

“Following the Money: Examining Current Terrorist Financing Trends and the Threat to the Homeland”, Homeland Security’s Subcommittee on Counterterrorism and Intelligence, May 12, 2016

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The growing linkages between crime and terrorism observed in the past four decades are not merely a result of globalization or the need to assure a more diversified revenue flow for terrorist groups. Rather, this change represents a profound evolution in organized crime and terrorism, as well as their relationship to the state. The terrorist attacks in France and Belgium provide strong proof that the associations of crime and terrorism are very present as most of the identified terrorists have criminal backgrounds. The heavy recruitment of criminals by ISIS as terrorists is hardly surprising as the antecedents of ISIS lie in its founder, the criminal, Al-Zarqawi who became a terrorist.¹

What is of particular concern to US homeland security is that many of our European allies fail to see this threat as one of crime and terrorism. Having just recently returned from a European trip during which I had many meetings over several weeks with highly-placed members of the Francophone security community as well as officials from other European states, it is clear that many in policy positions in the European security community fail to appreciate this important evolution. The exception may be the Italians who have observed these links between crime and terrorism for over three decades as publicly expressed by Italy’s current anti-mafia prosecutor and a predecessor who is now President of the Italian Senate.² But for many other countries in Continental Europe, there is not a recognition of the problem that terrorists increasingly use crime to support their

¹ see Joby Warrick, *Black Flags: The Rise of ISIS*, (New York: Knopf/Doubleday, 2015).

² Franco Roberti remarks at Dialoghi sulle mafie, Seconda edizione
Assessorato alla cultura del Comune di Napoli- Università Suor Orsola Benincasa
Napoli, S. Domenico Maggiore 16-17-18-19 marzo 2016; Pietro Grasso, Il rapporto tra traffici illeciti e terrorismo, November 16, 2015, Italian Senate,
<http://www.radioradicale.it/scheda/458928/il-rapporto-tra-traffici-illeciti-e-terrorismo>.

activities³ and that ISIS, in particular, focuses on recruiting low-level criminals into its ranks.

The crimes used by the criminal-terrorists are not large-scale crimes but low-level narcotics trafficking, small-scale fraudulent bank loans and illicit trade that are being used to support their activity.⁴ The funding patterns identified in the first French attack of the Kouachi Brothers and Koulibaly continue because it is the same network that continues to attack—one that is dispersed among France, Belgium, the UK and Germany. There have been very few wire transfers identified emanating from the Middle East to these overseas members of the ISIS network. The European terrorist cells are heavily home-funded through crime.

Prisons and relationships established in prison are key to recruitment and network enhancement. This was first evident in the investigations that followed the Madrid subway bombing in 2004⁵ and has remained true with the most recent terrorist attacks in France and Belgium where bonds among criminals were made in prison and individuals once incarcerated together have gone on to commit terrorist attacks with their former fellow inmates.⁶

We need to expect that patterns established in one place may be replicated in another. Therefore, we may see patterns identified in Europe manifesting themselves in the United States. Therefore, we need to focus more on prisons and their role in terrorist recruitment and financing.

The attacks in France and Belgium in 2015 and 2016, committed primarily by radicalized criminals, are evidence that these countries failed to respond to the new hybrid of criminals and terrorists—terrorists who have criminal pasts and continue to support themselves and their terrorist acts through criminal activity.⁷ Law enforcement and security bodies are not organized to reflect this new reality nor are there plans to reorient their focus to address this threat. This nearly assures that there will be future terrorist attacks in Western Europe. This will be very politically destabilizing for our allies but may have even more direct consequences for us. Americans, American businesses and installations may be victims of these attacks. The failure to respond to the

³ This is a particular problem in France despite the recent attacks and the biographies of the terrorist attackers.

⁴ Marie-Christine Dupuis-Danon, “Pour lutter contre l’argent de la terreur, traitons vraiment la question de l’économie souterraine et des traffics,” April 27, 2016, http://www.lemonde.fr/idees/article/2016/04/27/pour-briser-les-ressources-du-terrorisme-luttons-contre-l-economie-souterraine_4909282_3232.html#wj1kZiCU4mGeEFED.99.

⁵ Shelley, 38-39.

⁶ Steven Mufson, “How Belgian Prisons became a Breeding Ground for Islamic Extremism,” March 27, 2016, https://www.washingtonpost.com/world/europe/how-belgian-prisons-became-a-breeding-ground-for-islamic-extremism/2016/03/27/ac437fd8-f39b-11e5-a2a3-d4e9697917d1_story.html.

⁷ Dupuis-Danon.

new hybrid threat by European governments also has other consequences for our security. Many of these hybrid criminal-terrorists have European passports. Therefore, the new hybrid terrorists can enter our country more easily as they have more mobility than other potential terrorists who need visas to enter the US.

Hiding the Illicit in the Illicit: Size of Illicit Trade

My present research on my Carnegie Corporation Fellowship continues to see the problem of illicit trade as a key funding source for terrorism. The size of illicit trade is growing in almost all identified categories. Therefore, while there is a contraction in much global trade and a decline of export of natural commodities with the Chinese economic slowdown, a similar shrinking in illicit trade has not been identified. Unfortunately no multinational body, no NGO, nor any group of trade specialists have reported the contraction of any form of illicit trade that they are analyzing.

Reliable estimates of recent years indicate that illicit trade represents at least 10% of global trade with other estimates ranging between 8 and 15%.⁸ These ranges were calculated before the Syrian conflict escalated, the ascendancy of ISIS and the generation of hundreds of millions from the sale of smuggled oil. Nor do they reflect the massive growth of illegal migration facilitated by human smugglers who have netted approximately \$3-6 billion from this trade to Europe in 2015 alone.⁹

The OECD has estimated that illicit trade in counterfeits represents 5 percent of the economies of the developed world.¹⁰ This figure underestimates the problem in the developed world because illicit goods produced within Europe such as synthetic drugs and illicit whites (legally produced cigarettes intended to be sold without payment of taxes) are widely distributed and traded among European countries but are not counted in this figure.¹¹ The OECD figure for illicit trade in the developing world is half that of the developed world.¹² But this is counterintuitive and the data used to derive this result is problematic and leads to a dramatic understatement of the problem. The calculation is based on customs data from a relatively limited number of countries and OECD did not

⁸ David Luna, "The Destructive Impact of Illicit Trade and the Illegal Economy on Economic Growth, Sustainable Development, and Global Security," <http://www.state.gov/j/inl/rls/rm/199808.htm>

⁹ Europol, Migrant Smuggling in Europe, 2016, p.13, [migrant smuggling europol report 2016.pdf](#).

¹⁰ OECD and EUIPO, *Trade in Counterfeit and Pirated Goods Mapping the Economic Impact* (Paris: OECD, 2016).

¹¹ Illustrative of this are the illegal cigarettes factories in Eastern Europe that produce cigarettes that are distributed within Europe. Their share of illicit trade is not reflected in the OECD report because it occurs within the trade bloc but causes the loss of hundreds of millions if not billions in lost tax revenues.

¹² OeCD and EUIPO.

take into account the very high levels of corruption in customs' agencies in the developing world that choose not to seize goods or deliberately fail to report on illegal trade to government officials as the customs personnel are benefiting directly from this trade.¹³

The counterfeit figure is only one important component of the totality of illicit trade. It does not count the equally or more common trade in narcotics that as much as three decades ago was estimated to represent 5 to 7 percent of world trade, a percentage that has not declined in recent decades as new drugs have entered the global market and new regions have become significant consumers of illegal drugs. There are many more aspects of the illegal economy including such clearly illegal activity as trafficking in humans, arms, and many forms of cyber crime consist of illegal trade in credit cards, identities and child pornography. Many of these crimes converge, enhancing their impact and enriching the key facilitators. Then there is also the illegal trade in some products that might be legally traded as timber, fish and gold but are exploited and traded illegally.

Illicit trade and commerce is facilitated by enormous illicit and dubious financial flows to offshore locales such as has been recently confirmed by the Panama Papers.¹⁴ The anonymity of shell companies and the possibility to disguise the origin of funds makes it possible for criminals, terrorists, the corrupt and the rich seeking to hide their wealth to all converge in the same locale.

Therefore, with such a large quantity of illicit trade and money in the world it is easy for terrorists to hide their activity within this massive movement of goods and funds. Therefore, we need to pay more attention to the trade and the trade-documents which may help reveal anomalies in this movement.

We also need to focus on legitimate banks that can help facilitate the storing and transport of money for terrorists. Recent investigations reveal that legitimate large banks such as Deutsche Bank, in violation of international regulations, receive funds that are associated with terrorists and criminals as this helps increase profits. Officials at Deutsche Bank, in a significant number of suspicious files examined by auditors, revealed that officials were told to avoid warning signs or not to commit due diligence on what should be suspicious clients.¹⁵

This illicit movement of funds and sales is increasingly being conducted within the dark web. The dark web figures in the illicit kidney trade, mentioned below, because those seeking a kidney transplant establish contact with facilitators through closed

¹³ Ibid.

¹⁴ GFI data on size of flows-- <http://www.gfintegrity.org/issue/illicit-financial-flows/>, Panama Papers , <https://panamapapers.icij.org/> as a subset of this.

¹⁵ James Shotter and Caroline Binham, "Deutsche Bank warned on crime curbs: UK Watchdog finds 'systemic' weakness in laundering controls, Financial Times May 2, 2016, p.13. James Shotter and Caroline Binham "Deutsche Bank still plagued by legal uncertainty in wake of FCA warning," Financial Times May 2, 2016, p.15.

networks on the web. The dark web also helps facilitate drug and arms sales, in particular, as buyers and sellers often interact in private groups that thrive in the dark web.

Three Foci Areas:

Within this illicit trade there are three areas that deserve more attention because they have been associated with terrorist financing or might in the future. These are: illicit gold trade, illicit kidney trade and illicit pesticide trade. These categories are also associated with significant environmental and/or health harms. These new areas reveal that illicit actors also shift between diverse forms of illicit trade to optimize profits and reduce risk.

Gold Trade

The FARC, a major Colombian terrorist organization that survived for decades in the illicit drug trade has now acquired a new illegal revenue source with less risk and higher profits. Over 85% of the gold mined in Colombia is mined illegally¹⁶, meaning this large economic sector is a lightly regulated market, providing the criminals and terrorists opportunities to exploit production. FARC's revenues from the illegal gold trade now¹⁷ exceed those from the drug market. The terrorist group has taken the practices it has learned in one area and applied them to another. Therefore, illicit gold mining and trade is accompanied by intimidation, violence and extortion as well as exploitation of indigenous populations.

Kidney Trade

Egypt has had doctors performing kidney transplants for individuals from foreign countries who cannot acquire kidneys in their home countries. The nature of the business has changed as the cost of kidney transplants has increased in Egypt and profit-margins have increased. Long-term research undertaken by Professor Campbell Fraser in the Middle East and Asia suggests that there are new opportunistic participants in this trade. Turkish middlemen procure refugees who are seek to pay smugglers to move family members to Europe. As the business has grown, groups such as al Nusra have moved in, forcing the doctors, who once were the prime recipients of the profits, to work under their control. Payments made by Europeans seeking these operations now remain in European

¹⁶ <http://www.worldpoliticsreview.com/articles/17770/colombia-s-informal-gold-miners-feel-the-heat-from-all-sides>.

¹⁷ Global Initiative, "Organized Crime and Illegally Mined Gold in Latin America," 2016, <http://www.globalinitiative.net/organized-crime-and-illegally-mined-gold-in-latin-america/>.

banking accounts, possibly giving the terrorists involved in this trade access to significant sums in Europe as the profits of this trade can reach \$40,000 an operation.¹⁸

Illicit Pesticide Trade

The problem of the growing use of illicit pesticides is a generally growing problem and a threat to our security. But the threat may be compounded because it is an ever-escalating part of illicit trade. The threat comes from both the importation of food that has been grown in places where these illegal and dangerous pesticides are used but also the importation of deadly pesticides into the US. This could be what I have referred to as a dual-use crime in my book *Dirty Entanglements: Corruption, Crime and Terrorism*. It makes money for illicit actors and also causes serious harm to purchasers.¹⁹ The threat is accelerating as illegal pesticides now represent one-third of the market among key food exporters such as India.²⁰ These dangerous chemicals are used in 10 percent of Europe with usage in Northeastern Europe at 25%.²¹ Large-scale seizures have occurred in Poland recently.²² Some of these pesticides are so deadly that they destroy all crops and damage the soil.

Recommendations:

- 1) Attach more attention to the analysis and policing of illicit trade as this remains an underpoliced area of criminal activity. This is important for the different agencies of Homeland Security that have such great jurisdictional authority over trade entering and exiting the United States.
- 2) Focus on new emergent forms of illicit trade such as organ trade, illicit pesticide trade and natural resources. Continue to focus on underpoliced areas of criminal activity that continue to contribute significantly to terrorism such as counterfeiting, antiquities and illicit cigarette trade²³ and trade-based money laundering.
- 3) Expand the combined policing and counter-terrorism efforts developed in New York and Los Angeles to other locales both domestically and internationally. There should be best

¹⁸ Professor Campbell Fraser, "Human Organ Trafficking: Understanding the Changing Role of Social Media and Dark Web Technologies 2010-2015," January 21, 2016, <http://traccc.gmu.edu/events/previously-hosted-events/>.

¹⁹ Louise Shelley, *Dirty Entanglements: Corruption, Crime and Terrorism* (Cambridge and New York: Cambridge University Press), pp. 36, 201.

²⁰ Federation of Indian Chamber of Commerce and Industry (FICCI) and Tata Strategic Management Group". Study on sub-standard, spurious/counterfeit pesticides in India: 2015 Report," New Dehli: FICCI.2015.

²¹ UNICRI "Illegal Pesticides, Organized Crime and Supply Chain Integrity," 2016, p.42. http://www.unicri.it/in_focus/files/The_problem_of_illicit_pesticides_low_res1.pdf

²² Presentation at OECD Task Force on Illicit Trade, Paris, April 18-19, 2016.

²³ The Global Illicit Trade in Tobacco: A Threat to National Security 2016, <http://www.state.gov/documents/organization/250513.pdf>.

practices developed on combating hybrid threats and the relationship of crime and terrorism. This should be done both in the United States and also with counterparts in Europe, Asia and Africa and Latin America.

- 4) Work with our allies in Europe to help them understand the relationships between crime and terrorism that we are detecting. Bilateral and multi-lateral engagement should be expanded.
- 5) Establish public-private partnerships to get more insights from the business community on the anomalies they see and the emerging patterns that they are identifying in illicit trade.
- 6) Support research that can help us understand trends in terrorist financing in the real and the virtual world. We need to understand more of how the different levels of the cyberworld—the Internet, the deep web and the dark web interact in the world of threat finance. We need to continue to understand cyber currencies and their enabling role.
- 7) We must continue to address the money-laundering contributing to illicit trade. The targeting of illicit flows into real estate in New York and Miami needs to be expanded to other jurisdictions, and made permanent. We must implement the policies being developed to identify the beneficial ownership behind valuable properties and shell corporations.