



# **MONEY LAUNDERING**

## **AND TERRORIST ACTIVITY FINANCING WATCH**

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Financial Transactions and  
Reports Analysis Centre  
of Canada

Centre d'analyse des opérations  
et déclarations financières  
du Canada

Canada 

### Money Laundering and Terrorist Activity Financing Watch:

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

*ML/TF Watch is a quarterly review of news articles and is compiled by FINTRAC's Macro-Analysis and Research unit. It provides links to more detailed information sources (all references mentioned are hyperlinked to their sources). The articles provided in this issue range from April 2009 to June 2009.*

#### Caveat

The views expressed herein are those of the original authors except where specifically noted.

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## Money Laundering

### GROUP-BASED:

On April 28, 2009, Clayton Roueche, leader and founder of the **UN Gang**, pleaded guilty in a Seattle court to two counts of drug trafficking and one count of money laundering. As part of the plea agreement Roueche admitted that he conspired to import more than 1,000 kilograms of marijuana into the United States and 5 kilograms of cocaine into Canada between

2005 and 2008. Roueche faces 10 years to life imprisonment for each drug offence and a maximum of 20-years imprisonment for the money laundering offence. In addition to the prison sentence, Roueche also faces fines of up to US\$4 million for each drug offence and up to twice the amount laundered for the money laundering offence. U.S. prosecutors will push to have Roueche serve his sentence in the United States. The charges against Roueche stem from "Operation Frozen Timber" which uncovered a cross-border smuggling ring that used small planes and helicopters to deliver drugs throughout Washington State.

Authorities made over 40 arrests in the United States and seized 3,640 kilograms of marijuana, 360 kilograms of cocaine, three aircraft and US\$1.5 million in cash as part of the operation. Roueche had been avoiding travelling to the United States for fear of arrest, but decided to attend a wedding in Mexico in May 2008. At the request of Canadian and U.S. authorities, Roueche was denied entry into Mexico upon arrival, and was subsequently put on a plane back to Canada which made a stop in Dallas, where authorities were waiting to arrest him. The **UN Gang**, named for its multi-ethnic membership, originated in British Columbia's Fraser Valley over 11 years ago. The gang has been involved in a war with the Red Scorpions (another Vancouver-based gang involved in drug trafficking), and has been linked to 21 deadly shootings in Vancouver this year.<sup>1</sup>

Victor Faruq, a member of the **Independent Soldiers Gang**, was arrested in Sacramento California on March 31<sup>st</sup> and was subsequently sentenced to serve 10 years in a U.S. prison after pleading guilty to distributing ecstasy and money laundering. Faruq, a Canadian citizen residing illegally in the United States, admitted to supplying ecstasy to Sacramento drug dealers between January and April 2007. Following a search of Faruq's apartment the police found 300 ecstasy pills, more than US\$68,000 cash, a bullet proof vest with "Police" written on it and a key to another apartment where police found a further 10,000 ecstasy pills, which Faruq admitted also belonged to him. Drug proceeds were used to purchase an expensive watch and a luxury car which was registered under Faruq's friend's name to conceal ownership.<sup>2</sup>

Criminal defence attorney Isaac E. Guillen, has been charged by U.S. federal prosecutors with money laundering for the notorious "**Mexican Mafia**" prison gang. The Californian gang, one of the "big five" prison gangs and the oldest and most powerful prison gangs in the United States, funds its operations through a 10% tax levied on drug dealers operating in the gang's territory referred to as "rent". According to U.S. prosecutors, Guillen used money orders to transfer thousands of dollars from the MacArthur Park-based "Columbia Lil Cycos" gang, a subset of the 18<sup>th</sup> Street Gang, to a member of the **Mexican Mafia** being held in a Colorado "Supermax" penitentiary. Also, Guillen reportedly invested some of the "rent" proceeds into businesses, including a real estate holding corporation, a liquor distributor and a limousine service, that he operated with the **Mexican Mafia** member.<sup>3</sup>

Various **Italian-based organized crime syndicates** are taking advantage of the global economic recession by investing in legitimate business. Using proceeds

from drug trafficking, extortion and counterfeit goods, the syndicates are continuing their drive to secure a foothold in the legitimate economy, in areas such as food distribution, gas stations and two sectors hit hardest by the financial meltdown—real estate and credit markets. Italy's three main organized crime groups, the Sicilian-based Cosa Nostra, the Campania region's Camorra and the Calabria region's 'Ndrangheta, had a combined net income of €70 billion in 2008, producing a 54% profit margin, according to Rome-based research institute Eurispes. In contrast, Exxon Mobile Corp., the world's largest publicly traded oil company, had profits equal to approximately half of that, at US\$45.2 billion. According to SOS Impresa (a Rome-based business group that fight extortion) the liquidity of the **organized crime groups'** assets has allowed them to invest €26 billion in 2008 in cash-strapped industries including tourism, restaurants, car dealerships and fashion. Loan-sharking on the part of the mafia also rose tremendously in Italy last year, jumping 17% to €35 billion, as individuals and businesses shut out from legitimate lenders paid as much as 730% annual interest to black-market lenders. Antonio Mario Costa, executive director of the United Nations Office on Drugs and Crime, worries that Italy's cash-depleted banks may, inadvertently assist the **organized crime groups** to launder their proceeds of crime, especially if, in such times of economic crisis, banks lower their guard against money laundering activity. Russell Benson, the U.S. Drug Enforcement Agency's (DEA) Chief for Europe and Africa, cautions that Italian banks and businesses are not the only ones to be concerned. Italian organized crime has taken over most of the European portion of the global cocaine trade, estimated at US\$320 billion for 2009, and the profit is invested in businesses throughout the world. According to Benson, DEA investigations show that the 'Ndrangheta, for example, invests cash as far away as Australia and Canada.<sup>4</sup>

## ACTIVITY-BASED:

The operators of Global Tourist Centre Currency Exchange and Capital Forex, two **foreign exchange businesses** in Langley, British Columbia, face several counts of **money laundering** and conspiracy to commit money laundering. Robinderpal Rathor, and his cousin Taranjit Rathor, 21, were charged in June 2009 with laundering proceeds of crime following an investigation by the RCMP "E" Division's Integrated Proceeds of Crime Unit. The investigation began in 2007, when the RCMP received intelligence that led them to target the two **money services businesses (MSBs)**. Undercover officers were able to successfully launder over

CAN\$21,000 and US\$550,000. Moreover, police suspect that the two men laundered drug proceeds for the UN Gang.<sup>5</sup>

In one of the final court proceedings following “Operation Jackpot,” a 2005 investigation into a major drug trafficking operation in the Miramichi, New Brunswick area, a judge found David Black and his 79-year old mother Josephine Black guilty of money laundering charges. In June 2009, Justice Steven M. Hutchison concluded that David’s **hydroponics store**, Buddy’s Maritime Hydroponics, was a **vehicle used to launder the proceeds of marijuana sales**, and that funds from purported investors were, in actuality, profits of drug trafficking activity. Although Josephine Black maintained throughout the trial that she was unaware of her son’s illegal activities, the judge ruled otherwise, believing that not only was she aware of David’s drug trafficking activities, but she was also hiding his money. Josephine was apparently a **nominee** for her son, registering homes, vehicles, motorcycles, snowmobiles, seadoos and a pool in her name, despite their sole use by David. Given that other members of the Black family testified that Josephine was very careful with her money, the judge concluded that it was completely out of character for her to spend large amounts of money on items that she rarely, if ever, used. In addition, police wiretaps recorded conversations between Josephine and her sister discussing David’s involvement in the drug trade, and conversations with her other children who expressed concern about her involvement in David’s business.<sup>6</sup>

The Ontario Court of Appeal has increased Simon Rosenfeld’s sentence from three years to five, for his “crucial role” in an international cocaine cartel. Rosenfeld, a prominent Toronto lawyer, was sentenced to three years in jail on two counts of money laundering and one count of attempted possession of proceeds of crime. During Rosenfeld’s appeal, the Public Prosecution Service of Canada argued for an increase in the severity of sentences for lawyers that exploit the **solicitor-client privilege** granted by their profession to launder money. Justice David Doherty agreed, ruling that Rosenfeld’s status as a lawyer was “a significant aggravating factor” in his decision to increase the sentence, in addition to the fact that “money was the appellant’s only motive.” Rosenfeld has been free on a CAN\$1.9 million bail since being convicted.<sup>7</sup>

Lan Tri Ngo, 37, faces up to 20 years in prison following his June 10<sup>th</sup> conviction on money laundering charges. The conviction is a result of “Operation Tien Can,” a collaborative effort between U.S. Immigration and Customs Enforcement (ICE), the Royal Canadian

Mounted Police, the Internal Revenue Service and local law enforcement. The investigation was initiated after information was provided to U.S. authorities on an international **money laundering ring** based in Toronto, Ontario, with a number of associates in located throughout the United States. The source of laundered funds were the proceeds of marijuana sales, transferred by hand in parking lots throughout the United States, finally being transferred to Ngo’s **prepaid phone card distribution business**, which was used to launder the funds.<sup>8</sup>

According to the United States Office of the Special Inspector General, the **Public-Private Investment Program (PPIP)**, an incentive program for investors buying up “bad” bank loans, “presents an ideal opportunity” for criminals to launder illicit proceeds. The **PPIP** is a joint program proposed by the Treasury Department and the Federal Deposit Insurance Corporation, and receives funds from the US\$700 billion Troubled Asset Relief Program. The program offers multiple investment funds through which investors can buy up real estate loans and real estate securities from banks, using leverage from, or backed by, the U.S. government. According to the Office of the Special Inspector General, vehicles created by asset management companies to invest in the **PPIP** may lack the transparency for the U.S. Treasury to discern the identity of participants. While the program requires government screening of individual investors, the degree to which Treasury Department officials will conduct background checks on program participants remains unclear, according to the report. All of which provides an opportunity for criminals to disguise the source and ownership of the investment funds. The Office of the Special Inspector General has already initiated over 20 investigations into the abuse of the program, which is also vulnerable to fraud and conflict of interest. It has recommended that the Treasury Department develop screening procedures for fund managers, including “know-your-customer” policies for investors, and require fund managers to provide the Treasury Department with the names of all private investors.<sup>9</sup>

Increased violence along the U.S.-Mexico border has led to an agreement between the two countries to fast-track implementation of the US\$1.6 billion security accord known as the Merida Initiative, meant to crack down on **narco-trafficking** in North and Central America. Under the initiative, the U.S. and Mexico will work jointly to train anti-money laundering investigators in an effort to stop the flow of drug proceeds into Mexico. **Drug trafficking** organizations have increasingly turned to **smuggling bulk cash** in order to

move their criminal proceeds. Estimates of the amount of cash smuggled in bulk into Mexico each year varies between US\$10 billion and US\$45 billion, with US\$25 billion as the average that most analysts agree to be a realistic sum.

The increase in **bulk cash smuggling** on the part of drug trafficking organizations is due, in part, to measures undertaken by law enforcement in the United States such as geographic targeting. U.S. Treasury and Justice Department officials focus on small companies, including money services businesses, which act as brokers for drug traffickers. These brokers receive illicit funds from street-level drug dealers, and often structure cash deposits into multiple bank accounts before consolidating the funds into a single account and wiring the funds abroad. Once Treasury Department agents determine that such structuring activity is taking place, especially in areas known for heavy drug trafficking activity, such as New York, Atlanta, Dallas and Los Angeles, a geographic targeting order may be issued. The order lowers the reporting threshold, to an amount determined by the Treasury Department, for some or all types of currency transactions, for some or all types of customers, for one or more financial institutions in that area, for a limited period of time. While the use of geographic targeting orders reportedly results in brokers ceasing operations or moving out of the targeted areas, many have turned to alternate methods of moving funds, such as **bulk cash smuggling**.

The use of complicit Mexican currency exchange houses to exchange the criminal proceeds from US dollars into other currencies has already drawn the attention of U.S. law enforcement agencies. In 2007, U.S. authorities froze \$11 million in assets of Casa de Cambio Puebla S.A. de C.V., and Mexican prosecutors later charged the currency exchange house for helping to move money for drug cartels. As a result, many U.S. financial institutions, including Wachovia Bank, Harris Bank and Zions bank have elected to discontinue serving Mexican currency exchange houses.<sup>10</sup>

According to Arizona Attorney General Terry Goddard **pre-loaded gift cards** offered by financial institutions are being used by Mexican drug cartels as an alternative to smuggling cash across the U.S.-Mexican border. **Open-loop gift cards** are issued by financial institutions and MSBs, can store significant funds and can be loaded, reloaded and used to access funds from virtually any automated teller machine. They are an attractive means through which to transfer value across borders, because they are not detectable by cash sniffing dogs, and customs agents lack the necessary technology to determine the value of the cards. More

importantly, prepaid cards are not considered monetary instruments and therefore do not need to be declared at border crossings. Goddard has provided recommendations to members of the United States Congress on this issue. The regulation of the prepaid cards was also raised by Assistant U.S. Attorney Courtney J. Linn, as reported in the July 2008 edition of the Watch, when Linn made the case to subject certain prepaid card products to Currency and Monetary Instrument Reporting (CMIR) laws.<sup>11</sup>

According to the U.S. State Department's Bureau of International Narcotics and Law Enforcement Affairs 2009 report, annual estimates of **trade-based money laundering** reach into the hundreds of billion of dollars. The under- or over-valuing of goods is one method used by trade-based money launderers. For example, in order to launder and move \$1 million quickly, a launderer can purchase 200 Rolex watches, at a cost of \$5,000 each. The watches are then exported to a partner in another country, with a charge of \$5 for each watch on the invoice. The partner makes a \$1000 payment for the shipment, but the watches are sold at market value for a total value of \$1 million. Consequently, the source of funds now appears to be legitimate and illicit proceeds have been cleaned for a fee of \$1,000. Other examples noted by John Zdanowicz, a professor of finance at Florida International University, include bulldozers priced at \$387 exported to Venezuela, Corvettes exported to Latin America invoiced at \$500, cotton pillow cases imported from France invoiced at \$900 each and pencils imported from Latin America priced at \$100 each. While the same technique may be applied to services, in some cases companies may bill for services that are never delivered. In an effort to combat **trade-based money laundering**, U.S. Immigration and Customs Enforcement uses average import and export prices to determine if items are grossly over- or underpriced, and is able to spot unusual trade pricing patterns. ICE has also set up trade transparency units (TTUs) in Colombia, Brazil, Argentina, Mexico and Paraguay to detect and track **trade-based money laundering** by comparing trade data. Governments are willing to cooperate because of the millions of dollars potentially lost in customs duties on mispriced merchandise.<sup>12</sup>

## COUNTRY-BASED:

In a 7 to 0 ruling, on April 17, 2009, the Supreme Court of **Canada** ruled that provincial laws aimed at forfeiting the proceeds of crime are constitutional. The case was brought before the Court by Robin Chatterjee, a

Carleton University student whose assets were confiscated after his car was searched by police. On March 27, 2003, after Chatterjee was pulled over by Toronto police because of a missing licence plate, police immediately detected the smell of marijuana. The search failed to reveal any drugs in the car; however police found \$29,020 in cash, an exhaust fan and a light ballast, equipment typically used in marijuana grow operations. Although no charges were laid against Chatterjee, the assets from his car were confiscated since Chatterjee was unable to provide the source of funds. In such instances the law allows the police to confiscate funds that are suspected to be connected to criminal activities. Since its implementation in 2002, Ontario has seized or launched forfeiture proceeding involving \$16 million in property, 73% of which was related to drug investigations. British Columbia's law, enacted in 2006, has allowed the province to seize \$4.5 million in property. Alberta, Nova Scotia, Manitoba and Quebec also have forfeiture laws, but they have been awaiting the Supreme Court ruling before using them. New Brunswick and Prince Edward Island are planning to pass similar laws shortly. The provincial laws are distinct from federal criminal forfeiture laws, which are part of the criminal sentencing process, and widely conceded to be constitutional.<sup>13</sup>

The Government of **Canada** will provide the government of **Vietnam** with US\$300,000 towards a three year project to improve the country's law enforcement agencies ability to detect and combat money laundering. The Vietnamese government has also established a steering committee to direct and coordinate anti-money laundering (AML) activities across Vietnam, including the formulation of policies and programmes. The committee will also work with Vietnam's Prime Minister Nguyen Tan Dung on the country's membership obligations to the Asia-Pacific Group on Money Laundering, and the implementation of anti-money laundering recommendations proposed by the Financial Action Task Force.<sup>14</sup>

The National Futures Association (NFA), a self-regulatory organization for the **United States** futures industry, fined I Trade FX, a Florida foreign exchange trader, US\$250,000 for its failure to file a number of suspicious activity reports between November 2006 and April 2008. The penalty is the largest carried out by NFA. In June 2008, a complaint by the NFA against I Trade FX stated that the trader neglected "red flags" outlined in anti-money laundering rules. Isaac Martinez, I Trade's president and AML compliance officer, allowed customers to carry out suspicious transactions, disregarding anti-money laundering procedures. In one case, a customer conducted more that US\$25 million

worth of transactions while claiming an annual income of between US\$25,000 and US\$49,000; however no report was filed by I Trade FX. In addition to paying the penalty, I Trade FX must retain an independent auditing firm and conduct four semi-annual audits to ensure compliance with AML rules. Futures companies have had to maintain an AML program since 2002, and have had to follow customer identification requirements and suspicious activity reporting requirements since 2003.<sup>15</sup>

The Fraud Enforcement and Recovery Act 2009, a new law passed in the **United States** expands the statutory definition of money laundering, reversing the effects of a recent Supreme Court ruling. The 2008 U.S. Supreme Court ruling involved an individual who was convicted of conspiracy to launder money after he used commission payments from an illegal lottery to pay runners, collectors and lottery winners. The Court held that federal money laundering statutes were not violated because the word "proceeds" in the money laundering statute referred to the "profits" of criminal activity, and not simply the "receipts." The decision generated frustration among U.S. law enforcement officials who would have been required to identify the profit contained within the total proceeds laundered. The new law, which strengthens anti-mortgage fraud laws and criminalizes fraud against the Troubled Asset Relief Program, expands the statutory meaning of laundering to include funds tied to, but not the direct profit of, a crime.<sup>16</sup>

The **U.S.** Department of Justice has expressed its intention to seek the identity of 52,000 "undeclared" UBS accounts held by U.S. citizens. Earlier this year, UBS AG, **Switzerland's** largest bank, admitted to "regularly violating U.S. law through its client recruitment methods, use of shell offshore entities and filling of false paperwork." UBS was able to conceal the true identity of the account holders by putting the names of shell companies located in tax havens such as Panama, Hong Kong and the British Virgin Islands on the accounts as beneficiaries, omitting the names of the true account holders. The Swiss bank agreed to provide information to the Internal Revenue Services on as many as 300 U.S. clients in addition to paying a US\$780 million fine, in exchange for deferred criminal prosecution. However, the Department of Justice has indicated that it intends to seek further disclosure from UBS on 52,000 accounts worth an estimated US\$14.8 billion in assets under "John Doe Summonses" issued by the IRS. The Swiss government maintains that this type of disclosure violates Swiss bank secrecy laws, and any party carrying out such disclosure would be guilty of a criminal offence under Swiss law. Therefore, it is unknown at this date how

much, if any, information will be provided to the U.S. authorities.<sup>17</sup>

In an effort to provide its leadership with hard currency, **North Korea** has concocted a sophisticated **global insurance fraud** which has become one of the country's largest illicit revenue generators. North Korea has reportedly received hundreds of millions of dollars from some of the largest insurance companies in the world. Large claims by **North Korea**, for transportation accidents, factory fires, flood damage and other alleged disasters are reportedly suspicious. For example, Allianz Global Investors, Lloyds of London and others recently disputed a claim filed by North Korea following a 2005 crash of a helicopter into a government-owned warehouse in Pyongyang. The companies alleged that the helicopter crash had been staged, and that a **North Korean** court's decision to uphold the claim had been rigged. However, attempts by international insurers to overturn North Korea's claims have failed in British courts; in the aforementioned example, the parties agreed to a settlement which paid 95% of the **North Korean** claim for the crash because, according to analysts, the insurers had contractually agreed to be bound by North Korean law. In this scheme, the **state-owned Korea National Insurance Corp. (KNIC)** would pass part of the risk to a number of reinsurance companies around the world. In the case of the helicopter crash, reinsurers included companies in Europe, India and Egypt. According to a former KNIC manager, Kim Kwang Jin, the mission of KNIC is tightly focused: to find reinsurance companies and brokers in different parts of the world who would accept high premiums to reinsure KNIC's policies. The main point of the operation, according to Kim, is to benefit from disaster, using it as a source of hard currency.<sup>18</sup>

The **narco-economy in Guatemala** is a significant source of employment and capital, according to officials, to the extent that if drug trafficking and related businesses were eliminated, unemployment in certain parts of the country would skyrocket. The activities of alleged drug traffickers have created jobs, not only in alleged drug trafficking operations, but through a number of businesses that Guatemalan officials allege to be money laundering fronts. The generosity of the narco-traffickers towards local villagers is also suspected to assure that Colombian cocaine passes safely through the country to Mexico. Guatemala has been recognized as a major transit country for illegal drugs and related funds in the U.S. government's 2009 International Narcotics Control Strategy report. The report's findings are echoed by Sigfrido Lee, former Vice-Minister of Economy and current analyst for a Guatemalan think-tank. Mr. Lee observes that the flow

of capital into the country's financial system is suspiciously high compared with the size of the economy, a likely indication of the inflow of illegal funds. Over the last few years, **Guatemala** has had an unusually high number of luxury car and high-end real estate purchases, often made in cash. Money laundering activity is also suspected to be behind the boom in luxury high-rise apartment and office buildings, in which, in some cases, not a single unit has been sold.<sup>19</sup>

In **Scotland**, a year-long investigation by the Scottish Crime and Drug Enforcement Agency (SCDEA) revealed that approximately 250 professionals, such as accountants, lawyers and real estate agents, are helping criminals to conceal their illicit proceeds in cash businesses, such as pubs, hotels and taxis, and in real estate investments. As a result of the investigation, the Scottish government pledged to allocate £4m to SCDEA, and Scottish police will target these professionals who provide a "respectable front" for money laundering activity.<sup>20</sup>

Although **Pakistan** has passed anti-money laundering legislation, established a financial intelligence unit and criminalized a wide range of terrorist financing activities, the country still faces "significant" risks of money laundering and terrorist financing, according to a report by the IMF released in April. According to the IMF report, further effort is required by Pakistan to establish the autonomy of money laundering offences, clarify the criminalization of terrorist financing activity and broaden the scope for freezing assets. In addition, the report notes the need for **Pakistan** to properly use available legal powers to prosecute money launderers and terrorist financiers.<sup>21</sup>

**Sweden's** Financial Supervisory Authority has provided a banking licence to Entropia Universe, allowing the **virtual world to establish the Mind Bank**. The virtual bank can now offer loans, pay interest and allow players to pay bills, deposit salaries and benefit from a £42,000 deposit protection insurance. The virtual bank is set to open in January 2010 and will allow users to transfer "virtual" money into "real" money. Virtual worlds are reported to be vulnerable to money laundering since the majority of participants use assumed names and characters. Moreover, the very nature of virtual worlds facilitates the cross-border movement of value, and the ability to sell, purchase and trade items between numerous actors allows for the laundering of funds. However, by receiving the banking license, Mind Bank will be subject to all of the regulations and conditions faced by regular banks. The Financial

Supervisory Authority's desire to keep on top of increasing fraud and money laundering risks involved in virtual worlds may have played a role in granting the license, as it will now be able to monitor suspicious transactions. Over \$420 million in transactions took place on Entropia in 2008, whereas Second Life (one of the biggest virtual worlds) expects \$500 million worth of transactions in 2009. According to Marcus Hughes, a solicitor at Speechly Bircham, given the increasing growth in virtual worlds, the Swedish regulator's decision to provide a banking license to a virtual gaming world is unlikely to be the last.<sup>22</sup>

According to Aleksandar Vujicic, head of **Serbia's** Money Laundering Prevention Directorate (MLPD), an estimated €1.7 billion are laundered in **Serbia** annually. The funds, linked to drug and human trafficking, public corruption and organized crime, are laundered through real estate and "privatisations." Since the MLPD's inception in 2002, it has initiated 11 criminal prosecutions, and Vujicic noted that money laundering in **Serbia** is on the decline thanks to prevention mechanisms such as the requirement for banks to report cash transactions worth €15,000 or more.<sup>23</sup>

## Terrorist Activity Financing

### GROUP-BASED:

Mohammed Abdullah Warsame, a Canadian citizen of Somali descent has pleaded guilty in a Minneapolis Court to providing resources to **Al-Qaida**. The former Toronto resident, who has been held in solitary confinement for over five years, aided Al-Qaida between March 2000 and December 2003 by providing personnel, training and funds. Authorities also allege that Warsame attended an **Al-Qaida** training camp outside of Kabul in 2000, where he reportedly met Osama Bin Laden. Warsame faces up to 15 years in prison, and has agreed to be deported to Canada upon completion of his sentence.<sup>24</sup>

On April 28, 2009, six Californians and one Virginian pleaded guilty to federal charges of providing "material support" to **Mujahedin-e Khalq (MEK)**, a militant group that seeks to overthrow the Iranian government. The seven defendants admitted raising funds to support MEK activities by collecting money from other supporters, and soliciting money from unwitting donors at public locations such as the Los Angeles International Airport. These donors were reportedly told that they were providing support to the Committee for

Human Rights, also referred to as the Committee for Human Rights in Iran. In reality, the charity was, according to prosecutors, a front organization for MEK fundraising in the United States. Funds raised were reportedly used to support MEK operations and activities, including terrorism. Although the MEK reportedly renounced violence in 2001, the group remains a listed terrorist entity in Canada, the United States, Iraq and Iran. The group was removed from the European Union's list of terrorist entities in January 2009, prompting outrage in Iran.<sup>25</sup>

The "largest financier" of **Al-Qaida** in Saudi Arabia and Yemen was arrested on June 12, 2009, in the Yemini region of Marib by security forces. Hassan Hussein Bin Alwan was charged with forming a terrorist group and financing its activities. Bin Alwan reportedly deceived donors into believing their contributions were meant for charitable projects such as the construction of schools, mosques and orphanages. In fact, the funds were used to finance attacks in Yemen and Saudi Arabia. The government of Yemen stated that Bin Alwan's arrest will be instrumental in understanding the system of global terrorist financing, and that the information he is expected to provide will result in the death or capture of Al-Qaida militants.<sup>26</sup>

**Jamaat-ud-Dawa (JuD)** has reportedly been resurrected under a different name. The Islamist charitable organization was designated a terrorist organization by the United Nations in 2008 given its links to Lashkar-e-Taiba (LeT), the group responsible for the November 2008 attacks in Mumbai. The designation forced the Pakistani government to close down the organization, but the group appears to have renewed its activities under a different name: **Falah-e-Insaniat [Human Welfare] Foundation**. The organization is involved in a relief effort to help the thousands of refugees fleeing the Pakistani military campaign against the Taliban in the Swat and surrounding region. The reportedly well-resourced organization provides a network of ambulances, emergency camps, food and medicine to many of the estimated 1.3 million people displaced by the military action. Much like the **JuD** following the 2005 Kashmir earthquake, by providing relief where the state is unable to do so, Falah-e-Insaniat is building loyalty and increasing their influence. Following the ban on the JuD, the Pakistani government vowed to prevent the group from reforming. While Falah-e-Insaniat was reportedly registered as a charity in Lahore in 2007, a call to the head office was redirected to a self-described spokesman for the JuD. Furthermore, JuD flags are displayed prominently by the Falah-e-Insaniat, and its members make no secret of a link to the banned



organization. Despite this, **Falah-e-Insaniat** appears to be operating without impediment from Pakistani authorities.<sup>27</sup>

On April 17, 2009, Arunachalam Chrishanthakumar, a leading figure in Britain's Tamil community, was found guilty of supplying bomb-making equipment to the **Liberation Tigers of Tamil Eelam (LTTE)**. Prosecutors had accused Chrishanthakumar of supplying materials, including electrical components with "an obvious terrorist purpose" in his role as head of the United Tamil Organization. The verdict came during the final battle between the LTTE and the Sri Lankan government, which culminated in the military defeat of the Tigers, and the death of LTTE leader Vellupillai Prabhakaran, in May.<sup>28</sup>

The U.S. Department of the Treasury designated two **African-based supporters of Hezbollah**. The designation freezes any assets the designees have under U.S. jurisdiction, and prohibits U.S. individuals and entities from engaging in any transaction with them. **Abd Al Menhem Qubaysi, a Hezbollah supporter** based in Côte d'Ivoire, reportedly functions as the personal representative of Hezbollah Secretary General Hassan Nasrallah. According to the Treasury Department, Qubaysi maintains contacts with Hezbollah leaders, has hosted senior Hezbollah officials on fundraising missions to Côte d'Ivoire and other parts of Africa, and plays a visible role in Hezbollah activities in the western African nation, including speaking at Hezbollah fundraising events. Qubaysi has also helped establish an official Hezbollah foundation in Côte d'Ivoire, which has been used to recruit new members for Hezbollah's military wing in Lebanon. According to U.S. authorities, the other designee, **Kassim Tajideen**, operates a network of businesses in Lebanon and Africa, and has contributed tens of millions of dollars to Hezbollah some of which was funnelled to the organization through his brother, a Hezbollah commander in Lebanon. Tajideen also reportedly operates a number of front companies for Hezbollah in Africa. In 2003, a Belgian company run by Tajideen was accused of fraud, money laundering and diamond smuggling, to the value of tens of millions of Euros. Belgian authorities indicated that their investigation showed that the company systematically undervalued its imports, shipping and insurance costs, and that it filed false customs declarations. **Hezbollah operatives in Africa** are widely suspected of raising and laundering significant sums of money, recruiting local operatives, collecting preoperational intelligence and supporting Hezbollah's terrorist activities against Israeli, U.S. and other Western interests.<sup>29</sup>

## ACTIVITY-BASED:

An Associated Press investigation into the financial networks of militants in Afghanistan and Pakistan has found that much of the **Taliban's funds** are derived from extortion, crime and drugs. **Al-Qaida funding** on the other hand includes funds from new recruits, increasingly large donations from sympathizers and Islamic charities and a portion of the profits of honey dealers in Yemen and Pakistan who belong to the Wahabi sect of Islam.

Funds from drugs and criminal gangs reportedly accounts for approximately 85 to 90 per cent of **Taliban funding**, which the United Nations estimates could be equate to upwards of US\$300 million annually. The remaining funding likely comes from extortion, which is couched by the Taliban as tolls, taxes, and even zakat, the charitable donation required by Islam. The Taliban uses these funds to pay its fighters and procure the necessary resources for its attacks. Taliban fighters are reportedly paid \$100 a month, almost \$20 more than the average Pakistani policeman. A Taliban commander may earn upwards of \$350 a month, nearly a third of the average annual salary of most Pakistanis. Explosives used against coalition forces are available locally and cheaply, reportedly costing less than \$100 each to make. Training to make, place and detonate the devices likely comes from Al-Qaida.

Despite the crackdown on many sources of **Al-Qaida funding**, it has, over the last two years, increased its call for donations, told new recruits to bring money, and has reportedly shown signs of being more frugal. Analysts suggest that these observations may mean that the organization is saving funds for another attack on the scale of 9/11, and/or that the crackdown on Al-Qaida funding over the past few years has had an effect on the organization.

Trade-based money laundering on the part of a cartel of Pakistani honey dealers is also reportedly used to finance Al-Qaida. For example, honey is sent from Pakistan at inflated prices to markets such as Saudi Arabia, Dubai and Kuwait. Profits are then returned to Pakistan, and couriered to Al-Qaida.<sup>30</sup>

Police in the Netherlands Antilles arrested seventeen people for alleged involvement in a **drug trafficking ring with suspected connections to Hezbollah**. The suspects included four individuals from Lebanon, and others from Curacao, Venezuela, Cuba and Colombia. The drug trafficking ring used cargo ships and speed

boats to ship drugs from Venezuela and Colombia to West Africa, from where the drugs were transferred to the Netherlands, Lebanon, Spain and other parts of Europe. In the last year alone, two shipments totalling 2,000 kilograms of cocaine was seized from the ring in Curacao. The traffickers used informal Middle Eastern banks to funnel their proceeds to criminal organizations in Lebanon, including organizations with links to Hezbollah. The arrests were a result of a joint operation between local law enforcement in Curacao, and authorities in the Netherlands, Belgium, Colombia, Venezuela and the United States.<sup>31</sup>

## COUNTRY-BASED:

On June 2<sup>nd</sup>, the **Canadian** government tabled the *Justice for Victims of Terrorism Act* in the House of Commons. The Prime Minister first announced the bill, an amendment to the *State Immunity Act* at an event hosted by the Canadian Jewish Congress on May 31<sup>st</sup>. Under the new legislation, which is retroactive to January 1<sup>st</sup>, 1985, victims of terrorism will be able, in Canadian courts, to sue the “perpetrators” and “sponsors” of terrorist attacks. The primary aim of the Act, according to the Canadian Coalition Against Terror, is to target the funds available to terrorist organizations. The law is similar to one adopted by the United States and will allow victims of terrorism to sue foreign states that are designated as sponsors of terrorism by the government. While the legislation is widely supported by Amnesty International Canada and other human rights advocates, some analysts suggest that difficulties may arise when Cabinet begins selecting the countries to be placed on the designated list.<sup>32</sup>

According to the EU Terrorism Situation and Trend Report released by Europol in April, a wide range of crimes is used to finance terrorism in the **European Union**, including fraud, counterfeiting, burglary, kidnapping and extortion. The type of crime, however, appears to depend on the type of terrorist organization. The study concluded that Islamic extremist organizations primarily used fraud as means of financing, whereas separatist groups and left-wing terrorists used extortion.<sup>33</sup>

The **United Kingdom's** Charity Commission has opened an inquiry to examine the extent to which the charity known as Iqra “may have been used to facilitate terrorist, extremist or other inappropriate activities.” Registered in 2003, Iqra’s objectives are listed as “the advancement of the Islamic faith, through lectures,

study groups, literature or by such other charitable means as the trustees may from time to time determine.” Former trustees of the charity include Mohammed Siddique Khan and Shezad Tanweer, two of the perpetrators of the London bombings carried out on July 7, 2005. Sadeer Saleem and Shipon Ullah, two more former trustees of the charity, were recently acquitted of assisting the London bombers, while a fifth former trustee, Khalid Kalik, was convicted last year of possessing material relating to Al-Qaida.<sup>34</sup>

The U.S. Department of State’s Country Report on Terrorism, released in April, singles out the Quds Force, an elite branch of the Islamic Revolutionary Guard Corps (IRGC), as the main channel used by **Iran** to support terrorism abroad. According to the report, Iran continues to be the “most active state sponsor of terrorism in the world,” providing weapons, training and funding to Hamas, Hezbollah, the Taliban and various Palestinian terrorist groups that oppose the Middle East Peace Process. Iran has rejected these conclusions of the report, stating that the United States is guilty of “double standards.”<sup>35</sup>

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