



Audience: CBSA Intelligence & Enforcement, International Region,  
Trade Operations Division, Commercial Operations Division  
Enforcement and Intelligence Priority: Smuggling and Contraband

Issued: OCT 2020  
Expiry: OCT 2021

## Intelligence Collection, Analysis & Production Division

### Electronics and Canadian Goods Returned/ The Abuse of Tariff Codes 9813 and 9814 in TBML ICAP\_2020-OCT-001



#### Recommended for Shift Briefing

##### Summary

1. Recent Pacific Region Intelligence Section (PRIS) analysis of customs trade data related to suspected Trade Based Money Laundering (TBML) has identified a potential laundering scheme employing cross-border movement of electronics, used in connection with “goods returned” tariff items 9813.00.00 and 9814.00.00. (U)

##### Issue

2. The Canada Border Services Agency (CBSA) has a mandate to identify and investigate the customs-based Trade Fraud (TF) that underlies TBML and to refer suspected laundering cases to the Royal Canadian Mounted Police (RCMP). (U)
3. TBML is “the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins.”<sup>1</sup> TBML is one of the most sophisticated methods of cleaning ‘dirty’ money. (U)
4. TBML harms Canada’s national security, international reputation, economic security and revenue. (U)
5. The suspected scheme highlighted in this paper demonstrates a method of TMBL in Canada which utilizes both import and export programs to give the illusion of legitimate trade in electronics goods to mask the movement of illicit funds. (U)

<sup>1</sup> Trade Based Money Laundering. Financial Action Task Force. 2006-06-23. <http://www.fatf-gafi.org/media/fatf/documents/reports/Trade%20Based%20Money%20Laundering.pdf>



6. Criminals involved in TBML use customs paperwork to justify the movement of ‘dirty’ money across borders (wire transfers, credit card payments, letters of credit, etc.). Importing-exporting provides a legitimate cause for money transfers. (U)
7. The Customs Tariff provides provisions for customs duty (and taxes) relief for goods exported from Canada and subsequently returned to Canada under tariff items 9813.00.00 and 9814.00.00 (see [Memorandum D8-2-27, Canadian Goods, Originating in Canada or Accounted for, Temporarily Exported and Returned](#), for further information). (U)

### Suspected Scenario

1. Purchaser P from a foreign country needs to launder \$100,000 in proceeds of crime. Purchaser P collaborates with Entity X in Canada. (U)
2. Entity X receives a purchase order for 100 smart phones from Purchaser P and invoices Purchaser P with a \$100,000 bill of sale. (U)
3. Purchaser P wire-transfers \$100,000 to Entity X, quoting the invoice number in the remittance field of the wire. No red flags are noticed as the money transfer is for a legitimate sale/purchase, supported by an official invoice. (U)
4. Entity X receives the money and ships the goods to Purchaser P. The money has now been ‘cleaned’ by the “legitimate” sale transaction. (U)
5. Purchaser P, having collaborated since the beginning with Entity X, now sends the phones back to Canada, quoting a made up reason on the return documents (e.g.: not happy with the purchase, not what was ordered, unsatisfactory quality). (U)
6. Entity X initiates the re-importation clearance process, and as per D8-2-27 and the terms of tariff items 9813.00.00/9814.00.00, satisfies the processing Border Services Officer (BSO) or Senior Officer Trade Compliance (SOTC) that the goods are of Canadian origin and have been previously accounted for in Canada. This is usually achieved by providing BSOs with the original export documents, invoices, etc. Once satisfied, the goods are released. (U)
7. \$100,000 of ‘dirty’ money has just been successfully transferred from the foreign country to Canada without raising any suspicion. The whereabouts of the money connected to the “sale” is not questioned during the re-importation process as this is not a requirement under tariffs 9813.00.00/9814.00.00. (U)



## Analysis

8. Staff encountering shipments meeting this criteria should consider the following:  
(U)
9. Exportation and re-importation of the same high-value commodity is a red flag indicator for TBML. (U)
10. Personal electronics, such as smart phones, smart watches, and laptops are often the targeted type of goods.(U)
11. Small, high value electronics are generally not manufactured in Canada. Their importation under tariff items 9813.00.00 or 9814.00.00 should be a red flag. This is especially true for large and/or high value commercial shipments.(U)
12. It is not a sound business practice for Canadian businesses to sell these kinds of goods to non-domestic entities. The cost of having the goods imported (shipping charges, duties and taxes, etc.), combined with the cost of subsequent sale and export (further shipping charges and potential duties and taxes assessed at the destination) is too high. (U)
13. Since the goods that are not typically made in Canada, the practice of exporting them for sale and then re-importing them again makes little sense. Most buyers will purchase directly from the country of origin. (U)
14. The practice could also point to a “Phantom Shipment,” a known TBML modus operandi where the movement of goods occurs on paper only, providing alibi for any financial transactions completing in the background. In the eyes of TBML actors, the duties and taxes assessed are simply a cost of doing business (the actual profit from such TBML transactions is exponentially higher). (U)
15. Since TBML schemes employ a complicit buyer and seller, the risk for TBML increases in related party transactions, when the two parties of a trade transaction either have a linked corporate structure, or both ends of the trade transaction are controlled by the same entities. (U)



## Implications for the Canada Border Services Agency (CBSA) and Canada

16. Individuals and commercial entities moving goods to and from Canada have an obligation under the *Customs Act* to provide true, accurate and complete information pertaining to those goods. (U)
17. The Customs Act empowers officers to examine any goods entering or leaving Canada, including asking clarifying questions with respect of those goods. (U)
18. When customs tariff 9813.00.00/9814.00.00 is claimed, goods that were exported from Canada and are returning to Canada must be described in sufficient detail on commercial documents to enable verification that the goods exported are the same goods now returning to Canada. As stated in D8-2-27, “[w]hen an importer accounts for goods under tariff item Nos. 9813.00.00 or 9814.00.00, the importer may be required to provide evidence of the purpose for the export relating to the goods (e.g.: shipping documents, evidence of the temporary exportation).”(U)
19. BSOs and SOTCs should compare the information related to the original export transaction (e.g.: description of goods, value, quantity, reasons for export, any available financial transaction data - i.e., was it a sale, how was the amount owed settled, who was the sender/receiver of funds, invoice details) to the information presented during the re-importation clearance request. (U)
20. For goods and/or invoices bearing serial numbers (SN), BSOs and SOTCs are encouraged to review those for any irregularities (e.g., fraudulent or fantasy SNs). Repetative SNs can also occur. (U)
21. Similarly, SOTCs conducting post-release verifications on transactions involving tariffs 9813.00.00/9814.00.00 should reviewing the transactions in order to detect non-compliance with customs legislation, but should also to be aware of the mentioned TBML red flags. (U)
22. BSOs and SOTCs should ask clarifying questions to paint a full picture about the particular import-export-re-import cycle (or a part of, as applicable). It is important to establish what has happened to the funds related to the transaction/sale. For example, has the (now) importer returned funds to the original buyer via a refund? If so, using what method (Electronic Funds Transfer, cheque, credit, etc.)? (U)



## If Encountered

23. When TBML red flags are noticed, BSOs and SOTCs are highly encouraged to gather as much information as possible and submit it to Regional Intelligence via the Occurrence Reporting System (ORS) or contact the CoE at [CBSA.Trade\\_Fraud-Fraude\\_commerciale.ASFC@cbsa-asfc.gc.ca](mailto:CBSA.Trade_Fraud-Fraude_commerciale.ASFC@cbsa-asfc.gc.ca). (U)

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