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ADVOCATES, CONSULTANTS & NOTARY

BRANCHES: DUBAI | SINGAPORE | DELHI | MUMBAI | KOLKATA | CHENNAI | COCHIN info@calliduscmc.com

Dubai

Business Avenue Building
Office # 713, Port Saeed Road,
P.O. Box # 90992, Dubai, UAE.
Tel : +97142956664
Fax : +97142956099

Singapore

20 Maxwell Road
#04-02 D, Maxwell House
Singapore - 069113
Tel: +65 6221 4090

Delhi

D 1st 145 Basement (Rear)
Lajpat Nagar R 1
New Delhi - 110 024
Tel: +91 11 4132 1037

Mumbai

8-B, Dariya Building
2nd Floor, In between American
Dry Fruits & Zara, Dr. D.N.Road
Fort, Mumbai 400 001
Tel: 022-22853371

Chennai

Old No. 123, New No.255,
3rd Floor, Hussiana Manzil,
Ankapanaiken Street,
Parrys, Chennai - 600 001
Tel: +91 98 40 844463

Cochin

Near St. Joseph's High
School Chittoor Road,
Cochin - 12, India
Tel : +91 484 2391895
office@callidusindia.com

THE GLOBAL IMPACT OF MONEY LAUNDERING AND TRADE BASED MONEY LAUNDERING (TBML) IN MARITIME INDUSTRY

Money laundering is a pressing global issue that costs the legitimate economy over \$300 billion annually. This staggering amount arises from the efforts of various criminal organizations to "clean" their illicit funds and reintegrate them into the legal financial system. The International Monetary Fund (IMF) estimates that this activity contributes to a loss of 10-15% of the world's GDP annually. Experts in international anti-money laundering (AML) and

financial regulatory bodies have identified numerous connections between this criminal activity and the global trade system.

What is Trade-Based Money Laundering (TBML)?

Trade-Based Money Laundering (TBML) refers to criminals' methods to launder money through international trade transactions. This involves disguising the true origins of goods and funds by manipulating their movement and value. TBML exploits

international trade regulations by creating opportunities to bypass rules, often taking advantage of tax havens.

The scope of TBML is broad, affecting various sectors that rely on the exchange of goods. Criminals may set up fake companies, issue false invoices, or use techniques like over- or under-invoicing to mask their activities. Industries such as art, precious goods, and shipping are particularly vulnerable, as many transactions can be backed by fraudulent documentation.



THOUGHT for the MONTH

A ship in harbour is safe, but that is not what ships are built for

JOHN A. SHEDD

Callidus

How TBML gets executed

It is crucial to break down the steps involved in executing these schemes, in order to fully understand how TBML gets executed:

➤ Forming the Criminal Network

Criminal organizations typically start by identifying key players within their network, which may include suppliers, transporters, and buyers. Establishing a reliable network is essential for facilitating transactions that appear legitimate while masking illicit activities.

➤ Creating Shell Companies

The next step involves setting up front or "shell" companies. These businesses are established to conduct seemingly legitimate transactions while serving as a cover for money laundering activities. Shell companies are often registered in tax havens or jurisdictions with lenient regulations, making it easier to conceal ownership and financial movements.

➤ Manipulating Invoices

Once the front companies are established, criminals manipulate invoices to distort the value of goods being traded. This can occur through several methods:

- ➊ Over-Invoicing: Criminals may inflate the price of goods on invoices, allowing them to transfer excess funds across borders under the guise of legitimate transactions. For instance, if a product worth \$100 is sold for \$200, the additional \$100 can be laundered as "profit."
- ➋ Under-Invoicing: Alternatively, criminals may undervalue goods to evade taxes and scrutiny. This enables them to transfer larger sums of money while appearing compliant with local laws.
- ➌ Multiple Invoicing: In some

cases, the same goods may be invoiced multiple times to different entities, complicating tracking efforts and generating substantial illicit funds.

➤ Shipping Goods

After the invoices are manipulated, the next step is shipping the goods. This process is crucial for legitimizing the operation, as physical goods must accompany financial transactions to create a façade of legitimate trade. The shipping process often utilizes established routes, making it difficult for authorities to detect illicit activities.

➤ Concealing the True Nature of Goods

To further obscure their operations, criminals may alter documentation related to the goods. This includes falsifying certificates of origin, transport documents, and other regulatory paperwork. By changing the perceived value and origin of the goods, criminals can disguise their illegal activities and mislead authorities.

➤ Utilizing Informal Value Transfer Systems (IVTS)

Criminals often rely on informal value transfer systems, such as hawala networks, to move money without using traditional banking channels. These systems allow for the transfer of funds based on trust and personal connections, enabling criminals to bypass financial regulations. The use of IVTS further complicates tracking and tracing illicit financial flows.

➤ Reintegrating Funds into the Legal Economy

Once the funds have been successfully transferred and concealed, criminals reintegrate them into the legitimate economy. This can involve purchasing high-value items, such as real estate, luxury vehicles, or valuable

commodities, which can then be sold for clean money. Converting illicit funds into tangible assets further obscures their origins.

Broader Implications of TBML

The consequences of TBML extend beyond immediate financial losses. This practice contributes to various societal and economic issues, including:

- Undermining Legitimate Businesses: TBML allows criminal organizations to operate outside the law, creating an uneven playing field for legitimate businesses that comply with regulations and pay taxes.
- Erosion of Tax Revenues: Governments lose substantial tax revenues due to underreporting and manipulation of trade values, which can negatively affect public services and infrastructure.
- Fostering Corruption: TBML can foster corruption, as criminals may bribe officials to ignore illegal activities or provide protection for their operations.

The Link between TBML and Maritime Piracy

A particularly alarming aspect of TBML is its connection to the maritime trade sector. This sector includes a variety of market activities, such as legal fishing, containerized shipping, and the sale of marine wildlife. While maritime trade is crucial for transporting goods, it is also associated with criminal activities like maritime piracy.

How Maritime Piracy Relates to TBML

The relationship between TBML and maritime piracy can be understood through several key steps:

➤ Identifying Vulnerable Targets

Pirates often start by identifying vulnerable vessels or shipping routes. They focus on areas with high traffic or weak security, such as straits or isolated waters. Criminal

organizations typically gather intelligence on shipping schedules and cargoes of potential targets.

➤ **Executing the Piracy**

Once a target is identified, pirates execute their attack, often using speedboats or small vessels to approach and board the targeted ship. Today's pirates are often equipped with weapons and technology, enabling them to overpower crews and seize control of vessels quickly.

➤ **Seizing Cargo and Demanding Ransoms**

After boarding, pirates may confiscate valuable cargo or hold the ship and crew for ransom. The value of the cargo often determines the ransom amount, which can reach millions of dollars. In many instances, pirates may take the entire vessel hostage, giving them leverage during negotiations.

➤ **Disposing of Stolen Goods**

Once pirates have seized the cargo, they need to sell it to convert their stolen goods into cash. This may involve selling the cargo through black markets or to intermediaries who can move the goods without drawing attention. Some pirates transfer stolen goods to land-based criminal organizations that have established networks for selling such items.

➤ **Laundering the Proceeds**

The final step in the piracy process is laundering the proceeds. Pirates often utilize TBML techniques to disguise the origins of their earnings. They may invest the money in front companies, engage in trade manipulation, or use informal value transfer systems to reintegrate their funds into the legitimate economy.

The Legal Framework against Maritime Piracy

Maritime piracy has been defined as

a crime under international law. The United Nations Convention on the Law of the Sea (UNCLOS), established in 1959, characterizes piracy as unlawful acts of violence or robbery committed for private gain on the high seas. This legal framework is essential for prosecuting pirates and establishing jurisdiction over piracy-related incidents.

Challenges in Enforcing Anti-Piracy Laws

Despite the existence of international laws, enforcing measures against piracy can be challenging. Key obstacles include:

- **Jurisdictional Conflicts:** Determining which country has jurisdiction over piracy incidents can complicate prosecution efforts, especially if the attack occurs in international waters.
- **Resource Limitations:** Many countries lack the naval resources and training necessary for effective anti-piracy operations, creating opportunities for pirates to operate with relative ease.
- **Corruption Issues:** Corruption within law enforcement can hinder efforts to combat piracy. In certain regions, officials may be bribed to ignore or overlook piracy incidents.

Strategies to Combat TBML and Maritime Piracy

Effectively addressing TBML and its connection to maritime piracy requires a multi-faceted approach that encompasses cooperation across various sectors.

- **Strengthening Legal Frameworks**
Countries must develop and strengthen legal frameworks to deter both TBML and piracy. This includes enacting specific laws that address trade manipulation, money laundering, and piracy, as well as providing clear guidelines for prosecution.
- **Enhancing International Cooperation**
Collaboration among nations is essential for combating TBML and

maritime piracy effectively. Countries should work together to share intelligence, coordinate maritime patrols, and provide mutual legal assistance in prosecuting offenders.

- **Increasing Resources and Training**
Governments must allocate resources to enhance the capabilities of law enforcement and maritime security agencies. This includes providing training for personnel on identifying and responding to TBML and piracy incidents.
- **Promoting Transparency in Trade**
Enhancing transparency in international trade can help reduce opportunities for TBML. Implementing stricter regulations on trade documentation, enhancing due diligence requirements, and fostering a culture of compliance within businesses can all contribute to this effort.
- **Raising Public Awareness**
Public awareness campaigns can play a critical role in combating TBML and piracy. By educating businesses and the general public about the risks and consequences of these activities, authorities can encourage reporting and cooperation in investigations.

Conclusion

In conclusion, addressing TBML and maritime piracy requires a comprehensive, step-by-step approach that emphasizes international cooperation, robust legal frameworks, and effective enforcement strategies. By targeting the methods criminals use to exploit global trade and maritime systems, we can work toward reducing these interrelated issues and protecting the integrity of the legitimate economy. The fight against money laundering and piracy is vital not only for safeguarding economic stability but also for promoting security and justice in our interconnected world. Through concerted efforts and collaboration, we can combat these challenges effectively and create a safer global environment ■

THE ROLE OF INTERNATIONAL CONVENTIONS IN MODERN MARITIME LAW: SPOTLIGHT ON UNCLOS

Advaita Menon

NMIMS School of Law, Bangalore



International conventions have played a critical role in structuring modern maritime law, providing a unified legal framework for governing the world's oceans. Among these agreements, the United Nations Convention on the Law of the Sea (UNCLOS) is widely regarded as a cornerstone, often referred to as the "Constitution of the Oceans."

Historical Development and Context

Before global agreements like

UNCLOS were established, maritime law relied heavily on customary practices and scattered bilateral treaties. This lack of uniformity often led to conflicts regarding navigation rights, territorial boundaries, and resource access. Recognizing the need for clarity, the United Nations initiated a series of discussions to develop a comprehensive legal framework for maritime activities. These discussions culminated in the adoption of UNCLOS in 1982, which officially came into force in 1994.

Key Features of UNCLOS

UNCLOS introduced several groundbreaking provisions that continue to shape the global maritime legal landscape:

- **Sovereignty Over Territorial Waters:** Coastal states are granted sovereignty over territorial seas extending up to 12 nautical miles from their coastline. Beyond this zone, states have limited jurisdiction in a contiguous zone extending another 12 nautical miles, primarily for

enforcing laws related to taxation, immigration, customs, and pollution.

- ▶ **Exclusive Economic Zones (EEZs):** Extending 200 nautical miles from a state's coastline, EEZs allow coastal nations exclusive rights to explore, manage, and exploit marine resources within these areas. This provision has become essential in managing fisheries and offshore resource extraction.
- ▶ **Continental Shelf Rights:** States are given control over the continental shelf for exploration and exploitation of resources, even extending beyond the EEZ under specific conditions.
- ▶ **Navigation and Transit Rights:** UNCLOS safeguards rights such as innocent passage through territorial waters and transit passage through international straits, ensuring uninterrupted global maritime trade and navigation.
- ▶ **Deep Seabed Resources:** The convention established the International Seabed Authority (ISA), tasked with overseeing mineral-related activities in international seabed areas. These resources are considered the common heritage of all humanity.

Influence of UNCLOS on Modern Maritime Law

1. **Promoting Stability Through Defined Zones:** UNCLOS has clarified maritime zones, reducing disputes by establishing a clear division of rights and responsibilities among nations. Additionally, mechanisms like the International Tribunal for the Law of the Sea (ITLOS) provide a platform for resolving conflicts peacefully.
2. **Environmental Safeguards:** The convention mandates states to protect and preserve marine environments, encouraging sustainable exploitation of oceanic resources while addressing concerns such as pollution and overfishing.
3. **Resource Management:** By defining EEZs and continental shelves, UNCLOS enables states to harness



marine resources for economic growth while ensuring sustainable practices.

4. **Freedom of Navigation:** UNCLOS guarantees free passage for global trade and naval operations, contributing to economic connectivity and international peace.

Challenges and Shortcomings

While UNCLOS is widely regarded as a comprehensive legal framework, it has limitations and faces criticism in certain areas:

- ▶ **Non-Participation of Major Powers:** Not all nations have ratified UNCLOS, with the United States being a prominent example. However, many non-signatory states adhere to its provisions as customary international law.
- ▶ **Emerging Maritime Activities:** Technological advancements, such as deep-sea mining and marine bioprospecting, present challenges that the existing UNCLOS framework does not fully address, necessitating further legal refinements.
- ▶ **Environmental Concerns:** Despite its focus on environmental protection, critics argue that UNCLOS has not been entirely effective in preventing marine degradation, particularly regarding issues like plastic

pollution and habitat destruction.

Recent Developments in Maritime Governance

To address these gaps, new agreements are being introduced to supplement UNCLOS. A notable example is the High Seas Treaty, finalized in 2023, which seeks to protect marine biodiversity in areas beyond national jurisdictions. This treaty aims to tackle issues like biodiversity loss and sustainable resource use, which were inadequately covered in the original UNCLOS framework.

Conclusion

UNCLOS has been instrumental in creating a legal foundation for maritime governance, balancing the interests of coastal and landlocked states while ensuring the sustainable and peaceful use of the world's oceans. Despite its shortcomings, the framework established by UNCLOS remains vital for addressing modern maritime challenges and fostering global cooperation.

As the international community grapples with evolving issues such as climate change, biodiversity loss, and emerging oceanic activities, UNCLOS will likely remain a cornerstone of maritime law, complemented by new agreements tailored to contemporary needs ■



STRATEGIC MARINE UNVEILS ITS FIRST SURFACE EFFECT SHIP FOR ENHANCED CREW TRANSFERS



Strategic Marine, a prominent shipbuilder based in Singapore, has delivered its first-ever crew transfer vessel (CTV) utilizing surface effect technology. Designed for operations in the offshore oil and gas sector, this innovative vessel was handed over to All Energy Services, which operates offshore supply vessels in Africa and the Middle East. The vessel, specifically built for crew transfers, showcases enhanced speed and performance with its surface effect technology, which allows it to glide above the waves.

This advanced design enables the vessel to achieve speeds exceeding 50 knots, drastically reducing transit times and improving the efficiency of offshore operations. Moreover, the vessel is equipped to navigate sea conditions with waves up to 2.5 meters (over 8 feet), ensuring reliable performance in challenging environments. With a length of 35 meters (115 feet), the vessel is built for durability and speed.

Strategic Marine calls the delivery of this vessel a "game changer" for the offshore industry. Featuring a reinforced hull and SES (Surface Effect Ship) active motion dampening technology, it guarantees safe, efficient crew transfers, even in adverse sea conditions. The vessel also stands out for its quiet operation and reduced vibrations, thanks to the active air cushion that minimizes motion while underway.

The delivery represents the culmination of a collaborative effort with AIRCAT Vessels, ESNA – Espeland, Skomedal Naval Architects, and AES. Energy Craft

35-14, the vessel's official name, arrived in Angola in late December 2024 and is registered in the Marshall Islands.

Chan Eng Yew, CEO of Strategic Marine, expressed excitement over the vessel's capabilities, stating, "This vessel represents a significant leap forward in comfort, efficiency, and environmental

responsibility. We look forward to further expanding our capabilities in building SES vessels in the years to come."

This breakthrough marks a significant step toward advancing offshore vessel technology and improving operational safety and efficiency in the offshore sector ■

www.maritime-executive.com



Address: Near St. Joseph's High School, Chittoor Road, Cochin- 12, India, T: +91 484 2391895, office@callidusindia.com

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