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Senate Legal and Constitutional Affairs Committee  
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Canberra ACT 2600

## **Submission to the Anti-Money Laundering and Counter-Terrorism Financing and Other Legislation Amendment Bill 2019 Inquiry**

Collective Shout welcomes the opportunity to contribute to the Anti-Money Laundering and Counter-Terrorism Financing and Other Legislation Amendment Bill 2019 Inquiry. We are pleased to see initiatives to combat money laundering and counter-terrorism in response to the report pertaining to Australia by the Financial Action Task Force (FATF) and the Asia/Pacific Group on Money Laundering in 2015.

Collective Shout ([www.collectiveshout.org](http://www.collectiveshout.org)) is a grassroots movement challenging the objectification of women and sexualisation of girls in the media and popular culture. We target corporations, advertisers, marketers and media which exploit the bodies of women and girls to sell products and services, and campaign to change their behaviour. More broadly we engage in issues relating to other forms of sexploitation, including the inter-connected industries of pornography, prostitution and trafficking as well as the growing market in the sale of children for Live Distant Child Abuse.

We commend the Federal Parliament and the Department of Home Affairs for working to address money laundering and terrorism by taking steps to dismantle criminal business models.

Our four recommendations address sexual exploitation as a predicate crime in relation to money laundering. We argue also that where sexual exploitation is legalised, criminal activity such as human trafficking, violence, and money laundering intensifies.

### **Recommendation 1: That the sex industry be included in any regulatory mechanisms intended to address money laundering.**

- (a) FATF in its 2015 report recommended that Australia improve supervision of its regulated sectors, including non-financial businesses and professions like real estate agents and lawyers (Financial Action Task Force 2015). Prostitution is commonly implicated in money laundering, both as a method for laundering money and as a criminal enterprise giving rise to funds that will be laundered. At present, it is only financial services, gambling, bullion and digital currency exchange services that are required to report to the Australian Transaction Reports and Analysis Centre (AUSTRAC). Evidence shows prostitution is equally vulnerable to criminal enterprise.<sup>1</sup>

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<sup>1</sup> This reality is demonstrated by Mary Lucille Sullivan (2007) in *Making Sex Work: A Failed Experiment With Legalised Prostitution*, Spinifex Press, North Melbourne. For more detailed examinations of the operation of the commercial sex industry in Australia see Collective Shout's submissions to the Modern Slavery Bill 2018



- (b) In Appendix 1 we detail several cases where legal prostitution businesses in Australia and abroad have been found to be engaging in criminal activity including human trafficking. We also describe international experience showing that legalisation of prostitution typically gives rise to human trafficking activity. Human trafficking is the fastest growing criminal enterprise in the world and is among the top three most lucrative criminal activities, after trafficking of narcotics and weapons (Pterunov, 2011). The Asianisation of Australia's sex trade, among other factors, is a red flag for trafficking as described by Dr Caroline Norma (2015).
- (c) AUSTRAC should require existing reporting entities to pay careful attention to customer identity verification in prostitution businesses as well as massage parlours, which are a common front for prostitution activities and potential money laundering sites (Wolfe, 2017). We note that AUSTRAC has already successfully identified money laundering in prostitution in Operation Alizarin (Langhorn 2018).
- (d) Increased surveillance of the sex industry would assist in combating both money laundering and human trafficking. When decriminalised at the State level, prostitution per se may be no longer considered a predicate offence in relation to money laundering, yet criminal activity continues alongside the 'legal' industry.<sup>2</sup> We welcome the provision in the current Bill to simplify AUSTRAC reporting systems and we hope to see an expansion of oversight of other sectors including the sex industry.

## Recommendation 2: That Live Distant Child Abuse be targeted through strengthening anti-money laundering strategies.

- (a) We note the Westpac banking scandal in which Westpac was found in breach by Austrac which alleged 3057 transactions worth \$497,612 were made by Westpac customers to overseas providers of child exploitation material (primarily in Southeast Asia and the Philippines). Transactions by Australian Westpac customers were conducted in "patterns consistent with child exploitation typologies" according to court documents (Schliebs 2019a). Australian pedophiles are "fuelling the market for online footage of children being tortured and murdered" according to police (Schliebs 2019b, Grigg and Chenoweth, 2019).<sup>3</sup>

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Inquiry (NSW), the Federal Inquiry into Human Trafficking (2016), the Select Committee on the Statutes Amendment (Decriminalisation of Sex Work) Bill 2015 (SA), the Legislative Assembly Select Committee Inquiry on the Regulation of Brothels 2015 (NSW), the Regulation of the Sex Industry in Tasmania discussion paper (2012), and the Standing Committee on Justice and Community Safety review of the operation of the Prostitution Act 1992 (ACT, 2011). These can be accessed at

<https://www.collectiveshout.org/submissions?page=1>

<sup>2</sup> We refer the Committee to the submission by the Coalition Against Trafficking in Women Australia (CATWA) to the NSW Modern Slavery Act 2018, which states that "while we also support the requirement for commercial organisations to report on modern slavery risks in their operations and supply chains, an annual turnover of \$50 million or more fails to capture the commercial sex industry and businesses registered for massage that provide sexual services where human trafficking for sexual exploitation has been found." Rather, they should be required to report their supply chains regardless of income.

<sup>3</sup> We refer the Committee to the recent address given by the Honourable Peter Dutton MP, Minister for Home Affairs, to the Global Summit to Tackle Online Child Sexual Exploitation, Addis Ababa, Ethiopia, on 12 December 2019: "More broadly last year, our Federal Police received almost 18,000 reports of online child sexual abuse. Each report can contain hundreds to thousands of images and videos. Disconcertingly, that was



- (b) Collective Shout has taken a strong position on the prevention and prosecution of Live Distant Child Abuse,<sup>4</sup> highlighting grave harms to children in this growing crime. Melinda Tankard Reist, Collective Shout co-founder and current Movement Director has exposed the failures of Australian ISPs and telcos – who provide the means by which the sexual abuse of the child is streamed - to cooperate with law enforcement to prosecute these crimes (Tankard Reist 2017).
- (c) Financial Institutions must be made to strengthen their internal processes so that warning signs are heeded and identified and corrected sooner, to mitigate the facilitating of these heinous crimes. Increased fines for non-compliance should be considered.

### Recommendation 3: That cryptocurrencies be addressed in anti-money laundering strategies.

- a) We are concerned that digital currencies including Bitcoin and cryptocurrency appear not to be included in new strategies to combat money laundering. We recognise that cryptocurrencies are increasingly utilised to conceal illegal prostitution activity, particularly online child sex abuse, and are commonly used to anonymously engage in illegal, harmful or socially unacceptable behaviour.
- b) Appendix 2 details new cryptocurrency business models in relation to prostitution.

### Recommendation 4: That international best practice in prostitution legislation could assist in combating money laundering.

- (a) Legalised prostitution always results in expanded demand for commercial sex; local supply is limited as most women are unwilling to engage in unwanted sex acts for money. Human trafficking for sexual exploitation unfailingly arises in order to meet demand. Although prostitution regulation is not directly related to this inquiry, we take this opportunity to commend the Nordic Model as international best practice in prostitution regulation because it aims to reduce demand for commercial sex while assisting women to find safer livelihoods. This legislative model is a potential ally in combating criminal business practices. Research shows that the Nordic Model of prostitution regulation can successfully reduce demand for commercial sex, reduce the size of prostitution markets within the country, and reduce sex trafficking (Coy, Pringle and Tyler, 2016). Key aspects of Nordic Model legislation are provided in Appendix 3.
- (b) Prosecutions of money laundering offences suffer from similar barriers to sex trafficking; victims are too afraid to testify. Pimp violence is one thing to be feared; prosecution of the prostituted woman is another. The Nordic Model does not criminalise women involved in

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an 84 per cent increase on reports received in 2017 for a country of just 25 million people. ... We want industry to cooperate with us willingly, but it is clear that many companies have no intent to meet their moral obligations without being forced into it by legislation.”

<sup>4</sup> See Collective Shout’s submission to the Senate Legal and Constitutional Affairs Committee on the *Combatting Child Sexual Exploitation Legislation Amendment Bill 2019* for more information.



prostitution, and it ensures support structures for women to exit and recover. On the other hand, the Nordic Model criminalises those who profit from women's sexual servitude.

## Appendix 1: Criminal activity, including human trafficking, within legal prostitution

1. Two legal brothels in NSW and three in Melbourne have been linked to international human trafficking and sex slavery rings, according to two federal police investigations, Operations Elixation and Raspberry. Police allege that the syndicate convinces Asian women to come to Australia to study, but then forces them to work as debt-bonded sex slaves in brothels. Two Chinese women gave witness statements saying they were forced to engage in unsafe sex practices up to seven days a week, servicing dozens of men, and all money earned was returned to the syndicate (McKenzie, Beck, Reilly and Davies, 2011).
2. "The population group in relation to this study consisted of 346 Australian Federal Police investigations that were undertaken by the AFP Human Trafficking Teams between 25 November 2003 and 29 October 2013... All one-hundred and fourteen (n=114) investigations pertaining to trafficking for sexual exploitation or the peripheral offences of sexual servitude or debt bondage were analysed for content... There was significant evidence of money laundering with thirteen criminal syndicates observed to be laundering money, some with large money flows in-and-out of the country; and consistently the data indicated that the money was being sent back to the country of origin of the traffickers. There were only a few instances where it was identified that funds were spent on lavish lifestyles, particularly when those syndicate heads or brothel managers submit tax returns indicating modest salaries below A\$50,000. However, this was often contradicted by AUSTRAC and financial institution reports providing evidence of large amounts of money being transferred out of the country and to a lesser extent back into Australia. For example, the syndicate head in Operation Alizarin utilised associates and reverse money remitters to move between A\$100,000 and A\$200,000 on a weekly basis. The movement of money observed in this study is consistent with various government reports and studies in respect to sex trafficking. Money laundering is an intrinsic enabler of serious and organised crime. .... The consistent theme identified in the current study is that large amounts of money have been laundered overseas and that those criminal syndicates involved in sex trafficking in Australia were making significant financial profits. In respect of laundering methods, it was clear that most of the trafficking syndicates used basic methods, predominantly through bank deposit transfers and international money remitters. There were only three cases, being Operation Alizarin, Operation Myrtle and Operation Raspberry that showed an indication of complex and high-level attributes of money laundering where the laundering process was outsourced to professionals. There is no existing research relative to Australia that explores the money laundering practices of human trafficking syndicates. This study found evidence of money laundering activity by the organised crime syndicates involved in sex trafficking" (Langhorn, 2018).
3. A man who allegedly made daily visits to Sydney brothels to recruit young women who could assist him in laundering money will face court on Monday, after \$1 million cash was seized from a vehicle in which he was travelling on a "cash run" from Melbourne to Sydney.



[REDACTED]

4. Crown Resorts and a legal Melbourne brothel have been implicated in sex trafficking and money laundering. Asian sex workers have been flown into Australia on private jets organised by Crown Resorts “junket” operators. Crown Resorts paid a brothel owner and alleged money launderer to lure high rollers to its Australian casinos and then provided them with money to gamble. [REDACTED]

[REDACTED]

5. “Asian-styled ‘massage’ parlours comprise a large part of the NSW sex industry and are a sector that is wholly unregulated and unmonitored. There is no question that these venues are mediating the prostitution of women, and particularly women of Asian backgrounds. Massage parlours almost totally ignore local council requirements for business registration. They are often run by syndicates who transport women between different venues and locations. This takes place particularly for Asian-background women in the sex industry. It was reported in October 2011 that an “inner-city Sydney brothel specializes in Korean



prostituted women and is closely linked to the Comancheros outlaw motorcycle club and senior Asian organised crime figures” (McKenzie & Beck, 2011). In March 2008, three people were arrested in Sydney for sexually enslaving 10 Korean women, and in December 2008, a Korean woman thought to have been involved in Sydney’s sex industry was found dead in an apartment (Ramachandran, 2008).” (Norma, 2015).

6. Germany, 2019: Europe’s largest chain of ‘wellness spas’ that sold sex as a health service for men was in reality trafficking women to be prostituted. They were deceived, mistreated, beaten. Legalisation of the sex trade in Germany led to a huge boom which brings in sex tourists and trafficked women. Increased demand requires more women; gangs began trafficking women from eastern Europe. Women were set daily targets of 500 Euros a day and beaten around the head if they failed to deliver. They were forced to undergo breast enlargement surgery and were tattooed with the pimp’s name. Young women wept after their first night at work. It is estimated that more than 90% of Germany’s prostituted women are from SE Europe and Africa, and half are under 21, with limited German and only basic education. With many traveling abroad for the first time, often not even knowing which city they are in, the likelihood they have been trafficked is very high (Hilke, 2019).



## Appendix 2: Cryptocurrency in the sex industry

Collective Shout has grave concerns about the role of cryptocurrencies in the exploitation of women and children in the sex industry, for these reasons:

*Because these currencies can be exchanged directly and anonymously between parties without a bank or government, they are also a nearly perfect way to pay for some of the most evil things on the black market. Roughly half of all Bitcoin transactions, totaling around \$72 billion a year, are associated with illegal activity, according to "Sex, Drugs, and Bitcoin," a new paper by Australian researchers. And many of the worst crimes are against women and girls: "Sex trafficking and child exploitation," says Talis Putnins, Ph.D., a professor at the University of Technology Sydney, "are some of the illegal activity in the dark net that concern us the most." (Brody 2018)*

Child sex abuse material is certainly empowered by cryptocurrency, rendering prosecutions increasingly more difficult (Brody 2018). In 2014, Bloomberg reported:

*The group's researchers in January started seeing the crypto-currency being accepted for child porn purchases ranging from as little as \$1 to hundreds of dollars. Since then, the foundation has discovered almost 200 websites that accept bitcoin, and researchers in the U.S., Germany and several other countries are seeing the same. More than 30 sites accept only bitcoin, the IWF says. "The emergence of bitcoins as payment for child sexual abuse represents the newest challenge in the fight" against child pornography, said Sarah Smith, a researcher at the IWF. "This is just the beginning." ... The currency provides "commercial child sexual abuse website operators with a method to revitalize their payment stream," said John Shehan, executive director of the U.S. National Center for Missing and Exploited Children (Schweizer 2014).*

In the USA, Backpage was found to be knowingly facilitating child sex trafficking by profiting from advertising on the site. It is alleged that Backpage disguised payments for illegal services via cryptocurrency, among other methods (Robertson, 2018).

Technologies that allow workers to 'Know Your Customer' are quite possibly most important to prostituted women who are at the highest risk of exploitation, abuse and violence by their customers. Cryptocurrencies allegedly offer the possibility for women to remove anonymity from their clients (van Rijt 2019). But the safety of women always appears to be a low priority for those making money out of prostitution.

For example, PinkDate is a new cryptocurrency-driven system described as the "uber of escorting". Ironically, the project's founders are anonymous and their locations are unknown. It is not registered as a legal entity. "They do zero know-your-customer and anti-money laundering [checks]," Sarah Stevens [PinkDate's former president] said, referring to the screening of token-buyers. "Since they're not a legal entity, this is not even a security token offering." No support services are offered to escorts signing up to PinkDate (Cuen 2018).

In fact, one can presume that cryptocurrency is all about protecting the identity of punters rather than the safety of women. Gingr is a new Bitcoin system designed to pay for prostitution, avoiding



government detection and remaining anonymous. Bunny Tokens, cryptocurrency which can be used to anonymously book prostituted women, are advertised on YouTube (Hamill 2018).

Then there is Lust, a cryptocurrency designed for prostitution.

*It uses smart contracts and anonymity features to escrow funding of the parties and keep their identities private, in order to avoid law-enforcement scrutiny and public shaming. The wireframe drawings of user interface features pictures of sex workers, selected by "elaborate filters based on skill ratings, age, eyes, hair color and other body parameters." The anonymity dimension of this platform is limited to the (presumably male) customers, not the (all-female) workers...*

*The game-theoretical aspects of this aren't hard to unpick: if the "client" has sex with the worker, and then does not scan her (sic) token, the client gets to have sex, and the worker gets nothing. Despite high-minded talk about preventing violence against sex-workers, the major threat-model addressed by these smart-contracts is men who don't feel like they got value for money when having sex, not women who perform sex-for-money and don't get paid for it (Doctorow 2017).*



### Appendix 3: Key aspects of Nordic Model legislation

(What is the Nordic Model? From *Nordic Model Now!*)

<https://nordicmodelnow.org/what-is-the-nordic-model/>)

- Full decriminalisation of those who are prostituted, acknowledging that the majority of women and children enter prostitution as a result of childhood abuse, poverty and misfortune, grooming, coercion, and/or betrayal, rather than as a free choice between a number of viable options. Nordic model also calls for the clearing of their criminal records for past convictions of prostitution.
- High-quality services for those in prostitution; harm reduction as well as exit support; housing, legal advice, addiction services, long-term emotional and psychological support, education and training, and childcare.
- Buying sex to be made a criminal offence, in any part of the world. The aim is to change behaviour, not criminalise people; recommended maximum sentence is one year in prison.
- Procuring, pimping and sex trafficking legislation must be strengthened, reflecting that all of these are human rights abuses. Policing must be fully resourced and prioritised.
- All factors that drive people into prostitution must be addressed. Prostitution is not the answer for the poor, disadvantaged, recent migrants, single mothers, or children in the foster care system, or for anyone. Minimum income is one way to address this.
- A holistic approach:
  - Public information campaign
  - Education programmes in schools
  - Training for police and others
  - Laws to be prioritised and coordinated nationally



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