On the elaboration and possible conclusion of the agreement to prevent, detect and suppress the committing of doubtful financial transactions by participants of foreign economic activities

Contribution
by

Federal Customs Service of the Russian Federation
The Federal Customs Service

Presentation by Head of Section, Department of trade prohibitions and restrictions, currency and export control of the Federal Customs Service
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WCO Study Report on Illicit Financial Flows via Trade Misinvoicing

Executive Summary

PRINCIPLE CONCLUSIONS AND RECOMMENDATIONS

Acknowledging the various forms that IFFs can take, this Study Report places a particular focus on IFFs via deliberate trade mis-invoicing, as tasked by the G20. The high estimates of IFFs via trade mis-invoicing (IFFs/TM) which feature prominently in current literature, research and even media outlets, should not be understood as a reliable quantitative measurement of the scale of IFFs/TM, but rather as a risk indicator, which can be useful in comparing the risk of IFFs/TM across commodities, countries and over a longer time period.

Although the scale of IFFs/TM has been much debated, the issue of how to detect IFFs/TM has not been properly examined. The results yielded from this innovative research, considering the paucity of transaction-level data available to researchers, suggest that cross-referencing the two principle methods currently used to estimate the magnitude of IFFs, i.e. the Price Filter Methods and Partner Country Methods, can be an effective method to detect trade transactions where mis-invoicing is already suspected. Moreover, this Report concludes that the suspected trade transactions identified by trade data analysis should be the subject of further investigation by Customs administrations.

Based on the best practices to combat IFFs/TM featured in this Report, the WCO recommends that Members:

1. Ensure that Customs have a **sufficient mandate and the resources necessary** to tackle not only under-invoiced imports intended to evade Customs duty, but also over-invoiced imports intended to disguise capital flight as a form of trade payment, under-invoiced exports intended to conceal trade profit abroad such as tax havens, and over-invoiced exports intended to bring illicit proceeds into the domestic legal financial system.

2. Raise awareness of IFFs/TM, and provide capacity building training and development using WCO instruments and tools.

3. Provide financial and human resources for Customs to combat IFFs/TM. Customs should enhance integrity within their human resource departments as it is a pre-requisite for the effective and efficient functioning of a Customs administration, and
International standards on money laundering, terrorist financing and proliferation

G. INTERNATIONAL COOPERATION

37. Mutual legal assistance

Countries should rapidly, constructively and effectively provide the widest possible range of mutual legal assistance in relation to money laundering, associated predicate offences and terrorist financing investigations, prosecutions, and related proceedings. Countries should have an adequate legal basis for providing assistance and, where appropriate, should have in place treaties, arrangements or other mechanisms to enhance cooperation. In particular, countries should:

(a) Not prohibit, or place unreasonable or unduly restrictive conditions on, the provision of mutual legal assistance.

(b) Ensure that they have clear and efficient processes for the timely prioritisation and execution of mutual legal assistance requests. Countries should use a central authority, or another established official mechanism, for effective transmission and execution of requests. To monitor progress on requests, a case management system should be maintained.

40. Other forms of international cooperation

Countries should ensure that their competent authorities can rapidly, constructively and effectively provide the widest range of international cooperation in relation to money laundering, associated predicate offences and terrorist financing.
Analytical functions, performed by customs authorities to prevent the illegal outflow of capital

Analysis of foreign trade companies and their gradation according to the risk of law violation and performance of suspicions operations

Analysis of specific transactions to identify suspicions operations

Gradation of foreign trade contracts according to the risk of performance of suspicions operations

information base
The Central Bank of the Russian Federation and authorized banks

Interaction of the Federal Customs Service of the Russian Federation with the Central Bank of the Russian Federation and authorized banks

Information exchange under the agreement is conducted via a closed communication channel.

Declaration on goods

Unique contract number, bank currency control sheet

The Federal Customs Service

Authorized banks
Cooperation of customs and tax authorities to combat illegal activities of shell companies

From 2016 till now 893 shell legal entities have been excluded from the Register. Suspicious foreign trade operations in the amount of over 3,6 bn US dollars have been prevented.
In 2019 the amount of suspicions foreign trade operations decreased from 2.4 bn rubles to 1.3 bn rubles. Illegal transactions in the amount of 3 bn US dollars were prevented.

The price is twice as high as the price for similar or identical goods.

Customs procedures:
- 40 (no duties or taxes), 53, 70, 78, 93, 94
- paid transaction
- Price for the goods exceeds 200.00 rubles

Extra analysis

Accumulation and integration of data

Monitoring of declarations

daily

Bank of Russia

Refusal to make payments

Central office of the Federal Customs Service

Analysis of price information to reveal overinvoicing of imports
The scheme of interaction by the Federal Customs Service of the Russian Federation with foreign competent authorities in the field of combating suspicious financial transactions.

A Russian company

The Tax Service
- state registration
- risk-management system

The Central Bank
- combating money laundering
- risk-management system

FIU

The Federal Customs Service

Agreement on prevention, detection and combating suspicious financial transactions of international business participants.

Courts Services

information about goods

Registration information

A Swiss company

Tax Service

➢ state registration
➢ risk-management system

➢ combating money laundering
➢ risk-management system

➢ control currency transactions
➢ risk-management system
The Federal Customs Service initiated conclusion of bilateral agreements with foreign competent bodies to prevent, detect and suppress the committing of doubtful financial transactions.
Financial Action Task Force on Money Laundering

Authorized bodies of 34 foreign states

Switzerland

Czech

Spain

Russian Federation

The Federal Customs Service

INTERNATIONAL STANDARDS ON COMBATING MONEY LAUNDERING AND THE FINANCING OF TERRORISM & PROLIFERATION

The FATF Recommendations

37. Mutual legal assistance

40. Other forms of international cooperation
AGREEMENT on prevention, detection and control of suspicious financial operations between the Federal Customs Service of the Russian Federation and Customs service of the Government of the Republic of Tajikistan

Signed in Moscow on October 24, 2019
Examples of suspicious currency transactions

Thermoplast automatic machine (molding lithium) trademark: OIMA model: TPI-500
company has never produced or shipped the above-mentioned goods to the Russian Federation.

Referring to your request we can inform you that the company Novestica OU is registered in the Estonian Commercial Register (printouts from the register enclosed). Novestica OU is not active on Estonian territory.

The market value is more than 4 times overstated (2 600 000 евро versus 540 000 евро)

The customs authorities initiated a criminal case under article 193.1 of the Russian criminal code (currency transactions by use of false documents), the result of which was a conviction against a citizen of the Russian Federation.
Examples of suspicious currency transactions

By a court decision Pinta and Trader companies were forbidden to import or enter into civil circulation on the territory of Russia of the goods containing trademarks «KIA», «鸺» and the use of these trademarks.

In addition, the consignors specified in thee B/L have no export declaration record under the B/L 'DBSLDC180603003' and 'DBSLDC180715003'. It means that other exporters submitted export declaration to Korea Customs and after clearance, they issued and submitted B/L and outbound manifest under the name of two business abovementioned.
Import duties and VAT are not levied

Small-size goods, hard to identify

Multiple overpricing

Export of goods by passing customs control

Reimport of goods with the purpose of capital outflow
Examples of suspicious currency transactions

An organized criminal group has been uncovered, multiple episodes of been criminal activities have revealed, police agencies on February 22, 2019 initiated a criminal case (part 1, article 210 of the Russian criminal code).

At the same time competent agencies of Germany are investigating foreign counterpart to find possible facts of money laundering.

The representative of the company also stated, that she did not have any confirmation that the company would took over or paid for the goods, and the goods should have been returned to the supplier. The company in the delivered statement about this case stated that no business case took place in reality, and therefore they do not have any documents to be submitted. Apart from others, the representative of the company also stated that she doesn’t know the company which is declared at the Russian import customs declaration as the exporter.

In the provided statement the company stated that they do not know about export of such goods to the Russian Federation and because they did not realise this export, they are not able to submit any invoices or other documents.
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