

## Money Laundering via Scrap Metal Businesses

Extract from NCA Intelligence Brief (Reference NAC(21)402)

### Overview

Intelligence from law enforcement operations has highlighted the use of scrap metal dealers (SMDs) to launder cash proceeds of crime (POC), primarily via a form of trade-based money laundering. While cash sales were outlawed in England and Wales in 2013 (2015 in Scotland), SMDs need cash to fund off-record purchases of metal, sometimes stolen, which can be sold for greater profits. This demand for cash has made the scrap metal industry attractive to organised crime groups (OCGs) and professional money launderers (PMLs), who have taken advantage of this to provide an outlet for their cash POC.

SMDs, along with other entities involved in waste and plastic recycling, have been identified laundering sums in the tens of millions of pounds on behalf of OCGs and PMLs. This cash is the proceeds of a variety of crimes, mainly from the drugs trade, but also tax fraud, excise smuggling and scam frauds. Indicators suggest that the use of SMDs for cash laundering is growing.

### Red Flags

#### Methodologies:

At least three different laundering methodologies have been identified (values are indicative only and not accurate representations of costs/profits):

- Method A – The simplest methodology involves the use of front companies controlled by the launderer. POC cash from an OCG is passed to a complicit SMD and used to purchase off-record metal which is sold into the legitimate supply chain. The launderer controlled front companies produce false invoices for the volume of metal acquired off-record, which are paid by the SMD from the proceeds of the 'legitimate' sale. The launderer then controls the movement of this value through buffer companies to a front for the OCG who provided the cash, usually based overseas. The decreasing value of invoices going down the chain (simulating a profit made on sales) allows the money launderer controlling these buffer companies to take a percentage of the money laundered as their profit margin.
- Method B – Similar to method A, but in this version metal is actually imported into the country and sold through the buffer companies to the SMD. However, the volume invoiced is greater than that imported, with the difference made up with off-record scrap. The proceeds from the combined sale of the imported metal and off-record scrap into the legitimate supply chain is amalgamated and remitted down the chain of front companies, as per method A. This methodology, while more complex, potentially provides greater cover to the laundering activity due to the presence of actual metal movements by the front companies involved. It is also conducive to the PML conducting VAT fraud (see paragraph 9) alongside money laundering, given the importation of metal as part of the supply chain.
- Method C – This method places a further buffer between the SMD and the off-record metal. Provided with cash by the launderer, the initial complicit SMD arranges the sale of a volume of metal to a legitimate third party SMD. The first SMD then pays the POC cash to a second complicit SMD to fulfil this order, never having direct involvement with the off-book metal. A false invoice from a front company is then created to cover the metal acquisition by the first SMD and to remit the value back to the launderer/ OCG via a chain of launderer controlled front companies as in method A. This method can make enforcement more challenging given that visits under the SMDA are typically focused on weighbridge records<sup>5</sup> which, in this scenario, do not involve the complicit SMD.

Laundering via SMDs is attractive to OCGs and PMLs for a number of reasons:

- Complex international supply chains involving multiple traders provide the opportunity for overseas remittances on a very large scale.

- Evidence suggests there are numerous SMDs who are willing participants in money laundering due to their need for cash access.
- The scrap metal trade offers the potential to combine money laundering with a variety of other criminality and fraud.
- Oversight of the industry is relatively limited due to the disconnected nature of enforcement.

## Indicators

### Business infrastructure:

- Companies registered at virtual or home offices, particularly those claiming involvement in the storage and movement of metals and which should require physical premises.
- Companies with no or limited physical assets (premises, vehicles, manpower) but large turnovers, both of profit and/or metals.
- Apparently 'customer facing' companies lacking an appropriate business footprint i.e. website, advertising, phone number.
- Multiple companies registered to the same address, particularly those addresses with numerous previous companies that have been struck off or become insolvent.
- Companies claiming to be involved in scrap metal or waste recycling but not registered with the Environment Agency.
- SMDs with yards that aren't compatible to their income or claimed business model without illegal money flows; this includes sites with no access, poor storage, limited stock and small customer base. This particularly relevant to dealers claiming to specialise in ferrous metals but without access to a large yard and storage site, which is required for the bulk volumes of such metals needed to achieve profitability.

### Financial activity:

- SMDs invoicing for the sale of large volumes of material not moving through their business – acting as middleman for third parties, with a very high turnover that is out of character for their size. This particularly the case if this is a recurring relationship, as it makes little business sense for the other two parties not to work directly with each other.
- Access by non-directors of SMDs to company bank accounts, especially if occurring by one nominal across multiple seemingly unlinked accounts.
- SMDs, metal traders or waste recycling companies with limited day to day business activity but large volumes of loan activity and repayments from other businesses, particularly those which are quickly moved on to other companies. This suggests abuse of loans to disguise money movements/ laundering, with repayments many times higher than the amounts loaned or large volume of debt forgiven between businesses.
- Consistent use of simplistic or rounded sales and invoicing figures.

### Changes in business activity:

- Metal companies with very large increases in turnover following a change in director but no other apparent changes.
- Companies with no prior experience in the metal sector pivoting towards the trade following a takeover, insolvency or change in directors (who are likely taking advantage of a previously 'clean' company, bank accounts and VAT registration).
- Newly formed companies which show very rapid growth; this out of character with the market for scrap metal, which is very established and competitive.

## Suspicious Activity Reporting [SARs]

If you know or suspect that there has been money laundering or terrorist financing activity (including as a result of information provided to you by the NCA) and your business falls within the regulated sector, then you are reminded of the obligations to make reports to the NCA under Part 7 Proceeds of Crime Act 2002 and the Terrorism Act 2000. If you decide to make a report in this way you should adopt the usual mechanism for doing so, and it will help our analysis if you would include the reference **0634-NECC** within the text. This reference is specific to the Alerts process; where appropriate, we would ask that this is used in addition to the ongoing use of the Glossary of Terms. Guidance on making suspicious activity reports is available at [www.nationalcrimeagency.gov.uk](http://www.nationalcrimeagency.gov.uk).

## Data Protection Considerations

Please consider your obligations under the relevant data protection regulations and where necessary remove any related personal data from your systems securely and within a satisfactory timeframe.

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