

CERRITOS CONFERENCE 2021



UNTOC

TOPIC:
MONEY LAUNDERING

DIRECTOR: ZESHAN MUTTALIB

October 9th, 2021

To Delegates of CHSMUN Novice 2021

Dear Delegates,
Welcome to CHSMUN Novice 2021!

It is our highest honor and pleasure to welcome you all to our 2021 novice conference here at Cerritos High School. On behalf of the Cerritos High School Model United Nations program, we are proud to host this conference, where you will become more knowledgeable on international issues, participate in intellectually stimulating discussions, and create new and everlasting friendships.

The CHSMUN program continues to compete around the world as a nationally ranked MUN program. Our delegates utilize diplomacy in order to create complex solutions towards multilateral issues in the global community. Our head chairs are selected from only the best seniors of our program, undergoing a rigorous training process to ensure the highest quality of moderating and grading of debate. Furthermore, all the topic synopses have been reviewed and edited numerous times. We strongly believe that by providing each and every delegate with the necessary tools and understanding, he or she will have everything they need to thrive in all aspects of the committee. We thoroughly encourage each delegate to engage in all of the facets of their topic, in order to grow in their skills as a delegate and develop a greater knowledge of the world around them.

Although there will be a few changes to our conference due to Covid-19, our advisors and staff have put in countless hours to ensure delegates have an amazing experience. Our greatest hope is that from attending CHSMUN 2021, students are encouraged to continue on in Model United Nations and nevertheless, inspired to spark change in their surrounding communities. With this strong circuit consisting of over 500 delegates, CHSMUN Novice 2021 will provide a quality experience for beginner delegates to enhance their speaking and delegating skills.

If you have any questions, comments, or concerns, please contact us! We look forward to seeing you at CHSMUN Novice 2021!

Sincerely,

Anushka Panjwani & Naima Dellawar

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Secretary-Generals

Note from the Director:

Delegates:

Hi, my name is Zeshan Muttalib, and I'll be your director for the UNTOC committee. This is my fourth year in Model United Nations in high school, and my sixth year in all. My favorite committees to be involved in include UNODC, Ad Hoc on Terror, IAEA. A bit about myself, I'm a senior at Cerritos High School, where I'm involved in our medical club HOSA, as well as many other activities outside of conventional classes. Outside of school, I'm involved in EarthLinking, an organization based on spreading awareness on the preservation of the environment, as well as in sports like soccer, where I play at a club level. In my free time, I love to watch and analyze soccer, basketball, as well as to listen to music and study history and philosophy. Specifically, I love to listen to hip-hop and rap, and my favorite sports teams are Real Madrid and the Lakers. I look forward to this experience with all you delegates, and I hope we can learn something from this conference for the better. You may contact me if you have any questions. Good luck!

Sincerely,

Zeshan Muttalib

Director, UNTOC

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Committee Introduction:

The United Nations Convention against Transnational Organized Crime (the UNTOC) was founded in 2000, in response to rising organized crime around the world. The UNTOC defines organized crime as “a group of three or more persons that was not randomly formed, existing for a period of time, acting in concert with the aim of committing at least one crime punishable by at least four years' incarceration in order to obtain, directly or indirectly, a financial or other material benefit”. This conference will deal with the consequences of what such organized crime groups do, specifically to this committee, in how they launder illegal money. The UNTOC has made significant progress, in how it has passed conventions like Protocol Against the Smuggling of Migrants by Land and Sea and the Protocol against the Illicit Manufacturing of and Trafficking in Firearms. The UNTOC has close ties with UNODC, which tackles drug trafficking and related topics, often related to organized crime.

Topic: Money Laundering from Organized Crime Groups

Background

According to the UNODC, around 2 - 5% of the global GDP is laundered all across the world, but this stat in itself is difficult to assess because of the very nature of the activity of money laundering, done with much organization and seclusion. Money Laundering is the process of “cleaning” illegally obtained money to seem legally generated, and hence the term “laundering” is used to describe this act of “cleaning”.

The reason why Money Laundering is so harmful to the world economy is because of the way it enables illegal practices, such as drug trafficking or embezzlement. It’s impact is felt much more vigorously in impoverished nations, where illegal practices can run rampant with no detection from public and economic institutions, which guides huge amounts of economic instability.

This instability guides investors away from investing big bucks in a developing economy, and creates the rampant inequality we see in such countries, as groups who partake in the activity seek solely their enrichment and usually provide a socially-degrading service that promotes crime. There are three known steps that every launderer goes through to hide cash. The first step is placement, where an organized criminal group will deposit their illegally-obtained money to a bank through a legal business. The amount deposited will almost always be more than the actual amount of sales the legal business generated, as a portion of the illegal money is deposited alongside the actual sales. Now, the cash has been successfully placed into a legitimate bank account. The next step is layering, where the money begins to be funneled off to other businesses, most commonly real estate, or through shell and holding companies that can further funnel money through their ownership of multiple other businesses. After that, under its disguise, the money goes through multiple currency exchanges, invested in the financial market you’re setting up shop in, and ultimately transferred to accounts in this country that has much less financial regulation, known as offshore tax-havens. Now, the cash has been successfully layered amongst many different businesses, and transferred to a tax-haven, making it hard to trace the original source while avoiding taxation. At this point, the money has been fully “cleaned”, and the final step can take place, integration. Because the money is “clean” now, it can be used freely, in legitimate businesses to buy business-related items, or for personal investment for the bosses of this group, which is what often takes place.

However, this model itself is also being sidestepped as a result of more modern advents, like intricate fraud schemes, and the use of crypto-currencies, which has lessened the use of cash in major transactions from these organized crime groups. As a result of how these organizations disguise their sky-high revenues, they exert huge amounts of influence over their country or territory, through corruption and bribery of law enforcement and politicians. A major example of this is Mexican Cartels, who control 20% of Mexico’s territory off of their enormous drug trafficking business. Bribery is utilized mainly, as many Mexican state officials are paid off, allowing cartels to gain control of many territories to ease trafficking operations. This

exemplifies the extent to which laundered money funds the corruption of many developing nations, showing why this practice is so harmful for any stable development.

United Nations Involvement:

The United Nations is a leading international force in the fight against money laundering, as multiple of its own committees, like the UNTOC and the UNODC, are most involved in finding solutions and taking action against money laundering. There's a slight difference between the work these two committees do however.

The UNODC takes the frontline, having the responsibility to take action through their law enforcement responsibilities, as is seen with their anti-money laundering and organized crime units. Whereas, the UNTOC finds solutions, focusing on passing tangible international law to help governments apply the law on money launderers, particularly those from organized crime groups. Along with the UNTOC, the United Nations Security Council passes some of the most meaningful legislation against money laundering. An example of this is Resolution 2462 passed by the security council, which is based upon countering financing of terrorism. Terrorist organizations are amongst the most powerful organized crime groups, meaning that their financing likely comes from excessively laundered money. The resolution broadens counter-financing efforts in order to create superior investigation and enforcement, by requiring that domestic law, concerning human rights and refugees, be consistent with counter-financing efforts in order to ease the legal intricacies that may slow down meaningful enforcement.

The UNODC's (United Nations Office for Drug Control and Crime Prevention) Global Programme against Money Laundering has also been an essential contribution from the United Nations on this topic. It covers the wide range of areas that must be addressed in solving mass money laundering, including training, awareness, research, and law enforcement. The programme provides money laundering detection training for businesses, law enforcement, and judicial officials, expert research and analysis on bank secrecy, offshore tax-havens, and other issues associated with money laundering, as well as support for the establishment of financial investigation services within domestic law enforcement.

In close cooperation with the United Nations are organizations like the Financial Action Task Force (FATF), who are heavily involved in the fight against money laundering through their legislative strategies. Such strategies are outlined in their Forty Recommendations on Money Laundering, outlining a number of actionable solutions that can help to crack down on the financing of organized crime groups. A United Nations subsidiary, the International Monetary Fund (IMF), is also heavily involved against money laundering, especially within terrorist financing. Anti Money Laundering and counter-terrorism finance policies are heavily shaped by the IMF, with its involvement in Financial Sector Assessment Programs, and subsequent implementation of financial integrity measures in such programs. As a result, the IMF also evaluates the compliance of nations to the anti money laundering/counter-terrorism financing standard in order to help developing programs in developing countries stay on track.

Case Study: Mexico

Latin America is a hotbed for organized crime, and specifically Mexico, who's cartels profit most from the lucrative drug trafficking business, and as a result control 20% of the country's territory, as pointed out in the background. Most of the money earned by such cartels are laundered, and utilized in more illegal ways, such as bribes to law enforcement and public officials. These bribes secure a state's law enforcement to protect the cartel's drug shipments. For example, the attorney-general of the state of Nayarit, Edgar Veytia, accepted bribes from the H-2 gang, a cartel in that region, in order to secure its law enforcement for the protection of their shipments. As a result, rival cartels, such as the powerful Sinaloa cartel, were aggressively targeted by law enforcement through wiretaps, arrest, and cold-blooded murders, on the orders of the H-2 gang. What enabled this? The laundered cash from the H-2 gang, showing its impact in expanding organized crime groups' influence.

However, Mexico has made progress in its fight against money laundering, as can be seen 2012 anti money laundering law, which created stable procedures and guidelines on illegal transactions and terrorism financing. Some of these procedures include limits on certain transactions, such as the 500,200 peso limit on real estate sales and purchases, which combats the popular use of real estate within a placement or layering scheme. In 2018, the law was updated to also pertain to the popular use of cryptocurrencies to launder money, as traditional cash laundering schemes begin to be found out and cracked down.

Bloc Positions:

Western: Although it may seem otherwise, organized crime is still somewhat common in Western nations. Italian-American Mafia La Cosa Nostra is still said to be influential despite its steady decline, according to the Congressional Research Service. But the West's involvement in money laundering is in the process itself, as very many European banks are involved in dealing with illegal transactions. The Danske Bank scandal exposed dealings by Danish and Swedish banks from suspicious Baltic cash flows, exemplifying the West's complicity in the laundering of illegal cash. The lax regulations of countries such as Germany and Luxembourg allows for money laundering fines not needing to be disclosed, thus easing the reputational impact of launderers, and making it a hotspot to launder money in. But the West contains many strong financial institutions, like the United States Treasury Department, that provides exceptional research and help with money laundering identification around the world. With such resources being invested in anti-terrorism as well, the West can be a beacon of support against money laundering.

Latin America and the Caribbean: Latin American organized crime is amongst the most notorious in the world, with major drug trafficking rings from Mexico, down to Colombia, constantly laundering their profits in order to spend on expanding their influence. Meanwhile, the Caribbean is home to many popular tax-havens, such as the Cayman Islands, British Virgin Islands, and Bermuda, where laundering takes place with ease. Latin American countries, such as Panama and Belize, are less popular, but similar tax-havens where money laundering takes place. Financial institutions like the Inter-American Development Bank must take the lead in mitigating the effects of these organizations and launderers, as this bank has with its investment in pilot programs that fights money laundering in Latin American and Caribbean countries.

African: Similar to Latin America and the Caribbean, Africa is unfortunately plagued with organized crime groups, particularly terrorist organizations such as Boko Haram and Al-Qaeda. Setting up meaningful legislation upon money laundering would allow Africa to thrive, but nations like Botswana, Ghana, Zimbabwe, and Mauritius continuously fail to reach anti-money laundering requirements and initiatives. In general, Africa underperforms behind most of the world in anti-money laundering requirements and counter-finance terrorism legislations. There is hope however, as nations such as Ethiopia and Tunisia have made significant strides in their enforcement of money laundering policy, and pan-African organizations such as the African Union are beginning to implement meaningful anti-terrorism legislation. Like Latin America and the Caribbean, the fight against money laundering amongst organized crime is one that most in the region recognize as an essential battle.

Asian-Pacific: This bloc spans a very large area of the world, and as a result, is home to a diverse amount of organized crime groups and financial institutions who are complicit in laundering. Western Asia, or more specifically the Middle East, is a hotspot for organized terrorist groups, who launder huge amounts of cash earned by trafficking drugs. No better an example of this than Hezbollah, a Shiite Lebanese terrorist organization, who have a sophisticated criminal activity network consisting of drug trafficking, across most of the world but mostly the Middle East, and money laundering ties to Mexican cartels like Los Zetas. Meanwhile, Eastern Asia and the Pacific is where money is laundered at a large scale, with nations like Macau and Hong Kong being hotspots for such, and Pacific islands like the Cook Islands and Nauru that serve as ideal tax-havens. Despite the many differences amongst the continent, the goals for both Western and Eastern Asia/Pacific are vested in the same interests, to mitigate organized crime and its subsequent laundering of money.

Basic Solutions:

Despite the fact that money laundering spans a corporate and governmental side, it's important to find solutions pertaining to money laundering from organized crime groups, as the UNTOC is primarily focused on the topic of organized crime. Delegates should propose

solutions that minimize the ability for these groups to launder money and take advantage of such money to commit illegal activities.

For example, solutions can focus on stronger law enforcement capabilities, as it mitigates an organized crime group's business, slowing down unreasonable profits that become laundered. Many nations around the world are pushing for the proliferation of extradition treaties in order to strengthen ties between nations who are affected by transnational organized crime like drug trafficking. Long term extradition treaties, such as the US-Mexico treaty, have found great success in tying down cartel kingpins like El Chapo in feared American prisons. Despite the Sinaloa's Cartel success, it shows how extradition can be leveraged in taking down those facilitating organized crime, and enough law enforcement applied onto more cartel members can eventually lead to the end of such illegal activities.

Another example of solutions that work for this topic are those that concern banking security against possible instances of laundering. As was alluded to in the Bloc position paragraphs, many financially laidback countries hold banking institutions that are taken advantage of by money launderers, and that may include sophisticated organized crime. A specific example of this could be to encourage the wider use of FinTech (Financial Technology) to detect financial malfeasances with greater efficiency and correctness, and to target the possible usage of crypto-currencies to launder. American financial institutions spend about \$50 million anti-money laundering compliance annually, yet only catch about 2% of money laundering instances, which shows that financial institutions can spend the money on anti-money laundering FinTech, but use incorrect and inefficient methods currently. Technologies such as Cognitive Computing and Graph Analytics are slowly beginning to be utilized for anti-money laundering purposes in the United States, by the Financial Crimes Enforcement Network, and need to be quickly picked up by financial institutions all across the world at a faster rate.

Similarly within the financial realm, solutions having to do with taxation laws work as well. Because of the stealthy methods of organized crime groups, they barely leave a paper trail, but taxation laws such as the net-worth method have shown great successes in ascertaining organized crime incomes. At the beginning of a taxation period, a taxpayer's net worth is established. The net-worth from the beginning of the period is subtracted from the net-worth at the end of it, and then the net gain becomes considered as the taxpayer's income. This catches organized crime groups off-guard, with huge increases in their net worths from their booming businesses, and means that they'll likely evade more tax which establishes a hefty criminal charge. Al Capone is an example of a kingpin who got caught from this strategy, failing to pay a million dollars in taxes, and subsequently leading to the downfall of his empire. Such taxation strategies can be utilized similarly and should be proposed in committee, as it concerns organized crime, and therefore leads to the finding out of illegal incomes, as these cannot pay these hefty taxes with dirty money.

It's also important to understand that solutions based on finances must be very well-thought out, as extreme and unrealistic solutions can lead to violations of financial autonomy, which is very important for nations with large financial institutions and their

reputations. But in general, a degree of realisticness that doesn't compromise originality and specificity should be principles that your solutions should be based upon.

Questions to Consider:

1. Is your country affected by the money laundered by domestic organized crime groups, if so, how?
2. What measures has your country put forward to mitigate money laundering, domestically and internationally?
3. What can be more effective in eliminating money laundering, the targeting of an organized crime group's business, or the heightened anti-money laundering measures?
4. Is your country popular amongst money launderers, or is it a hotbed for organized crime, if so, why?
5. How does your country plan to balance anti-money laundering regulations with financial and economic freedom?
6. Where has your country fallen short in mitigating money laundering or the growth of organized crime groups?
7. If your country has done well in mitigating money laundering and/or the growth of organized crime, how has it achieved this?

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