transaction or related transactions to file a form with the Internal Revenue Service within 15 days of the payment.

Criminal penalties for violations of 18 U.S.C. § 1956 may be as high as a 20-year prison term and a fine of up to $500,000 or twice the value of the property involved, whichever is greater. Criminal penalties for violations of 18 U.S.C. § 1957 may be as high as a 10-year term of imprisonment and a fine under the provisions of Title 18 (18 U.S.C. § 3571) or, alternatively, a fine of up to twice the value of the criminally derived property. Violations of the anti-structuring statute (31 U.S.C. § 5324) may bring a fine of up to $250,000 and 5 years in prison or, in some cases, a fine of up to $500,000 and 10 years in prison [31 U.S.C. § 5322 (a)–(b)].

The Money Laundering Prosecution Improvement Act of 1988 included a provision authorizing the U.S. Department of the Treasury to require financial institutions to verify the identity of persons who purchase bank checks, traveler's checks, or money orders in amounts of $3,000 or more. This Act also authorized the Secretary of the Treasury to target certain types of institutions or geographic areas for special reporting requirements. (See 31 U.S.C. §§ 5325–5326.)

Money laundering laws in other countries

Law enforcement often operates in an atmosphere of uncertainty when dealing with international money laundering cases.

At the time of the conference, the status and nature of money laundering legislation varied widely from country to country. For example, Mexico, Colombia, and Thailand had no money laundering laws at all. Spain was drafting such legislation, and France had a money laundering law that prohibited only drug-related money laundering.

Switzerland no longer has the strictest banking secrecy laws in Europe. In August 1990, two new provisions in the Swiss criminal code became effective; one is specifically related to money laundering, the other is concerned with the lack of vigilance in the area of financial transactions. Yet despite provisions for new criminal penalties, Switzerland—like many countries—must rely heavily on the self-regulation of banks and other financial institutions.[9]

To foster productive bilateral and multilateral investigations, the United States has entered into many types of treaties with foreign governments. Mutual legal assistance treaties (MLAT's) enable law enforcement authorities to obtain evidence, exchange documents, and make requests for search and seizure and asset forfeiture. MLAT's also permit the IRS, under strictly defined circumstances, to obtain testimony, financial information, and bank records needed to investigate international money launderers and drug traffickers. In addition, the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances has been ratified by more than 60 countries. The Convention, among other things, obligates parties to make money laundering an extraditable offense.[10]

In addition to entering into treaties with foreign governments, the United States is participating in several multilateral organizations and programs to combat international money laundering. The United States is currently participating in the Financial Action Task Force (FATF), which was convened in 1989 by the G–7 Economic Summit with a mandate to study measures to prevent the use of financial institutions by money launderers and to improve cooperation in money laundering cases. FATF currently consists of 26 countries, the Gulf Cooperation Council, and the Commission of the European Communities. The task force has formulated 40 recommendations to assist countries in combating money laundering, and is in the process of evaluating members' progress in implementing these recommendations. The United States also participated in an Experts Group on Money Laundering and Asset Forfeiture convened by the Organization of American States (OAS) in November 1990 to draft model money laundering and asset forfeiture statutes. On May 22, 1992, OAS adopted the model legislation and recommended it to the member States for incorporation into their national legislation. The United States is participating in OAS efforts to promulgate the model legislation.

Major steps in the international money laundering process

Drug traffickers, regardless of how their organizations are structured, generally have at least three objectives in common: (1) pay expenses to suppliers, distributors, and various support personnel; (2) reinvest in the illegal enterprise; and (3) use proceeds to ensure financial security and a luxurious lifestyle. In addition, it is important to some criminals to achieve legitimate status in business. This acquired legitimacy not only aids in hiding illegal funds and activities, but also can serve as a springboard for political influence and corruption.

At the conference, FBI representatives discussed the role of money laundering in achieving these objectives. They described international money laundering as a process that generally moves through three phases. The first phase involves removing illegally obtained money from the United States and placing it into foreign accounts. This action may take the form of physically removing money via couriers, mail, and various smuggling ploys, or it may involve electronic transfers of funds from one financial institution to another.

The second phase involves legitimizing the "dirty" money so that it appears to be derived from legal sources. The laundering may be accomplished by moving funds into foreign bank or securities accounts, creating foreign dummy corporations to receive and disburse funds, making foreign real

Exhibit 2. **The Pizza Connection**

This case, which was investigated by the FBI in the early 1980's, involved the smuggling and distribution of heroin from Southeast Asia's Golden Triangle by various elements of the Sicilian Mafia. The proceeds from east coast heroin sales were collected from pizza parlors in Queens, New York. The money was then deposited in commodities accounts held by New York City brokerage firms. Frequently, cash was transported to the bank in gym bags and suitcases. In addition, some of the cash, usually in denominations of $5, $10, and $20 bills, was transported out of the country from New York City to Bermuda on private jets. The money was then wire-transferred from New York and Bermuda to Switzerland. From Switzerland it was wired to Italy, where it was used to buy more heroin.

The FBI and Federal prosecutors believe at least $25.4 million was laundered in this case between 1980 and 1982. In 1984, 38 individuals were indicted as a result of the investigation.

estate investments, and employing other techniques. During this phase, the money may be used to pay operating expenses for the illegal business.

The money laundering process then may or may not enter a third phase, where activities center around repatriating the funds, or sending them back to the United States. Once back in this country, the money can be used for legitimate transactions or further criminal activity (e.g., drug trafficking). Loans from foreign banks or corporations, letters of credit payments, consulting fees, phony leases or services, and excessive payments for goods or services are a few of the techniques used to repatriate the illegal funds under a cloak of legitimacy.

Despite the complexity of some money laundering schemes, they are not impenetrable—as the case studies in this report demonstrate. Although drug kingpins may effectively insulate themselves from street-level drug retailers, they seldom place the same distance between themselves and their money. Money launderers are particularly vulnerable at the points where they intersect with legitimate businesses and begin to create paper trails.

Removing money from the country

Although some criminals have been known to bury containers of cash in their backyards,[11] the money laundering process frequently begins with the conversion of U.S. "street drug" money—in $5, $10, and $20 bills—into a more usable and less visible form.

One option is to use smugglers to physically move the cash from the United States to another country with lax banking regulations or strict bank secrecy laws. In the *Pizza Connection* case (see exhibit 2), private jets were used to take drug cash, still in the form of small bills, from New York City to Bermuda. In a 1983 Florida case, law enforcement authorities estimated that one pilot had smuggled more than $145 million out of the country over an 8-month period.[12] U.S. Customs agents caught him as his Learjet attempted to leave for Panama with more than $5 million in cash on board.

Smuggling cash via commercial container ships, trucks, or aircraft is another technique that has proved successful. *Operation Greenback* in the Southern District of Florida investigated an organization that exported millions of dollars in cash concealed in electrical appliances.[13] *Operation Polar Cap* (see exhibit 3) investigated an operation that involved flying boxes of cash labeled as jewelry from New York to Los Angeles.

While some smugglers in a hurry may remove drug cash from the country "as is" in small bills, other situations require the exchange of the small-denomination U.S. bills for larger bills, cashier's checks, money orders, traveler's checks, or similar negotiable instruments. The process is simple: the money launderer receives the street money, then hires any number of persons to make the exchanges at different banks, post offices, check cashing services, and other establishments. Atlantic City casinos, for example, were the banks of choice for Baltimore heroin wholesaler Maurice "Peanut" King, who used cashier's checks issued by casinos to open an investment account with a Baltimore-based securities firm.[14]

Once the small bills are converted, the large bills, cashier's checks, or other instruments may be sent out of the United States by mail, commercial shipping or aircraft, or courier. As a relatively minor example, U.S. Customs agents, during one preboarding passenger check of a Miami to Bogota flight, discovered a woman carrying several cashier's checks that amounted to less than $10,000 each but that totaled more than $40,000. Another $40,000 in cash was found, some sewn into the lining of her purse and some taped under her arms.[15]

Electronic funds transfers. An alternative to physically removing money from the country is to deposit the cash, then transfer the funds electronically to other domestic and foreign banks, financial institutions, or securities accounts. Swiss law enforcement officials report that when money is transferred by wire to Switzerland, it seldom comes directly from the country of origin; rather it is "prewashed" in a third country such as Panama, the Bahamas, the Cayman Islands, or Luxembourg.[16]

The case of money launderer Hernan Botero illustrates how money was laundered by bribing U.S. bank officers to accept and wire hundreds of thousands of dollars a day. In late 1979, Botero told officers of the Landmark First National Bank in Plantation, Florida, that he needed to remove cash from the United States quickly and deposit it into Colombian banks without the knowledge of U.S. authorities. Botero opened five accounts, using false passport identification numbers and forged signature cards. He stated his intent to deposit approximately $400,000 cash each day of the banking month. For a commission of three-quarters of 1 percent, bank officials either failed to file or failed to prepare CTR's on deposits for Botero's organization. They also wired the funds to other banks, usually the Pan American Bank or the Bankers Trust Company in Miami. Later, Botero's people switched to obtaining cashier's checks, which were mailed to various banks via Postal Service Express Mail.[17]

In another case, drug traffickers in 1980 and 1981 bribed officers of the Great American Bank in Miami to perform similar services and laundered $94 million over a period of 13 months.[18] In the *Pizza Connection* case involving a laundering operation run by Sicilian Mafia members, vast sums of heroin and cocaine profits were transferred from established New York banks to Switzerland and Italy (see exhibit 2). Another variation on the use of wire transfers is to make single large deposits in rural U.S. banks, transfer the funds by wire to a central account, then transfer the whole amount again in a single transaction.[19] *Operation Cash Crop* (see exhibit 4) uncovered this technique, among others.

Bank-to-bank transfers of illegal funds can also be accomplished easily with the complicity of bank officials. The bank transfers funds by wire between its own (rather than a customer's) account and accounts in correspondent banks, making the laundering of personal funds appear as legitimate bank business. Without other leads, bank-to-bank transfers of illegally obtained funds are almost impossible to distinguish from normal banking transactions. Furthermore, the sheer volume of all wire transfers made and the speed with which they are accomplished, make it extremely difficult to trace these funds or document their illegal nature. A major bank in New York, for example, reportedly handles about 40,000 wire transfers each business day; the average transfer totals $3 million.[20]

Currency exchanges. Another way to move drug money out of the United States is by using *casas de cambio*, money-changing houses found throughout the South American countries and Mexico, along the border between Texas and Mexico, and in Houston, Texas. The *casas* were virtually unknown and unregulated 10 years ago. When commercial banks increased their compliance with CTR requirements, and when U.S. law enforcement began vigorously applying asset forfeiture laws, many drug traffickers began taking their money to the *casas*.[21]

The *casas* pool many customers' funds in their own accounts in U.S. or foreign banks and keep their own records of the amounts owed to each customer. When a foreign drug trafficker wants to send money to his own country, the *casa* operator wires the funds from its bank to the trafficker's foreign account(s). Even when a U.S. bank completes a CTR, it names the *casa* as the owner of the funds, not the actual owner. In the Houston area, *giro* (wire) houses are found in addition to the *casas*. In general, the *giros* move drug money to Colombia, while the *casas* move Mexican drug money.[22]

Arizona and Texas have recently enacted laws to license *casas*.

Exhibit 3. **Operation Polar Cap**

In March 1989, Federal agents with search warrants seized three boxes of documents from the New York City branch of Continental Illinois Bank. This seizure was the culmination of a 2-year investigation that broke up a Colombian Medellin cartel money laundering organization operating in Europe, South America, and the United States.[23]

Colombian cocaine manufactured by the Medellin cartel was sold on the streets of New York. The cash from these sales was packed in boxes, labeled as jewelry, and delivered by armored car to La Guardia Airport for shipment to Los Angeles.

The money was then delivered to nearby banks and deposited as if it were the proceeds of jewelry sales. It was then transferred by wire back to New York banks. These unsuspecting banks wired the money to accounts in other New York banks. The money was then transferred by wire to banks in Colombia.[24]

During the first phase of the investigation, 127 persons were arrested. A Federal grand jury in Atlanta returned indictments against two South American banks, charging involvement in laundering more than $300 million in drug proceeds in the United States. In the most recent phase, as of November 25, 1991, 50 persons in 5 States were charged with operating a coast-to-coast ring. So far, more than $10 million in cash and bank accounts has been seized.

Legitimizing and repatriating illegal funds

After the illegal funds have been removed from the United States, the second phase of money laundering begins. This second phase involves legitimizing the income from illegal sources so that it appears to be the product of legal business or personal transactions. The legitimizing process continues into the third money laundering phase, when funds are repatriated and invested in businesses and in personal and real property back in the United States. In some instances, the principals may willingly pay taxes on their profits (or file returns that use allowable deductions to avoid taxes). In other situations, complete avoidance of taxes is an important objective.

Using tax havens. The operation of the Perlowin Organization provides one example of an illegal enterprise that was strongly motivated to avoid the IRS. The organization, headed by Bruce Perlowin, was a large international marijuana-importing group based in California and Florida. Theodore Koury and Charles W. Broun, Jr., were financial advisers to the organization, helping it conceal its drug profits by establishing numerous bank accounts, corporations, trusts, and other entities throughout the United States and in foreign countries. Many of these entities were established in the Cayman Islands, the Netherlands Antilles, and Luxembourg, where strict bank secrecy laws effectively prohibited scrutiny of the accounts by law enforcement agencies. Eventually, the funds in these accounts were wired back to the United States to a corporation controlled by the Perlowin Organization. The incoming funds were shown on the books of the corporation as loans from a foreign company or bank. Perlowin eventually forfeited to the U.S. Government a home in California valued at $3.4 million as well as his interests in more than 20 foreign and domestic corporations, trust accounts, and other entities.[25]

Operation Cash Crop (see exhibit 4) offers another example of how money can be channeled through foreign corporations. Finally, the BCCI case currently under investigation reveals a tangled conspiracy involving offshore banks, shell corporations, holding companies, bank takeovers, and an international cast of thousands.

Domestic business ventures. In the third phase of international money laundering,

Exhibit 4. **Operation Cash Crop**

The case focused on the Juan Jose Quintero-Payan organization centered in Guadalajara, Mexico, and the Juan Frank Garcia organization centered in Texas. Quintero was the Mexican source, Garcia the wholesale Texas customer. From Texas, these drugs were distributed throughout the United States. This RICO enterprise used propane tanker trucks, airplanes, and tractor trailers to move its drugs from Mexico to Texas at a rate of 250,000 pounds a year.

The millions of dollars generated by this organization were laundered in three ways: (1) smurfing the money into banks using the $9,500 deposit or check purchase scheme; (2) loan laundering, whereby huge amounts of currency became collateral for huge loans, the proceeds of which were passed through another account to become cashiers' checks, then used to buy land 400 miles away; and (3) the international laundry, where huge sums of money were deposited in various banks in Texas and California, then collected in a single bank, converted to cashier's checks, carried to the Cayman Islands and used to establish two shell corporations, and then transferred back to the United States in the names of the shell companies.

The investigation took about 3 years to complete, and resulted in the indictment of about 100 people, corporations, banks, and bankers in Federal and Texas courts. About $30 million in assets have been seized, the crown jewel of which was $6.8 million from a single bank. At the time of this seizure it was, and may still be, the largest single seizure of drug-related bank accounts in the history of the country. Massive multidecade sentences were assessed against the numerous persons convicted, the longest being 50 years without parole.

illegally acquired funds may be imported from their foreign resting places and manipulated through U.S. businesses and financial institutions.

Real estate transactions offer excellent money laundering opportunities. For example, for a property worth $3 million, a money launderer offers to pay the seller $2 million in a visible transaction and $1 million under the table in cash. The launderer then sells the property for the fair market value of $3 million. The $1 million "profit" that the launderer makes is really only the drug cash that has been cycled through the deal. He can now pay (or avoid) taxes on this profit and achieve an aura of legitimacy.

In a different scenario, the launderer pays $2 million for a property, which represents fair market value. He then proceeds to sell the property. He finds a buyer and gives that buyer $1 million. The buyer then pays $3 million for the property ($2 million representing fair market value plus the $1 million that the launderer has just given him). Again, the launderer shows a "profit" on which taxes may be paid or avoided. But this time the transaction has artificially inflated the value of the property, priming the next buyer to overpay and leaving any legitimate lender vulnerable. Such schemes not only effectively launder illicit funds, but can also have devastating effects on a community's real estate market.

The real estate development process also offers many opportunities to launder money. For example, a launderer buys a piece of land worth $1 million and openly contracts for $4 million in improvements. He then secretly pays another $2 million in cash (drug money) for further improvements to contractors who want to avoid taxes. If the launderer sells the property for the $7 million he has now invested, he pays (or avoids) taxes on his apparent profit (the $2 million in drug money) and appears to be conducting legitimate business.[26]

The descriptions above are relatively simple: they do not reflect the other illegal activities that may come into play in such deals. These include obtaining false titles, arranging false credit, and securing false loans from foreign and domestic financial institutions and corporations. The deals may also involve purchases by and sales to "straw," or phony, corporations or individuals. Finally, money launderers may bribe bank officers, appraisers, public officials, or virtually anyone in a position to move funds or otherwise influence the outcomes of these transactions.

Other investments preferred by money launderers are businesses that commonly deal in cash and have relatively fixed operating costs. Import/export firms, bars and restaurants, movie theaters, travel agencies, and various service businesses meet these requirements. Money may be laundered by overstating cash receipts, selling fictitious goods or services to an accomplice, preparing false bills of lading, paying "ghost" employees, and many other ploys. FBI speakers at the conference discussed the *Lavin* case at length to illustrate some of these techniques (see exhibit 5).

Setting research priorities

To elicit recommendations for research on international money laundering, NIJ sponsored a special discussion group at the May 1991 international money laundering conference. Participants were encouraged to interpret the term "research" broadly when considering their needs, and to include policy and legal analyses as well as other problem-solving methods. They were also asked to focus on issues related to laws and regulations and cooperation between law enforcement and financial institutions.

Laws and regulations. To spur the discussion, participating countries were asked whether it would be helpful to receive, as a research product, the annotated text of a model money laundering statute. Most participants felt consensus on a model law would probably not be possible because of the diversity of legal traditions and legislative obstacles in the various countries. Further, many foreign representatives were concerned that the notion of a model law might actually be offensive to countries whose legal and cultural traditions have a history of incompatibility with U.S. or Western European law.

However, a number of participants recommended constructive alternatives to a model law. They agreed that a more useful research product would be a compendium that featured the experiences of various countries, discussed recent enforcement and compliance experiences, and presented an analysis of resources needed to effectively implement the measures described. These resources might include the number and specializations of additional personnel needed (such as financial analysts), in-service training curriculums for existing personnel, the development of bank transaction reporting data bases, and sample protocols for law enforcement to use in working with banks.

Law enforcement cooperation with financial institutions. To begin discussion of this issue, participants were asked whether it would be helpful to encourage financial institutions in their countries to provide information to law enforcement authorities on suspicious financial transactions. It was suggested that one way to do this might be to offer positive inducements for voluntary cooperation. For example, the U.S. Money Laundering Act exempts banks from privacy law penalties when they voluntarily contact the IRS with leads on suspicious transactions.

Participants expressed a strong interest in research on ways to foster optimum cooperation between law enforcement and financial institutions. However, since a number of participants noted that their countries already had laws facilitating bank cooperation, the group directed the discussion toward other approaches. Of particular interest was the concept of cross-training banking and law enforcement personnel. The group consensus was that a study of such efforts should focus on training financial personnel about regulatory compliance and the provision of investigative leads, and should educate law enforcement personnel about banking operations.

Several efforts to provide cross-training in other countries were noted. In England, the police, the British Bankers' Association, and the Building Societies Association (a savings and loan) have developed a comprehensive set of guidelines for banks to follow in cases where they suspect money laundering by account holders. The guidelines cover all banking and deposit activities of financial institutions in the United Kingdom. An appendix to the guidelines gives several examples of money laundering techniques and provides a form for reporting suspicious activity.

In Canada and Germany, increased cooperation is also being achieved by cross-training police and bank officers to better understand money laundering detection and related problems. The Canadian model involves temporary assignments of bank personnel to police agencies. In the United States, there has been some cross-training of bank personnel by the IRS. However, very few State and local law enforcement agencies in the United States have participated in cross-training efforts with personnel from financial institutions.

Exhibit 5. **Dr. Snow**

This case involved a 60-kilogram-per-year cocaine distribution network. Headquartered in Philadelphia, the drug ring was headed by a 26-year-old dentist, Larry Lavin (nicknamed "Dr. Snow"). Lavin came to the FBI's attention in 1982 during a bankruptcy fraud investigation of an entrepreneur named Mark Stewart. Stewart had nearly 40 businesses, including a sports arena, a recording company, and a record promotion company (Larmark, for Larry and Mark). The arena paid Lavin a $25,000 salary, and many of the other businesses frequently issued checks to Lavin and some of his accomplices.

Lavin began dealing drugs in college. Before he graduated from dental school, he was netting about $60,000 a month in cocaine profits and had started using Stewart to launder money. Lavin continued to expand his drug empire for the next few years, at the same time investing in real estate and antique furniture, playing the stock market, living an extravagant lifestyle, and operating a small dental practice.

By the time he was indicted in 1984 under the "drug kingpin" statute, Lavin had personally reaped an estimated $6 million from his drug operations. After his indictment, he fled to Virginia Beach, Virginia, where he created false identities and purchased real estate, a boat, and mutual funds. He was caught 18 months later, in 1986. The case resulted in 83 indictments and 83 convictions on numerous Federal charges. Lavin was sentenced to 22 years after pleading guilty to five counts of drug conspiracy, and received a 20-year sentence for tax evasion.[27]

Future research objectives

NIJ is currently sponsoring a national assessment of methods to effectively combat money laundering in the United States.[28] Although the assessment does not have an international focus, the research will lay a foundation for broader studies by addressing the following key issues:

- The nature and patterns of money laundering offenses, characteristics of offenders, and circumstances that facilitate the occurrence of these offenses.
- The means by which regulatory and criminal justice agencies ensure the compliance of financial institutions with money laundering statutes.
- Effective Federal, State, and local enforcement approaches for detecting, investigating, and prosecuting money laundering crimes.
- Effective means to gain the cooperation of law enforcement agencies in different countries in money laundering investigations.

A developmental FBI conference on emerging economic crimes in November 1991 was valuable to the Institute in developing its research agenda. The Institute is also exploring ways to improve cooperation between law enforcement and the banking industry, and may hold another developmental conference on this topic in 1992.

Finally, the need for a stronger emphasis on international research is clear. In 1992, with the creation of the new European Community, countries throughout Europe will be dropping barriers at their borders, expediting the flow of goods and persons. Unfortunately, this sweeping change will also provide new opportunities for the unimpeded movement of illegal drugs and illegally obtained currency. As the participating European countries deal with these issues, an unprecedented research opportunity will be created.

NIJ acknowledges the assistance of the Money Laundering Section, Criminal Division, U.S. Department of Justice in reviewing this document. The Money Laundering Section, among other responsibilities, investigates and prosecutes money laundering offenses, and provides advice and guidance to U.S. Attorneys' Offices in money laundering litigation and forfeiture actions.

Notes

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5. National Institute of Justice, *1991 Research Plan*, "Multijurisdictional Task Forces," p. 53.

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28. This assessment will be conducted for NIJ by the Police Executive Research Forum and is scheduled for completion by December 1992.

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