Financial Intelligence Unit

Trade-Based Money Laundering

STRATEGIC ANALYSIS STUDY

2022

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1. Summary

Necessity for TBML risk assessment

The dynamic nature of trade transactions, variety of goods and services involved, the involvement of multiple goods, services, counterparties in trade transactions, as well as other aspects increase the risks that trade transactions may be used to commit or conceal ML, tax fraud schemes and other criminal offences. It has been concluded within the framework of the FATF studies that the use of trade transactions is one of the three most widespread methods of moving funds used by criminal groups to conceal the origin of the PC.[1]

The commission of criminal offences may be carried out not only through international trade transactions, but also through transactions taking place within a single jurisdiction, which is why the target audience of this study is mainly the obliged entities under the AML Law, the institutions monitoring and controlling trade transactions, as well as the persons involved in trade transactions.

The study focuses on techniques that can be used in TBML schemes and also collects indicators of possible ML, TF, PF activities through trade transactions.

1.1. By analysing Latvia's import and export statistics applying the "mirror statistics" method for a total of 49 countries (including both EEA member states and third countries), as well as analysing the content of suspicious transaction reports held by the FIU, materials on TBML developed by FATF and various countries, this study identifies techniques used in TBML and trade-based TPF schemes, summarises indicators of possible ML, TF, PF activities within trade transactions and assesses the potential use of the Latvian trading environment in such schemes.

1.2. The total amount of discrepancy in trade data for the countries analysed in the study exceeds USD 7.2 billion in 2020, while in 2018 the discrepancy was 16% higher exceeding USD 8.6 billion. Discrepancy in trade data can be explained by interaction of several factors – challenges in compiling comprehensive statistics, specifics of the methodology used in the study, as well as possible use of trade transactions in criminal schemes, including ML, TF, PF.

1.3. Both in 2018 and 2020, signs which indicate on possible placement of PC in the partner state's financial system in the amount of discrepancy (Risk Profile 1). It is also quite common to see over-invoicing of exported goods receiving payment for goods which have been declared at lower value in the country of destination. In this case, PC may be placed in the Latvian financial system in the amount of difference of the discrepancy. These types of transactions correspond to Risk Profile 2 – PC arise from crimes committed in Latvia and other EU countries.[2]

1.4. Competent authorities have concluded that, under the impact of geographic location and other aspects, neighbouring countries may be involved in TBML schemes more frequently, but this does not exclude the possibility that other countries may also be involved in criminal schemes. It should also be noted that TBML scheme may also involve only the transfer of trade documents among countries, but not of goods (e.g., such a scheme within neighbouring countries would be less costly than in a case where a geographically distant country is involved).

1.5. Based on data[3] it can be concluded that all sectors, groups of goods and services can be exposed to ML, TF and PF activities, but the most vulnerable are transactions involving goods and services with a wide range of prices, goods involved in long trade cycles and goods and services that are difficult for the authorities to verify. In TBML and trade-based TPF schemes, transactions involving services are subject to significant risks. This

[1] FATF/Egmont Trade-based Money Laundering: Trends and Developments. Available at: http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-based-money-laundering-trends-and-developments.html
[2] National Risk Assessment of Money Laundering, Terrorism and Proliferation Financing 2017 -2019, Clause 2.2.1. Available at: https://fid.gov.lv/lv/darbibas-jomas/nacionalais-risku-novertejums/nacionalais-risku-novertejums-2017-2019
[3] See chapter "TBML, TF, PF risk assessment methodology".

is due to the fact that services involve the transfer of intangible values, which often do not produce a tangible and verifiable end result, and their value is subjective.

1.6. In 2020, there was a decrease in the amount of data discrepancy. This is a clear sign that measures are being implemented to limit the scope for fraudulent activities and reduce the vulnerability of the Latvian financial system. One of the reasons for these positive changes is the set of measures implemented in 2019 within the framework of the Moneyval assessment process. In order to establish an effective control and supervisory mechanism to prevent the possibility of using the Latvian financial system for criminal purposes, considerable efforts were made both in the implementation and effective application of the FATF recommendations.

TBML, TF, PF risk assessment methodology

1.7. In order to identify risk indicators, as well as the sectors and commodity groups most frequently involved in suspicious trade transactions in Latvia, and to carry out risk assessments, data from the CSB and Eurostat, statistics compiled in the United Nations Comtrade database, information contained in reports received by the FIU, FATF reports, ECOFEL materials, as well as risk assessments of other countries were used.

1.8. Based on the available data content and analysis options, the study primarily focuses on TBML risks, risk indicators and techniques. Given the specific nature of TF and PF activities, the risks of trade-based TPF should be analysed separately.

1.9. The study collected and analysed suspicious transaction reports submitted by the obliged entities under the AML Law and received by the FIU in 2020 (237 reports in total),[4] of which indicated the typology PR "Transactions in goods". In 2021, 281 reports were received indicating this typology. However, it should be stressed that other suspicious transaction reports may also include trade transactions, transactions in goods, etc., but, according to the aim and scope of the study, received reports where the aforementioned typology was the primary one were analysed. It should be stressed that a qualitative (not quantitative) assessment of the information was performed within the framework of the study, namely, the content analysis of the reports was aimed at identifying the groups of goods, sectors of services, as well as the countries of registration of legal entities that are most frequently included in the suspicious transaction reports within the context of the aforementioned typology.

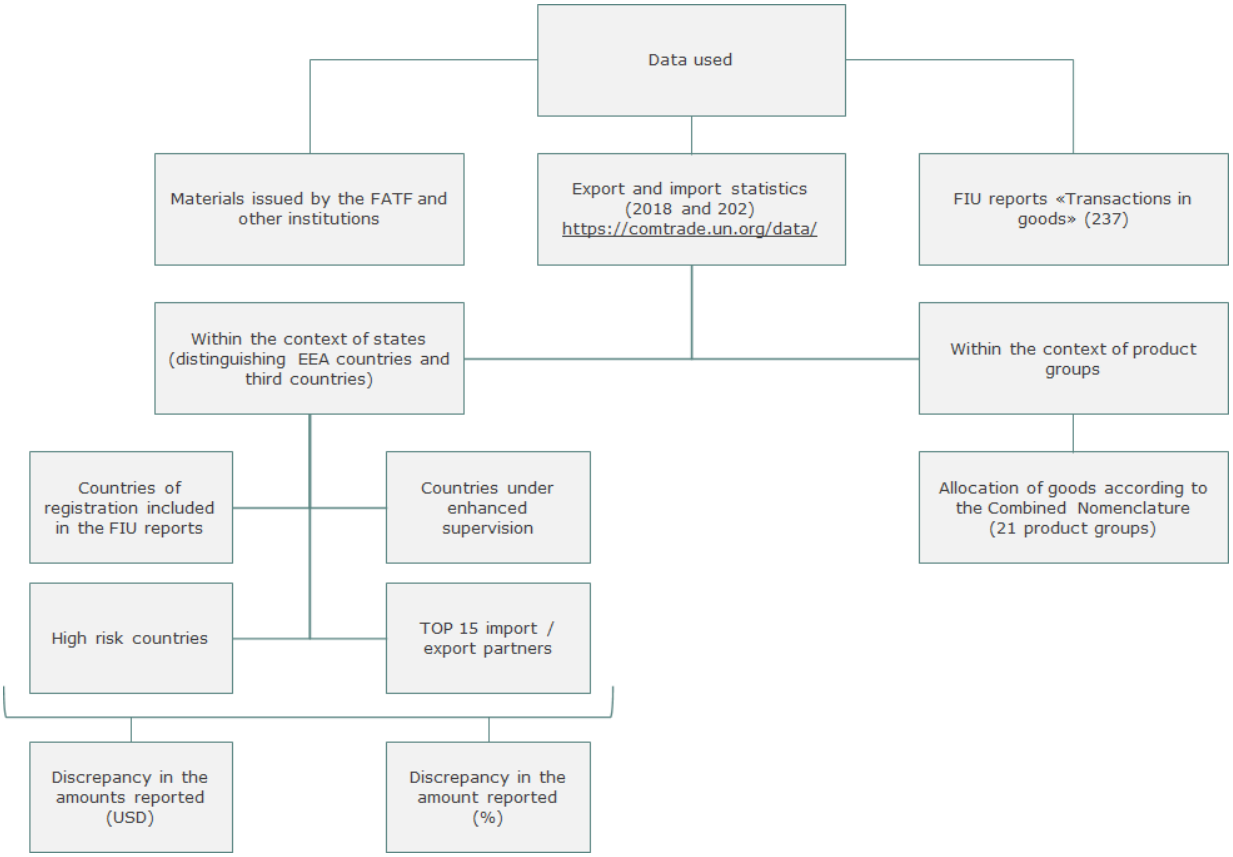
1.10. Based on the FATF report[5] and assessing foreign practices,[6] the study analysed statistics on foreign trade (exports and imports). Taking into account the impact of Covid-19 on economic developments in 2020, as well as the overhaul of Latvian financial sector started back in 2019, statistics for 2020 and 2018 were compiled and analysed to determine the nature of changes in the indicators (see Figure 1).

[4] Number of transactions with the typology PR "Transactions in goods", but this does not exclude the possibility that other suspicious transaction reports received by FIU also contain information on trade transactions.

[5] FATF/Egmont Trade-based Money Laundering: Trends and Developments. Available at: http://www.fatf-gafi.org/publications/methodsandtrends/documents/trade-based-money-laundering-trends-and-developments.html

[6] Magic mirror in my hand…how trade mirror statistics can help us detect illegal financial flows. Available at: https://www.bancaditalia.it/pubblicazioni/qef/2018-0445/index.html?com.dotmarketing.htmlpage.language=1

Figure 1. "Graphical representation of the methodology used in the study"



1.11. Statistics on trade transactions were summarised and analysed within the context of countries and product groups (see Figure 1).

1.11.1. The framework of the countries includes the high-risk countries determined by the FATF and countries and jurisdictions subject to enhanced surveillance,[7] as well as countries of registration of legal entities (from suspicious transaction reports received by the FIU, which indicate the typology PR "Transactions in goods"). In addition, the countries were divided into two groups – EEA and third countries. Thus, 49 countries in total (20 EEA countries and 29 third countries) were analysed within the statistical framework.

1.11.2. Within the context of product groups, statistical data according to the division of the Combined Nomenclature 2020[8] and Combined Nomenclature 2018 were used for compilation and comparison of statistics (21 product groups in total).In order to equalise classification of the available data and to facilitate comparison of the data available in the FIU reports with the generally available statistical data, the FIU reports have been broken down according to the product groups included in the Combined Nomenclature 2020.

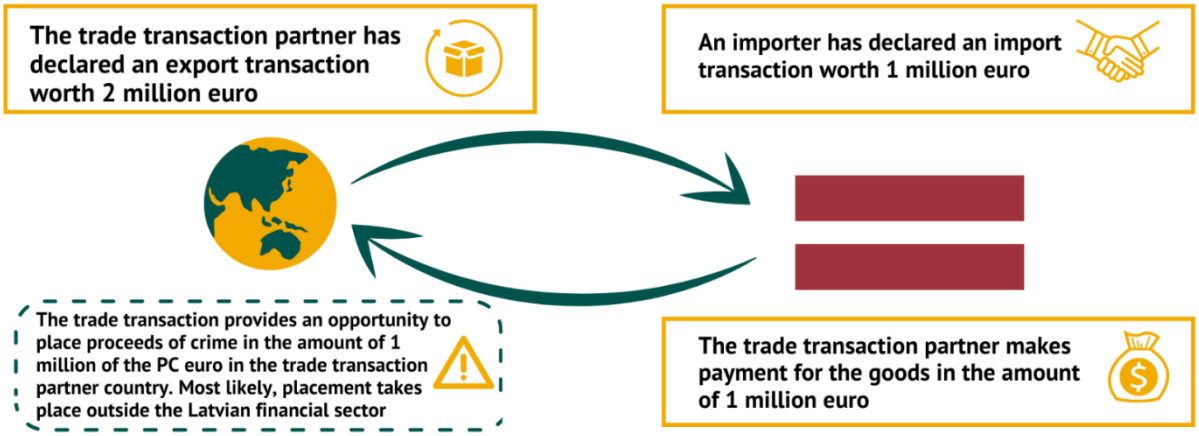
1.12. The risk assessment process used a "mirror statistics" method, within the framework of which official reported statistics on exports and imports of Latvia and its trading partner countries were compared in 2018 and 2020 within the scope of Clause 1.9 (see Figure 1).

[7] Information on high-risk countries and countries and jurisdictions subject to enhanced surveillance. Available at: https://www.fid.gov.lv/lv/darbibas-jomas/starptautiska-sadarbiba/augsta-riska-valstis

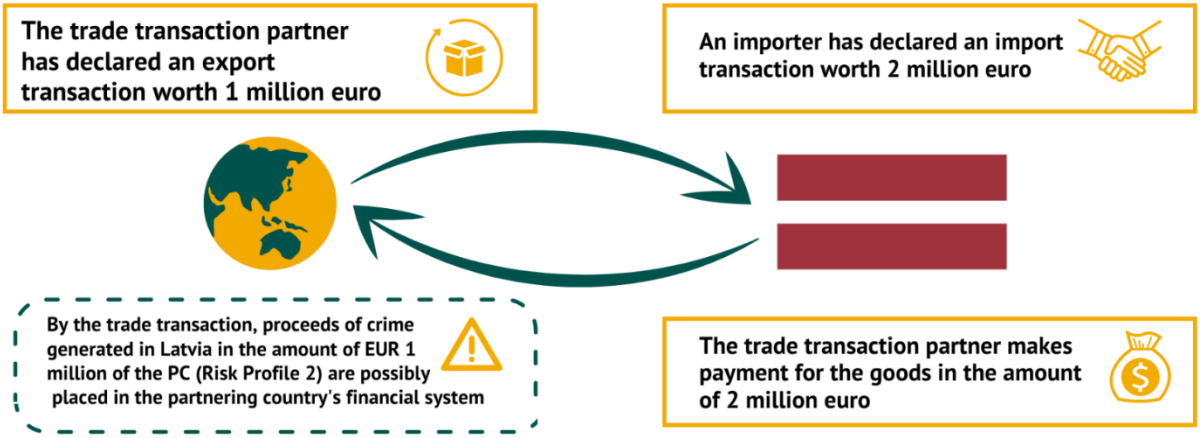
[8] The Combined Nomenclature is a classifier used by the Statistical Office of the European Union (Eurostat) to classify goods and is used to summarise movements of goods between the European Union Member States and third countries. Available at: https://lexparency.org/eu/31987R2658/ANX_I/20200101

1.13. Based on "mirror statistics" data, the study analysed one of the most common TBML methods –*over- and under-invoicing*. The essence of this technique is the manipulation of the true value of goods and services, which leads to a discrepancy in trade transaction data.

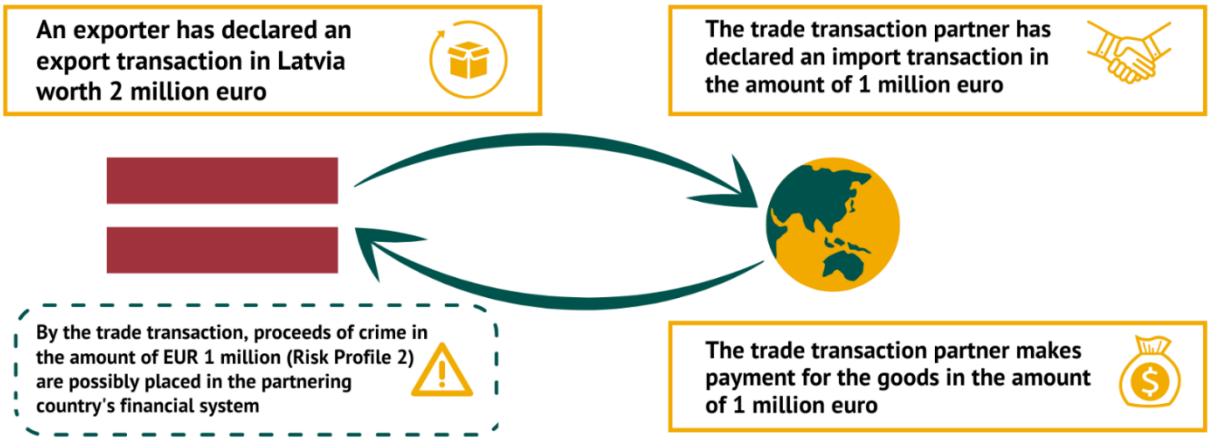
1.13.1. Over-invoicing import.



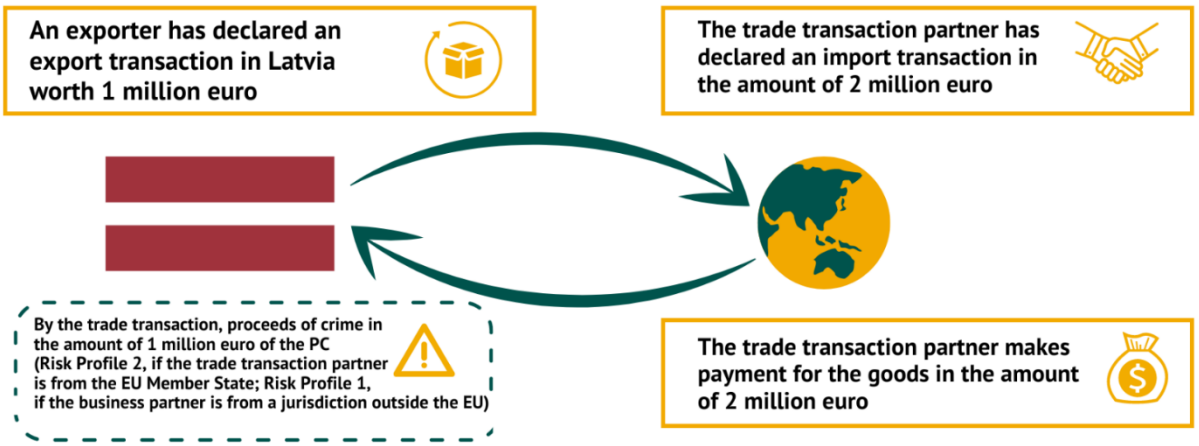
1.13.2. Under-invoicing import.



1.13.3. Over-invoicing export.



1.13.4. Under-invoicing export.



1.14. According to the CSB, Latvia is often the first country through which goods are transported from Russia to the EU countries. Goods coming from Russia are declared at the Russia-Latvia border, despite the fact that Latvia is not the country of destination of the goods, resulting in significant statistical discrepancies. In Russian trade statistics, such transit of goods through Latvia is included in the statistics on exports to Latvia, but in Latvian trade statistics such cases are not included in the statistics on imports from Russia, as Latvia is not the final recipient country of the goods. In order to avoid misrepresentation of statistical data and unjustified conclusions, when summarising statistical data within the context of goods, Russian export statistics are not included in the total for cases where the volume exceeds EUR 10 million USD.

1.15. The study identified the following limitations of the methodology used, which may contribute to different interpretations and inconsistencies of the data:
1.15.1. In the reports received by FIU, the obliged entities under the AML Law have chosen the typology "PR09 - Transactions in goods - other" (no specific ML typology) in 44% of suspicious transactions, which makes it difficult to compile, classify and compare statistics.
1.15.2. Insufficiencies in statistics on transactions with third countries, or unavailability of such statistics.
1.15.3. Unavailability of "mirror statistics" on exports and imports of services. The picture of the services was only gained from suspicious transaction reports submitted by the obliged entities under the AML Law, FATF reports and similar studies in other countries.
1.15.4. The general shortcomings associated with the use of the "mirror statistics" method (see Clause 1.14).

1.16. When using the "mirror statistics" method, it is important to be aware that data discrepancies are not always indicative of criminal activity. There can be several reasons for discrepancies:
1.16.1. differences in the size of national economies (therefore there are different thresholds for imports and exports of goods when companies are obliged to submit statistical returns);
1.16.2. methodological differences (e.g., when adding the missing data for companies which have failed to provide information and companies under the threshold);
1.16.3. aspects related to the geographical location of the country (e.g., Latvia is involved as a transit country in an international transaction);
1.16.4. triangular transactions involving three countries in a trade transaction (a good coming from one country through another and sold in a third country is accounted in the first country assuming the second country is the country of destination);

1.16.5. time lag in the accounting of data (taking into account the duration of the movement of the goods, the time needed for administrative procedures, etc.);
1.16.6. interpretation of the application of the Combined Nomenclature codes (e.g., with respect to the goods in relation to which there are certain difficulties to find the most accurate code);
1.16.7. methodological differences in accounting of specific goods and movements (e.g., electricity, gas, gradual shipment, marine products, industrial equipment, etc.);
1.16.8. differences in relation to the use of data confidentiality;
1.16.9. differences in the use of transaction codes, etc.[9]

1.17. It should also be noted that inconsistencies in trade data between countries may be indicative not only of TBML, but also of other criminal schemes. TBML schemes are similar to tax crime schemes and tax fraud. In many cases, it is impossible to tell the purpose of a trade transaction scheme without a thorough investigation of the case.

[9] The most typical reasons for data discrepancies are summarised in the UN Compilers Guide on International statistics on international trade in goods. Available at: https://unstats.un.org/unsd/trade/publications/seriesf_87Rev1_e_cover.pdf

2. Trade environment in Latvia

2.1. Given the relatively small size of Latvia's economy and domestic market internationally and the fact that resources are limited, economic cooperation with other countries is essential for the sustainable development of Latvia's economy. Thus, since the early 1990s, reforms and cooperation with foreign partners have helped to foster foreign economic relations and the country's integration into the international economy.

2.2. Notable event in this process includes Latvia's accession to the World Trade Organisation on 10 February 1999 and its accession to the EU on 1 May 2004, as a result of which Latvia became not only a full-fledged member of the multilateral trading system, but also a member of the EU single market.

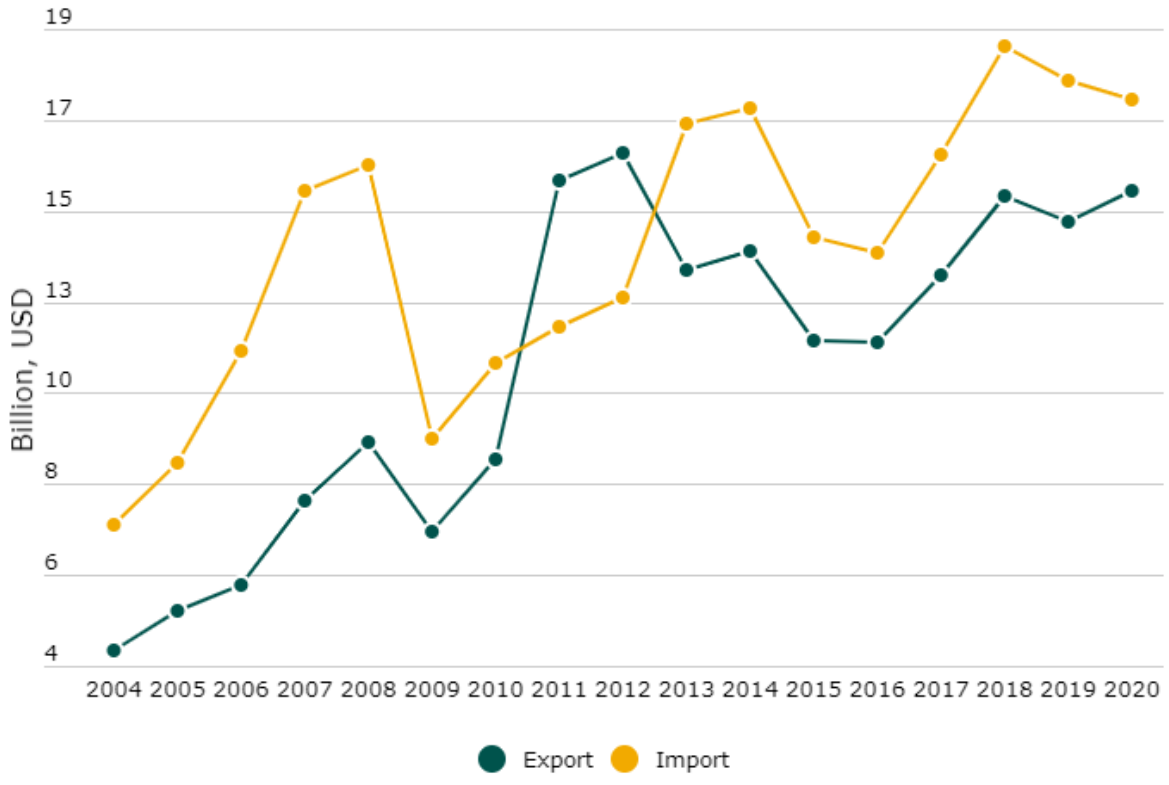
2.3. Latvia's accession to the OECD on 1 July 2016 is also an important step towards improving the quality of the economic and business environment.

2.4. Despite the progress made so far, and in light of developments in our country and in the international economy, work continues on reducing trade barriers in other countries' markets and deepening our economic relations with them.[10]

2.5. Since Latvia joined the EU in 2004, the trade sector, similarly like the national economy as a whole, has experienced both rapid growth and a downturn caused by the global financial crisis. During the period from 2004 to 2007, trade increased by 60%. Whereas, during the downturn (2008-2010), it fell by 17%. From 2011 onwards, trade started to grow again (see Figure 2).[11]

2.6. The year of 2020 will be marked in the history as the year of crisis triggered by the Covid-19, which affected virtually all economic indicators in all the countries of the world, including Latvia.

Figure 2. "Changes in Latvia's international trade volume between 2004 and 2020"



[10] Informative material "Bilateral economic cooperation". Available at: https://www.em.gov.lv/lv/divpuseja-ekonomiska-sadarbiba

[11] National Encyclopaedia. Trade in Latvia. Available at: https://enciklopedija.lv/skirklis/25133

Control of foreign trade transactions in Latvia

2.7. Monitoring and control of foreign trade transactions are regulated by both Latvian laws and EU laws and regulations.[12]

2.8. The control and monitoring aspects of foreign trade transactions depend on both the partner countries and the type of goods or services involved in the transactions.

2.9. Control and monitoring of foreign trade transactions in Latvia is carried out by a number of authorities within the framework of their competence.

2.10. The SRS NCB carries out customs control of goods and other items, their import and export duties, collection of these duties and drawing up customs control, as well as the protection of the country's economic border.[13] The tasks of the SRS NCB are stipulated in the Law "On the State Revenue Service".

2.11. As Latvia is a Member State of the EU, customs control measures are carried out in accordance with the EU Customs Code and EU guidelines, as well as on the basis of national risk criteria. Control measures are based on risk indicators and risk analysis.

2.12. The SRS NTB and the NCID are involved in the control and monitoring of trade transactions within the tax aspects.[14]

2.13. The MFA monitors and controls, within the framework of its competence, trade transactions involving goods of strategic importance, as well as those involving sanctions within any of the aspects.

2.14. All the institutions exchange information and cooperate with various domestic and foreign partners as part of their control and monitoring activities.

2.15. Within the context of trade transactions, services are controlled and monitored only to the extent that they are related to the transaction. For example, the accounting documents related to the transaction (invoices, delivery notes) are verified, but it is not checked whether any legal services were received to process the transaction or the supporting documents, or whether the company received IT, marketing or other services indirectly related to the transaction.

2.16. Transactions with third countries are more closely monitored than those within the EEA, as the control and monitoring of transactions with the EEA allow for a wider range of instruments and counterparties.

Latvia's international trade statistics

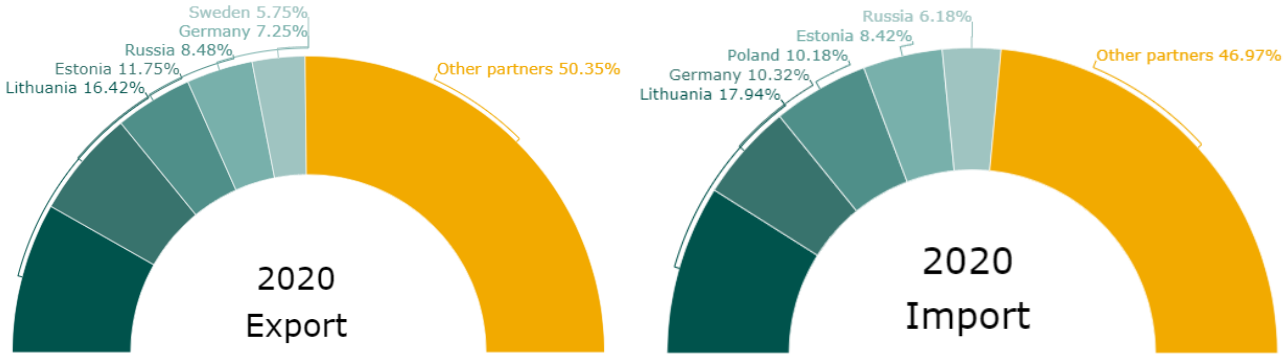
2.17. The CSB compiles statistics on external trade in goods, providing a summarising information on cross-border trade by type of goods and by country groups. Foreign trade data is used to identify a country's trade partners, key export and import goods. Data on foreign trade is obtained from the Integrated Latvian Ship Database of the State Joint-Stock Company "Latvijas Jūras administrācija", data of the Civil Aviation Agency on aircrafts registered and excluded from the Register of Civil Aviation Aircrafts of the Republic of Latvia, information provided by the State Revenue Service National Customs Board, etc.[15]

2.18. In 2020, Latvia exported goods to 197 countries and territories worldwide, and imported goods from 163 countries. In 2020, Latvia's largest export partners (in current prices, mln. EUR) were Lithuania, Estonia, Russia, Germany, Sweden – these export partners accounted for 49.7% of the total export value. Whereas, major import partners (in current prices, mln. EUR) were Lithuania, Germany, Poland, Estonia and Russia, which

[12] Information "Laws and reference". Available at: https://www.vid.gov.lv/lv/tiesibu-akti-41
[13] Law on the State Revenue Service, Chapter 3. Available at: https://likumi.lv/ta/id/59902-par-valsts-ienemumu-dienestu
[14] Information on the areas of activity of the SRS NCB. Available at: https://www.vid.gov.lv/lv/nodokli
[15] A full list of data sources is available on the website of the Central Statistical Bureau. Available at: https://stat.gov.lv/lv/metadati/1498-precu-areja-tirdznieciba

accounted for 53% of the total import value.[16] Also, in previous years (2016 - 2020), these countries have been Latvia's main import partners.

Figure 3. Latvia's largest export and import partners in 2020

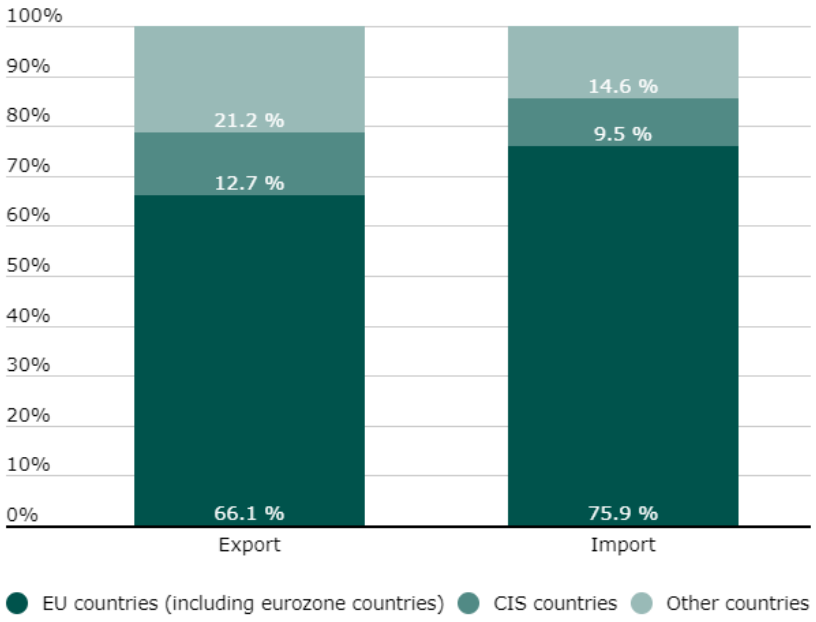


2.19. Exports of goods account for more than two-thirds of Latvia's exports, and services account for the rest. In recent years, this proportion has not changed significantly. The exception was 2020, when, as a result of the Covid-19 crisis, export of services decreased considerably more quickly than export of goods, respectively, structure of export has changed in favour of export of goods in 2020.

2.20. The value of goods exported to the EU countries reached €8,716 million, or 66.1% (including €6,545.5 million, or 49.6%, to eurozone countries). Exports to the CIS countries amounted to €1,672.4 million, or 12.7%, while exports to other countries amounted to €2,801.2 million, or 21.2% (see Figure 4).

2.21. In 2020, the value of goods imported into Latvia from the EU countries was EUR 11 437.4 million or 75.9% (including EUR 8,494.8 million or 56.3% from eurozone countries). Imports from the CIS countries amounted to €1,434.2 million, or 9.5%, and from other countries – €2,205.4 million, or 14.6% (see Figure 4).[17]

Figure 4. Distribution of export and import values by country group in 2020



[16] Latvia's foreign trade. Key products and partners, 2020/04. Available at: https://admin.stat.gov.lv/system/files/publication/2021-02/Nr_18_Areja_tirdznieciba_preces-

[17] CSB report "Latvia's Foreign Trade. Key goods and partners in 2020." Available at: https://admin.stat.gov.lv/system/files/publication/2021-02/Nr_18_Areja_tirdznieciba_preces-partneri_%2820_04q%29_LV.pdf

2.22. Latvia's total foreign trade in goods at current prices in 2020 reached 28,266.6 million euro representing a decrease of 2.1% compared to 2019. Exports increased by EUR 224 million euro or 1.7%, while imports decreased by 836.6 million euro or 5.3%.

2.23. The most important goods for Latvian exports in 2020 were wood and wood products (incl. charcoal), electrical device and electrical equipment, machinery and mechanical equipment, grain products, beverages, alcoholic liquids and vinegar, land vehicles and parts thereof.

2.24. The most important goods for Latvian imports in 2020 were electrical devices and electrical equipment, mechanisms and mechanical devices, road vehicles and parts thereof, mineral products, pharmaceuticals, plastics and articles thereof.

3. General characterization of TBML, TF, PF

3.1. TBML is the laundering of money or other property obtained by crime through trade transactions, in order to disguise the criminal origin of the funds or to finance the commission of further criminal offences.[18] In addition, TBML schemes use both real trade transactions (a transaction with a real flow of goods) and fictitious trade transactions (there is no flow of goods – only documents and payments show a trade transaction).

3.2. The main objective of any TBML scheme is intentional movement of proceeds of crime through trade transactions using a variety of methods and means, such as falsifying invoices, falsifying goods descriptions (to evade controls) and committing other customs and tax offences. Unlike other trade-related criminal offences, the main objective of TBML is not redirection of certain goods or the generation of new proceeds of crime, but the laundering and movement of previously generated criminal proceeds.

3.3. Trade-based TPF is the use of legally or illegally obtained funds in trade transactions for the purpose of financing terrorism, proliferation.

3.4. The main difference between TBML transactions and trade-based TPF transactions is that trade-based TPF transactions also involve the use of legally obtained funds and have a different transaction objective. TBML transactions aim to disguise the origin of funds, while trade-based TPF transactions aim to disguise the use of the funds or the identity of the recipient.

3.5. Separate consideration should be given to the cases, where trade transactions of goods and service transactions are used in TBML and trade-based TPF schemes. Service schemes mainly use imports and exports of services, as well as transactions in other intangible assets. These types of transactions are difficult to monitor because they involve intangible values, making it difficult to find physical evidence and to assess the fair value of the transaction.

3.6. TBML and trade-based TPF schemes share many characteristics with tax avoidance schemes and cases of, for example, tax fraud. In many cases, it is impossible to tell the purpose of a trade transaction scheme without a thorough investigation of the case.

Sectors and product groups most frequently involved in TBML

3.7. Based on national risk assessments and other analysed data from different countries (Germany, USA, etc.), the FATF has summarised a number of economic sectors, product and service groups that are most exposed to TBML risks.[19]

3.8. As it was concluded in the FAFT report, TBML schemes most often involve **goods and product groups that** have wide price ranges, long supply chains and are difficult for supervisory authorities to control. The FATF lists the following risk groups of goods:
- 3.8.1. Mineral resources, gold and other precious metals.
- 3.8.2. Car parts and vehicles, including both used and luxury cars and parts thereof.
- 3.8.3. Agricultural or food products, including fruit, vegetables, fish, etc.
- 3.8.4. Clothing, including second-hand textiles.
- 3.8.5. Various smart electronics and components.

3.9. TBML activities involving service transactions are also separated. These schemes use imports and exports of services, as well as transactions in other intangible assets. The following **types of services and sectors** were identified as most exposed to the risk:

[18] Trade-Based Money Laundering, Trends and Developments, page 5. Available at: https://www.fatf-gafi.org/media/fatf/content/Trade-Based-Money-Laundering-Trends-and-Developments.pdf

[19] These sectors, product and service groups are just a few examples, as transactions in all sectors, as well as transactions in any product or service group can be used for criminal purposes. For example, both high value-added transactions (e.g., precious metals) and seemingly low-value goods (second-hand clothes) can be used in ML/TF activities.

3.9.1. Online gambling.
3.9.2. Software provision, e.g., software for online trading, IT services.
3.9.3. Financial services, including virtual currency activities.
3.9.4. Advisory services, including marketing services.
3.9.5. Trademark activities and other intellectual property activities.

Most frequently used TBML techniques

3.10. *Over-* and *under-invoicing*. The essence of this technique is to manipulate the true value of goods and services.

3.11. The actual volume of goods or services transported differs from the volume indicated in the documents *(over- and under-/short- shipment*). The essence of the technique is to manipulate the true volume of goods and services.

3.12. Multiple *invoicing* – multiple documents have been prepared for the same trade transaction. The aim of this technique is to obtain funds multiple times for a single transaction. There can also be many legitimate reasons for issuing the same document several times, such as correcting previously issued documents, amending payment conditions, etc.

3.13. False *description of* the goods and services to hide the value and true nature of the goods or services involved in a transaction (expensive goods are documented as having a less value, e.g., transaction actually involves precious metals, but transaction involving scrap metal is stated, etc.).

3.14. Simulating trade transactions *(Phantom/ghost shipment*). This technique involves preparation of sales documents for a transaction that has not actually taken place and making payments for transactions that have not taken place (fictitious transactions).

3.15. Returning goods to their country of origin *(U-boating*). A simulation of a trade in goods, within the framework of which goods are shipped to another country and then returned to the country of origin to avoid paying taxes and additional controls.

3.16. ML *through trade* in services. These cases are very difficult to identify and detect because, unlike trade transactions involving goods, services do not have a tangible result and have a subjectively measurable value.

3.17. 3rd party invoice settlement (trading intermediary, shell company, offshore) and misuse of corporate structure to hide the real parties involved and make the flow of funds more difficult to trace.

TBML transaction identification issues

3.18. While the FATF and other international bodies draw attention to the prevalence and risks of TBML, the relatively small number of TBML schemes detected worldwide[20] reflects the complex nature of detecting these offences. The main obstacles are:
3.18.1. Lack of private and public sector knowledge and understanding of TBML. Despite the regular international exchange of information and the development and publication of various local and international reports and information materials on TBML risks and their prevention, criminals are devising new ways to exploit trade transactions for ML and TF, PF activities.
3.18.2. Insufficiencies in cooperation among trade control authorities and between the public and private sectors, deficiencies in the information exchange mechanism. Detection of TBML cases requires analysing large amounts of data from different institutions, looking for patterns and insufficiencies.
3.18.3. Insufficient international cooperation on information exchange. International

[20] Trade-Based Money Laundering, Trends and Developments, page 39. Available at: https://www.fatf-gafi.org/media/fatf/content/Trade-Based-Money-Laundering-Trends-and-Developments.pdf

cooperation plays a key role in the prevention and investigation of criminal offences involving multiple jurisdictions.

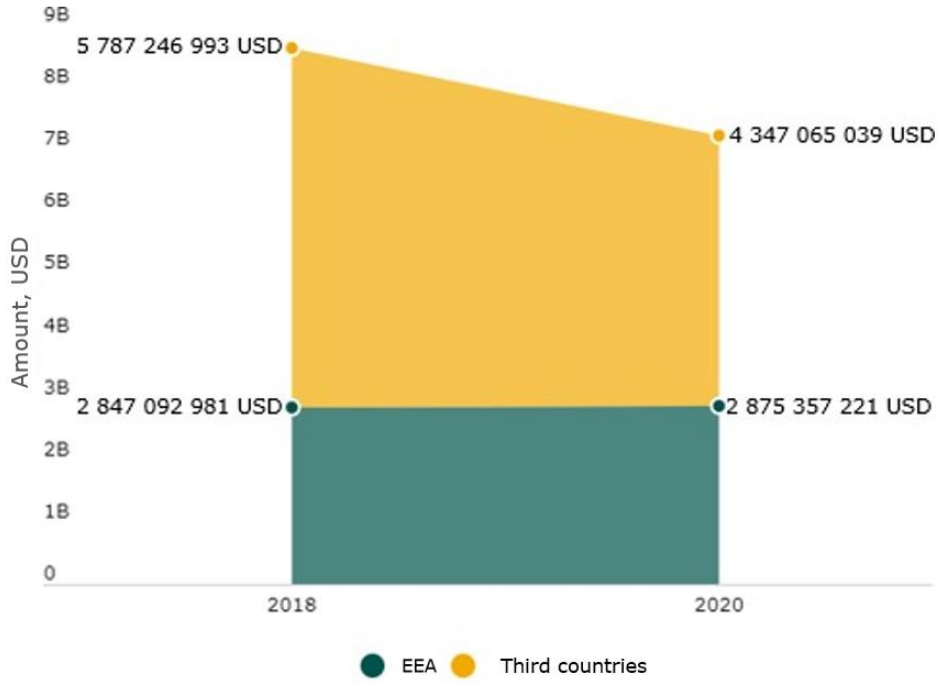
3.18.4. Insufficiencies in the internal control systems of the obliged entities under the AML Law. While companies are obliged to take certain measures to address the threat of ML in their operations, there is a wide spectrum for TBML activities and many alternatives for action. There are also difficulties in verifying the veracity of the information provided in the documents submitted.

4. Conclusions on TBML activities in Latvia

Conclusions within the national context

4.1. The total amount of discrepancy in trade data for the countries analysed within the study is more than USD 7.2 billion in 2020, while in 2018 the discrepancy was 16% higher exceeding USD 8.6 billion (see Figure 5). Such a level of discrepancy should be assessed as significant, but the limitations of the methodology used in the study referred to in Clause 1.14 should be reiterated.

Figure 5. Total trade data discrepancy in 2018 and 2020 for the EEA and third country statistics (billions, USD)

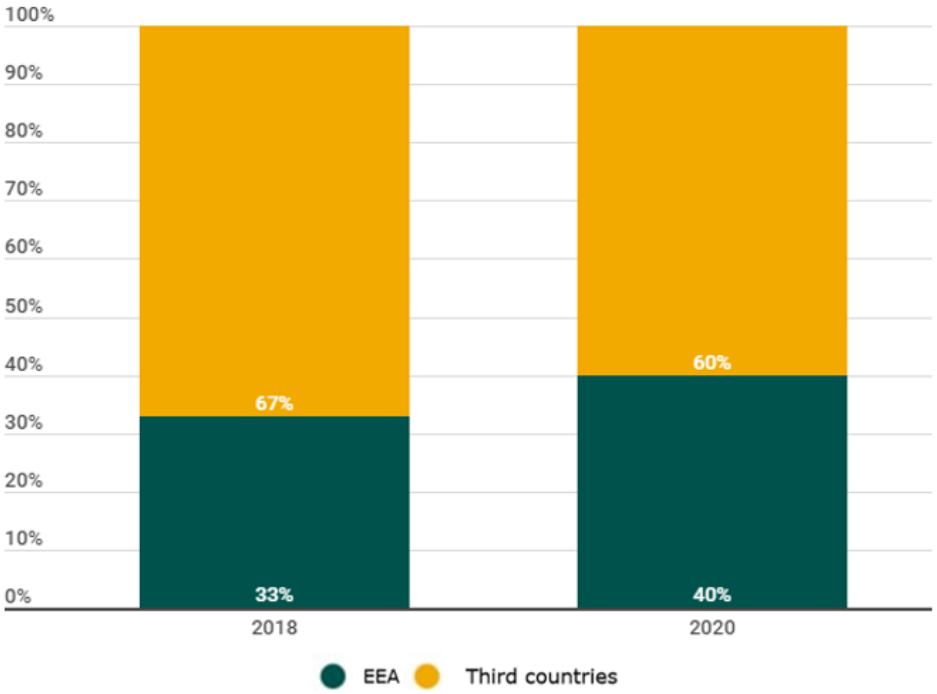


4.2. Discrepancy in trade statistics has decreased in 2020, which prima facie shows that measures are being taken to limit the scope for fraudulent activities and reduce the vulnerability of Latvia's financial system. The fact that comprehensive measures were implemented in 2019 to improve the implementation and effective application of 40 FATF recommendations in practice as part of the Moneyval assessment process with the aim of establishing an effective control and monitoring mechanism to prevent the possibility of the Latvian financial system being used for criminal purposes should be mentioned as one of the reasons for these positive changes.

4.3. In 2018, the amount of the third country discrepancy (amount in USD) was 51% higher (67% of the total amount of discrepancy) than the EEA discrepancy. Whereas, in 2020, amount of the third country data discrepancy was 34% above (60% of the total amount of data discrepancy) data discrepancy of the EEA countries (see *Figure 6*). However, it should be noted that the differences in Latvia's statistical records and the laws and regulations governing them with third countries are considerably greater than within the EEA.

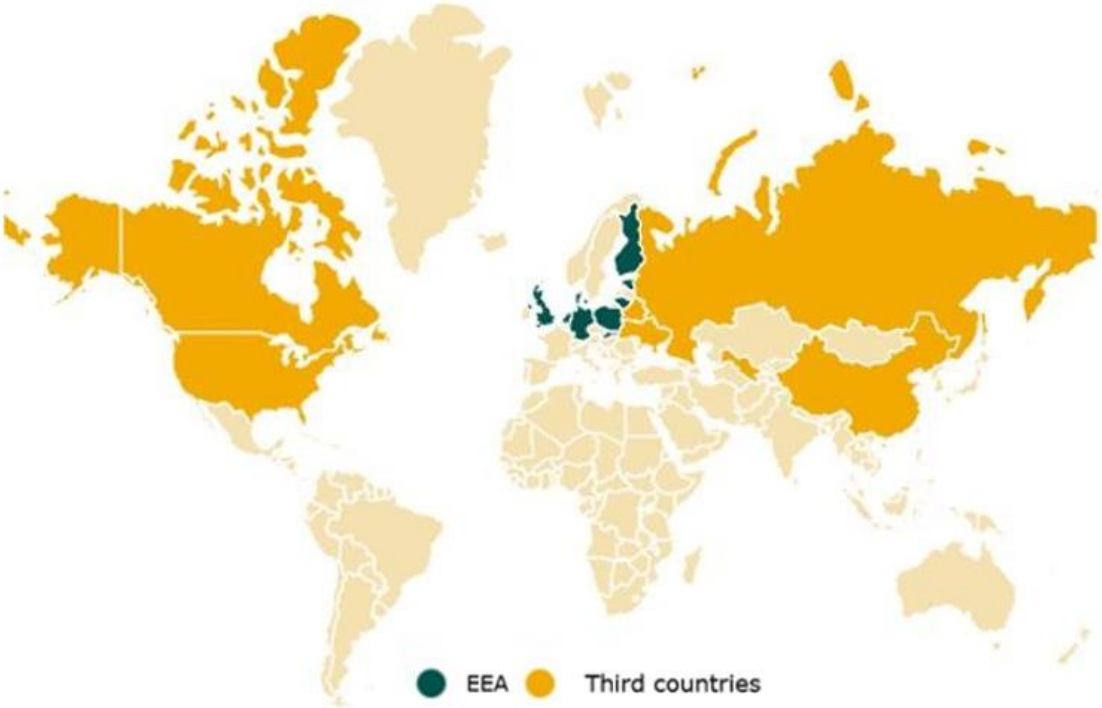
4.4. In 2020, the amount of data discrepancy for third countries decreased by 7%, while the amount of data discrepancy for EEA countries increased. This trend could be indicative of criminal activities taking advantage of the norms and frameworks for controlling EEA trade transactions, including the principles of controlling transactions between EEA partner countries, namely, misusing the situation where intra-EEA transactions are less controlled and monitored than transactions with third countries.

Figure 6. EEA and third country trade data discrepancy changes in 2018 and 2020 against the total amount of data discrepancy



4.5. The trade partner countries of Latvia with the largest amount of data discrepancy (as a percentage of total trade with Latvia) in 2018 and 2020 are (see Figure 7):
   4.5.1. Russia, Belarus, Ukraine, USA, China, Canada, Uzbekistan (third countries)
   4.5.2. Estonia, Lithuania, Poland, United Kingdom, Denmark, Finland, the Netherlands, Germany, Slovakia (EEA countries).[21]

Figure 7. Latvia's trading partners with the largest amounts of data discrepancy in 2018 and 2020



[21] A list of all the countries covered by the study can be found in Annex No 1.

4.6. Of the total amount of data discrepancy in the respective year, 47% in 2018 and 41% in 2020 was data discrepancy with Russia. According to the representatives of the CSB, data discrepancy may arise because when importing goods from Russia to European countries, Latvia is often the first country through which the goods are transported, so the goods are declared on the Russia-Latvia border, but in fact Latvia is not the country of destination of the goods. However, there is also a significant discrepancy in data when looking at the flow of goods from Latvia to Russia, where this explanation does not apply.

4.7. Observations by competent authorities suggest that neighbouring countries are more likely to be involved in TBML schemes due to their geographical location and other aspects, but this does not exclude the possibility that other countries may also be involved in criminal schemes. The SRS NCB draws attention to the possibility that a TBML scheme may also involve transfer of pure trade documents from country to country, but not of goods (e.g., implementation of such a scheme between neighbouring countries is less costly compared to situation when a geographically more distant country is involved) (see Example No. 1).

Example No. 1

Transaction within the framework of which only a movement of documents takes place / funds from a company are actually withdrawn

Company A, registered in Latvia, whose TBO is person A, has purchased specific bulky construction products from company B, registered in Lithuania, whose declared occupation is not directly related to the construction sector. On the basis of the transaction documents, it can be concluded that the bulky construction products were delivered to the registered address of the company A, which is registered in Latvia, where the private house of a relative of person A is located. Suspicions arise from the unloading/loading and storage of bulky construction products in the garage of a private house in the quantities indicated in the documents.

4.8. According to the data provided by the SRS NTB, the most frequent VAT fraud schemes involve transactions of Latvian taxpayers with Hungarian and Polish taxpayers. The SRS NTB has identified the following trend: several Latvian taxpayers regularly declare risky Hungarian taxpayers as their EU business partners, which are shortly afterwards excluded from the VAT register in Hungary, and the officials of these companies are Latvian, Russian, Moldovan or Estonian nationals.[22]

4.9. In the suspicious transaction reports with the typology "Transactions in goods", received by the FIU from the obliged entities under the AML Law and analysed within the framework of the study, legal entities registered in the UK, Estonia, Russia, Poland, Lithuania, Germany, Czech Republic, Hungary are more frequent.

4.10. In the suspicious transaction reports involving UK-registered legal entities, the suspicious transactions mainly involve the brokering of various services, including financial services, advertising services, transport, security related services, services related to the construction sector, as part of a transaction involving the goods. Besides, the UK-registered legal entities are involved in trade in vehicles and parts, as well as trade in textiles and footwear.

4.11. The total data discrepancy for trade with the UK in 2020 accounts for USD 44 million. In addition, 71% of the total amount of the discrepancy points at over-invoicing of the exported goods, while receiving payment for goods declared at a lower value in the country of destination. (Through a trade transaction, PC in the amount of discrepancy may be placed in the Latvian financial system (Risk Profile 2)).

[22] Information provided by the SRS NTB (01.11.2021 VID.4.1/8.3/161722).

4.12. The product groups (according to the Combined Nomenclature) with the largest data discrepancies in transactions with UK trading partners are:
  4.12.1. Section X *Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof.*
  4.12.2. Section XIV *Natural or cultured pearls, precious and semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; bijouterie; coins.*
  4.12.3. Section VII *Plastics and articles thereof; rubber and articles thereof.*
  4.12.4. Section XII *Footwear, headgear, umbrellas, parasols, walking sticks, cane saddles, whips, riding crops and parts thereof; processed feathers and articles made of feathers; artificial flowers; articles of human hair.*

4.13. In the suspicious transaction reports involving legal entities registered in Estonia, the suspicious transactions are mainly related to retail trade and wholesale of food products, goods and services in the construction sector, transport and logistics services.

4.14. The total discrepancy of trade with Estonia in 2020 was USD 180 million. In addition, 79% of the total amount of discrepancy reflects the over-invoicing of exported goods receiving a payment for goods declared at a lower value in the country of destination (through a trade transaction, PC in the amount of discrepancy may be placed in the Latvian financial system (Risk Profile 2)).

4.15. The product groups (according to the Combined Nomenclature) with the largest data discrepancies in transactions with Estonian trading partners are:
  4.15.1. Section VIII *Raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut).*
  4.15.2. Section IV *Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes.*
  4.15.3. Section XXI *Works of art, collectors' pieces and antiques.*
  4.15.4. Section XVI *Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles.*

4.16. In the suspicious transaction reports involving legal entities registered in Russia, the suspicious transactions mainly concern transport and freight services, retail trade and wholesale of household goods.

4.17. The total data discrepancy of trade with Russia in 2020 was USD 209 million. In addition, 89% of the total amount of discrepancy points at under-invoicing of the imported goods paying for goods declared at a higher value in the consigning country (the trade transactions create an opportunity to place PC in the amount of discrepancy in the trade partner country).

4.18. The product groups (according to the Combined Nomenclature) with the largest data discrepancies in transactions with Russia trading partners are:
  4.18.1. Section X *Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof.*
  4.18.2. Section XII *Footwear, headgear, umbrellas, parasols, walking sticks, cane saddles, whips, riding crops and parts thereof; processed feathers and articles made of feathers; artificial flowers; articles of human hair.*
  4.18.3. Section XV *Base metals and articles of base metal.*
  4.18.4. Section XI *Textiles and textile articles.*

4.19. In 2018, data discrepancy is dominated by under-invoicing of the imported goods paying for goods declared at a higher value in the consigning country. In this case, placement of PC in the partner country's financial system in the amount of data discrepancy is

possible. These types of transactions correspond to Risk Profile 1 – PC are located in the financial system of the 3rd country where these funds are possibly placed.[23] Within the framework of this feature, the data discrepancy is USD 5.3 billion or 62% of the total data discrepancy in 2018. Furthermore, these features are strongly reflected in the data discrepancy with third countries, which accounts for 80% of the amount of discrepancy within the framework of this feature (USD 4.3 billion) (see Figures 8 and 9).

4.20. Although the overall amount of data discrepancy has decreased in 2020, overall, under-invoicing trend can be mainly observed in both 2018 and 2020 paying for the goods with the highest value declared in the consigning country. In this case, placement of PC in the financial system of the partner country in the amount of discrepancy is possible (Risk Profile 1).[24] In 2018, within the framework of feature, amount of data discrepancy accounted for 80% (USD 4.3 billion), but in 2020 – 88% (USD 2.6 billion) (see *Figures 8 and 9*). This feature could be closely related to criminal schemes aimed at reducing import duty, namely, under-invoicing of imported goods to pay lower import duty (see Example No. 2).

Example No. 2

Avoiding import duty

There may be cases where goods in an assembled state are subject to a lower or higher import duty than disassembled in separate components (see Combined Nomenclature https://itvs.vid.gov.lv/#itms:reset:1;cln:1;url:/qry/sbn/init).

4.21. In both 2018 and 2020, over-invoicing of exported goods was quiet frequently observable receiving a payment for goods declared at a lower value in the country of destination. In this case, PC may be placed in the Latvian financial system in the amount of difference of the discrepancy. These types of transactions correspond to Risk Profile 2 – PC arises from crimes committed in Latvia and other EU countries.[25] Furthermore, within the framework of this characteristic, there is a slightly larger discrepancy in the data of the EEA countries. In 2018, amount of discrepancy of the data of the EEA countries within the framework of the feature accounted for 56% (USD 1.2 billion), but in 2020 – 58% (USD 1.4 billion) (see Figures 8 and 9) (see Example No. 3).

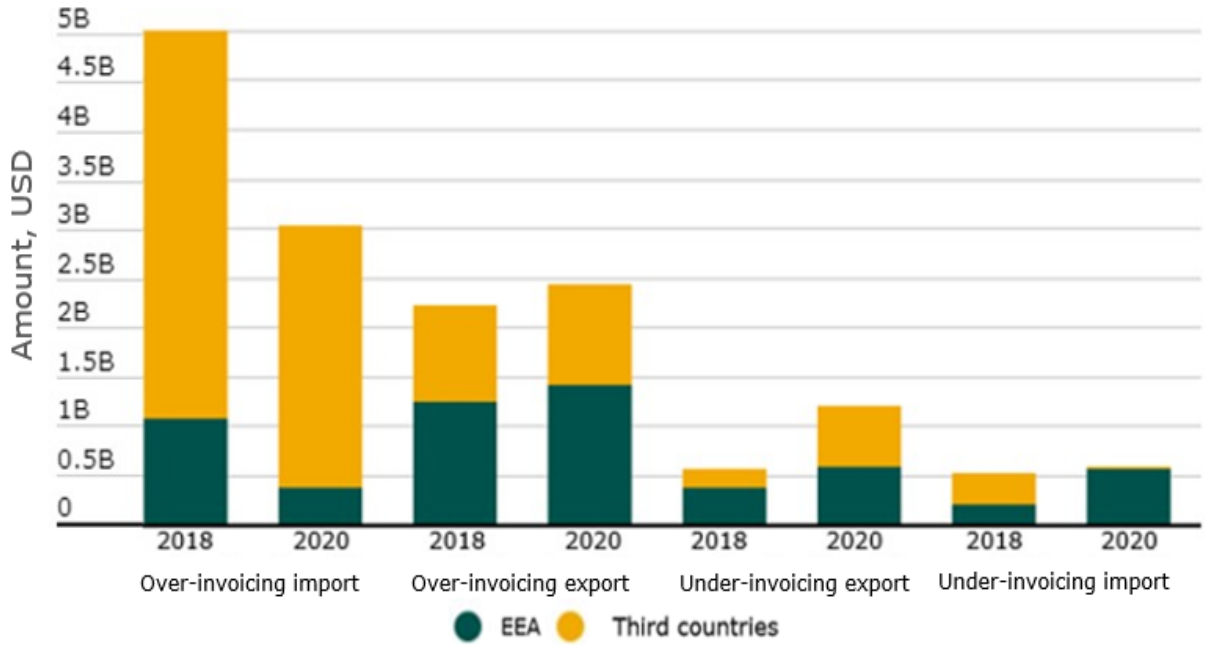
Example No. 3

Over-invoicing of exported goods receiving payment for goods declared at a lower value in the country of destination *(Over-invoicing export)*

Latvian company A (exporter) has concluded a contract with a company B (exporter) in another country for the supply of production supplies worth EUR 75,000, but company B settles the contract in the amount of EUR 50,000. A complex explanation is given for the return of a part of the goods because it does not comply with the conditions of the contract, and documents are provided for cancelling the part of the transaction, which are generic and contain signs of forgery, as well as contradictory information. (perhaps better – contradictions, i.e., contradictory information/explanations).

[23] National Risk Assessment of Money Laundering, Terrorism and Proliferation Financing 2017 -2019, Clause 2.2.1. Available at: https://fid.gov.lv/lv/darbibas-jomas/nacionalais-risku-novertejums/nacionalais-risku-novertejums-2017-2019
[24] National Risk Assessment of Money Laundering, Terrorism and Proliferation Financing 2017 -2019, Clause 2.2.1. Available at: https://fid.gov.lv/lv/darbibas-jomas/nacionalais-risku-novertejums/nacionalais-risku-novertejums-2017-2019
[25] National Risk Assessment of Money Laundering, Terrorism and Proliferation Financing 2017 -2019, Clause 2.2.1. Available at: https://fid.gov.lv/lv/darbibas-jomas/nacionalais-risku-novertejums/nacionalais-risku-novertejums-2017-2019

Figure 8. Distribution of TBML features depending on total amount of data discrepancy (billion, USD) by EEA and non-EEA countries in 2018 and 2020



4.22. Although in both 2018 and 2020 the lowest data discrepancy rate is related to over-invoicing of imported goods paying for goods declared at a lower value in the consigning country, the year of 2020 shows increase in the amount of data discrepancy in the data of the EEA countries. In 2018, amount of discrepancy in the data of the EEA countries within the framework of the feature accounted for 39% (USD 5 million), but in 2020 – 94% (USD 5.5 million). Financial flows within the framework of this feature indicate that possible PC have been moved from the Latvian financial system to the partner country's financial system (Risk Profile 2)[26] (see Example No. 4).

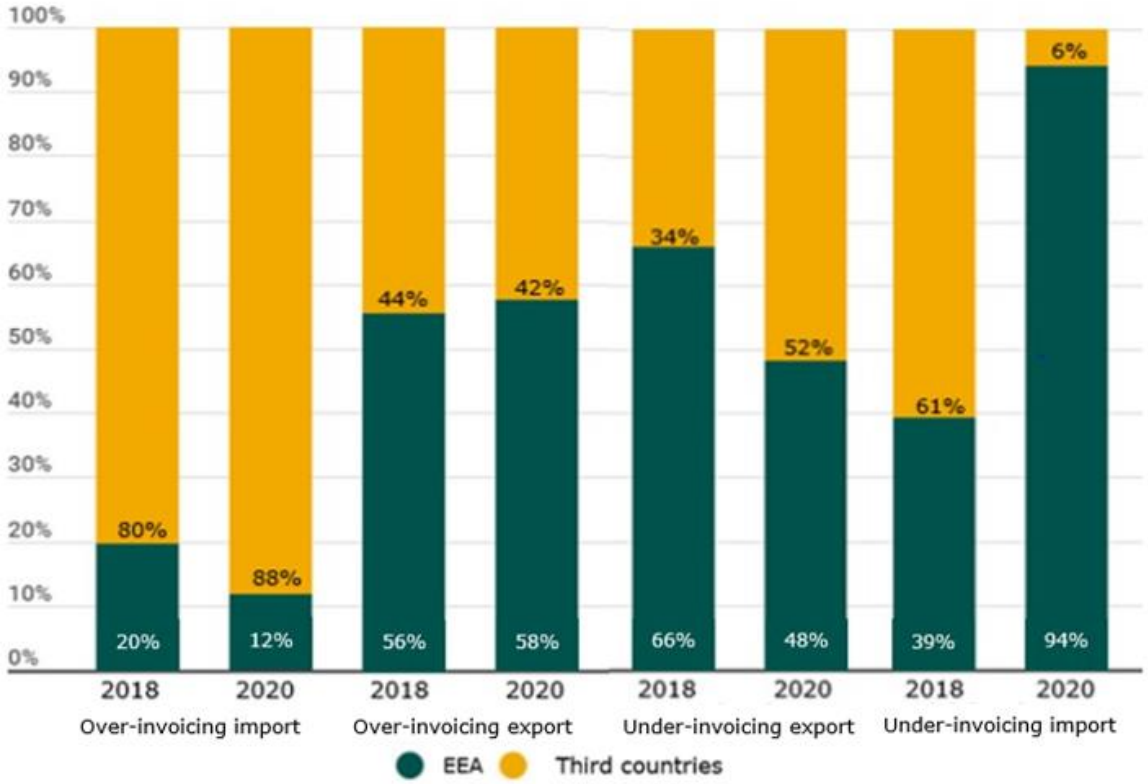
Example No 4

> ***Over-invoicing* of the imported goods paying for goods declared at a lower value in the consigning country *(Under-invoicing import)***
>
> *Latvian company A (importer) purchases goods from company B (exporter) in another country. Company B has issued an invoice for EUR 100,000. The trade transaction involves also other companies acting as intermediaries. The place of delivery of the goods is shown as company C, owned by the owner of the Latvian company A and the TBO, which makes the final delivery of the goods to the company A. The Latvian company A settles with the company B in the amount of EUR 180,000 explaining that rise in the price has occurred due to various delivery and logistics issues.*

4.23. Despite ongoing efforts to improve control and monitoring mechanisms to prevent the use of the Latvian financial system for criminal purposes, the Latvian financial system can be used for ML in disguise of trade transactions, furthermore, by involving in the schemes both third countries and EEA countries, as well as performing domestic operations.

[26] National Risk Assessment of Money Laundering, Terrorism and Proliferation Financing 2017 -2019, Clause 2.2.1. Available at: https://fid.gov.lv/lv/darbibas-jomas/nacionalais-risku- novertejums/nacionalais-risku-novertejums-2017-2019

Figure 9. Proportion of EEA and third-country data discrepancy within the framework of the feature in 2018 and 2020

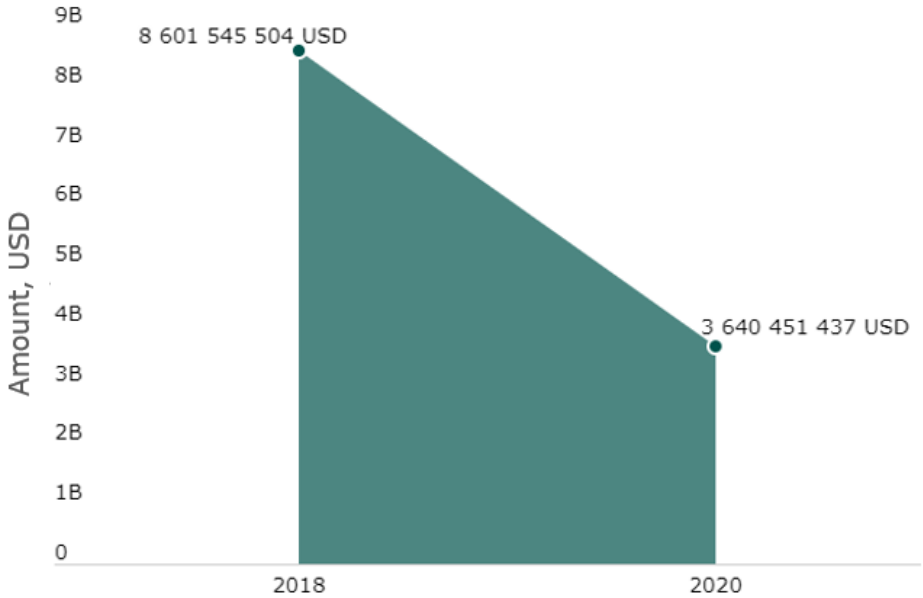


4.24. It can be concluded that trade transactions involving neighbouring countries (mainly due to their geographical location) or EEA countries (due to open market and differences in regulatory frameworks and levels of supervision) are more vulnerable.

Conclusions within the context of product groups and services

4.25. In 2020, the amount of discrepancy of data of trade in goods has decreased by 58% (USD 4.9 billion) compared to 2018 (see Figure 10).

Figure 10. Total discrepancy of data of trade in goods in 2018 and 2020 (billion, USD)



4.26. It can be concluded from the data analysis that the largest data discrepancy (within the context of product groups) largely corresponds to the goods and product groups identified by the FATF, which are most often included in TBML, TF, PF schemes (see Table 1).[27]

1. table. The largest discrepancies of statistical data within the context of product groups in 2018 and 2020 compared to FATF-designated goods and product groups

No.	FATF-designated goods and product groups most commonly included in TBML, TF, PF schemes	Consistency with the findings of the study
1	Mineral resources, gold and other precious metals	✗
2	Car parts and vehicles, including both used and luxury cars and parts thereof	✓
3	Agricultural or food products, including fruit, vegetables, fish, etc.	✓
4	Clothing, including second-hand textiles	✓
5	Various smart electronics and components	✓

4.27. In both 2018 and 2020, the highest percentage of data discrepancies was in the groups of food products, mineral products, machinery and electronic components, means of transport, and chemical industry (see Annex No 2).

4.28. In 2018, within the context of analysis of the product group data, the predominant trend is under-invoicing of imported goods paying for goods declared at a higher value in the consigning country.Within the framework of this feature, the data discrepancy in 2018 is USD 3.4 billion or 40% of the total data discrepancy in 2018, but in 2020 – USD 3 billion or 29% of the total data discrepancy in 2020 (see *Figures 11 and 12*) (see Example No. 5).

Example No. 5.

Under-invoicing of imported goods paying for goods declared at a higher value in the consigning country *(Over-invoicing imports)*

Latvian company A (importer) purchases goods from company B (exporter) in another country. Company B has issued an invoice for EUR 100,000, but Latvian company A has paid a smaller amount on the basis of previous advances. The cooperation agreement submitted does not contain any information on advance payments and the advance invoice submitted contains insufficiencies, including signs of forgery of documents.

4.29. In 2020, within the context of the analysis of goods data, the dominant trend was over-invoicing of exported goods receiving payment for goods declared at a lower value in the country of destination. Within the framework of this feature, data discrepancy in 2020 accounts for USD 1.7 billion, or 47% of the total data discrepancy in 2020, but in 2018 – USD 2 billion, or 24% of the total data discrepancy in 2018 (see Figures 11 and 12).

[27] A list of all the product groups covered by the study can be found in Annex No 2.

Figure 11. Distribution of TBML features depending on the total amount of data discrepancy (billions, USD) in 2018 and 2020

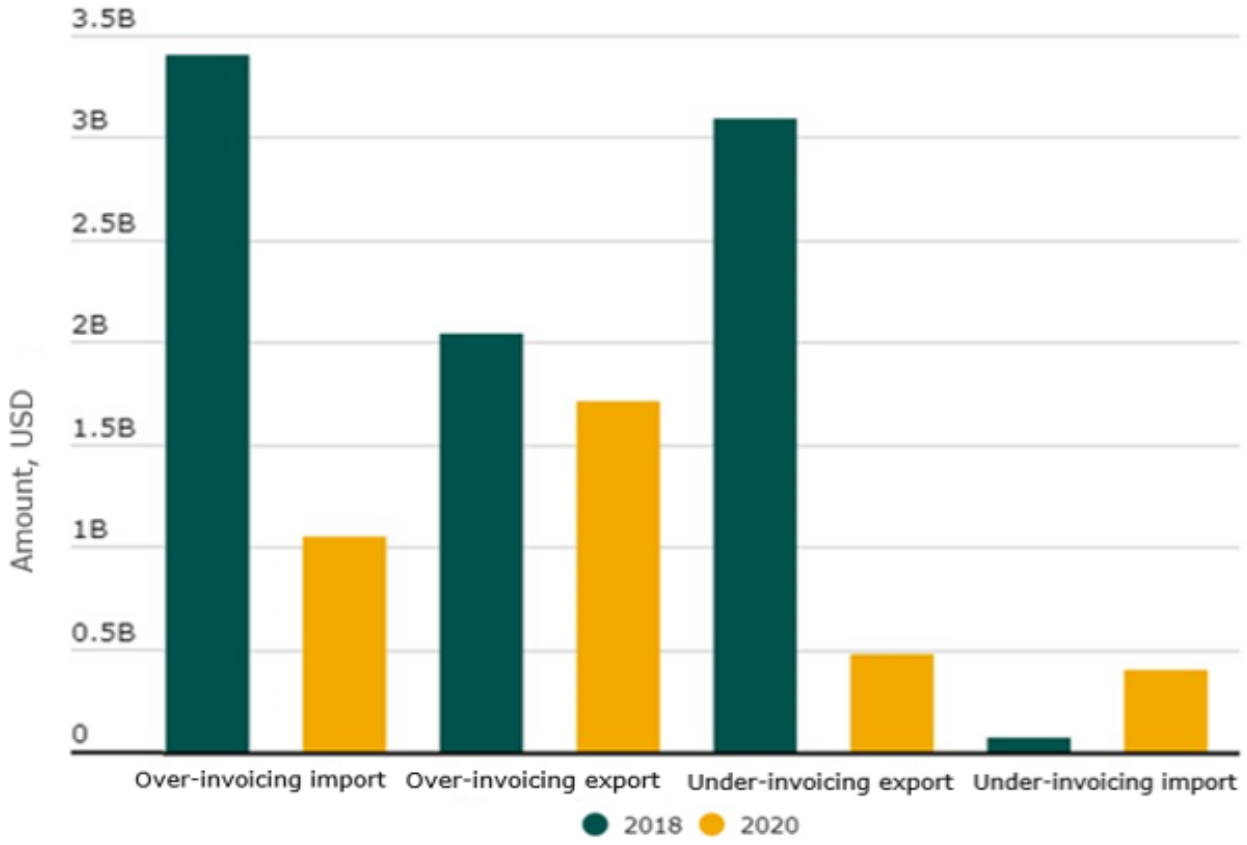
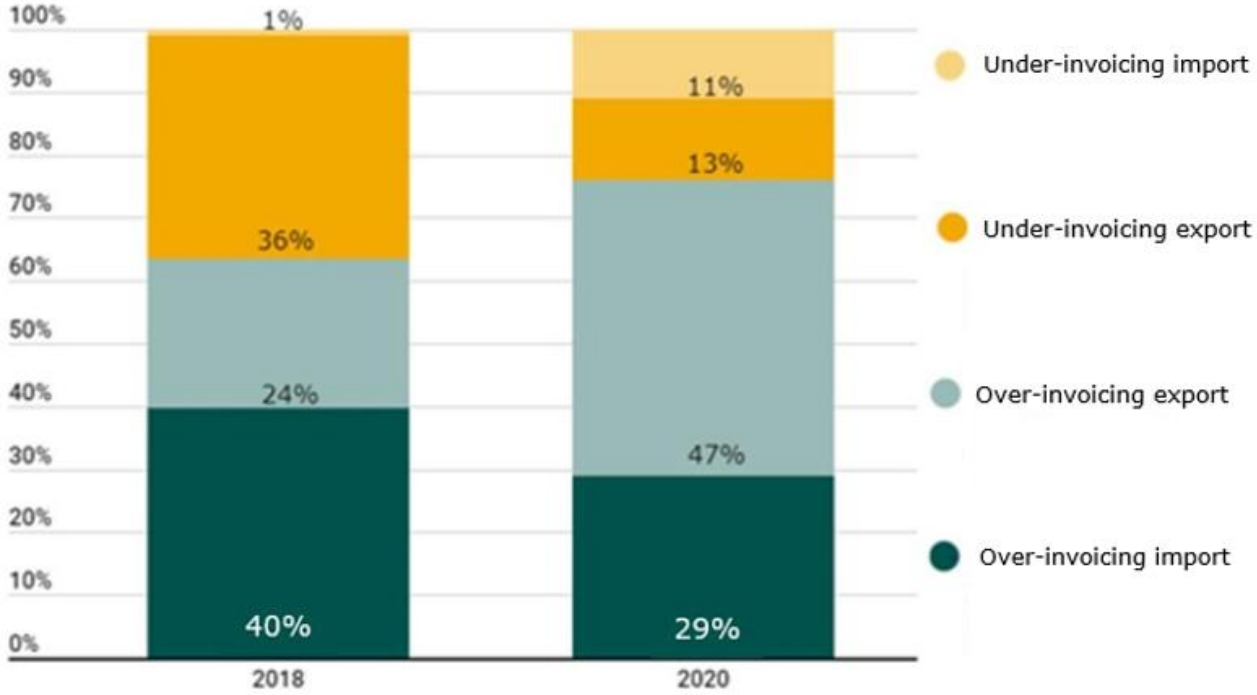


Figure 12. Proportion of TBML features in 2018 and 2020



4.30. In 2018, under-invoicing of the exported goods was frequently observable receiving payment for goods declared at a higher value in the country of destination. Within the framework of this feature, data discrepancy in 2018 was USD 3 billion, or 36% of the

total data discrepancy in 2018 (see Figures 11 and 12) (see Example No. 6).

Example No. 6

> ***Under-invoicing* of exported goods receiving payment for goods declared at a higher value in the country of destination *(Under-invoicing export)***
>
> *Latvian company A (exporter) has issued an invoice to its trading partner in another country, company B (exporter), for the supply of electronic components in the amount of EUR 150,000. Company B makes settlements in the amount of EUR 200,000. Documentation is provided showing that advisory services were received as a part of the trade transaction, resulting in an unexpected increase in the transaction cost. The companies involved in the transaction do not specify the advisory services provided and how they are related to the transaction.*

Services

4.31. Services are particularly suitable for TBML, trade-based TF and PF schemes, since the transactions are conducted with intangible values, they frequently do not produce a tangible and verifiable end result, and their value is subjective.

4.32. "Mirror statistics" on exports and imports of services are scarcely available, which is justified by the difficulties in identifying and quantifying imports and exports of services, since, unlike imports and exports of goods, no tangible items with a relatively objectively identifiable and comparable value are exported. Insights into the exports and imports of services and their role in trade transactions were gained from the obliged entities under the AML Law suspicious transaction reports, FATF reports and similar studies in other countries.

4.33. The data analysed shows that the types of services and sectors that appear most frequently in suspicious transactions largely coincide with the types of services and sectors identified by the FATF as being most at risk of being involved in TBML, trade-based TPF schemes (see Table 2). In addition, transport services, as well as services related to real estate transactions and construction services are identified as relatively risky.

Table 2 The largest discrepancies of statistical data within the context of product groups in 2018 and 2020 compared to FATF-designated goods and product groups

No.	Services indicated by the FATF as most frequently included in TBML, trade-based TPF schemes	Consistency with the findings of the study
1	Online gambling	✗
2	Providing software such as, software for online trading, IT services	✓
3	Financial services (loans, accounting services, etc.), including virtual currency activities	✓
4	Consulting services	✓
5	Trademark activities and other intellectual property activities	✓

4.34. In the suspicious transaction reports with the typology "Transactions in goods", received by the FIU from the obliged entities under the AML Law and analysed within the framework of the study, 34% of the cases contain reports on suspicious transactions within the framework of provision of services.

4.35. In 2018, the total discrepancy between the data of exports and imports of services is USD 2.6 billion[28]. Similarly as within the context of analysis of data of states and product groups, there are indications of a possible placement of PC in the financial system of Latvia or partner country in the amount of the data discrepancy.

Conclusions

4.36. The main purpose of TBML transactions is not the generation of new proceeds of crime or the redirection of specific goods, but deliberate movement of proceeds of crime.

4.37. Trade transactions are convenient for the implementation of criminal schemes due to their dynamic nature, besides, transactions involve a wide range of goods and services (both in terms of the functional and visual characteristics of the goods and services, and their value).

4.38. Discrepancies in trade statistics are not always indicative of criminal activity; discrepancies can also arise due to statistical errors (due to such objective reasons as currency conversions, differences in interpretation of statistical compilation methodologies, etc.). Furthermore, the further geographical location of a country is, the greater the discrepancy in data may be, taking into account transport costs.

4.39. TBML, trade-based TPF schemes are similar to tax evasion schemes and cases of, for example, tax fraud or, for example, price manipulation in a customs warehouse (identified price differences between IM7 and EXA declarations) – goods declared for importing into a customs warehouse with a statistical value much lower than the value of the goods indicated in the export declarations (thus inappropriately increasing the value of the exported goods) (see Example No. 7).

Example No. 7

Tax evasion

Company A, established in Latvia, which has declared its business activity "Wholesale of metal pipes, heating equipment and accessories" in the Register of Enterprises of the Republic of Latvia. Company A has an annual turnover of EUR 2 million, generated mainly from the payment of invoices for goods sold. According to the transactions in the account, payments are received from a company B, registered in Lithuania, on regular basis. Company A was asked to provide supporting documents for the transactions, proof of movement of goods and to declare the transactions with the Lithuanian company in its VAT returns. Company A explained that company B, registered in Lithuania, was not registered as a VAT payer and therefore the aforementioned transactions were not reflected in the VAT returns. Company A has submitted 2 invoices, which are vague and general in terms of their content. It is not clear from the information referred to in the invoices what goods were delivered. The fact drawing attention is that the invoices show the sale of goods as a VAT-taxable transaction subject to a 0% VAT rate. Following the verification of information in the EU DSS, it was established that the company's B partner number was not valid for cross-border transactions. Furthermore, company A also avoids submitting documents attesting the movement of goods.

4.40. In many cases, it is impossible to tell the purpose of a trade transaction scheme without a thorough investigation of the case. 30% of the reports on the suspicious transactions with the typology "Transactions in goods", received by the FIU from the obliged entities under the AML Law analysed within the

[28] Comprehensive mirror statistics on imports and exports of services in 2020 at the time of the study https://comtrade.un.org/data/ are not available in the database.

framework of the study indicate the criminal offence group “Tax crimes”.

4.41. While it cannot be excluded that all sectors and groups of goods and services may be exposed to ML and TF, PF activities, common aspects have been identified that increase the vulnerability of the transaction:

4.41.1. The transaction involves goods with a wide range of prices, as well as unique items whose value is difficult to determine.

4.41.2. Goods involved in a long trade cycle (transported through several jurisdictions).

4.41.3. Goods/services that are difficult for the authorities to verify.

4.42. It can be concluded that transit transactions may be conducted in the Latvian financial system – it is possible that the proceeds of crime are not used in Latvia, but transferred to the transit country or country of destination. There is a possibility that the PC generated by TBML schemes may be placed in the Latvian financial system, and there is also a possibility that local criminals implement TBML schemes domestically, creating fictitious export transactions, while the goods remain in Latvia or the EEA or do not exist at all. Furthermore, given that neighbouring countries are more exposed to the risk of being involved in TBML, trade-based TPF schemes, possibly, fictitious exports take place directly between the neighbouring or EEA countries.

4.43. Latvia's strategically important geographic location (at the Baltic Sea routes, on the EU's Eastern border), as well as its well-developed air, water and land transport infrastructure, contribute to the development of both the domestic and international trade environment. Although Latvia's ML/TPF system was significantly improved and financial system supervision was strengthened in 2019 and 2020, there is still a risk that Latvia's trading infrastructure and financial system could be exposed to TBML risks.

5. TBML indicators

5.1. The TBML indicators have been formulated on the basis of information provided by the Latvian competent authorities, lessons learned within the framework of the study, as well as the materials developed by FATF[29] and other countries on the relevant topic.

Indicators related to the parties to the trade transaction

5.2. Transactions involve companies with a legally and/or economically unreasonably complex organisational structure (including organisational structures with companies containing signs of shell formations or companies registered in high-risk jurisdictions, tax-free countries or other country with weak ML system).

5.3. The address of registration of the company involved in the transaction is located at a place that is not compatible with the registered activity or at an address where a large number of companies are registered ("letterbox address").

5.4. A transaction is conducted that is significantly larger than a typical transaction for the company involved in the trade transaction and is financed by a suspicious loan or other third-party transfer or cash deposit.

5.5. A recently registered or recently re-established company enters into a large transaction.

5.6. There is no public information available about the company involved in the transaction. The public information available does not indicate that the company is active in the field related to the one specified in the transaction. The information available does not indicate that the company has the knowledge or skills to operate in the field to which the trade transaction relates.

5.7. The financial flows observed in the account of the company involved in the transaction do not indicate that the company is active in the field of registration or is generally engaged in business, or makes payments that are typical for business, such as wage payments, tax payments, etc.

5.8. It is suspected that the specified manager of the company involved in the transaction is a fictitious nominee acting in the interests of another person. The company's manager lacks or has no experience in running a company in a particular field or scale.

5.9. Negative information is available about the company involved in the transaction or its representative.

5.10. The number of employees of the company involved in the transaction is inconsistent with the size of the company's sales transaction.

5.11. The name of the company involved in the transaction contains an element of the name of a well-known company, or is similar to the name of a well-known company, which may indicate on an intention to mislead about the company's relation with a well-known company.

5.12. The company involved in the transaction experiences occasional unexplained downtimes.

5.13. Unusually high number of payments or payments of unusually large amounts appear in the counterparty's account.

5.14. Account held by the person involved in the transaction features signs of a transit transaction account: amounts of incoming payments are remitted further within a short period of time; cash deposits and transfers to tax-free countries or to an account of a company featuring signs of a shell formation are frequent; incoming transactions are

[29] Developed on the basis of FATF Trade-Based Money Laundering Risk Indicators (March 2021). Available at: https://www.fatf-gafi.org/media/fatf/content/images/Trade-Based-Money-Laundering-Risk-Indicators.pdf

split and transferred to several other parties possibly unrelated to the transaction.

5.15. Within the transaction, payment for goods is made by a person other than the recipient of goods and who has no clear economic link to the transaction.

Indicators related to the trade transaction process

5.16. The transaction process is unduly complex (e.g., several modes of transport for deliveries – air, road, rail, etc. – are seemingly unduly involved in a single trade transaction); several supporting documents are submitted which have no direct link to the transaction, including cooperation agreements, supply contracts, etc.).

5.17. The company involved in the transactions is active in a number of unrelated areas (e.g., the company has indicated that it is engaged in the trade in car parts, provision of accounting services, wholesale in textiles, etc. at the same time).

5.18. The supply route of the goods is unduly complex (the goods are transported through several jurisdictions without a substantial justification, including duty-free countries, high-risk countries and countries with weak ML systems).

5.19. Transactions involve intermediaries and other third parties (including consultants and other service providers) without a clear justification.

5.20. Transaction involves the use of services that are seemingly inappropriate and/or unrelated to the transaction, or methods that are not typical for the transaction, e.g., inappropriate choice of transport (mode of transport does not match the one which is typical for the specific type of goods (containers, tanks, etc.), transportation of the quantity of the relevant good by the specific mean of transport is not technically possible).

5.21. Inconsistencies and contradictory information are found in the trade documents (different quantities, prices, names of counterparties or other information).

5.22. The price of the good/service in the transaction seemingly does not appear to be in line with the market price or has changed significantly compared to similar previous transactions.

5.23. The supporting documents provide general and superficial information about the good or service, without specifying the product or service.

5.24. The company is unable to provide supporting documents for transactions or submits them late.

5.25. Documents supporting transactions show signs of forgery, lack key information, and are often altered without apparent justification (contract amendments, changes to conditions, etc.).

5.26. Documents supporting complicated, complex or large transaction are too simple, template-type, similar to samples available on the internet.

5.27. The amounts reported by the counterparties in the transaction documents do not match, nor do the amounts shown in the bank statements.

5.28. Last-minute change of the beneficiary (to a previously unidentified third party). Last-minute changes to payment conditions, deadlines, amounts.

5.29. The value of the transaction is regularly slightly below the reporting threshold.

5.30. Transaction amounts are rounded off, and this is not typical for transactions in a given group of goods or services.

5.31. Transactions involve 'round in circle' payments – made in one country and received in the same country after passing through financial institutions of other countries.

Abbreviations and terms

High-risk countries and jurisdictions subject to enhanced surveillance	Significant deficiencies are identified in the country's anti-money laundering, counter-terrorism and proliferation financing systems and it is either unable or unwilling to address the identified deficiencies by bringing its financial, supervisory and law enforcement systems into line with international standards, it is placed on a list of high risk or enhanced surveillance countries with which financial cooperation is difficult, inadvisable or even prohibited.[30]
MFA	Ministry of Foreign Affairs
CSB	Central Statistical Bureau of Latvia
transaction(s)	Trade transaction(s)
ECOFEL	Egmont Centre of FIU Excellence and Leadership
EEA Member States	European Economic Area countries[31]
Eurostat	Statistical Office of the European Union
EU	European Union
ES DPS	European Union Data Preparation System
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit of Latvia
PC	Proceeds of crime
ML	Money laundering
TCID	Tax Compliance Incentive Department
AML Law	Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing
NRA	National Risk Assessment of ML/TPF 2017 -2019
CIS countries	Member States of the Commonwealth of Independent States (CIS) are: Armenia, Azerbaijan, Belarus, Georgia (no longer part of the CIS as of September 2009), Kazakhstan, Kyrgyzstan, Russia, the Republic of Moldova, Tajikistan, Turkmenistan (associate member), Ukraine (associate member), Uzbekistan.
OECD	Organisation for Economic Cooperation and Development
PF	Proliferation financing
VAT	Value added tax
TBML	Trade-based *money laundering*
Trade-based TPF	Trade-based terrorism and/or proliferation financing
TF	Terrorism financing
Third countries	Within the context of the EU law, all the non-EU countries.
SRS TA	State Revenue Service National Tax Board
SRS NTB	State Revenue Service National Customs Board

[30] Information on high-risk countries. Available at: https://www.fid.gov.lv/lv/darbibas-jomas/starptautiska-sadarbiba/augsta-riska-valstis

[31] List of countries. Available at: https://www.mfa.gov.lv/lv/valstu-saraksts

Annex No 1

Countries analysed in the study

Partner state	Total amount of mismatch		Rank by amount of mismatch	
	2020	2018	2020	2018
Russia	41.07%	47.75%	1	1
Estonia	12.33%	10.03%	2	2
USA	5.54%	3.88%	3	4
China	4.88%	7.15%	4	3
Uzbekistan	4.01%	0.28%	5	24
Netherlands	3.45%	3.86%	6	5
Lithuania	2.81%	0.77%	7	18
Poland	2.71%	0.37%	8	21
United Kingdom	2.44%	3.07%	9	7
Denmark	2.38%	0.94%	10	17
Belarus	2.18%	2.30%	11	10
Finland	2.09%	1.46%	12	11
Spain	1.88%	0.19%	13	26
Ukraine	1.56%	1.27%	14	14
Czech Republic	1.34%	1.30%	15	13
Germany	1.28%	2.57%	16	9
Italy	1.28%	1.40%	17	12
Norway	1.10%	1.14%	18	15
France	1.06%	0.97%	19	16
Sweden	1.06%	0.74%	20	19
Switzerland	0.55%	0.67%	21	20
Slovakia	0.48%	2.66%	22	8
Pakistan	0.47%	0.28%	23	23
Belgium	0.46%	No data	24	44
Hungary	0.42%	0.37%	25	22
Iceland	0.34%	0.24%	26	25
Cyprus	0.33%	0.14%	27	27
Zimbabwe	0.25%	0.12%	28	29
Azerbaijan	0.12%	0.07%	29	31
Uganda	0.09%	0.05%	30	32
Albania	0.01%	0.00%	31	39
Mauritius	0.00%	0.00%	32	41
Myanmar	0.00%	0.02%	33	35
Botswana	0.00%	0.01%	34	36
Barbados	0.00%	0.00%	35	43
Canada	No data	3.64%	36	6
Jamaica	No data	0.14%	37	28
Malta	No data	0.08%	38	30
Iran	No data	0.03%	39	33
Ghana	No data	0.02%	40	34
Bahamas	No data	0.01%	41	37
Cambodia	No data	0.00%	42	38
Nicaragua	No data	0.00%	43	40
Mongolia	No data	0.00%	44	42
Panama	No data	No data	45	45
Syria	No data	No data	46	46
Yemen	No data	No data	47	47
British Virgin Islands	No data	No data	48	48
Democratic People's Republic of Korea	No data	No data	49	49

Annex No 2

Product groups analysed within the framework of the study

Section in the combined nomenclature	Group of goods	Amount of mismatch		Rank by amount of mismatch	
		2020	2018	2020	2018
IV	Food industry products; beverages, alcoholic liquids and vinegar; tobacco and manufactured tobacco substitutes	20.33%	9.36%	1	3
V	Mineral products	15.69%	21.56%	2	2
XVI	Mechanisms and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	14.18%	35.76%	3	1
XVII	Means of transport and their equipment	8.32%	7.04%	4	4
XX	Miscellaneous articles	6.42%	3.16%	5	6
XI	Textiles and textile articles	6.07%	2.69%	6	8
II	Plant products	4.57%	3.03%	7	7
XV	Base metals and articles of base metal	4.37%	2.56%	8	9
VI	Products of the chemical industry and its allied industries	4.21%	4.13%	9	5
VII	Plastics and articles thereof; rubber and articles thereof	2.92%	2.32%	10	10
IX	Wood and articles of wood; charcoal; cork and articles of cork; articles of straw, esparto or other plaiting materials; plaited dishes and plaits	2.85%	1.38%	11	12
III	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	2.21%	1.04%	12	13
XVIII	Optical instruments and equipment, photographic and cinematographic instruments and equipment, measuring and control instruments and equipment, precision instruments and equipment, medical and surgical instruments and equipment; clocks and watches; musical instruments; parts and accessories thereof	2.21%	1.52%	13	11
XIX	Arms and ammunition; parts and accessories thereof	1.92%	0.48%	14	17
I	Live animals; animal products	1.01%	0.81%	15	15
XII	Footwear, headgear, umbrellas, parasols, walking-sticks, cane-supports, whips, riding-crops and parts thereof; processed feathers and articles made of feathers; artificial flowers; articles of human hair	0.85%	0.43%	16	19
X	Pulp of wood or of other fibrous wood-pulp fibre material; recycled (waste and waste paper) paper or cardboard; paper and paper and cardboard, and articles thereof	0.82%	0.56%	17	16
VIII	Raw hides, leathers, furskins and articles thereof; saddlery and harness; travel accessories, bags and similar goods; articles of animal guts (other than silkworm gut)	0.43%	0.41%	18	20
XIII	Articles of stone, plaster, cement, asbestos, mica and similar materials; ceramic products; glass and glassware	0.41%	0.89%	19	14
XIV	Natural or cultured pearls, precious and semi-precious stones, precious metals, metals clad with precious metal and articles thereof; bijouterie; coins	0.16%	0.46%	20	18
XXI	Works of art, collectors' items and antiques	0.04%	0.03%	21	21