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 October 2012 to December 2012.

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.

Money Laundering

GROUP-BASED

Mexican drug cartels allegedly use construction equipment trade to launder money: On October 23, 2012, *CBS 5,* an affiliate of CNN, reported that Mexican drug cartels are allegedly buying and selling heavy equipment in the United States to launder proceeds of crime. The article states that cartels purchase construction equipment with cash derived from the drug trade and then enlist a third party agent to take the equipment to an auction for sale. While this type of transaction may initially involve a financial loss for the cartels, the process of purchasing and later selling construction equipment reportedly helps cartels move money to Mexico through the financial system because the funds are traceable to a legitimate business transaction.[1]

Peru's Sanchez-Paredes drug trafficking organization under investigation for laundering cocaine proceeds: On October 10, 2012 the U.S. Attorney's office in New York City reported the seizure of US$31 million contained in nine bank accounts connected to the Sanchez-Paredes family, a drug trafficking organization based in Peru. According to *Thomson Reuters*, some bank accounts were registered in the name of Carlos Sanchez Alayo, a member of the Sanchez-Paredes family, while others were in the name of various businesses and shell companies. The family-run drug trafficking group, which has been under investigation since the 1980s for smuggling cocaine into the United States, is suspected of using various businesses, including mining companies, farms, transportation companies, vehicle repair shops, and heavy equipment sellers, to launder its proceeds. According to the U.S. Attorney's office, US$52 million connected to the Sanchez-Paredes family is not traceable to legitimate business transactions. For instance, the press release states that CIA Minera Aurifera Santa Rosa SA, a gold mining company owned by the family, has been under investigation for possessing excess amounts of calcium oxide. Authorities suspected that the calcium oxide was used for the production of cocaine, not the processing of gold. However, as reported by *Peru this Week* on November 21, 2012, the United States government later unfroze the mining company's accounts due to a lack of justifiable cause to keep holding the funds. U.S. prosecutors have indicated that they will continue their investigations into the Sanchez-Paredes family. As noted by *Thomson Reuters*, this is Peru's largest money laundering investigation to date. [2]

FINANCIAL ACTIVITY-BASED

20 indicted for laundering the proceeds of a New York prostitution ring: On November 26, 2012 the Office of New York Attorney General Eric T. Schneiderman announced the indictment of 19 individuals and one corporation involved in a scheme to launder money derived from prostitution. The 180-count indictment included charges of enterprise corruption, money laundering, falsifying business records, narcotics sales and prostitution. The Attorney General's investigation alleged that an advertising agency, Somad Enterprises, Inc., "created, monitored, facilitated and employed" online and print advertisements to promote prostitution, which generated profits for the agency and its prostitution business clients. According to the press release, Somad partnered with several large-scale "prostitution managers" and their employees to create shell companies. Using these shell companies' names, the group opened merchant accounts at several financial institutions, enabling it to process millions of dollars in credit card transactions. These transactions were falsely labelled as payments for services related to cleaning, acupuncture, antiques and party planning. In fact, the transactions were for illegal drugs and prostitution activities. The "prostitution managers" also laundered profits from their illegal prostitution- and drug-related businesses through Somad by disguising the proceeds as payments for advertising services. Over 35,000 ads promoting the prostitution businesses were placed on a variety of outlets such as *Backpage.com*, earning Somad more than US$3 million in advertising between January 2010 and October 2012. The individuals charged face up to 25 years in prison for their involvement in the scheme. [3]

Offshore remittance firm central to Medicare money laundering scheme: On November 5, 2012, the *Miami Herald* published an update to a recent case in the U.S. involving laundering of US$31 million in Medicare fraud proceeds. Although media reporting in June 2012 focused on the role of Oscar Sanchez in the money laundering scheme, prosecutors are now claiming that Caribbean Transfers, an offshore remittance firm allegedly licensed by the Cuban government, played the central role. More comprehensive details about the original scheme are available in FINTRAC's April-June 2012 edition of the *Money Laundering and Terrorist Activity Financing Watch*, while the new developments are as follows. According to the *Miami Herald*, prosecutors are now claiming that Jorge Emilio Perez, the founder of Caribbean Transfers, and two other individuals, Felipe Ruiz, the owner of two medical equipment businesses in another person's name, and Kirian Vega, who owned a local pharmacy under another name, allegedly collaborated with Sanchez to launder fraudulent Medicare profits. The money laundering scheme consisted of moving Medicare fraud proceeds from Florida to Cuban financial institutions using Caribbean Transfers' shell companies in Canada, Trinidad and Mexico. Vega, who pleaded guilty on November 2, 2012, admitted to defrauding Medicare of US$400,000 and laundering US$124,000. He used a Florida cheque-cashing store to wire funds first to Turismo dos Polos, a Mexican shell company controlled by Caribbean Transfers. The Mexican company then transferred US$45,000 to Communications Sophie, a shell company in Trinidad, which forwarded the money to a travel agency in Cuba. According to the *Miami Herald*, the U.S. Attorney's Office does not have proof to suggest involvement of the Cuban government in the scheme. Officials in Cuba have also denied any involvement.[4]

Study reveals how easy it is to set up an "untraceable shell company": On October 1, 2012, the Task Force on Financial Integrity and Economic Development published an article exposing negligence on the part of Corporate Service Providers (CSPs) to abide by international standards set by the Financial Action Task Force (FATF). The article cites a study by academics Michael Findley, Daniel Nielson, and Jason Sharman that examined the willingness of CSPs to establish "anonymous shell companies" without adequate proof of identity from their clients. According to the study, to be considered compliant, CSPs are required to obtain a certified copy of a government-issued photo identity document before setting up a shell company for a customer. This helps CSPs identify who has beneficial ownership and control of the company. As stated in the study, shell companies that cannot be traced back to their real owners are one of the most common vehicles used for laundering money, engaging in bribery, evading sanctions, evading taxes, and financing terrorism. To conduct the experiment, the researchers created fictitious consultant personas and e-mailed over 3,700 CSPs in 182 countries, indicating interest to set up international companies. The study's findings revealed that 48% of all CSPs who replied did not ask for sufficient identification and 22% did not ask for any proof of identity at all to set up a shell company. The study also revealed that service providers in OECD countries were least likely of all to perform due diligence that met global standards.[5]

COUNTRY-BASED

Former SNC-Lavalin executive charged with money laundering by Swiss authorities: On November 25, 2012, the *Canadian Press* reported that Riadh Ben Aissa, a former executive for the Canadian construction company SNC-Lavalin, was formally charged with money laundering in connection with his business dealings in North Africa. While details of the scheme have not yet been released, *CBC News* reported that Ben Aissa allegedly laundered money connected to C$139 million in "mysterious payments" made by SNC-Lavalin into Swiss bank accounts. These accounts were registered to companies in the British Virgin Islands. Roland Kaufmann, a Geneva-based lawyer, has also been charged with money laundering and corruption by Swiss authorities for his role in helping Ben Aissa set up two companies, Dinova and Duvel Securities, in the British Virgin Islands. According to *CBC News*, it is believed that Ben Aissa authorized transfers of funds into these companies' accounts to obtain lucrative construction contracts in Tunisia and in Libya, which was under Moammar Gadhafi's regime at the time. According to the article, the payments dated back to 2001. These allegations follow an internal audit conducted by SNC-Lavalin in March 2012 that revealed C$56 million in improper payments were made to unidentified foreign agents. The joint investigation into SNC-Lavalin by Royal Canadian Mounted Police (RCMP) officials and Swiss prosecutors continues.[6]

HSBC, Standard Chartered Bank pay US$1.9 billion and US$327 million, respectively, to settle U.S. money laundering charges: On December 11, 2012, the *Guardian* reported that HSBC agreed to pay a US$1.9 billion fine to settle allegations related to anti-money laundering and sanction laws. According to the *Guardian* article, this is the largest fine to date for this type of offence. A previous report, covered in the July – September 2012 edition of the *Money Laundering and Terrorist Activity Financing Watch*, revealed deficiencies in HSBC's compliance with these laws, which exposed the U.S. financial system to money laundering and terrorist financing risks. After several months of deliberation, prosecutors decided against criminally indicting HSBC, choosing instead to levy penalties and sanctions against the bank. As part of the settlement, HSBC must continue improving its money laundering controls and oversight. HSBC's record fine follows a US$327 million payment by Standard Chartered Bank to settle federal and New York civil money laundering charges. On December 10, 2012, the *Associated Press* reported that the settlement was part of a deferred prosecution agreement with the Justice Department and Manhattan district attorney to resolve allegations of money laundering. According to the article, prosecutors had alleged that the New York branch of the Standard Chartered Bank had laundered US$133 million on behalf of Iran, Sudan, Libya and Burma, all of which were subject to U.S. economic sanctions between 2001 and 2007. By agreeing to the terms of the settlement, Standard Chartered Bank avoided criminal charges.[7]

Texas lawyer accused of laundering money for Mexican drug cartel: On November 14, 2012 the *Vancouver Sun* reported that Marco Delgado, a Texas lawyer, is facing charges of conspiracy to launder US$600 million in drug proceeds for the Milenio drug cartel, also known as Cartel de los Valencia. On November 2, 2012 Delgado was arrested in El Paso by U.S. Department of Homeland Security agents. Investigations into Delgado's activities began in 2007 when federal agents confiscated duffel bags holding US$1 million in cash from two men at an Atlanta traffic stop. The two men, who were transporting money for the cartel, led the agents to Delgado, who accepted the money. Although details of the case are still limited, the *Pittsburgh Post-Gazette* claims that Delgado conspired to launder drug money from July 2007 to December 2008, using bank accounts in Switzerland and the Turks and Caicos Islands. Delgado denies his involvement in the scheme and, on November 8, 2012, pleaded not guilty to charges of conspiracy to launder money. [8]

Terrorist Financing

GROUP-BASED

Minneapolis man convicted of aiding Al Shabaab: On October 19, 2012, the *Huffington Post* reported that Mahamud Said Omar was convicted of five terrorism-related counts for supporting Al Shabaab, a listed terrorist group. According to an article published on October 9, 2012 by the *Canadian Press*, Omar encouraged young men to fight against the United Nations-backed Somali government, acquired airplane tickets for young recruits and helped pay for weapons. Testimony by Al Shabaab recruit Salah Osman Ahmed revealed that Omar, who went to Somalia in 2008, paid a woman running an Al Shabaab safe house in Merca, Somalia US$300 for expenses, as well as provided money to purchase AK-47s costing US$500 for two fighters, while giving another recruit US$500. A *Canadian Press* article published on September 30, 2012 revealed Omar returned to the United States in April 2008, taking two travellers to an airport in the United States in August 2008 and helping six recruits buy airline tickets in November 2008. Omar is currently awaiting sentencing. As reported by the Huffington Post, it is estimated that over 20 Somali men living in the United States have been recruited to join Al Shabaab since 2007. [9]

FINANCIAL ACTIVITY-BASED

Iranian man convicted of conspiring to import heroin into the U.S. to finance Hizballah: On November 28, 2012, the United States Attorney's Office in the Southern District of New York issued a press release announcing the conviction of Siavosh Henareh for conspiring to import heroin into the United States. Henareh was one of three defendants charged in an international investigation of narcotics and weapons trafficking. Henareh's co-defendants, Cetin Aksu and Bachar Wehbe, both previously pled guilty to, among other charges, conspiring to provide material support to Hizaballah. According to the press release, Henareh had over 30 meetings with confidential Drug Enforcement Administration (DEA) sources and potential heroin suppliers in a variety of countries, including Turkey, Romania and Greece since June 2010. During the meetings, Henareh agreed to import hundreds of kilograms of heroin into the United States, with the knowledge that profits derived from the sale of the heroin would be used to purchase weapons for Hizballah. In July 2011, Henerah volunteered his home for the delivery of approximately three million euros to be used to purchase 189 kilograms of heroin, which he helped his co-conspirators Aksu and Wehbe count before his arrest. During negotiations for the heroin transaction, Aksu and Wehbe simultaneously began to negotiate an arms deal with the confidential DEA sources and, in 2011, they signed a written contract to purchase US$9.5 million of military-grade weapons from the DEA sources on behalf of Hizbollah. Wehbe transferred approximately US$100,000 as a down payment to the confidential sources shortly after the contract was signed. Henareh will be sentenced on February 27, 2013. Wehbe and Aksu are scheduled to be sentenced on November 4, 2013 and August 22, 2014, respectively. [10]

Three British men pose as charity collectors to raise money for terrorism: On October 23, 2012, *BBC News* reported that three men in Britain are accused of posing as door-to-door collectors from the charity Muslim Aid to raise money to finance terrorist activities. Irfan Naseer, Irfan Khalid and Ashik Ali allegedly began collecting money from the public in July 2011 after Naseer and Khalid returned from Pakistan, where they had received “training in terrorism.” According to the article, the three men planned to use the money they raised to stage a series of suicide bombings that “would have dwarfed the 7 July 2005 bombings in London.” Although Muslim Aid was licenced to operate door-to-door collections for one day in August 2011, the three defendants are alleged to have illegally collected money over a longer period of time without the charity’s knowledge, wearing Muslim Aid t-shirts to convince the public they were legitimate representatives of the charity. *BBC News* reported that the men collected £12,100 (approximately C$19,400) from the public in this manner, but lost £9,149 (approximately C$14,650) in foreign currency trading and donated £900 (approximately C$1,440) to a madrassa (religious school) in Birmingham, England, keeping the rest to finance their terrorist activities. The three men deny their involvement in the preparation of terrorist attacks. [11]

Couriers allegedly transport gold bullion in luggage to Iran: On October 24, 2012, the *National Post* reported that couriers are making several trips from Istanbul to Dubai, carrying with them gold bullion destined for Iran. Under the current Western sanctions, Turkey is prohibited from trading with Iran in U.S. dollars or euros. As an alternative, Turkey allegedly pays Iran for shipments of oil and gas in Turkish liras, which Iran uses to purchase gold bullion in Turkey. The article suggests that using physical gold instead of international money transfers may be a means for Iran to participate in the international market despite Western sanctions. According to the article, shipments of gold are increasingly being sent from Turkey to Dubai and then to Iran (as opposed to taking a direct route to Iran) in order to deter unwanted attention in the international community. The article reports a sharp decrease in Turkey’s gold exports to Iran in August 2012, which coincided with an increase in exports of gold from Turkey to the United Arab Emirates (UAE). According to Turkey’s Statistics Office, Turkey exported US$7 million in gold to the UAE in July 2012 and by August 2012, this number had risen to nearly US$2 billion. Couriers allegedly make trips to Dubai from Ataturk airport and Sabiha Gokcen airport in Turkey, carrying gold bullion in their hand luggage for Iranian buyers. According to the article, because the couriers declare the gold, the process is completely legal.[12]

COUNTRY-BASED

U.S. Department of the Treasury designates a hawala and two individuals linked to the Taliban under Executive Order 13224: On November 20, 2012, the U.S. Department of the Treasury designated Rahat Ltd., a hawala that facilitates financial transactions for the Taliban, and two associated individuals, Mohammed Qasim and Musa Kalim, under Executive Order 13224. Rahad Ltd, which has branches in Afghanistan, Pakistan and Iran, has been used by senior Taliban leadership to finance violent operations, particularly those undertaken by the "Taliban shadow governor" for Helmand Province, Naim Barich. Barich has received millions of dollars from a branch of Rahat Ltd. in Quetta, Pakistan to support his operations in southern Afghanistan. Designated by the U.S. Department of the Treasury on November 15, 2012 for his narcotics production and distribution activities, Barich used Rahat Ltd. to provide over US$250,000 to a senior Taliban commander. The hawala has also been used by other senior members of the Taliban to "store" and transfer hundreds of thousands of dollars. In the same press release, the U.S. Department of the Treasury announced the designation of Mohammed Qasim, owner of Rahad Ltd., and Musa Kalim, the owner and manager of the Quetta branch of Rahat Ltd. Qasim served as one of Barich's financial assistants, using his hawalas in Afghanistan, Pakistan and Iran to facilitate Taliban financial transfers. He was also involved in smuggling weapons into Helmand Province as of mid-2011 and helping transport weapons and ammunition for the Taliban in early 2012. According to the press release, the majority of the services provided by Musa Kalim's Quetta branch were used to transfer funds belonging to the Taliban and to smugglers on behalf of Barich. In 2011, Kalim was also responsible for the transfer of funds from Gulf donors to support Taliban fighters. No further details have been provided with regard to the specific origin of these funds. [13]

U.S. Department of the Treasury sanctions Al-Nusrah front leadership and two pro-Assad militias in Syria: On December 11, 2012, the U.S. Department of the Treasury announced the listing of the Syrian-based al-Nusrah Front as an alias of Al Qaida in Iraq (AQI), as well as the designation of two of its leaders, Maysar Ali Musa Abdallah al-Juburi and Anas Hasan Khattab, for acting on behalf of AQI. The group was created in late 2011, when Maysar Ali Musa Abdallah al-Juburi, the religious and military commander for al-Nusrah Front in eastern Syria, moved to Syria from Iraq to form a group in line with AQI ideology. According to the press release, the al-Nusrah Front for AQI, based in Syria, has exploited the instability created by the uprising against the Assad regime for the purpose of furthering its own extremist ideology. Anas Hasan Khattab, who was also designated, assisted in the formation of al-Nusrah Front and facilitated the receipt of financial and material assistance from AQI leadership. Since November 2011, the group has claimed responsibility for almost 600 terrorist attacks.

In the same press release, the U.S. Department of the Treasury announced the designation of two armed militias supporting the Assad regime, Jaysh al-Sha'bi and the Shabiha, as well as two Shabiha commanders, Ayman Jaber and Mohammed Jaber. Jayash al-Sha'bi, an armed militia that has conducted numerous operations in support of the Assad regime, is operating under the control of the Syrian government. According to the press release, since mid-2012, Jayash al-Sha'bi has received training, advice, weapons and equipment from Iran and Hizballah, as well as receiving millions of dollars of funding from Iran. As for the Shabiha, the press release states that it is a "direct action arm" of the Government of Syria, providing support to its security services and interrogating and killing potential supporters of the opposition. Shabiha leader Ayman Jaber was also designated for "materially assisting, sponsoring, or providing financial, material, or technological support for, or goods and services in support of, the Shabiha and Mahir al-Assad," Bashar al-Assad's brother. Mohammad Jaber was designated for providing material support to the Government of Syria.[14]

U.S. Department of the Treasury declares kidnapping for ransom a growing terrorist financing challenge: On October 5, 2012, the U.S. Department of the Treasury issued a press release outlining the threat of kidnapping for ransom (KFR) and listed effective policy measures to prevent the abduction of foreign nationals by terrorist groups. Various terrorist factions allegedly benefit from KFR, namely Al Qaida in the Islamic Maghreb (AQIM) and Al Qaida in the Arabian Peninsula (AQAP). In the process of KFR, terrorist groups abduct foreign nationals and demand large amounts of money from the victims' governments, employers and families in exchange for release. According to the United States government, KFR has generated approximately US$120 million for terrorist organizations since 2004. Since 2008, AQIM has reportedly obtained tens of millions of dollars through KFR. Similarly, AQAP is said to have acquired millions of dollars since 2009 using the same method of financing. The press release also states that the average size of ransom payments has increased from US$4.5 million in 2010 to US$5.4 million in 2011. These funds are used by terrorist organizations for various purposes, including recruitment, establishing training camps, and acquiring weapons. [15]

Arab Bank not liable for 2008 Hamas-affiliated attacks: As reported by *Thomson Reuters* on November 6, 2012, a federal judge has dismissed the lawsuit of a U.S. man that held Arab Bank responsible for injuries sustained during a Hamas-related attack. The case, filed by United States-Israeli citizen Mati Gill, asserted that Arab Bank provided material support to Hamas, a Palestinian terrorist organization. Gill, who was working as an assistant to Israel's public security minister at that time, was injured by gunfire during the attack. Citing the U.S. Anti-Terrorism Act, he sought compensation for damages and placed moral blame on Arab Bank for the harm inflicted. However, U.S. District Judge Jack Weinstein ruled that the effects of the bank's services were unforeseeable and because of this, Arab Bank cannot be held liable for the Hamas-affiliated attacks.[16]

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