



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 **April 2010** to **June 2010**.

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

Former Mexican governor extradited to the United States for money laundering charges:

On May 8, the Mexican government extradited the former governor of Quintana Roo, Mario Ernesto Villanueva Madrid, to face drug trafficking and money laundering charges in the United States. According to court documents, between 1994 and 1999 (the period of Villanueva's term), the Juarez cartel paid Villanueva millions of dollars in bribes to allow the cartel to smuggle more than 200 tons of cocaine into Texas and Arizona. An agreement was made with Villanueva and the leaders of the Juarez Cartel, Alcides Ramon Magana and Jesus Albino Quintana Meraz, to permit the movement of cocaine shipments for the cartel through Quintana Roo. The cartel paid Villanueva US\$500,000 in cash per cocaine shipment in return for state security forces to act as armed guards for the shipments. By late 1995, Villanueva had accumulated millions of dollars in narcotics proceeds and, in an effort to hide the illicit funds, began to transfer the bribe money to bank and brokerage accounts in the United States, Switzerland, the Bahamas, Panama and Mexico. Many of the accounts were held in the names of British Virgin Islands shell corporations. Also, several of these accounts were established at a Lehman Brothers branch in New York, with the help of Consuelo Marquez, a Lehman registered representative. In March 1999, after Villanueva's term as governor expired, Marquez assisted Villanueva in 'liquidating' US\$19 million of narcotics proceeds deposited at Lehman through a series of wire transfers to third-party accounts. Marquez did this by secretly opening two brokerage accounts for Villanueva at Lehman and an account at the

Mexican bank, Banamex New York Inc. Villanueva's drug proceeds were then transferred to and from these accounts before finally being sent to third party bank and brokerage accounts. Marquez pleaded guilty in the United States to money laundering in 2005. Villanueva was captured by Mexican authorities in 2001, with the help of the U.S. Drug Enforcement Administration (DEA). The United States did not succeed in extraditing him to Manhattan until May 8, 2010, after Villanueva finished serving a six year prison sentence in Mexico for organized crime and corruption offences. Villanueva has pleaded 'not guilty' to the drug trafficking and money laundering charges against him in the United States.¹

International operation captures four major drug traffickers:

Four major drug traffickers were arrested by an international operation between April and June for money laundering and drug smuggling charges. Operation Pacific Basin, which is made up of law enforcement agencies of several countries, as well as U.S. Immigrations and Customs Enforcement (ICE), succeeded in apprehending: Luis Agustin Caicedo Velandia (a.k.a. Don Lucho), Claudio Javier Silva Otalora (alias El Patron), Franklin Alain Gaitan Marentes, and Ricardo Villarraga Franco. Agents of the operation believe these arrests to be a major breakthrough, considering Caicedo and Silva are the suspected kingpins of one of Colombia's four largest drug cartels, El Dorado. Caicedo is believed to be the mastermind of El Dorado cartel and was arrested in April 2010 during the first phase of Operation Pacific Basin. The remaining three drug traffickers were arrested during the first two weeks of June 2010.

The operation was instigated after two large cash shipments totalling over US\$38 million were confiscated in Colombia and Mexico in

September 2009. The first shipment was seized in Buenaventura, Colombia's main pacific port. A total of US\$27.7 million were found shrink-wrapped and buried inside a suspicious shipment of fertilizer from Manzanillo, Mexico. A few days later, another shipment of US\$11 million was confiscated in Manzanillo. Officials alleged that the money belonged to El Dorado cartel which is thought to make an annual profit of US\$5 billion. The cartel launders its proceeds via an intricate network of front organizations and through large investments such as in businesses and apartment complexes. In this case, the cartel "could not manage to launder" the overwhelming amount of profit it produced and thus smuggled it back to Colombia, where it was detected at the port. The El Dorado cartel is considered to be one of Colombia's most sophisticated and powerful drug trafficking and money laundering organizations.²

FINANCIAL ACTIVITY-BASED

Canadian pleads guilty in online gambling scheme: On May 11, Douglas Rennick, from British Columbia, pleaded guilty in New York for illegally using wire transfers to send "bets and wagering information" as part of a US\$350 million Internet gambling scheme. Rennick faces up to a year in a U.S. prison and has agreed to forfeit US\$17.1 million. As reported in the July – September 2009 edition of the ML/TF Watch, from 2007 to June 2009, Rennick transferred more than US\$350 million in gambling winnings to U.S. residents. Rennick, who received the funds from bank accounts in Cyprus, informed his own bank that his accounts would be used for legal payroll processing activities. Instead he used his accounts to help launder money for Internet casino gaming companies.³

Money laundering and tax evasion scheme uncovered in Québec: On May 26, the Sûreté du Québec (SQ) dismantled a money

laundering and tax evasion ring in the province that sent funds to shell companies in Switzerland and Belgium. Officials arrested four people, including Ronald Chicoine—the owner of Société Financière Speedo Inc. and also the scheme's suspected "financial mastermind". According to investigators, between 1996 and 2009, money from organized crime (some of which accrued via falsified construction invoices) was sent to three individuals in Europe (two Swiss nationals and one Belgian) that ran shell companies. The shell companies then transferred the money to Speedo in Montreal in the form of fake loans. Afterwards, Speedo lent the money to legitimate borrowers in Canada at a high, but legal, interest rate of 18%. The scheme enabled the company to evade taxes by not declaring the profits it obtained from its borrowers and by inflating its declared expenses. As such, an estimated \$12 million were "siphoned" from the federal and provincial government. Also, more than 300 unsuspecting individuals who borrowed money from Speedo are required to continue making payments to the company since most of the loans appear legitimate. The SQ also froze \$48 million in assets (of which \$38 million belonged to Speedo), making it the largest seizure in Canadian history. The assets included five bank accounts in Canada and Switzerland worth \$5.7 million and other properties and luxuries.

In 2003, Chicoine was arrested under Project Dorade for using Speedo to help launder proceeds for a drug dealer that brought marijuana from the Bahamas. Speedo funnelled the money to offshore companies that created fake invoices to launder the drug proceeds. The company was fined \$1.5 million in 2005 for money laundering and tax evasion charges, and has since used loopholes to stay in business.⁴

Money laundering through postal service money orders: A Nigerian national living in Texas was convicted on June 24 of bank fraud, money laundering, and aggravated identity theft by a federal jury in the United States. In 2005, Ezumah Ndubuisi and his accomplices took over a SunTrust bank account of a victim who resided in South Africa. The conspirators called SunTrust bank and, while pretending to be the victim, requested that a new debit card be delivered to a private mailbox in Houston. Once the new debit card arrived, Ndubuisi and the others withdrew US\$225,000 from the account by buying items from retailers, withdrawing money at ATMs, and purchasing more than 150 postal service money orders in amounts of US\$1,000 or less. According to the indictment, the money orders were purchased around Houston from ten different post offices for amounts less than US\$3,000 in order to avoid filing a currency transaction report. Ndubuisi held three bank accounts (one personal account and two business accounts in the name of fake companies) at Bank of America, Chase Bank, and Washington Mutual Bank. He deposited at least 36 of the money orders into these accounts and then later withdrew cash from them. Ndubuisi was able to disguise the source of funds by writing the names of different businesses, such as EZ Construction, on the money orders.⁵

Refining technique used to launder drug proceeds: Twenty-four members of a drug trafficking and money laundering ring in Missouri and Oklahoma were indicted on June 14 for smuggling marijuana from Arizona to Missouri between 2006 and 2010. According to the indictment, 12 members of the ring laundered the drug proceeds of the group by using banks or casinos to exchange smaller denominations of bills into larger ones (also known as a refining technique) in order to better conceal and move their illegal proceeds. An insider at National City Bank

knowingly exchanged bills for the group. This individual either immediately gave larger bills to the members of the group or deposited them into a safe deposit box to be later retrieved by the group.

The ring also laundered money through casinos using the same refining technique. The indictment states that a total of US\$13,660 was inserted into slot machines by two members of the group, Nicholas Bates and Latonya Moore. Bates and Moore, without ever playing the slot machines, would then print out paper vouchers and cash out the full amount in larger denominations. The federal court has sought the forfeiture of US\$1 million from the group.⁶

Money laundering through shell companies: Between February 2008 and March 2009, Australian national Daniel Tzvetkoff operated an Internet payment service that processed approximately US\$500 million in transactions to assist illegal Internet gambling companies in paying U.S. gamblers. To avoid being detected by U.S. banks, Tzvetkoff and his co-conspirators had to disguise the nature of their transactions to appear non-gambling related. This was accomplished by creating dozens of shell companies with names that appeared unrelated to gambling. They also created phony websites for each shell company to secure their “legitimacy”. In a little over a year, Tzvetkoff and his co-conspirators processed more than US\$543 million in transactions and arranged for the funds received from gamblers to be wired “for the benefit of gambling companies.” Furthermore, Tzvetkoff also invested approximately US\$27 million from these transactions into an “online payday loan company” that provided consumers high-interest and short-term loans that usually carried an annualized interest rate of over 500%. Tzvetkoff stopped processing transactions in March 2009 after a number of

Internet gambling websites accused him of stealing US\$100 million from them.⁷

Money laundering through BMPE: Cases linked to the Black Market Peso Exchange (BMPE) have increasingly surfaced in the media during this reporting period. The BMPE is a trade-based money laundering operation that facilitates the exchange of drug proceeds earned in the United States for Colombian pesos. This is normally carried out by Colombian peso brokers buying illicit proceeds from drug traffickers in the United States to pay for U.S. goods purchased on behalf of Colombian businessmen and sold for pesos in Colombia. Then, the Colombian businessmen pay back the brokers in pesos in exchange for the U.S. dollars purchases. Once the peso broker takes a cut of the money, the rest of the pesos are given to the drug cartel, thus completing the exchange. One extensive undercover Drug Enforcement Administration (DEA) investigation into the BMPE resulted in the indictment of 18 people for money laundering offences. Undercover agents were introduced to several alleged peso brokers by a DEA informant who had connections in the BMPE. The agents used the brokers to launder illicit drug proceeds in the United States, Panama, Guatemala and elsewhere.

A separate money laundering investigation also identified two companies in Panama that were responsible for laundering narcotics proceeds from the United States to Panama's Colon Free Zone. The investigation led to a US\$40 million forfeiture and the first U.S. indictment of an offshore business for its role in the BMPE. In this case, the exchanged proceeds were used to purchase goods in the Colon Free Zone in Colon, Panama. Uncovered evidence identified Yardena Hebroni and Eliahu Mizrani as major money launderers based in Panama. Hebroni and Mizrani built and operated a wholesale jewellery business, Speed Joyeros S.A. and a

related company named Argento Vivo S.A., to primarily help Colombian-based customers launder millions of dollars in drug proceeds from the United States through the purchases of bulk jewellery. Speed Joyeros S.A. and Argento Vivo S.A., sold bulk quantities of jewellery to Colombian traffickers while coordinating and receiving drug proceeds from the United States through cash pick-ups, wire transfers, cashier's cheques and third-party bank cheques. The companies had a combined annual turnover exceeding US\$100 million. The investigation resulted in the seizure of over US\$2 million in cashier's and/or bank cheques as well as 468 boxes of gold, silver, gemstones, and jewellery from the two companies. The items were transferred to the United States as per U.S. District Court orders.⁸

Money laundering through prepaid cards and BMPE: On March 30, Juan Merlano Salazar of Colombia pleaded guilty for his role in laundering more than US\$7 million in drug proceeds by using various techniques, including the Black Market Peso Exchange (BMPE), the direct deposit of cash into third-party bank accounts and the use of prepaid cards. The scheme took place between October 2005 and March 2008. According to court documents, Merlano aided a Colombian-based drug money laundering organization by acting as a peso broker in a typical BMPE scheme. Merlano and his accomplices also directed agents at Virtual Money Inc. in Texas to load prepaid cards with proceeds of drug sales from U.S. bank accounts. The cards were then used to funnel the drug proceeds from the United States to Medellin where the money was withdrawn in the form of pesos. Alongside Merlano, the CEO of Virtual Money, Robert Hodgins, was additionally indicted for money laundering activities. Four other men were also charged; two were based in New York, while the others were from Florida and from Medellin.⁹

Money laundering through money mules:

An article published on moneylaundry.com on June 15 indicated that the FBI's cyber crimes section is launching 250 investigations into the increasing use of 'money mules'. The term refers to individuals or corporations being manipulated and exploited into laundering illicit funds. In most cases, criminals first hack into bank accounts of unsuspecting individuals, corporations or municipalities. The criminals then seek, through job postings, help from various individuals to move the funds out of the hacked accounts. The job advertisements, which can be found in spam emails or on sites such as craigslist, claim that they seek assistants to help with private banking clients, data entry workers, payroll partners, and so on. In some instances the criminals attract mules by advertising that the individual can "work from home." Once the mules are hired, they accept wire transfers from the hacked accounts in increments under US\$10,000. The mules then, as instructed, wire the money to co-conspirators abroad in places such as Africa, Eastern Europe, or Asian countries.

The Federal Deposit Insurance Corporation (FDIC) issued a warning in October 2009 about schemes involving money mules. The agency found that bank accounts of small businesses, municipalities, schools and churches are targeted by hackers because those entities usually have weak security controls. Because money mules can cause financial losses to banks through theft, potential lawsuits, and compliance troubles, banks are advised by the FDIC to question customers and file SARs when such activity is suspected. This activity can include a deposit account with a small balance that soon begins receiving large wire transfers, customers receiving and sending large sums tied to new employment, investments or business opportunities, and accounts that receive electronic funds and then wire the money

overseas, minus 10%. Also suggested is the scrutiny of foreign exchange students that open accounts with visas or fake passports and have high volumes of electronic funds activity.

In related news, a similar scam that police believe to have originated from Eastern Europe, through London, or the west coast of Africa, has emerged in Sydney. It involves advertisements in local newspapers for people interested in working as a mystery shopper to evaluate Western Union's services. Once individuals respond, they are sent between US\$2,800 – US\$7100 worth of fake American Express travellers' cheques in the mail. Individuals are then instructed to deposit the cheques at a bank or post office, wire the funds via a Western Union money transfer, minus US\$350 which they get to keep as their commission. The money is then transferred to a front account in London. As part of the mystery shopper assignment, the unsuspecting mules are required to provide information on the Western Union outlet they visited, such as the address of the branch, the quality of customer service, and any security systems in place. Police have seized more than in US\$25,000 in fake travellers cheques over several weeks.¹⁰

COUNTRY-BASED**Armoured vehicles and vehicles with hidden compartments banned in British Columbia:**

On April 28, the government of British Columbia banned armoured vehicles as well as vehicles with hidden compartments, claiming that the ban will help police crackdown on gangs and organized crime groups. The October 2008 – March 2009 edition of the ML/TF Watch reported how Canadian criminal groups in British Columbia, such as the UN gang or the Red Scorpions, are known to frequently lease luxury cars as a means to launder their proceeds of crime. The

vehicles are often installed with features such as “bullet-proof Kevlar” and gun compartments to better suit the needs of the groups.¹¹

FinCEN proposes regulations for ‘prepaid access’ industry: On June 22, the United States’ Financial Crimes Enforcement Network (FinCEN) proposed to extend anti-money laundering obligations that are under the *Bank Secrecy Act* (BSA) to the ‘prepaid access’ industry. The proposal defines ‘prepaid access’ as any instrument that provides “a portal to funds” that were paid in advance and can be retrievable and transferable at some point in the future. This definition would include: prepaid cards, plates, codes, numbers, electronic serial numbers, mobile identification numbers, and personal identification numbers. The rule does not include credit and debit cards, and banks are not targeted under this action since they are already responsible for AML obligations. Providers of prepaid access would be subject to BSA regulations that would require them to, among other things, register with FinCEN as a money service business, report suspicious activity, and maintain customer information recordkeeping. In terms of the latter, the proposal states that the provider must maintain all “transactional recordkeeping requirements” generated by the payment processor or any other party that facilitates prepaid-related transactions, such as: prepaid access activation, loads, reloads, purchases, withdrawals, and transfers. The new rules, however, still maintain a “US\$1,000 per person per day reporting threshold.” This would allow an individual to transact US\$365,000 per year in prepaid value, which according to the vice-president of APCO Worldwide, is a major loophole and it would be “surprising” if such limits were kept. If the rules for the industry are adopted, 700 providers of prepaid access, which are defined as the brand name marketed on the card, would be affected. The move, however, is seen by

FinCEN as necessary to fill the gaps caused by prepaid devices that can be used as tools for money laundering and terrorist financing due to their anonymity and ease of access. FinCEN has allowed a 30-day comment period, after which it will review the comments and possibly amend certain rules.¹²

United States and the European Union agree on banking data sharing plan: On June 28, the United States and the European Union signed a draft agreement that will allow the sharing of banking data between enforcement agencies in suspected terrorist cases. U.S. investigators were initially given access to European Financial Data after the September 11 attacks. U.S. authorities accessed such data through the Society of Worldwide Interbank Financial Telecommunication (SWIFT), a European-based banking consortium that records global electronic bank transfers. In 2009, when the agreement was up for renewal, European officials rejected to continue the program over citizen privacy concerns. The current agreement was prepared by the European Commission and aims to address these concerns through various measures. For instance, an EU official would be posted in the U.S. Treasury in Washington and assigned to inspect European banking data transferred to investigators. Also, U.S. officials would be required to provide reasons to European authorities for their suspicions and, if financial information was abused, U.S. authorities would delete or “rectify” inaccurate data and grant legal redress in U.S. courts.

European lawmakers originally had concerns over SWIFT’s inability to allow suspicious transactions to be singled out from bulk data. This meant that the financial information of innocent European citizens could be transferred to the United States and stored for up to five years. Now, the draft agreement overcomes this problem by setting up a

“SWIFT-data-extraction process” in Europe, thus preventing bulk data from being sent to U.S. authorities. The agreement is considered by U.S. officials to be a “key priority” since many terrorist plots involve international money transfers. Without such an agreement, which is pending approval from the EU parliament, tracing the money of suspected terrorists would be more difficult.¹³

U.S. cash deposits now limited in Mexico:

On June 15, Mexico released new limits on U.S. cash deposits in the country in efforts to reduce the flow of illicit proceeds by drug traffickers from entering the financial system. The move is seen as a significant step forward from the Mexican and the United States governments, considering that over US\$10 billion are laundered each year by Mexican drug cartels. Under the new regulations, individuals who hold accounts at Mexican banks will only be permitted to deposit up to US\$4,000 in cash per month. Those who do not hold accounts can now only deposit US\$300 in cash per day and US\$1,500 per month. These measures are expected to force individuals to become banking customers so that they are subjected to know-your-customer procedures. Furthermore, tourism-related businesses, or businesses along the U.S. - Mexico border, will only be able to deposit up to US\$7,000 in cash per month. In order to address any gaps in “dollar-for-peso” exchange services, the government will increase the number of ATM machines by 12%.

The exchange of large sums of U.S. dollars into Mexican pesos has long been considered by experts as a risk associated with Mexican exchange houses (or casas de cambio). As mentioned in the January – March 2010 issue of the *ML/TF Watch*, Wachovia bank was fined US\$160 million for transferring approximately US\$4 billion in suspicious transactions from Mexican exchange houses.

Investigations into the case confirmed that the transfers were made on behalf of drug cartels, including the Sinaloa Cartel.¹⁴

Bank of Scotland pays fine for BSA violations:

The U.S. Justice Department has fined the Royal Bank of Scotland US\$500 million for *Bank Secrecy Act* (BSA) violations committed by ABN Amro, a bank acquired by the Royal Bank of Scotland in 2007. According to the U.S. Justice Department, between 1995 and 2005, ABN Amro changed or removed interbank transaction data on entities blacklisted by the United States. ABN Amro’s New York Branch also “wilfully ignored” BSA requirements by processing over US\$3.2 billion in possible sanctioned transactions, between 1998 and 2005. According to court documents, ABN Amro attempted to evade sanctions and avoid detection by conspiring with banks in Iran, Cuba, Sudan, and Libya to devise codes that would alert ABN Amro of transactions that needed to be manually altered or removed. The bank ultimately codified the practice in 2003 and provided bank employees with instructions on how to hide names, normally by replacing blacklisted entities names on interbank messages with their own. As such, among other violations, ABN Amro’s New York branch failed to maintain appropriate records of high-risk customers and thus violated U.S. Anti-Money Laundering (AML) regulations.¹⁵

Afghan aid money suspected of being smuggled out by corrupt officials:

On June 28, a senior lawmaker in Washington blocked billions of dollars in aid to Afghanistan over concerns that the money received from Western countries is being appropriated by corrupt officials. Allegations, which have recently surfaced, claim that top Afghan officials fly suitcases filled with cash out of Kabul’s airport to foreign safe havens. The money is reportedly packed in suitcases or

stacked on pallets and sent primarily to Dubai. Since the beginning of 2007 until February 2010, documented customs records for legally declared money leaving Kabul's airport showed a total of US\$3.3 billion. Most of the declared money is being transported by couriers on behalf of Hawala businesses. Customs records are also frequently incomplete, rarely registering the name of the owner of the money. Additional money is also smuggled out undeclared when, for example, senior officials evade checks by using a VIP lane at Kabul Airport.

U.S. officials in particular are concerned that the money is siphoned from Western-funded aid projects. NATO reportedly spent more than US\$15 billion in Afghanistan in 2009, while the Afghan Ministry of Finance estimated that US\$9.4 million a day is smuggled out of the country.

As such, Obama's administration has halted further aid to Afghanistan other than "lifesaving humanitarian aid." The administration has also put an increased focus on targeting the corruption present in Afghanistan. Experts on the subject believe the task at hand will be challenging; the Washington Post recently reported that top Afghan officials are protected from investigations or from being arrested by forcing investigators to disregard evidence and remove their names from criminal files.¹⁶

Terrorist Financing

GROUP-BASED

Portion of pirate ransom goes to some Somali-Canadians: According to Risk Intelligence, some Somali-Canadians have received a portion of the ransoms collected by pirates who operate off the horn of Africa and may have sent money back to Somalia to fund other pirate attacks. The Danish-based firm,

which provides advice and intelligence about piracy, organized crime and terrorism to companies and governments, claims that the transfer of ransom money has been tracked from Somalia to Ottawa and other Somali-populated communities, such as those in London and Nairobi. More specifically, the agency has seen money going both to and from Ottawa but declined to specify where the ransom money in Ottawa's Somali community is going. Piracy off the Horn of Africa is proving to be a lucrative business, with shipping companies "almost always" paying ransom (ranging from \$3 million to \$7 million a ship) for the release of crews and vessels. Risk Intelligence explains that as such, Somali individuals or communities find it profitable to invest in pirate attacks, by providing money for food, supplies, and transportation all on credit. After the attacks are carried out and the ransoms are paid, the investors and suppliers all receive a cut. The agency also claims that not enough effort has been made to focus on the flow of ransom money from Somalia. It targeted Interpol for being lax in sharing information with governments in the African region, thus hindering the ability of those governments to prosecute pirates.¹⁷

Terrorist financing of LTTE in Canada: On May 12, the *National Post* published an article concerning a number of Canadians linked to recent Tamil Tigers funding activity. On May 1, Canadian Prapaharan Thambithurai pleaded guilty to providing "financial services" for the Liberation Tigers of Tamil Eelam (LTTE). Between March 11 and 14, 2008, Thambithurai collected \$600 worth of donations and pledge forms for humanitarian aid in Sri Lanka as well as funding for the Tamil Tigers—a listed terrorist organization under Canadian law. In 1988, when Thambithurai immigrated to Canada, he became president of the Eelam Tamil Association of British Columbia and he was also an active member of the World Tamil

Movement (WTM). The RCMP claims that the WTM is an LTTE front organization that sells merchandise (such as books, flags, clothing, etc.) and then sends the proceeds to the LTTE. Thambithurai is the first individual in Canada to be convicted under terrorism offences for fundraising and the first convicted of financing Sri Lanka's LTTE.

The article also made reference to three Canadians that were sentenced on January 23, 2010 to 25 years in prison. The three pled guilty in attempting to purchase nearly US\$1 million worth of AK-47 assault rifles and Russian SA-18 surface-to-air missiles for the LTTE. The three individuals raised money in the United States and Canada while relying on front charitable organizations to make their fundraising appear legitimate. They also used U.S.-based bank accounts to launder money for "LTTE-funded activities" which included the purchasing of weapons.¹⁸

Financing of Times Square car bomb plot:

An indictment released on June 17 charged the Times Square car bomb suspect, Faisal Shahzad, with ten terrorism and weapons charges, and accused him of receiving explosives training and funds from the Pakistani Taliban. The indictment alleges that Shahzad received a total of US\$12,000 from the group to finance the plot, which involved abandoning a used SUV vehicle at the center of Times Square, New York City, on May 1. The vehicle contained a homemade "gasoline-and-propane" bomb that was never ignited thanks to a local street vendor who alerted police once he saw smoke coming from the parked car. To fund the attack, Shahzad allegedly first received approximately US\$5,000 in cash in Massachusetts on February 25, 2010. The money came from a co-conspirator in Pakistan who, according to officials, sent the money from Pakistan via the Hawala system. Shahzad also was aware that

the co-conspirator worked for Tehrik-i-Taliban. Afterwards on April 10, Shahzad further received US\$7,000 in cash in Ronkonkoma, New York, from the same co-conspirator, also through the Hawala network. The indictment states that Shahzad bought a Nissan Pathfinder in April for \$1,300, components for the bomb also in April, and a semiautomatic 9mm Kel-Tec rifle in March. Furthermore, the indictment alleges that Shahzad received explosives training in Waziristan, Pakistan, in December 2009 from affiliated Tehrik-i-Taliban trainers. He returned from Pakistan in February 2010 after a five-month trip. Shahzad was arrested on May 3 at Kennedy International Airport, on a Dubai-bound plane.

Three U.S.-based Pakistani men were also arrested in Massachusetts and Maine for supposedly helping third-parties transfer money to Shahzad. Authorities, however, arrested them on immigration charges and doubted if the suspects knew what the use of the transferred funds were for.¹⁹

No.3 Al-Qaida leader killed: Al-Qaida's top operational and financial chief in Afghanistan was killed on May 22 in an American missile attack in North Waziristan. The statement, which was posted on Al-Qaida's website, is believed by U.S. officials to be true. The military leader, Mustafa Abu al-Yazid (also known as Saeed al-Masri), is described as one of the group's founders and financial chiefs. U.S. intelligence officials also considered Yazid to be the overall commander for the group in Afghanistan and Pakistan, as well as the No.3 leader behind Osama bin Laden and Ayman al-Zawahri.²⁰

Turkish charity that sent Flotilla to Gaza linked to terrorism: The Gaza Strip-bound aid convoy that was raided at the end of May is reported to have been organized by a Turkish charity organization that has ties with Hamas and other terrorist groups. According

to the Investigative Project on Terrorism (IPT), a non-profit research agency on radical Islamic groups, the Foundation for Human Rights, Freedoms, and Humanitarian Relief (IHH), is part of an umbrella organization that was designated by the U.S. Treasury on November 12, 2008. The designated umbrella organization, named “The Union of Good”, is comprised of charity organizations that are chaired by Yusuf Qaradawi—the Muslim Brotherhood’s spiritual leader. The U.S. Treasury’s press release on the designation described the Union of Good’s leaders as “Specially Designated Global Terrorists” (SDGT) and stated that the organization was formed by Hamas to raise and transfer funds to the group. The release further explained that the Union of Good “acts as a broker for Hamas” using a network of organizations to facilitate financial transfers that fund Hamas in the West Bank and Gaza. While both the Union of Good and Hamas are designated terrorist organizations by the U.S. government, the IHH is not, even though it has close ties with Hamas. According to a spokesman for the IHH, the charity has no links with militant Islamic groups and has operated in over 120 countries since 1992, including the United States where it spent ten weeks delivering aid relief to the victims of Hurricane Katrina. IPT explains that the Hamas ties with the IHH are “not in question”; rather, Turkish officials do not consider Hamas as a terrorist group. The IHH, however, is designated by Israel for its ties to the Union of Good. The Intelligence and Terrorism Information Centre (ITIC) in Israel claims it has evidence against the IHH for helping terrorist groups in the Middle East by providing them with weapons and funds, including sending money to Hamas. The IPT detailed several instances in the past where the IHH was linked with providing support (either by sending funds, material goods, or fighters) to designated charities or groups. In the most recent incident concerning the Gaza flotilla

raid on May 31, the IHH reportedly bought the vessel for €900,000 with money it had raised in Turkey. News reports also mentioned that some of the passengers were carrying a significant amount of money; some news agencies even specified that the passengers carried a total sum of US\$1 million. The passengers claimed the money was for personal use. Authorities, however, alleged that it was bound for Hamas.²¹

FINANCIAL ACTIVITY-BASED

Terrorist financing in India through international credit cards: Security agencies in India have launched a year-long investigation and two operations against the use of international credit cards by terrorist suspects. In the first operation, twenty international credit cards from two individuals in Lucknow, India, were recovered by the Anti-Terrorist Squad of Uttar Pradesh police. The cards were used to withdraw money and then hand the cash to sleeper cells in the city, as per the instructions of terrorist “masterminds” based in Nepal. The second operation took place in Delhi. Police recovered 45 international credit cards and US\$12,800 from an individual residing in Rohini, India. Initial questioning of the individual revealed that the money and instructions also originated from Nepal. The investigation against the use of international credit cards by terrorist suspects in India was instigated after international authorities learned that the case of U.S. citizen David Coleman Headley (see ML/TF Watch October-December 2009) involved financing of terrorist-related activities via credit cards. While the FBI uncovered the part of Headley’s funds that originated from a U.S.-based immigration company, it is still unclear who paid Headley’s credit card bills in the United States. Since then, the Indian government launched a year-long investigation on the use of international credit

cards in India and discovered that US\$4.2 – 5.3 million were sent across the country by terrorist suspects. Security agencies in India claim that these credit cards were issued and paid by “masterminds” in the United States, Canada, the United Kingdom, the United Arab Emirates, Nepal, and Bangladesh. Sources also claim that Pakistani-based terrorist suspects are now using new methods to fund their operations in India since the Hawala system of funding has come under increased surveillance.²²

U.S. car and auto parts dealer sent money to Al-Qaida: Moroccan-native, Khalid Ouazzani, pleaded guilty on May 19 to charges of bank fraud, money laundering, and conspiracy to provide financial support to Al-Qaida. Ouazzani became a naturalized U.S. citizen in 2006 and worked as a car and auto parts dealer in Kansas City. In April 2007, Ouazzani obtained a US\$175,000 commercial loan from Union Bank under the pretence that it would be used to run his business, Truman Used Auto Parts. Instead he wired US\$112,830 of that loan in May 2007, to a bank account in the United Arab Emirates (UAE) in order to buy an apartment in that country. In June or July 2008, he worked with a co-conspirator to sell the apartment and send US\$17,000 profit to Al-Qaida. He further sent Al-Qaida an additional US\$6,500 (the proceeds from the sale of his dealership business) through a co-conspirator. According to court records, the co-conspirator first paid money to Al-Qaida on behalf of Ouazzani. Then in November 2007, Ouazzani repaid the co-conspirator through a wire transfer to a bank account in the UAE. Court records also accuse Ouazzani of defrauding several financial institutions, including Bank Midwest and the Bank of America, by obtaining loans under false pretences. Ouazzani is also accused of “misrepresenting the value” of his business’s inventory to Union Bank, as well as overstating his income on federal tax returns.

Ouazzani faces up to 65 years in prison with no parole and fines as much as US\$1 million.²³

Alleged Hizballah financier arrested in Paraguay: The Paraguayan affiliate of Interpol in Ciudad del Este, arrested Moussa Ali Hamdan on June 15 in connection to 31 crimes, including financing Hizballah. The arrest came at the request of the United States which, within a period of six weeks, was to decide if it plans on extraditing Hamdan back to the United States where he is a naturalized citizen. According to court files, Hamdan allegedly played a role in providing financial support to Hizballah by trafficking phony passports, counterfeit money and fake brand-name goods. The indictment alleges that in 2008, Hamdan bought “purportedly stolen goods” from a cooperating witness. The purchased items include large quantities of cell phones, Sony Playstations, and laptop computers. Hamdan also allegedly made the cooperating witness export stolen goods, such as a Honda CR-V, to Beirut and elsewhere. Prosecutors also accused other defendants in the case aside from Hamdan for conspiring to provide Hizballah with 1,200 Colt M-4 assault rifles.

U.S. officials have continuously expressed concerns over the Tri-Border Area in which Ciudad del Este is located. Also known as the “Triple Frontier”, the Tri-Border Area is a region shared by the borders of Paraguay, Argentina, and Brazil, which has long been suspected by officials to harbour illegal activity that funds terrorist organizations. According to a report released by the Task Force on Financial Integrity and Economic Development, individuals linked to Hamas, Hizballah and Al-Qaida smuggle duty-free products from Central America and sell the goods to Colombia in order to facilitate drug traffickers in laundering illicit funds. Officials in Paraguay are particularly certain that money

remitted from Ciudad del Este and sent to the Middle East finances terrorist operations. Paraguay is highly vulnerable to money laundering since little customer information is required to open a bank account or conduct financial transactions, which can all be done at any of the 55 different banks and foreign exchange houses available in Ciudad del Este alone. A minimum of US\$5 billion is reportedly laundered each year in Paraguay, primarily from Ciudad del Este.²⁴

Finances of terrorist organizations: On June 24, STRATFOR published a report discussing the costs associated with funding terrorist activities of extremist organizations. The author of the report, Scott Stewart, explains how there are several variables that terrorist organizations consider when calculating the costs of a single attack. For example, groups such as the Islamic State of Iraq (ISI) or the Tehrik-i-Taliban Pakistan (TTP) incur expenses beyond what it takes to execute a small roadside bomb or a vehicle-borne improvised explosive device (VBEID). Such groups need funds to establish, maintain, and operate a militant organization and its infrastructure over a long-term period; even during attacks and between attacks. In addition to the money needed to purchase materials for the attacks, militant organizations need to pay wages, provide food, and lodging for its fighters. Money is also allocated to the families that are left behind by the fighters. Additionally, an organization needs to purchase safe-houses, different means of transportation, communication equipment, weapons, munitions, and facilities and equipment for training. More sophisticated militant groups will require funds for travel, identification documents (whether fake or stolen), and even bribery payments of government or law enforcement officials for security or “inside information”. For other more “government-oriented” militant groups, such as Hizballah, they must pay for social services

(health care, education, and so on) to maintain the support of the local population. Stewart states that the total sum amounts to a “substantial financial commitment” for the cause. In cases where the local population is hostile towards the militant operation, or there is heavy pressure from the local government to cut off the groups’ resources, the militants are forced to spend even more money on “operational security.” As more governments are beginning to experience the backlash in supporting such groups, who according to Stewart eventually turn against the state, funding and sanctuary are becoming increasingly difficult for terrorist organizations to acquire.²⁵

COUNTRY-BASED

United States targets Somali piracy via sanctions program: On April 13, a sanctions program was launched by the White House that prohibits U.S. companies from doing business with those “engaged in acts of piracy and armed robbery at sea” off the Somali coast as well as those who disrupt the security of Somalia. The Office of Foreign Assets Control (OFAC), which blacklisted 11 individuals under the new program, will manage the Somali sanctions and tailor them after other programs that allow the U.S. Treasury Department to target individuals whom they suspected of having ties to terrorism, narcotics, or nuclear proliferation. The compliance focus of the new rules will primarily be on U.S. shipping companies, however, U.S. financial institutions will also be held responsible. U.S. banks will have to provide greater scrutiny to their shipping clients that may be forced to pay ransom to pirates for kidnapped crews or stolen vessels. Also, compliance staff will have to get permission from OFAC before sending any funds to financial institutions that are

requested by clients to process a ransom payment linked to a designee.²⁶

Saudi fatwa denounces terrorist financing:

The Council of Senior Ulema, Saudi Arabia's highest religious leadership, condemned terrorism and the financing of terrorism in an Islamic fatwa released in May 2010. The fatwa, which is a ruling given by a recognized authority concerning Islamic law, both surprised and impressed U.S. officials. It starts by defining terrorism as a "crime aiming at destabilizing security" done by attacking people or properties, public or private. The fatwa lists examples of such acts as bombing schools, hospitals, factories, bridges, dwellings, airplanes (hijacking included), oil and pipelines. It then goes onto specifically rule against the financing of terrorism, as well as the "inception, help, or attempt to commit a terrorist act", thus making those activities illegal under Islamic law and considered to be punishable crimes. In an interview with, Fahd al-Majid, the secretary general of the Council, he described the financing of terrorism as "more dangerous" than the actual terrorists themselves, since without financing, the schemes generally fall apart.

The ruling has already caused negative reactions across the Internet from extremists, labelling the fatwa as a threat that needs to be addressed. However, since the fatwa comes from Saudi Arabia's most senior religious body, it will make it difficult for other lower clerics to justify violence in such form or contradict the Saudi Ulema. All 19 members of the council unanimously approved the fatwa, which, according to Saudi sources, appears to be initiated by King Abdullah. In order for the fatwa to be implemented, the Saudi Shura Council is drafting a counterterrorism financing law.²⁷

Saharan states open military headquarters to counter terrorism threats in the region:

Algeria, Mali, Mauritania, and Niger will open a Joint Military Staff Committee to "coordinate efforts" to counter the growing threat of Al-Qaida in the region. The military headquarters, which will be based in Tamanrasset, Algeria, will focus on joint operations against terrorism, kidnappings and trafficking of drugs and weapons. The initiative comes after repeated warnings from the United States and other Western countries that unless the governments in the region joined forces, the threat of Al-Qaida transforming the Sahara desert into a safe haven to coordinate and launch large-scale attacks will increase. While it has never been officially confirmed, it is believed that Al-Qaida in the Islamic Maghreb (AQIM) raises its funds through ransom payments from kidnappings, according to *BBC News*. Just days after the announcement of the Joint Military Staff Committee, AQIM claimed to be holding a 78-year-old French tourist hostage.

Furthermore, on December 18, 2009, U.S. authorities captured and charged three AQIM suspects in a drug-trafficking plot in Africa. The capture was the first of its kind and illustrates the growing alliance between terrorists and drug lords in the region. According to the criminal complaint, Oumar Issa, Harouna Toure, and Idriss Abdelrahman are accused of plotting to ship drugs by trucks through the Sahara desert in order to raise money for terrorist attacks. The arrests were a result of a four-month investigation and a sophisticated sting that involved informants posing as supporters for the Revolutionary Armed Forces of Colombia (FARC). An informant, who presented himself as a "Lebanese radical" against the West, claimed that FARC was seeking a secure method of smuggling drugs to Europe via western and northern Africa. The three associates of AQIM told the informants that they could move the

cocaine for approximately €3,000 per kilogram and that Al-Qaida would protect the shipments. In addition to controlling the drug trade, AQIM also controls illegal cross-border networks that are used for human trafficking. According to the *Associated Press*, migrants sometimes pay for their passage to Europe by carrying cocaine as “mules”.²⁸

Iraq holds nearly US\$4 million in counterfeit bills: According to a U.S. intelligence report, Iraq has been “flooded” with at least US\$4 million in counterfeit currency since December 2009. Considering that the majority of the fake hundred-dollar bills were seized from provinces near the Iraq-Iran border, officials are of the opinion that Iran was attempting to influence the outcome of the March 7 parliamentary elections in Iraq. While some of the bills were simplistic and easily detected, most were very sophisticated and required special printing presses, ink and paper. Officials have linked the sudden influx of counterfeit bills to Hizballah in Lebanon and the Iranian Revolutionary Guard Corps in Iran, claiming that such refined counterfeit capabilities can only come from either of these two groups. Iraqi judges have requested the United States to train Iraqi merchants to use counterfeit detection pens and encourage Iraqi companies to use wire-transfer options at local banks rather than large cash transactions.

On a side note, Peter Newell, a U.S. Army Colonel who commands the Brigade in the southern provinces, explains that due to the nature of elections requiring mass quantity of

cash to be moved, it is also one of the most opportunistic times for criminals to launder money. Illicit proceeds can be laundered into many things that are related to elections and require a large quantity of cash, such as purchasing commodities or campaign-related goods and services.²⁹

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