



FATF REPORT

# Money Laundering from Fentanyl and Synthetic Opioids

November 2022





The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

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## Table of Acronyms

<b>AML/CFT</b>	Anti-money laundering/countering the financing of terrorism
<b>AMLO</b>	Asian Money Laundering Organisation
<b>DNFBP</b>	Designated non-financial businesses and professions
<b>FATF</b>	Financial Action Task Force
<b>FI</b>	Financial Institution
<b>FIU</b>	Financial Intelligence Unit
<b>ML</b>	Money Laundering
<b>MSB</b>	Money Service Business
<b>MVTS</b>	Money or Value Transfer Service
<b>OCG</b>	Organised Crime Group
<b>PML</b>	Professional Money Launderer
<b>PMLN</b>	Professional Money Laundering Network
<b>STR</b>	Suspicious Transaction Report
<b>TBML</b>	Trade-based Money Laundering
<b>VA/VASP</b>	Virtual Asset/Virtual Asset Service Provider

## Executive Summary

Organised crime groups are fuelling a synthetic opioid crisis, which has contributed to hundreds of thousands of deaths by overdose in the past decade. In Canada and the United States alone<sup>1</sup>, the trafficking of fentanyl is fuelling an overdose epidemic and claiming around 80 000 lives a year. In the Middle East and North Africa, sub-Saharan Africa and South Asia, tramadol (and other similar drugs) are causing regional public health emergencies with growing rates of addiction to illicitly obtained pharmaceutical opioids.

Synthetic opioids supply chains are diverse, and so are the methods used to launder the proceeds. There does not appear to be a single, global “business model”. Rather, the methods vary on a country-by-country and drug-by-drug basis.

Organised crime groups who traffic in synthetic opioids use a range of methods to move the illicit proceeds across borders. These include bulk cash smuggling; cash couriers; trade-based money laundering; un-authorized money or value transfer services or the banking system; and money brokers. Criminal groups also use dark web vendor sites to market their products and, in some cases, take payment through virtual assets, some of which are anonymity-enhancing. These virtual assets are often quickly converted into fiat currency. Traffickers use shell and front companies to launder proceeds, but also procure drugs, precursor chemicals and production equipment with the proceeds.

Whereas fentanyl was procured in the past directly from chemical producers, the class-wide scheduling of most fentanyl-related substances means that today, criminals use precursor chemicals to manufacture drugs such as fentanyl. This relatively recent trend can make it difficult to detect suspicious financial activity.

Like other forms of drug trafficking, professional money-laundering networks provide their services to drug traffickers and organised crime groups. For example, there is evidence that Asian money laundering organisations co-ordinate transfers of value, by using methods that do not require money to move directly across international borders (e.g., mirror and hawala-style transfers, and other money value transfer services).

Many authorities do not fully understand the global money flows from opioids, or do not know how to identify potential procurement of chemicals, or laboratory and other specialised production equipment. In some jurisdictions, relevant authorities and reporting entities such as banks and money value transfer services look at opioids trafficking through a domestic lens, whereas this illicit trade involves major transnational organised crime groups and professional money launderers.

To address these and other challenges, jurisdictions should consider implementing the following practices:

- Ensure more rigorous risk assessment practices to develop more robust legal and regulatory frameworks to combat illicit opioids. Competent authorities

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<sup>1</sup> Canada currently accounts for an estimated 6 300 fentanyl related opioid deaths per annum and the United States for 69 400. Center for Disease Control and Prevention (2022) “Month-ending Provisional Number of Drug Overdose Deaths by Drug or Drug Class: United States” and Parliament of Canada (2022) “The Opioid Crisis in Canada”.

should better co-ordinate and share information and intelligence on the methods used to launder the illicit proceeds from emerging drug trade.

- Prosecutors and law enforcement authorities, including those with extensive background in financial investigations (which could include financial intelligence units, customs and relevant anti-money laundering (AML) and counter terrorism financing (CFT) authorities), should obtain additional training on investigations into the financial elements of the precursor supply chain. The training should include knowledge of how companies (e.g., pharmaceutical and chemical importers) may be deliberately or unwittingly providing raw materials to organised criminal groups.
- Countries should, on a bilateral, regional, and multilateral basis, identify and leverage existing mechanisms to expand international co-operation on combating synthetic opioid supply chains.
- Countries should ensure that the private sector is aware of the risks of new technologies (including dark web marketplaces and digital assets) to launder the proceeds of drug trafficking and take appropriate measures to deny criminals access to their business platforms or products.

This report includes a comprehensive list of proposed actions to strengthen measures to address this deadly trade and risk indicators for operational authorities.



## Introduction

1. The organised criminal production and trafficking of synthetic opioids generates revenues worth tens of billions of dollars annually<sup>2</sup>, while overdoses kill tens of thousands each year<sup>3</sup>. Taking the profits out of synthetic opioid trafficking is one of the most effective ways to address a growing transnational crime and a public health emergency in several countries. Regrettably, investigations into and prosecutions of the laundering of proceeds from synthetic opioids trafficking remain low despite the staggering number of fatal overdoses and other public health incidents related to synthetic opioids around the world. Based on worldwide estimates, governments are seizing only a small fraction of the laundered funds, with authorities recovering less than 1% of proceeds of crime more generally through their criminal justice systems across all proceeds generating offences.<sup>4</sup> Complex criminal investigations of large-scale money laundering schemes and professional money laundering are rare in many jurisdictions. In a lot of cases, authorities pursue drug-related offences without a parallel financial investigation, often due to lack of prioritisation, resourcing, or legal authority.
2. According to the 2022 United Nations Office on Drugs and Crime (UNODC) World Drug Report (2022 WDR), there are two epidemics of the non-medical use of opioids: illicitly manufactured fentanyl in North America, and tramadol<sup>5</sup> in North and West Africa, the Middle East, as well as South-West Asia.<sup>6</sup> While currently limited to certain geographies, most if not all countries with existing mature markets for opioid use could be vulnerable to the introduction of synthetic opioids under certain conditions.<sup>7</sup> Many countries serve as the source or transit point for critical inputs —such as precursor chemicals or production equipment<sup>8</sup>— into the production of synthetic opioids, even if they are not major hubs of the manufacturing of the substances themselves. Meanwhile, OCGs who traditionally trafficked drugs have incorporated the trade of illicit synthetic

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<sup>2</sup> Eurojust (2021), “Eurojust Reporting on Drug Trafficking”,

<sup>3</sup> See: US Center for Disease Control and Prevention (2022) “Understanding the Drug Overdose Epidemic”; Canada (2022) “Opioid- and Stimulant-related Harms in Canada” and EMCDDA (2022) “Drug Overdose Deaths in Europe”.

<sup>4</sup> FATF (2022) “FATF and INTERPOL intensify global asset recovery,” [www.fatf-gafi.org/publications/methodsandtrends/documents/fatf-interpol-2022.html](https://www.fatf-gafi.org/publications/methodsandtrends/documents/fatf-interpol-2022.html).

<sup>5</sup> Law enforcement has also warned about tapentadol, a non-scheduled synthetic opioid analgesic similar to tramadol INCB, (2021), “Operation New Horizons identifies new trafficking in tapentadol, an emerging synthetic opioid, (May 10, 2021)” [www.incb.org/incb/en/news/news\\_2021/incb-operation-new-horizons-identifies-new-trafficking-in-tapentadol--an-emerging-synthetic-opioid.html](https://www.incb.org/incb/en/news/news_2021/incb-operation-new-horizons-identifies-new-trafficking-in-tapentadol--an-emerging-synthetic-opioid.html).

<sup>6</sup> According to the UNODC World Drug Report (2022), “[u]se of fentanyls has been reported by several other countries, although currently, there are no indications of an epidemic of non-medical use and related health consequences outside North America.” [WDR22 Booklet 1.pdf \(unodc.org\)](#), pg. 64.

<sup>7</sup> After citing a number of factors explaining the rapid spread of fentanyl use in North America, the World Drug Report noted, “[c]onsidering these factors, fentanyls remain a potential threat in opioid markets. The spread of fentanyls could occur rapidly if market dynamics result in a shortage of the main opioid used in any of the markets.” (WDR, Booklet 3, p. 111.).

<sup>8</sup> For example, pill presses; die molds; encapsulating machines, and parts that contribute to making fentanyl pills from the drug’s powder form.

opioids into their wider sale of narcotics and exploit financial systems in countries not directly involved in the supply chain to launder proceeds.

3. Many aspects of this report—findings on market dynamics, risk indicators, and recommended actions—are specific to the trafficking of illicit synthetic opioids. Other aspects, particularly with respect to sophisticated, high-value professional money laundering, may be more broadly applicable to multiple types of drug trafficking. Particularly for professional and third-party money laundering networks, proceeds from synthetic opioid trafficking are co-mingled with the proceeds from a variety of drug trafficking and other illicit financial activity.

### Objectives of this Report and Intended Audiences

4. In the 4<sup>th</sup> round of Mutual Evaluations (which began in 2013), more than two-thirds of countries identified drug trafficking as the major predicate offences posing money laundering risk, followed by corruption, fraud, and tax crimes.<sup>9</sup>), Nearly all countries continue to experience significant deficiencies in investigation and prosecution of money laundering in line with a risk-based approach. As of April 2022, just 19 percent of countries are conducting investigations and prosecutions effectively in line with their risks.<sup>10</sup> Many countries have also shown a limited understanding of cross-border money laundering risks. This highlights the extent to which countries must improve their ability to conduct investigations of complex money laundering schemes related to major predicate offences.<sup>11</sup>
5. This report aims to (1) assist law enforcement and other operational authorities in carrying out effective financial investigations and prosecutions related to the proceeds from the trafficking of illicit synthetic opioids and to (2) raise awareness and contribute to the existing literature regarding the devastating impact of synthetic opioids trafficking. Based on lessons learned, this report will assist law enforcement authorities and relevant stakeholders by providing risk indicators and recommendations to detect and tackle the financial flows from synthetic opioid trafficking. The report provides operational and policy options and tools to detect, investigate and disrupt the finance that supports organised criminal groups and related professional money launderers.
6. The findings for this report are based on case studies and good practices from 40 countries, alongside information and analysis gathered from the project team's consultations with law enforcement and civil society.
7. By engaging relevant law enforcement agencies in discussions and analysis of this topic, the project has already helped to bring attention to the financial crimes component of opioids trafficking, and encouraged bilateral and multilateral engagement and discussions around this issue.

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<sup>9</sup> FATF (2022), "Report on the State of Effectiveness and Compliance with the FATF Standards", [www.fatf-gafi.org/media/fatf/documents/recommendations/Report-on-the-State-of-Effectiveness-Compliance-with-FATF-Standards.pdf](https://www.fatf-gafi.org/media/fatf/documents/recommendations/Report-on-the-State-of-Effectiveness-Compliance-with-FATF-Standards.pdf)

<sup>10</sup> Ibid, pg. 38. "Just 19% of the 120 assessed jurisdictions are demonstrating high or substantial levels of effectiveness in investigating, prosecuting and convicting money laundering offences and confiscating the proceeds of crime." Ibid, pg. 38.

<sup>11</sup> Ibid, pg. 38



8. In addition to a principal focus on synthetic opioids, this report also updates the FATF Global Network on changes to the business model for organised criminal groups that are laundering proceeds from drug trafficking, since the FATF's 2014 report.<sup>12</sup> In turn, this will impact money laundering risk and context in certain jurisdictions. These new trends include:
  - A diversion of chemical precursors (or in the case of tramadol the manufactured pills) in the supply chain that supports synthetic drug production, and the procurement of production equipment.
  - The proliferation of professional money laundering networks that obfuscate financial flows linked to illicit activity and distance organised criminal groups from the money laundering,
  - The role of digital payment platforms, including virtual asset service providers (VASPs), in the purchase of illicit narcotics, as well as the laundering of proceeds. Some of this activity takes place on dark web marketplaces, where synthetic drugs are a popular product.
9. This report highlights these methods to the extent they apply to synthetic opioid trafficking, but they are also used in the wider narcotics trade.
10. This report is intended for use by a variety of stakeholders involved in the investigation and prosecution of narcotics trafficking offences, and financial crime professionals including.
  - Police, including specialized counter-narcotics units or offices
  - Customs and export control agencies
  - Prosecutors
  - Financial Intelligence Units (FIUs)
  - All relevant members of the investigation and related regulator community (to include, for example, tax authorities and supervisors)
  - Policy practitioners
  - Relevant private sector and compliance professionals (e.g., internal AML/CFT teams)
11. Information in this report may also be useful for developing training material designed to support financial investigations in this area (e.g., UNODC and other relevant technical assistance providers) and to support countries with capacity challenges to leverage their AML regimes to combat illicit synthetic opioid trafficking. This report can also help financial sector stakeholders better understand the risks and recognise patterns of suspicious behaviour that could indicate the misuse of their products or services for money laundering and narcotics trafficking.

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<sup>12</sup> FATF (2014), "Financial flows linked to the production and trafficking of Afghan opiates" [www.fatf-gafi.org/fr/documents/alaune/financial-flows-afghan-opiates.html](http://www.fatf-gafi.org/fr/documents/alaune/financial-flows-afghan-opiates.html).

## Opioids and their Supply Chains

### Synthetic Opioids and their Precursors

12. Synthetic opioids, including fentanyl and its analogues, are among a category of drugs that pose a significant potential for substance use disorder due to their potency. Other opioids like tramadol are less potent and less likely to be fatal, but widespread in their prevalence and impact, and their illicit sale and use is causing widespread challenges for many countries, particularly in the developing world.

### *Fentanyl and analogues*

13. Fentanyl trafficking is most prevalent in North America.<sup>13</sup> Fentanyl drugs found on the illicit market are sometimes used as less-expensive replacements for heroin, and increasingly and alarmingly, as adulterants in other narcotics.<sup>14</sup> While only accounting for 3% of global seizures of pharmaceutical opioids by weight,<sup>15</sup> fentanyl and fentanyl analogue seizures account for the vast majority of deaths from overdoses in this category. These drugs present a particular challenge in overdoses because of its high potency (up to 50 times more potent than heroin and 100 times more potent than morphine). Higher potency also means smaller quantities per 'dose' which makes the drug easier to smuggle and harder for authorities to intercept. They can be consumed as a powder, nasal spray, rock form, patches, candy-like form or pill, and transportation of the drug is low-cost. In addition, consumers may use opioids in combination with central nervous system depressants such as *benzodiazepines*, and this combination has been shown to increase the risk of respiratory depression.<sup>16</sup>
14. Organised criminal groups also sell fentanyl as an ingredient in fake drugs, including ones purporting to be *Xanax*.<sup>17</sup> Traffickers press fentanyl into pill form with widely varying dosage levels in uncontrolled environments. As a result, many pills carry a lethal dose of fentanyl. Consumers of pill-form fake drugs are often unaware that they are consuming these. Fentanyl is likely responsible for hundreds of thousands of overdoses each year, of which many are fatal.<sup>18</sup>

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<sup>13</sup> UNODC (2021) *World Drug Report Booklet 4*

<sup>14</sup> UNODC (2022) *World Drug Report Booklet 3 - Trends in overdose deaths attributed to pharmaceutical opioids and heroin*.

<sup>15</sup> Ibid. Note: Lower seizure volumes compared to other opioids may also reflect the recent trends of importing precursors of opioids.

<sup>16</sup> United States National Institute on Drug Abuse (2020), *Benzodiazepines and Opioids*. <https://nida.nih.gov/drug-topics/opioids/benzodiazepines-opioids>.

<sup>17</sup> US Drug Enforcement Administration (2021), "Drug Fact Sheet: Counterfeit Pills," [www.dea.gov/sites/default/files/2021-05/Counterfeit%20Pills%20fact%20SHEET-5-13-21-FINAL.pdf](https://www.dea.gov/sites/default/files/2021-05/Counterfeit%20Pills%20fact%20SHEET-5-13-21-FINAL.pdf).

<sup>18</sup> United States Center for Disease Control and Prevention (2022), *Provisional Drug Overdose Death Counts* [www.cdc.gov/nchs/nvss/vsrr/drug-overdose-data.htm](https://www.cdc.gov/nchs/nvss/vsrr/drug-overdose-data.htm) and Canada (2022) "Opioid and Stimulant-related Harms in Canada" <https://health-infobase.canada.ca/substance-related-harms/opioids-stimulants/>

**Other Opioids – (tramadol and others)**

15. Other opioid products of concern include tramadol, a synthetic opioid not under international control.<sup>19</sup> Opioid disorders are reported mainly in West, Central and North Africa as well as in the Middle East, southwest Asia.<sup>20</sup> From 2016-2020, tramadol seizures accounted for 54% of global pharmaceutical opioid seizures by weight.<sup>21</sup> Other products include codeine (which accounted for 38% of seizures during this same period). The misuse of tramadol arises from diversion of pharmaceutical supplies to illicit recreational use.<sup>22</sup> While the rapid spread of the non-medical use of tramadol is evident, there is still a lack of information about how tramadol is traded and used and its impact on health (or on drug-related deaths and overdoses).

**Precursor Chemicals**

16. With recent class-wide scheduling placed on fentanyl and fentanyl-related substances from countries of origin,<sup>23</sup> seizures involving precursor chemicals used for the production of synthetic opioids are rising. The latest figures suggest that clandestine laboratories of synthetic opioids are now being built in new source countries or are now located within consumer countries. Laboratories producing drugs such as fentanyl with precursor chemicals have been detected in North America, especially in Mexico and Canada, often under the control of organised criminal groups.
17. Currently, there do not appear to be significant cases of procurement of precursor chemicals for drugs such as tramadol.

**Source, Transit and Destination countries**

18. Fentanyl trafficking patterns have shifted over the last several years in response to government and law enforcement responses. Until 2019, most fentanyl-related substances originated from East Asia and in finished (powder) for consumption in North America. During this period, countries such as Mexico or Canada served as a transit or processing point for the fentanyl to be pressed into pills. Criminal groups would then move these pills through their distribution

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<sup>19</sup> Though not under international control, in many jurisdictions it is only obtainable legally with a prescription.

<sup>20</sup> UNODC (2022), *World Drug Report Booklet 1*, (Tramadol is present to a lesser extent in south and southeast Asia and Central Europe.) [www.unodc.org/res/wdr2022/MS/WDR22\\_Booklet\\_1.pdf](http://www.unodc.org/res/wdr2022/MS/WDR22_Booklet_1.pdf).

<sup>21</sup> UNODC (2022) *World Drug Report Booklet 3*. Tapenadol is also a relatively new form of opioid that is similar to tramadol and emerging as a risk.

<sup>22</sup> This includes licensed, unlicensed and counterfeit production of tramadol.

<sup>23</sup> This includes for example the ban on sale of Fentanyl in China – In April 2019, the Government of China announced that it would add fentanyl-related substances to the Supplementary List of Controlled Narcotic Drugs and Psychotropic Substances with Non-medical Use. The new measures were effective as of 1st May 2019 ([www.unodc.org/LSS/announcement/Details/f2adea68-fbed-4292-a4cc-63771c943318](http://www.unodc.org/LSS/announcement/Details/f2adea68-fbed-4292-a4cc-63771c943318)).

networks into the United States or within Canada.<sup>24</sup> Direct courier and postal shipments were also common. However, from 2017-2019, countries imposed additional controls on the trade of fentanyl-related substances. For example, in May 2019, China announced that it added all fentanyl-related substances (including analogues) to a list of banned substances.<sup>25</sup> This effort was also complemented by investigations by Chinese law enforcement on online drug market operators (see example below).<sup>26</sup>

### Box 2.1. Case Study: Cross-Border Information Sharing on Fentanyl Trafficking

In 2017, the US. law enforcement authorities notified the Narcotics Control Bureau (NCB) of the Ministry of Public Security (MPS) of China that US authorities had investigated and confirmed that a suspect was involved in a fentanyl smuggling case. The US authorities only lead was a phone number and requested that Chinese authorities assist in the investigation.

The NCB of M.P.S drug control departments initiated a comprehensive investigation and finally discovered the identity of the suspects and the facts of the crime. As a result, the entire illegal network of manufacturing smuggling and trafficking fentanyl was dismantled.

According to the NCB investigation, one suspect established a technology and biological Company from November 2016 to November 2017. Overseas customers contacted the company's salesman through email or instant messaging software making inquiry and ordering non-scheduled new psychoactive substances with payment made through large money remitter. After receiving the payment, the main suspect instructed his associates to purchase substances from the drug manufacturing den, then mailed them out of the country through international express channels.

Chinese authorities promptly notified their US counterpart of the information about the US-related parcels, and officials responsible for international co-operation from both sides kept informing each other of the investigation progress in real-time. In August 2018, the Chinese task force went to the United States for investigation and evidence collection and held a press conference with their US counterparts. The main suspect and other defendants were sentenced to imprisonment and other severe penalties in China in accordance with the Criminal Law.

Source: China

<sup>24</sup> For a discussion of the changing dynamics of the trade, see Commission on Combating Synthetic Opioid Trafficking, [www.rand.org/pubs/external\\_publications/EP68838.html](http://www.rand.org/pubs/external_publications/EP68838.html).

<sup>25</sup> UNODC (2019), *China: Announcement to place all fentanyl-related substances under national control* [www.unodc.org/LSS/announcement/Details/f2adea68-fbed-4292-a4cc-63771c943318](http://www.unodc.org/LSS/announcement/Details/f2adea68-fbed-4292-a4cc-63771c943318)

<sup>26</sup> China National Narcotics Control Commission (2017), *Annual Report on Drug Control in China*.

19. Starting in 2019, organised criminal groups adjusted their operations, and began to import precursor chemicals for fentanyl instead, with production moving to Mexico under the control of criminal syndicates who controlled drug trafficking routes into the United States and Canada. Regional dynamics have also shifted somewhat. There is a potential risk that criminal groups are involved in diversion of chemicals from countries with large and thriving pharmaceutical sectors. India is one such country with a major pharmaceutical producing market and is seeing legal tramadol exports diverted for illicit purposes once they arrive in the Middle East, Africa and Europe<sup>27</sup>.

### Box 2.2. Role of Mexican Cartels in the “new” Fentanyl Supply chains

Mexican cartels play major roles in the fentanyl market. There are no records that suggest that they are importing fentanyl or precursor chemicals, but they are a significant source of fentanyl, with production substantially increasing. In 2020, Mexican authorities seized five times more fentanyl than the year before, and dismantled 175 clandestine laboratories, more than double compared to the previous year. One lab alone had an unprecedented capacity to process 5 000 kg of precursor materials, believed to be imported from countries in South and East Asia.

Since Mexican cartels are shifting from heroin production to produce the cheaper fentanyl, they will likely use existing transportation lines for cocaine to ship fentanyl into the United States and then into Canada.

Source: Canada

20. The changing supply chain of precursors for opioids represents a complex challenge for law enforcement in general and financial investigators specifically, as it requires greater scrutiny of businesses and their financial transactions. Legal persons registered in third-party jurisdictions (i.e., not the source or ultimate destination country) may be importing and exporting chemical precursors, some of which may be for legitimate use (for example for legal pharmaceutical production, cleaning products, or paint and industrial ingredients for manufacturing) and others for diversion into drug production. Some chemicals are difficult to detect,<sup>28</sup> and complicit importing or exporting companies can disguise these transactions. The supply chains supporting the illicit trade correlate strongly to areas with well-developed chemical manufacturing sectors geared toward exports around the world.

<sup>27</sup> UNODC (2021), World Drug Report Booklet 3, pg. 100-101. In September 2018, the Indian authorities reported a relatively large seizure of fentanyl destined for organised crime groups in Mexico that involved the arrest of a Mexican citizen. According to the UNODC, “there is a potential risk that criminal groups operating in countries with a large and thriving pharmaceutical sector may become more involved in the clandestine manufacture of fentanyls.”

<sup>28</sup> Most precursor chemicals may also be modified at a molecular level and thus not subject to international controls, exploiting loopholes in legislation.

21. In some jurisdictions, criminal groups procure or adapt industrial and pharmaceutical manufacturing equipment to produce synthetic opioids and press fake pills or turn synthetic opioids into powder or liquid substances (occasionally also for smuggling via special shapes and moulds). To achieve this, they procure industrial equipment using individuals or legal entities as “straw buyers” (individuals acting on behalf of others) or creating front/shell, and shelf companies to conduct this trade.

### Box 2.3. Procurement of Pill Presses and Industrial Pressure Vessels/Vats

The National Police of the Netherlands noted that drug trafficking organisations involved in the processing and transformation of precursors into final narcotics typically procure specialised equipment for this process. These include:

- Industrial pressure vessels for large quantities of liquids and chemicals, either purchased within the country or region from a limited number of suppliers or from dairy farmers. **Note: The pressure vessels are custom-made from top to bottom. They buy the materials and then build the vessel. Another option is that suitable vessels are newly purchased from companies or second hand (for example from dairy farmers) and then modified for the task at hand**
- Large orders of large glassware for laboratories purchased online (e.g., e-commerce platforms) shipped to individuals, also shell companies are being used
- Pill presses and laboratory equipment imported into the country from special manufacturers known to produce (quality) presses.

Authorities noted that customs are responsible for raising red flags upon importations of these goods, and that authorities even worked on a special awareness raising campaign with dairy farmers to contact them if groups solicited them for specialised equipment. There have been several campaigns on raising awareness on drug production at farms. Farmers were made aware of suspicious activities as renting stables or buying of equipment with cash money. Other campaigns on creating awareness were focussed on industries as metal and glass works. Companies were contacted and made aware of their potential involvement in the drug production.

Source: Netherlands



## Markets and Cartels

22. In North America, Mexico-based organised criminal groups have come to dominate the provision of fentanyl to the US drug market. These include well-established groups like the Sinaloa Cartel and the Jalisco New Generation Cartel (CJNG). In a number of cases, regional and local criminal groups within the United States have mixed fentanyl with heroin in order to maximize profitability.<sup>29</sup> A significant percentage of seized drugs in the United States is fentanyl combined with heroin, but authorities have also seized fentanyl mixed with cocaine and methamphetamine.<sup>30</sup>
23. United States law enforcement has documented the numerous ways in which Mexican criminal groups try to increase their capacity to supply this market:
  - Smuggling chemicals in legitimate commercial shipments;
  - Mislabeling shipments to avoid law enforcement scrutiny;
  - Diversion of supplies from licit purchases for chemical or pharmaceutical sectors; and
  - Open purchases of supplies on the web.<sup>31</sup>
24. Fentanyl runs in the same supply chains of other drugs, including other opioids and synthetic drugs, (particularly methamphetamines). Organised criminal groups are responsible for the drug supplies in various regions. However, supply chain patterns can shift rapidly. Regionally divided organised crime groups work are also eager to expand their market share in new markets.
25. As with all synthetic drugs, the trade in precursor chemicals is a particular aspect of the production and trade in synthetic opioids and has important implications for understanding the finance that supports this trade.<sup>32</sup> Because some types of opioids have a legitimate pharmaceutical role, and because certain precursor chemicals are inherently dual-use and would be difficult for national authorities to impose controls on, these chemicals can be traded openly, including on legitimate websites. As documented by UNODC, very few countries maintain specific regulations on online sales of even nationally controlled precursors.<sup>33</sup>
26. Middlemen in the chemical sector can be important nodes in the diversion of chemicals from licit suppliers to illicit manufacturers of these substances. This aspect of the supply chain can make it difficult for financial institutions or even law enforcement to identify suspicious or potentially criminal activity. Chemical Diverters, also known as Chemical “Middlers”, can be involved by creating front

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<sup>29</sup> United States DEA (2020), *Annual Drug Threat Assessment*, pg. 7. As reported by the US Drug Enforcement Administration (DEA), Mexican law enforcement is encountering a rise in illegal pill press and tableting operations. DEA Annual Drug Threat Assessment (2020), pg. 7.

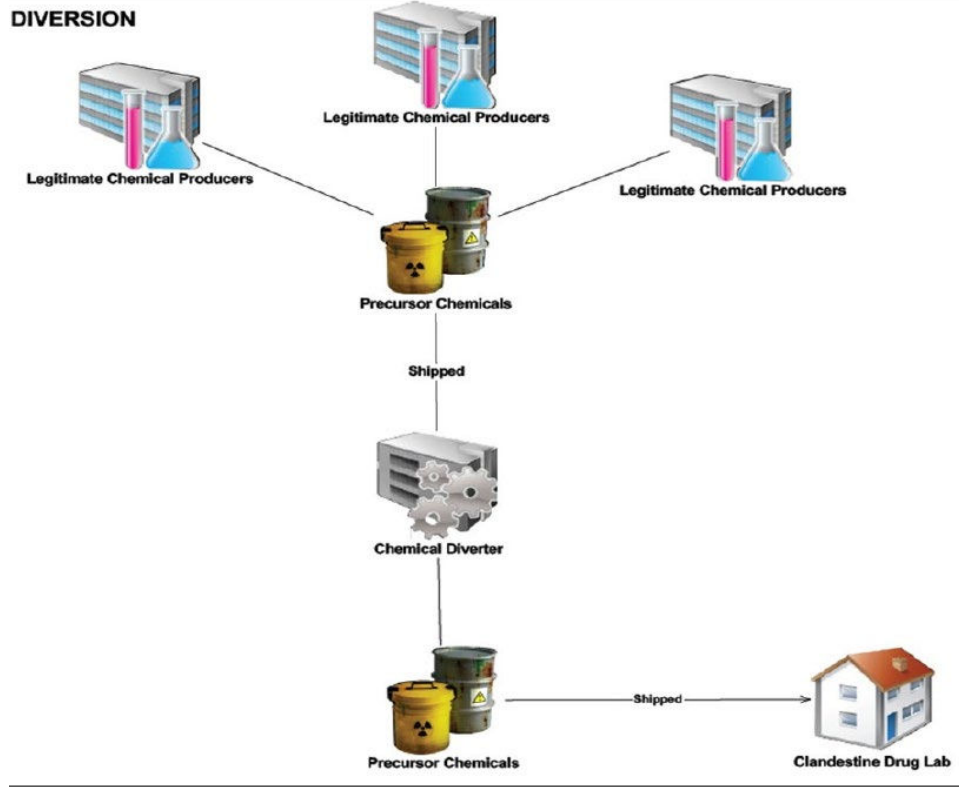
<sup>30</sup> Ibid., Figure 4, pg. 10.

<sup>31</sup> United States. DEA (2020), *Annual Drug Threat Assessment* pg. 15.

<sup>32</sup> United States (20220) National Money Laundering Risk Assessment, pg. 14

<sup>33</sup> UNODC (2021) *World Drug Report Booklet 2*, pg. 70. - Notably, the United States and China do have regulations. China since September 2010 has required entities selling precursors to be registered with its national authorities. In the United States, website providers who arrange transactions for listed chemicals from foreign countries are considered “brokers” and are subject to control.

companies and act as an intermediary between legitimate chemical producers and clandestine drug labs. Middlers sometimes set up a physical store fronts or create an online presence to appear legitimate. Financial entities should integrate suspicious transactions linked to the buying and selling of chemicals into their risk identification mechanisms as this financial activity could be indicative of such a chemical diversion scheme.



## ML and Synthetic Opioids

### Financial Flows and Stages of Laundering

27. Most of the proceeds generated from synthetic opioid trafficking accumulate in the country of consumption, with organised criminal groups profiting from the local sale of opioids such as fentanyl or tramadol. However, as the funds move towards these criminal groups who manage the larger scale shipments, the proceeds and the goods can de-couple and the proceeds may move through more complex money laundering schemes.
28. For organised criminal groups, the main expenses involve the smuggling and acquisition of opioids or precursors, as well as the synthesis of the synthetic opioids themselves (if clandestine manufacture is involved), including the acquisition of manufacturing tools and equipment, and specialised labour capable of carrying out the synthesis (e.g., chemists). This process can involve intermediate countries and companies through which precursor products are smuggled (see next section). Criminal organisations may also rely on payment of bribes to ensure the arrival of precursors and the opioids themselves.
29. In terms of the money laundering stages, placement often takes place within the consumer country. Layering and integration likely occurs through either bulk cash smuggling, front companies, money value transfer services (including hawala<sup>34</sup>) or trade-based money laundering, or through correspondent banking arrangements (including for trade-related financial transfers). The diverse range of layering and subsequent integration methods indicates there is no single “business model” but that the criminal organisations use a wide range of money-laundering schemes.

#### Box 3.1. Case Study involving Large Scale Cash Placement and Mirror Transfers

United States authorities arrested Xiangbin Gan, a Chinese national, resident in Mexico, in November 2018 at Los Angeles International Airport during a layover on a flight from Hong Kong to Mexico. Gan had schemed to have approximately USD 534 206 in narcotics proceeds picked up in Chicago and transferred to various bank accounts in China, with the money ultimately intended for drug traffickers in Mexico. Gan facilitated the money transfers while residing in Guadalajara, Mexico. Unbeknownst to Gan, a purported money courier who picked up the drug proceeds in Chicago was an undercover law enforcement agent

<sup>34</sup> In some mirror transfer schemes, the OCG who commits the predicate offense collects the cash proceeds. It then contracts with a PMLN to launder the cash proceeds. It sells its bulk cash (dollars for example) to this PMLN. The PMLN then arranges for an equivalent amount of value to be transferred from a separate source (often in another country) to someone authorized to take the funds on behalf of the original OCG. This process can allow proceeds to enter the financial system in a way that may not be suspicious.

“The defendant was part of a recent phenomenon in which a relatively small network of Chinese money brokers based in Mexico have come to dominate international money laundering markets”. The United States government’s sentencing memorandum noted that “like defendant, many of these brokers are also engaged in legitimate business and use that business as cover for and to further money laundering activity. It does not matter that defendant never personally distributed narcotics – drug distribution and money laundering are two-sides of the same malignant coin.”

A federal judge in Chicago sentenced the Gan to 14 years in prison for laundering illegal narcotics proceeds on behalf of drug traffickers in Mexico.

Source: United States <sup>35</sup>

### ***Use of professional money laundering networks***

30. Organised crime groups use professional money laundering networks to launder the proceeds of their illegal activities<sup>36</sup>. As the main purpose of professional money launderers is to facilitate the transfer of value for their customers, they are rarely involved in the proceeds-generating illegal activities. Instead, they provide expertise to disguise the nature, source, location, ownership, control, origin and/or destination of funds to avoid detection. Professional money launderers generally do not differentiate between drug dealers, fraudsters, human traffickers or any other criminal with a need to move or conceal ill-gotten gains. They engage in sophisticated, large-scale laundering on behalf of drug cartels, motorcycle gangs and traditional organised crime organisations.
31. While professional money laundering networks may include accountants, bankers or lawyers, current financial intelligence suggests that they often are owners of, or associated with, trading companies or money-services businesses, as well as a variety of legitimate commercial enterprises they use as fronts. Professional money launderers use their occupation and knowledge, as well as the infrastructure associated with their line of work and their networks, to facilitate money laundering, providing a veneer of legitimacy to criminals and criminal organisations.

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<sup>35</sup> United States Department of justice (2021) *Chinese National Sentenced to 14 Years in Prison for Laundering Drug Proceeds on Behalf of Traffickers in Mexico*. [www.justice.gov/usao-ndil/pr/chinese-national-sentenced-14-years-prison-laundering-drug-proceeds-behalf-traffickers](https://www.justice.gov/usao-ndil/pr/chinese-national-sentenced-14-years-prison-laundering-drug-proceeds-behalf-traffickers)

<sup>36</sup> Professional launderers conduct all forms of money laundering that are undertaken by a third party (including facilitating bulk cash smuggling, trade-based money laundering, mirror transfers and hawala).

## Identifying common ML typologies associated with synthetic opioid trafficking

### *Money laundering activity occurring within the synthetic opioids supply chain*

32. Like other forms of drug-trafficking, the illicit sale of synthetic opioids is a cash-intensive crime. Criminal groups move the proceeds and instrumentalities<sup>37</sup> of crime using similar tools and techniques as other forms of narcotics trafficking. As fentanyl is relatively inexpensive to produce, easy to transport, and highly potent, it provides them attractive high-profit margins and lower input costs.
33. Drugs such as tramadol are readily available in the licit pharmaceutical industry, making them difficult to trace when distributed in the illicit supply chain and commingled with legitimate business operations. Criminal networks have been expanding their operations to new geographies, contributing to regional and national illicit drug problems, undermining public health capacity, and the integrity of the financial system globally.

### **Box 3.2. Tramadol Trafficking: Common Investigation Challenges**

Burkina Faso is a transit and source destination of tramadol, and it is seeing an upward trend in domestic consumption of this opioid. Recently, national authorities have made several large-scale seizures of tramadol at the borders and within their territory, including several multi-tonne shipments of tramadol, such as a 40-tonne seizure in February 2020. Authorities note that these shipments are often brokered by suppliers residing in neighbouring countries, including Ghana and Ivory Coast. However, no cases involving international co-operation have taken place to-date.

Burkina Faso authorities note that no money laundering investigations have yet taken place due to a lack of resources dedicated to conducting parallel financial investigations. Nevertheless, Burkinabe authorities include a multi-agency response to narcotics trafficking and have conducted several investigations, prosecutions and convictions related to opioids trafficking. Transactions generally take place in cash, and cash which is laundered directly into the economy by traffickers often using other family members as nominee account holders; front, shell, and shelf companies may also be used, particularly for international imports of tramadol. Asset seizures have taken place (e.g., cars and physical possessions by criminals) but these are also complicated by the informal beneficial ownership of accounts and (possibly also) companies.

Source: Burkina Faso

<sup>37</sup> Instrumentalities refer to any property used or intended to be used, in any matter, wholly or in part, to commit a criminal offense.

34. A review of the law enforcement investigations conducted by relevant authorities in relation to synthetic opioids indicates that criminal groups trafficking in fentanyl (and precursors) and tramadol, move the illicit proceeds through bulk cash smuggling, trade-based money laundering (TBML), funnel accounts, wire transfers (especially from and between front and shell companies), cash couriers, and money brokers. They also use dark web vendor sites to market their products, and take payment through virtual assets, including anonymity-enhanced cryptocurrencies. However, it is important to note that the majority of proceeds generated from dark web market sales are usually in bitcoins, while only a minority of dark web marketplaces accept Anonymity Enhanced Cryptocurrencies.<sup>38</sup> Communications for co-ordinating activities and payments often involve encrypted communication channels, including mobile applications.
35. Sophisticated multinational criminal networks who wish to repatriate illicit proceeds have relied on Asian money laundering organisations,<sup>39</sup> a type of professional money laundering network to co-ordinate transfers of value, often using methods that do not require money to move across international borders (e.g. “mirror transfers” hawala, and other unauthorised money value transfer services often facilitated through encrypted communications to co-ordinate with contacts across multiple jurisdictions). The Asian money laundering organisations work in tandem with underground bankers in East Asia to facilitate the circumvention of currency controls in certain countries while laundering domestic criminal proceeds<sup>40</sup>. Certain currency controls create a demand for money value transfer services to transfer funds. Asian money laundering organisations exploit this demand to launder money on behalf of their criminal clients, while also facilitating capital flight and receiving fees by clients on both ends of the transaction (helping to explain why these money launderers can offer their services at such low rates).
36. A growing amount of the payments for opioids may also take place on dark web marketplaces, which largely require the use of virtual assets (particularly cryptocurrency). According to many jurisdictions, some laundering does take place using virtual assets, though those assets are often converted into fiat currency depending on the preference of the involved money launderers.
37. Many jurisdictions also reported the use of digital payment platforms by those involved in the trafficking of illicit synthetic opioids. Some of these platforms are sophisticated large companies that service e-commerce websites globally.

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<sup>38</sup> UNODC (2022), *World Drug Report*, -pg. 56, “The growth in popularity of cryptocurrencies has increased the appeal of online drug transactions. While bitcoin continues to be the cryptocurrency of choice for most people who use drugs looking to make purchases on the dark web, others are gaining a foothold, for example, Monero”.

<sup>39</sup> This includes Mexican OCGs the Sinaloa Cartel and CJNG. DEA Drug Threat Assessment, [www.dea.gov/sites/default/files/2021-02/DIR-008-21%202020%20National%20Drug%20Threat%20Assessment\\_WEB.pdf](https://www.dea.gov/sites/default/files/2021-02/DIR-008-21%202020%20National%20Drug%20Threat%20Assessment_WEB.pdf), page. 70.

<sup>40</sup> As reported in the 2022 US National Money Laundering Risk Assessment, what makes these groups unique is their ability to offer services at lower fees than traditional money brokers, to exploit certain countries’ currency controls, and to use communication technology effectively. See also, United Kingdom, National Crime Agency, *Chinese Underground Banking and ‘Daigou’* (October 2019), [www.nationalcrimeagency.gov.uk/who-we-are/publications/445-chinese-underground-banking/file](https://www.nationalcrimeagency.gov.uk/who-we-are/publications/445-chinese-underground-banking/file).



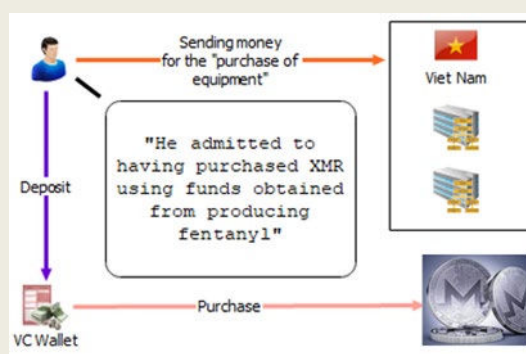
Others are country- or regionally dominant payment platforms. In each instance, the ubiquity of the payment platform helps obfuscate the role of organised criminal groups in the illicit procurement of precursors, or the sale of the finished drugs. The following case study highlights an individual suspected to have laundered their drug proceeds through virtual currency which provided a way to safeguard an effective means of washing the funds.

### Box 3.3. Converting Proceeds of Fentanyl Production into Virtual Assets

Suspicious were raised when the individual made a high value transfer to his virtual currency wallet held at a Virtual Currency Exchange. When the Exchange inquired into the source of funds, the individual responded candidly that it was from producing fentanyl.

The individual chose to purchase a type of virtual currency that provides privacy and anonymity, making it harder for authorities to track.

The individual also ordered money to the benefit of Vietnam based import/export companies for the purchase of equipment, which could of be used in the production of fentanyl.



Source: Canada

38. The cases below indicate there are also several schemes involving the transfer of funds for the purchase of synthetic opioids. These indicate a scheme involving working capital (i.e., the money is used to purchase wholesale the synthetic opioids for later retail sale, or the production equipment and precursor chemicals) at a medium to large scale. Often these transfers involve an international component and use wire transfers or money value transfer services (authorised and un-authorised), connecting two or more separate parties.

### *Examples of schemes involving proceeds and instrumentalities of crime*

39. Below are some examples of schemes that criminal groups use to move instrumentalities of crime for the procurement of fentanyl and other synthetic opioids.

### Box 3.4. Schemes involving movement of proceeds of crime

#### Case 1: Procurement of Fentanyl and other synthetic opioids via payment using Money Service Businesses<sup>1</sup>

- Client purchases wire transfers or money orders for amounts below the CAD 10 000 reporting threshold at multiple money services businesses over a short time, normally with cash or prepaid credit cards. Typically, the wire transfers and money orders are sent by numerous, seemingly unconnected individuals in Canada to the identical recipients in Asia, Ukraine, and India.
- Client pays for wire transfers in Canadian funds, which are then received in even dollar amounts.
- Client sometimes uses a post office box as a mailing address.
- Client receives multiple direct deposits from global payment processing and/or virtual currency exchange platforms, typically in amounts below the reporting threshold.
- Client requests wire transfers to companies advertising the sale of fentanyl and/or its known chemical precursors: NPP (1-Phenethyl-4-piperidone); ANPP (4-azido-2-nitrophenyl Phosphate) and Norfentanyl (N-phenyl-N-piperidin-4-ylpropanamide).

1. FINTRAC (2018), *Operational Alert: Laundering of the Proceeds of Fentanyl Trafficking* [www.fintrac-canafe.gc.ca/intel/operation/oai-fentanyl-eng](http://www.fintrac-canafe.gc.ca/intel/operation/oai-fentanyl-eng)

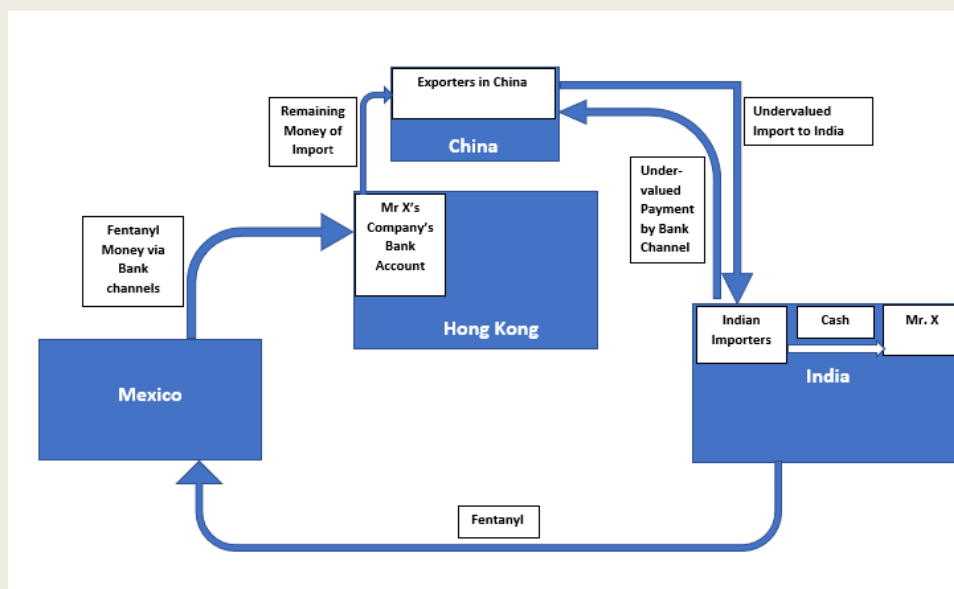
Source: Canada

#### Case 2: Use of online pharmaceutical companies, money transfers using TBML in India

India's Directorate of Revenue Intelligence (DRI) received specific intelligence from a reliable source, that person "X" is engaged in illicit manufacturing of fentanyl HCl, a narcotic drug, for further supply to foreign nationals. Fentanyl is manufactured in a laboratory which is being run illegally by one person "Y" in Indore. One foreign national visits Indore and "X" and "Y" will hold a meeting with this foreign accomplice (a national of Mexico) in connection of supply/smuggling of a large consignment of fentanyl HCl.

The manufactured fentanyl is then transported to Mexico for sale in the United States. Money used to come to Mr. X's Company's Bank Account based in Hong Kong, China from Mexico via Banking channels. To get that money into India, Mr. X contacted various importers who used to import goods from another Asian country, their imported goods were often undervalued to Indian Customs to evade the Customs Duty. However, to

avoid detection, these importers could only transfer this undervalued value to this other Asian country through banking channels. Mr. X would transfer the differential amount of those goods (Differential amount= Actual Value of the goods – undervalued value of the goods declared to customs) to the exporter from his Hong Kong, China based bank account. These Indian importers would pay him that amount in cash in India.



Authorities seized the contraband manufacturing equipment and instrumentalities, as well as USD 8 600 being sale proceeds and a vehicle. The prosecution into the predicate offence is ongoing.

Source: India

### ***Investigations and convictions of money laundering offences linked to illicit opioid trafficking***

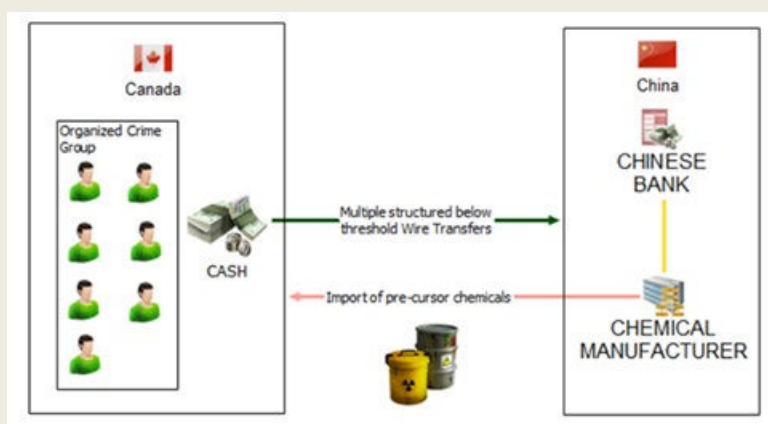
40. Many jurisdictions do not use specific indicators for detecting, investigating, and prosecuting money laundering linked to different types of drug trafficking (for example, the indicators for money laundering for cocaine may be the same as those used for fentanyl). Most jurisdictions use their current counter-narcotics money laundering framework and apply this to substances such as fentanyl or tramadol.
41. Tracking the supply chain that contributes to the production and distribution of these drugs, and the related finance that supports that supply chain and the proceeds generated from the sale of the final product is a key investigative goal. This includes the upstream dynamic – the funds that support the acquisition of the raw materials and manufacturing equipment, namely the precursor chemicals, pills presses, and laboratory equipment that is necessary to produce synthetic drugs.

42. In most cases, organised criminal groups acquire raw materials and production equipment from legitimate commercial sources. Some of these companies knowingly support the criminal syndicate's activity; others are unaware that criminal groups are diverting their products. Consequently, countries cited the importance of customs and export control authorities in generating and following lead information. Furthermore, they highlighted the importance of financial intelligence derived from suspicious activity reports/suspicious transaction reports (STRs) related to this trade, particularly when one of the counterparties is a suspected front or shell company.

### Box 3.5. Identification of pre-cursor chemical purchases through suspicious transactions

The following typology highlights how suspicious payment methods help a bank identify illicit chemical purchases used to produce fentanyl

This organised crime group used multiple related individuals to make below-threshold cash transactions for the purchase of dozens of wires ordered to the same Asia-based chemical manufacturer. The bank picked up on this unusual payment pattern and submitted a detailed suspicious transaction report on all the individuals involved. The individuals in question were under investigation for fentanyl production, which required a large amount of pre-cursor chemicals.



Source: Canada

### Example of advertisement on e-commerce platform – 4-AP, as Fentanyl Precursor

Source: UNODC (2021), *World Drug Report*, Booklet 2, page. 71.

43. Beyond the production supply chain, investigations continue to focus on the downstream dynamic as well, namely the day-to-day operations of organised criminal groups in their jurisdictions, including the laundering of proceeds and the nature of the illicit drug market. Because most criminal syndicates traffic in various types of narcotics and other illicit products, only a handful of jurisdictions will have dedicated bodies focused solely on illicit synthetic opioids. Rather, their investigations track the street-level sales of multiple types of drugs, with interagency task forces dedicated to priority drug types and more sophisticated criminal actors.
44. Many of these interagency task forces incorporate a follow-the-money approach as a complement to investigations of possession and distribution (see example below). This approach is beneficial to authorities as it brings the relevant experience and training to conduct large or complex investigations under one operational mechanism, which can help constituent agencies that do not have the ability to conduct parallel financial investigations or money laundering investigations on their own, or who lack access to specific data sets. The task forces also signal that such investigations are priorities for law enforcement at multiple levels and may provide new authorities or funding, along with the technical and legal requirements to conduct financial investigations.

### Box 3.6. Multi-Agency Counter Drug Task Force Models

The Organized Crime Drug Enforcement Task Forces (OCDETF) is an independent component of the US Department of Justice. Established in 1982, OCDETF is the centrepiece of the Attorney General's strategy to combat transnational-organized-crime and to reduce the availability of illicit narcotics in the nation by using a prosecutor-led, multi-agency approach to enforcement. OCDETF leverages the resources and expertise of its partners in concentrated, co-ordinated, long-term enterprise investigations of transnational organized crime, money laundering, and major drug trafficking networks.

Led by an Executive Office and accountable for over 500 federal prosecutors, 1 200 federal agents, and some 5 000 state/local police, OCDETF implements a nationwide strategy combining priority targeting, co-ordination, intelligence sharing, and directed resourcing to have the greatest impact disrupting and dismantling command and control elements of criminal organizations.

The OCDETF Strike Forces Initiative establishes permanent, multi-agency, prosecutor-led teams that conduct intelligence-driven, multi-jurisdictional operations against priority targets and their affiliate illicit financial networks. The goal of this Initiative is to bring together federal, state, and local law enforcement in a co-located setting that fosters communication and collaboration. The OCDETF Strike Forces capitalize on the synergy created through the long-term relationships that are forged by agents, analysts, and prosecutors who work together over time, and are a proven model in combating organised crime.

There are significant advantages to co-locating OCDETF resources in key cities throughout the country, including more efficient use of limited agency and program resources, fostering better intelligence sharing among the agencies, and maximizing combined efforts to enhance regional and national impacts

Source: United States Department of Justice (2022), *Organized Crime Drug Enforcement Task Forces* [www.justice.gov/ocdetf/about-ocdetf](https://www.justice.gov/ocdetf/about-ocdetf).

45. The case study below highlights an example of the follow-the-money approach as a complement to the arrest and uncovering of those involved in the trafficking of the physical drugs. Investigators were able to leverage relevant financial data to uncover the involvement of a significant number of corporate entities. This investigation led to money laundering charges, and implicated officials involved in corruption and bribery.

### Box 3.7. Tramadol Drug Trafficking and ML

A Nigerian Police Force intelligence response team referred a case involving tramadol trafficking to the National Drug Law Enforcement Agency. Officials seized 200 cartons of tramadol pills for illegal sale, which led to the tracing of a high-level trafficker. After consultation with the Nigerian Financial Intelligence Unit, analysis revealed that this trafficker was linked to 103 separate bank accounts, composed of:

- 10 personal accounts
- 55 corporate accounts (of which he was principal shareholder)
- 48 corporate accounts where other individuals were equal shareholders

Further investigations led to the discovery that the suspect had imported several shipping containers full of tramadol for illegal sale.

These accounts were held in a number of different currencies, including US Dollar and British Pounds. This scheme involved the use of bank accounts and loans to mask the proceeds of crime, including laundering through real estate, namely the purchases of 72 different properties in Nigeria.

The case is currently under prosecution. The assets and bank accounts were all seized and interim forfeiture of properties initiated. The case also led to the discovery of high-level corruption involving police officials who have also been arrested and charged with money laundering and drug trafficking.

Source: Nigeria



46. A handful of jurisdictions have actively pursued complex cross-border investigations of money laundering schemes directed by high-ranking members of organised criminal groups. There are noteworthy examples of the use of mutual legal assistance and extradition to disrupt these networks (see for example Box 2.1. on Cross-Border Information Sharing on Fentanyl Trafficking).

### Individuals/businesses involved in synthetic opioid trafficking and their financial profiles

47. As highlighted above, people and organisations are the critical resources in the illicit synthetic opioid business model (some of the general conclusions can be extended to other types of drug trafficking). Individuals involved in illegal trafficking at different stages of the various business models may be classified into the following categories in accordance with how they fulfil the finance function, which may occur at different levels of sophistication.
- **Small-scale sellers** (for instance, batches of up to 5 grams). They spend their proceeds on personal consumption, rent, and other services. They may carry out foreign exchange transactions and money transfers through various money transfer systems. Some of them have a legal source of revenue in addition to proceeds earned from drug trafficking.
  - **Couriers and small drug dealers** who deliver small drug batches (e.g., fentanyl batches of up to 20 grams) or purchase them from other salesmen. This category presumably includes mostly drug consumers who, depending on the situation, either act as intermediaries or independently buy small drug batches for resale. They earn their money from the difference between the purchase and resale prices of drugs. These people often do not have another source of revenue and spend their proceeds on buying a new batch of drugs, paying for transportation services and personal consumption.
  - **Middle-sized sellers** (e.g., batches of up to 1 kilogram of fentanyl). This includes individuals who sell drugs obtained from criminal organisations, predominantly as their sole source of income, however, they may engage in legal business activities. Middle size sellers are likely to engage in the collection of bulk cash at a local or regional level. In some instances, proceeds from drug trade are spent on personal consumption or may be partially spent on their own legal business activities, purchases of currency, real estate and provide for luxurious lifestyle. Bulk cash collectors may gather proceeds from multiple small to middle-sized distributors and consolidate for bulk cash smuggling.

### Co-ordination and Co-operation Challenges in Conducting Money Laundering Investigations:

48. There are many longstanding challenges that jurisdictions face across the board when it comes to investigating money laundering tied to drug trafficking, as well as obstacles that may be unique to the trafficking of illicit synthetic opioids.
49. Three challenges are most often referred to by law enforcement agencies:
- the lack of the proactive use of financial intelligence in many investigations of drug trafficking;

- gaps in tracking the financing that supports the illicit synthetic opioid supply chain and;
  - the inability to trace and seize assets in a timely manner.
50. Operational authorities will need to improve domestic and international co-operation to address these deficiencies comprehensively. However, many jurisdictions see obstacles to doing this, which can occur within national frameworks, or between jurisdictions.

### ***Domestic Co-operation, Co-ordination, and Information-Sharing***

51. There are long-standing interagency methods for investigating drug trafficking which could potentially apply to synthetic opioids if jurisdictions begin to detect significant penetration of these drugs into their domestic drug markets. Many of these methods include the multi-agency investigative approach, with a mix of different types of law enforcement agencies at the national and local levels.
52. Due to the similarities noted with the other types of narcotics trade, many of the same investigative and prosecutorial challenges remain for identifying and charging money laundering for trafficking of illicit synthetic opioids. These challenges include:
- Limitations of money laundering expertise among relevant narcotics investigators, which means there is not a proactive use of financial information and related information such as surveillance, and open-source intelligence to generate new investigations;
  - Limitations of time and resource among relevant agencies, meaning that complex investigations of money laundering are not appropriately prioritised;
  - General complexity of large-scale transnational ML investigations, particularly as some illicit synthetic opioid supply chain nodes may exist in multiple jurisdictions, and can include firms that have not previously been the subject of intense law enforcement scrutiny with respect to AML/CFT measures;
  - Issues with access to accurate and up-to-date beneficial ownership information, which is a long-standing deficiency across much of the FATF Global Network and can slow investigations into both the supply chain and the laundering of proceeds.

### ***International Co-operation***

53. By the very nature of the materials needed to produce synthetic opioids, investigators will note that the relevant activity crosses multiple jurisdictions. The need to respond to this dynamic is evidenced by multilateral efforts dedicated to control of the supply of these drugs as well as the precursors.<sup>41</sup>

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<sup>41</sup> Though not required by the FATF Standards, countries could consider evaluating their participation in such mechanisms, as they would provide a foundation for further co-operation on counter illicit finance. See, *inter alia*,

54. As with other types of predicate offences, the transnational nature of opioids trafficking can slow investigations, including ones with a significant financial component. Organised criminal groups also exploit legitimate pharmaceutical and chemical companies across many jurisdictions that are source, transit, and destination countries. There are heavily involved in the illicit trade in pharmaceuticals and chemicals use a variety of methods to obfuscate their role, including the systematic use of front companies, freight forwarders, e-commerce, and others.
55. Criminal syndicates use front companies to import pharmaceutical products and precursor chemicals, as well as to receive shipments of production equipment and related payments. In the case of value transfers across borders, they use legal persons and arrangements to carry out movement of proceeds – using trade-based money laundering schemes, and other value-based transfers and exchanges.
56. As with all forms of narcotics trafficking, criminals employ a range of techniques and mechanisms to obscure their ownership and control of companies involved in the acquisition of assets purchased with the proceeds of illicit synthetic opioid trafficking (such as real estate), reinforcing the need for co-operation on the sharing of beneficial ownership information.
57. Asian money laundering organisations are professional money laundering networks that operate transnationally, which complicates the law enforcement agencies' ability to investigate these (often loosely affiliated) connections. International co-ordination and communication on financial linkages between persons is difficult to obtain from relevant counterparts in different jurisdictions. Asian money laundering organisations exploit this vulnerability in AML/CFT frameworks, but also exploit the vulnerability in the trade and trade financing system, permitting the exchange of value across borders.
58. There are time-based constraints associated with international co-operation requests. Jurisdictions can find these obstacles particularly difficult if other jurisdictions severely limit their co-operation with specific types of financial investigations, or when a posture of financial secrecy impedes international co-operation more generally.
59. Among the handful of source countries for these raw materials, a few can be reluctant to respond to requests for information to support investigations, particularly information-sharing around financial transactions and shipments of dual-use chemicals.

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- The International Narcotics Control Board (INCB)'s IONICS platform, “a secure online communication platform dedicated to real-time communication of incidents involving suspicious shipments of, trafficking in, or illicit manufacture or production of new psychoactive substances (NPS), including fentanyl related substances (FRS) and other non-medical synthetic opioids.” [www.incb.org/incb/en/project\\_ion/ionics.html](http://www.incb.org/incb/en/project_ion/ionics.html).
  - The UNODC and ICNB's Pre-export notification system, which “enables easy on-line exchange of information between Member States on shipments (export and import) of the chemicals required for the manufacture of illegal addictive drugs such as heroin, cocaine and amphetamines and to provide the ability to raise alerts to stop suspect shipments before they reach illicit drug manufactures.” [www.unodc.org/unodc/en/global-it-products/pen.html](http://www.unodc.org/unodc/en/global-it-products/pen.html).

60. As noted in the section on money laundering typologies, virtual assets can be used as a means of payment, and possibly laundering for narcotics such as synthetic opioids; VAs can involve cross-border exchanges. These could be used as a platform for the transfer of a value naturally and calls for close international co-operation<sup>42</sup>. The nascent nature of the global application of AML/CFT measures to virtual assets and VASPs will pose medium-term challenges in this respect. This is particularly noteworthy given the expanding use of virtual assets.

### Box 3.8. Takedown on Hansa and AlphaBay Dark web marketplaces – The Netherlands and the United States

In July 2017, U.S authorities and the Dutch National Police, with the support of Europol, shut down the infrastructure of an underground criminal economy responsible for the trading of over 350 000 illicit commodities including drugs, firearms and cybercrime malware.

Using lead intelligence, Dutch authorities were able to take over the marketplace's infrastructure. Separately, U.S-led operation, called *Bayonet*, was able to identify the creator and administrator of AlphaBay, a Canadian citizen living a luxurious life in Thailand. On 5 July 2017, the main suspect was arrested in Thailand and the site taken down. Millions of dollars' worth of cryptocurrencies were frozen and seized. Servers were also seized in Canada and the Netherlands. The international operation to seize AlphaBay's infrastructure was led by the United States and involved co-operation and efforts by law enforcement authorities in Thailand, the Netherlands, Lithuania, Canada, the United Kingdom, and France, as well as the European law enforcement agency Europol.

According to publicly available information on AlphaBay prior to its takedown, one AlphaBay staff member claimed that it serviced over 200 000 users and 40 000 vendors. Around the time of takedown, there were over 250 000 listings for illegal drugs and toxic chemicals on AlphaBay, and over 100 000 listings for stolen and fraudulent identification documents and access devices, counterfeit goods, malware, and other computer hacking tools, firearms and fraudulent services.

Source: Europol, (2017), *Massive blow to criminal Dark Web activities after globally coordinated operation* [www.europol.europa.eu/media-press/newsroom/news/massive-blow-to-criminal-dark-web-activities-after-globally-coordinated-operation](http://www.europol.europa.eu/media-press/newsroom/news/massive-blow-to-criminal-dark-web-activities-after-globally-coordinated-operation).

United States Department of Justice (2017), *AlphaBay, the Largest Online 'Dark Market,' Shut Down* [www.justice.gov/opa/pr/alphabay-largest-online-dark-market-shut-down](http://www.justice.gov/opa/pr/alphabay-largest-online-dark-market-shut-down).

<sup>42</sup> However, as demonstrated in the FATF's second 12-month review, "The types of offences involving virtual assets can include the sale of controlled substances with narcotics-related offences being one of the most prevalent". FATF (2021), *Second 12-Month Review of Revised FATF Standards - Virtual Assets and VASPs*, [www.fatf-gafi.org/publications/fatfrecommendations/documents/second-12-month-review-virtual-assets-vasps.html](http://www.fatf-gafi.org/publications/fatfrecommendations/documents/second-12-month-review-virtual-assets-vasps.html)

## The role of Financial Services Providers and Designated Non-Financial Businesses and Professions

### Financial Institutions and Designated Non-Financial Businesses and Professions

61. Financial institutions and Designated Non-Financial Businesses and Professions (DNFBPs) are an important source of information to Financial Intelligence Units (FIUs) about drug trafficking, largely through the filing of suspicious transaction reports (STRs). Those jurisdictions that did provide statistics on STRs suggested that there were very few that were specific to illicit synthetic opioids.
62. The lack of illicit synthetic opioid-related STRs may not be surprising given that many jurisdictions reported that they did not provide specific risk indicators for synthetic opioids particularly if they were not seeing a significant market share for the drugs.
63. For those countries who are tracking significantly higher share of illicit opioids in their domestic drug markets, some have provided financial institutions and DNFBPs with specific guidance on various types of illicit synthetic opioids, with to the intention of assisting with the identification of related financing.
64. As an extension to provide a suitable nexus to law enforcement and governments at all levels, public-private information sharing partnerships (that allow public and private entities to share information relating to the discovery of detection of money laundering, terrorist financing, and broader economic crime) can be a useful means to address certain higher money laundering risks.<sup>43</sup> Under the right circumstances, these partnerships can offer useful reporting and dissemination channels for relevant information, risk indicators and feedback. Some examples of public-private partnerships are provided in the case studies below.

#### Box 4.1. Public Advisories and Public-Private Partnerships on Opioids

##### Example 1: Public Advisory on Trafficking of illicit fentanyl

The United States FIU, the Financial Crimes Enforcement Network (FinCEN) in 2019 published a public advisory to further inform US financial institutions and DNFBPs as to the financing associated with trafficking of illicit fentanyl into the United States. The advisory addressed the two pathways that illicit fentanyl entered domestic drug markets at the time of publication: direct purchase of fentanyl from Asia by US individuals (which has substantially decreased); and cross-border trafficking by Mexican organised criminal groups, who, as described elsewhere in the report, import the precursor chemicals and manufacture the drugs within Mexico (now the predominant source for the US drug markets).

<sup>43</sup> Commission of Inquiry into Money Laundering in British Columbia, Final Report June 2022, page 992.

The advisory identified three categories of typologies involving payments:

- the sale of these drugs by Asian, Mexican, or other foreign suppliers;
- methods used by Mexican and other organized criminal groups to launder the proceeds of fentanyl trafficking;
- financial methodologies associated with the sale and procurement of fentanyl over the Internet by purchasers located in the United States.

Within those categories, it identified the predominant funding mechanisms associated with fentanyl trafficking patterns:

- purchases from a foreign source of supply made using money service businesses, bank transfers, or online payment processors;
- purchases from a foreign source of supply made using virtual assets (such as bitcoin, bitcoin cash, Ethereum, or Monero)
- purchases from a US source of supply using a money service business, online payment processor, virtual assets, or person-to-person sales; and
- other, more general money laundering mechanisms associated with an organized criminal group's procurement and distribution.

The report also provides red flags to assist covered private sector entities with identifying suspicious financial activity potentially related to fentanyl trafficking.

Source: United States Fincen (2019) *Public Advisory on Trafficking of illicit fentanyl*, [FinCEN Advisory FIN-2019-A006, August 21, 2019](#)

### **Example 2: Project “Guardian” public-private partnership with banks**

Project Guardian is a Canadian Public-Private Partnership, led by banks. Its efforts are aimed at combatting money laundering associated with the trafficking of illicit fentanyl.

As a result of Project Guardian and the committed efforts of Canadian businesses, FINTRAC, the Canadian FIU, received thousands of suspicious transaction reports relating to the trafficking of illicit fentanyl which have been converted into hundreds of proactive financial intelligence disclosures for law enforcement. Since the project's inception, FINTRAC has sent over 900 financial intelligence disclosures to law enforcement partners on Project Guardian. These disclosures contained a range of single to multiple STRs tagged as related to fentanyl linked money laundering indicators.

Source: Canada



**Digital Payment Platforms and Virtual Asset Services Providers (VASPs)**

65. As reported by the FATF's 12-Month Review of the Revised FATF Standards on VAs and VASPs<sup>44</sup>, the application of AML/CFT measures remains uneven across the Global Network. Many jurisdictions have prioritised the provision of guidance to virtual asset service providers to better understand their risk context and vulnerabilities, which can prevent their exploitation by a variety of organised criminal groups, including drug traffickers. Ability to risk assess and flag transactions of virtual assets is an important detection tool for suspicious financial activity. The box below highlights an example from one guidance document.

**Box 4.2. VASP Sector-specific Guidance**

In response to the inherent vulnerabilities in the virtual assets sector, many jurisdictions have provided guidance specific to the operators in that sector. The Cayman Islands, for example, issued updated guidance in February 2021 pursuant to revisions in their legislation.

The guidance generally notes the types of providers subject to relevant AML/CFT legislation, and the underlying features of the products that may give rise to money laundering risks, including those linked to drug trafficking. The guidance specifically notes a nexus to drug trafficking as a trigger for enhanced due diligence:

As prescribed in Sections 27 and 28 of the AMLRs [the Anti-Money Laundering Regulations, the regulatory framework against financial crimes], where the ML/TF risk is higher based on the existence of any of the circumstances listed in Section 27 of the AMLRs, Enhanced Due Diligence (EDD) measures must be taken. For example, VA transfers from or associated with countries with significant levels of organised crime, corruption, terrorist, or other criminal activity, including source or transit countries for illegal drugs, human trafficking, smuggling, and illegal gambling, or countries subject to sanctions or embargos, or countries with weak governance, Act enforcement and regulatory regimes may present higher risks for ML and TF. Other indicators may be risk factors associated with the VA product, service, transaction, or delivery channel, including whether the activity involves pseudonymous or anonymous transactions, non-face-to-face business relationships or transactions, and/or payments received from unknown or un-associated third parties.

Source: Cayman Islands Monetary Authority (2020), Guidance Notes (Amendments) on the Prevention and Detection of Money Laundering, Terrorist Financing and Proliferation Financing in the Cayman Islands [https://www.cima.ky/upimages/commonfiles/PARTIXSECTORSPECIFICGUIDANCENOTESONVIRTUALASSETSERVICEPROVIDERS\\_1614290813.pdf](https://www.cima.ky/upimages/commonfiles/PARTIXSECTORSPECIFICGUIDANCENOTESONVIRTUALASSETSERVICEPROVIDERS_1614290813.pdf).

<sup>44</sup> FATF (2020), *12-Month Review of the Revised FATF Standards on VAs and VASPs* [www.fatf-gafi.org/publications/fatfrecommendations/documents/12-month-review-virtual-assets-vasps.html](https://www.fatf-gafi.org/publications/fatfrecommendations/documents/12-month-review-virtual-assets-vasps.html)

## Recommendations and Conclusions

### Recommendations

66. Countries should implement the FATF Recommendations in a manner that is consistent with the risk-based approach. The Standards are the most effective framework to address proceeds of crime from opioids (and all other forms of drug trafficking)<sup>45</sup>. In the case of opioids trafficking, effective application of the Standards also means that countries should:
  - a) Improve Risk Understanding
    - i. In general, countries should ensure more rigorous risk assessment practices are in place to develop more robust legal and regulatory frameworks to combat illicit opioids.
    - ii. Countries should continue to identify and assess money laundering risks relating to drug trafficking (as a whole), while considering new developments in drug trafficking. This should include any new trends related to financial transactions for purchase of illicit precursor chemical acquisition and the sale of synthetic opioids and laundering of proceeds using online platforms (including dark web marketplaces). This includes identification of cases of known opioid precursor sales for risk-based review and analysis. Such identification should also aid in the development of risk indicators.
    - iii. Countries should ensure that competent authorities have co-ordination processes that support information and intelligence sharing on money laundering techniques related to emerging drug trends.
  - b) Drive Financial Investigations Forward
    - iv. Prosecutors and law enforcement authorities, including those with extensive background in financial investigations (which could include FIUs, customs and relevant AML/CFT authorities), should obtain additional training on investigations into the financing of the precursor supply chain, and to ensure that the scope of training and awareness includes companies (e.g., pharmaceutical and chemical importers) deliberately or unwittingly providing raw materials to organised criminal groups.
    - v. National authorities should identify legal and operational obstacles to identifying, freezing, seizing, and confiscating assets linked to or generated from money laundering linked to drug trafficking.
    - vi. Strong compliance policies and procedures must describe the special measures that are required to be taken, including those related to client identification and beneficial ownership information, the frequency of updating that information, and ongoing monitoring of business relationships for transactions and business relationships identified as

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<sup>45</sup> This includes the proper implementation of a financial intelligence led framework, composed of a risk-focused reporting system from relevant reporting entities. A strong AML/CFT framework also ensures a strong “follow-the-money” approach to identify, freeze and seize assets that are proceeds of crime.

high-risk with respect to identification of underground banking structures.

c) Improve International Co-operation

- vii. Countries should, on a bilateral, regional, and multilateral basis, identify and leverage existing mechanisms to expand international co-operation on combating synthetic opioid supply chains. These mechanisms could include dialogues or public-private partnerships (see below) to encourage collaboration between source, transit, and destination countries for synthetic drug precursors, professional money laundering networks, and the finished products.

d) Promote Private Sector Engagement and Public-Private Partnerships

- viii. Countries should ensure that private sector reporting entities are aware of the risks of new technologies (including dark web marketplaces and digital assets) to facilitate money laundering linked to drug trafficking and take appropriate measures to deny criminals access to their business platforms or products.
- ix. Countries should identify or leverage existing mechanisms to share red flags and typologies (including confidential or sensitive information, subject to appropriate legal safeguards) with covered private sector entities that relate to synthetic opioid trafficking within their specific jurisdiction.
- x. Countries should identify appropriate information-sharing mechanisms to help private sector entities better identify and report suspicious activity related to the illicit diversion of chemical precursors to organised criminal groups.

## Conclusion

67. The increasing numbers of overdose deaths are a grim reminder of the human toll of the tragic, yet avoidable, impact of synthetic opioids trafficking. Despite the pressing need to do more to address the trafficking of opioids, many authorities still struggle to discover and disrupt the money laundering that enriches those involved in this trade. The report's findings suggest that professional money laundering networks are enabling sophisticated criminal gangs to launder the proceeds of the illicit opioid trade on a large scale. In particular, cases reviewed for this report suggest that Asian money laundering organisations are increasingly being used to launder funds through a variety of methods, leveraging financial systems in a number of jurisdictions. Payments for drugs are also taking place including the use of virtual assets and the dark web.
68. Opioid trafficking joins a long list of other predicate offences where criminals continue to profit, and authorities struggle to identify and recover ill-gotten gains. To make a difference, anti-money laundering efforts need to be a central part of the discussion of how to tackle this sophisticated organised crime. Authorities must do more to take the proceeds out of all forms of narcotics trafficking. To address this, countries must first strengthen their capacity to identify potential risks related to opioids. Relevant law enforcement agencies must co-ordinate closely with financial investigators. Public and private sector

exchanges on this topic are also an important means to provide feedback and useful information on latest trends to stakeholders in the financial sector.

## Risk Indicators

69. The following risk indicators are relevant to financial aspects of synthetic drug trafficking. It is important to note that risk indicators demonstrate or suggest the likelihood of the occurrence of unusual or suspicious activity. The existence of a single risk indicator in relation to a customer or transaction may not alone warrant suspicion of money laundering linked to the trafficking of illicit synthetic opioids, nor will a single indicator necessarily provide a clear indication of such activity, but it could prompt further monitoring and examination, as appropriate.
70. These risk indicators should not be taken to be applicable to illicit synthetic opioids exclusively. In many instances, as proceeds from drug trafficking move from the street level up the value chain to advanced money laundering techniques, including professional and third-party money laundering networks, money linked to illicit synthetic opioids become co-mingled with the proceeds from other illicit drugs. As a result, the indicators are more cross-cutting for different drug types. Reporting entities should use these indicators in conjunction with a risk-based approach and other money laundering indicators; other private sector firms not covered under the FATF Standards could consider incorporating these indicators depending on their potential for exploitation by OCGs.
71. The first section describes risk indicators that could suggest the procurement that supports the trafficking and dealing in synthetic opioids. The second section includes risk indicators that are indicative of the larger ecosystem of money laundering linked to drug trafficking.
72. National authorities should understand that the nature of money laundering tied to drug trafficking can shift rapidly. Organised criminal groups respond to regulations and additional measures designed to detect, disrupt, and limit their money laundering activities. As a result, guidance, advisories, and risk indicators may need updating on a regular basis to ensure appropriate applicability. Such instances underscore the importance of information-sharing with law enforcement and other operational authorities.

### Profiling and Procurement Activities related to Synthetic Opioids trafficking

#### *Customer Indicators*

- Customers engage in money transfers that involve pharmaceutical or chemical sales websites, especially if it outside the established customer profile, or the transactions are being conducted by a business with little corporate history;
- Customer has a known criminal history of involvement with clandestine lab operations or other open-source information related to similar criminal activity;
- Linkages through professional association or role in the supply chain to other related chemical drugs (including isotonitazene, benzodiazepine, tramadol, carfentanyl, etonitazene, protonitazene, buprenorphine, and related chemical

precursors including fluoro-boc-4-AP as well as other scientific names and numbers);

- References made to slang names of synthetic drugs (i.e., Roxies, blues, etc.) on unencrypted website traffic communications in addition to digital private sector platforms, which may be seen by operational authorities or financial institutions /DNFBPs based on context of the communications.
- The entity has business activities or a business model that is outside the norm for its sector or conducts no business activities in its home country. It may also be difficult to confirm the exact nature of the business.
- Customer who is a trading entity engaged in the sale and import of pharmaceuticals with few past indicators of related economic activity (corporate entity possibly formed exclusively to engage in this activity).
  - Trading entity may also have no physical (storefront) or online presence, and minimal staff inconsistent with a pharmaceuticals company or vendor, as determined by open-source reporting or information provided to a financial institution or DNFBP.
  - Registration may be in third-country jurisdiction with no apparent linkage to sources and destination country.<sup>46</sup>
  - Involvement of shell companies or companies formed or registered in a high-risk jurisdiction as nodes in supply chains.<sup>47</sup>
  - Company profile or description may refer to other similar goods such as medicine, supplements, vitamins, etc.
- A customer involved in the import/export of chemicals has sudden, unexplained increases or changes in transactions.
- The business activity of a trade entity does not appear to be appropriate for the stated address, e.g., a trade entity appears to use residential properties, without having a commercial or industrial space, with no reasonable explanation
- Background checks or interactions with owners suggest they are acting on someone's behalf as nominees to hide beneficial owners (e.g., lacking academic or technical experience or background)
- Customers who are pharmaceuticals and chemicals companies have notable lack of routine business activities, such as payroll, operating costs, tax remittances.
- A customer who is a vendor has significant transactions involving postal and courier services providers even though the vendor no online presence.

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<sup>46</sup> The determination for this may be based on different types of registries maintained by or in a particular jurisdiction (corporate registry, tax authority databases, public databases of businesses).

<sup>47</sup> Among other sources, national authorities and private sector entities should consult, inter alia, FATF's public identification of High-risk and other monitored jurisdictions [www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/?hf=10&b=0&s=desc\(fatf\\_releasedate\)](http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/?hf=10&b=0&s=desc(fatf_releasedate))



- A legal person, or persons, that makes enquiries about to import/export companies about receiving and purchasing significant quantities of chemicals as well as medical manufacturing equipment (e.g., pill presses, pressure vats, etc.) lacking a relevant background or business profile consistent with this occupation.
- A trade entity purchases pharmaceutical products, chemicals or products that could be used for production of opioids, allegedly on its own account, but the purchases clearly exceed the economic capabilities of the entity, e.g., the transactions are financed through sudden influxes of cash deposits or third-party transfers to the entity's accounts
- Contracts, invoices, or other trade documents have vague descriptions of the traded chemicals or pharmaceutical products, e.g., the subject of the contract is only described generically or non-specifically

### ***Trade Based Money Laundering***

73. Trade-based money laundering schemes are known to operate in support of various predicate offences, including narcotics trafficking. These schemes are typically associated with professional money launderers and require well-developed supply chains and organised actors operating in multiple jurisdictions. It is important to note that the transfer of goods is not an end in and of itself; rather, the transfer of goods is meant to substitute for the transfer of value (often black-market foreign exchange).
74. Below are several examples of risk-indicators developed in this report. Additional information on risk indicators for trade-based money laundering can be found in the 2019 FATF-Egmont Report on Trade Based Money Laundering and Indicators Paper<sup>48</sup>.
  - Corporate structures of trade entities are illogical, involve shell companies and companies in high-risk jurisdictions
  - A trade entity is registered or has offices in a jurisdiction with weak AML/CFT compliance
  - A trade entity displays a notable lack of typical business activities, e.g., it lacks regular payroll transactions in line with the number of stated employees, transactions relating to operating costs, tax remittances.
  - A trade entity has unexplained periods of dormancy.
  - A trade entity engages in transactions and shipping routes or methods that are inconsistent with standard business practices. And shipments of commodities are routed through a number of jurisdictions without economic or commercial justification.
  - Trade activity is inconsistent with the stated line of business of the entities involved, e.g., a car dealer is exporting clothing, or a precious metals dealer is importing seafood.

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<sup>48</sup> See 2020 FATF-Egmont TBML Risk Indicators Paper and Report: [www.fatf-gafi.org/publications/methodsandtrends/documents/trade-based-money-laundering-trends-and-developments.html](http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-based-money-laundering-trends-and-developments.html)

- A trade entity engages in complex trade deals involving numerous third-party intermediaries in incongruent lines of business.
- Inconsistencies across contracts, invoices, or other trade documents, e.g., contradictions between the name of the exporting entity and the name of the recipient of the payment; differing prices on invoices and underlying contracts; or discrepancies between the quantity, quality, volume, or value of the actual commodities and their descriptions.
- Company involved small- to medium-size import/export company, or is a wholesaler, dealer or broker operating in a sector dealing in high-volume, high-demand commodities with variable price ranges, including agriculture, foodstuffs, textiles, electronics, toys, lumber, and paper, and automotive or heavy equipment.
- The entity transacts with many entities that have activities in the above-noted sectors or have names that suggest activities in a wide range of unrelated sectors, then several or the following transfers and activities occur:
  - receives a sudden inflow of large-value electronic funds transfers.
  - orders electronic funds transfers to the benefit of East Asia-based trading companies or individuals and receives electronic funds transfers from the United States and Latin American countries.
  - orders electronic funds transfers to the benefit of entities or individuals in the United States, Mexico, or Latin American countries, and receives such transfers from the United States.
  - orders or receives electronic funds transfers to/from entities holding a bank account in Eastern Europe or known offshore company formation centres and are registered to addresses in the U.K or other offshore financial centres; and
  - orders or receives payments for goods in round figures or in increments of approximately USD 50 000.
- A trading company based in a high-risk jurisdiction orders electronic funds transfers for the benefit of individuals or entities in known destination countries for opioids or their precursors.
- An entity's US dollar business accounts held in a known destination country exhibit flow-through activity—that is, money is taken or transferred out of the account as quickly as it flows in.
- An entity imports currency (predominantly United States dollars) from Latin American countries.
- An entity makes large business purchases by credit card, funded by overpayments.
- An individual issues cheques, purchases drafts or orders electronic funds transfers through the account of a legal professional for trade-related payments

## Money Laundering linked to Drug Trafficking, including potentially Synthetic Opioids Trafficking

75. Often, after the placement stage in the ML process, the underlying predicate offences are indiscernible to reporting entities. Therefore, broader risk indicators come into play to identify ML schemes. Below are several indicators for high-risk activity that the project team found to be associated with drug-related trafficking:

### *Account and transaction activity suggestive of low-level trafficking*

76. While several of the below risk indicators may be unique to recent drug trafficking trends for low-level trafficking, these risk indicators also apply to other forms of money laundering linked to drug trafficking.
- Person receives numerous small-scale electronic funds transfers, or makes a significant number of small payments through payment service providers to the same accounts in high frequencies without a business or employment profile that matches activities
  - VASPs see customers with extensive use of the dark web and virtual currencies for small payments of incremental amounts of drugs for personal use in high frequencies. Boxes 2.6, 2.7, and 2.9 provide a range of examples related to use of virtual assets in drug trafficking. Often, these transactions mirror low level drug trafficking activity and are not traditionally associated with higher quantities/bulk purchases with associated dollar amounts;
  - An account of a trade entity appears to be a "pay-through" or "transit" account with a rapid movement of high-volume transactions and a small end-of-day balance without clear business reasons<sup>49</sup>, including:
    - An account displays frequent deposits in cash which are subsequently transferred to persons or entities in free trade zones or offshore jurisdictions without a business relationship to the account holder.
    - Incoming wire transfers to a trade-related account are split and forwarded to non-related multiple accounts that have little or no connection to commercial activity
    - Payment for imported commodities is made by an entity other than the consignee of the commodities with no clear economic reasons, e.g., by a shell or front company not involved in the trade transaction.
  - Person holds a courier and postal account and purchases numerous postal or courier services on a regular basis out of profile with their purported business activities with no justifiable business rationale.
  - Person exhibits traits suggesting drug trafficking in his or her financial profile<sup>50</sup>:

<sup>49</sup> This may be indicative of higher-level trafficking depending on the amounts in the underlying transactions.

<sup>50</sup> See example, FINTRAC Canada (2018), *FINTRAC Operational Alert: Laundering of the Proceeds of Fentanyl Trafficking* [www.fintrac-canafe.gc.ca/intel/operation/oai-fentanyl-eng](http://www.fintrac-canafe.gc.ca/intel/operation/oai-fentanyl-eng)

- Client makes transactions that are inconsistent with his or her employment or customer profile.
- Client conducts untypical cash transactions given his or her profile, such as ATM transactions for larger amounts than would normally be expected.
- Client lives beyond his or her apparent means or incurs significant travel expenses that are inconsistent with his or her profile, such as for car rentals, hotel bills, airline tickets and fuel purchases.
- Client has funds deposited into account in amounts below the reporting threshold from what appear to be multiple third parties located in many parts of a city or region
- Client is the subject of negative media (stories about drugs and weapons offences).
- Client uses multiple financial institutions; their accounts involve significant cash flow-through; and they carry out minimal typical banking retail activity with cash (such as paying household bills).
- Use of legal person and business registration names in a fraudulent manner. For example, a new company will adopt a name similar to an existing large company that legitimately imports precursor chemicals.

#### ***Use of underground Banking and Un-authorised Money Value Transfer Services***

77. Several cases of synthetic opioid trafficking involved the use of un-authorised money value transfer services (MVTs) for the transfer of proceeds to countries from which synthetic opioids or their precursors originated. These methods are often used among members of the same nationality, who use informal networks to exchange value representing the proceeds of crime across borders. Below are some risk-indicators potentially indicative of this activity. For more information on unregulated MVTs, see the 2016 FATF Report on the Risk-based Approach for MVTs<sup>51</sup>:

- Accounts are funded by a high volume of large international wire transfers from general trading companies and/or foreign currency exchanges located in higher risk jurisdictions
- Remitting companies have addresses that correspond to an address or company service provider in major financial centres.
- Transactions involve individuals or entities linked to criminal activities (and possibly to synthetic opioids) by media, law enforcement and/or intelligence agencies.
- Accounts receive a high volume of cheques from money services businesses, along with cash deposits from multiple regions within the country, bank

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<sup>51</sup> See 2016 FATF Report (and annex on unregulated MVTs)  
[www.fatf-gafi.org/publications/fatfrecommendations/documents/rba-money-or-value-transfer.html](http://www.fatf-gafi.org/publications/fatfrecommendations/documents/rba-money-or-value-transfer.html)

drafts and/or cheques from multiple financial institutions where the issuer/purchaser cannot be established.

- Funds are depleted through outgoing wire transfers, email money transfers, cheques, bank drafts to self, or related businesses at different financial institutions, and/or to third parties, including law firms, trusts, and real estate companies.

### ***Professional Money Laundering Networks***

78. Professional money laundering networks are two or three steps removed from the illicit activity, so they do not have specific knowledge of the origin of the proceeds, which makes it difficult for financial institutions to use traditional red flag indicators. Professional money launderers sell their services to these groups and are involved in the majority of sophisticated money laundering schemes; they are not members, nor are they involved in the predicate offences that generate illicit proceeds. As such, they present unique identification challenges
79. In 2018, the FATF produced a report outlining the specialised services and business models of professional money launderers, highlighting types of dedicated organisations, their mechanisms, and the use and abuse of financial service providers and other professionals. Below are some examples of risk indicators. Additional information on professional money laundering and risk indicators can be found in the 2018 Report<sup>52</sup>.

*An accountholder at a financial institution (such as a Money Service Businesses) does some or all of the following<sup>53</sup>:*

- Receives a sudden inflow of large electronic funds transfers and cash deposits; followed by an increased outflow of electronic funds transfers, cheques and bank drafts made out to multiple unrelated third parties for loans or investments, or to the individual conducting the transaction;
- Undertakes numerous currency exchanges involving multiple currencies;
- Carries out business largely with or through high-risk and non-cooperative jurisdictions, and other jurisdictions with a record of deficiencies in providing responses regarding international co-operation requests, and countries with strategic deficiencies in combatting money laundering.
- Receives electronic funds transfers from foreign exchange and trading companies based in the above-noted countries for real estate transactions, loans, or investments.

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<sup>52</sup> See 2018 FATF Report on Professional Money Laundering: [www.fatf-gafi.org/publications/methodsandtrends/documents/professional-money-laundering.html](http://www.fatf-gafi.org/publications/methodsandtrends/documents/professional-money-laundering.html)

<sup>53</sup> FINTRAC (2018), Operational alert: Professional money laundering through trade and money services businesses, [www.fintrac-canafe.gc.ca/intel/operation/oai-ml-eng](http://www.fintrac-canafe.gc.ca/intel/operation/oai-ml-eng)

*An accountholder at a financial institution or money services business owner, associate or employee does some or all the following<sup>54</sup>:*

- Maintains personal account activity similar to that of a money services business;
- Attempts to avoid reporting obligations when exchanging currency on behalf of another money services business;
- Lists multiple occupations, addresses and/or telephone numbers with financial institutions or online;
- Lists occupation as immigration consultant, student, homemaker or unemployed;
- Lives outside of their reasonable means (i.e., buys real estate beyond what they could reasonably afford on their claimed income);
- Attempts to close an account(s) to avoid due diligence questioning;
- Receives wires and transfers from multiple sources in accounts at numerous banks and credit unions; the individual then depletes these amounts through drafts payable to self or for real estate purchases;
- Places large, structured cash deposits into the same account at multiple locations on the same day; and
- Is a customer at many banks and credit unions and negotiates many self-addressed bank drafts from various financial institutions.







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The background of the lower half of the page is a composite image. It features a close-up of several white, oval-shaped pills with a vertical score line, scattered across the frame. In the lower center, the eyes of a person on a US dollar bill are visible, looking directly at the viewer. The overall color palette is dominated by the white of the pills and the blue and green tones of the currency.

The FATF report aims to assist law enforcement and other authorities in carrying out financial investigations into the growing illicit trade in fentanyl and other synthetic opioids more effectively. It includes risk indicators that can help identify suspicious activity and makes recommendations on the best approaches to detect and disrupt financial flows relating to this illegal trade. This includes training for law enforcement and prosecutors to better understand the supply chain and the role of the pharmaceutical industry, international cooperation between source, transit and destination countries, and public-private partnerships to share red flag information and help the private sector better identify and report suspicious activity.