Laundering Mexico’s drug money

Washing up

Drug kingpins turn to trade-based money-laundering

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DRUG traffickers, like everyone else, only want money because they want what money can buy. But turning dirty cash from drug sales into clean, usable currency has become harder for Mexican drug gangs as a result of tighter banking regulations at home and in the United States, their main market. The criminals are responding by piggy-backing on cross-border trade to launder their gains.

On September 10th roughly 1,000 law-enforcement officials raided the Garment District of Los Angeles, seizing at least $65m in cash and arresting nine people. According to court documents, several garment businesses allegedly helped drug traffickers ferry proceeds from sales back into Mexico. The scheme is relatively simple. Black-market peso brokers contact Mexican importers who want to buy goods from a business in Los Angeles. The broker then finds a gang associate in the United States to pay the bill on behalf of the Mexican importer, using dollars from drug sales. The importer pays the broker in pesos; the broker takes a cut and passes along the remainder to the gang in Mexico.

Such schemes are not new, but they have become more popular as it has become harder to use the banking system to move money. In 2010 Mexico set restrictions on deposits of dollars. It later imposed reporting requirements on cash payments above a certain threshold for items like homes, cars and so on. The United States has also ramped up its scrutiny of large cash transactions and taken a much firmer line against banks. In 2012 HSBC paid $1.9 billion to regulators in the United States to settle accusations that, among other things, it had failed to monitor transactions involving Mexican drug gangs.

That helps explain why drug kingpins are targeting businesses in Los Angeles, from toy manufacturers to clothing wholesalers, as ways to send money back home. Such firms—some of which are legitimate, some of which are purely fronts—provide convenient cover because of their frequent export of goods to Mexico.

Claude Arnold, who is in charge of US Immigration and Customs Enforcement’s Homeland Security Investigations unit in Los Angeles, says the dealings have reached unprecedented levels in LA: “We’ve never seen it on such a grand scale before.” In 2013 banks in the United States filed 1,510
“suspicious activity reports” related to possible trade-based money-laundering; over half came from California.

Keeping up with the traffickers will always be a huge task. Estimates vary widely but the Department of Homeland Security reckons that traffickers send as much as $29 billion back to Mexico every year from the United States. If industrial-scale laundering is happening, say some, smallish manufacturers and cash deposits cannot be the only conduit (Mexico’s President Enrique Peña Nieto this month announced that he would ease rules on cash deposits of dollars for firms). Better to look, too, at capital flows in other industries—property, tourism and the like.

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