

# **Green Crime and Anti-Money Laundering: The Threat and Consequences of Crimes Against the Environment**



## Financial Services

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The threat of environmental malfeasance — “Green Crime” — has reached a global crisis stage, with an illegal industry of trade estimated to be worth nearly \$250 billion per year. The global nature of the crimes, alarming pace of growth, severe environmental consequences, and the complexity of criminal networks have demanded recognition by the international financial crime community.

Green Crime is illegal activity that involves the environment, biodiversity, or natural resources. There are generally five types of major environmental crime: illegal logging, fishing, and mining, and crimes that harm wildlife and generate pollution.

The growth rate of Green Crime is alarming; according to estimates taken in 2016 by the United Nations Environment Programme, resources worth \$91 billion to \$258 billion annually were being stolen by criminals.<sup>1</sup> This would make Green Crime the world's fourth-most lucrative criminal undertaking, after illegal drugs, human trafficking, and counterfeiting.

**In addition, Green Crime is estimated to be growing by 5%-7% each year, which is 2–3 times the rate of the global economy.<sup>2</sup>**

Learn how financial institutions and regulators are targeting Green Crime through focused investigations and heightened Know Your Customer (KYC) reviews with the goal of uncovering exposure and pockets of elevated customer risk.

## Traffickers Bag Profits with Little Resistance as Green Crime Fighters Face Obstacles

Criminal networks are involved in Green Crime because of customer demand, which is driven by two primary factors: 1) perceived status or wealth, and/or 2) perceived medicinal or health benefits. For example, the current economic value of a rhino horn on the black market exceeds the prices of gold, diamonds, or cocaine.<sup>3</sup>

In addition to consumer demand, Green Crimes are often not only very profitable, but also involve lower risks for criminals. The law enforcement efforts and penalties for environmental crimes are perceived as inferior to enforcement campaigns for illegal drugs or human trafficking offenses. In many countries around the world, Green Crimes have not been considered a high priority, often due to a lack of awareness.

The penalties and fines for Green Crime offenses are usually significantly less than those related to anti-money laundering and the financing of terrorism. However, in 2016, 31 countries agreed to treat wildlife trafficking offenses the same as money laundering.

In the United States, the Lacey Act, passed in 1900, was the first federal law protecting wildlife and has been the fundamental law against illegal trafficking. The law's intent is to tie penalties to how much a

company profits from illegal activities. In October 2016, Congress also passed the Eliminate, Neutralize, and Disrupt (END) Wildlife Trafficking Act, which allows prosecutors to use wildlife trafficking as a predicate offense for prosecuting a money laundering crime. Money laundering is also considered a racketeering activity under the Racketeering Influenced and Corrupt Organizations (RICO) Act, which could allow prosecutors to pursue criminal kingpins rather than only the lower-level poachers and traders.

However, at the international level, financial crime details aren't always a primary focus of Green Crime investigations. Enforcing poaching or logging regulations at the lowest level of the criminal network is often so challenging that authorities can't link the crime to the financing and money-laundering aspects higher up the chain. According to a 2016 report by the Eastern and Southern Africa Anti-Money Laundering Group, “The majority of the cases reported indicated that the persons involved were only charged for the offences of trafficking ... overlooking the aspect of money laundering.”<sup>4</sup>

1. Nellemann C., et al., (eds) (2016), “The Rise of Environmental Crime: Growing Threat to Natural Resources, Peace, Development and Security,” A UNEP/INTERPOL Rapid Response Assessment. United Nations Environment Programme and RHIPTO Rapid Response, Norwegian Center for Global Analyses, [http://wedocs.unep.org/bitstream/handle/20.500.11822/7662/-The rise of environmental crime A growing threat to natural resources peace%2C development and security-2016environmental crimes.pdf.pdf?sequence=3&isAllowed=y](http://wedocs.unep.org/bitstream/handle/20.500.11822/7662/-The%20rise%20of%20environmental%20crime%20A%20growing%20threat%20to%20natural%20resources%20development%20and%20security-2016environmental%20crimes.pdf.pdf?sequence=3&isAllowed=y).
2. “Environmental crimes are on the rise, so are efforts to prevent them,” UN Environment Programme, <https://www.unenvironment.org/news-and-stories/story/environmental-crimes-are-rise-so-are-efforts-prevent-them>.
3. USAID, “What Drives Demand for Wildlife,” <https://www.usaidwildlifeasia.org/resources/reports/what-drives-demand-for-wildlife>.
4. David Feige, “Wildlife traffickers eye money laundering,” Fraud Magazine, March 2018, <https://www.fraud-magazine.com/article.aspx?id=4295001665>.

## Green Crime is About More Than the Money

Green Crime can lead to wide-ranging and lasting damage, such as climate change and the extinction of wildlife species, costs that are heaped onto future generations. Green Crime can also fuel political corruption.

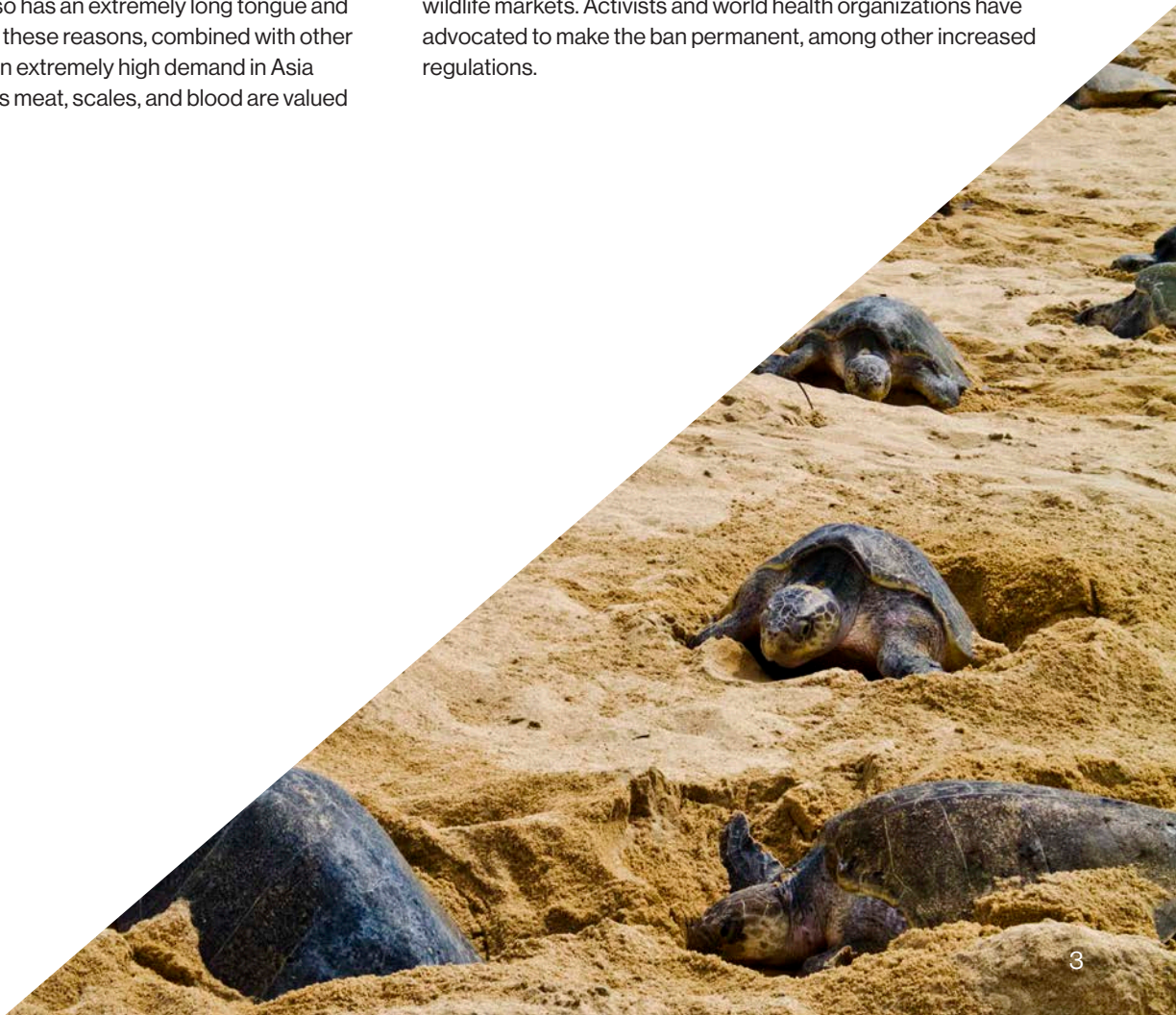
Illegal logging, for example, is one part of a very complex collection of problems which, when combined, amount to a worldwide deforestation crisis. Illegal logging within the timber industry can accelerate deforestation, leading to climate change and negative effects on forest ecosystems. The harvesting, shipping, and trading of illegal timber is coordinated by sophisticated criminal networks. The power and influence of illegal logging groups is widespread and often connected to other crimes, including fraud, kidnapping, bribery, extortion, etc. Environmental journalists have documented alleged murders, disappearances, and kidnappings of conservationists seeking to protect endangered species threatened by businesses such as logging.

Wildlife trafficking has escalated into an international crisis. A prime example of the growth of wildlife trafficking is the pangolin, which has quickly become the world's most trafficked and illegally traded animal. The pangolin resembles a cross between an armadillo and an anteater. It is unique because it is the only mammal with a body covered entirely by ridged, hard-plated scales that fit neatly together, like an artichoke. It also has an extremely long tongue and lives on an insect-only diet. For these reasons, combined with other cultural beliefs, the pangolin is in extremely high demand in Asia and Africa, where the pangolin's meat, scales, and blood are valued

as an exotic culinary delicacy, or used in health treatments. The pangolin is used in both "traditional" medicine (registered for use by pharmaceutical companies) and folk remedies. In China, the scales are believed to cure arthritis, acne, skin disorders, and cancer. Depending on location and market factors, pangolin scales can cost between \$300 and \$3,000 per kilogram.

It is estimated that more than one million pangolins have been poached and traded during the past decade. In 2016, the international community reacted to the pangolin crisis by announcing an agreement between 180 international governments to end all legal trade of pangolins and attempt to further protect the species from extinction via the international Convention on International Trade in Endangered Species agreement. Despite the added protections, the pangolin faces severe threats from the thriving black-market trade.

The wildlife trade has also been linked to virus outbreaks that have endangered human health, such as the coronavirus, which is thought to have originated in a wildlife market in Wuhan, China. Some researchers suspect that bats, or possibly the pangolin, could have been the source of the coronavirus, which has infected and killed thousands of people since the outbreak began in December 2019. In response, China introduced a temporary ban on similar wildlife markets. Activists and world health organizations have advocated to make the ban permanent, among other increased regulations.





## Regulators Increase Efforts to Net Traffickers Via Heightened AML Directives

How are financial crime authorities and institutions seeking to improve prevention efforts despite ineffective laws and regulations, ill-prepared or uncoordinated anti-trafficking groups, and minimal funding?

In October of 2019, the Financial Action Task Force (FATF) reached an agreement to fight money laundering linked to the illegal wildlife trade. The international group stated, "The FATF will work to develop good practices in tackling the financial flows linked to illegal wildlife trade. This project will analyze common supply chains and payment methods, as well as case studies from countries that have experience in investigating the financial flows from illegal wildlife trade."

INTERPOL (the International Criminal Police Organization) established a specialized Environmental Security Unit (ESU) with four global enforcement teams devoted to fisheries, forestry, pollution, and wildlife. The ESU provides investigative support to international cases with targets and criminal networks involved in Green Crime.

The United for Wildlife Financial Task Force was launched in 2019 by the UK's Royal Foundation, in coordination with Standard Chartered Bank, to target organized crime and the illegal wildlife trade. United for Wildlife works with conservation groups, international governments, and global corporations to focus on the protection of endangered species like elephants, rhinos, tigers, and pangolins.

The 2020 FATF Recommendations for global standards are expected to include an emphasis on fighting Green Crime. The European Union has also focused on environmental crime in the forthcoming 6th EU Anti-Money Laundering Directive, expected to be released in December 2020.

Financial crime authorities have attempted to increase awareness, improve coordination, and encourage intelligence-sharing between global authorities. Previous efforts have failed for many reasons, but most likely due to ineffective laws and regulations, ill-prepared or uncoordinated anti-trafficking groups, and a lack of funding.

## New Forensic Techniques Help Investigators Help Wildlife

Authorities have discovered new forensic techniques to aid criminal investigations. A method of lifting fingerprints from trafficked animals is expected to allow law enforcement to more easily identify persons of interest. Researchers at the UK's University of Portsmouth and international conservation charity Zoological Society of London developed the method with the pangolin crisis in mind. The breakthrough involves using a gel adhesive and an imaging scanner to obtain digital fingerprints. Researchers have even created fingerprint packs that can be used in the field by park rangers or other officials, to collect crucial evidence.

## Identifying Red AML Flags in Green Crime

When viewing potential Green Crime from the perspective of a financial institution, the primary challenge with most investigations is that the illegal transactions are very difficult to distinguish from legal ones. Criminal networks structure their operations so that environmental crimes frequently occur as consequences of a legitimate business. For example, it is far more likely that a logging operator will harvest timber in one legally designated area, and then also harvest timber illegally in a nearby restricted area under the guise of the legal operation, as opposed to a scenario in which in an illegitimate logger will enter a forest area and "steal" trees outright without any legitimate infrastructure.

In addition, authorities believe that the low-level activities are conducted as cash transactions, but criminal networks may establish shell companies to serve as shipping and logistics agents.

At higher levels of the trade, international trafficking networks may maintain multicountry accounts that conduct cross-border payments through correspondent banking products. In this way, criminals can transport illicit wildlife products while hiding the beneficial ownership and conducting transactions across many jurisdictions.

Financial institutions that do business with or maintain accounts for individuals or legal entities operating in environmental fields should implement enhanced due diligence, monitoring, and KYC measures. Financial institutions should also consider reviewing payment methods for these types of entities to ensure that transactions are consistent with regular business activities and that transactions contain valid information on customs and shipping documents.





## Arm Your Organization to Fight Green Crime

The endangering of the pangolin, the spread of the coronavirus, and increased deforestation evidence that wildlife trafficking has reached epidemic levels. Financial institutions should therefore have strong compliance program controls to address and mitigate the risk of their services being leveraged to facilitate the illegal activities involved in these incidents.

To protect themselves, financial institutions should conduct thorough risk assessments and perform targeted investigations and/or KYC reviews of higher-risk accounts in green industries or those closely related to green industries, to determine potential exposure to hidden pockets of elevated customer risk.

Institutions should investigate all red flags related to entities in the wildlife, environmental, or natural resources industries. This could include entities involved in businesses such as animal breeding, medical products, hunting, animal skins/furs used for fashion or furniture, or entities involved in any forest or timber resources. In addition, the logistics businesses that would service those types of entities should be reviewed, including the shipping, trucking, and warehousing of the associated products.

### **Proper identification and enhanced due diligence of customers with questionable intentions is essential. Red flags that may alert financial institutions to potential Green Crime can include:**



Inconsistent volume of transactions related to the scale of the business (indicating a potential front company for hidden black-market activities).



Unusual payment methods (poaching and other first-level activities are believed to be cash-intensive).



Unusual payment routes (from a remote natural resource or wildlife-specific area to a financial center).



Unusual payment behaviors (insufficient shipping documents, transactions that don't have an economic purpose, unknown source of funds, etc.).

## Final Thoughts

Financial institutions should consider utilizing advanced data analytics and machine learning, where appropriate, to monitor transactional activity and systematically segment customers by behavior. By using behavioral analytics, an institution can segment customers into groups that behave similarly with respect to their transactions. Once customers have been segmented by transaction behavior, detecting unusual behavior can become easier. More importantly, suspicious activity alerts tend to include more genuine risk of potential illicit activity. For example, some authorities and wildlife groups have applied machine-learning techniques to search online social media platforms to identify black market listings. Financial institutions would benefit from using technology and data in a similar way, to detect the transactions and activity used to facilitate Green Crime.






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