

“Exploring the Financial Nexus of Terrorism, Drug Trafficking, and Organized Crime.”

The Terrorism and Illicit Finance Subcommittee, House Financial Services Committee  
March 20, 2018

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In late 2014, the Security Council adopted Resolution 2195 that identified the following crimes that support terrorism: “trafficking of arms, persons, drugs, and artefacts and from the illicit trade in natural resources including gold and other precious metals and stones, minerals, wildlife, charcoal and oil.”<sup>1</sup> This list, however, omits two important sources of funding for terrorism—counterfeits and the illicit cigarette trade, which includes counterfeit and diverted cigarettes, and illicit whites (cigarettes produced to be smuggled). The use of counterfeits as a funding source was identified with the first bombing of the World Trade Center in 1993.<sup>2</sup>

This statement will focus on the relationship between illicit trade, transnational crime, and terrorism focusing on the present state of trade in diverse funding sources. This includes, but is not exclusively confined, to drugs. The central premises of this analysis are:

- Almost all current terrorist groups rely on funding from crime
- Terrorists are functioning like diversified criminal businesses (ISIS epitomizes this)
- Terrorists choose to fund their activity through many of the least policed forms of criminal trade such as counterfeits— (clothing, cigarettes), antiquities, petty fraud, stolen telephones, and low-level intellectual property crime
- These petty forms of illicit trade have high profit and low risk
- Dual Use Crime—terrorists commit these crimes because they can generate revenue and degrade political stability simultaneously
- - A) Drugs—keep people subservient or incapacitate communities
  - B) Kidnapping—devastation of community makes them unable to resist

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<sup>1</sup> UN Security Council Resolution 2195 adopted in 2014, <https://www.un.org/press/en/2014/sc11717.doc.htm>.

<sup>2</sup> Dana Thomas, “Terror’s Purse Strings,” August 30, 2007, .

C) Trafficking for sex can be a means of destroying communities and groups undesirable to the terrorist organization - (i.e. Boko Haram, ISIS)

## **Drug Trafficking**

Drug trafficking, a multi-billion transnational crime business, has diverse perpetrators involved in different segments of the market. As in the past, countries have engaged in the drug trade to benefit the state. A key contemporary example of this is North Korea, under comprehensive economic sanctions. The North Korean state earns much needed hard currency through state production of methamphetamines. These drugs are often distributed overseas by North Korean diplomats, who exploit their diplomatic immunity.<sup>3</sup>

## **Origins of Terror-Drug Connection**

Terrorists are important non-state beneficiaries of drug trafficking. The term narco-terrorism first was used in Peru in the early 1980s. This term referred to the Peruvian Sendero Luminoso, a Maoist terrorist organization, significantly funded by drugs, which sought to overthrow the Peruvian government.<sup>4</sup> The United Nations Security Council has repeatedly recognized the relationship between drugs and terrorism.<sup>5</sup> In 2008, the chief of operations at the US Drug Enforcement Agency, Michael Braun, indicated that of the then 43 designated terrorist groups,<sup>6</sup> 19 profited from the drug trade.<sup>7</sup> The Department of Justice reported, in fiscal year 2010, that 29 of the top 63 international drug syndicates were associated with terrorist groups.<sup>8</sup> Almost all of these

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<sup>3</sup> Sheena Chestnut Greitens, "Illicit: North Korea's Evolving Operations to Earn Hard Currency," April 15, 2014, [https://www.hrnk.org/uploads/pdfs/SCG-FINAL-FINAL\(1\).pdf](https://www.hrnk.org/uploads/pdfs/SCG-FINAL-FINAL(1).pdf); "North Korea 'ramps up manufacture of illicit drugs' amid sanctions," August 21, 2017, <http://www.dw.com/en/north-korea-ramps-up-manufacture-of-illegal-drugs-amid-sanctions/a-40169753>.

<sup>4</sup> Loretta Napoleoni, *Terror Incorporated: Tracing the Dollars behind the Terror Networks* (New York: Seven Stories Press, 2005), 65-80.

<sup>5</sup> "Drug Trafficking and the Financing of Terrorism." Accessed July 1, 2017, <http://www.unodc.org/unodc/en/frontpage/drug-trafficking-and-the-financing-of-terrorism.html>; UN Security Council Resolution 2195 adopted in 2014. <https://www.un.org/press/en/2014/sc11717.doc.htm>

<sup>6</sup> U.S. State Department, Foreign Terrorist Organizations, September 28, 2012, <http://www.state.gov/j/ct/rls/other/des/123085.htm>, accessed January 8, 2013.

<sup>7</sup> Michael Braun, Drug Trafficking and Middle Eastern Terrorist Groups: A Growing Nexus?, July 25, 2008, <http://www.washingtoninstitute.org/policy-analysis/view/drug-trafficking-and-middle-eastern-terrorist-groups-a-growing-nexus>.

<sup>8</sup> John Rollins and Liana Sun Wyler, "Terrorism and Transnational Crime: Foreign Policy Issues for Congress," July 2013, 3. <https://fas.org/sgp/crs/terror/R41004.pdf>.

designated terrorist organizations are based in the developing world. Examples of terrorist groups involved in the global drug trade include the Revolutionary Armed Forces of Colombia (FARC), the Taliban, Hezbollah, and the Kurdistan Workers Party (PKK).<sup>9</sup> Many other terrorist groups are active in the drug trade at regional levels. Illustrative of this are Islamic State (ISIS) affiliates, Al-Qaeda in the Arabian Peninsula (AQAP) in Yemen, and Al-Qaeda in the Islamic Maghreb (AQIM) in North Africa.<sup>10</sup> ISIS itself has been involved in the narcotics trade, particularly that of Captagon (a psychostimulant).<sup>11</sup>

## Colombia

The Colombian case is an unusual example of the state reasserting control over territory once controlled by crime and terrorist groups. In Colombia, since the signing of the peace agreement with the FARC in November 2016, there has been some progress in dismantling elements of the drug trade. Problems remain in reducing the levels of drug cultivation. According to a recent report by Fundacion Ideas para la Paz, a renowned and respected think tank that has been monitoring the implementation of the peace accords, FARC has complied to a good extent.<sup>12</sup>

The peace agreement of the Colombian government with the FARC is based on three main pillars: (1) eradication of crops of illicit use (2) drug consumption reduction strategies and (3) reducing the production and commercialization of narcotics. While the government's responsibilities entail the design and execution of policies in the three areas, FARC's commitment relates to a vague "effective and determined contribution, by different forms and practical actions, to the solution of the problem of illicit drugs." They have, however, a very important and clear role in the execution of the strategy of coca leaf eradication, as they facilitate the execution of the program in areas that had been under their influence.

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<sup>9</sup> Jennifer L. Hesterman, *The Terrorist-Criminal Nexus: An Alliance of International Drug Cartels, Organized Crime, and Terror Groups* (Boca Raton, London, New York: CRC Press, 2013), 85-86; Gretchen Peters, "How Opium Profits the Taliban," United States Institute of Peace, 2009, 20. Accessed July, 1, 2017. [www.usip.org/files/resources/taliban\\_opium\\_1.pdf](http://www.usip.org/files/resources/taliban_opium_1.pdf); Michael Kenney, *From Pablo to Osama: Trafficking and Terrorist Networks, Government Bureaucracies and Competitive Adaptation* (University Park, Pa.: Pennsylvania State University Press, 2006).

<sup>10</sup> Gabriel Koehler-Derrick ed. "A False Foundation? AQAP, Tribes and Ungoverned Spaces in Yemen," October 3, 2011, Combating Terrorism Center at West Point, 104. Accessed July 1, 2017, <https://ctc.usma.edu/posts/a-false-foundation-aqap-tribes-and-ungoverned-spaces-in-yemen> ; Rollins and Wyler, 3.

<sup>11</sup> Ahmed AL –Imam et. al, "Captagon: Use and Trade in the Middle East," *Human Psychopharmacology Clinical and Experimental*, 2016, DOI 10.1002/hup.2548.

<sup>12</sup> Fundacion Ideas para la Paz (2018) *¿En qué va la sustitución de cultivos ilícitos? Balance del 2017 y lo que viene en 2018*, <http://cdn.ideaspaz.org/media/website/document/5a905d8a0546e.pdf>.

The main obstacles faced in implementing this program have been to an increase in violence, particularly murder rates in municipalities, where most of the coca plantations are concentrated. This increase is related to disputes among different illicit actors and the reconfiguration of markets in cocaine trafficking. Violence has also emerged from the clash between eradication teams and communities opposed to this policy. Also, landmines are present in some areas. This hinders the government's eradication efforts. The Colombian government seeks to eliminate coca cultivation from 50,000 hectares (or approx. 125,000 acres).

### **Northern Route from Afghanistan and Russia**

Drug trafficking and use in Russia dramatically escalated as a Northern route developed out of Afghanistan to move heroin to lucrative markets in Europe. Russian-speaking organized crime groups initially profited from the privatization of state economies, but a subset moved into the drug trade to benefit from the large-scale movement of drugs through Eurasia.<sup>13</sup> The movement of heroin benefits the Taliban that increasingly controls Afghan territory and taxes the drug trade. The UN has identified Taliban leaders directly involved in the drug trade trafficking. At the present time, the Afghan government in Kabul does not control areas where there is extensive poppy growth and cultivation of drugs has increased dramatically.<sup>14</sup> The United Nations Office on Drugs and Crime in its 2017 report estimates that "Between 26 % and 85% of the opium cultivating areas are estimated to be under varying degrees of Taliban influence."<sup>15</sup> Also, the 2017 UN Report estimates "non-State armed groups raised about \$150 million in 2016 from the Afghan illicit opiate trade in the form of taxes on the cultivation of opium poppy and trafficking in opiates."<sup>16</sup> Some estimates suggest that half the income of the Taliban comes from the drug trade.<sup>17</sup> The Taliban is not the only terrorist group operating in Afghanistan. ISIS also operates in Afghanistan and once competed with the Taliban for control of the drug trade but "no longer seems to systematically interfere with drug production, although they still may do so in individual cases."<sup>18</sup>

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<sup>13</sup> Mark Galeotti, "Narcotics and Nationalism: Russian Drug Policies and Futures," Brookings Institution, 2016, <https://www.brookings.edu/wp-content/uploads/2016/07/Galeotti-Russia-final.pdf>; Louise I. Shelley and Svante E. Cornell, "The Drug Trade in Russia," in Andreas Wenger, Jeronim Perovic, and Robert W. Ortung, eds., Russian Business Power: The Role of Russian Business in Foreign and Security Relations, London: Routledge, 2006, pp. 196-216.

<sup>14</sup> *Afghanistan Opium Survey: Cultivation and Production, November 2017*, [https://www.unodc.org/documents/crop-monitoring/Afghanistan/Afghan\\_opium\\_survey\\_2017\\_cult\\_prod\\_web.pdf](https://www.unodc.org/documents/crop-monitoring/Afghanistan/Afghan_opium_survey_2017_cult_prod_web.pdf)

<sup>15</sup> *UN World Drug Report*, 2017, vol. 5, [https://www.unodc.org/wdr2017/field/Booklet\\_5\\_NEXUS.pdf](https://www.unodc.org/wdr2017/field/Booklet_5_NEXUS.pdf), p.38 (figure is up to 85% in areas where there is support for Taliban)

<sup>16</sup> *Ibid.* 10.

<sup>17</sup> *Ibid.*, 34.

<sup>18</sup> *Ibid.*, 36.

## Southern Route and Trafficking from Afghanistan

Whereas post-Soviet organized crime groups benefit from the drug trade through the Northern route, Iranian and Turkish groups derive profits from the Southern route. The Iranian Revolutionary Guard (IRGC) may be involved in heroin smuggling to Europe through Iraqi-Shia militias.<sup>19</sup> The PKK raises money by taxing cannabis farmers and trafficking heroin through the Balkan Route.<sup>20</sup> The PKK may operate drug distribution rings in the European Union. In September 2017, Austria and Belgium prosecuted a Kurdish drug gang for sales of heroin, ecstasy, and cocaine. Allegedly, the gang was remitting the proceeds to the PKK in Turkey.<sup>21</sup>

## Africa

Boko Haram has also reportedly helped drug traffickers to smuggle heroin and cocaine across West Africa. During a Chadian criminal case against Boko Haram members, there testified that “considerable quantities of psychotropic substances had been recovered and that Boko Haram members were regularly involved in the trafficking in and consumption of those substances.”<sup>22</sup> Further north, some evidence suggests that Al-Qaeda in the Islamic Maghreb has been involved in cannabis and cocaine trafficking, or at least protecting drug traffickers. AQIM provides seed funding to drug traffickers in exchange for 50% of the profit.<sup>23</sup> Profits are sometimes paid out in vehicles or weaponry.

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<sup>19</sup> Ahmed Majidiyar, Ahmed. “Quds Force Reportedly Uses Regional Shiite Militias for Drug Smuggling into Europe.” Middle East Institute, April 17, 2017.

<https://www.mei.edu/content/io/quds-force-reportedly-uses-regional-shiite-militias-drug-smuggling-europe>.

<sup>20</sup> Mahmut Cengiz, “Amped in Ankara: Drug Trade and Drug Policy in Turkey from the 1950s through Today.” *Brookings* (blog), April 5, 2017.

<https://www.brookings.edu/research/amped-in-ankara-drug-trade-and-drug-policy-in-turkey-from-the-1950s-through-today/>.

<sup>21</sup> “Hasseltse Drugsbende ‘Bevoorraadde Half Europa.’” *Het Belang Van Limburg*. September 1, 2017.

[https://translate.google.com/translate?sl=nl&tl=en&js=y&prev=t&hl=en&ie=UTF-8&u=http%3A%2F%2Fwww.hbvl.be%2Fcnt%2Fdmf20170901\\_03047278%2Fhasseltse-drugsbende-bevoorraadde-half-europa&edit-text=](https://translate.google.com/translate?sl=nl&tl=en&js=y&prev=t&hl=en&ie=UTF-8&u=http%3A%2F%2Fwww.hbvl.be%2Fcnt%2Fdmf20170901_03047278%2Fhasseltse-drugsbende-bevoorraadde-half-europa&edit-text=); Turks-Koerdische drugsbende in Hasselt opgerold.” HNL News, September 2017.

<https://translate.google.com/translate?sl=auto&tl=en&js=y&prev=t&hl=en&ie=UTF-8&u=https%3A%2F%2Fwww.hln.be%2Fnieuws%2Fbinnenland%2Fturks-koerdische-drugsbende-in-hasselt-opgerold%7Ea2507c1c%2F&edit-text=>.

<sup>22</sup> *Ibid.* UN World Drug Report, vol 5, 11

<sup>23</sup> Franceco Strazzari, “Azawad and the Rights of Passage: The Role of Illicit Trade in the Logic of Armed Group Formation in Northern Mali.” Norwegian Peacebuilding Resource Centre, January 2015,

The majority of AQIM's drug income derives from taxes on traffickers operating through AQIM territory.<sup>24</sup>

UN analysis suggests AQIM which operates primarily in North and West Africa, has been involved in cannabis and cocaine trafficking, often by protecting traffickers, "Individual commanders of the Movement for Oneness and Jihad in West Africa, which broke away from Al-Qaeda in the Islamic Maghreb, seem at present to be directly involved in drug trafficking."<sup>25</sup>

## Asia

The Pakistani-based crime-terror group, D-company (whose origins lie in India), expanded Karachi's historic role as a drug transshipment point, and built a powerful transnational crime-terror organization, in part from drug proceeds.<sup>26</sup> D-company, like Mexican drug organizations, has diversified. They traffic weapons, counterfeit DVDs, and provide financial services through their extensive system of *hawala* operators (a system of underground banking present in South Asia and the Middle East).<sup>27</sup>

## Future Concern

The fentanyl that is currently imported into the United States is so potent that it is sometimes very harmful to those that come into contact with it. Therefore, there is a possibility that this drug could be utilized by terrorists as a weapon. The fact that such strong fentanyl is presently being sent through the postal service poses a serious health risk. Therefore, the drug may not only generate revenues for criminals, but may be used to harm individuals as in a terrorist attack.

## Human Trafficking

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[https://www.clingendael.org/sites/default/files/pdfs/Strazzari\\_NOREF\\_Clingendael\\_Mali\\_Azawad\\_Dec2014.pdf](https://www.clingendael.org/sites/default/files/pdfs/Strazzari_NOREF_Clingendael_Mali_Azawad_Dec2014.pdf).

<sup>24</sup> "The Afghan Opiate Trade and Africa – A Baseline Assessment." United Nations Office on Drugs and Crime, 2016. <http://globalinitiative.net/the-afghan-opiate-trade-and-africa-a-baseline-assessment/>; Terrorist Financing in West and Central Africa." Paris, France: Financial Action Task Force, October 2016. [www.fatf-gafi.org/media/fatf/documents/reports/tf-in-west-africa.pdf](http://www.fatf-gafi.org/media/fatf/documents/reports/tf-in-west-africa.pdf).

<sup>25</sup> *UN World Drug Report*, 2017, vol. 5, 35

[https://www.unodc.org/wdr2017/field/Booklet\\_5\\_NEXUS.pdf](https://www.unodc.org/wdr2017/field/Booklet_5_NEXUS.pdf)

<sup>26</sup> Gretchen Peters, *Seeds of Terror: How Heroin is Bankrolling the Taliban and Al Qaeda* (New York: St. Martin's Press, 2009).

<sup>27</sup> Stephen Taniel, *Storming the World Stage: The Story of Lashkar-e-Taiba* (New York: Columbia University Press, 2011), 90; Ryan Clarke, *Crime-Terror Nexus in South Asia: States, Security and Non-State Actors* (Abingdon and New York: Routledge, 2011), 48-55.

Terrorists related to the Al-Qaeda network use human trafficking more as a form of intimidation and retaliation than as a revenue source. The trafficking of Yazidi women by ISIS,<sup>28</sup> as well as women and girls by Boko Haram, the ISIS West African affiliate, has been heavily publicized. But there are historical precedents, as the PKK in Turkey profited from human trafficking and smuggling. Children in Africa have been trafficked by terrorist groups, such as Al-Shabaab, to serve as child soldiers.<sup>29</sup>

Terrorist groups, such as Al-Nusra are involved in the kidney trade.<sup>30</sup> Purchasers enter chat rooms on the Dark Net, finding suppliers of kidneys and doctors ready to perform the necessary surgery.<sup>31</sup> Wealthy buyers travel to access kidneys “sold” by desperate individuals in the Middle East, including refugees. Buyers may pay up to \$80,000 to secure a kidney outside the legitimate market, a demand that is filled by purchasing or coercing the most vulnerable refugees to surrender a kidney with very limited compensation.<sup>32</sup> In the absence of decent post-operative medical care, this sale may place the sellers’ life in jeopardy. The proceeds of a kidney sale may pay for smuggling fees to Europe for family members.<sup>33</sup>

## Antiquities Trade

The large-scale illicit trade in artifacts from Iraq first occurred in the disturbed conditions following the 1991 Gulf War, peaking around the 2003 Iraq War. More recently, it has flourished in ISIS-occupied areas. Similarly, in Syria, low-level looting and trafficking, which began in the 1980s, worsened after the onset of hostilities in 2011 and grew still more after the 2013 ISIS invasion and occupation of large parts of the country. In August 1990, UN Security Council Resolution (UNSCR) 661 prohibited trade in Iraqi artifacts and was reaffirmed in February 2015 by UNSCR 2199, which prohibited trade in Syrian artifacts. Unfortunately, neither instrument seems to have exerted any material control over antiquities trafficking. ISIS has taxed antiquity traffickers and has even provided excavation licenses to individuals in regions under their control.

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<sup>28</sup> Cathy Otten, “Slaves of ISIS: The Walk of the Yazidi Women,” July 25, 2017. <https://www.theguardian.com/world/2017/jul/25/slaves-of-isis-the-long-walk-of-the-yazidi-women>.

<sup>29</sup> Shelley, *Dirty Entanglements: Corruption, Crime and Terrorism*, 178-79.

<sup>30</sup> Warren Strobel, Jonathan Landay and Phil Stewart, “Exclusive: Islamic State sanctioned organ harvesting in document taken in U.S. raid,” December 25, 2014, Accessed July 5, 2017, <http://www.reuters.com/article/us-usa-islamic-state-documents-idUSKBN0U805R20151225>.

<sup>31</sup> An illicit kidney trade also functions in the Indian subcontinent, and China for profit.

<sup>32</sup> Nancy Scheper-Hughes, “Organ Trafficking During Times of War and Political Conflict,” *International Affairs Forum*, Vol.7, no. 2 (Fall 2016): 123-36.

<sup>33</sup> Arnold Ahlert, “ISIS Trafficking Human Organs?,” February 19, 2015. Accessed July 5, 2017, <http://www.frontpagemag.com/fpm/251753/isis-trafficking-human-organs-arnold-ahlert>; Human Organ Trafficking, Campbell Fraser. Accessed July 5, 2017, <https://vimeo.com/156708248>.

It is clear from satellite imagery and news reporting that archaeological sites throughout Iraq and Syria have been badly damaged by looting. The organization, operation, and financial parameters of antiquities trafficking are poorly understood. If the role of terrorist groups in antiquities trafficking is not fully known, the trade is key as nothing can pass through ISIS controlled territory without payments. As ISIS loses control over territory, there are indicators that Al-Nusra is assuming a greater role in the antiquities trade.<sup>34</sup>

## **Illicit Cigarette Trade**

The trade in counterfeit and diverted cigarettes, and illicit whites resembles and sometimes intersects with the trade in drugs and humans. Ignored by many law enforcement agencies, illicit cigarette trade provide an ideal funding source for states, corrupt officials, criminals, and terrorists.

The illicit cigarette trade has been particularly attractive to terrorist groups, because it is low risk and high profit. One of the Kouachi brothers, the murderer of the Charlie Hebdo cartoonists in Paris, made money by selling cigarettes.<sup>35</sup> Higher levels of the illicit cigarette supply chain support terrorism in more significant ways. AQIM (branch of al Qaeda in North Africa) and other Jihadists in the region relied on this trade.<sup>36</sup>

Other terrorist groups also profit from illicit cigarettes. Hezbollah and Hamas have been identified in multiple cigarette cases.<sup>37</sup> ISIS manipulated the cigarette trade for

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<sup>34</sup> Research being done under U.S. State Department, Counterterrorism Branch grant on Research and Training on Illicit Markets for Iraqi and Syrian Art and Antiquities, September 2017 – September 2018, to TraCCC Center at George Mason University. I serve as the Principal Investigator.

<sup>35</sup> Rajan Basra, Peter Neumann and Claudia Brunner, *Criminal Pasts, Terrorist Futures: European Jihadists and the New Crime-Terror Nexus* (London: ICSR, 2016), 44. Accessed June 16, 2017, <http://icsr.info/2016/10/new-icsr-report-criminal-pasts-terrorist-futures-european-jihadists-new-crime-terror-nexus/>; Katrin Bennhold and Eric Schmitt, 'Gaps in France's Surveillance Are Clear; Solutions Aren't', *New York Times*, February 17, 2015, <https://www.nytimes.com/2015/02/18/world/gaps-in-surveillance-are-clear-solutions-arent.html>.

<sup>36</sup> Mincheva and Gurr, *Crime-Terror Alliances and the State* "Ethnonationalist and Islamist Challenges to Regional Security 95-6; Louise I. Shelley, *Dirty Entanglements: Corruption, Crime and Terrorism* (Cambridge and New York: Cambridge University Press), 1-4.

<sup>37</sup> Shelley, *Dirty Entanglements: Corruption, Crime and Terrorism*; Matthew Levitt, *Hamas: Politics, Charity and Terrorism in the Service of Jihad* (New Haven, Conn: Yale



its benefit on territory it controlled in Iraq and Syria,<sup>38</sup> even though cigarettes are banned under the strict version of Islam propagated by ISIS. Reports out of Mosul reveal “Daesh made an agreement with oil truck drivers and allowed them to smuggle 50 cartons in a compartment inside the truck in return for intelligence about the petty and main sellers.” Then, ISIS would arrest and flog the sellers and resell their cigarettes at significant profit.<sup>39</sup>

The tri-border area of Paraguay, Brazil, and Argentina remains a major center of threat finance. “Illicit whites,” produced in Paraguay, are a major currency of terrorist funding, including groups such as FARC.<sup>40</sup>

Older terrorists groups, such as the IRA (Irish Republican Army), profited from the illegal cigarette trade.<sup>41</sup> A major illicit cigarette smuggling operation was revealed under the most unusual circumstances. Al Qaeda operatives successfully launched two rockets at a container ship passing through the Suez Canal in Egypt in transit to Ireland. The subsequent investigation of the damaged ship revealed a \$55 million shipment of smuggled cigarettes destined for a well-known Irish national with long standing ties to the IRA.<sup>42</sup>

## **Terrorists and Energy Markets**

Illicit actors, including terrorists, have recently shifted to significant trading in fossil fuel products. ISIS was a wake up call, but illicit actors— criminals and terrorists— trade in oil and gas in Latin America, Africa, and the Middle East. Non-state actor involvement in established energy markets was surprising. Even more unanticipated was

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University Press, 2006); Matthew Levitt, *Hezbollah: The Global Footprint of Lebanon's Party of God* (Washington, D.C.: Georgetown University Press, 2013).

<sup>38</sup> Fazel Hawramy, “Islamic State Turns to Cigarette Smuggling to Fund Itself,”

November 28, 2016,

[https://www.realclearworld.com/2016/11/28/isis\\_turns\\_to\\_cigarette\\_smuggling\\_to\\_fund\\_itself\\_180565.html](https://www.realclearworld.com/2016/11/28/isis_turns_to_cigarette_smuggling_to_fund_itself_180565.html).

<sup>39</sup> Ibid.

<sup>40</sup> Benoît Gomis and Natalia Carrillo Botero, “Paraguay’s Tobacco Business Fuels Latin America’s Black Market” Feb. 5, 2016,

<https://www.foreignaffairs.com/articles/paraguay/2016-02-05/sneaking-smoke>; Alma Keshavarz, “Areas of Latin America: A Look at the ‘Old TBA’ and the ‘New TBA,’” *Small Wars Journal*, November 12, 2015. Accessed July 1, 2017,

<http://smallwarsjournal.com/jrnl/art/iran-and-hezbollah-in-the-tri-border-areas-of-latin-america-a-look-at-the-%E2%80%9Ccold-tba%E2%80%9D-and-the>.

<sup>41</sup> “The Global Illicit Trade in Tobacco: A Threat to National Security,” US Government, 2015, 21. Accessed June 15, 2017, [https://2009-](https://2009-2017.state.gov/documents/organization/250513.pdf)

[2017.state.gov/documents/organization/250513.pdf](https://2009-2017.state.gov/documents/organization/250513.pdf); Hawramy, “Islamic State Turns to Cigarette Smuggling to Fund Itself,” November 27, 2016..

<sup>42</sup> Ibid.

the entry of organized criminals and illicit non-state actors, such as terrorists, into the new clean economy.<sup>43</sup>

Billions of dollars were invested in renewables, even before the adoption of the Paris climate agreement.<sup>44</sup> Licit and illicit actors targeted these new opportunities. The European Union (EU) Emissions Trading Scheme was launched in 2005 with optimism,<sup>45</sup> without anticipating that its weakly regulated system would provide a great opportunity for criminal activity. Yet this naiveté cost the EU over €5 billion (approximately \$6.5 billion) and enriched criminals, terrorists, hackers, corrupt bankers, and traders. The largest European losses were in France, totaling approximately €1.6 billion.<sup>46</sup>

A British-Italian case of carbon credit fraud apparently helped fund terrorism. The Italian government accused Yakub Ahmed, of Pakistani origin and residing in Preston, UK, of defrauding the Italian state out of €1.15 billion (approximately \$1.5 billion in 2010) in VAT, which he allegedly laundered through slush funds and investments in Dubai. The relevance of the Pakistan link became apparent in 2010 when Ahmed's name and company were found on papers picked up by UK and U.S. secret services as they raided a Taliban base in the mountains between Afghanistan and Pakistan. The prosecutors in Milan believe the funds were reinvested in the Middle East to disguise financing of Islamist terrorist organizations.<sup>47</sup>

## **Terrorism and Environmental Crime**

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<sup>43</sup> This section is drawn from Louise Shelley, *Dark Commerce: How the New Illicit Economy Threatens our Future* (Princeton: Princeton University Press, in press, Fall 2018).

<sup>44</sup> Brian Deese, "Paris Isn't Burning: Why the Climate Agreement Will Survive Trump," *Foreign Affairs* Vol. 94, No.4, (July-August 2017): 83-92.

<sup>45</sup> Christian Egenhofer, "The Making of the EU Emissions Trading Scheme: Status, Prospects and Implication for Business," *European Management Journal* Volume 25, Issue 6 (December 2007): 453-463.

<sup>46</sup> "Multi-billion euro carbon-trading fraud trial opens in Paris," May 4, 2016. Accessed June 17, 2017, <http://www.france24.com/en/20160503-france-trial-multi-billion-carbon-emissions-trading-fraud-opens-paris>; Marius-Cristian Frunza, *Fraud and Carbon Markets*, (Abingdon: Routledge, 2013); Interpol, "Guide to Carbon Trading Crime," June 2013. <http://www.fern.org/node/5674>.

<sup>47</sup> Hannah Roberts, "Britain wanted for £ 1 billion fraud used to 'finance terrorism' by ripping off Italian government through scheme designed to combat global warming," September 24, 2014, <http://www.dailymail.co.uk/news/article-2768348/Briton-wanted-1-billion-fraud-used-finance-terror-ripping-Italian-government-scheme-designed-combat-global-warming.html>; Luigi Ferrarella e Giuseppe Guastella, "La grande truffa dell'Iva in Italia per finanziare i gruppi islamici," September 24, 2014., [http://www.corriere.it/cronache/14\\_settembre\\_24/grande-truffa-dell-iva-italia-finanziare-gruppi-islamici-ec394336-43a5-11e4-bbc2-282fa2f68a02.shtml?refresh\\_ce\\_cp](http://www.corriere.it/cronache/14_settembre_24/grande-truffa-dell-iva-italia-finanziare-gruppi-islamici-ec394336-43a5-11e4-bbc2-282fa2f68a02.shtml?refresh_ce_cp).

Interviews have also been conducted with European law enforcement on this topic who investigated and prosecuted these cases.

The United Nations Security Council Resolution pointed out the links between environmental crime and the funding of terrorism. For example, in Africa, Boko Haram has infiltrated the lucrative fishing sector in Northeast Nigeria, depriving fisherman of their livelihood while providing the terrorist group with an important revenue stream.<sup>48</sup> Forests in conflict regions in Africa are abused for another purpose—the production of charcoal that depends on the trees grown in naturally protected areas. The result is large-scale deforestation, desertification, and famine.<sup>49</sup> Indigent Somalis are participants in this trade that enriches officials and dealers, yet it also benefits dangerous non-state actors<sup>50</sup> such as militias from the Democratic Republic of the Congo (DRC)<sup>51</sup> and terrorist groups. The most noted of these is al-Shabaab, which is estimated to have earned between \$38 million and \$68 million a year from charcoal sales and taxation of charcoal in transit. This composes an estimated 40% of Al-Shabbab’s revenues.<sup>52</sup> The transporters move the charcoal across Africa to the Arabian Peninsula.<sup>53</sup>

The deforestation to benefit terrorists is not a problem confined to Africa. Terrorist groups have profited from the deforestation of both Afghanistan and Pakistan.<sup>54</sup> Therefore, the Taliban has enriched itself by doing long term damage to the sustainability of life in of these countries.

Terrorists also slaughter animals to enrich their coffers. Illicit networks of criminals, insurgents, and terrorists often cooperate with high-level officials to make the global trade work. They hire killers and then move the animal parts thousands of miles to lucrative markets. Illustrative of this is that elephant tusks have been used to buy weapons for Joseph Kony’s Lord’s Resistance Army (LRA), based in South Sudan. Kony’s fighters have been poaching in the DRC’s Garamba National Park, leading to the

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<sup>48</sup> Joan Tiloine, “Nigera Maiduguri tient tête à Boko Haram,” *Le Monde*, July 2-3, 2017, 16.

<sup>49</sup> Said Ismail, “Charcoal Trade Stripping Somalia of Trees, August 23, 2011. [http://piracyreport.com/index.php/post/1426/Charcoal\\_Trade\\_Stripping\\_Somalia\\_of\\_Trees](http://piracyreport.com/index.php/post/1426/Charcoal_Trade_Stripping_Somalia_of_Trees) ; “The Charcoal Conundrum: ending the illegal Somali charcoal trade.” June 10, 2014. <http://www.globalinitiative.net/somalia-charcoal/> states that 40% of al Shabaab’s funding may come from this.

<sup>50</sup> C. Nellemann et.al., eds. *The Environmental Crime Crisis – Threats to Sustainable Development from Illegal Exploitation and Trade in Wildlife and Forest Resources*. A UNEP Rapid Response Assessment. United Nations Environment Programme and GRID-Arendal, Nairobi, 2014, 71.

<sup>51</sup> Nellemann, et.al., *The Environmental Crime Crisis – Threats to Sustainable Development from Illegal Exploitation and Trade in Wildlife and Forest Resources*, 75.

<sup>52</sup> Global Initiative against Transnational Organized Crime, “The Charcoal Conundrum: ending the Somali illegal Charcoal Trade.”

<sup>53</sup> Nellemann, et.al., *The Environmental Crime Crisis – Threats to Sustainable Development from Illegal Exploitation and Trade in Wildlife and Forest Resources* 80-81.

<sup>54</sup> Ashfaq Yusufzai, “Pakistan’s Forests Fall Victim to the Taliban,” Jan. 17, 2012, <https://www.theguardian.com/environment/2012/jan/17/pakistan-forests-taliban>.

death of many of the remaining 20,000 elephants in the park as well as the deaths of numerous park rangers who have sought to protect the animals.<sup>55</sup>

### **What to do?**

- 1) Illicit activity that funds terrorism often occurs in remote areas. But terrorist financing is often enabled by a limited number of large-scale facilitators who can be targeted by the international financial community. This is often a more effective strategy than pursuing kingpins of criminal organizations, who can be more easily replaced.
- 2) Illicit trade supporting terrorism often intersects with the legitimate economy and can be targeted with intelligence from the legitimate private sector. North Korean financing was in the past processed through a bank in Macao. As a result, the bank was successfully targeted by FinCEN. FARC traffickers in Latin America often interact with the legitimate economy, especially as they diversified from drugs into the gold trade. Therefore, their points of intersection with the licit financial system can be sanctioned and removed.
- 3) Those countering threat finance have focused on the drug trade, whereas illicit actors have diversified to many different commodities. When they diversify, they tend to be more careless than in their drug operations. This makes the traffickers more identifiable and easier to pursue. Therefore, we must focus on the convergence of different forms of illicit trade and not focus exclusively or disproportionately on drugs.
- 4) The US should continue and expand its sanctioning of terrorist facilitators such as it did with the Russian politician, Kirsan Ilyumzhinov of Kalymkia, who was designated by the US Treasury for “materially assisting and acting for or on behalf of the Government of Syria.”<sup>56</sup>
- 5) Public-private partnerships need to be enhanced to ensure that corporations take more action in certifying their supply chains against corruption and exploitation by terrorists. This is a particular concern in the natural resource and extractive industry sectors where corruption is particularly pronounced and where terrorists have recently diversified their fund-raising. Businesses, especially in new areas of technology, need to ensure that social media and online platforms are not

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<sup>55</sup> Ledio Cakaj, Tusk Wars Inside the LRA and the Bloody Business of Ivory,” October 2015. [http://www.enoughproject.org/files/Tusk\\_Wars\\_10262015.pdf](http://www.enoughproject.org/files/Tusk_Wars_10262015.pdf); Bryan Christy, “How Killing Elephants Finances Terror in Africa,” August 12, 2015, <http://www.nationalgeographic.com/tracking-ivory/article.html>.

<sup>56</sup> Amin Rosen, “The US has Sanctioned one of Russia’s Weirdest Politicians,” Nov. 29, 2015, <http://www.businessinsider.com/the-us-has-sanctioned-kirsan-ilyumzhinov-2015-11>.

facilitating corrupt, criminal and terrorist activity where there has been exponential growth of illicit activity in recent years.

- 6) There need to be more public-private partnerships between the government and the business community. Both share a mutual concern that terrorists not be allowed to operate. Businesses can identify anomalies and can mine data at their disposal to detect possible cases of terrorist financing and activity. The business and security community should work against the business side of terrorism just as they would work against a business competitor.
- 7) The financial community and the branches of the U.S. government devoted to financing of terrorism have a very important role to play and their responses need to be key in addressing terrorism. We need a strategy that extends beyond law enforcement and military responses and addresses the diversity of illicit trade now funding terrorism. More oversight needs to be provided over Free Trade Zones that are key to the facilitation of illicit trade. Consumers must be made aware of the risks to security by purchasing counterfeit goods and other illicit products.
- 8) In order to address the criminal and corrupt sources of funding for terrorism, it is necessary to follow the money. Corrupt officials and financial institutions that facilitate illicit flows must be held accountable. Transparency must be enhanced in the global financial system and in supply chains. Reporting requirements must be improved to limit the ability of individuals and corporations to hide funds in offshore locales. A key element is the establishment of requirements to disclose beneficial ownership for financial accounts, companies, and real property, making it possible to determine the actual owners. Bankers and the real estate sector must enhance mechanisms to guard against money laundering by criminals, terrorists and corrupt officials, the frequency and extent of which was revealed by the Panama and Paradise Papers.
- 9) We need a whole of society perspective not just a whole of government. The financing of terrorism involves consumers who buy the products and businesses who wittingly and unwittingly facilitate the dark commerce that is at the heart of terrorist financing. More attention needs to be paid to the financial side of counter-terrorism and it needs to be prioritized with resources and greater community awareness.