



Environmental crime and links to money laundering

Overview

Environmental crime is defined as a violation of laws that have been put in place to protect the environment.

The European Union's 6th Anti Money Laundering Directive (6AMLD) includes environmental fraud as a **significant predicate offence**. It's a worldwide problem estimated to be worth over \$250 billion per year by the UN's Environment Program. It's one of the most lucrative criminal enterprises behind illegal drugs, counterfeiting and human trafficking. And it's growing - the UN estimate a growth rate of 5-7% per year, 2- 3 times as fast as the worldwide economy.

It generates significant financial gains, offences typically include:

- animal poaching.
- animal smuggling.
- production and disposal of hazardous waste.
- pollution of the atmosphere, oceans, rivers, or earth; and
- illegal logging, mining etc.

Resources, particularly related to animal poaching and smuggling, are centred in low regulation countries and generate substantial profits, consequently environmental fraud has become a major money laundering predicate offence.

Red flags for money laundering through environmental crime

If your firm has clients that are in environmentally sensitive areas, both geographically or, because of the sector, you should consider the environmental crime risk as part of your client due diligence.

The following red flag indicators are common indicators for environmental crime. A solid understanding of the red flags will help you monitor your firm's exposure to this risk

- **Is it more complex than it needs to be:** Environmental criminals may set up shell companies to handle shipping for illegal goods? Shell companies may have obscure beneficial ownership, overly complex infrastructures or in tax havens.
- **Transactions:** Environmental criminals may engage in irregular or inconsistent transaction patterns, transact in amounts that don't match the scale of their stated business or transact with high-risk countries and environmental crime hotspots.
- **Cash:** By dealing with cash, environmental criminals may be able to operate with a greater degree of anonymity. Firms should be on the lookout for a high frequency of cash transactions or requests for high denomination bank notes.
- **Documents for import/export/movement:** Criminals may seek to avoid AML checks when transporting the products of environmental crimes by faking, failing to complete or

manipulating documents (this is true of refuse disposal licences for asbestos for example, animals may need animal movement documentation).

- **New areas of work:** Is the client's business outside your normal area of work, are you familiar with the rare species involved or the rare substances? Do you know what laws/licenses are required? If not is this an area of work that you want to be part of.
- **Newly formed SPV:** New projects that benefit from the governments financial support via CFD's (contracts for difference) may be new companies with little, or no history, care should be taken to establish the true beneficial owners and the source of funding
- **Adverse media/Screening:** Involvement in adverse media is an important indicator of money laundering risk linked to environmental crime. Clients that are involved in environmental crimes may be included on **international sanctions lists** or other watch lists. Firms should screen customers to verify their sanctions status and monitor negative news media for example by using **Google Alerts**.

Suspicious Activity Reporting (SAR)

If you know or suspect money laundering or terrorist financing activity you should make a SAR. Guidance on reporting is available at: www.nationalcrimeagency.gov.uk