



MONEY LAUNDERING

AND TERRORIST ACTIVITY FINANCING WATCH



Financial Transactions and
Reports Analysis Centre
of Canada

Centre d'analyse des opérations
et déclarations financières
du Canada

Canada 

Money Laundering and Terrorist Activity Financing Watch

- Summarizes relevant group-based, activity-based and country-based money laundering and terrorist activity financing issues;
- Alerts readers to new developments that could possibly be exploited for money laundering or terrorist activity financing purposes in Canada.

*ML/TF Watch is a quarterly review of news articles and is compiled by FINTRAC's Macro-Analysis and Research unit. The articles provided in this issue range from **October 2009** to **December 2009**.*

Caveat

The content presented herein is a summary of news articles and does not include any FINTRAC analysis. The views expressed are those of the original authors. References are provided to the respective articles at the end of this document.

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Money Laundering

GROUP-BASED

La Familia targeted by Project Coronado:

The U.S. Drug Enforcement Administration's Austin Task Force arrested four people on October 21 as part of Project Coronado, an investigation targeting the drug trafficking activities of La Familia, Mexico's newest and most violent cartel. According to court documents, the defendants conspired to launder money and distribute multi-kilogram quantities of cocaine in Texas, Florida, North Carolina and Maryland between April 2008 and September 2009. The affidavit also claimed that the defendants shipped drugs and money via Federal Express. According to U.S. officials, La Familia has dominated the methamphetamine trade and has a vast drug trafficking network throughout the United States. Its stronghold is in the province of Michoacan, Mexico. As part of Project Coronado, officials conducted a series of raids believed to be the largest single strike at Mexican drug operations in the United States; more than 300 people were arrested in 19 states.¹

Beltran Leyva Organization loses kingpin:

Arturo Beltran Leyva, known as the "Boss of Bosses" was killed on December 18, by Mexican Marines in Cuernavaca, in Morelos state. Leyva was in command of the Beltran Leyva Organization (BLO), a drug cartel which split from the Sinaloa cartel in mid-2008. His death occurred during a raid on his apartment complex and involved 200 Mexican Navy Special Forces soldiers as well as two naval helicopters. Leyva, described as one of the country's most notorious traffickers, cooperated with Los Zetas cartel which controls the Eastern Coast of Mexico. BLO used that working relationship to move

cocaine from Guatemala into Mexico. The group also imported narcotics into the United States via the South Texas–Mexico border. Described as possessing the most sophisticated intelligence capacity of any of the cartels, the BLO cartel is thought to have infiltrated every level of the Mexican government. Arturo Beltran Leyva's death is being reported in the news as a significant victory for the Mexican government's efforts to counter drug cartel operations. However, Mexican police have also confirmed that leadership of the cartel has been transferred to Hector Beltran Leyva, who retains the support of BLO's major drug trafficking route operators. STRATFOR reports that Arturo Beltran Leyva's death might spark renewed conflict between the cartels, as drug trafficking players attempt to take advantage of the BLO's weakened state. The BLO cartel has a history of violent retaliations against other drug cartels and the Mexican government, therefore a short-term increase in violence is expected. On December 3, the U.S. Office of Foreign Assets and Control (OFAC) blacklisted 22 people and 10 companies linked to the BLO, and identified those entities as being involved in: shipping, electronics retail, import/export of health products, business consulting and hospitality services. The companies blacklisted are in the states of Chihuahua, Sinaloa Chiapas, Sonora, Jalisco, Estado de Mexico, Baja California (Norte) and the Federal District (Mexico City).²

FINANCIAL ACTIVITY-BASED

RBC Dominion Securities advisors allegedly encouraged tax evasion:

An investigation led by the Canada Revenue Agency (CRA) alleges that three investment advisors from Royal Bank of Canada Dominion Securities assisted Canadian taxpayers in hiding investments and other income in Liechtenstein. According to the CRA

affidavits, advisors from the Victoria branch of Canada's largest brokerage firm, RBC Dominion Securities, assisted in setting up 16 foundations in Liechtenstein, a European principality known for its bank secrecy laws. In turn, the foundations opened trading accounts in Lausanne, Switzerland with RBC Dominion Securities. Auditors believe that the Lausanne office would then file tax forms for these accounts which, on paper, were held by the foundations registered in Liechtenstein. Capital gains and interest from bonds were not reported to Canadian authorities. In one case, the RBC Dominion Securities account in Switzerland periodically wired exactly \$9,500 to a bank in Washington State where the suspected Canadian tax-evader in question would then withdraw the money. The chief executive officer of RBC Dominion Securities maintains that the firm has never instructed its investment advisors to encourage Canadians to set up entities in Liechtenstein in order to evade paying taxes.³

ML through casinos: A former Toronto lawyer, Stanko Joseph Grmovsek pleaded guilty on October 28 to an insider trading scheme that generated US\$9 million in revenue over 14 years for himself and his partner Gil I. Cornblum. Grmovsek and Cornblum made their money from stocks purchased by Grmovsek based on tip-offs from Cornblum. The duo tried to disguise their activities by using numerous brokerage accounts in the Bahamas before sending their illicit profits back to Canada. According to court documents, Grmovsek laundered some of his profits in offshore accounts via casinos in Las Vegas and the Bahamas. While Internal Revenue Service regulations require banks to report cash transactions over \$10,000, the Grmovsek case shows how casinos can still be used to launder money if profits are structured into sums that fall under the reporting threshold. Experts claim that in a typical scheme, a money launderer

approaches a cashier's cage with cash and converts it into chips using a player's card to establish his identity. He later returns without a card to the cashier's cage to exchange the chips for cash, leaving no named record for the transactions and creating the impression that he has gambled away thousands of dollars. A modified version of this scheme also works to create the impression that the gambler has won a lot of money. In this case, he takes out a small amount of chips while using his player's card and separately exchanges a larger amount of cash for chips anonymously. He then later returns with a large stack that he claims to have won at the tables and exchanges the winnings anonymously.⁴

MoneyGram settles charges for facilitating scams: MoneyGram International Inc. agreed to pay US\$18 million on October 20 to settle charges by the U.S. Federal Trade Commission (FTC). According to FTC allegations, MoneyGram knowingly helped fraudulent telemarketers trick U.S. consumers into wiring more than US\$84 million within the United States and Canada between 2004 and 2008. The FTC stated that MoneyGram knew its system was being used to defraud people, and that at least 65 Canadian MoneyGram employees were involved in the schemes. The FTC confirmed that the MoneyGram employees used schemes to convince consumers to send money via MoneyGram. Some of the schemes included: (1) lottery or prize scheme where U.S. consumers were told that they had won thousands of dollars and were required to pay a third-party "fee" in order to receive winnings; (2) advance-fee loan schemes where U.S. consumers were guaranteed lines of credit or cash loans regardless of their credit history and were required to pay a "fee" in order to obtain the loan; or (3) mystery shopping schemes where the perpetrators claimed to be hiring consumers to evaluate MoneyGram transfer

operations in retail establishments. In that scheme the perpetrators sent consumers a cashier's cheque and instructed them to deposit it in their own chequing account and then transfer the majority of the money to a particular country via money transfer. The cashier's cheques were actually counterfeit and thus consumers ultimately sent a large portion of their own money. In all cases the perpetrators did not dispense the promised incentives to consumers and thereby violated the FTC's Telemarketing Sales Rule. In response to the FTC charges, MoneyGram agreed to improve its consumer protection and anti-fraud program. MoneyGram operates in 190 countries and territories with approximately 180,000 employees.⁵

U.S. Internet gambling ban postponed for six months: On November 25, U.S. financial regulators granted a six-month delay in enforcing a controversial Internet gambling ban that will require banks to freeze any transaction tied to illegal gaming organizations, which operate mainly offshore. In the joint ruling by the U.S. Treasury Department and the Federal Reserve, regulators granted the extension as a result of compliance challenges, including challenges surrounding the definition of "unlawful Internet gambling." Lawmakers also expressed interest in revising the Unlawful Internet Gambling Enforcement Act (UIGEA). Rules that were finalized in November 2008 required banks, as of December 1, 2009, to identify and freeze transactions that were linked to unlawful Internet gambling operations, mostly conducted offshore. The delay from December 1, 2009 to June 1, 2010 will allow for the definition of "unlawful Internet gambling" to be narrowed. Officials claim that the current rules are not effective in part because they do not define what constitutes unlawful behaviour, and only prevent debit and credit card payments, thereby excluding

other transaction methods such as cheques or wire transfers.⁶

ML from visa fraud scheme: South Texas brothers, Alberto and Bernardo Pena, were sentenced on December 30 for running a visa fraud scheme that fraudulently obtained H-2B visas on behalf of Indian nationals for a fee ranging from US\$20,000 to US\$60,000. This scheme earned them more than US\$1.8 million. An H-2B visa is a non-immigrant category visa that allows U.S. employers to hire foreign workers for temporary non-agriculture work, as long as the employer can demonstrate there are no qualified U.S. workers to do the job. The Pena brothers operated a legitimate visa facilitation firm named AMEB Business Group Inc. that arranged for workers from Mexico to work at a construction firm in Louisiana, USA. The brothers encouraged and induced 88 individuals from Gujarat, India to unlawfully enter the United States on H-2B visas knowing that the Indian nationals had no intention of working for the company nor returning to India after their visas expired. The Indian nationals came to Houston and paid for their visas using cash, as well as cashier's cheques and money orders purchased throughout the country. None of the Indian nationals worked for the construction company and instead dispersed throughout the United States. Some worked at gas stations and convenience stores owned and operated by relatives. The brothers deposited the payments into accounts at the Bank of America and JP Morgan Chase Bank. However, it was activity surrounding an account at Wells Fargo Bank that led to a money laundering conviction. The brothers asked a third party associate to deposit US\$6,000 in money orders into his Wells Fargo account and then withdraw the funds as cash.⁷

ML through publishing companies:

Andranik Petrosian, owner of a Russian-language publishing company based in California, was sentenced to eight years in federal prison on December 7 for operating a cash-back money laundering scheme that benefited individuals who defrauded the United States healthcare system. According to court documents, Petrosian used his publications as a front to launder more than US\$10 million for fraudulent medical companies. Petrosian's companies, which included the newspaper *Contact Weekly* and the magazines *Kakadu* and *Tet-a-Tet*, were paid by the fraudulent medical companies via cheques for advertising or graphic design services that were never provided. Petrosian returned approximately 90% of the money to the administrators of the medical companies in cash. The cash was either wire transferred from Armenia or transferred via a Hawala-type money-transfer system and then smuggled into the United States and remitted to Petrosian's Burbank office. Petrosian also helped perpetrators avoid paying taxes and supplied them with the cash they needed to pay their accomplices. Petrosian provided the fraudulent medical companies invoices for the advertising, which allowed them to falsely deduct the payments on their tax returns. The medical company administrators also used the cash sent by Petrosian to finance payments made to patients and perpetrators as a part of their healthcare fraud schemes. In one scheme, the cash that was returned by Petrosian to a laboratory was used to provide kickback payments to clinics in exchange for referring blood samples to the laboratory for analysis. The clinics sent patients for unnecessary blood tests that were paid for by Medicare, defrauding the government out of more than US\$20 million.⁸

ML trends in Mexico: Drug cartels in Mexico launder illicit cash through both traditional cash smuggling ventures and, more recently,

through sophisticated money laundering schemes that involve Mexican businesses. Law enforcement officials claim that the bulk of drug proceeds are smuggled across the Mexican border from the United States through shipping containers that store cash in elaborate, hidden compartments. While the exact amount of money shipped across the border is unknown, Mexican authorities claim that at least US\$10 billion a year is illegally smuggled into Mexico and sent back to U.S. banks via Mexican financial institutions. While the Mexican government has tightened bank regulations since April 2009, law enforcement officials maintain that it is still relatively easy for the money to be laundered and dispersed once it lands in Mexico. Mexican government officials claim that drug cartels buy businesses and luxury items such as real estate, automobiles, and jewels in cash without any suspicious activity reports being filed to the government. Additionally, drug cartels have turned to other money-making ventures in Mexico that allow for drug proceeds to be laundered. Businesses associated with cartel operations include spas, daycare centres, health clubs, car wash businesses or those that sell counterfeit or stolen products such as pirated movies or oil. Law enforcement officials also indicate that drug cartels pay people to make transfers through companies like Western Union, or to deposit money into U.S. bank accounts and withdraw it from ATMs in Mexico. Some organized crime groups have turned to smuggling open loop prepaid money cards because they are unregulated; individuals can legally carry any amount without having to report it to authorities.⁹

Naresh Jain – Hawala money laundering suspect arrested: Naresh Humar Jain, allegedly one of the top illicit financiers in the world, was arrested on December 6 in India. According to the Serious Organised Crime Agency (SOCA), Jain conducted his money

laundering activities from Dubai, where he was able to send funds to clients around the world. He is suspected of managing a system capable of moving US\$2.2 billion a year. Jain was initially arrested in Dubai in 2007 following an international investigation. According to the U.S. Drug Enforcement Administration, police in Dubai discovered banking and wire transfer records showing that Jain used banks and exchange houses in Dubai to transfer money into bank accounts at a finance company in Manhattan. The records at the finance company show Jain layered funds in order to disguise the origin of the money. During the investigation, Jain posted bail in Dubai and fled to India, where he was later apprehended. Jain was also the subject of inquiries and investigations in many countries. Italian and American authorities suspect that he laundered money for Albanian and Italian heroin dealers and narcotics cartels in the United States, the United Arab Emirates, Pakistan and Britain. Jain was also suspected of “taking in money” for the Taliban. Such allegations are confirmed by German and U.S. police, who say Jain had operations in all major “drug and terrorism hotspots across the globe”. Investigations in Italy reveal that a beauty parlour was allegedly used to accept funds related to heroin and terrorism, enabling Naresh to launder US\$4 million a day.¹⁰

COUNTRY-BASED

State of Delaware ranked most secretive in banking laws: According to a new analysis of financial jurisdictions compiled by the Tax Justice Network (TJN), the state of Delaware was ranked as having the world’s most secretive banking laws out of the 60 jurisdictions examined. The jurisdictions are ranked according to their Financial Secrecy Index (FSI), which is based on the level of secrecy in the laws, practices, and

extent of cooperation with other tax authorities. According to the index, Delaware offers high levels of banking secrecy and does not make the details of company accounts, trusts, and beneficial ownership available to the public. The state also allows the existence of privacy-enhancing “protected cell” or “segregated portfolio” companies and permits companies to “re-domicile” within its borders with minimal disclosure. A protected cell or segregated portfolio refers to the portfolio of a company (assets, liabilities, etc) that is separated into cells that are legally independent from the main company and other cells within the company. Re-domicile refers to the process in which a company moves the address of its headquarters to another jurisdiction while maintaining the same legal identity. After Delaware, the top five most secretive jurisdictions include: (2) Luxembourg; (3) Switzerland; (4) Cayman Islands; and (5) United Kingdom (London). London was included in the top five because of the extent of its political and financial links to a vast global network of tax havens. The large scale of London’s financial centre makes it vulnerable to money laundering and terrorist financing activity. The FSI was compiled by senior academics, accountants and investigators who used findings from the Financial Action Task Force (FATF), the International Narcotics Control Strategy Reports, and 12 key indicators including bank secrecy rules, disclosure of beneficial ownership and trust law.¹¹

South Korea becomes FATF member: The Financial Action Task Force (FATF) welcomed the Republic of Korea as its 35th member on October 14. South Korea, which is also a member of the Asia Pacific Group on Money Laundering (APG) and the Egmont Group, now fully participates in the FATF’s efforts against money laundering and terrorist financing. South Korea currently has strong trading relationships with the United States, is

the 11th largest exporter in the world, and has held observer status with the FATF over the last three years. Evaluators found Korea to be fully compliant (the best rating) with five of the 40 + 9 recommendations, noting that customer identification and verification was strong within the country. Nonetheless, South Korea was non-compliant with 11 recommendations, including those dealing with due-diligence for politically exposed persons, correspondent banking, third parties, large or unusual transactions, high-risk countries, acquiring beneficial ownership data and AML rules for most non-bank financial institutions.

Several changes to South Korea's AML regime are under consideration. For instance, while originally only casinos and financial institutions were required to report suspicious financial activities, the South Korean government plans on introducing a rule requiring lawyers and accountants report them as well. According to officials, the Financial Services Commission of South Korea plans on introducing the rules in phases; first by advising non-financial professionals to voluntarily report suspicious dealings, then creating legislation. In addition, the organization is looking to lower the threshold for reporting obligations from 20 million won to 5 million won (\$18,000 to \$4,500). So far, South Korea has seen an increase in suspicious transactions reported from 300 in 2002 to 92,093 in 2008. Tax evasion is the main suspected offence reported.¹²

Italy seeks to repatriate assets from tax havens: The Italian government launched a tax amnesty plan in October that allows taxpayers who had previously not disclosed their investments in foreign countries to either repatriate funds (bring back their assets to Italy) or to regularize investments (make a full declaration of their overseas holdings). The tax amnesty, the third such Italian initiative in the

last eight years, will allow taxpayers to repatriate funds or regularize investments from tax havens before an international crackdown. Under the plan, citizens would not have to declare how they earned the money, but would have to pay a 5% fine on the total amount of the repatriated and/or regularized investments declared. On December 29 the Italian Economy Ministry announced that the plan brought in €95 billion in assets (approximately 6% of Italy's gross domestic product) and included artwork, jewellery, and cars. According to the program coordinators, the money largely came from countries such as Switzerland, Luxembourg and San Marino, with €30 to €40 billion repatriated from Swiss-based banks alone. The Italian government also announced that the plan will be extended from December 15, 2009 to April 30, 2010, but with higher fines of 6% to 7%. Italy's Prime Minister Silvio Berlusconi claims that the tax amnesty plan will help sustain the country's economic growth. Critics disagree, claiming that criminal organizations such as the Calabrian 'Ndrangheta, the Neapolitan Camorra and Sicily's Cosa Nostra will benefit from the tax amnesty. They claim it allows the origins of the proceeds of crime to be concealed and thus laundered into the country. According to the Italian research institute Eurispes and SOS Impresa, Italy's mafia syndicates had a revenue of €103 billion in 2008. Approximately 50% of that sum consists of profits to be laundered, the two groups claim. The Italian tax amnesty also impacted other countries such as Switzerland, Luxembourg, Liechtenstein and San Marino. According to San Marino's central bank, the country lost €3.48 billion worth of assets during the period of time covered under the current Italian tax amnesty.¹³

Nigeria's banking sector to implement reforms: According to the Central Bank of Nigeria (CBN), a number of reforms will be made to the country's banking sector in the

first quarter of 2010, including increasing emphasis on monitoring subsidiary Nigerian banks operating outside of Nigeria. Kinsley Moghalu, the Deputy Governor of the CBN, said that the central bank would issue a new code of corporate governance to all 24 deposit-taking banks and other financial institutions in Nigeria. According to Moghalu, the code will be a harmonized version of the code issued by the U.S. Securities and Exchange Commission, and it will eliminate some of the loopholes in the individual sectors that have been abused by bank directors in Nigeria. The supervision of subsidiary Nigerian banks operating outside of Nigeria will be shared by both the host country of the bank and the country of origin (Nigeria) with heavy cooperation and exchange between the two countries.¹⁴

Kenya passes *Proceeds of Crime and Money Laundering Bill*: The Kenyan Parliament passed a law on December 11 to penalise money laundering, ending the four-year effort to pass the *Proceeds of Crime and Anti-Money Laundering Bill*. The new law will make money laundering an offence and introduce measures for combating, identifying, tracing, freezing, seizing and confiscating proceeds of crime. The law also establishes a Financial Reporting Centre to assist in the identification of proceeds of crime. In addition, an Asset Recovery Agency will be formed to trace and recover illegally acquired assets. The passing of the bill comes in the wake of a recent U.S. State Department report that claimed that US\$92 million worth of drug proceeds are laundered in the Kenyan financial system annually. Another report by Kroll Associates, a UK-based firm, estimated that Sh130 billion (\$1.7 billion) was held in offshore accounts. While some see it as a much needed measure, many government officials in Kenya have questions regarding the application of the bill. Although Kenya's defence minister supports the bill, he

expressed concerns that the legislation could be perceived as targeting the Muslim community and giving into Western interests. Prime Minister Raila Odinga claims that the government has no such intentions and rather that the country, particularly the property sector, is suffering from the effects of money laundering. A significant hike in property prices in Nairobi is preventing a majority of Kenyans from buying real estate. The media has linked the boom in property prices with the profits from Somali pirating activities, which are allegedly used to provide up to two-years of rent up front in Nairobi neighbourhoods. Under the law, a conviction for money laundering will warrant a jail sentence of two to five years with fines up to US\$65,000 for individuals and US\$330,000 for corporations.¹⁵

Yemen approves AML/CFT law and ratifies UN convention: On December 29, the Yemeni Parliament ratified the International Convention for the Suppression of the Financing of Terrorism. It also approved a draft law against money laundering and terrorist financing. The passing of the legislation comes after the Studies and Economic Center in Yemen urged Parliament to quickly approve the anti-money laundering and terrorist financing legislation, stating that any delay would result in punishing measures and a severe rebuke from the international community. The Center also urged parliament to activate the Anti-Money Laundering and Terrorist Financing Unit at the Yemeni Central Bank. A recent report by the Middle East and North Africa Financial Action Task Force (MENAFATF) noted that the inactive AML and TF Unit at the bank is one reason behind Yemen's failure to meet its commitment to combat money laundering. For its part, the center claimed that the law that would criminalize ML was unclear, did not address all financial crimes, and did not criminalize terrorist financing.¹⁶

India amends its *Prevention of Money Laundering Act*: India has amended its 2002 *Prevention of Money Laundering Act* (PMLA) and has made it mandatory for non-profit organizations (NPOs) to record the origins of their funds. Registered NPOs, such as religious organizations, non-governmental organizations (NGOs), or educational institutions, now have to adhere to know-your-customer regulations and regularly maintain detailed statements of funds received and investments made. They must also disclose this information when requested to do so by authorities. According to Bhushan Bahal, a Mumbai-based lawyer, the majority of industrialists and even some politicians were using NGOs to launder money into India. Bahal further stated that the amendment of the PMLA affirms India's desire to obtain FATF membership.¹⁷

AUSTRAC targets PayPal: The Australian Transactions Reports and Analysis Centre (AUSTRAC) issued an enforcement action on November 23 against the Australian unit of PayPal for breaching Australia's AML and CTF laws. According to an AUSTRAC report, the online payment processor does not fully verify clients who send money through person-to-person transactions online. While PayPal has had an AML compliance program in place for more than a decade, it individually tailors compliance programs to various jurisdictions. AUSTRAC ordered PayPal to revisit transactions made between December 2007 and March 2009 and also revise its due diligence on clients transacting less than AU\$1,000. PayPal invested US\$13 million over the past two years to strengthen its registration data collection, electronic identity verification and provide additional reporting to AUSTRAC. The company responded to AUSTRAC's enforcement action by appointing an expert to review its Australian AML/CTF program for compliance deficiencies. The AUSTRAC penalty against PayPal could push

U.S. regulators to further scrutinize companies with similar business models, such as Amazon.com, Google, or Revolution Money Exchange, because of their existing vulnerabilities to money laundering and terrorist financing.¹⁸

Terrorist Activity Financing

GROUP-BASED

U.S. delays aid donations to Somalia over Al-Shabaab concerns: The U.S. government has delayed nearly US\$50 million in aid shipments to Somalia due to concerns that the donations may be funnelled to the Somali-based terrorist group, Al-Shabaab. The United States is Somalia's largest aid donor, providing up to 40% of the developing country's annual budget. U.S. officials are specifically concerned about American donations that are being distributed through United Nations contractors. A continuing investigation led by the United Nations indicates that some of the biggest Somali contractors hired by the UN's World Food Program may be diverting money or resources to Al-Shabaab. More specifically, Somali businessmen who are given significant leeway in how they distribute millions of dollars in food may be sharing proceeds with Al-Shabaab, or turning a blind eye when American donated food aid is stolen to be sold to obtain money for weapons. Furthermore, since Somalia does not have a national banking system, the United Nations is forced to transfer millions of dollars in cash via informal money transfer networks. In 2008, the Treasury Department's Office of Foreign Assets Control (OFAC) listed Al-Shabaab as a foreign terrorist organization because of its growing ties to Al-Qaida. The designation makes aiding or abetting Al-Shabaab a serious crime, forcing U.S. officials to establish a new set of rules to ensure that there are no potential legal consequences in

its aid program to Somalia. Recently, the State Department requested confirmation from OFAC that U.S. aid officials will not be prosecuted if any aid falls into Al-Shabaab's hands. OFAC responded by assuring that aid officials will not be indicted provided that they acted in "good faith". However, experts hired by the United Nations Security Council indicated that Somali contractors working for the World Food Program could face economic sanctions. Al-Shabaab has expressed strong views against the United States after U.S. forces killed the groups' key leader and trainer, Saleh Ali Nabhan, in a September 14 raid in Somalia. Al-Shabaab has also been recruiting fighters from the United States' significant Somali Diaspora.¹⁹

FINANCIAL ACTIVITY-BASED

Immigration business used as front for terrorist activities: David Coleman Headley and Tahawwur Hussain Rana were indicted on October 27 for providing material support to a foreign terrorism conspiracy and for plotting an attack on a newspaper in Denmark that published cartoons of the Prophet Mohammed. Rana, a Pakistani-native and Canadian citizen is the owner of several businesses including First World Immigration Services, which has offices in Chicago, New York, and Toronto. According to reports, Rana appears to have used his immigration consultancy business as a front for terrorist activities and to have allowed extremists entry into Canada. Headley, a U.S. citizen who changed his name from Daood Gilani in 2006, allegedly travelled under the guise of being a representative for Rana's immigration business in order to surveil and video tape potential terrorist targets in Denmark. Since the second half of 2008, Headley made multiple trips to Pakistan and other countries in Europe, despite his apparent lack of both financial resources and employment. The plot,

named the "Mickey Mouse Project", involved the planning of an attack on the headquarters of Danish newspaper Jyllands-Posten and was modeled after the November 2008 assault in Mumbai. In late 2008, when the planning of the Mickey Mouse Project commenced, Headley was in touch with Sajid Mir, a Lashkar-e-Taiba operative believed to be the head of Lashkar's international operations. Headley was also in contact with Al-Qaida commander and Harakat-ul Jihad Islami (HUJI) leader, Ilyas Kashmiri, who is considered by U.S. intelligence to be one of the most dangerous Al-Qaida commanders. Headley intended to travel to Pakistan to meet with Mir and Kashmiri but was arrested on October 3 as he was about to board his flight. Rana was also arrested on October 18 at his Chicago home. As the investigation continues, Federal authorities are observing how Al-Qaida and allied movements work together. This case presented a HUJI leader working with Lashkar-e-Taiba commanders, allocating resources for an attack in Denmark that was to be facilitated through the United States.²⁰

U.S. approves act to prevent illegal profit from cigarette sales: The Senate Judiciary Committee in the United States unanimously approved the *Prevent All Cigarette Trafficking (PACT) Act*, a bill designed to collect billions of dollars in lost state tax revenue and prevent terrorists from profiting from the sale of black market cigarettes. The PACT Act would require tobacco retailers to pay state and local excise taxes on interstate sales, and keep records of shipments. According to lawmakers, the additional fees would largely curtail the sale of cigarettes from low-tax states. The Act is sponsored by Sen. Herbert Kohl, who believes that the measure would also deter terrorist financiers and organized crime groups from profiting from differences in the price of tobacco products between states. Kohl claims that tobacco smuggling has developed into a

popular and highly profitable means of generating revenue, particularly for blacklisted terrorist organizations such as Al-Qaida, Hamas, and Hizballah. Conversely, according to Douglas Farah, a senior official at the International Assessment and Strategy Center in Washington, while there are some links between terrorists and cigarette smuggling in the United States, the link is stronger in the tri-border area of South America. Farah believes that the main issue with cigarette smuggling in the U.S. is not primarily related to terrorist financing, but to tax evasion.²¹

New drug trafficking routes across the Sahara Desert and Africa: The United Nations Office on Drugs and Crime (UNODC) has evidence of new trafficking routes across Chad, Niger, and Mali in the Sahara desert. According to the UNODC Executive Director, Antonio Maria Costa, the Sahara Desert has become a new trade route for the exchange of cocaine from West Africa for heroin from East Africa—making drugs a new kind of currency in the region. Costa claimed that the resources obtained through the drug trade are used to fund terrorists and anti-government forces in the Sahel, a semi-arid region south of the Sahara that stretches from the Red Sea to the Atlantic Ocean. Costa described the region as “taking on a whole new dimension”, with large amounts of chemicals found in West Africa being used to produce high grade cocaine and manufacture ecstasy. The UNODC also found seven laboratories in Guinea and evidence indicating that West Africa is producing amphetamines and crack. Costa further claimed that 30 to 35 tons of Afghan heroin are trafficked into East Africa each year due to the region’s Free Economic Zone. The UNODC calls for intelligence-sharing within affected countries, along with improved judicial systems and the creation of a Trans-Saharan Crime Monitoring Network in order to strengthen regional efforts against organized crime.

In addition to the evidence presented by the UNODC, other intelligence officials and counternarcotics specialists claim that a new route has developed for drug traffickers in Latin America. A Middle Eastern intelligence official claims that the vast sea lanes of the South Atlantic are open to illegal navigation. The U.S. Drug Enforcement Administration (DEA) has confirmed that Colombians have shifted their focus from sending cocaine through the Caribbean and now ship it through the South Atlantic from Venezuela, through Africa, to Spain, and into Europe. North African officials worry that groups such as Al-Qaida in the Maghreb (AQIM), which operates primarily in Morocco, Algeria, and Tunisia could be profiting from this drug trade. While the DEA knows that extremist groups are present in West Africa, it is still uncertain whether or not they play a major role in narcotics trafficking.²²

Saudi government to only accept charitable funds from approved agencies: In November, the Saudi Government announced that only government-approved organizations will be allowed to collect funds and the collection of cash by unofficial organizations will be banned. The announcement comes after a statement issued in August by the Interior Ministry following the arrest of a 44-member Al-Qaida-affiliated terrorist cell. The statement confirmed that members of Al-Qaida-affiliated organizations were exploiting charitable organizations in order to finance their activities. According to Asharq Al-Awsat, a pan-Arab news agency based in London, one of the 44 suspects arrested was supervising charity work and collecting financial donations under the slogan “a service to Islam and Muslims”. The revelation that the terrorist cell attempted to exploit charitable organizations has also led the Saudi Arabian Minister for Islamic Affairs to appoint a legal accountant

who will review the financial statements of such organizations.²³

“Conflict mining” in the Democratic Republic of the Congo: A recent UN report, written by the UN Group of Experts, reveals how extensive international, regional and local networks are fuelling the crisis in the Democratic Republic of the Congo (DRC) through illegal trade in minerals. The UN arms embargo on the country is also being violated. Congo is a mineral-rich country, and has been exploited for its natural resources such as gold, cassiterite, tin, and coltan (metallic ore used in the production of cell phones and laptops). The UN report states that Rwandan Hutu rebels from the Forces démocratiques de libération du Rwanda (FDLR) control gold and cassiterite mining sites in Congo’s eastern provinces of South and North Kivu, and are imposing taxes on the trade of these minerals. The FDLR are supported by networks in Uganda, Burundi and the United Arab Emirates. For instance, two Ugandan gold trading companies, UCI and Machanga, which are both sanctioned by the UN Security Council, are deeply engaged in Congo’s “conflict mineral” trade. According to the UN report, both of those companies are operating with the protection of Ugandan authorities. The report states that most of the gold from Congo that passes through Uganda is destined for Dubai, United Arab Emirates. Burundi is another country which is supporting the illegal mineral trade in Congo. Despite not producing any gold, the country exports the mineral, mined in South Kivu. Most of the mines which produce the gold are controlled by armed groups, such as the FDLR. According to Congolese authorities, up to 80,000 pounds of gold, worth approximately €1 billion, is smuggled out of the Democratic Republic of the Congo every year. Some of the buyers for Congolese minerals, specifically cassiterite, include the Malaysia Smelting

Corporation and the Thailand Smelting and Refining Company.

Another significant issue raised by the UN report is the violation of the UN arms embargo on the Democratic Republic of the Congo. The UN report claims that the FLDR buy weapons from Belgium, Spain, Ukraine, Sudan and North Korea. In particular, the report highlights a link between Congo and Germany. On November 19, 2009, German authorities arrested Ignace Murwanashyaka, the president of the FLDR who has a home in Mannheim, Germany, for his role in coordinating weapons and ammunition deals from that location. Murwanashyaka had been sanctioned by the UN, and as such should have been prohibited from international travel. His bank accounts should also have been frozen. However, as reported in the UN report, transfers of funds have been organized (in the name of the FDLR) by the *Etablissement Muyeye*, a major mineral trading house in eastern Congo, to associates of Murwanashyaka in Germany. Those transfers took place via Western Union. Other institutions named by the UN report for financing the FDLR include two Spanish and one Belgian charities.²⁴

Israel seizes cargo ship carrying weapons from Iran: In November, Israeli’s Special Forces intercepted and seized a cargo ship carrying 500 tonnes of weapons that military officials claim was bound for Hizballah from Iran. Large amounts of missiles, rockets, shells, grenades, and assault rifles were hidden in containers in the hull of the cargo ship. The ship was under surveillance since it left port in Egypt; the weapons were inspected at the port of Ashdud in southern Israel. Israeli deputy Foreign Minister, Danny Ayalon, stated that Israeli intelligence showed an increasing volume and frequency of Iranian shipments to Hizballah. In the past year alone, Israeli warplanes destroyed a convoy of arms in

Sudan that was headed for Egypt in what officials claim was an apparent attempt by Hamas to restock its arsenal. There were also unconfirmed media reports that Israeli agents hijacked a Russian cargo ship that was allegedly shipping anti-aircraft and cruise missiles to Iran.²⁵

COUNTRY-BASED

U.S. seeks over US\$500 million forfeiture of Alavi Foundation assets over TF concerns: U.S. federal prosecutors filed a civil complaint against the Alavi Foundation and the Assa Corporation on November 12, seeking the forfeiture of more than US\$500 million in assets. The Alavi Foundation's mission is to promote the Islamic culture and the Persian language. Following the Iranian revolution in 1979, the Islamic Republic of Iran established the Alavi Foundation to hold and manage properties once owned by the former government. Rent collected from the building helps fund Islamic centers and mosques, Iranian academics in universities, and other activities such as sending educational literature to imprisoned Muslims in the United States.

According to prosecutors, the Alavi Foundation illegally funnelled millions of dollars in rental income for two decades to Bank Melli via a front company named Assa Corporation. Bank Melli is accused of providing financial support for Iran's Nuclear Program and transferring money to the Iranian Islamic Revolutionary Guards and Quds Force. The latter are believed to help train, finance and provide material support to groups such as the Taliban, Hizballah and Hamas. The assets sought by prosecutors include bank accounts owned by "650 Fifth Avenue Company", a 36-story Manhattan office tower, over 100 acres of land in Virginia, four Islamic schools and mosques in New York, Maryland,

California, and Texas. The office tower, valued at US\$ 650 million, is an important source of income for the Alavi Foundation, generating US\$4.5 million in rent in 2007 alone. The office tower was built in the 1970s and financed by Iran's state-owned Bank Melli under the Shah of Iran to maintain Iran's charitable interests in the United States.

In December 2007, Farshid Jahedi, the president of the Alavi Foundation, was arrested for destroying evidence regarding the Alavi Foundation's relationship with Bank Melli. Those documents were requested by the grand jury investigating the links between the Foundation and the Iranian bank. In November 2008, officials from the U.S. Department of Justice went to court to seize assets belonging to the Alavi Foundation, claiming that the charity's affairs were directed by Iranian officials, such as Iranian ambassadors to the United States. Records from the Alavi Foundation show that the foundation also sent money to Canadian organizations in Toronto, Montréal and Ottawa.²⁶

UK sanctions Bank Mellat: In Britain, as of October 12, financial institutions are no longer allowed to transact with Bank Mellat, Iran's second largest bank, and the Islamic Republic of Iran Shipping Lines (IRISL), a state-owned shipping fleet. According to Treasury Minister Sarah McCarthy-Fry, the measure was enacted due to Bank Mellat's involvement with financing Iran's nuclear program and the IRISL's role in facilitating the transport of cargo for Iran's nuclear and missile program. The United States has already blacklisted the two entities.²⁷

Pakistan amends AML bill to include CFT: Pakistan's National Assembly Standing Committee on Finance approved a bill on November 2 that would make terrorist financing an offence under the nations anti-

money laundering bill. The bill also expands the legal definition of “financial institution” to include any entity that deposits, lends, or transfers money. Those who are prosecuted under the new bill will now be fined Rs5 million (US\$60,700) instead of the former fine of Rs1 million (US\$12,100). The amended law has also increased the remand period from 30 to 90 days. Correspondents note that the move is one of the conditions set forth by the U.S. Congress in order for Pakistan to receive an annual US\$1.5 billion in non-military aid for five years.²⁸

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