

Why are Office Buildings and High-End Condos Being Built in Miami and Dubai When Half of the Equivalent Space is Empty?



**Value/Money Laundering:
Old Concepts Die Slow Deaths**

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Preliminary Remarks

- - 63.7% of all statistics cited by academics in presentations are either false or misleading.
- - Use of quantitative methods in most social sciences are of limited practical value.
- - Beware of collective nouns.

Common Words: Complex Meanings

- 1) Wealth

- 2) Assets

- 3) Power

4) Legal

5) Illegal

6) Outlaw

Law Enforcement and Private Investigations



Dilemma of the Modern Age

- - Business and crime are transnational, but law and regulatory enforcement tends to be national.
- - It is difficult enough to coordinate within one state; what happens when more than one is involved?
- - International organizations usually must act through member states (Interpol, IOSCO).
- - Only wealthy countries that share our goals can implement effective programs.

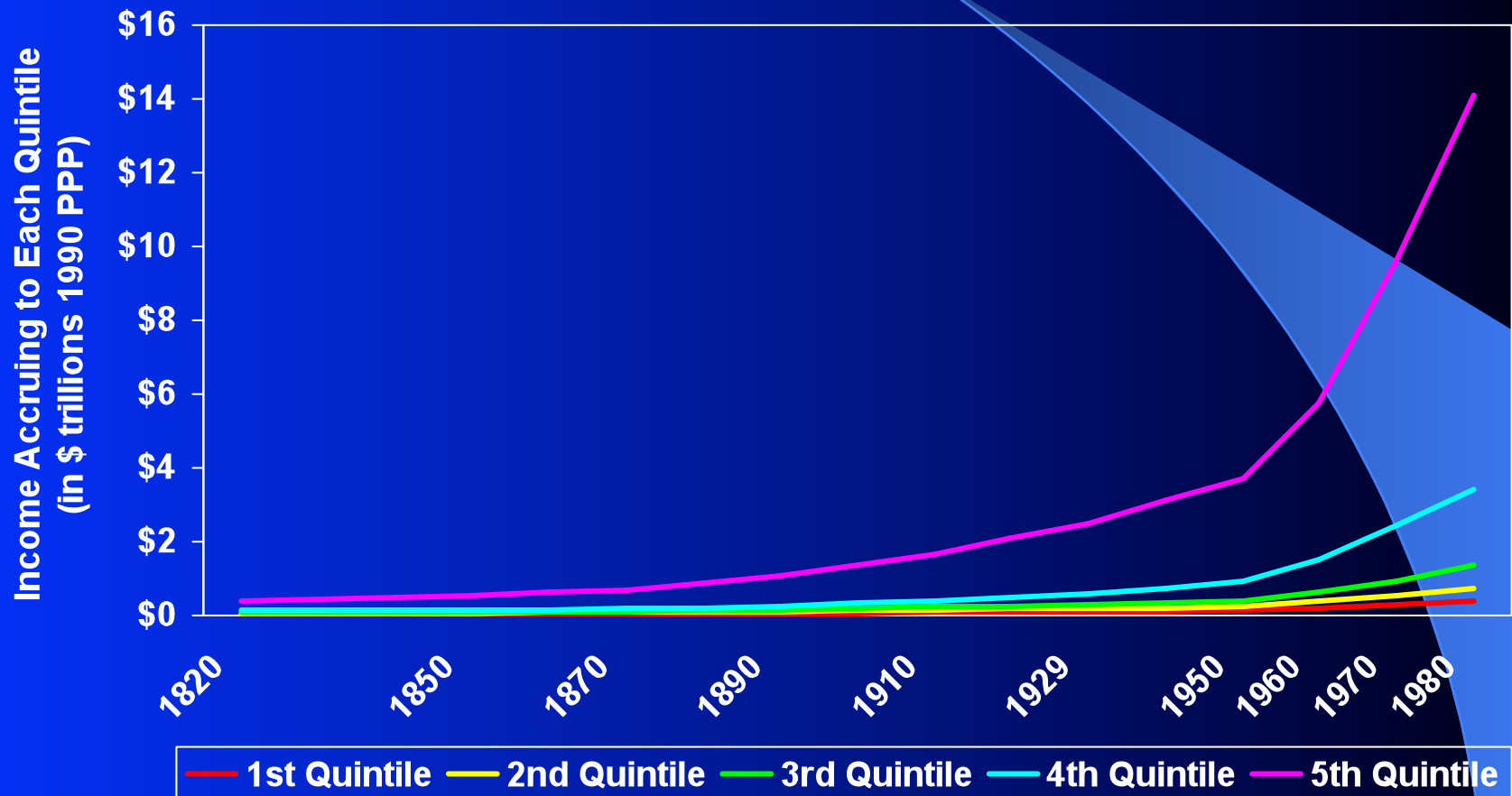
Three Traditional Stages of Money Laundering

- Stage 1 – Placement, moving the funds from direct association with the crime (remember not all large sums of money are obtained illicitly);
- Stage 2 – Layering, disguising the trail to foil pursuit; and,
- Stage 3 - Integration, making the money available to the criminal once again with its occupational and geographic origins hidden from view.

Money Laundering is facilitated by:

- TAX HAVENS
- OFFSHORE SECRECY JURISDICTIONS
- DISGUISED CORPORATIONS
- FLEE CLAUSES (If regulatory inquiries, move the money)
- SHELL BANKS
- ANONYMOUS TRUSTS
- FAKE FOUNDATIONS
- FALSE DOCUMENTATION
- MISPRICING IN UNRELATED-PARTY TRANSACTIONS
- ABUSIVE TRANSFER PRICING IN RELATED-PARTY TRANSACTIONS
- LOOPHOLES LEFT IN LAWS OF WESTERN COUNTRIES

ML Contributes to World Inequality 1820–1980. What are the Consequences? (Raymond W. Baker)



Money Laundering Centers

- - Nauru, Cayman Islands, Gibraltar, Jersey;
- - Austria, Latvia, Lichtenstein, Monaco, Switzerland; and
- - Britain, Canada, France, Italy, the U.S.

Principal Sources of Illicit Funds

- 1. Vice crimes – opportunity for organized crime (e.g. gambling. Narcotics);
- 2. Economic crime (cost minimizing by “legitimate business” and scams/fraud):
- 3. Corruption or exercise of power/ authority by elites (bribery and abuse of power).

Many governments (their officials and their proxies) earn their money from:

- Export of raw materials.
- Import tariffs & export duties.
- Licenses and business entities.

Query: Where do all the revenues go?

Some Consequences of Certain Governments Financed by Raw Material Exports

- - First, no “social contract” is formed between the government and the governed (though those exercising power must maintain good working relations with elite/oligarchy).
- - Second, no replication of *Magna Carta* conditions: There is no need to collect taxes paid by the populace in exchange for the provision of governmental services and the protection of civil/property/ human rights.

Existing Laws, Regulations and Structures May be Anachronisms

- Existing system focuses on narcotics, organized crime, and terrorism – fighting the last war?
- Organizations involved in the law enforcement process have a stake in the system and function as “interest groups” in the political and budgetary process.
- Porous borders, but the situation is made worse since central government doesn’t control (and often does not pay) local officials.

Why Own Real Estate?

- 1) as a home;
- 2) to generate rental income;
- 3) as an investment for future resale (speculation); and
- 4) as a form of insurance (holder of value).

Real estate can be a money laundering tool for creating paper trail between related parties. A legitimate source of income appears.

Consequence: Value is transferred below the radar screen.

Western Facilitators of Money Laundering and Other Illicit Activities

- Accounting Firms (tax havens and tax treaties) – when does tax avoidance become tax evasion? Ask KPMG.
- Banks – how can one know one's customer? How many layers must the onion be peeled? The problem of employee turnover remains.
- Law Firms – conflicts of interests and following the rules of professional responsibility (can lawyers be gatekeepers?).
- Real Estate Brokers – real estate can be a good place to place money if there is no crash.
- REMEMBER: ORGANIZATIONS ARE NOT UNITARY ACTORS.

U.S. Narcotics Control Strategy Report on Money Laundering

- Countries of Primary Concern – Russia, Latvia (but also Canada & Germany);
- Countries of Concern – Belarus, Uzbekistan (but also Poland & Saudi Arabia); and
- Countries Monitored – Armenia, Azerbaijan, Estonia, Georgia, Kazakhstan, Kyrgyz Republic, Lithuania, Moldova, Tajikistan & Turkmenistan (but also Denmark & Equatorial Guinea).

What is FATF?

- Setting standards for national anti-money laundering: concerns are narcotics, terrorism and organized crime;
- Evaluating the degree to which countries have implemented measures that meet those standards; and
- Identifying and studying money laundering and terrorist financing methods and trends.

What is the Egmont Group?

- Organization of Financial Intelligence Units – regular meetings, experience sharing, and establishing relationships;
- Evaluating the degree to which countries have implemented measures that meet those standards; and
- Identifying and studying money laundering and terrorist financing methods and trends.
- Query: How large is FINCEN (people? budget?)