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“Human Trafficking and the International Financial System”

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Human Trafficking and the International Financial System

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Before 2000 and the movement of human trafficking into the cyber world, the profits generated from human trafficking were generally of lesser significance than today. Human trafficking has grown in the United States and internationally as larger networks can function online and organize international supply chains for both labor and sex trafficking. The pandemic has not changed the financial patterns of money laundering but merely made the online² and cryptocurrency trends more pronounced.

A key element of the interaction of human trafficking with the global economy is through the products generated by trafficked laborers. Some of the major commodities associated with trafficked laborers include: chocolate, clothing and textiles, coltan (an essential element of cellphones), and fish. The profits generated by the sale of these items move into global trade and the proceeds can often not be distinguished from licit flows of goods. This is an element of trade-based money laundering that will be addressed below.

The proceeds of human sex trafficking enter into the global financial system in a variety of ways, as investigated cases in the United States and abroad reveal. In the past fifteen years, as human trafficking has moved online, the sums involved are larger and the trade interacts more with the virtual economy including virtual currency. I will discuss these newer methods subsequently and briefly describe the criminal cases that illustrate the disposal of profits by the networks that are involved in human trafficking. For many years, the proceeds of human trafficking have intersected with the legitimate economy in the following ways and they continue to be used. :

- 1) **Underground banking:** A large Chinese network two decades ago engaged in both human smuggling and human trafficking. The individuals moved by this criminal ring were placed in over 400 legitimate businesses in the Washington, DC area and more in New York City. Therefore, their work contributed to the profits of restaurants, take-outs and other businesses. The combined smuggling-trafficking ring also made money directly from the people they moved and deposited this money in banks. Law enforcement did not move quickly to freeze the accounts of the traffickers after arresting one of their members and \$60

¹ Louise Shelley is the Nancy and Omer Hirst Endowed Chair and Director of the Terrorism, Transnational Crime and Corruption Center, Schar School of Policy and Government, George Mason University. Part of this analysis on supply chains and networks of human trafficking was done while supported by NSF EAGER grant, EAGER: ISN: A New Multi-Layered Network Approach for Improving the Detection of Human Trafficking, Award.

² Christina Bain and Louise Shelley, "The Evolution of Human Trafficking During the COVID-19 Pandemic," Council on Foreign Relations, August 13, 2020.

<https://www.cfr.org/blog/evolution-human-trafficking-during-covid-19-pandemic>.

million was moved back to China rapidly through underground banking.³ Other smuggling/trafficking operations involving China also use underground banking to repatriate profits.⁴

- 2) **Money laundering into Real Estate:** The White Lace Case which was based on a human trafficking ring that generated approximately \$7 million in Los Angeles in the period 2000-2002. It was the first time that money laundering was charged in a prostitution case by the LAPD (Los Angeles Police Department).⁵ The small amount of money made by the victims was transferred to their homes in the former Soviet Union through wire transfers. The millions in profits made by the manager of the trafficking ring were invested in real estate in the Los Angeles area and wired to Switzerland.⁶ Such cases are hard to detect because of the absence of beneficial ownership information in real estate and profits are often disguised. This is particularly the case with the ownership of ubiquitous massage parlors today that number in the thousands where only 28% of businesses had registered owners.⁷ The need to fully implement the laws on beneficial ownership in regards to spas and massage parlors is of even greater currency after the recent tragic killings in Atlanta.
- 3) **Cash Movement:** In one of the largest Dutch investigations of a trafficking ring operating in the Netherlands with 120 victims, the criminals used the trafficked women as couriers of cash back to Turkey. The money was then invested in nightclubs and bars in the resort community of Antalya, Turkey.⁸ Bulk cash has also been identified in the United States.
- 4) **Establish Allied Businesses to Facilitate Money Laundering:** Businesses are established as vehicles through which to launder the profits generated from human trafficking. A criminal network in Southern California which recently was

³ Louise Shelley, *Human Trafficking a Global Perspective* (Cambridge and New York: Cambridge University Press, 2010), 106, 117.

⁴ Illustrative of this is the case of Patrick Radden Keefe, *The Snakehead: An Epic Tale of the Chinatown Underworld and the American Dream* (New York: Doubleday, 2009).

⁵ Operation White Lace, December 2002, https://www.lapdonline.org/december_2002/news_view/21690

⁶ Shelley 2010, 120.

⁷ “Corporate Secrecy Fuels Human Trafficking in the United States,” 2018, <https://polarisproject.org/news/press-releases/corporate-secrecy-fuels-human-trafficking-united-states>

⁸ Discussion of the Turkish case at an OSCE meeting, Vienna. Report on the case, see https://ec.europa.eu/anti-trafficking/sites/antitrafficking/files/us_trafficking_in_persons_report_2011_netherlands_en_1.pdf.

apprehended opened a fashion boutique in order to disguise the profits from human trafficking is illustrative of this phenomenon.⁹

- 5) **Credit Cards:** The Financial Coalition Against Child Pornography (FCACP) works with The National Center for Missing & Exploited Children (NCMEC), and its sister agency, the International Centre for Missing & Exploited Children (ICMEC). FCACP is a coalition of credit card issuers and Internet service companies that seeks to eliminate commercial child pornography by taking action on the payment systems that are used to fund these illegal operations. Many of the payments for the purchase of child pornography have been made through credit cards, making the work of this coalition important.¹⁰ Credit cards are often used to pay for online advertisements for sexual services, although the names of the payee is often now disguised since Fosta/Sesta so as not to arouse suspicion from payment processors.
- 6) **Money Transfer Businesses:** Money transfer businesses were identified early in human trafficking investigations as helping pay for the transportation costs of trafficking victims. French parliamentary hearings in 2001 identified Western Union's transfer of funds derived from human trafficking.¹¹ The problem did not end then. The Department of Financial Services in New York alleged that "senior Western Union executives and managers ignored suspicious transactions to Chinese Western Union locations by several high-volume agents, including money transfers linked to human trafficking." This resulted in a \$60 million fine paid by Western Union in 2018.¹² The problem of wire transfer businesses moving the proceeds of human trafficking is not confined to Western Union. Moneygram was also involved in transferring money for a criminal gang in a prominent Southern California case.¹³
- 7) **Wire Transfer:** A 2013 case of smuggled rock lobster from South Africa to the United States reflects a combination of environmental crime, prosecuted under the

⁹ [Cindy Von Quednow](https://ktla.com/news/local-news/7-arrested-in-connection-with-operating-sex-and-labor-trafficking-ring-out-of-businesses-in-3-socal-counties/), "7 arrested in connection with operating sex and labor trafficking ring out of businesses in 3 SoCal counties," March 5, 2021, <https://ktla.com/news/local-news/7-arrested-in-connection-with-operating-sex-and-labor-trafficking-ring-out-of-businesses-in-3-socal-counties/>.

¹⁰ ICMEC, "Financial Coalitions Against Sexual Exploitation".

<https://www.icmec.org/financial-coalitions/>.

¹¹ *Les Documents de l'information de l'Assemblée Nationale*, "L'esclavage, en France, aujourd'hui," 2001, No. 3459, vol. 2, 31.

¹² "Western Union Settles New York Money Laundering Probe for \$60 million," Jan. 4, 2018, <https://www.reuters.com/article/us-usa-western-union-settlement/western-union-settles-new-york-money-laundering-probe-for-60-million-idUSKBN1ET24Y>.

¹³ "Detecting Human Trafficking in Financial Institutions."

http://files.acams.org/pdfs/2016/Detecting_Human_Trafficking_In_Financial_Institutions.pdf.

Lacey Act, with human trafficking. Workers were imported illegally from South Africa to Maine and forced to process the rock lobster that was illegally imported. The exploitation of the trafficked laborers increased the high profits of the seafood smugglers. Millions in proceeds from this crime were wired to an offshore locale.¹⁴ Examination of MS-13 gang cases from Northern Virginia by the author also reveal that the proceeds of sex trafficking are transferred to MS-13 members in Central America.

- 8) **Banks:** The proceeds of trafficking operations have been located in banks in a range of cases both in the United States and abroad. In a California case, fifty different accounts were used to launder the proceeds of human trafficking.¹⁵ More recently, in July 2020 Deutsche Bank agreed to pay a \$150 million penalty to the New York State Department of Financial Services “for significant compliance failures in connection with the Bank’s relationship with Jeffrey Epstein”, as well as Danske Estonia and FBME Bank, both entrenched in money laundering scandals at the time.¹⁶
- 9) **Cryptocurrencies:** Human traffickers make hundreds of thousands of dollars at a minimum annually from the exploitation of children. Cryptocurrencies are used both by traffickers to purchase advertisements and by sex buyers to purchase premium memberships on review board websites. The website Welcome to Video, which was a platform for child sexual abuse material (CSAM) on the dark web, handled membership through a cryptocurrency-based points system: in order to view more videos, members were required to either upload their own new content (gaining points for the number of views from other members), or to pay for new videos using bitcoin.¹⁷ Like Backpage, Welcome to Video was shut down by federal authorities in 2018, but numerous sites have subsequently developed as replacements.

FinCEN has also issued warnings of traffickers using multiple layers of payment along with cryptocurrency to protect their identities. In April 2016, members of the West Side City Crips gang from Phoenix, Arizona were discovered to be

¹⁴ <https://www.justice.gov/usao-sdny/pr/officers-fishing-and-seafood-corporations-ordered-pay-nearly-225-million-south-africa>; interview with lawyer familiar with the case.

¹⁵ Marjorie Hernandez, “Mastermind of Human Trafficking Ring Sentenced,” April 5, 2017, <https://www.vcstar.com/story/news/2017/04/05/mastermind-prostitution-ring-sentenced/100082852/>.

¹⁶ Department of Financial Services, “Superintendent Laceywell Announces DFS Imposes \$150 million Penalty on Deutsche Bank in Connection with Bank’s Relationship with Jeffrey Epstein and Correspondent Relationships with Danske Estonia and FBME Bank” (Press Release) July 7, 2020.

https://www.dfs.ny.gov/reports_and_publications/press_releases/pr202007071

¹⁷ Chainalysis, “Human Trafficking: Cryptocurrency as Part of the Solution” (Webinar) <https://go.chainalysis.com/human-trafficking.html>

trafficking women out of a motel in El Paso, Texas. Homeland Security Investigations found evidence through one gang member's mobile phone and bitcoin wallet that the group was purchasing Vanilla Visa prepaid credit cards, using these prepaid cards to purchase bitcoin, and using those bitcoin to purchase sex ads on backpage.¹⁸

- 10) **Trade-Based Money Laundering:** In the late 1990s and early 2000s, the London police who were pioneers in following the money found that export-import businesses were key to repatriating the profits of human trafficking for sexual exploitation. One brothel in London was filled with galoshes purchased with the profits of human trafficking. The galoshes would be sold in Ukraine to turn the crime profits into a legitimate economy. More traditional commodities were also used, such as cars.¹⁹

In one of the largest labor trafficking cases identified in the United States, profits from a car theft ring, based in Florida, were laundered into a marijuana farm (a form of real estate). In Operation Dual Identity, trafficked workers were then brought to tend the marijuana, and the proceeds of this trade then entered the illicit drug economy.²⁰

Businesses also used over and under invoicing, classic techniques of trade-based money laundering. The galoshes may be a colorful example but this is a much larger and pervasive phenomenon with fictitious or manipulated invoices used to justify large flows of money.

Human Trafficking and the Financial System Post 2000

The scale and the proceeds of human trafficking have changed profoundly since the early 2000s. Evidence of this is provided by a major United States government-funded computer research program on human trafficking conducted by DARPA (Defense Advanced Projects Research Agency), part of the Department of Defense. The computer scientists developed a tool, known as Memex, that mined the deep web for advertisements on sexual services. Their data mining goes back to the early 2000s. In one two year period, between 2014 and 2016, the researchers reported in "Scientific American" that advertisement expenditures of about \$250 million were spent on posting

¹⁸ FinCEN, "Supplementary Advisory on Identifying and Reporting Human Trafficking and Related Activity" October 15, 2020.

https://www.fincen.gov/sites/default/files/advisory/2020-10-15/Advisory%20Human%20Trafficking%20508%20FINAL_0.pdf.

¹⁹ Shelley 2010, p.120.

²⁰ Louise Shelley, *Dark Commerce: How a New Illicit Economy is Threatening our Future,* (Princeton and Oxford: Princeton University Press, 2018), 115.

more than 60 million advertisements for commercial sexual services.²¹ The size of the advertising budget suggests the scale of the business as advertisements are only a share of a business's expenses or its profits.

The money from these advertisements went, in part, to the online platforms that posted them. One of the most popular sites was Craigslist, whose owners made large sums. Its revenues in 2010 from these ads were estimated at \$36 million.²² Its adult services section was shut down after mounting pressure from activists and state attorneys general.²³ This led to advertisers of adult services migrating to Backpage, which then became the predominant player in the marketing of sexual services. The public online marketplace, Backpage, differed from Craigslist as most of the website's money was generated specifically through the posting of escort and massage advertisements, and therefore, it more freely advertised its adult services sections.²⁴ Backpage was shut down by federal authorities in April 2018 shortly before greater controls were placed on internet hosting providers as a result of new federal legislation. In the month before it was shut down, Backpage posted over 133,000 advertisements for sexual services.²⁵

One recent federal case initiated with the examination of a Backpage advertisement in San Francisco and then used Memex to construct the criminal network. This was a lengthy process to construct a networks and supply chain from this initial advertisement. The size of the network reveals the scale and the global reach of the business whose key node was traced to a criminal based in China. In November 2018, seven Chinese nationals were indicted. Their trafficking network had 30,000 customers, 500 web domains that were linked to an additional 350,000 escort advertisements and fifty-five websites. According to the indictments, the "Supermatchescort" network operated in

²¹ Larry Greenmeier, "Human Traffickers Caught on Hidden Internet," February 8, 2015, <https://www.scientificamerican.com/article/human-traffickers-caught-on-hidden-internet/> and also the accompanying visualization that reveals the international links, Scientific American Exclusive: DARPA Memex Data Map, retrieved 7 August 2019, <https://www.scientificamerican.com/slideshow/scientific-american-exclusive-darpa-memex-data-maps/>.

²² Brad Stone, "Sex Ads seen Adding Revenue to Craigslist," April 25, 2010, <https://www.nytimes.com/2010/04/26/technology/26craigslist.html>.

²³ William Saletan, "Pimp Mobile: Craigslist shuts its 'adult' section. Where will the ads go now?" *Slate*, 7 September 2010, retrieved 5 August 2019, <https://slate.com/news-and-politics/2010/09/craigslist-shuts-its-adult-section-where-will-sex-ads-go-now.html>.

²⁴ California Attorney General, 'Attorney General Kamala D. Harris Announces Criminal Charges Against Senior Corporate Officers of Backpage.com for Profiting from Prostitution and Arrest of Carl Ferrer, CEO,' 6 October 2016, retrieved 5 August 2019, <https://oag.ca.gov/news/press-releases/attorney-general-kamala-d-harris-announces-criminal-charges-against-senior>.

²⁵ Ryan Tarinelli, 'Online Sex Ads Rebound, Months After Shutdown of Backpage,' *Forensic Magazine*, 30 November 2018, retrieved 5 August 2019, <https://www.forensicmag.com/news/2018/11/online-sex-ads-rebound-months-after-shutdown-backpage>.

fifty-eight cities throughout the United States, Canada, and Australia. Money for this vast operation went to Backpage, ISPs and massage parlors on two continents as well as being sent to China.²⁶

The ability to legally place advertisements online for sexual services ended in the Spring of 2018 when the Stop Enabling Sex Traffickers Act (SESTA) and Allow States and Victims to Fight Online Sex Trafficking Act (FOSTA) legislation was passed by Congress with overwhelming support. The recently enacted legislation removed the protections for web hosting services, ISPs, and social media sites in regard to the crime of human trafficking.²⁷

Within a month of the passage of the FOSTA-SESTA legislation and the censoring of Backpage, advertisements for commercial sex plummeted eighty-two percent, according to an organization mining escort advertisements. However, after four months, the numbers of advertisements jumped back to seventy-five percent of their daily volume before Backpage was censored.²⁸ Some analysts believe many advertisements have merely shifted since 2018, to platforms hosted on servers outside the reach of the United States and not subject to the new legislation.²⁹ Therefore, the money is going into the global financial system but not to American-based advertisers and web-hosting services.

The hosting of websites and the placement of advertisements involves many companies. As Cyrus Vance testified, some of these include GoDaddy and T-Mobile.³⁰ Providers of housing, such as Airbnb,³¹ are also part of the new online economy that through its vast rental network also includes sites that are rented and then exploited by human traffickers. Therefore, the online economy and communications industry are key to the activities of

²⁶ Louise Shelley and Leah F. Meyer, "Human Trafficking Network Investigations: The Role of Open Source Intelligence and Large-Scale Data Analytics in Investigating Organized Crime," *International Journal on Criminology* Vol. 7, No. 2 (spring 2020), pp. 87-100.

²⁷ H.R.1865 - Allow States and Victims to Fight Online Sex Trafficking Act of 2017, retrieved 7 August 2019, <https://www.congress.gov/bill/115th-congress/house-bill/1865>.

²⁸ C Biederman, 'Inside Backpage.com's Vicious Battle with the Feds,' *Wired*, 18 June 2019, retrieved 5 August 2019, <https://www.wired.com/story/inside-backpage-vicious-battle-feds/>.

²⁹ E Heil and A Nichols, 'Hot spot trafficking: a theoretical discussion of the potential problems associated with targeted policing and the eradication of sex trafficking in the United States,' *Contemporary Justice Review*, Vol. 17, No. 4, 2014, p. 424.

³⁰ Statement of New York County District Attorney, Cyrus Vance, January 30, 2018, <https://republicans-financialservices.house.gov/uploadedfiles/hhrg-115-ba09-wstate-cvance-20180130rv.pdf>.

³¹ David Oliver, "Exclusive: Airbnb expands pledge to fight human trafficking amid hospitality industry struggles" February 20, 2020. <https://www.usatoday.com/story/travel/hotels/2020/02/20/airbnb-human-trafficking-polaris-partnership-amid-industry-lawsuits/4806104002/>

human trafficking for sexual exploitation. Yet obtaining information from some of the businesses in this sector can be slow or difficult, impeding investigations.

Discussing the movement of money related to the businesses, New York City Prosecutor Cyrus Vance identified some of the same financial components used prior to 2000. Money service providers are still key. As Vance testified “They pay to arrange transportation for their victims, pay members of their operations, and move their ill-gotten gains abroad to countries like Russia and China in the blink of an eye.” The traditional financial system of banks still plays an important role as Vance noted in a 2018 hearing, “Traffickers also commonly launder money by opening multiple business accounts at different banks, as well as transferring checks and cash between accounts to cover their tracks.”³² Anonymous shell companies and the absence of beneficial ownership legislation made it possible to easily hide and launder their proceeds in the US and the international financial system.

The cyberworld, through cryptocurrency, has assumed an important part of the financial system of human trafficking in the past couple years. This has been documented in both criminal investigative practice as well as cutting edge computer science research.³³ Bitcoin is used to help run the human trafficking business. As Vance commented from the investigative perspective, cryptocurrency is not used to pay for sexual services. “Instead, the most significant impact of these currencies in sex trafficking investigations has been their role in the online economy.

The volume of online advertisements and memberships, alongside the drastic increase in the value of digital currencies such as Bitcoin, has caused the profits of those who operate websites that facilitate both the supply and demand side of the sex trafficking economy to skyrocket. “Over the last year, the increase in the value of Bitcoin has generated several million dollars in profit for one popular review site.”³⁴

What Policies are Needed to Address Human Trafficking in the Financial System:

- 1) **Beneficial Ownership Law** have been passed and need to be carefully and comprehensively implemented. Traffickers can now hide behind shell companies and anonymous ownership. The largest detected network of human traffickers, discussed above, involved massage parlors in cities across the U.S., Canada and Australia. As mentioned, the vast majority of massage parlors hide their owner’s identity.
- 2) **Cryptocurrency** is being used to finance human trafficking and many other forms of illicit activity. Greater financial oversight is needed of this fast-growing

³² Vance, 2018.

³³ Rebecca S. Portnoff et. al., “Backpage and Bitcoin: Uncovering Human Traffickers,” <https://nyuscholars.nyu.edu/en/publications/backpage-and-bitcoin-uncovering-human-traffickers>.

³⁴ Vance, 2018.

financial instrument. Similarly, cooperation and the sharing of information between government agencies and the private sector is needed to track and analyze criminal transactions. In the case of Welcome to Video, the website was shut down by a coordinated effort between IRS-Criminal Investigations, Homeland Security Investigations, and other national and foreign government agencies, using software from the company Chainalysis, which specializes in blockchain analysis.³⁵

- 3) **Follow the Money** needs to be a much more central part of investigations of human trafficking. This is difficult as there are a relatively small number of Suspicious Activity Reports (SARs) in the FinCEN data base associated with human trafficking. Training and awareness must be raised to not only increase SARs reporting but to make use of these reported suspected transactions that are presently underutilized. Training must also ensure that the reports are detailed, including whether the subject is a suspected victim or offender, and the dates of all suspicious transactions.³⁶ In relation to cryptocurrency, the Anti-Human Trafficking Intelligence Initiative (ATII) stressed in a December 2020 report that banks must strive to “analyze bitcoin transactions in the context of the account activity as a whole”, identifying suspicious activities in both crypto exchanges and brick and mortar bank accounts.³⁷ As the Epstein case indicates, SARs reports on human trafficking are underutilized.
- 4) **Focusing on Supply Chains for Human Trafficking** by looking at transport systems, travel agencies, hotels, rental apartments, ride-share services and short-term rental apartments. According to the Human Trafficking Institute’s analysis of federal trafficking cases in recent years, over 80% of federal cases of sex trafficking involved exploitation at hotel and motels.³⁸
- 5) **Enhance regulation and reporting requirements of online businesses** to vet customers and report suspicious transactions. More needs to be done by companies such as Uber and Airbnb in monitoring data for suspicious patterns of financial transactions and how their businesses inadvertently support human

³⁵ Chainalysis, “Human Trafficking: Cryptocurrency as Part of the Solution”

³⁶ UK Financial Intelligence Unit (UKFIU) Podcast, “Episode 2: How SARs reporters can help combat slavery and human trafficking”, September 24, 2020, <https://podcasts.apple.com/gb/podcast/the-ukfiu-podcast/id1525198769>.

³⁷ Seth Sattler, “Special ATII Report: Crypto transactions and human trafficking – A non-traditional investigation perspective for traditional financial institutions” Anti-Human Trafficking Intelligence Initiative (ATII), shared through Association of Certified Financial Crime Specialists (ACFCS), December 9, 2020. <https://www.acfcs.org/special-atii-report-crypto-transactions-and-human-trafficking-a-non-traditional-investigation-perspective-for-traditional-financial-institutions/>.

³⁸ The data from 2019 is similar to previous years. Human Trafficking Institute, *2019 Human Trafficking Report*, p.30, https://www.traffickinginstitute.org/wp-content/uploads/2020/05/2019-Federal-Human-Trafficking-Report_Low-Res.pdf

trafficking networks.³⁹ The role of online businesses in human trafficking is broader than those companies addressed by the FOSTA-SESTA legislation.

- 6) **Address Trade-based Money Laundering.** This under-acknowledged form of money laundering is key to the movement of the proceeds of human trafficking into the global financial system as leading bankers discuss its pervasive use as other loopholes are shut. Our understanding of TBML requires greater analysis as to how this is occurring in regards to human trafficking, the red flags associated with it and then a carefully conceived program to counter TBML. This will have enormous positive impacts not only in countering human trafficking but other forms of the illicit economy such as the fentanyl trade and environmental crime, especially related to the fishing industry in which large numbers of individuals are subject to labor exploitation.⁴⁰

³⁹ David Oliver, “Exclusive: Airbnb expands pledge to fight human trafficking amid hospitality industry struggles.” Feb. 20, 2020, <https://www.usatoday.com/story/travel/hotels/2020/02/20/airbnb-human-trafficking-polaris-partnership-amid-industry-lawsuits/4806104002/>.

⁴⁰ INTERPOL, “Fighting Illegal, Unreported, and Unregulated Fishing” December 7, 2020. <https://www.interpol.int/en/News-and-Events/News/2020/Fighting-illegal-unreported-and-unregulated-fishing>