



DANGEROUS LIAISONS

ENVIRONMENTAL AND
FINANCIAL CRIME

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INTRODUCTION



In 2018, INTERPOL, the Global Initiative Against Transnational Organised Crime, and RHIPTO issued a joint report stating that environmental crime had an annual growth rate of 7% (i.e. two to three times higher than global GDP growth), and estimating its worth to be as much as USD 281 billion per year. This makes it the world's fourth largest criminal enterprise after drug trafficking, and counterfeiting and human trafficking.²

Although no universally agreed definition of environmental crime exists, the European Commission notes that it covers “acts that breach environmental legislation and cause significant harm or risk to the environment and human health”,³ including illicit trade in wildlife or hazardous substances, pollution, improper waste disposal, illegal mining, illegal forestry and unregulated fishing.

Those who think of environmental crime as victimless are unequivocally wrong: water and air pollution, wildlife degradation, biodiversity reduction and ecosystem disruption all increase the risk of human death and disease, threatening global food security and governmental capacity to collect legitimate tax revenue in support of the populace. These illicit practices menace our planet and its inhabitants by engendering infectious diseases, chemical poisoning, food contamination, natural disasters and climate change.

Environmental crime is, moreover, an offence that rarely exists in isolation. Its status as a predicate crime for money laundering has been underlined by both the European Union and the Financial Action Task Force. It is also commonly associated with fraud, theft, violence, bribery, corruption, trafficking, exploitation and modern slavery. INTERPOL even links it to terrorist financing. It is little wonder, therefore, that the United Nations (UN) has labelled environmental crime “a serious and growing danger for development, global stability and international security.”⁴

RELEVANCE OF THE ENVIRONMENT TO THE FINANCIAL SECTOR

Investor interest in non-financial data and context, particularly environmental, social and governance (ESG) issues, is mounting. Campaigns asking consumers to petition companies on sustainability grounds are on the rise and a distinct competitive advantage is now conferred from the ability to publicise ESG credentials. With burgeoning interest from both regulators and consumers, organisations are increasingly incentivised to push ESG to the core of their business.

ESG investing, which looks beyond financial metrics when selecting stocks, previously represented a niche area for the investment community. However, it is forecast to reach between €7.4 and €9 trillion by 2025, bringing its share of the European fund sector to as much as 56% and thus outnumbering non-ESG counterparts.⁵ This trend is already apparent, with 72% of European institutional investors surveyed in a recent industry-wide PwC poll planning to stop buying non-ESG products within the next two years,⁶ and European ESG stocks outperforming non-ESG stocks by 12% annually.⁷

Most companies now have sustainability policies in place and many report on these components of their business in annual or dedicated sustainability reports. Indeed, 96% of the firms in the S&P 500 Index produced such reports in 2021.⁸ A growing number also employ sustainability officers, which King Charles has deemed vital for ensuring the lasting centrality of sustainability to organisational strategies, emphasising that businesses are increasingly “expected to be responsible global citizens delivering returns not only for shareholders, but for society and for nature”.⁹

Regulatory and investor appetite have increased in tandem, with the UK’s Financial Conduct Authority recently making it mandatory for all UK ‘premium listed’ companies to include a statement in their annual financial report which sets out whether their disclosures are consistent with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The TCFD recommends that firms disclose their governance around climate related risks and outline how they aim to identify, assess, and manage these risks.

THE INTERLINKAGES BETWEEN FINANCIAL AND ENVIRONMENTAL CRIME

Environmental crime is inextricably linked with other offences which are financial and exploitative in nature. Forgery, corruption and bribery are often needed to conduct and cloak environmental violations based on fraud or tax evasion, and underscored by forced or exploitative labour conditions.

Environmental crime is also a major predicate offence to money laundering, which can be challenging for authorities given different jurisdictional regulations. In some countries, criminals are charged for the environmental rather than financial aspect of their crimes (so for poaching or equivalent, rather than for money laundering) which tend to carry lower penalties; only about 1% of environmental crimes in Asia, for example, lead to money laundering investigations.¹⁰

ILLEGAL MINING AND LOGGING

With environmental crime penalised more lightly than other crimes in many jurisdictions, criminals originally embroiled in other schemes are increasingly turning to environment-related activities. For instance, members of Central and South American drug cartels increasingly complement their drug trade with lucrative minerals like gold.

Illegal mining relies on unlawful logging to clear forests for excavation, destroying the habitat for wildlife, displacing indigenous people, removing important carbon sequesters which help regulate climate change, and generally throwing fragile ecosystems into disarray. Indeed, 12-20% of greenhouse gases are estimated to come from forest degradation and clearance.¹¹ Slave labour is often used both in the destruction of forests and in subsequent mining operations, notably for lucrative coltan in the Democratic Republic of Congo (DRC) or palm oil in Indonesia.

INTERPOL estimates that, together, illegal mining and forestry could generate up to USD 200 billion per year.¹² These crimes represent key drivers of conflict, with organised crime syndicates in the DRC engaging in a steady barter trade in minerals, wildlife and timber for weapons, and terrorist group Al-Shabaab relying on illegal charcoal exports from Somalia as one of its key financial lifelines.¹³



Furthermore, illegal mining and logging are often facilitated by bribery and corruption. Instances of local or national government officials issuing licences allowing extractive sector companies to operate in environmentally protected areas in exchange for bribes are unfortunately not uncommon, with a recent academic study highlighting cases of interlinked corruption and forest loss in countries including Malaysia, Costa Rica and the DRC. ¹⁴

In 2019, five individuals were convicted and sentenced to time imprisonment for carrying out illegal logging on the Menominee Indian Reservation in the US state of Wisconsin. The individuals logged for Menominee Tribal Enterprises (MTE), though on numerous occasions they cut down additional timber beyond that authorised by MTE, receiving payment which they divided amongst themselves. We have been able to map these connections using our screening and investigations platform, Themis Search.

The screenshot displays the Themis Search interface. On the left, a profile card for **Derrin B. Webster** includes the following details:

- Date of birth: 1988-1989
- Gender: Male
- Nationality: American
- Address: Environmental Crime
- Crime Type: Environmental Crime
- Conviction Date: 07/2019
- Court: U.S. District Court for the Eastern District of Wisconsin
- Sentence: 7 months

An **Add to Monitoring** button is located at the bottom of the profile card. The central area features a network diagram with a central node labeled **Dugan R. Webster et al, WI, USA, 2019** (marked with a red car icon). This central node is connected to five other nodes, each with a red person icon: **Chauncey J. Webster Jr.**, **Derrin B. Webster**, **Melvin T. Campbell Jr.**, **Arthur P. Fish**, and **Dugan R. Webster**. The right-hand panel, titled **Themis Special Interest List**, contains a pink alert box stating: "Law enforcement has been reported against Derrin B. Webster." Below this, it lists: Crime Type: Environmental Crime; Sentence: 7 months; Conviction Date: 07/2019; Court: U.S. District Court for the Eastern District of Wisconsin. It also provides sources and an event link: "Event: Regulatory Enforcement List" with a URL to a justice.gov document. A **Feedback** button and a date stamp "06 December 20" are visible at the bottom right.

UNREGULATED FISHING



Unlawful logging is often also undertaken to facilitate illegal fishing, an industry worth up to USD 24 billion per year.¹⁵ For instance, vast swathes of the Sundarbans UNESCO World Heritage Site in Bangladesh and India, which is home to thousands of miles of mangrove forest, endangered species like the Bengal tiger and Asia's largest carbon sink, have been razed to the ground for shrimp aquaculture camps. The forest previously acted as a barrier protecting coastal villages from cyclones, which now devastate communities, lead to human casualties and render the land unusable by the legitimate local agricultural industry. The aquaculture camps rely on child slaves, working in the tattered remains of the forest, often preyed upon by the tigers whose other food sources have been destroyed by deforestation.

The depleted fishing stocks and labour shortages associated with unregulated fishing have also fuelled slavery across the Thai fishing industry, which often exploits debt-bonded migrants from Cambodia and Myanmar as a way to reduce labour costs in the face of economic pressure. This forced labour further exhausts marine reserves, driving up prices and making fish a scarce and valuable commodity. It is, moreover, closely linked to other criminal practices, with illegal fishing vessels and transport routes simultaneously used to traffic drugs and humans, and pirate crews deploying all manner of forgery, misreporting, serious identity fraud, bribery and manipulation of electronic identification or tracking systems to cover their tracks.

The case of a notorious pirate fishing vessel "FV STS-50", which changed its name six times and engaged in illegal fishing across three different oceans for years before being seized by Indonesia on INTERPOL's request, epitomises some of these linkages between environmental and financial crime. The ship's crew not only contributed to the unregulated depletion of global fish stocks, but also engaged in document fraud, illegal open-sea transshipments, and misreporting to avoid sanctions. Using these methods of deception, the pirates controlling the vessel were estimated to have stolen a total of USD 50 million worth of fish over the course of a decade.¹⁶



ILLEGAL WASTE

Over the past few years, southeast Asian countries have introduced legislation to stem the flow of contaminated foreign waste into their ports, yet such waste continues to pour in from Germany, Australia, the US and UK, rerouted via multiple interim transit countries, disguised as second-hand, recyclable or raw material and aided by forged documentation camouflaging its origin.

In 2021, waste company Biffa was fined £1.5 million for sending 1,000 tonnes of waste labelled as paper for recycling between 2018 and 2019, including used nappies, clothing, and plastic bags, to India and Indonesia.¹⁷ This was in addition to a fine of £350,000 issued to the company in 2019 for sending falsely labelled household waste to China.¹⁸ Two thirds of the UK's plastic (around 611,000 tonnes annually)¹⁹ is exported to countries with comparatively poor waste management practices, purportedly for recycling. Much of this waste ends up littering the water.²⁰ Indeed, it is estimated that up to 180,558 tonnes - i.e. up to 7% - of exported European polyethylene, a common plastic, becomes ocean debris.²¹

The nexus between environmental and financial crime is extremely well demonstrated by the case of the so-called "Triangle of Death", one of Europe's largest illegal waste sites, located in the Campania area northeast of Naples. Over 10 million tonnes of industrial waste were allegedly dumped there over two decades, before the government declared the area an environmental disaster and commenced an extensive cleaning operation in 2014. The main culprit was the Camorra, an organised crime syndicate based in Naples, whose multibillion-dollar eco-mafia racket undercut the cost of legal waste disposal and relied heavily on the threatening and bribing of corrupt officials.

Illegal waste burning, camouflaged amongst legitimate incineration, released poisonous dioxins into the atmosphere, earning Campania the moniker "land of pyres". As the new millennium struck, thousands of cattle in the region died or bore abnormal foetuses, and high levels of the toxins were found in the region's milk products, causing its dairy industry to collapse. Carcinogens like arsenic, lead and tetrachloride have also been found in Campanian vegetables more recently, having leaked into the soil and water supplies that continue to irrigate the region's farmland. Reports indicate that the region's cancer mortalities are up to 80% higher than the national average.²²

Illegal waste sites are also common across the UK, with 516 sites being shut down in 2021 alone.²³ Corruption, marketing fraud and fraudulent insurance claims are often part and parcel of these operations, and come at a cost that tends to be absorbed by the public. The Environmental Services Association estimates that for every illegal waste site operating in the country, up to £200,000 in public sector money is lost,²⁴ whereas fly-tipping, which is defined as the illegal dumping of rubbish, often for tax evasion purposes, costs local authorities up to £392 million a year in clean-up and enforcement operations.²⁵

REGULATORY AND LAW ENFORCEMENT RESPONSES

According to an estimate by an INTERPOL representative, the amount of taxable income lost to environmental crime is around 10,000 times greater than the amount spent on combating it.²⁶ Although global law enforcement efforts in this area are relatively under-resourced, authorities are beginning to understand the symbiosis between environmental and financial crime.

Crucially, the European Union's latest Anti-Money Laundering Directive, the 6AMLD, lists environmental crime as one of 22 predicate offences for money laundering for the first time. January 2020 also saw the launch of the UK's dedicated Joint Unit for Waste Crime, which brings together UK law enforcement agencies, environmental regulators, HM Revenue & Customs (HMRC) and the National Crime Agency to ensure a joined up effort against waste crime. Welcoming this initiative, Simon Walker from HMRC's Fraud Investigation Service, said: "Waste crime is a blight on our society, with those responsible often involved in a raft of other crimes including large scale fraud that rob our vital public services of much-needed funds."²⁷

The UK also passed the Environment Act in November 2021, which will enshrine five environmental principles to underpin government policy to improve environmental protection and sustainable development.²⁸ It gives the Government power to set binding targets in the four priority areas: air quality, water, biodiversity, and resource efficiency and waste reduction.²⁹ The Act also established the Office for Environmental Protection, which will function as an oversight body, holding the Government and public bodies accountable and ensuring compliance with environmental laws.³⁰

In June 2020, the Financial Action Task Force (FATF) released a report specifically focused on the illegal wildlife trade, which demonstrated the crippling effects of this global practice, as well as its overlaps with financial crime and the financial sector. Following on from this work, "environmental crime" is listed as a key priority for the FATF under its 2020-2022 German Presidency. The organisation plans to analyse "financial flows linked to relevant forms of environmental crime in order to raise awareness of relevant money laundering / terrorist financing risks."³¹ Its President, Dr Marcus Pleyer, has said the FATF will be developing specific guidance to help public authorities and the private sector understand these threats.³²

The UN's Environmental Programme is responsible for coordinating its environmental efforts, often reporting on related crime in tandem with INTERPOL, one of the world's most active agencies when it comes to enforcement in this sphere. A notable example of an INTERPOL operation is Operation Thunder, a series of enforcement operations that began in 2017 in joint cooperation with the World Customs Organisation. Since 2017 there have been a number of related operations under this umbrella, the most recent being "Thunder 2022", a month-long operation undertaken between the 3rd and 30th of October, bringing together enforcement agencies from 125 countries - the most that have ever taken part in a Thunder operation. Though results are still being reported, Operation Thunder 2022 has seen almost 2,200 seizures and the identification of 934 suspects, at the time of writing. Wildlife seizures have included 119 big cats, 25 rhino horns, and nine pangolins.



RESPONSIBILITIES OF FINANCIAL INSTITUTIONS AND RED FLAGS

Since environmental crime is now increasingly recognised as a predicate crime to money laundering, financial institutions must make sure they have an appropriate anti-money laundering (AML) framework in place to address potential risks related to environmental crime. Customer due diligence and transaction monitoring for suspicious activity form the cornerstone of this framework.

‘Red flag’ practices to watch out for in transactions that might be related to environmental crime and associated money laundering include:

- **Inconsistent or cash-intensive activity**
e.g. unusual volumes of transactions relative to apparent size of business; large cash deposits or withdrawals; requests for high denomination bank notes.
- **Corporate secrecy**
e.g. use of shell companies, particularly as part of shipping processes; obscure beneficial owners; complex corporate structures; company incorporation in tax havens; multi-jurisdictional accounts.
- **Fraudulent shipping activity**
Careful analysis of customs and shipping documentation is crucial to ensure that the international transportation of products linked to environmental crime is not being enabled via fraudulent bills of lading, under- or over-invoicing, inadequate customer information on custom documents and other such malpractices.

Transactions involving elements of the above, as well as those implicating high-risk jurisdictions or particular environmental crime hotspots, may warrant further investigation, adverse media screening and enhanced due diligence. As ever, effective suspicious transaction reporting also remains imperative.

CONCLUSION

It is vital that the private sector engages with efforts being made by international organisations and governments around the world to combat environmental crime. The financial sector, in particular, is pivotal to the detection and disruption of financial flows linked to environmental crime.

Themis can help firms integrate ESG considerations into their financial crime prevention frameworks, to ensure both regulatory compliance and continued support from consumers who are increasingly focused on sustainability.

Furthermore, Themis' ESG risk reports leverage our experience investigating ESG concerns to identify companies' greatest areas of risk based on both ESG benchmarks and the United Nations Sustainable Development Goals. We can map out firms' subsidiaries and supply chains, identifying vulnerabilities and concerns, including in terms of exposure to environmental damage or crime.

Themis Search & Monitoring can be used to perform global searches for potential financial crime risks in your network. You can screen and produce reports for your clients, suppliers, investors and investments against a multitude of threats including environmental crime and fraud, providing 24-hour monitoring of legal entities and individuals. Themis Search also has a "whistleblower" function in our interactive investigations map, for users wishing to report criminal links anonymously - crucial for those wishing to distance themselves from company ownership.

Firms, consumers and public authorities all have a role to play in reducing the profitability and attractiveness of environmental crime. However, with ESG issues rising up stakeholder agendas and urgent global action needed to tackle climate change, it is no longer enough to prove that one has no inadvertent links to criminal schemes that damage the planet. Organisations now have a responsibility to be proactive rather than reactive, actively helping support rather than simply refraining from harming our environment.

www.crime.financial
UK: +44 (0) 20 8064 1724
UAE: +971 (0) 58 590 5918
info@themisservices.co.uk



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