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Free-Trade Zones: Productive or Destructive?

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The OSCE Secretariat is in Vienna, Austria, where weekly meetings of the participating States' permanent representatives are held. In addition, specialized seminars and meetings are convened in various locations. Periodic consultations are held among Senior Officials, Ministers and Heads of State or Government.

Although the OSCE continues to engage in standard setting in the fields of military security, economic and environmental cooperation, and human rights and humanitarian concerns, the Organization is primarily focused on initiatives designed to prevent, manage and resolve conflict within and among the participating States. The Organization deploys numerous missions and field activities located in Southeastern and Eastern Europe, the Caucasus, and Central Asia. The website of the OSCE is: <www.osce.org>.

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The Commission consists of nine members from the United States Senate, nine members from the House of Representatives, and one member each from the Departments of State, Defense and Commerce. The positions of Chair and Co-Chair rotate between the Senate and House every two years, when a new Congress convenes. A professional staff assists the Commissioners in their work.

In fulfilling its mandate, the Commission gathers and disseminates relevant information to the U.S. Congress and the public by convening hearings, issuing reports that reflect the views of Members of the Commission and/or its staff, and providing details about the activities of the Helsinki process and developments in OSCE participating States.

The Commission also contributes to the formulation and execution of U.S. policy regarding the OSCE, including through Member and staff participation on U.S. Delegations to OSCE meetings. Members of the Commission have regular contact with parliamentarians, government officials, representatives of non-governmental organizations, and private individuals from participating States. The website of the Commission is: <www.csce.gov>.

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Free-Trade Zones: Productive or Destructive?

September 12, 2018

Commission on Security and Cooperation in Europe
Washington, DC

The briefing was held at 3:00 p.m. in Room 2220, Rayburn Senate Office Building, Washington, DC, Paul Massaro, Policy Advisor, Commission on Security and Cooperation in Europe, presiding.

Panelists present: Paul Massaro, Policy Advisor, Commission on Security and Cooperation in Europe; Clay Fuller, Jeane Kirkpatrick Fellow, American Enterprise Institute; Jack Radisch, Senior Project Manager, OECD High Level Risk Forum; Stephane Jacobzone, Deputy Head, Division of Public Governance, Organisation for Economic Co-operation and Development (OECD); and Pedro Assares Rodrigues, Representative, Europol Liaison Bureau.

Mr. MASSARO. Okay. Good afternoon and welcome to this briefing of the U.S. Helsinki Commission.

The commission is mandated to monitor compliance with international rules and standards across Europe, which include military affairs, economic and environmental issues, and human rights and democracy.

My name is Paul Massaro and I am the policy advisor responsible for economic and environmental issues, including illicit trade.

I would like to welcome you today on behalf of our bipartisan and bicameral leadership to discuss an underexamined threat to the national security of the United States: free-trade zones, or FTZs. FTZs are duty-free areas within a country's borders designed to encourage economic development by allowing goods to be imported and exported under less restrictive conditions than are present elsewhere in the country.

In many places, these zones generate jobs and wealth. However, they are also hospitable to illicit trade and money laundering. In the worst cases, law enforcement fails and FTZs become global hubs of criminal activity, black holes that enable corruption.

For all the prosperity that globalization has generated, corruption is consuming an ever-greater share of these gains. In order to enrich themselves, transnational criminal networks have found innovative ways to exploit otherwise productive technologies and governance frameworks to flout international rules and standards. This has led to a flood of dangerous counterfeits and contraband into U.S. and European markets, a spike in

wealth inequality as ill-gotten gains are distributed among a handful of bosses, and a besiegement of the rule of law as authorities struggle to keep up.

As these criminals have become more sophisticated, their political influence has increased. In many cases, transnational criminal networks have become so effective at manipulating globalization that they have fused with the government, capturing the state and turning it to their devious ends. This brand of authoritarianism based on globalized corruption, or kleptocracy as we've come to call it, poses a major national security threat to the United States as the country finds itself economically entangled with autocratic powers that have no intention of playing by the rules.

These powers have wasted no time weaponizing corruption and deploying it as their primary tool of foreign policy. By strategically placing authoritarian capital, kleptocracies are able to, one, influence operations, engage in reputation laundering, and gain access to and leverage over elites. While many of the vulnerabilities that enable this weaponization of corruption have become a focus of the Washington policy community, in particular the national security threat posed by anonymous shell companies, others have remained out of the limelight. Free-trade zones fall squarely into this category.

We have a truly distinguished panel here today to help us understand the role of FTZs, how they are being exploited by criminal actors, and what action can be taken. Speaking first we have Dr. Clay Fuller to my left, the American Enterprise Institute Jeane Kirkpatrick fellow. He is a leading light in understanding the corruption authoritarianism nexus and will set the stage by providing us his insights.

Dr. Fuller, thank you so much for joining us today.

Dr. FULLER. Do you want me to go?

Mr. MASSARO. Not just yet. [Chuckles.]

We will then hear from Jack Radisch, senior project manager with the Organisation for Economic Co-operation and Development, or OECD, High-Level Risk Forum. Jack is here all the way from Paris to discuss all the good work the OECD's Task Force on Countering Illicit Trade has been doing on FTZs.

I also want to welcome Stephane Jacobzone, who we've got at the front table with us today. He is the deputy head of the Division of Public Governance at the OECD, so also from Paris.

Thank you so much for joining us, Stephane.

So glad that you both could be here.

Finally, we will hear from Pedro Assares Rodrigues, Europol's representative here in Washington. As the EU's police cooperation body, Europol is well aware of the complexities regarding transnational criminal networks in the 21st century. Pedro will speak to Europol's efforts to combat illicit trade, including through FTZs, and the need for transatlantic cooperation to take on globalized corruption.

Pedro, thanks so much for joining us.

With that, I will hand it over to Dr. Fuller.

Thanks so much. The floor is yours.

Dr. FULLER. All right. Thank you very much, Paul.

So thank you to the Commission on Security and Cooperation in Europe for inviting me here today to provide a few comments on the use of foreign trade zones in this superbly named briefing, "Free-Trade Zones: Productive or Destructive?"

I have given my comments a clever name as well: "More Data on FTZs, Please?" [Laughter.] My British and Panamanian friends would know that I like to say SOPs for the FTZs also, but I'm going to talk here about a more nuanced and objective way of thinking about transparency. And there's two points that I'm going to make about this in the context of the FTZs.

So there needs to be more and better aggregate data on free-trade zones around the world. Private and public sector actors that use and study free-trade zones can be instrumental in pushing governments to report more standardized and higher-quality data on zones.

We've known for years that things like corruption, illicit trade, illicit finance are huge issues within free-trade zones around the world. The law enforcement community, large multinational corporations, environmental protection groups, journalists and labor rights organizations are keenly aware of the issues, but they seem to be stuck without a way to move forward. So thanks to the hard work of the OECD, we now have some preliminary empirical evidence that free-trade zones do play a significant role in the trafficking of counterfeit goods specifically, but further research and better data are needed.

During the last year at the American Enterprise Institute, I have written extensively on issues of kleptocracy, authoritarianism, corruption, illicit trade and illicit finance. As I emphasized at the last Helsinki Commission meeting on illicit trade specifically, I want to reiterate the idea that in all anticorruption efforts, including fighting illicit trade and illicit finance, groups interested in reforming FTZs would do well to define not just what they are fighting against, but what it is they are fighting for.

So if we define corruption as the abuse of entrusted power for private gain, then its natural opposite, or in other words what we should be fighting for, is the use of earned power for public gain. This begs the question, how do we fight for the use of earned power for public gain? Well, the answer is transparency. But not in the classic sunlight, disinfectant, investigative or activist sense that we usually think of the term "transparency" in.

Transparency can be thought of very simply as the credible reporting of aggregate economic data to the public. So think about the important roles of aggregate data, like job growth numbers, unemployment and GDP growth—transparency defined objectively as credible aggregate economic data is a crucial public good that governments are best suited to provide, but crucially requires help from the private sector in order to collect and define the concepts needed to measure it.

Similar to how a lighthouse provides data to incoming ships in a storm or polling and elections provide signals of grievances and policy shifts, credible aggregate FTZ data can act as a coordination good amongst a host of public and private actors, including businesses, financial institutions and law enforcement agencies.

The U.S. Government is currently one of the best in the world when it comes to reporting aggregate data. But in my opinion, it utterly fails when it comes to its own FTZs. For example, I cannot find a credible number of how many active FTZs we have in the United States. My best guess at this point is that it's somewhere between 176 and 250. So in fact, the entire world utterly fails at publishing these data. The number of FTZs globally is typically estimated by experts to be somewhere between 3,000 and 5,000. I think we can do much better than that. So the first point of problems in reporting data, problems with FTZ data stem from the simple measurement issues that are made inordi-

nately complex due to a lack of standardization around the world. The most basic problem that we can get to is in simply counting zones.

So no definitive number of zones exists because they are called different things in different places. In China, in Dubai, they are often called special economic zones. In the United States, they are called foreign-trade zones. And elsewhere, they are called free-trade zones or export-processing zones or industrial parks or a host of other names. Furthermore, there's even more questions. Should we count things like subzones and operators? Should we count the number of firms? Should we count the number of employees, square kilometers or the volumes of trade? Or should we categorize zones by the economic sectors that they service?

My point is that while complex questions exist, these are far from insurmountable and they can be easily overcome by the national governments that write these zones into laws and with the help of the firms that operate within them, through simple standardization and reporting mechanisms.

To date, other than the data I have personally collected and analyzed on trade zones around the world, only the World Bank and the OECD have attempted systematic global studies of the effects of these zones. These are great and informative studies, but what I'm saying is that to make these studies better there needs to be better and standardized national-level data.

So the last point—pushing for better data. Credible reporting of aggregate economic data is transparency. Transparency in this objective sense is good for both economic growth and the rule of law. For the private sector, it's the term "aggregate" that's key, right, because private firms are rightly jealous of their privacy. Without it, competitors and bad actors will find ways to use and abuse their data to gain an unfair advantage and perpetuate further criminal activities. But there's no harm done in asking national governments to clearly define, count and report basic aggregate information on zones to the public. There are a host of ways in which this can be done while still protecting the privacy of firms located within the zones.

Now, for governments and law enforcement agencies, the term "credible" is key here. In order for transparency to work as a public good, it has to be credible. To use my previous examples, a lighthouse is only as valuable as it is dependable, a poll is only as reliable as it is scientific and an election is only as valuable as it is free and fair. But governments around the world are currently facing credibility issues across the board, and I would argue that this is partly due to a lack of transparency in this objective sense.

Foreign-trade zones, I think, are a great place to start building back trust between the private and public sector because, one, they are relatively small; two, they are geographically delineated to specific areas; and three, because of these previous two points they are theoretically more easily monitored jointly by public and private entities.

In the almost 10 years of studying and following the use of FTZs worldwide, it's become my view that there is no more pragmatic way to promote lasting economic growth free of the corruption that feeds economic inequality, organized crime, illegal immigration and a host of other complex issues than to report more credible aggregate economic data on foreign-trade zones.

So the work of the OECD is an important first step and it establishes a solid baseline for understanding and working around these issues concerning FTZs. However, improving transparency of foreign-trade zones will require bottom-up, private/public pressure on

national governments to publish better data. Then once leading national governments develop these aggregate data, it is up to them to persuade their trading partners to standardize and share these aggregate data with each other to act as a coordinated public good.

Ultimately, without a clearer picture of how the world free-trade zones work and their effects, public and private sector initiatives to minimize their subversion by criminal elements will remain futile.

Thank you for your time and I look forward to any questions.

Mr. MASSARO. Thank you very much, Dr. Fuller. I'm so happy you also were impressed with the OECD's work on free-trade zones. That's why we invited them here today.

So with that, I'd like to hand the floor to Jack and Stephane to talk about that very work.

Mr. RADISCH. Thank you very much, Paul.

And thank you very much to the Helsinki Commission for this invitation to present some of the OECD's findings related to free-trade zones.

I'd like first to just contextualize that research that we're doing on free-trade zones. It's not to look at the economic benefits, which are undoubtable in many cases. Our research is focusing on the role of free-trade zones pertaining to illicit trade. And that's the topic of our panel today, and so that drives very much the approach we take and the information that we gather and analyze with regard to free-trade zones.

The Task Force on Countering Illicit Trade at the OECD was set up to study, to map, to quantify different sectors of illicit trade. And some of you might be familiar with the work that we've done on counterfeit trade. That's an area where we actually have a high level of confidence in our estimates of the quantity and the flows of that sector of illicit trade. The OECD estimated that up to $461 billion is conducted in trade in fakes based on the years that we studied. And we'll continue that research next year with updated years of data so we can begin to compare and see if there's any trends that emerge. For now, we have pictures over a couple of different years successively. But $461 billion in trade in fakes is a lot of money. And where does that money go, but oftentimes recycling into the criminal hands behind these criminal enterprises.

And we analyzed through trade data and seizure data the flows of that trade in fakes. And we noticed that oftentimes it's going through free-trade zones. So that led us on to another line of inquiry to analyze the correlation between free-trade zones and the trade in global fakes.

So I'd like to ask my colleague Stephane to say about a few of the findings on the economic impacts and correlations in that report.

And also, we have more recent reports on the conditions that attract the trade in fakes.

Stephane.

Mr. JACOBZONE. Yes, thank you very much, Jack.

I just wanted to say that the OECD is an economic cooperation set up after World War II to promote economic cooperation among nations. It's part of the George Marshall Plan, is heavily committed to transparency.

And the work we are presenting today is part of our work to step up global anticorruption efforts that we do in partnership with the U.K.—I see some of our col-

leagues here—with the U.S. and also this work on free-trade zones in partnership with the European Union Intellectual Property Office.

So what are we looking at? We are in fact looking at governance gaps. These are the sort of grease of globalizations because globalization is meant to be good for everyone. But there are people who can see the gaps who make enormous profits above this sort of benign neglect, or blind-eyes policy, where people can let things go just as they are so that you can maximize profits.

What we found—and you are very right, Dr. Fuller, to say that there is no standardized data on the free-trade zones, because to do our work we had to rely on some academic databases—because academics' interest in the topic have had armies of students and people researching the facts, that gave us a database of nearly 3,000 free-trade zones. It may not be exhaustive, but sufficient to get good statistical results. And that's how we built our results.

And when we did our analysis, we did find that for nearly each additional free-trade zone in the country, I think the propensity to export free goods in that country would jump by, let's say, 5 or 6 percent. So that was a statistical, proven link between the increasing numbers of free-trade zones and the propensity to export fake goods. And that's part of a general analysis where we look at governance gaps.

And we see that countries where there are, let's say, sufficient production capacities, logistics capacities, the ability to facilitate shipments and trade flows, but which at the same time do not have the same governance standards as, let's say, a country such as the United States, have become the hubs of the dark economy globally and can be used by traffickers to shape counterfeit products.

We have another related publication on why do countries export fake goods.

And then you would say, what do you do with that? You have to do something. You have to get some form of a joint effort by nations to step up the pressure. And with Jack, we have also been developing some form of a guidance which in the future—at least the countries inside the OECD to start with, which represents at least still 50 or 60 percent of the global economy—would commit to monitor, track and publish information on their free-trade zones—answering to your comment—and where we would also invite the free-trade zones to adopt codes of conduct so that free-trade zones means, okay, you are duty free, you don't pay taxes, you have a good environment for business, but it doesn't mean that you are not subject to any checks, for example customs check, and so that we can sort of detect any illegal activity that would go through you. So that's the sort of effort that we are pushing through.

Mr. RADISCH. And if I can follow up on that, because we've conducted this empirical work, we've seen that there really is a problem going through the free-trade zones. It's not just anecdotes, it's not just a hunch—we've shown this correlation. And the question really is what to do about it. And yet, many of these economies do depend on free-trade zones for their economic benefits. Not all of them have panned out the way they might have anticipated. And the question is what to do about the illicit trade that's going through some of them. And this is the work that Stephane is referring to.

Through the OECD, we're developing a standard that would be helpful to law enforcement around the world to have a better idea of what's going on inside particular zones at any given time. So talking about information requirements, this is not focused on the, say, the economic benefits or the employment gains, but rather what merchandise,

what consignments are coming in and going out, who owns the merchandise, where is it going.

The idea is to have a situational awareness of what's present inside a free-trade zone at any given moment so that when there's an investigation on the premises, it can really make a difference. This doesn't add up on what the audit trail points, that there is a discrepancy on what the inventory says. And this is the type of information that the law enforcement community and customs need in order to fight this scourge.

Mr. MASSARO. Thanks so much, Jack and Stephane. And thank you for all the data you've been collecting, your good work, and also specifically for highlighting the work you've been doing on developing guidance. I think at the end of the day when we're looking at results and policy, that's going to be extremely helpful. And you mention that that would be very helpful to law enforcement.

Well, it just so happens we have a law enforcement representative at the table, so I'd like to hand it over to Pedro now to speak to Europol.

Mr. RODRIGUES. Thanks so much, Paul, for the floor. And thank you also to the Helsinki Commission for the invitation addressed to Europol.

So, indeed, my name is Pedro Assares. I'm one of Europol's liaison officers here to Washington, and just to tell you a little bit about Europol, to provide you some context on what we do and who we are, Europol was created in 1992 as a European drugs unit, and since then we have evolved into dealing with serious and organized crime, terrorism, and all other forms of criminality that affect the European Union's interests. And within these interests, obviously, we include fraud, counterfeiting, money laundering—so all the criminal activities that basically are connected, as we have heard before, to free-trade zones.

Europol's main role is actually to support its member states, the member states in the European Union and other partners we work with, in preventing and combating crime, and we do it by basically acting as a central information hub. We host a large database of criminal entities of various different natures, and we also provide our partners with an information exchange platform. We have one system which is called SIENA that is basically connecting all the 28 European member states plus all the countries and international organizations that we have agreements with. Obviously the U.S. is also included in this group of partners. We also provide analytical and operational support, and we have specialized teams that deal with this type of criminality.

And to mention the last very particular characteristic of Europol which makes us, I would say, unique, is our network of liaison officers. So we have between 220 and 230 liaison officers in house, based in The Hague, where Europol is headquartered. And basically this network of liaison officers allows all the countries and organizations represented at Europol to interact directly in real time. So if I have an issue on counterfeiting, and it's involving my own country and another country across the world—the U.S., for example—I can just go up one floor or go down one floor, knock on the door of that specific liaison officer and basically ask a question.

The majority of times liaison officers have direct access to their databases—national databases, so it can just be a matter of asking a question and getting an immediate answer. Other times they just need to basically relay the questions back home, and it will be dealt with by law enforcement agencies in this case, or by customs authorities also in what relates to this conference today.

Just to give you an idea of our interaction with the U.S., we have around 25 U.S. liaison officers based permanently in The Hague, within the building, and we have them from 10 different Federal agencies, so just to name a few—I have a list because there are quite a few. So ATF, CBP with direct intervention in free-trade zones, DEA, Defense Security Service, FBI, FDA, ICE, IRS, the Secret Service, TSA, and also the NYPD is represented at Europol.

Cooperation with the U.S. began in 2001 with the signature of a strategic agreement, and the year after, in 2002, we signed an operational agreement with the U.S. and with its agencies that allows Europol basically to exchange information and to allow for a platform for member states to exchange information with the U.S. as well, and also to provide mutual support for each other's high-priority investigations in this case.

I can say that the cooperation between the U.S. and the EU is a success story; it has been increasing ever since it began. In recent years, for unfortunate reasons—so as a result of the terrorist attacks in the EU, there has been more and more information exchanged, and the core criminal areas where Europol actually interacts with the U.S. are counterterrorism, citizen organized crime, cybercrime, and also illegal immigration since 2015 with the advent of the migration crisis that existed in Europe.

I would also call attention to the TFTP program. Free-trade zones—although I'm not an expert in the matter; my area of expertise is different, but I've done some reading, and there are suspicions that free-trade zones could act as a platform for financing terrorism. So there is a big component of cooperation between the U.S. and the EU on financing of terrorism. We have a terrorist financing tracking program in place which basically keeps the liaison bureau here in the U.S., actually, and we occupy it as part of our daily business to exchange information on this kind of topic.

I made mention to SIENA, the Secure Information Exchange Network Application—so the information exchange system that Europol has in place is also connected here to the U.S., and this has been a major advantage. It allows law enforcement agencies to interact with U.S. law enforcement agencies very directly, securely, without even the need to involve Europol, for example. So if there is a need to reach out to any state, local, national law enforcement, customs authorities as well, this channel can be used directly to exchange information.

Going into a bit more specifically on free-trade zones, basically they are being described as an environment with few inspections and large cargo coming in and out, and as such, fertile ground for criminal activity, for organized crime groups to take advantage of these relaxed procedures, I would say, or controlled procedures to basically just make profits and, again, take advantage of some measures that were meant to boost economic growth. As any other low-risk and high-reward situation, it's easily identified by organized crime groups, and they will obviously take advantage of it and try to make their own profits out of it. So Europol's response to this type of criminality is basically delivered by three main clusters: the fraud cluster, the counterfeiting cluster, and the financial intelligence cluster.

We do have one operations department which has five different subunits, so we have one information central hub which is the gateway for all the information that reaches Europol. We have a serious and organized crime center, we have a cybercrime center, we have a counterterrorism center, and we have horizontal operational support where financial intelligence is included. The other two, fraud and counterfeiting, are part of the serious and organized crime unit, and there are two specific teams within the fraud

cluster which are of relevance for today's discussion, which are Apate, which is dealing with fraud, and in this case with special relevance in fake invoice fraud. Then we have Smoke, which as the name suggests, deals with cigarette smuggling. Then we have another team called Copy within the counterfeiting cluster, and basically they deal directly with counterfeiting, and then a team called Sustrans—that's short for suspicious transactions. Colleagues there deal with money laundering and trying to detect and disrupt criminal cash flows which are linked to organized crime.

To know more on Europol's take on free-trade zones, I would invite you to read a joint report between Europol and the European Union Intellectual Property Office that was drafted in 2017.[1] It's a situation report on counterfeiting and piracy in the EU, and it basically contains a section which is topic-specific to free-trade zones, and it highlights that this remains a threat in the counterfeiting landscape in the EU, mainly for the reasons that were highlighted by the previous panelists, but also highlights that this type of criminality is linked with other forms of organized crime such as drugs trafficking, excise fraud, human trafficking and human smuggling, document fraud, corruption, and so on.

So what is being done at the European level that Europol is either participating in or trying to show some initiative in? In 2016, in July, Europol launched—together again with the European Union Intellectual Property Office—the Intellectual Property Crime Coordinated Coalition—which is a really long name and acronym—and has a sister organization based in the U.S. But mainly the intention was to provide operational and technical support to law enforcement agencies within the European Union on cross-border investigations in regard to counterfeiting, but it also served the purpose of monitoring new trends and emerging criminal—or modus operandi in relation to counterfeiting and piracy as well.

There is also something else to highlight: The existence of an enforcement database, which is integrated with Europol and with the European Anti-Fraud Office, and because it is built on existing European databases on trademark information and registered designs, it allows customs authorities and national police authorities basically to access information or to view information on products' details, and actually makes it easier to spot counterfeits and to take the necessary and subsequent action.

I would finally just also mention Europol hosts an online platform for experts which has a number of different sub-platforms on different types of criminality, and one of those is called Customs Enforcement, and it's basically just an online secure platform where customs authorities and other types of law enforcement can apply for membership and discuss or exchange non-operational information on this platform at different levels—at the national level, at the Customs Cooperation Working Party level, or at the World Customs Organization level. So basically it's a restrictive online group that can be accessible by request. It allows for sharing knowledge, sharing best practices, information, statistics, if necessary—so it's an interesting platform for information exchange.

And this basically concludes my intervention, and I'm happy to take any questions.

Thank you.

Mr. MASSARO. Thank you very much, Pedro, for the insights into how Europol is approaching this problem.

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[1] https://www.europol.europa.eu/publications-documents/2017-situation-report-counterfeiting-and-piracy-in-european-union

I'll say I think everybody in this room and everybody at the table, we want to make sure that law enforcement has the tools it needs and the data it needs to take this problem on, so having you at the table is really meaningful. Thanks for coming today.

So we'll go ahead and move into the Q&A session, so go ahead and think of your questions. I'm going to ask a couple, and then we'll open it up to the public.

My first one is for OECD, Jack and Stephane. I was hoping you might be able to speak a little bit to the kinds of items you find in free-trade zones—what kind of goods are trafficked and how that impacts the United States and the transatlantic sphere.

Mr. RADISCH. Sure.

Mr. MASSARO. Thanks.

Mr. RADISCH. I'll say a few words about what kinds of goods, and then maybe Stefane—if you could say how it impacts the U.S. economy, if you have that data stored away up here, but otherwise you'll find it.

First of all, when it comes to counterfeits, anything that can be counterfeited and that you can make a profit on, you're going to find it. It really spans the full range of harmonized system [HS] codes. But I think an important point here to make today is, it's not just trade in counterfeits in free-trade zones. Now that's where we are data rich. And of course the OECD is an organization where we want to give advice to governments that is evidence based; it is data driven.

We have hundreds of thousands of data points on counterfeits. Now that doesn't mean there isn't other types of illegal goods going through these free-trade zones. It just means we have a lot less evidence and data on it because really they are based on cases, investigations, anecdotes, our interviews, but that's not the kind of information that is gathered in trade data. But for example, wildlife, arms, money laundering operations, I think—not just in goods, but the illegal services going on inside the free-trade zones we have to be aware of as well. So money laundering through illegal offshore sports betting is a big area, and securities fraud—and the main point to bear in mind is that a free-trade zone was never supposed to be an "anything goes" zone, and that is what has happened in some jurisdictions.

For example, a recent case in the Philippines of securities fraud by—I won't mention the nationality, but they weren't from the Philippines—had set up a boiler room inside a free-trade zone to commit securities fraud, defrauded many hundreds of millions—maybe I'm exaggerating—it was over a hundred million from investors in South Africa. And this was a group that came from a country that had already been investigated and arrested for securities fraud in their home country. So they find a place somewhere else in the world where they can set up shop with lax oversight and start conducting securities fraud. So you get an idea that it's not just goods, but also services, and that's why it's important, as our colleague from Europol mentioned, to have different work streams to address these.

Mr. JACOBZONE. We don't have information specifically on the impact of free-trade zones on the U.S. economy. This is something that we want to do in the future, which is to look at the specific impacts of illicit trade on the U.S. economy, both through the impact on the U.S. retail market, but also the global impact on U.S. bonds.

What is clear is that we know that as soon as the country has more economic free-trade zones, then there is more likelihood to export fakes, and there are all sorts of cor-

relations about this. So I'm bit sorry that—you know, I would be happy to make the data I speak more——

We also have evidence that there should be some financial flows and illicit financial flows that are associated with free-trade zones. This is in the jurisdictions of another body which is not in OECD, but is hosted also in our organization called the FATF, the Financial Action Task Force. So I wish they could also shed light on this point.

I would also say that, from what we understand, the complexity of the topic from a policy perspective is the fact that what many people call free-trade zones—it's an aggregate that covers a number of things. And in fact, I guess there is an Association of Free Trade Zones in the United States. I think we met some of their people, and many of these zones that operate within the United States, I think, would be quite keen to undergo some controls or would be ready to not be labeled as misuse of free-trade zones. And there are a number of jurisdictions around the globe which I guess would have an incentive to not be seen as dark havens or as being singled out for conducting all this sort of, let's say, more dirty business.

So the task ahead in the future, I think, would also be to connect the real trade flows and some of the illicit financial flows, which is something where the information is a bit patchy, to look at the specific impact on countries and also ensure a process whereby some of the information can be gathered.

But the report on free-trade zones, which I am happy to send—and just had it in front of me on the screen—it takes quite a bit of econometrics and sophisticated data modeling to get to some of the policy results that we have in front of you today. And as was mentioned by Jack, there is also evidence that not only does this show in our statistics and econometrics, but this is corroborated by the experience of law enforcement officers whether at Europol, Interpol, our colleagues also at the World Customs Organization. So there is also qualitative evidence that is consistent with some of the empirical findings that we found.

Mr. RADISCH. We could say, Paul—just a last word about that—on the basis of our reports, we know that U.S. brands are disproportionately affected. We know that, as I mentioned—to be more specific, the full range of HS code goods can be found transiting, so it's not just high-end, luxury brands—Louis Vuitton, Chanel; but those are definitely affected—but it's also pharmaceuticals, it's also automobile parts. So do you really want to be driving around in a car with counterfeit parts?

There's real public health concerns here when we're talking about counterfeit medicines, we're talking about counterfeit makeup that doesn't go through the same testing that the normal brands do and the legitimate goods do. Even parts that are going into our critical infrastructure—so everything across the spectrum can be counterfeited and is going to make its way through free-trade zones because—well, in certain respects, because of the lack of oversight.

So it's a very important gap that we need to get our minds around in this age of globalization that has ramped up in a way that really wasn't anticipated.

Mr. JACOBZONE. To complement what Jack said and something that is quite topical for the U.S. economy today is this issue of public health and pharmaceuticals, I think, is a bit more acute in the United States than in other countries. And you have also seen the opioid crisis, and there are also a range of illicit trade factors that are also at play

in this complex. And of course free-trade zones is one of the factors that fuel illicit trade; not the only one, but one of the factors.

Mr. MASSARO. Well, could I just actually follow up on that real quick with maybe just a short question, short answer, and that's, if the FTZs want it, and the impact is very big in the United States, and the United States is clearly strongly affected by this issue, are there barriers to completing a report? Do you intend to do a report? Or are there not resources, money, time?

Mr. JACOBZONE. I don't feel we have any barriers in terms of no one is preventing us from conducting the work. I think we have some of the best data available. We are very grateful we are able to draw on all the U.S. custom seizures data, all the European custom seizures data. The World Customs Organizations has many people, friends who have helped us along the way, so I think we have all the data that is needed. I think in that context that's helpful.

Resources are a bit of an issue because this is not such a huge theme, and on the day-to-day basis this can be a bit of an issue. I guess in order to go further in this area, what we need is the adoption of these guidelines and the possibility to get some teeth in the process because once you have some teeth in the process, once you are able to get a process through which free-trade zones will have to be self-certified, would have to undergo some transparency measures through which countries would engage in some peer review mechanism, then you are going to sort of drive results and exert some pressure. And for that we will need some form of political buy-in and support—and I'd be happy to come back in the U.S. sometime next year once the guidance is adopted as a way to launch it and help set up some forces behind it—because if the guidance is just a piece of paper produced by the OECD, so what? But if on the basis of guidance there is clear action by nations and by countries, and let's have measures by customs to target certain products or certain free-trade zones, and concerted action, not just by the U.S. but also U.S. and Europe of the main importance in the globe, then they will feel the pressure.

Mr. MASSARO. And just to clarify, that guidance would have to be adopted by consensus by the ambassadors of the OECD?

Mr. JACOBZONE. The OECD is an international, intergovernmental organization, so the guidance, in our language our recommendation is adopted by the OECD Council, which means the ambassadors of the members of the 34, 35 members of the OECD.

Mr. MASSARO. Great. Thanks so much. So I'm going to ask one more question, and then we'll open it to the floor.

This one's for Dr. Fuller, and I hope I don't set you off too bad. I was just hoping you could speak maybe a little bit to how do FTZs play into authoritarian economics? How do authorization regimes view FTZs, or abuse them, or use them within the context of keeping the regime alive, pushing authoritarian influence in the world, et cetera, et cetera?

Dr. FULLER. Thank you.

I obviously take a more sort of academic approach to all this than an enforcement or a regulatory one. But there's this great research out there right now that looks at world development indicators and missing data as data. So it looks at when countries around the world from 1980 to 2011 did report data or didn't report aggregate data, like GDP, or literacy rates, and stuff like that. And it looks at it and it finds this difference between authoritarian and democratic countries. No matter how you want to divide it up, between

democracies and autocracies, democracies are just more transparent in the sense that they just report more aggregate, credible economic data. And it's this clear trend across the board. And so knowing that research, reading it—this is based on formal theory, backed up by empirical evidence—it finds this sort of danger zone trap for authoritarian governments where when they report more, this can trigger coups and all sorts of other things that can be bad for business and supply chains that are increasingly becoming more complex all over the world, which is why I sort of look toward this promoting of looking inward at our own programs and democracies around the world.

I don't have much concern about U.S.-EU cooperation. I think they're doing great. I mean, I'm a big fan of law enforcement—don't get me wrong—but I became an academic because I don't like authority. So I get into this thinking of it in the fact that we don't need more and more enforcement necessarily. What we need is to grow these zone programs and to make them shining examples on the hill for the rest of the world. So if we get more aggregate economic data for these things, it can act as a coordination good in democracies where you have a free press, free media, academics who are going to study and report on this stuff. This allows private actors to better shop for what zone fits their needs better, to locate to them, to know which ones are—because everybody uses this risk-based analysis for everything, in trade, in finance and everything. And so if there's more data out there for private companies and the private sector to use in making their decisions, this allows them to make more efficient decisions on where to locate, what's available to them, where to go, which in turn grows the economy. It grows the zone. It makes the zone more successful. Which then, once you have that, then you can turn to the rest of the world, in places with these dangerous zones, or zones with more bad things going on into them, and then you can say, hey, look at what we did here, you should try it, too.

And then from a position of having these shining programs that are clear and transparent in the sense that they report aggregate, credible economic data, then you can talk to them from a better position of saying, well, look at what we did, and then they can do it, because it's going to be different in every single country. Every single country has different levels and different types of democracy and rule of law and different—other things that are going to need different—I mean, this is the beauty of the private sector and capitalism and democratic capitalism that built this country and made it so powerful and great. And so it needs to be sort of enhanced in that way.

And these aggregate indicators are a coordination good between the public and private sector that I feel is a great place to start, again because these zones are specifically geographically delineated, and therefore, theoretically, then can be monitored by both law enforcement and by both the private sector as well. And so I think that's a great place to start. While I think the recommendations are great and I think they should be adopted and that's a good start in changing norms around foreign trade zones around the world, I think the more pragmatic approach that's going to have the biggest effect, and that's in the national security interests of the United States and in every country that wants to do it, is to look at their own zone programs and look at ways to report better data on them.

Mr. MASSARO. Thanks so much, Dr. Fuller.

So first things first, let's get our own house in order, right?

Dr. FULLER. Yes.

Mr. MASSARO. Okay.

So just a real quick clarification question on the guidance. If the guidance passed, would something like FTZ guidance, where you can unanimously vote a country has suspicious activity, or something like that? And could you say a country's out of line with the guidance, therefore that's the teeth of FTZ, really, is the ability to issue these suspicious activities reports?

Mr. RADISCH. At this point, the countries have to decide how they want to follow up on what to put in place, whether it's going to be through a process of peer reviewing, which is a standard OECD tool for compliance, or measuring up to what one has agreed to do. That's one option.

Another option is a certification regime, having firms that are professional in auditing going through these free-trade zones—there's so many of them—to see whether they are complying with a code of conduct along the terms that have been set up—and then having that transparently posted, for example, on the OECD website so everyone can see and countries can adjust their treatment of noncompliance the way they think is best fit, or whether there will be some commonality across the countries about what that might entail in terms of how they treat noncomplying jurisdictions.

So those are still some of the fine points that need to be decided at this stage of the development of this guidance. That's on course for a discussion over the next several months, but it's a fair point to ask about and it's one that the countries are debating.

Mr. JACOBZONE. Jack, you were asking before why these countries set up free-trade zones. And I think the fact is that if you look at many countries that let's say do not have democratic regimes and at many semi-emerging economies—they have regulatory frameworks that are stifling business activity, you can't get a license, you can't get your business up. It's all very bad.

And so many of these countries, instead of reforming their whole economy in a positive way, are just taking a short cut by saying we're not going to change the whole thing, it's too hard, too difficult, we want to keep control. But we just created this small island, this thing, and there people can just do what they want so that it will create jobs and growth, and then we can have revenues for the State and we don't necessarily need to make change to the rest of the economy.

And generally the OECD advising—we're engaging with a number of these emerging economies—is to help them to adapt their whole regulatory framework, to adapt their economy as a whole so that it can benefit from globalization and be improved, and not necessarily try to take this sort of dual approach where you don't touch the big thing and you just allow everything in that small three things—because that's, I think, the approach that many countries have been doing as they see these ones as this is where you can quickly create a lot of jobs in some sort of an island of prosperity in economies that otherwise do not develop so well. I mean, I'm talking a bit generally here, but I think there is an aspect to this in the conversations.

And on the powers, the OECD's not FATF. So we have to be very clear. FATF is a very special organization that is distinct of the OECD. Even if there are close relationships between the two organizations, and at the sense of OECD work, there is mutual learning and peer pressure, what we call the process of peer review, whereby countries come together, discuss, and put things in the open. And as Jack mentioned, a lot of this

we are serving as a secretariat to this organization and a lot of these decisions still have to be taken by the member nations.

Dr. FULLER. So I agree with that. I see that too. These are laboratories of experimentation in these authoritarian or, as we call them, developing economies. They use these zones as a way to experiment with liberal policies, and we have for a long time looked at them with the hope that somehow these authoritarian governments are going to magically liberalize their entire economy and their entire country.

And I think we're coming to a point right now—what I've been writing about a lot—is to where we're starting to recognize that's just not going to happen. They're getting the benefits out of these zones and out of these experiments with liberalization, and they're using it to survive longer in power, to get rid of term limits, to stay in office power, to strengthen their own regimes—and then in some cases, in the case of North Korea's free trades zones—threaten the United States back with the goods that they've been able to use to survive on.

So I would say this is where I get back to the better strategy, I think, in my opinion, while I totally respect and think what the OECD is doing is noble and a good cause, in my opinion I would think a better sort of foreign policy for the United States would be to sort of start disentangling with these zones and authoritarian regimes around the world and start focusing on the ones in more democratic countries that are better, again, at reporting aggregate, credible, economic data to their publics.

Mr. MASSARO. Thank you, Dr. Fuller.

And with that, we'll take some questions from the audience. Have we got any questions in this audience? Just raise your hand. Don't be shy.

Yes, please, David. Do we have any microphones? Oh, do you mind walking up to the mic, David?

If you'd like to ask a question next, you can go ahead and walk up.

QUESTIONER. Thank you very much, Paul, and thank you, the presenters, for their excellent briefings this afternoon.

And just building on some of the comments that we just heard on the importance of resources, I very much also agree with Dr. Fuller. I think it is important that we build up some of the more problematic free-trade zones by perhaps exploring pilots with them to provide the type of capacities, the capabilities. And I hope that after the guidelines are approved by the ministers—and that's a big if—but if they are approved, I think as we shift toward the implementation phase, that we begin to work within the OECD and other partners to develop the type of resources that I think are critical to work with our partners, including in Panama and others who I think are facing tremendous challenges—not only on the illicit trade across the various commodities that Jack mentioned, but on issues related to corruption as well—the issue of illicit financial flows is a critical part of the challenge in many free-trade zones today.

So the question to the OECD is, how are you working right now with free-trade zones in trying to enhance those type of capacities, those type of capabilities? And is there any plan to develop some pilots, as Dr. Fuller was mentioning, to support those who are committed toward more transparency through greater enforcement in free-trade zones?

Thank you.

Mr. MASSARO. Please go ahead. Jack or Stephane?

Mr. RADISCH. Sure. The short answer is that, David, we have invited some of the well-known free-trade zones of ill repute to our meetings. And we will continue to do so. We want to have them at the table. We want to work closely with them in precisely the basis that you described. That's the most constructive way. And it's only as a second order that countries would have as part of their discussion what to do if that fails and what kind of pressure can be exerted to make these jurisdictions, well, change their ways, change their behavior.

And there's a game plan for that as well in the OECD history, and that's the work on tax havens. So there are many ways of going about working with countries to effect the change that's needed, and the most constructive one would definitely be working with the countries that you mentioned yourself on a constructive basis. How can we improve upon the capacity to know better what's going on inside the zones and to weed out the criminal elements? Because everyone wants to benefit from trade, and the idea is that if some of these problematic jurisdictions can clean up their ways so that will make them—really they are championing a different way of doing business. And that will put pressure on the others who are not cleaning up their act, because eventually, if there is pressure brought to bear from OECD countries, then that will affect the businesses' decisions to actually use those free-trade zones or not.

Mr. MASSARO. Great. Okay, thanks.

Can we get another question from the public? Thanks so much.

QUESTIONER. Hi. Joe McKellen [ph] with Congressman Donovan's office.

With the unfortunate departure of the U.K. from the European Union, do you all kind of envision any difficulties in cracking down on illicit trade going to and from that country?

Mr. JACOBZONE. I would say to the country because the U.K.'s still a member of the OECD. And in fact, if the U.K. is not any more a full member of the European Union, this will step up the incentives for our U.K. colleagues to achieve cooperation with other countries through the OECD. And we have some U.K. colleagues inside the room, and I think that there is a global anti-corruption effort at the OECD that is under the leadership of the U.K. or benefits a lot from the U.K.'s influence, and the U.K. is strongly engaged and committed on all these fronts and working closely inside the OECD.

Mr. MASSARO. Yes, please, Dr. Fuller, yes. I mean, we have the British Embassy here today, so we will also have them perhaps say something. And I also want to let Dr. Fuller speak, but I also want to ask Pedro to say something, because I know a big piece of the Brexit debate and the international law enforcement debate is exactly how the U.K. will work with Europol following Brexit. So it's an interesting question,

But, please.

Dr. FULLER. Okay, so the U.K. has actually been leading the fight really on this in other ways. I don't want to speak to Brexit or anything like that. I want to speak to U.K.'s leadership, especially in the area of things like beneficial ownership transparency, where they have been sort of leading the fight on this. While I sort of disagree with the public reporting of private data, I do find groups that are analyzing the data here have come up with very useful insights that are good examples of this transparency and credible aggregate data that I'm talking about. For example, they've analyzed it and looked through and found that there's approximately 1.2 owners per business—that's incorporated—and that there's a certain percentage that aren't able to identify their number.

These are good examples of aggregate data that allow private and public actors to coordinate their actions together, and which spurs economic growth, because, again, this is what it's about, in my view. There's the question of right, so, what am I talking about that's going to fight illicit trade? And the answer is not much. I'm talking about drowning out illicit trade by growing licit trade. So it's a perceptions thing. If you grow the amount of the legal economy happening, then the impacts and the effects of the illicit economy shrink relative to the size of the legal economy. And so that's what I'm trying to make an argument for growing the legal economy and taking steps toward that in order to shrink the impact of the illicit economy. Because you're never going to get rid of bad actors. They're always going to be there.

Mr. MASSARO. Even if they—[inaudible].

Dr. FULLER. Exactly.

Mr. MASSARO. Could we hear real quick from Pedro? And then, John, if I could force you to the mic, if you don't mind?

Mr. KAY. Yes, sure.

Mr. MASSARO. Yes. [Laughs.] Okay, good.

Mr. RODRIGUES. Okay, so Brexit-related questions are very frequent nowadays. And, well, short answer: It remains to be seen. The U.K. is one of the largest, if not the largest contributor of information to Europol. It's a leading force in many different crime areas, many different platforms. And I don't think that will change too much.

That said, there's a couple of rules which are deeply enshrined in Europol's regulation, and one of those which is very important is that for Europol to be able to provide the full extent of support that we provide to our partners, the investigation in question needs to have the involvement of at least two EU member states. So if in the past we could support full investigation between the U.K. and France, for example, now we would need the U.K., France, possibly, if negotiations don't—I'm pretty sure that the U.K. will negotiate its own terms with Europol. It's in everyone's best interest that the U.K. remains close to Europol, and I'm pretty sure that an operational agreement will be signed and in place. But one of the possibilities or one of the discussions is that, for example, the U.K. would actually need two additional member states in this case to be able to bring an investigation to Europol so it could be supported as a high priority case, which means that we can devote a full range of services and support.

Mr. MASSARO. John.

Mr. KAY. Okay, thank you for the—[inaudible]. [Laughter.]

My name's John Kay. I work out of the British Embassy here in Washington, but I'm a career U.K. customs officer. My current employer is HM Revenue—Her Majesty's Revenue & Customs. So I'm here as actually one of the U.K. law enforcement liaison officers based in Washington working with our partner agencies in the U.S. and other nearby countries.

To echo my friend from Europol, Pedro, we do have an international network of liaison officers not just in the globe but in particular in Europol, and that will continue. The U.K. is seeking to remain a member of Europol and will continue to have a number of agents from police, National Crime Agency, and HM Revenue & Customs based in Europol.

And again, answering the question in particular, this is not a political question, and it's certainly not something I'm answering on behalf of the ambassador here for the U.K.

in the U.S. But speaking as an HM Revenue & Customs officer, we do value international collaboration. We work bilaterally with all our colleagues in a number of law enforcement agencies—not just in the U.S., but globally. And the fact that we may be moving toward an EU exit next March, in the forthcoming year, doesn't mean that we won't continue to collaborate with law enforcement.

And especially when it comes to illicit trade, counterfeit trade, the U.K. is absolutely committed to a level playing field for economic prosperity for everyone. And one thing I would emphasize is just because the U.K. may be leaving the European Union doesn't mean that we don't want to take our ball home with us and go to bed. We literally do want to continue to be a full member of the international economic community for economic prosperity, both across the globe, in Europe, but obviously important for the U.K. as well. And that means leveling that playing field, encouraging private sort of enterprise to move economic goods across international boundaries. And where free-trade zones are used to help prosper internationally, they should be obviously subject to some sort of support by domestic revenue and customs authorities to enable that to happen in the correct way.

Mr. MASSARO. Thank you very much, John.

KAY: And finally, the only thing I would say is thank you to the OECD for their work on this, and the U.K. continues to support your activity in this regard.

Mr. MASSARO. Excellent. Thanks very much.

Do we have more questions from the audience? Step right up. Get your exercise.

Okay. Well, I'm going to ask one more question. If there's any last-minute questions after that, we can take them. Okay?

So my final question for OECD is, have you highlighted any of the worst offenders, the worst FTZs? Can you speak to anything like that? [Laughs.]

Mr. JACOBZONE. I would say we're economists. We're not law enforcement officials, so we're not treating individual cases. We are treating aggregated sets of data. So I think this sort of question should be more directed to our colleagues in law enforcement, our colleague from the U.K. or from Europol, than to the OECD as an organization, I'm afraid.

Mr. RADISCH. At this point in time.

Mr. MASSARO. Got it. Thank you.

Okay. If there aren't any more questions, anybody want to say anything else on the panel? Then we will close the briefing.

Thank you so much. [Applause.]

[Whereupon, at 4:07 p.m., the briefing ended.]

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