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 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.

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 2011 to September 2011.

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

Spain targets one of Latin America's largest drug cartels: On July 26th, Spanish police targeted the money laundering operation of one of Colombia's largest drug trafficking and money laundering networks, referred to as the 'Super Cartel'. According to a *Thomson Reuters* article, warrants were issued by Spanish officials for the international arrests of seven suspects related to the Super Cartel's money laundering network. Police also arrested nine suspects, including the wife of 'Don Lucho', the top baron of the cartel. Also known as Luis Agustin Caicedo Velandia, Don Lucho has been incarcerated in the United States since 2010 for trafficking hundreds of tonnes of cocaine into the country from Colombia through Mexico. The 2010 investigation led by Spanish officials identified Velandia as the leader of an operation that laundered more than US$1.5 billion in drug proceeds from 2005 to 2009 through a false business network operating in three different cities in Spain. The business network used fake companies to launder money from Colombia, Mexico and Panama in addition to another company that bought gold and pawned jewels. Police said the gold was smuggled outside of Spain after being melted into bars and exposed to chemical treatment which altered the colour to black copper.

In related news, drug trade launderers in Spain have turned to 'locutorios', or telephone call shops, to transfer illicit proceeds. According to Spanish daily *ABC,* locutorios are commonly used to make long distance calls as well as to make rapid and inexpensive money transfers at a cost of three euros per transaction. The article explains that launderers seeking to wire drug proceeds using locutorios usually recruit helpers in bars or at bus stops and ask them to send remittances to a list of individuals for a 50 euro tip. Other launderers pay a fee to existing businesses or set up their own locutorios and use stolen personal details of unsuspecting customers to send transfers. Transferring money using locutorios is reportedly ideal for launderers in the narcotics trade who send profits back to Latin American cartels. According to Spanish police, "a trafficker launders profits from approximately 2 kilos of cocaine each month, but this can rise to 50 kilos." With one kilo of cocaine valued at 60,000 euros, police estimate traffickers are able to transfer up to three million euros by using this method. To set up locutorios, all that is required are telephones and computers for customers and an EGT (Transfer Management Company) permit from the Bank of Spain to transfer money. Nearly 80% of drug-related transactions are able to go undetected using locutorios as a result of the EGT regulations, which state that any sum over 3,000 euros within a three month period must be reported. By applying various methods of transferring money using locutorios, launderers can stay under their tri-monthly limit of transactions and remain undetected.[1]

Los Rastrojos' money launderer captured in Bogota: On August 3rd, the Colombian narcotic police captured an alleged money launderer from the drug trafficking organization Los Rastrojos while he was transporting US$219,000 in cash. Alex Fernando Velasco Herrera was arrested in Bogota and was charged with receiving, transporting and distributing drug proceeds from Bogota to Cali, the country's third-largest city. Authorities claim that the funds found in Herrera's possession were the proceeds of drug sales in the United States. Allegedly, the money was sent from the United States to be laundered by Herrera and his accomplices through a variety of methods, including bank transfers, domestic and international money orders and international deliveries. Herrera had previously been arrested in December 2010 in Cali with over US$400,000 in cash but was released shortly afterwards. Los Rastrojos is a rapidly expanding drug trafficking organization focused on transporting cocaine and heroin up the Pacific Coast through Central America, where the drugs are sold in Mexico and trafficked to the United States. Los Rastrojos also have control over a smuggling route in Venezuela allegedly used to traffic cocaine to Europe and the United States on aircraft and medium-sized boats. [2]

FINANCIAL ACTIVITY-BASED

Money laundering risks in the Quebec construction industry revealed: On September 15th, a leaked report written by Jacques Duchesneau, head of the Quebec Ministry of Transportation's anti-corruption unit, revealed a system of corruption and collusion embedded in Quebec's construction industry. According to a *Globe and Mail* article, the 72-page report described the construction industry as having a "covert culture" of intimidation, fear and illegal practices whereby organized crime groups, construction companies and engineering firms worked with political parties to be awarded government contracts. An article in the *Montreal Gazette* cited an allegation in the leaked report that government workers and employees at engineering firms gave construction companies "privileged information to present the lowest offer." According to the Duscheneau report, once contracts were awarded, the costs of road-building projects were then inflated and the political parties received donations from engineering firms for their support. An example in the report explained that engineers would request funding for 1,000 truckloads to remove contaminated soil when only 100 truckloads were needed. The unused money would then be distributed among criminal organizations, engineering firms and political parties. In 2010 alone, it was estimated that there was a $347 million difference between original contract amounts and the final costs of public-works contracts in Quebec. In addition to offering undue profits, the Quebec construction industry was also targeted by organized crime groups, such as the Mafia and outlaw motorcycle gangs, to launder money from illegal activities. According to the *Montreal Gazette,* the anti-corruption unit that prepared the report was created in 2010 to look into allegations of collusion in public contracts. In response to the report's allegations, a police investigation and collection of evidence has been called for by Quebec's transport minister. [3]

Tractor trailers used to smuggle cash, drugs and humans across Canadian borders: In a 2010 publication obtained by the *Canadian Press*, the Royal Canadian Mounted Police (RCMP) reported that criminals are using customized compartments built into tractor trailers to smuggle cash, drugs and people across borders. According to the publication, criminals have found ways to operate within the rapidly expanding trucking industry, which has become increasingly difficult to regulate. David Bradley, president of the Canadian Trucking Alliance, claimed that criminals bribe or blackmail truck drivers to get them to agree to transport illicit goods. Should the cargo get lost, stolen or seized, truck drivers are left responsible for providing compensation or risk extortion, beatings, kidnapping or murder. For the criminals behind the operation, the cost of transporting goods in customized tractor compartments is a small cost of doing business. It is estimated that $12 million worth of cocaine can be transported from California to Montreal for under $30,000. Currently, cocaine is the most common illegal commodity that has been identified in commercial trucks entering the Canadian border while marijuana is most often captured within Canada. The RCMP report states that over the next decade the trucking industry may become more vulnerable to criminal activity as a result of the anticipated expansion in truck traffic paired with new processes being introduced to streamline cross-border trade. For example, it was reported that organized crime groups can steal or fraudulently acquire “FAST passes” which allow commercial truck drivers to expedite Canada-U.S. border crossing. According to the report, it is difficult to pinpoint when illicit goods are transported via tractor trailers because criminal groups are able to conceal their activities through layers of company ownerships, name changes, transfers and closures.

In related news, an Ontario man named Joseph Dale Butler was sentenced on August 31st to two years of imprisonment after pleading guilty to charges of failing to report importation of currency over $10,000. Butler was caught with nearly half a million Canadian dollars hidden inside a compartment of his horse trailer while trying to cross the Canadian border in Coutts, Alberta.[4]

Canadian diamond industry at risk of money laundering and terrorist financing: In its 2009 Project SHYNE report, the RCMP’s criminal intelligence branch indicated that Canada is the third largest rough diamond producer in the world. However, a lack of legislation leaves Canadian law enforcement systems underequipped to handle money laundering and terrorist financing risks within the diamond industry. The report, which was released to the *National Post* through the *Access to Information and Privacy Act,* specifies that because Canada is relatively new to the industry, adequate policies and regulations have yet to be established. As a result, the Canadian diamond market remains largely unregulated and highly fragmented with approximately 6,500 dealers of precious metals and stones within the country. In addition, the jewellery business is often a “family affair” and reliant on personal contacts, making it even more difficult for police to monitor and investigate criminal activities conducted within the industry. Several other factors contribute to putting the diamond industry at risk of money laundering and terrorist financing. For instance, because diamonds are not considered monetary instruments by law, they can be used to smuggle criminal profits across borders. The small size, non-metallic colour, and odourless nature of diamonds allow them to be hidden, even within a person’s body, in order to carry criminal proceeds through airports. According to the report, there has also been an influx of retailers purchasing diamonds from illicit markets rather than legitimate wholesale dealers. The report linked the growth of an underground diamond market to the increase in jewellery store robberies across Canada. In addition, to alter the price of diamonds dealers can manipulate their value by falsifying documents or by not declaring the nature of diamonds at the point of sale. Auction houses also raise concerns of money laundering and terrorist financing risks because they are not considered reporting entities in the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. When diamonds are sold at auction houses they are usually mixed in with other jewellery and sold as an entire lot, creating challenges around the transparency of the numbers and prices of the diamonds sold. Moreover, due to the high level of competition within the industry, information on dealers' sales and clientele is protected. Buyers also have the ability to hide their identity by employing bidders to engage in the auctions.[5]

Two currency exchange operators in British Columbia plan to plead guilty to money laundering and conspiracy: According to a notice filed by their lawyer on August 1st, Robinderpal Singh Rathor and Taranjit Singh Rathor plan to plead guilty to money laundering and conspiracy charges. On March 10, 2009 the men were charged with three and five counts of money laundering respectively, and one count each of conspiracy to commit money laundering. The charges were a result of a two-year RCMP investigation on the two men's currency exchange businesses, Global Tourist Centre Currency Exchange and Capital Forex. The arrests were made after undercover RCMP officers posing as drug dealers used the businesses to exchange $21,300 in Canadian currency and $550,000 in US currency. Wayne Lymburner, who was in charge of the Proceeds of Crime Unit tasked with the investigation, stated that business owners should question the source of money before incorporating it into their own businesses to avoid aiding money laundering.[6]

Maryland businessman used companies as a tool for money laundering: On July 6th, a Maryland businessman named Todd Lubar pleaded guilty to charges of money laundering committed between September 2007 and 2009. According to court documents, Lubar laundered drug money through legitimate companies he owned, including a demolition business named Red Rock Service Co LLC and a scrap metal business named Scrap USA. As stated in Lubar's plea agreement, an undercover agent met with Lubar and indicated that he was looking for ways to invest and conceal cash proceeds from narcotics distribution in Chicago. Lubar claimed that because his scrap metal business conducts most of its transactions in cash, it is "easy" to use it as a tool for money laundering. Additionally, to allow the agent to launder cash, Lubar offered him "investment opportunities" where the agent could invest his illicit proceeds with Lubar who would "legitimize" the source of funds by repaying that investment with a guaranteed minimum return over a period of time. During 2008, the undercover agent agreed to launder US$20,000 through Lubar who, upon receiving the cash, presented a contract to the agent that indicated he would receive US$25,000 from Lubar by December 2008. According to court documents, numerous transactions were conducted between bank accounts for Red Rock Service, Scrap USA and one other business named The Image House, owned by David Kittrell who had sold narcotics to the undercover agent. Additional transactions were conducted between other narcotics dealers and various business accounts held by Lubar. The agent never received the US$25,000 from Lubar, instead Lubar deposited only US$200 into the agent's undercover bank account. Lubar can face up to 20 years in prison when sentenced.[7]

Colombia's gold mining industry used to launder money: According to Jeremy McDermott, director of research for a Bogota-based think-tank named InSight Crime, Colombia's resurgent gold mining industry is enticing criminal groups seeking to raise revenue and launder proceeds of crime. The World Gold Council claims that the price of gold has appreciated 100 percent from 2008 to 2011 to approximately US$1,800 per ounce. McDermott believes that the surge in the price of gold paired with the lack of oversight within the industry is linked to the growing presence of outlawed groups exploiting the gold mining industry, including the Revolutionary Armed Forces of Colombia (FARC) as well as other paramilitary groups involved in drug trafficking. Outlawed groups can earn profits from this sector by purchasing the mines through front companies, extorting money from legitimate miners, or by having control of the heavy machinery required for the industry. As reported by McDermott, the FARC owns a number of mining front companies and extorts nearly US$1 million in payments per month from legitimate miners in exchange for protection services. According to McDermott, because the industry is highly fragmented, small and non-industrial operations are the most vulnerable to exploitation by outlawed groups. One way that mining companies can launder money is to claim more gold sales than the volume that was actually exported. As a result, proceeds of crime can be placed "in the books" and made to appear legitimate. Alternatively, precious metals can be used as a medium of exchange and be directly traded for weapons and other goods, allowing criminal groups to bypass financial institutions. According to Octavio Betancourt, an attorney with Milersen LLC, an anti-money laundering consultancy based in Miami, banks can mitigate the challenges associated with Colombian gold mining by keeping better client records, updating registration data logged with local mining authorities, and by requiring proof of purchase from buyers to ensure that the gold was obtained under appropriate licenses. Among other initiatives to legitimize the industry, the Colombian government is forming a subdivision within the country's financial intelligence unit that is dedicated to mining investigations. However, Colombia does not currently have an anti-money laundering law that covers mining.[8]

Junket operators suspected of facilitating money laundering in Macau casinos: According to a *Macau Daily Times* article, U.S. diplomatic cables released by WikiLeaks indicated that the local gaming sector's dependence on VIP gaming operators, also known as junkets, facilitates if not encourages money laundering in Macau, China. Junkets operate independently-run VIP rooms in casinos which account for more than half of the gaming revenues in Macau, home to the world's largest casinos. Junkets are individuals or companies that target high net-worth casino patrons to take part in VIP gambling rooms. The VIP gambling rooms are established in partnership with local casinos and allow players to avoid identification while conducting casino transactions. Junkets may be involved in moving funds to and from casinos for their clients. As such, junkets are a third party that moves large sums of money across borders and casinos, effectively creating layers of anonymity around the source and ownership of the money. In return for their services, junkets are paid commission or a fee from both the players and the casinos. Macau is one of two special administrative regions in China and maintains its own monetary and legal systems. While the leaked cables acknowledge that junkets must be registered with the Macau government and are subject to regulation, it is noted that the regulations in place are aimed to reduce competition rather than to combat illicit activities. More specifically, as reported by the diplomatic cables, it is because of the relatively weak controls over financial transactions that Macau has become a target for those seeking to launder proceeds of crime. According to an article in the *Guardian,* Chinese law prohibits the country's citizens from exporting more than 20,000 Chinese yuan renminbi (approximately CA$3,200). To get around this prohibition, casino patrons deposit yuan renminbi with junkets located in mainland China. The junkets then take the money to Macau and transfer the funds to casinos that can pay out their client's original deposits in U.S. dollars. Clients, remaining anonymous, can then receive their U.S. funds and take them to Hong Kong, the second special administrative region in China, where the cash can be reinvested into the property market or into offshore tax havens. Some junkets will also extend credit to their clients in Macau on agreement that an equivalent sum will be paid to a junket associate in mainland China. The practice of extending credit in this way allows money to be laundered without physically leaving China. According to the U.S. Consulate General in Hong Kong who sent the diplomatic cables, junket operators allegedly work closely with organized crime groups in mainland China to identify and collect debts from clients that do not repay their credit.[9]

COUNTRY-BASED

FinCEN issues final rule on prepaid cards: On July 26th, the U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN) introduced its final rule to prevent terrorists, drug dealers and other criminals from using prepaid cards, referred to in the rule as prepaid access products, for money laundering. The rule came into effect on September 27th but compliance will be effective as of March 31, 2012. The ruling was a response to the vulnerabilities of the expanding prepaid card market, which has become an attractive tool for criminals to conceal and move the proceeds of their illicit activities. The new rule defines entities involved in the prepaid value chain. In particular, it distinguishes prepaid card providers from sellers and subjects these entities to maintain records for five or more years; it also requires these entities to report large transactions or suspicious activities to authorities when appropriate. A provider of a prepaid access program has been defined as an entity that largely controls and manages the program and must now be designated and registered with FinCEN. Sellers of prepaid access, on the other hand, are the retailers of prepaid access products. Both entities are required to maintain customer information such as names, dates of birth, addresses, and identification numbers for at least five years. Exempted from the new rule are prepaid access products of US$1,000 or less and payroll products that cannot be used internationally, do not permit transfers among users and cannot be reloaded from a non-depository source. Also exempt are closed-loop prepaid access products sold under US$2,000. These cards can be used only for goods or services involving a defined merchant or location(s) and are not redeemable for cash. Finally, government-funded and pre-tax flexible prepaid programs for health care and dependent care are also exempt. FinCEN received over 75 comment letters from a number of private entities as it developed the rule and believes that the exemptions and thresholds identified will help address concerns of retailers and law enforcement effectively.[10]

The United States targets global organized crime via sanctions: On July 25th, the United States introduced new sanctions against transnational organized crime groups originating from Mexico, Japan, Italy and Eastern Europe. U.S. President Barack Obama signed an executive order that froze all property belonging to the groups designated as transnational criminal organizations and banned U.S. citizens from engaging in any business with these groups. Furthermore, the proposed new laws would allow U.S. authorities to investigate and prosecute members of illegal criminal networks. Among those sanctioned were the Japanese Yakuza, the Italian Camorra, the Brothers' Circle based mainly in the former

Soviet Union and the Mexican Los Zetas cartel. According to the U.S. Treasury Department, the Yakuza has approximately 80,000 members that operate internationally and that are active in drug trafficking and money laundering in the United States. The Italian Camorra makes 10% of its annual US$25 billion by selling pirated goods in United States and European markets. The Brothers' Circle, formerly known as 'Moscow Center', is described by the U.S. Treasury Department as a "multiethnic criminal group" that conducts its criminal activities in the Middle East, Africa and Latin America. Finally, Los Zetas is a Mexican drug cartel that is heavily engaged in people smuggling and money laundering. A 28-page report that outlined the new sanctions stated that these groups often have bases in countries with weak or lax law enforcement and rely on shell corporations and offshore bank accounts which make them particularly difficult to target. According to President Obama, transnational criminal organizations have become "increasingly sophisticated and dangerous to the United States." Furthermore, in explaining how organized crime is no longer a regional problem, the U.S. Administration described how Latin American drug cartels were now exploiting local gangs in West Africa to smuggle cocaine to Western Europe and the Middle East. Meanwhile, Afghan groups are operating with networks in West Africa to traffic heroin to Europe and the United States.[11]

Money laundering linked to the trafficking and smuggling of humans, according to FATF report: In July, the Financial Action Task Force (FATF) released its report on money laundering risks arising from trafficking in human beings and smuggling of migrants. The report states that human trafficking differs from smuggling in that it requires the exploitation of victims in order to generate profits, typically involving prostitution or forced labour, while migrant smuggling involves a transnational element and consent from the victim. Despite their differences, both crimes carry a profit motive. According to the FATF, human trafficking and migrant smuggling are reputed to be "low risk – high reward" crimes because the links to money laundering or the possibility of confiscating the proceeds of crime are not always clear to authorities. Consequently, these crimes appeal to all levels of criminal interests ranging from small-scale operations to large-scale transnational networks. In order to combat human trafficking and migrant smuggling, the FATF suggests that the focus should be placed on understanding the financial aspects of these activities in order to convert these crimes into "high risk – low reward". According to the United Nations Office on Drugs and Crime, trafficking in human beings is estimated to generate an annual profit of US$32 billion, making it the third largest source of income for organized crime groups. Smuggling of migrants is also lucrative and is estimated to generate an approximate annual income of US$6.6 billion for smugglers moving migrants from Latin America to North America. The increasing movement of victims is usually from countries with less developed economies to countries with the most developed economies. Generally, origin countries consist of states within the former Soviet Republics, Central and South-Eastern Europe, Western Africa and South East Asia, whereas destination countries fall within Western Europe, North America and Western Asia. While the financial gains earned by human traffickers are largely dependent on the market into which the victim is being trafficked, returns on investment can range from 100% to 1000%, even in less profitable markets. Comparably, migrant smuggling rates also vary; for example, the rate to smuggle migrants from Mexico to the United States can range from US$1,000 to

US$3,500 per individual compared to rates of US$40,000 to US$70,000 per individual from China. The FATF report revealed a common trend of using cash-intensive businesses to launder the proceeds of crime. In Canada such businesses include convenience stores, import/export companies and car dealerships. The use of other businesses such as casinos, money services businesses, informal banking services (*hawala),* and cash couriers was also reported. According to the FATF, the main sources of information for detecting the money laundering risks of human trafficking and migrant smuggling are law enforcement investigations and suspicious transaction reports (STR) received by financial intelligence units (FIUs). However, due to the level of difficulty in determining the underlying offence when assessing for potential money laundering activity, the number of STRs received by FIUs related to human trafficking and migrant smuggling is relatively low in comparison with other serious predicate offences. The report concludes with a number of recommendations to address the risks of money laundering related to human trafficking and migrant smuggling. For one, the report saw a need for greater judicial focus on the money laundering risks of trafficking and smuggling rather than on the subjects of these crimes. Also, because these crimes usually take place in more than one jurisdiction, the report recommended better coordination and cooperation between all relevant agencies within and between jurisdictional borders. An example of an initiative to improve cooperation in this area is a pilot project between Canada and the United States. This project will establish an authorized group of Canadian and American police and customs officers permitted to cross the border in pursuit of suspected criminals, including human traffickers and migrant smugglers. The project is expected to begin in 2012.[12]

Australian Institute of Criminology claims that the non-profit sector is vulnerable to money laundering and terrorist financing: According to a publication released in September by the Australian Institute of Criminology, the non-profit sector is suspected by financial regulators of being vulnerable to money laundering and terrorist financing activities. The publication states that non-profit organizations (NPOs) often transmit large sums of money across jurisdictional borders to the benefit of individuals or groups in areas with high levels of conflict and weak financial infrastructure and oversight. In addition, the non-profit sector operates under less formal regulatory control and is combined with weak administrative and financial management. As a result, the sector has an increased risk of being exploited by criminal and terrorist financiers. In the past, misuse of the NPO sector has contributed to financing activities for the Irish Republican Army (IRA), Hamas, Hizballah and the Liberation Tigers of Tamil Eelam (LTTE). While these cases only represent a small percentage of the overall NPO activities, the Australian report indicates that the level of vulnerability to money laundering and terrorist financing activities is increasing. Different methods of misuse are highlighted in the publication: money raised by NPOs may be diverted either by organizations or by the recipients themselves and sent to groups or individuals that finance terrorist activities; assets of NPOs such as vehicles or properties may be misused to transport or house operatives, money or weapons; or organizations themselves may be used as a front to launder money. According to the report, sham organizations (generally charities) that are established by crime or terrorist groups were the most commonly detected misuse cases by AUSTRAC, the Australian financial intelligence unit. Most of the detected sham charities were involved in complex financing networks where funds were transferred between a series of local and international accounts held either by the charity, other NPOs, businesses or individuals. The implicated sham charities were also found to serve as the origin for fund collection and dispersal through cash deposits, wire transfers and remittance schemes. A Canadian charity was used as an example in the report. The charity was suspected of raising and disbursing financial resources for a foreign terrorist organization by sending electronic funds transfers to overseas-based persons or entities, including a charity that was thought to be operating as a front for a terrorist group. In addition to multiple credits being made, large sums of cash were also deposited into the charity's accounts. Other charities cited in the report as facilitating terrorist financing include U.S.-based organizations such as the Benevolence International Foundation, Global Relief Foundation and the Holy Land Foundation. The report cites a World Bank estimate that charities were able to raise US$2.8 trillion in 2010. In the United States alone, there are 1.4 million registered NPOs as well as 35,000 non-registered religious organizations and small charities. Meanwhile there is currently no anti-money laundering requirement for these organizations. To combat the occurrence of misuse in the non-profit sector the publication cites the Financial Action Task Force's recommendations for more transparency within the non-profit sector: to implement a regulatory scheme that includes sector outreach, sector monitoring, effective intelligence and information gathering and to establish or strengthen cooperative relationships between relevant regulatory and law enforcement agencies.[13]

Terrorist Financing

GROUP-BASED

U.S.-born Al Qaida leader Anwar al-Awlaki killed in Yemen: On September 30th, Yemen's Ministry of Defence reported that Anwar al-Awlaki, a U.S.-born cleric, was killed in a drone strike in western Yemen. According to U.S. officials, al-Awlaki was the leader of external operations for Al Qaida in the Arabian Peninsula and was known for his ability to inspire and recruit militants around the world. Al-Awlaki was also linked to a number of terrorist plots, including the attempted bombing of a jetliner en route to Detroit in December 2009 and was linked to Major Nidal Hasan, who was suspected of killing 13 people at Fort Hood military base in Texas in November 2009. The U.S. Central Intelligence Agency was granted permission in 2010 to carry out the drone strike when U.S. President Barack Obama set precedent by putting al-Awlaki on a target list as a priority to be sought and killed despite his American citizenship. Al-Awlaki was also added to the U.S. Treasury Department's Specially Designated Nationals List in 2010 that froze his financial assets and prohibited any transactions with him due to suspicions of his involvement in fundraising for terrorist groups, recruiting and training operatives as well as planning and ordering terrorist attacks. Al-Awlaki had been in hiding in Yemen since 2007. Government officials claim that he was in one of two vehicles that were hit while travelling through an Al Qaida stronghold in central Yemen. According to U.S. officials, the drone strike also killed Samir Khan, an American citizen of Pakistani origin and editor of Al Qaida's English-language online magazine, *Inspire.* Ibrahim Hassan al-Asiri, a Saudi bomb maker who designed the explosives carried by Umar Farouk

Abdulmutallab on the Detroit-bound jet, may have also been killed during the drone strike.[14]

U.S. intelligence reveals new link between Al Qaida in the Arabian Peninsula and Al Shabaab: According to an article in the *Los Angeles Times,* the Somali-based organization Al Shabaab and the Yemeni branch of Al Qaida in the Arabian Peninsula (AQAP) were the subjects of a recently developed U.S. intelligence brief that details a “widening alliance” of the two terrorist groups. The source of intelligence comes, in part, from information collected by U.S. officials from an alleged Al Shabaab commander, Ahmed Abdlkadir Warsame. The information was made public on July 5th through Warsame’s indictment on terrorist charges by the U.S. Federal Bureau of Investigation. Additional information was found in a detailed digital file retrieved from the compound where Usama bin Laden was killed. According to newly developed American intelligence, U.S. officials accused AQAP of providing material support to Al Shabaab through weapons, fighters and explosives training over the last year. AQAP is also suspected of coaxing Al Shabaab into attacking targets outside Africa such as the United States. A U.S. counter-terrorism official claims that interaction between the militants of the two terrorist organizations has occurred in the past. For example, Al Shabaab has purchased weapons and explosives from AQAP with money from ransom schemes and piracy activity. The *Los Angeles Times* claims that the two groups plan to coordinate actions between their respective regions in the future. According to the media outlet, authorities in the United States have made a concerted effort to weaken the emerging relationship by targeting leaders of both groups, including Warsame. Furthermore, U.S. drone aircrafts have also fired missiles at suspected militants in Yemen and in Somalia. [15]

Financial leader of FARC killed: On August 1st, *El Colombiano* reported that a financial leader of the Colombian-based insurgency group, the Revolutionary Armed Forces of Colombia (FARC), was killed by Colombian armed forces. The financial leader of FARC’s 36th Front in central Antioquia, alias ”Shampoo,” was also an explosives expert and was responsible for recruiting minors to FARC. Shampoo was killed along with two other suspected FARC members.

In related news, on July 17th Corporación Nuevo Arco Iris, a Bogota-based think-tank, released a report that highlighted the changing trends of FARC activity. The report focused on the resurgence of the group in southwest Colombia and the increased reliance on small militia networks composed of rebel units of 25-35 people that divide into even smaller groups to deploy their operations. In addition, FARC has increased its reliance on part-time fighters that operate in civilian clothing and are often based in urban areas to deploy bomb attacks. These new tactics pose a challenge for the government’s military since they limit big targets and allow FARC to avoid the air force while providing militias with better access to police stations or military bases in towns. Nuevo Arco Iris believes these changes have not been matched with evolved tactics on the part of the Colombian authorities. Instead, Colombian authorities have maintained their focus on eliminating the highest levels of FARC leadership, adding Shampoo to the list of other leaders killed such as Julio Suzarez Rojas, a former commander of the Eastern Bloc of FARC and member of the Secretariat. The report warns that if the Colombian government continues to kill off the political and military leaders of the rebel command, FARC will become more fragmented and will begin to resemble a criminal gang and deepen its partnerships with other gangs and former paramilitary groups. The report indicated that evidence shows that FARC has already deepened its cooperation with Colombia's new generation of criminal groups, known by the government as "bandas criminales". Nuevo Arco Iris suggests that there is a need for the Colombian army and police to introduce a new approach to their resistance against FARC in order to deter the group from increasing its threat.[16]

Turkey calls for support from EU states to 'dry out' PKK's financial resources: In a diplomatic initiative reported by the *SETimes*, Turkey plans to share dossiers regarding the funding of the Kurdistan Worker's Party (PKK) in hopes that European states will provide more support to block the group's financial resources from Europe. The PKK is recognized by Turkey, the European Union, the United States and Canada as a terrorist organization. The group is politically motivated to establish an independent Kurdish state in southeast Turkey and northern Iraq. Despite being in conflict with Turkish security forces for nearly 30 years, the PKK has demonstrated resilience largely as a result of its financing system, which the Turkish government believes must be targeted. In the past, the PKK received the majority of its funding from state support, mainly Syria and Iran, until the two states were pressured by Turkey to stop funding the group. Today much of the PKK's financing comes from the Kurdish diaspora in Europe and from Turkish Kurds. The PKK also relies on human and drug trafficking to generate profits to the extent that it has been recognized by Europol and Interpol as one of the main heroin and human trafficking organizations within the European Union. According to a report by *Jane's Intelligence Review,* the PKK has special "customs units" located along the borders of the group's territory that collect taxes from drug smugglers and possibly from people transporting other restricted goods into or out of its territory. While the exact contribution to its annual income is unclear, the PKK uses the money raised from drug trafficking as a means to sustain its efforts. The NATO Terrorist Threat Intelligence Unit's 2007 report stated that the PKK was able to generate around US$50-US$100 million annually. However, because financing operations of the PKK are fairly ad hoc and are built on personal and clan relationships, the average annual income of this organization fluctuates. According to Mehmet Metiner, Member of Parliament from the Justice and Development Party of Turkey, most of the Turkish Kurds that send funds to the PKK own small businesses such as restaurants and supermarkets, making it difficult to track money flows. Metiner also added that the PKK may develop a money laundering and a financial sub-system as the organization evolves. The Turkish government believes that cooperation between European states is integral to the elimination of PKK's threats and will help limit the rebels' military strength. In attempt to improve the working relationship between Turkey and EU states, the Turkish government has released, to relevant countries, the names of companies contributing financial aid to the PKK.[17]

FINANCIAL ACTIVITY-BASED

Extortion case in Ontario linked to Hizballah: A story by the *National Post* describes how the Lebanese militant group, Hizballah, was allegedly linked to an extortion racket that targeted Toronto-residents Aline Ajami and her father Elia Ajami. As explained in the article, a stranger who identified himself as Kamal Ghandour appeared at the Ajami's apartment in Toronto in February of 2008. Ghandour claimed that he was connected to Hizballah and that Aline's uncle owed him money. Unless Aline did as she was told, her uncle would be killed by Ghandour's associates in southern Lebanon. Ghandour also warned Aline against reporting him to the authorities by showing her business cards of several RCMP officers; claiming he had friends in law enforcement and that he would find out if she reported him. According to the *National Post*, for the next two months, Ghandour and his son Karim would take Aline and Elia to open credit and chequing accounts. The Ajamis would subsequently hand over the credit cards and cheques to the Ghandours, who would use them to their limit. Afterwards, as indicated in the article, the Ghandours wanted luxury cars. Thus in April 2008, Elia bought a 2007 VS class Mercedes Benz for $93,000 by using false credit information. In the same month, Aline, accompanied by Karim, bought a 2006 Lexus from the same dealership for $45,000. The dealership activated a tracking device in one of the cars after Aline's $5,500 deposit cheque bounced and her credit history revealed to be fake. Both cars were reportedly found in a shipping container at the Port of Montreal, awaiting shipment to Lebanon. By the time Aline was caught in the fraud, the Ghandours had forced her to return to Lebanon, where she spent a month in Beirut before deciding to call Crime Stoppers in Ontario to report what had happened. On July 23, 2008, Kamal Ghandour, his son Karim and five others were arrested for fraud, conspiracy, money laundering, cocaine and marijuana possession as well as possession of foreign equipment. The charges, however, were withdrawn in September due to insufficient evidence. While it is unverified if Kamal truly had connections with Hizballah, he did commit other serious frauds in the Windsor-Toronto area. The *National Post* also cited the 2009-2010 annual report of the Canadian Security Intelligence Service, which claimed that terrorist financing is often "closely associated" with other criminal activity such as extortion or kidnapping. The *National Post* also explained how luxury auto theft is a crime that has "long been associated to Hizballah."

In related news, according to the Investigative Services of the Insurance Bureau of Canada (IBC), evidence suggests that the money generated by auto theft crime rings fund illegal activities including terrorism. According to the IBC, there has been a reduction in both the rate of auto theft as well as the rate of recovery of stolen vehicles in Canada. This correlation, the IBC states, points to the involvement of organized crime. Cars stolen by crime rings are typically exported and resold with new Vehicle Identification Numbers or they are broken up for parts, making it increasingly difficult for authorities to identify and recover the vehicles.[18]

Success in reducing terrorism funding networks creates new challenges: In response to efforts in making the formal banking sector inaccessible to terrorism financiers, the Obama administration is concerned that terrorist networks will turn to criminal activities, taxation and web-based payments to raise and transfer money. Statements made by U.S. officials on September 8th both applaud government efforts in protecting the formal banking sector from terrorist financiers and stress concerns that, as a result, terrorists may turn to crime and criminal networks to continue financing operations. The U.S. government believes that organizations such as Al Qaida and Al Qaida in the Islamic Magreb (AQIM) have been able to raise tens of millions of dollars since 2008 through kidnappings and robberies. U.S. officials believe the prevalence of these crimes is a concern because it is particularly difficult to combat "kidnapping-for-ransom" schemes. In addition to ransom, taxation within terrorist groups' territory is also used to generate money. U.S. officials also believe that the use of web-based payments has surged amongst terrorists. Online prepaid cards, mobile payments and funds transfers via the Internet are becoming popular tools in transferring funds to terrorist organizations. Although transactions conducted using these tools bring better transparency to the financial system when compared to cash, many digital transactions cannot be stopped because they are not covered by the U.S. government's counter-terrorism financing regulations. Currently, the U.S. government is working through international forums and cooperating with Gulf governments to create enforceable sanctions for financiers in addition to ensuring that the United States has safeguards up to speed with payment system innovations.[19]

Demand for fundraising by Al Qaida in Iraq via the Internet: On July 25th, Al Qaida militants in Iraq placed an online appeal for funding claiming that the group was in dire need of financial assistance to provide for thousands of widows and children of slain fighters. According to the *Canadian Press*, while the group has funded its operations in the past by robbing jewellery stores, banks and offices that receive government salaries, its main source of funding from abroad has lately declined. This leaves the insurgents of the Islamic State of Iraq, an umbrella group for Sunni militants, in need of money. Ideas for fundraising were added on the group's website by its administrators. One idea suggested finding a way to extort money from oil companies, construction, transport and cell phone companies as well as international media agencies. Should companies refuse to pay, says the message, insurgents should disrupt the companies' operations. Another idea shared on the website was to have businessmen and wealthy families pay a fee to the group. Specifically, the message called for imposing fines on wealthy Shiites in Iraq "who received aid from America and the West and steal the country's oil revenue." Similarly, some claimed that confiscating money from Shiites, including merchants or government officials, would be a form of jihad. Finally, one other suggestion was to recruit specialized Internet hackers to transfer money from U.S. banks to "trusted people." The Islamic State of Iraq claimed responsibility for the 2010 heist of the Central Bank of Iraq and a state-run investment centre.[20]

COUNTRY-BASED

Canada lists Tehrik-e-Taliban as terrorist group: On July 5th, Tehrik-e-Taliban (TTP), a Taliban group in Pakistan, was listed as a terrorist organization by Canada. The Minister of Public Safety, Vic Toews, declared that listing TTP as a terrorist organization is "an essential part of our efforts to combat terrorism and to keep communities safe." TTP has claimed responsibility for multiple suicide attacks in Pakistan as well as the attempted bombing of Times Square, New York in May 2010. TTP is now the 44th terrorist entity on Canada's list. Although the group has almost exclusively targeted elements of the Pakistani state, its leaders have expressed in April 2010 that they would make U.S. cities a "main target" in response to U.S. drone strikes across the Afghan-Pakistan border.[21]

Canadian man detained in Senegal over terrorist financing suspicions: Newspapers in Senegal have reported that Said Ali Mohamoud from Toronto is being detained in a Senegalese prison due to his alleged involvement in terrorist financing activities for Al Shabaab, a Somali-based terrorist organization believed to have close ties with Al Qaida. Mohamoud's family rejected the allegations and attested that Mohamoud has never supported Al Qaida but rather was a victim of extortion. Mohamoud moved from Somalia to Canada in 1987 where he studied at York University and started a family. He later worked in Dubai, and more recently, in Dakar, Senegal where he held a position as an executive manager with Afifco SA, an Islamic financing company. Mohamoud's brother explained that a former employee of Afifco SA reported to local authorities that Mohamoud was providing aid to both Al Shabaab and Al Qaida. Mohamoud was arrested in Dakar but has not been formally charged. The president of the Canadian Somali Congress, Ahmed Hussen, stated that the Senegalese government views Mohamoud as a national security threat and that the allegations against him are serious. According to the Canadian Department of Foreign Affairs, Canadian consular officials in Dakar have been in contact with local authorities and have visited Mohamoud, who has been in custody since April.[22]

U.S. report highlights need to focus on LTTE financing: In its *Country Reports on Terrorism 2010*, released on August 18th, the U.S. Department of State declared a need for the Sri Lankan government to continue focusing on the international financing of the Liberation Tigers of Tamil Eelam (LTTE). Despite the military defeat of the LTTE within Sri Lanka in 2009, the report states that the LTTE's international network of financial support persists. For instance, the report claims that in 2010, members of the terrorist organization reportedly fled Sri Lanka and have since reorganized in India. Other concerns include the LTTE's use of Tamil charitable organizations as fronts for fundraising; the continued procurement of weapons by the LTTE members; and the ongoing financial support for the organization among some elements of the Tamil diaspora in North America, Europe, and Australia. For example, the report cites a March 2010 arrest of six Tamil migrants by German police on charges of using blackmail and extortion to raise funds for LTTE. In discussing responses to the issue, the report acknowledges Sri Lanka's commitment to counter crimes such as money laundering and terrorist financing through collaboration with the United States, Bangladesh, the Philippines, Nepal, Cambodia, Malaysia, Afghanistan, South Korea, and Indonesia. This collaboration includes the United States providing training to relevant Sri Lankan government agencies and the banking sector to combat financial support of LTTE remnants.[23]

New U.S. Treasury Department sanctions: The U.S. Treasury Department has issued several sanctions during this quarter that target individuals deemed crucial to the operation of terrorist organizations and, as such, are considered to pose a significant risk of committing acts of terrorism. The objective of such designations is to prohibit U.S. persons from engaging in commercial or financial transactions with the designees in addition to requiring all assets they hold under U.S. jurisdiction to be frozen.

On July 28th, the U.S. Treasury Department announced that it has placed sanctions on six members of the Al Qaida network from Iran. One of the six men sanctioned, Ezedin Abdel Aziz Khalil, is said to be the leader and the manager of the network's relationship with the Iranian government. The Treasury's Office of Foreign Assets Control (OFAC) has accused Khalil of directing funds to Al Qaida leaders in Pakistan, Afghanistan, and Iraq by moving money collected from donors across the Persian Gulf through Iran. According to the OFAC, Khalil worked with the Iranian government to arrange the release of Al Qaida operatives from Iranian prisons. After the prisoners were released, Khalil facilitated their travel to Pakistan but required the prisoners to take US$10,000 with them on their trip. The other five men designated by OFAC are Salim

Hasan Khalifa Rashid al-Kuwari, Abdallah Ghanim Mafuz Mulim al-Khawar, Ali Hasan Ali al-Ajmi, Umid Muhammadi and Atiyah Abd al-Rahman.

On August 16th, three senior members of Jemaah Islamiyyah, the Southeast Asia-based network with links to Al Qaida, were also designated by OFAC. Umar Patek, Abdul Rahim Ba'asyir and Muhammad Jibril Abdul Rahman funded and were involved in terrorist attacks in the Philippines and Indonesia.

On September 15th, the Indian Mujahideen group was placed on the U.S. list of terrorist organizations. Indian Mujahideen is an extremist group with links to Pakistani-based terrorist organizations that are also listed by OFAC. Indian Mujahideen was involved in bombings targeted at non-Muslims in India. The aim of this group is to create an Islamic caliphate that spans South Asia.

On September 28th, two founding members and leaders of the Pakistan-based Lashkar-e-Tayyiba (LeT) were sanctioned by OFAC. Zafar Iqbal and Hafiz Abdul Salam Bhuttavi were accused of being responsible for fundraising, recruitment and indoctrination of operatives.

On September 30th, four Afghans – Hajji Faizullah, Hajji Malik, Abdul Aziz Abbasin and Fazal Rahim – and one Pakistani, Abdur Rehman, were sanctioned for their involvement in the financing of the Taliban and Al Qaida. Faizullah is allegedly a prominent Taliban financier who has collected more than US$100,000 for the Taliban from donors in the Persian Gulf in addition to donating a portion of his own money to the group. Malik has allegedly invested millions of dollars in various businesses for the Taliban. Abbasin is allegedly a key leader of the Haqqani Network and commands a group of Taliban fighters. Rahim is suspected by OFAC of being a financial facilitator for Al Qaida. Rehman has allegedly raised and moved funds for the Taliban and Al Qaida.

In related news, on September 12th at a hearing before U.S. District Judge in Washington, three men – Iran Ul Haq, Qasim Ali and Zahid Yousaf – pleaded guilty to one count of conspiracy to provide material support to Tehrik-e Taliban Pakistan (TTP), a terrorist organization previously designated by OFAC. The three men admitted to providing false documentation and identification, despite knowing that the TTP engages in terrorism. In return for their support, the defendants accepted payment from confidential sources. Each defendant will face a maximum sentence of 15 years in prison and a fine of up to US$250,000 at the sentencing scheduled for December 9, 2011.[24]

Kuwait pressured to reduce its vulnerability to terrorist financing and money laundering: The International Monetary Fund (IMF), the Financial Action Task Force (FATF) and the U.S. Treasury Department have voiced concerns about the money laundering and terrorist financing risks in Kuwait's financial system. According to the U.S. Treasury Department, despite rapid development of its financial sector, Kuwait has yet to implement substantial anti-money laundering (AML) and counter-terrorism financing (CTF) laws such as criminalizing the financing of terrorist activities. For this reason, Kuwait was warned by the aforementioned organizations that it could become a hospitable environment for terrorist financiers and money launderers, and is being encouraged by the U.S. Treasury Department to implement more consistent and comprehensive CTF regulations. Kuwait's mutual evaluation, which was conducted by the IMF and adopted by the FATF in June, outlined several recommendations for Kuwait to correct deficiencies in the areas of preventive measures for financial institutions, supervision and monitoring. A representative from the Central Bank of Kuwait has acknowledged that the country has failed to comply with important recommendations regarding its AML/CTF laws. According to an article in the *Arab Times*, representatives from Kuwait's ministries of Finance, Interior, Justice, Defence, Commerce and Industry, as well as representatives from the Central Bank, have decided to allocate more authority to the committee in charge of controlling terrorism by implementing the decisions of the UN Security Council. Additionally, Kuwait's cabinet has passed a draft anti-corruption law in late September that includes articles on financial disclosure and money laundering, with penalties of up to seven years in prison.[25]

Sri Lanka reforms money laundering and terrorist financing laws: On September 23rd, the Sri Lankan parliament passed legislative amendments to improve its anti-money laundering (AML) and counter-terrorism financing (CTF) laws. According to Sri Lanka's Central Bank's financial intelligence unit, the new amendments were based on the Financial Action Task Force's (FATF) recommendations and should make Sri Lanka's AML/CTF regimes fully compliant with international standards. On June 24th, the FATF made a public statement naming Sri Lanka as a jurisdiction with AML/CTF deficiencies, particularly in the areas of criminalizing money laundering and terrorist financing and establishing and implementing adequate procedures to identify and freeze terrorist assets. The key features of the amendments to the Suppression of Terrorist Financing Act include the applicability of the terrorist financing law to both Sri Lankan citizens and non-citizens present in the country. The definition of 'funds' was broadened to include assets of every kind, whether tangible or intangible, moveable or immovable, which are kept within or outside of Sri Lanka. The authority of the police was also expanded to allow officers to freeze terrorist funds and properties related to terrorist financing.[26]

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