



The scale of the illegal waste trade is in the tens of billions USD a year. Yet it is broadly ignored. If we don't change this, we risk turning our planet into a toxic rubbish dump.

Photo by Hermes Rivera on Unsplash

Corruption risks in waste management

Skewed incentives drive waste trafficking

Waste typically has a negative value – it costs businesses money to treat it in a way that is safe and does not harm the environment. Costs include treatment, technology and labour costs in line with national laws and environmental regulations.

There is therefore an incentive for companies wishing to avoid these costs to export the waste to other countries with less strict environmental standards, or to illegally dump and dispose of such waste. Many such companies are in developed countries and include licensed waste management firms. Common destinations depending on the type of waste are Southeast Asia, Eastern Europe and West Africa.

This trade becomes illegal when it violates the Basel Convention on controlling transboundary movements of hazardous wastes and their disposal, or the rules and regulations of both exporting and importing countries. Examples are when importing countries receive waste they

have not consented to, or when the waste shipment is contaminated with hazardous materials.

All exports of hazardous waste from OECD countries to other parts of the world are prohibited under the Basel Convention's Ban Amendment.

Extracting value from waste

As well as cutting costs, companies also generate criminal proceeds by illegally selling or trading waste as second-hand goods, or burning it to generate energy.

According to the FATF report, the profit generated from illicit waste amounts to USD 10–12 billion annually, which puts profits on a par with other major crime areas such as human trafficking.

Due in part to the significant profits, organised crime groups in some countries have entered and sought to take advantage of this criminal market.

A high-profit, low-risk crime

Waste trafficking is still a high-profit and low-risk crime. Detection, investigations and prosecutions are rare, and penalties are low.

Unscrupulous companies wishing to take advantage of what is in effect a “self-certification” process may bribe public officials that issue waste management permits, or co-opt the relevant inspectors, customs agents and port officials into the trafficking scheme. Law enforcement officers may also lack the specialist knowledge and technical capacity to differentiate legal from illegal waste shipments.

From a wider enforcement point of view, it was stressed that it is both urgent and critical for environmental law enforcement officers to gain greater knowledge of money laundering and increase their technical capacity in asset tracing. In the case of Indonesia, the Indonesian Constitutional Court on 29 June 2021 decided to give authority to specialist environmental enforcement officers to enforce money laundering offences related to environmental crimes.

As simple as just changing a number

A common technique mentioned by the panellists is falsifying documents to, for example, mis-classify waste as recycling or second-hand goods, or classify hazardous waste as non-hazardous. It can be as simple as changing

the waste code from the European Waste Catalogue (commonly known as CER code), falsifying the destination, or under-/over-invoicing the shipment.

The fact that criminals – individuals or organised crime networks – often operate legitimate waste management companies makes it easy to hide the criminal origins of their funds. Those who engage in both legal and illegal waste trade can easily mix the payment across the two business lines. These same companies also misuse the trade sector to conceal movement of value and proceeds across borders. This includes by under- and over-invoicing for shipments, among other techniques.

The panellists offered some hope, though. Compared to other environmental crimes such as illegal logging, where criminals make use of complex corporate structures and offshore financial centres to launder their proceeds, those engaged in waste trafficking appear to use less sophisticated techniques.

So in theory, there is a lot of scope to detect, investigate and prosecute waste criminals to clean up the industry.

Follow the money to find those who aren't getting their hands dirty?

A follow-the-money approach to waste crime – i.e. systematically applying financial investigation techniques to trace illicit financial flows to reveal the kingpins behind criminal operation– has huge potential to support current enforcement efforts.

The tools, capacity and awareness to investigate financial crimes related to waste trafficking, including corruption, are however lacking. This is no surprise, given that several previous webinars in the Corrupting the Environment series have found that environmental crimes generally are distressingly low on the priority list of law enforcement and financial intelligence units in most countries.

In the judicial process, prosecutors have until recently been hampered by the lack of a clear methodology to calculate the cost of harms caused by illegal waste shipments. A new methodology developed by the European Union's WasteForce project aims to help remedy this gap by proposing a framework to generate information on the health risks and environmental damage caused by individual waste transports and to give those harms a monetary value.

The argument to apply a follow-the-money approach to waste crime is even more compelling in light of the Covid-19 pandemic, which posed significant challenges for physical inspections and law enforcement operations.

Preventing waste crime starts with a proper risk assessment...

The panellists emphasised the need for stronger prevention measures to complement the existing enforcement efforts. The FATF has found that less than half of the countries that participated in their study had considered the laundering threats from waste trafficking within their national risk assessments.

Risk assessment is particularly important because it informs the allocation of resources and the priorities of government agencies, including law enforcement and financial intelligence units.

The FATF report lists several risk indicators as a starting point for government and private sector actors to consider their risk exposure from waste trafficking.

...and requires cross-sector collaboration

More intensive collaboration and multi-stakeholder dialogue between environmental crime experts, customs and financial investigators is another key recommendation arising from the webinar.

This means both strategic and tactical information-sharing and the formation of dedicated taskforces or communication channels.

Building a complete picture of the waste industry and criminal threats will also require inputs from across the public and private sectors, such as legitimate waste management companies or industry associations, law enforcement agencies and financial institutions. This includes dialogue on the key criminal loopholes and what suspicious financial flows relating to illegal waste trade might look like.

Environmental agencies need greater capacity to “follow the money”, either through building in-house expertise or working in joint investigation teams with financial investigation and asset recovery experts. This would help them apply this powerful approach to all environmental crimes, not only waste trafficking.

Finally, as ever, preventing crimes that are facilitated by corruption and money laundering – like waste crimes and so many other crimes that harm the environment and human health – needs governments to have effective anti-money laundering systems in place. Implementing the FATF Recommendations, including those on beneficial ownership registries, is an important place to start.

Event details

The sixth event in the Corrupting the Environment webinar series on 1 July 2021 discussed waste trafficking, a topic that receives little attention despite generating significant criminal proceeds (estimates suggest up to USD 12 billion per year). In addition to the financial costs, waste trafficking has enormous impacts for the environment, including from pollution or degradation, and inhibits development by fuelling corruption and poverty in some countries.

A particular focus was the FATF report on *Money Laundering in Environmental Crime* issued a few days prior to the event, which covers waste trafficking alongside illegal mining and logging.

Moderated by **Juhani Grossmann**, Team Leader – Green Corruption programme, Basel Institute on Governance, the event featured the following expert panel:

Ailsa Hart, Policy Analyst, Financial Action Task Force (FATF); **Nancy Isarin**, Environmental Enforcement Expert; **Yazid Nurhuda**, Director for Criminal Law Enforcement, Ministry of Environment and Forestry of the Republic of Indonesia; and **Dr Antonio Pergolizzi**, Environmental Analyst, Visiting Professor at the University of Camerino and Author of *Emergenza green corruption: Come la corruzione divora l'ambiente*.

The OECD's participation in the Corrupting the Environment webinar series was supported by the European Union through the Instrument contributing to Stability and Peace (IcSP).

The Basel Institute's Green Corruption programme is supported by:



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