



MONEY LAUNDERING

AND TERRORIST ACTIVITY FINANCING WATCH

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Money Laundering and Terrorist Activity Financing Watch:

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

The ML/TF Watch is a quarterly review of news articles compiled by FINTRAC's Macro-Analysis and Research unit. The articles provided in this issue range from July 2010 to September 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. FINTRAC is not responsible for the accuracy, currency or the reliability of the content. References to the respective articles are provided at the end of this document.

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Money Laundering

GROUP-BASED

Juetang lords launder money through artwork auctions and the Binondo Central Bank: On September 26th, an expert on illegal numbers racket operators cited two methods in which gambling lords are laundering their illicit profits in Singapore. Ferdinand Topacio explains that “juetang lords”, operators of an illegal numbers racket (a form of illegal lottery), launder their money by: 1) purchasing artwork of young, up and coming, Filipino artists who are known to international art collectors; and 2) through the Binondo Central Bank.

In the first method, gambling lords use trading companies to buy paintings valued at approximately P1million (US\$23,500). The paintings are removed from their frames, rolled up inside tubes and hand-carried by a juetang lord or an accomplice onto airplanes. All that is required at customs is a certificate stating that the paintings are registered for auction at an auction house (such as Christie’s in Singapore) and the person carrying the paintings can easily pass through security, sometimes carrying up to 10 tubes—or nearly P10million (US\$235,000). Paintings by younger artists have proven to be easier to take out of the country in comparison to more recognizable artworks by “masters”. Afterwards, juetang lords sell the paintings at the auctions and the auction house deposits the proceeds back to local bank accounts in the Philippines. Following Topacio’s statement, the Anti-Money Laundering Council (AMLC) in the Philippines announced on September 28th that it is now investigating the artworks trade as a means to launder illegal proceeds. Art dealers, casinos, law firms, real estate firms, or dealers in precious metals are

currently not required to report suspicious transactions to the AMLC. The existing law only requires banks and other financial institutions to report suspicious transactions over P500,000 (US\$11,750).

Juetang lords also launder money through the Binondo Central Bank. According to Topacio, the Binondo Central Bank, despite its name, is an underground “alternative” financial system in Manila’s Chinatown in the Philippines. Chinese businessmen who predominately operate the underground financial network can effortlessly move millions of dollars electronically on behalf of juetang members. Gambling lords or their representatives contact Chinese financiers at the Binondo Central Bank and provide the cash they want to launder. The Chinese contacts, who receive 3% for each cash transaction they process, then call their accomplices in Hong Kong to deposit the equivalent amount in U.S. dollars under the name of a fictitious individual or company. Topacio claims that the money is then wire-transferred back to the Philippines in the form of remittances, broken down in amounts less than P500,000 (US\$11,750) to avoid detection. The remittances are deposited into several bank accounts under the names of unidentified individuals.¹

Organized crime groups using “green initiatives” to launder money: Organized crime groups are reportedly turning to new, “not-well regulated” markets to launder illicit proceeds. Experts at a meeting held by the Asia Pacific Money Laundering Group (APG) on July 10th confirmed that crime syndicates are using new methods, such as carbon emissions trading schemes, to launder money. Carbon emissions trading was created to provide a financial incentive in fighting global warming. Essentially, companies who are heavy polluters can bypass limits placed on greenhouse gas emissions, by purchasing

“credits” from companies who produce fewer emissions. The executive secretary of the APG did not elaborate on how crime syndicates were using carbon emissions trading schemes to launder money.

However, a record seizure in Italy on September 14th of “mafia-linked” assets worth 1.9 billion euros reflects the growing trend of Italian crime groups using green initiatives to launder drug proceeds while making extra profits. According to the head of Italy’s anti-mafia agency, the seized assets belonged to Rito Nicastri, a Sicilian businessman with suspected links to mafia boss Matteo Messina Denaro. Investigators claim that Nicastri operated numerous wind farms along the Sicilian countryside which are “favoured vehicles” for the Sicilian mafia, Cosa Nostra, to launder profits. The Italian daily, *La Repubblica*, claims that organized crime groups have invested heavily throughout Italy in renewable energies and in waste processing to launder their illicit proceeds. A journalist from *La Repubblica* explains the mafia-linked entrepreneurs buy plots of land and use them to set up wind farms, solar panels, and waste processing plants. This not only allows criminals to launder money but also gives them access to generous credits provided by the Italian government and the European Union (EU). The EU has reportedly allocated more than six billion euros in subsidies to help develop Europe’s renewable energy sector.²

FINANCIAL ACTIVITY-BASED

Money laundering of human smuggling and human trafficking proceeds: On July 2nd, a federal court in Philadelphia indicted five brothers for running a human trafficking ring between 2000 and 2007. The brothers allegedly smuggled Ukrainian migrants into the United States through Mexico, in one case

using an underground tunnel that led to a sewer in Arizona. Human trafficking differs from human smuggling in that the latter involves the illegal entry of an individual into a state in exchange for funds or other “material benefits”. Human trafficking however is the exploitation of people through improper means, such as force, deception, or coercion. In this case, after the victims were illegally smuggled into the United States, the brothers forced them to work as cleaners for a promised income of US\$500 per month. Instead, the victims received little or no pay and were told they had to continue working until their “debt”, which was suspected of ranging from US\$10,000 to US\$50,000, had been paid off. Two of the brothers were arrested in Canada pursuant to Interpol arrest warrants.

The above mentioned case stresses the need for anti-money laundering (AML) personnel to be aware of the links between human trafficking and money laundering. *Complinet* explains that money laundering associated to human trafficking is often “promotional in nature” and involves wire transfers conducted at banks or money service businesses (MSBs). According to *Complinet* analyst Brett Wolf, federal authorities are combating human trafficking in part by conducting financial investigations on accounts controlled by the trafficking rings. This is one reason why the Financial Crimes Enforcement Network (FinCEN) has “long considered” to adjust the US\$3,000 reporting requirement of financial institutions. To demonstrate, a rule proposed by FinCEN in June 2006 referenced a case involving a human trafficking “incident” during which over US\$1 million was laundered. All of the transactions involved in the scheme were under US\$3,000—the threshold at which banks and MSBs must collect information on those initiating the transaction. As for human smuggling, one unidentified agency

referenced by *Complinet* found that the laundering of illegal proceeds involved, on average, transactions of approximately US\$1,800. The agency also cited that money launderers structure these amounts in multiple transactions that range from US\$500 to US\$1,000.³

Illicit online pharmacy ring allegedly laundered money globally: On August 31st, 11 defendants in the United States, Brazil, and the Dominican Republic were indicted for their alleged roles in a scheme that involved illegally distributing more than US\$125 million worth of controlled substances via online pharmacies. The scheme was comprised of three separate but related conspiracies.

The first, known as “Safescripts Online”, operated between 2004 and 2006. Eight of the people conspired to illegally distribute more than US\$22 million in controlled substances; all were charged for money laundering related activities. According to the indictment, one of the defendants acted as an agent and helped Safescripts Online obtain online processing services for credit cards. The sales of controlled substances were charged to the customers’ credit cards and the funds were reportedly wire-transferred from accounts in the United States to a bank in Israel. The indictment states that the proceeds were then wire-transferred back to the United States into bank accounts controlled by the defendants.

A separate ring named “Pircainr” operated between May 2003 and April 2007 and involved five people indicted for illegally selling US\$55 million in controlled substances and for other money laundering offences. The indictment states that, in this case, the customers’ credit cards were charged and the funds were transferred from U.S. accounts to a bank in Canada. Proceeds from the credit card sales were then wire-transferred from the

Canadian bank through a corresponding account in the United States and deposited into foreign bank accounts held by the defendants.

The third ring, named “United Mail Pharmacy Services” operated between January 2006 and March 2008. Prosecutors claim that three defendants conspired to distribute more than US\$48 million in controlled substances. The indictment does not state how the illegal proceeds were moved in this scheme. However, it does mention that “monetary instruments” and funds were transported, transmitted and transferred to a location in the United States with the intention of continuing “specified unlawful activity”. The defendants could face decades in prison if convicted.⁴

Individual sentenced for using e-Gold to facilitate money laundering: California-based Cesar Carranza was sentenced on September 16th to six years in prison for conspiring to launder money through an online digital currency operator. According to authorities, Carranza helped launder nearly US\$25 million by operating as an e-Gold money exchanger.

E-Gold is an online digital currency operator that was once used by millions of people as a payment system. It is much less in use today since its owner pled guilty in 2008 for money laundering-related crimes and for operating an unlicensed money transmitting service. During e-Gold’s operational high, hackers (mainly from Eastern Europe) stole credit and debit numbers and pins through various methods, including phishing. The data was then passed to alleged co-conspirators in the United States who encoded the magnetic strip of bank cards with the data and then used the cards to withdraw money from the respective accounts at ATMs. The money was sent back to their

co-conspirators in Eastern Europe through either Western Union or e-Gold exchangers.

In Carranza's case, the indictment states that he sold equipment and devices to carders (people who steal credit and bank card data), including MSR-206, a magnetic card reader/writer. The indictment also indicates that Carranza facilitated the transfer of stolen funds between cardholders and carders using the e-Gold payment system. In 2003 and 2004, Carranza was considered to be a trusted vendor on online criminal forums such as CarderPlanet and Shadowcrew. Court records indicate that he sold his MSR business in 2004 after he was arrested in California. Since it is not illegal to sell the device, he was never charged with a crime. After his arrest, Carranza continued to provide money laundering services to carders. Authorities indicate that co-conspirators provided Carranza with cash or deposited money into his bank account. While retaining a 6% commission for his services, Carranza then either: a) transferred the money to the bank account of another e-Gold exchanger who converted the money to e-Gold for carders, or b) used his own e-Gold currency account to change the money to e-Gold currency, and then transferred the converted funds to the e-Gold account of other carders in Eastern Europe or elsewhere. The carders then converted the digital funds into their local currency by using a local e-Gold money exchanger to convert the funds. Carranza reportedly provided his laundering services to carders between 2003 and 2007.⁵

Austrian Bank suspected of laundering money for “Balkan Cocaine King”: Austrian daily news agency, *Osterreich* reported on August 26th that Austria's Hypo-Alpe-Adria Bank (HGAA) is suspected of laundering 100 million euros for a Serbian drug lord. According to the Austrian daily, Darko Šarić

(also known as “the Balkan Cocaine King”) laundered that amount through the bank between 2007 and 2009. Šarić has been on the run from authorities since April 2010 when he was indicted by Serbian prosecutors for drug trafficking charges. Serbian authorities claim that Šarić used offshore companies to “invest” 100 million euros in HGAA's bank accounts, which are primarily in Liechtenstein. During that period of time, the bank's branches in the Netherlands approved two loans worth 100 million euros to a company tied to Šarić named Block 67 Associates. *Osterreich* states that the company had paid 8.5 million euros of both loans before all loan payments were stopped by the company. The bank then settled the debt internally from the 100 million euro account that belonged to Šarić. Investigators believe that this kind of money laundering would have required insider participation from senior management at the Austrian bank.

HGAA, which was nationalized in 2009 to avoid bankruptcy, is Austria's fifth largest bank. HGAA is at the center of numerous scandals related to financial crime, some of which involve the bank's former CEO as well as an Austrian right-wing politician.⁶

COUNTRY-BASED

FinCEN proposes requirement for financial institutions to report electronic cross-border transfers of funds: A proposed ruling issued on September 27th by FinCEN would require banks to report all electronic cross-border transfers of funds into and out of the United States. Under the new requirements, banks would have to save and report information of all cross-border electronic transmittals of funds (CBETFs) equal to or over US\$3,000. Money Service Businesses (MSBs) that conduct CBETFs will also be required to report international transactions

over US\$1,000. MSBs however will have to create their own way of collecting and transmitting the data to FinCEN considering they do not participate in the SWIFT system. The ruling would require banks and MSBs, to report CBETFs on a “first-in and last-out” basis; an institution would report a transaction if it is the first institution to handle the transaction as it enters the United States or if it is the last institution to handle the transaction before it leaves the country. Exempted from the rule are transfers processed directly between American banks and foreign banks within the United States, as well as bank transfers processed directly between branches of a single bank. Furthermore, the new rule does not apply to credit card and ATM transactions since these financial institutions were already required to save, but not “affirmatively report” CBETF information to FinCEN. FinCEN also estimates that less than 300 banks and 700 MSBs in the United States will be affected by this requirement. The proposal was issued by FinCEN to meet the requirements of the Intelligence Reform and Terrorism Prevention Act of 2004, which essentially required the reporting of CBETFs if deemed appropriate. As such, FinCEN examined the cross-border reporting issue and conducted various studies on its feasibility, which supported the reporting system. FinCEN explained that a centralized database will assist law enforcement in detecting and “ferreting out” transnational organized crime and financial crimes. FinCEN also proposed to require all banks to provide an annual list of taxpayer identification numbers of account holders who make cross-border transmissions.⁷

U.S. House Financial Services Committee approves measures to legalize Internet gambling under certain conditions: On July 28th the U.S. House Financial Services Committee passed the *Internet Gambling and*

Consumer Protection Act, which would allow Internet gambling companies to legally operate in the United States if licensed by the U.S. Treasury Department. The U.S. Congress was in recess at the time of the announcement and, as such, lawmakers have not yet considered the bill. Under that measure, financial institutions would be able to rely on a blacklist provided by the U.S. Treasury Department for companies that are prohibited to operate as online casinos under the *Unlawful Internet Gambling Enforcement Act* (UIGEA). One U.S. official explains that such a list would remove much of the burden faced by financial institutions under the UIGEA. As reported in the October-December 2009 issue of the *ML/TF Watch*, banks have had to monitor and freeze transactions tied to illegal gaming organizations since June 1st 2010. Challenges in defining what constituted as “unlawful Internet gambling” under the UIGEA led many U.S. financial institutions to avoid processing transactions for any online gaming, including transactions from exempted sport betting events, such as horseracing. The new measure introduced by the U.S. House Financial Services Committee would also attempt to exclude foreign competition for U.S. gambling companies. However, the director of the New Jersey Division of Gaming Enforcement, Frank Catania, believes that U.S. players are likely to continue using offshore gambling sites. Catania explains that offshore gambling companies can “easily” disguise their transactions from the U.S. financial institutions screening for them. According to Catania, winnings from U.S. players are placed into European bank accounts and then wired through subsidiaries directly into the U.S. players’ bank accounts.

In related news, the Remote Gambling Association (RGA), which represents some of Europe’s largest remote gambling firms, issued, on July 14th, anti-money laundering

(AML) guidelines for the online gaming industry. The guidelines will help companies meet their AML responsibilities and provide “assistance to operational staff.” The guidelines can be found on the association’s website.⁸

Mexico proposes to limit cash purchases of certain goods to 100,000 pesos: Mexican President Felipe Calderon proposed new measures on August 26th that would make it illegal to make cash purchase of aircrafts, vehicles, boats and real estate over US\$7,700 or 100,000 pesos. The move is the government’s latest effort to target the flow of illicit drug proceeds entering the country’s financial system from Mexico’s drug cartels. Also banned under the 100,000 peso cash limit is the acquisition of stocks shares, the purchase of lottery tickets, cash wagers at casinos and horse race tracks, as well as buying or partnering in a business. Calderon mentioned in a statement that drug trafficking organizations launder their bulk cash through the above mentioned endeavours and thus take advantage of Mexico’s “lax” anti-money laundering (AML) regime.

As reported in the April-June 2010 issue of the *ML/TF Watch*, Calderon placed new limits in June on U.S. cash deposits into Mexican bank accounts and foreign currency exchanges. Some Mexican experts criticize the new regulation as being “too technical” in its focus of limiting cartel money, and of failing to protect legitimate businesses that operate primarily in cash. The Mexican government, however, believes that the proposal will increase surveillance of foreign trade operations and improve the government’s ability to seize criminal assets. Violators of the new law would be punishable up to 15 years in prison. According to the U.S. Drug Enforcement Administration, Mexico’s drug cartels smuggle between US\$18 million to

US\$39 million in cash across the U.S.-Mexico border each year. An analysis conducted by the *Washington Post* found that U.S. and Mexican agents seize no more than 1% of the primarily south-bound cash.⁹

Italy targets criminal organizations for money laundering: According to a July 12th Bloomberg interview with Anna Maria Tarantola, the deputy general director of the Bank of Italy, the economic downturn has allowed mafia groups in Italy to fill a “funding gap” created by a decline in lending from banks. Tarantola explains that organized crime groups are making investments in fully legal businesses that “are not possible for others” due to the economic recession. Additionally, according to estimates from SOS Impresa, a Rome-based anti-racketeering group, the revenues of organized crime groups in Italy increased by 4% last year to US\$174.6 billion. In contrast, Bloomberg claims that Italy’s economy shrank by more than 5% in 2009 and *Complinet* cites that bank lending in Italy has also decreased in the past two years. The former chief prosecutor of the mafia estimates that laundering in Italy may equal as much as 11% of the country’s GDP. As such, the Bank of Italy is increasing its efforts to identify money laundering in its economy. A raid by Italian authorities during the first week of July against the ‘Ndrangheta, the Calabrese mafia, resulted in the apprehension of more than 300 suspects. The arrests illustrate how the group has taken root around Milan, Italy’s key financial center. Also, on July 21st, Italian authorities sought 67 alleged ‘Ndrangheta members near Milan and Calabria and seized 250 million euros worth of assets. Finally, on July 1st, Italian officials arrested 24 individuals allegedly linked to a Chinese criminal organization accused of counterfeiting, tax evasion, human trafficking and prostitution that laundered approximately 2.7 billion euros. In the latter investigation,

more than 100 companies were sequestered and tens of millions of euros were confiscated by Italy's Guardia di Finanza, a special police force under the authority of the Minister of Economy and Finance. Tarantola states that the Central bank's financial intelligence unit tracked 15,000 suspicious transactions in the first half of 2010, a number that's up by 52% from 2009. Furthermore, of the 21,000 suspicious reports in 2009, 20% of them led to criminal investigations.¹⁰

Russia introduces new anti-money laundering legislation: On July 28th, in efforts to bring the country's compliance regime more in line with the Financial Action Task Force's (FATF) guidelines, Russia introduced a new anti-money laundering legislation. Prior to the introduction of the new legislation, only the local or destination bank could impose actions against launderers, but no actions were taken against the criminals in Russia. The implementation of the new law makes it more challenging for Russian citizens or companies with overseas subsidiaries to launder money via overseas bank accounts. Under the new legislation, firms cannot inform clients of the measures they follow in preventing money laundering. The new law also requires a closer monitoring of countries that are not part of the FATF safe list. Moreover, both overseas financial institutions and the Russian government acquire the right to scrutinise certain transactions deemed suspicious. The changes in legislation demonstrate Russia's efforts to improve its image after being perceived as a safe haven for "dirty money" by the international community.¹¹

New Zealand introduces new anti-money laundering laws: New Zealand is in the process of passing two new laws to better comply with the Financial Action Task Force's (FATF) recommendations. The new laws will

expand the government's power to recover illicit assets and to share personal identity information with banks and other financial institutions. As a result, on August 24th, the Department of Internal Affairs announced a new electronic data validation service to help combat identity fraud, money laundering and terrorist financing. Private sector agencies will now be able to enter customer information into a website which will confirm if the data is consistent with the information held by the government; thus helping financial institutions follow 'know your customer' procedures. Furthermore, New Zealand's new anti-money laundering legislation will require financial institutions that operate in the country to develop "robust processes" to detect and deter money laundering. The new anti-money laundering law is expected to take effect at the end of 2012.¹²

Terrorist Financing

GROUP-BASED

Charitable status revoked for Tamil organization in Canada: The Canada Revenue Agency (CRA) has shut down the Tamil (Sri Lanka) Refugee-Aid Society of Ottawa on July 17th, revoking its charitable registration status after linking one of its representatives to an illicit weapons sale in the United States. Toronto-based Canadian engineer, Thiruthanikam Thanigasalam, was found guilty for buying weapons for Sri Lanka's Tamil Tiger rebels at a New York warehouse. As reported in the April-June 2010 issue of the *ML/TF Watch*, Thanigasalam along with two accomplices allegedly agreed to pay close to \$1 million for 10 launchers, 20 Iglu missiles and 500 AK-47 assault rifles in an illicit arms deal on August 19th, 2006. The three individuals raised money in the United States and Canada while relying

on front charitable organizations to make their fundraising appear legitimate. Thanigasalam will be serving 25 years in a U.S. prison after confessing to his role as a rebel arm purchaser. He was the representative of the Toronto offices of the Tamil (Sri Lanka) Refugee-Aid Society. The charity organization's status was also revoked based on a discovery by the CRA that the charity allocated \$713,000 to the Social and Economic Development of Tamils (SEDOT). SEDOT is suspected by the CRA of participating in the broader network of the Liberation Tigers of Tamil Ealam (LTTE), a listed terrorist entity in Canada.¹³

Pakistan's Taliban designated a terrorist group in the United States: On September 1st, the U.S. Justice Department carried out several legal offences against Pakistan's Taliban group, Tehrik-e-Taliban (TTP). The group was placed on an international terrorism blacklist and officially designated as a "foreign terrorist organization" which warrants additional sanctions by the U.S. Department of State and the U.S. Treasury Department. Moreover, TTP's leader, Hakimullah Mehsud, was also charged by the United States for planning the suicide bomb attack in Afghanistan that killed seven CIA employees in 2009. Recently, the TTP has been blamed for the failed Time Square car bombing in New York City on May 1st, 2010.¹⁴

Hamas financing in Germany: On July 12th the German government banned the International Humanitarian Relief Organization (IHH) for allegedly financing Hamas. Headquartered in Germany, the IHH is suspected to have collected approximately \$8.3 million in mosques and sent the funds to relief organizations either belonging or supporting Hamas. Like Canada, Germany considers Hamas a terrorist organization. Founded in 1992 in Germany, the

organization divided into two separate entities in 1997: IHH Germany and IHH Turkey. The latter was involved in organizing a pro-Palestinian flotilla in hopes of breaking the Israeli blockade of Gaza. The IHH in Germany is believed to have sent the money it collected in Milli Gorus mosques to six groups connected to Hamas. Donors reportedly may not have been aware of where their contributions were going. The organization is now officially illegal in Germany. Its staff may face criminal charges if they continue the groups' activities or regroup under a new name.¹⁵

Al Qaida in Iraq attempting to regain support through allotment of funds:

Reports by Iraqi officials and Sunni tribesmen claim that Al Qaida in Iraq is attempting to regain Sunni supporters by exploiting frustration stemming from the growing failure of the Iraqi government to provide jobs and salaries to its citizens. The main targets of the propaganda initiative by Al Qaida in Iraq are Sahwa group members. Sahwa fighters became important actors for the United States after the 2006 and 2007 civil war revolt, where they [Sahwa fighters] fought alongside the Sunni tribesmen against Al Qaida. The fighters, whose membership eventually rose to 100,000 fighters in 2008, were put under the supervision and payroll of the U.S military. The Iraqi government took official charge of the Sahwa group in 2009, along with the responsibility of paying the fighters for their services while ensuring at least 20% of them have government or police jobs. With the current government's failure to comply with these responsibilities, Al Qaida in Iraq has been strategically recruiting Sunni support in order to ignite a Sunni-Shiite confrontation. It is also using Sunni resentment created by their new second-class status in Iraq since the end of the Saddam regime. Al Qaida in Iraq is offering Sahwa members an increase of

US\$100 in individual monthly salary, which currently ranges between \$250 and \$300. U.S. officials no longer believe Al Qaida in Iraq has ties with the greater Al Qaida leadership operating in Pakistan. Yet, U.S. officials maintain that Al Qaida in Iraq still handles funds provided by private donations of sympathetic businessmen and charities in the Arab World. In a report by the Canadian Press, Iraqi tribesmen also mention that Al Qaida has increasingly turned to the robbery of banks, money changers and jewellery stores, along with involvement in kidnap-for-ransom operations.¹⁶

FINANCIAL ACTIVITY-BASED

Leader of Al-Haramain Foundation charged for smuggling money: A federal court in Oregon convicted the founder of an UN-designated Islamic charity foundation for funnelling US\$ 150,000 to the mujahedeen in Chechnya. Pete Seda (also known as Pirouz Sedagnaty) is the head of the U.S. chapter of the Al-Haramain Islamic Foundation and is charged with conspiring to move money out of the United States without declaring it and also for failing to disclose the money to the IRS on federal tax forms. While Seda is not convicted under terrorism-related offences, prosecutors attempted throughout his trial on tax charges to convince the jury of Seda's affiliation with international radical Muslim groups. Prosecutors argued that Seda used the charity as a guise to smuggle money to mujahedeen fighters attempting to overthrow the Chechen government. Law enforcement officials described the money trail, which went from Europe, to the United States and then to the Middle East, as indicative of illicit financial activity. According to an IRS special agent, in 2000, a wealthy Egyptian contacted Al-Haramain about making a donation to support the "Muslim brothers" in Chechnya. Once the

money arrived in the United States, Seda and an officer of the foundation named Soliman al-Buthe (a Special Designated Global Terrorist in the United States) withdrew US\$ 130,000 in American Express traveler's cheques and a US\$21,000 cashier's cheque payable to al-Buthe. According to prosecutors, three days later al-Buthe travelled to Saudi Arabia where he deposited the cheques at al-Rajhi Bank. The money trail was lost once it was deposited in Saudi Arabia, but prosecutors suspected that the funds made their way to Chechnya. The conviction of Seda is another example of the lengths certain terrorist organizations will go to hide the finances of their illicit activities. According to the *Investigative Project*, the abuse of charitable organizations for terrorist aims is a common method used by terrorists to raise and send money.¹⁷

American-Algerian arrested in Spain for AQIM financing: Mohamed Omar Debhi, a U.S. citizen of Algerian origin, was arrested in Spain on September 28th for suspicion of financing Al Qaida's North African affiliate, Al Qaida in the Islamic Maghreb (AQIM). In a statement issued by the Interior Ministry of Spain, Debhi allegedly laundered money and sent parts of it to his associate in Algeria, Toufik Mizi, who then sent the money to AQIM cells in the Sahel region of the Islamic Maghreb. According to the statement, Debhi used either bank transfers or human couriers to send money to Mizi under the false pretence that they were business transactions. Although the Interior Ministry did not specify the total amount of money that was sent or the method in which Debhi acquired the funds, the transfers were in excess of US\$80,000. Debhi is also suspected of tax fraud and forgery in Spain. He originally fled the country in June 2008 after police conducted a series of raids targeting a cell that was suspected of

recruiting terrorists and providing “logistical support” for AQIM.¹⁸

Al Shabaab fundraising in North America:

Two naturalized U.S. citizens from Somalia were arrested in Minnesota on August 5th for using the hawala system to send money to the Somali terrorist group, al Shabaab. Amina Ali and Hawo Hassan were charged for conspiracy to provide financial support to al Shabaab between September 2008 and July 2010. According to the indictment, Ali and Hassan communicated by telephone with people in Somalia who requested them to collect money for al Shabaab. The two raised US\$8,600 through door-to-door fund solicitations in Somali communities in Minnesota. Their fundraising scheme targeted other locations in the United States and Canada. In the same week, other individuals were charged under the same indictment in Minneapolis, New York, Alabama, and California. According to the U.S Department of Justice, the defendants allegedly raised money by holding conferences that featured speakers who encouraged donations to support al Shabaab. In total, 14 people have been charged with terrorism violations. A U.S. Department of Justice statement confirmed that the funds in question were transferred via the hawala system into bank accounts controlled by al Shabaab in Somalia. The US\$8,600 is said to have been transferred via a dozen hawala transactions. The defendants reportedly used false names when identifying the recipient of the funds in order to conceal that the money was going to al Shabaab. Several entities were used for the transfers, namely: Dar al Tawaul General Trading LLC, A.K.A. Tawakal Money Express; Kaah Express LLC; Dahabshill Inc; Qaran Express US Inc; Amaana Money Transfer; and, Mustaqbal Express.¹⁹

COUNTRY-BASED

Canada-U.S. Joint-Action Security Deal: A joint-action security deal between Canada and the United States was signed on July 13th, putting into practice new approaches to protect vulnerable infrastructure from terrorist attacks and terrorist financing. The project is part of a “border vision” shared between Canada and the United States to improve security at the borders while supporting job creation and competition. The two countries are working together to identify and investigate threats involving issues such as money laundering and terrorist financing. The new cross-border infrastructure plan includes enhancements in electrical grids, transportations networks, as well as financial and telecommunication systems. Furthermore, the two countries will soon sign a memorandum of understanding to exchange information on currency seizures, also for the purpose of targeting money laundering and terrorist financing.²⁰

U.S. imposes sanctions against North Korea: On July 21st, U.S. President Obama imposed economic sanctions against North Korea for its continued development of nuclear weapons, and illicit sales of arms and technology to states that sponsor terrorism. According to the U.S. President, North Korea is attempting to destabilize the Korean peninsula through drug trafficking, currency counterfeiting and money laundering. In a Department of State briefing, assistant secretary Philip J. Crowley explained that the sanctions and their measures will provide the U.S. with the authority to target North Korea’s illicit activities that violate a wide range of international norms. With these sanctions, participants in illicit activities that help North Korea fund its weapons program will be designated under U.S. jurisdiction and have their assets frozen. These activities

include: 1) engaging in the export or import of luxury goods, arms, or drugs and/or 2) providing financial or logistical assistance in procuring goods banned by previous executive orders and by the United Nations sanctions. In a letter to congress, Obama clarified that the order does not target the people of North Korea or those that provide legitimate aid relief to the country. Instead, the order is aimed at the specific activities of the government of North Korea.

In addition, the U.S. government is presently tracking 200 North Korean accounts in foreign banks suspected of being linked to illicit activities such as nuclear weapons development, drug trafficking and counterfeiting. The U.S. government received information regarding North Korean bank accounts in Russia that are being used by the Russian mafia to launder money for North Korean leaders attempting to avoid economic sanctions. Also, North Korean accounts in Africa are being tracked by the United States for indications of illicit weapons sales and ivory smuggling, activities in which North Korea continues to be engaged despite UN sanctions.²¹

Russia to sell missiles to Syria: On September 11th, a Russian media report announced that Russia plans on selling Syria Yakhont anti-ship cruise missiles to fulfil a contract signed in 2007. The deal, worth US\$300 million, met objections by both the United States and Israel over fear of destabilizing the Middle East. Israel is concerned that the missiles would pose a threat to its navy vessels in the Mediterranean, since the weapons might be handed over to Hizballah. The Russian Defence Minister however, responded to the objection by stating that the missiles will not “fall into the hands of terrorists”. The Vice-President of the National Association of Chiefs

of Police, Jim Kouri, also expressed concerns over Russia’s continued support and supply of a variety of military equipment and training to countries such as Iran, India and China. According to *BBC News*, the Yakhont missiles have a range of 300 km and are able to fly at an altitude of only 5-15m, making them difficult to detect and intercept.²²

Saudi Arabia needs to strengthen AML regulations on terrorist financing: As assessed in the FATF’s latest Mutual Evaluation of the Kingdom of Saudi Arabia, the country has various anti-money laundering (AML) and counter terrorist financing (CFT) shortcomings. According to the FATF, the introduction of new business sectors in Saudi Arabia, along with the country’s under-developed AML/CFT policies, has an overall “negative impact on the effectiveness of its AML/CFT regime.” The report also notes that there is inadequate AML/CFT expertise across many financial institutions, particularly outside the banking sector. The FATF states that Saudi Arabia needs to raise greater awareness of AML/CFT risks in its different sectors and focus on proper training of investigative, supervisory and law enforcement authorities. Some of the observations made by the FATF include terrorist financing not being considered a statutory offence under the country’s AML statute, as well as the low volume of suspicious transaction report filing. On a positive note, the FATF states that Saudi Arabia’s FIU was “well-resourced” and that the Saudi Arabian Monetary Agency exhibited sufficient law enforcement powers.²³

Al Qaida in the Sahara: The Saharan states are planning to recruit money laundering experts to track down the millions of dollars generated by the Al Qaida network through kidnapping and smuggling activities in the Sahara. The governments in the region

(Algeria, Mali, Mauritania, and Niger) will target the revenues used by Al Qaida to buy arms and finance its support network of corrupt officials and informers. Rezag Bara, a security advisor to the Algerian president, informed local media that Al Qaida in the Islamic Maghreb (AQIM) routinely receives ransoms of approximately 5 million euros for each hostage it frees. According to a former senior insurgent, the group uses the profits for various activities including: purchasing weapons from corrupt officers in the Malian military, bribing local officials or buying loyalty through tribes-people networking. As mentioned in the April-June 2010 issue of the *ML/TF Watch*, security experts claim that Al Qaida's North African wing is exploiting the empty Sahara desert and its porous borders to create a safe haven from which it could potentially launch attacks on Western targets. As such, the four countries are concentrating their efforts to create direct relations with their respective bordering countries. Plans are also in the making to establish joint borders in order to establish a better checking system on the movement of people and goods.²⁴

Macau identified as potential site for terrorist financing: The U.S. State Department released in August its latest "County Reports on Terrorism 2009" and identified Macau as a "potential site" for terrorist financing activities because it is a major international gambling center. The U.S. State Department claims that Macau's reporting threshold limits are not in line with international norms. For example, while the FATF recommends that casino operators should collect data on customers engaged in transactions over US\$3,000, Macau's reporting threshold is US\$62,500. The report also notes that Macau does not have reporting requirements for cross border movements and that a system should be established to declare bulk currency travelling across borders.²⁵

OFAC designations: The U.S. Treasury Department's Office of Foreign Assets Control (OFAC) has issued several designations during this quarter that target various individuals and corporations who support terrorism or terror-related activities. On July 18th, Anwar al-Aulaqi, a "key-leader" for Al Qaida in the Arabian Peninsula (AQAP) was designated. Al-Aulaqi is deemed by the United States to be extremely dangerous and has participated in all aspects of the "supply chain of terrorism" for AQAP.

On July 23rd, three "key leaders" and financiers of the Taliban and the Haqqani Network were designated for supporting terrorism. Amir Abdullah, Agha Ishakz, and Nasiruddin Haqqani all allegedly collected money either for the Taliban or the Haqqani network, which has spearheaded insurgent activity in Afghanistan.

On August 3rd, seven individuals and 22 organizations, including two banks in Belarus and a bank in Iran, were designated for alleged links to Iran's nuclear program.

Similarly, on September 7th, an Iranian-owned bank named EIH in Germany was designated for "facilitating Iran's efforts to develop nuclear weapons" by allowing billions of dollars of transactions with Iranian bank.

Finally, on August 25th, an alleged "key leader" of Al Qaida's finance wing and Osama Bin Laden's son in law, Muhammad Abdallah Hassan Abu Al Khayr was designated. According to OFAC, Khayr allegedly transferred hundreds of thousands of dollars for a specific terrorist attack that targeted U.S. interests.

The above mentioned designations by OFAC will make it illegal for any U.S. entity to

conduct financial transactions with the designated individuals/entities or any other individual/entity that carries out business with the designees.²⁶

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