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A DANGEROUS NEXUS: TERRORISM, CRIME, AND CORRUPTION

HEARING

BEFORE THE

TASK FORCE TO INVESTIGATE TERRORISM FINANCING

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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A DANGEROUS NEXUS: TERRORISM, CRIME, AND CORRUPTION

Thursday, May 21, 2015

U.S. HOUSE OF REPRESENTATIVES,
TASK FORCE TO INVESTIGATE
TERRORISM FINANCING,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The task force met, pursuant to notice, at 10:06 a.m., in room 2128, Rayburn House Office Building, Hon. Michael Fitzpatrick [chairman of the task force) presiding.

Members present: Representatives Fitzpatrick, Pittenger, Stivers, Ross, Barr, Rothfus, Schweikert, Williams, Poliquin, Hill; Lynch, Sherman, Meeks, Green, Ellison, Himes, Foster, Kildee, and Sinema.

Ex officio present: Representatives Hensarling and Waters.

Chairman FITZPATRICK. The Task Force to Investigate Terrorism Financing will come to order. The title of today's task force hearing is, "A Dangerous Nexus: Terrorism, Crime, and Corruption."

Without objection, the Chair is authorized to declare a recess of the task force at any time.

Also, without objection, members of the full Financial Services Committee who are not members of the task force may participate in today's hearing for the purposes of making an opening statement and questioning the witnesses.

The Chair now recognizes himself for 3 minutes for an opening statement.

I would again like to thank Chairman Hensarling and Ranking Member Waters for working to establish this important task force and reaffirming this committee's commitment to using its role to address the threat of terrorism, as well as my colleagues here today who will work to ensure its success.

At our last hearing we demonstrated the breadth and scope of terrorism throughout the world, as well as how these groups have evolved in the face of a strong American response. While the United States has seen some success in shutting these groups out of the international financial system, like squeezing a balloon, this has lent itself to the creation of more sophisticated and diverse funding avenues for these terror organizations.

Terrorist groups have become entwined with transnational criminal syndicates, or in some cases have evolved into the role themselves, engaging in criminal activities which yield greater profits than simply relying on state sponsorship or big pocket donors.

These activities range from, but are not limited to corruption, drug trafficking, human smuggling, and extortion.

Place these funding methods on top of other non-traditional means discussed in our last hearing and it is easy to see that today's terror organizations are often better financed than their predecessors even a decade ago. Today's terrorist groups and transnational criminal syndicates thrive in highly insecure regions of the world. Terror organizations contribute to the continued regional instability and internal conflict, while organized crime exploits these environments for financial gain and corruptive influence.

To witness the impact of this dangerous union, the United States has to simply look to the Tri-Border Area. This is a relatively lawless region along the frontiers of Argentina, Brazil, and Paraguay. It has become the base for Hezbollah's illicit activities to fund its terror operations in the Middle East and around the world.

Hezbollah has engaged in several of the criminal activities mentioned, and through them has succeeded in raising a substantial amount of money to bankroll their actions. In fact, according to a 2009 Rand Corporation report, Hezbollah has netted around $20 million a year in this area alone.

It is this type of connection—the intersection between terrorism, crime, and corruption—that today's hearing will focus on, including current techniques being used by these groups, effectiveness of the current U.S. policy in combating them, and where these tactics can be improved. Groups like Hezbollah, the Islamic State, and Boko Haram can no longer simply be considered terrorist groups. They have evolved into sophisticated global criminal conglomerates.

In order to effectively combat such volatile threats, U.S. policy must evolve as well. That is the purpose for the formation of this bipartisan task force. It is my hope that today's dialogue between our diverse group of members and the expert panel of witnesses joining us leads us to a better understanding of the challenges facing us and shapes our discussion of long-term solutions moving forward.

At this time, I would like to recognize the task force's ranking member, and my colleague, Mr. Lynch from Massachusetts.

Mr. LYNCH. Thank you, Mr. Chairman. And I want to thank Chairman Hensarling and Ranking Member Waters for their work on this, as well as your own, and that of Vice Chairman Pittenger.

And of course, I thank our panelists this morning. Thank you for helping the task force with its work.

Today's Task Force on Terrorism Financing hearing will examine the dangerous nexus between terrorism, crime, and corruption. This hearing is particularly timely. The Director of National Intelligence, James Clapper, identified terrorism and transnational organized crime as among the top eight global threats to U.S. national security when he testified this past February before the U.S. Senate's Committee on Armed Services.

According to Director Clapper, both terrorist and transnational criminal groups thrive in highly insecure regions of the world, with terrorist groups contributing to regional instability and internal conflict, while transnational organized crime groups exploit these environments for financial gain and corruptive influence.

One example of this can be found in Venezuela. Earlier this week, The Wall Street Journal reported that the U.S. Drug Enforcement Agency and U.S. prosecutors in New York and Miami are investigating multiple high-level Venezuelan government officials, including Venezuela's National Assembly president, on suspicion they have turned the country into "a global hub for cocaine trafficking and money laundering." The investigations are a response to an explosion in drug trafficking in that oil-rich country, U.S. officials say.

I bring up the example of Venezuela because Douglas Farah's prepared remarks for today's hearing discuss how a bloc of countries, led by Venezuela, now operate jointly both as a political project with an underlying goal of harming the United States and as a joint criminal enterprise. These countries are creating alliances across the globe with terrorist organizations, including Hezbollah, and the drug trade seems to be a huge source of the revenue propelling it.

The U.S. Department of the Treasury's Office of Foreign Asset Control previously sanctioned corrupt Venezuelan government officials pursuant to the Foreign Narcotics Kingpin Designation Act for acting for or on behalf of the Revolutionary Armed Forces of Colombia, which is the narcoterrorist organization. And that is often in direct support of its narcotics and arms trafficking activities.

Furthermore, it is important to note that this crime, terrorism, and corruption nexus may not only play out in Venezuela, but in other parts of the world. As reported by the State Department in its April 2014 Country Reports on Terrorism, the Tri-Border region of South America that the chairman has just identified is reflective of the interrelationship between criminal activity, terrorism, and financing.

According to the report, the Tri-Border Area of Argentina, Brazil, and Paraguay continues to be an important regional nexus of arms, narcotics, and human trafficking, counterfeiting, pirated goods, and money laundering, all potential funding sources for terrorist organizations.

I hope that this hearing will shed more light on the scope and pervasiveness of such threats. I look forward to hearing the testimony from our witnesses so we can further examine these issues and potential solutions.

Mr. Chairman, I thank you for your courtesy, and I yield back the balance of my time.

Chairman FITZPATRICK. Next, I would like to recognize the vice chairman of the task force, Mr. Pittenger, for 1 minute.

Mr. PITTENGER. Thank you. Thank you, Chairman Hensarling, for your leadership and vision in establishing this task force, and thank you, Ranking Member Waters, Chairman Fitzpatrick, and Representative Lynch for your leadership. Also, I really would like to thank the witnesses for joining us today. This will be a very important and very meaningful hearing.

Understanding the link between terrorism and crime is a vital step towards understanding what efforts we can take to deter terrorism financing. How are terrorists coordinating with drug lords and for what benefits? How are they working with transnational criminals to move money through the financial system? How are

they utilizing the same smuggling routes today that have been used for years in the past? And what means that have previously not been utilized, like cyber warfare, should we be preparing for today? And the bigger question, what are we going to do to stop it?

Knowing that we have ended the Threat Finance Cell, there are strong concerns that we don't have the capabilities and the intelligence necessary to be effective in our goals. I also have concerns about the current effectiveness of intergovernmental cooperation to undermine the flow of money to terrorists.

I look forward to hearing from the witnesses on these issues, and continuing the task force's effort to counter terrorist financing. Thank you, Mr. Chairman, and I yield back.

Chairman FITZPATRICK. The Chair recognizes the ranking member of the full Financial Services Committee, Ms. Waters, for 1 minute.

Ms. WATERS. Thank you very much, Mr. Chairman.

I applaud the bipartisan efforts surrounding this task force and believe it will serve us well as we work to guard against key threats to our national security.

Today the task force will explore a dangerous new trend, the growing convergence of terrorism and crime. While terrorist organizations motivated by ideology and criminal enterprises driven generally by greed have generally been thought to operate independent from one another, the testimony from our witnesses today makes it clear that this is no longer the norm. Furthermore, in an age of globalization, the growing convergence of terrorists and criminal groups means that illicit networks once seen as a local or regional concern now have global security implications.

While a whole-of-government approach is certainly necessary to tackle these issues effectively, I am hopeful that this task force can serve as a catalyst for action on these issues that fall squarely in our jurisdiction. In my view, a careful review of the deterrent value of our current anti-money-laundering and counterterrorism financing enforcement regime would be a good place to start.

I yield back the balance of my time.

Chairman FITZPATRICK. The Chair now recognizes the gentleman from Arkansas, Mr. Hill, for 1 minute.

Mr. HILL. Thank you, Mr. Chairman. I am honored to be a member of this task force. My thanks to the leadership for its formation.

I think it is important that we focus on: first, the transnational criminal organizations that are driven by profit; and second, how they interact with foreign terrorist organizations who are driven by ideology. When you combine those two things, you have a toxic soup. And we have seen many scary examples, as noted this morning, of the relationship between criminal activity and terrorist organizations that interconnect throughout the world.

I am looking forward to this morning with our fine panel of witnesses to learning more about that and finding out how we can interdict that process and stop it.

I appreciate it, and I yield back, Mr. Chairman. Thank you.

Chairman FITZPATRICK. The Chair recognizes the gentlewoman from Arizona, Ms. Sinema, for 1 minute.

Ms. SINEMA. Thank you, Chairman Fitzpatrick and Ranking Member Lynch.

Terrorism is an undeniable threat to our country's security and global stability. Terrorist networks constantly develop new ways to finance their deadly operations and threaten America.

Terrorists frequently leverage criminal networks for financing. To keep our country safe, we must be one step ahead of them, cutting off their funding and stopping their efforts.

The Islamic State is one of the world's most violent, dangerous, and well-financed terrorist groups. In 2014, ISIL generated approximately $1 million per day, predominantly through the sale of smuggled oil. That is why I have recently offered an amendment, which was accepted, to the National Defense Authorization Act (NDAA) to direct the Secretary of Defense, in coordination with the Secretary of State and the Secretary of the Treasury, to pursue efforts to shut down ISIL's oil revenues and report on resources needed for these efforts.

ISIL also recently captured the famed archaeological sites of Palmyra, raising the possibility that they will destroy or sell priceless artifacts to fund their militant violence. I look forward to working with my colleagues on both sides of the aisle to keep money out of the hands of terrorists and to find solutions that strengthen America's security.

I yield back.

Chairman FITZPATRICK. We now welcome our witnesses.

First, Ms. Celina Realuyo is a professor of practice at the William J. Perry Center for Hemispheric Defense Studies at the National Defense University. Professor Realuyo has been a U.S. Diplomat; an international banker with Goldman Sachs; a U.S. Foreign Policy Adviser under the Clinton and Bush Administrations; and a professor of international security affairs at the National Defense, Georgetown, George Washington, and Joint Special Operations Universities.

As the State Department Director of Counterterrorism Finance Programs, Professor Realuyo managed a multi-million-dollar foreign assistance program aimed at safeguarding financial systems against terrorist financing. Professor Realuyo is a graduate of the Harvard Business School, the Johns Hopkins University School of Advanced International Studies, and the Georgetown University School of Foreign Service.

Second, Dr. David Asher is an adjunct senior fellow at the Center for a New American Security, and serves on the Board of Advisors of the Center on Sanctions and Illicit Finance at the Foundation for Defense of Democracies. Over the last decade, Dr. Asher has advised the leadership of SOCOM, CENTCOM, DEA, and the Departments of Defense, Treasury, State, and Justice on top counterthreat finance priorities.

Dr. Asher conceived of and spearheaded several of the highest profile anti-money-laundering actions in history. From 2002 until 2005, Dr. Asher organized and ran the North Korea Illicit Activities Initiative for the National Security Council and the Department of State. Dr. Asher graduated from Cornell University and received his doctorate in international relations from the University of Oxford.

Third, Mr. Richard Barrett is a senior vice president at The Soufan Group, and a fellow at the New American Foundation in Washington, the Royal United Services Institute in London, and the Center for Research and Security Studies in Islamabad.

From March 2004 to December 2012, Mr. Barrett served as the coordinator of the al Qaeda and Taliban Monitoring Team at the United Nations in New York. In 2005, he helped establish what became the United Nations Counterterrorism Implementation Task Force following the adoption by the General Assembly of the global strategy to counter terrorism in 2006. Before joining the United Nations, he worked for the British government both at home and overseas.

And finally, Mr. Douglas Farah is currently the president of IBI Consultants LLC. He is also a senior non-resident associate at the Americas Program at the Center for Strategic and International Studies, and a senior fellow at the International Assessment and Strategy Center. Mr. Farah works as a consultant and subject matter expert on security challenges, terrorism, and transnational organized crime in Latin America.

For the 2 decades before consulting, Mr. Farah worked as a foreign correspondent and investigative reporter for The Washington Post, covering the civil wars in Central America, the drug wars in the Andean region, conflicts and the illicit diamond trade in West Africa led by Charles Taylor, radical Islam, and terrorism financing.

The witnesses will now be recognized for 5 minutes to give an oral presentation of their testimony. And without objection, the witnesses' written statements will be made a part of the record. Once the witnesses have finished presenting their testimony, each member of the task force will have 5 minutes within which to ask their questions.

On your table, for the witnesses, there are three lights: green means go; yellow means you are running out of time; and red means stop. The microphone, we are told, is very sensitive, so please make sure that you are speaking directly into it.

With that, Professor Realuyo, you are now recognized for 5 minutes, and we thank you for your attention here.

STATEMENT OF CELINA B. REALUYO, PROFESSOR OF PRACTICE, WILLIAM J. PERRY CENTER FOR HEMISPHERIC DEFENSE STUDIES, NATIONAL DEFENSE UNIVERSITY

Ms. REALUYO. Thank you, Chairman Fitzpatrick, Vice Chairman Pittenger, Ranking Member Lynch, and members of the task force for the opportunity to appear before you today to testify on the dangerous nexus of terrorism, crime, and corruption that threatens U.S. national security at home and abroad.

Illicit networks of terrorists, criminals, and their facilitators actively capitalize on weak governance, black markets, and corruption to challenge security and prosperity around the world. After examining the critical enablers of these networks, in particular financing, and illustrating the convergence of illicit networks in the case of ISIL, I will propose some specific measures to further leverage our financial instrument of national power to combat terrorism, crime, and corruption.

Illicit networks threaten the four key missions of the nation-state: to provide security; promote prosperity; safeguard the rule of law; and ensure that the government represents the will of the people. Illicit actors require critical enablers to realize their political and revenue objectives. They are leadership, personnel, illicit activities, logistics, communications, weapons, technology, corruption, and financing.

Financing is the most vital enabler, since money serves as the oxygen for any activity. Consequently, following the money trail is instrumental to detect, disrupt, and dismantle these networks. Since 9/11, the United States has countered terrorist financing through intelligence and law enforcement operations, including the Iraq and Afghan Threat Finance Cells, public designations and sanctions, and capacity-building programs.

As a result of these efforts, the al Qaeda operatives complained about a lack of funding for terrorist operations, and the Mexican cartels realized that they could no longer easily launder profits through banks. Other measures to combat the financing of terrorism and crime have also unexpectedly weeded out graft and corruption at the highest levels of government.

Terrorism, crime, and corruption have existed since the dawn of time, but now they have gone global with record levels of profits and violence. In many cases terrorists, cartels, and gangs are better armed and funded than the very government services security forces responsible for confronting them.

We are witnessing a dangerous convergence of terrorism and crime that threatens our national security. Convergence is the process of coming together and having one interest, purpose, or goal. Certain groups are demonstrating a hybrid terror-crime behavior, such as the Haqqani Network in Afghanistan, the FARC in Colombia, Hezbollah, and ISIL.

All eyes are now on ISIL, with its brutal beheadings, military advances in Syria and Iraq, and dramatic foreign fighter flows. It is an example of convergence with its ambitions for a caliphate and profit-seeking criminal activity. ISIL requires significant financing to realize its evil agenda and is considered the richest terrorist group in the world.

As you all know, it derives much of its income from illegal oil sales, with additional funding from extortion, kidnapping, stolen antiquities, human trafficking, and some donations from external individuals.

One of the nine lines of effort of the U.S. strategy to counter ISIL is disrupting its finances. It is focused on disrupting its revenue streams, restricting its access to international financial systems, and targeting ISIL leaders and facilitators with sanctions.

On the military front, Operation Inherent Resolve has conducted air strikes against ISIL oil infrastructure and supply networks in Syria and Iraq. As of May 8th, 152 targets have been damaged or destroyed, according to U.S. Central Command.

This past weekend, U.S. Special Forces conducted a daring raid in Syria against Abu Sayyaf, a senior leader considered the chief financial officer of ISIL. This operation illustrates the growing importance of targeting ISIL's finances and how valuable the finan-

cial intelligence collected at the target site could be to attack its networks.

To counter illicit networks, we need to further leverage the financial instrument of national power, and I propose the five following measures. Number one, increase resources to government agencies to investigate and prosecute terrorism, crime, and corruption. Number two, retain the Afghan Threat Finance Cell and establish new ones to target emerging threats like ISIL. Number three, revitalize the interagency Terrorist Financing Working Group to coordinate all activities across agencies. Number four, dedicate a percentage of the fines from sanctions evasion and money laundering to directly support counterthreat finance programs. And lastly, promote public-private partnerships to empower the private sector to serve as our eyes and ears to detect financial crimes.

In conclusion, we must understand the illicit networks that confront us and deny their assets to critical enablers. Stemming the flow of funding to groups like ISIL and Hezbollah can neutralize their virulent agenda. Only through comprehensive, proactive interagency and international strategies can we effectively combat terrorism, crime, and corruption around the world, and the financial instrument of national power is a critical tool of which we must take advantage.

Thank you for your time and attention.

[The prepared statement of Professor Realuyo can be found on page 95 of the appendix.]

Chairman FITZPATRICK. Dr. Asher, you are now recognized for 5 minutes.

STATEMENT OF DAVID ASHER, MEMBER, BOARD OF ADVISORS, CENTER ON SANCTIONS AND ILLICIT FINANCE, FOUNDATION FOR DEFENSE OF DEMOCRACIES; AND ADJUNCT SENIOR FELLOW, CENTER FOR A NEW AMERICAN SECURITY

Mr. ASHER. Chairman Fitzpatrick, Vice Chairman Pittenger, and Congressman Lynch, it is an honor to speak before you. I actually want to say thank you for caring about this issue. This is a very important issue. It is really not in the weeds. It is at the heart of the matter. Money is the sinew of war. And we are in a war against terrorists around the world whether people want to admit it or not.

I want to highlight an experience that I have had. I have been involved in nearly 25 years of working against terrorism financing, doing financial operations against drug cartels, adversarial governments, weapons proliferation networks. I have sort of seen it all.

But what I hadn't seen until 2007 when I started to advise the Drug Enforcement Administration—which despite some raps recently is an awesome organization; it actually has done some incredible stuff for our national security, well above and beyond its remit—was a case where the United States itself has become the largest money-laundering vehicle for terrorists in the world.

And that is the case involving the Lebanese Canadian Bank (LCB), a bank that was under the command and control of Hezbollah, and most particularly the element within Hezbollah, it appears—and this is still subject to being proven in court—that is

tied to terrorism, the Islamic Jihad Organization that attacked our embassy twice in the 1980s and killed hundreds of Americans.

That organization is known as the external security organization of Hezbollah, and it controls the external security apparatus of Hezbollah, which reaches all the way into the United States of America itself.

To garner profit and gain influence, they have engaged in something that I would call the criminal resistance; i.e., they have used the $80 billion U.S.-dollarized Lebanese banking system, which is the third-largest offshore financial center for dollars in the world, I believe, as a center point for their global money laundering empire.

The United States has dozens of banks with correspondent relationships with Lebanon. The fastest-growing bank in Lebanon until 3 years ago was called the Lebanese Canadian Bank. That bank was under the control of Hezbollah.

Through DEA's Operation Titan, which I had the honor to advise on from 2007 onward, the DEA was able to use undercover informants and other sources to penetrate. This is all in the public eye. I am speaking totally based on unclassified information and from a personal viewpoint only.

This bank was engaged in buying primarily used cars in the United States and Europe and textiles in Asia as part of a massive money-laundering scheme in partnership with La Oficina de Envigado. That is the outfit that Pablo Escobar himself set up in the 1980s and 1990s to run the Medellin drug cartel. This is all in the Treasury Department's Office of Foreign Assets Control (OFAC) documents you can find on the Web.

So LCB was buying as much as a billion dollars a year in used cars in the United States, cars which were generating almost no profit actually, and exporting the cars to West Africa, where the money was commingled with narcotics trafficking proceeds coming out of Europe. That is the world we live in; it is very complicated.

The drugs were flowing from Colombia primarily into Europe. The money was being couriered back to Lebanon, and being wired to the United States to buy used cars here, as well as buying used cars in Europe with cash, and it was making its way back into this Lebanese Canadian Bank which was at the center of Hezbollah's money-laundering empire.

So it is the largest material support scheme in the world and it remains the largest material support scheme in the world for a terrorist group.

In 2010, the DEA began constructing a takedown strategy against the Lebanese Canadian Bank on which I helped advise. I am very proud of what we did. I won't get into all of the details. We organized the designation of the Lebanese Canadian Bank under Section 311 of the USA PATRIOT Act. That cut it off from the United States, blew up the bank, $5.5 billion Hezbollah bank, bankrupt in 3 weeks. Thank you very much. So that was a success.

We designated the drug kingpin from the Medellin drug cartel, Ayman Joumaa, who was at the center of this thing. He was indicted in the Eastern District of Virginia for laundering over a billion dollars a year for Los Zetas. He is indicted for his relationship

with the Lebanese Canadian Bank and designated as well. He is wanted for arrest.

We went after the car parks in West Africa. We designated those. We had never designated a car park before. It was a huge success.

But I am here to tell you that today, unfortunately, there are more cars being exported from the United States itself to West African car parks controlled by Hezbollah than there were when we made the designations in 2011 and 2012.

Our policy is a great success of interagency cooperation, and international cooperation. I feel very proud of what the Bush Administration and even this Administration have done to try to make a dent in this. Unfortunately, it has not succeeded. I would like to discuss with you some measures which might help advance that success.

Thank you.

[The prepared statement of Dr. Asher can be found on page 42 of the appendix.]

Chairman FITZPATRICK. Thank you, Dr. Asher.

Mr. Barrett, you are now recognized for 5 minutes.

STATEMENT OF RICHARD BARRETT, SENIOR VICE PRESIDENT, THE SOUFAN GROUP

Mr. BARRETT. Thank you, Chairman Fitzpatrick, Vice Chairman Pittenger, Ranking Member Lynch, and distinguished members of the House Financial Services Committee. It is an honor to testify before you today on this issue of perennial concern.

Although terrorism, along with other forms of violent crime, lacks a profit motive, any terrorist attack costs money, and it is reasonable to assume, therefore, that the less money that a terrorist group has available, the less able it will be to mount an attack. And if it does so, limited finances should result in limited impact.

But terrorism of course by its nature is asymmetric, and it is asymmetric in all of its aspects, including financially. And even a relatively cheap attack can have a devastating impact. For example, the last al Qaeda attack in a Western country occurred in my country.

On the 7th of July, 2005, four individuals associated with al Qaeda blew themselves up on the public transport system in London, killing 52 people. The official inquiry into the attack estimated that it had cost less than 8,000 pounds. That is about $13,000 or so.

To quote from the report: "The group appears to have raised the necessary cash by methods that would be extremely difficult to identify as related to terrorism or other serious criminality. Khan—he was one of the group—appears to have provided most of the funding. Having been in full-time employment for 3 years since university, he had a reasonable credit rating, multiple bank accounts, each with just a small amount deposited for a protracted period, credit cards, and a 10,000 pound personal loan. He defaulted on his personal loan repayments and was overdrawn on his accounts."

So it was very difficult to detect. But despite the low cost of that attack and the unremarkable financial activity associated with it,

it had a devastating impact, of course, on the United Kingdom beyond the deaths. The cost to the U.K. economy was estimated at 2 billion pounds just in the rest of 2005 alone. And the cost of the official inquiry itself, I might say, was put at 4.5 million pounds.

So even an unsuccessful attack, which might therefore cost even less, can have a huge impact. Just think of the costs resulting from another plot that originated in the United Kingdom, the 2006 plot to blow up 7 airlines traveling to North America. The additional security checks imposed on airports as a result have cost billions of dollars.

The point I am trying to make is that terrorism does not have to be expensive to be effective, whether in its primary objective of making people afraid or in its secondary objective of forcing governments to react.

The second point is that terrorists can fund their operations through legal means, quasi-legal means, and illegal means. Legal means might include donations or the self-financing of the London bombings. Quasi-legal means might include the raising of income through traditional means by terrorist groups that control territory: taxing income; selling natural resources; and so on. Whereas illegal means of course might include kidnap for ransom or all of the other things we have heard about.

And it is my belief that although terrorists have few qualms about how they raise money, they don't have any preferred means. They do whatever is easiest and most effective. And they will raise money according to opportunity, aiming all the while of course to minimize effort and risk while maximizing their returns. And this complicates countering the financing of terrorism as the money used by terrorists is not necessarily criminally tainted before it is collected.

Increasingly, terrorists are attracted to less governed areas of the world where they can establish bases and control territory. And inevitably too, these areas are ones that criminals use for their own transshipments of drugs or other contraband and things like that.

And to this extent, terrorists have established a close relationship both with crime and with criminal gangs, though in my view they are more likely to take a cut from the criminal gangs than to join their rackets or compete with them.

Terrorists and criminals who operate for profit are not natural bedfellows. Criminals see terrorists as dangerous both in and of themselves, and also in that they are likely to bring attention from the authorities. An official might easily be bribed to allow conventional criminal activity, but is less likely to agree to turn a blind eye to terrorism. Likewise, terrorists are suspicious of criminals as people who have no sympathy with their cause and might well attack or betray them if they saw profit in doing so.

So the point I wanted to make, Mr. Chairman, was that although there is undoubtedly an association between terrorism and criminality, it is not necessarily straightforward nor even universal.

Thank you.

[The prepared statement of Mr. Barrett can be found on page 79 of the appendix.]

Chairman FITZPATRICK. Thank you, Mr. Barrett.

Mr. Farah, you are recognized now for 5 minutes.

STATEMENT OF DOUGLAS FARAH, PRESIDENT, IBI CONSULTANTS LLC; SENIOR NON-RESIDENT ASSOCIATE, AMERICAS PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES; AND SENIOR FELLOW, INTERNATIONAL ASSESSMENT AND STRATEGY CENTER

Mr. FARAH. Members of the task force, thank you very much for the opportunity to testify about the dangerous nexus among terrorism, crime, and corruption. I speak only for IBI Consultants and myself, not on behalf of the institutions with which I am affiliated. I am going to focus my remarks on Latin America, where we are seeing a convergence of these three factors in new and dangerous forms.

The convergence of terrorism, transnational crime, and corruption are the core of what I believe is a significant strategic threat to the United States. I have described this emerging tier-one security priority as criminalized states. That is, states that actively use transnational organized crime as an instrument of statecraft, rely on the revenues from illicit activities to fund themselves, and often overlap this protective mechanism with terrorist organizations.

In our hemisphere we are primarily seeing this in the network that emanates, I would argue, from Venezuela in the Western Hemisphere, where you have the political project, the joint political project among multiple nations whose underlying goal is harming the United States, as well as operating in a conjoined criminal enterprise. Rather than being pursued by law enforcement and intelligence services in these states in an effort to impede their activities, transnational organized criminal networks and protected terrorist groups are able to operate in more stable, secure environments, something that most businesses, both licit and illicit, crave. Rather than operating on the margins of the state or seeking to co-op small pieces of the state machinery, these criminal groups in these states are able to concentrate their efforts at the state on multiple levels.

Within that stable environment, a host of new options become available, from the sale of weapons to the use of national aircraft registries, shipping registries, the easy use of banking structures, the use of national airlines and shipping lines to move large quantifies of unregistered goods, and the acquisition of diplomatic passports and other identification forms.

The threat originating in Venezuela is not confined to Venezuela. The late Hugo Chavez, acting in concert with his allies, Rafael Correa in Ecuador, Evo Morales in Bolivia, Daniel Ortega in Nicaragua, and Cristina Fernandez de Kirchner in Argentina, set out to redefine the political landscape in Latin America. Senior members of El Salvador's current FMLN government are also allied with this movement.

To a large degree this movement, self-described as the Bolivarian alliance, has been successful. Unfortunately, what their policies have wrought internally are massive corruption, rising violence, a disdain for the rule of law, and the collapse of institutions.

On the strategic level this has brought new alliances with Iran and Hezbollah, Russia and Russian organized crime, China and Chinese organized crime, as well as Mexican drug cartels and the Colombian criminal organizations. The Revolutionary Armed

Forces of Colombia, FARC, a designated terrorist organization by the United States and the European Union, as well as a major drug trafficking organization, is directly supported by the Bolivarian nations as a matter of state policy.

Such a relationship between state and non-state actors provides numerous benefits to both. The FARC and Hezbollah gain access to the territory of Bolivarian nations without fear of reprisals. They gain access to identification documents and access to routes for exporting cocaine to the United States and Europe, while using the same routes to imports large quantities of sophisticated weapons and communications equipment.

In return, the Bolivarian governments offer state protection and reap the rewards of the financial benefits of the individuals, as well as institutions derived from the cocaine trade. Iran, whose banks have been largely barred from the Western financial system, benefit from access to the international markets through Venezuela, Ecuador, and Bolivian financial institutions, which act as proxies by moving Iranian money as if it originated in their own unsanctioned banking structures.

There is significant new evidence of the criminalization of these states. The first is the recent investigation by Veja, a Brazilian magazine, showing that Venezuela, with the help of Argentina, actively tried to help Iran's nuclear program in violation of international sanctions.

The Wall Street Journal, as mentioned earlier, has a long list of senior Venezuelan administration officials being investigated for drug trafficking. The recent book, "Bumeran Chavez," the "Chavez Boomerang," which was just released, describes in detail from numerous eyewitnesses cocaine dealings at the highest level of the Venezuelan government and their contacts with Hezbollah and FARC operatives in officially sanctioned meetings and at the highest level.

And the recent designation of Banca Privada d'Andorra by FinCEN as a foreign financial institution of primary money laundering control.

All of these mechanisms allow for literally billions of dollars to slosh through states that are completely unaccounted for, both by legislative oversight or by any form of accounting. Understanding how these groups develop and how they relate to each other and form from outside the region, particularly given the rapid pace with which they are expanding their control across the continent and across the hemisphere, make this, I would argue, a tier-one threat and something critical that we need to understand and something that we often don't look at in the underlying ideological underpinnings of the movement.

Thank you.

[The prepared statement of Mr. Farah can be found on page 85 of the appendix.]

Chairman FITZPATRICK. We thank all the witnesses for their testimony today, and the Chair will now recognize himself for 5 minutes for questions.

At our first hearing of this task force, which was held last month, we had some testimony on the question of the Iraq-Afghanistan Threat Finance Cell. And because it was mentioned again

here today in Professor Realuyo's testimony, I will ask a question the professor perhaps can respond to, and then I would like to hear the thoughts of each of the panel witnesses.

And the question is whether or not a concept similar to the Iraq and Afghanistan Threat Finance Cell, if replicated in Latin America, could be an effective means to combat these terror criminal hybrid franchises that operate there in Latin America?

Ms. REALUYO. One of the lessons learned, unfortunately, from our experiences in Iraq and Afghanistan, has been that interagency, and more importantly, collaborative fusion cells have been extremely effective, particularly when you are designing a list of targets, and more importantly, harvesting information that comes of a financial and economic nature, to actually incorporate it within our broader set of understanding these adversaries.

In terms of Latin America, it would depend on different groups. Also, more importantly, since a lot of the activities are drug trafficking related, as well as human trafficking related, we would have to try to figure out which of the agencies would be the most suited. So it is a concept of actually creating a task force.

In the case of post-9/11, the joint terrorism task forces that were established by the FBI are a model that has been studied by many academics such as myself, as well as other ways to actually leverage the know-how and then more importantly the resources that each of the agencies brings to bear.

One other one which we did not discuss today is a very effective one under the U.S. Southern Command, which is the Joint Interagency Task Force-South, it is called JIATF-South, based in Key West, Florida. It actually is interagency with all of the uniformed services, but even more importantly, the intelligence and the law enforcement agencies represented there, as well as liaison, full-time liaison officers from other countries.

Their primary mission is countering illicit trafficking, which already reflects the way that they are changing the look of the—it used to be just drug trafficking. They are actually are encountering a lot of precursor chemicals, as well as, sadly, alien smuggling going through there. So there is a greater way of how we can use these lessons learned, and then more importantly, apply them to what we call emerging threats.

Chairman FITZPATRICK. Dr. Asher?

Mr. ASHER. First, Celina is actually spot on. I do feel, though, that you need almost like an Untouchables-type approach to this stuff. You need a group of people who are in charge to go after this money and to have global authority to roam. The money goes global. You see more money being laundered through the Sinaloa drug cartel and Hezbollah today in China probably than anywhere else.

But we also, as I note in my testimony, have a massive amount of laundering right through the United States, right through the purchase of used cars. We have designated this. We have identified it to banks. And guess what? People are still accepting billions of dollars a year in payments from places like Lebanon for buying used cars that are going to West Africa.

We need a law enforcement, top-down, task force approach, and the law enforcement professionals and the prosecutors need to be held accountable for results. We know, based on overt evidence

that has been presented in court, that this is going on. So why is it still happening?

I think the task force approach that you are interested in is very important, but I don't think it can just be regional. I think it needs to be almost threat-specific.

So Hezbollah, al Qaeda, why have we not applied the racketeering, the RICO charge against al Qaeda? It is a racket. Terrorism is against the law. And the reason it would matter on a financing level is we could go after, through long-arm capabilities, all their assets all over the world. And we have more than enough countries in the world that endorse terrorism as a national-level crime.

Chairman FITZPATRICK. Dr. Asher, on the issue of trade-based money laundering, which you talked about in your testimony, what is your assessment of current U.S. policy?

Mr. ASHER. Absolute interest and unfortunate ineffectiveness. And it is not for lack of effort. Everybody I have worked with, I have had a great honor and pleasure to work with. There are great people in our government. There is awareness of these issues that we never had before. There is awareness that we should go after the financial networks as a means to tackle the whole network. It is a revolution. I am very proud of it. But it is not working. There is more Hezbollah money being garnered in the United States today than there was in 2011 when we took the action.

So we have to look at charging strategies like RICO. We need to approach these things more like organized criminal rackets than just terrorism. Terrorism almost honors these people. And we need to impose our OFAC penalties with much greater impunity and cut our financial system off, when necessary, from threats.

Chairman FITZPATRICK. At this point, I am going to recognize Ranking Member Lynch for 5 minutes.

Mr. LYNCH. Thank you.

And, again, I want to thank the witnesses. We have had a chance to read your testimony, and it is very helpful.

Dr. Asher, for a while there with the Lebanese Canadian Bank we had great success using Section 311 sanctions identifying them as primary money laundering concerns. And it was not just us, it was the financial community that saw them as toxic, and everybody backed away. So it basically shot them out of the legitimate banking system, especially the United States.

Would this work if we expanded 311 to go after, say, the auto dealers in Benin or West Africa that are operating? If we continue to use that 311-type mechanism, would that be enough to choke off some of this funding?

Mr. ASHER. Yes. In my written testimony I recommend that we need to look at imposing Section 311 against the actual nation of Benin. It can be done. It is a very extreme measure. I would propose that it is a very temporary measure. I don't want to obliterate the economy of a West African state that is growing very fast. But their fastest-growing area is used cars coming from the United States that are going to provide material support for a terrorist organization.

We have Section 311, which is a regulation, okay, and it can be lifted very easily to protect our Nation's financial system against money laundering. There is most definitely massive money laun-

dering going on here and most definitely it is going to a terrorist organization. And more of it is going to the military wing, we believe, of a terrorist organization, the one that has killed hundreds of American citizens in the past and is engaged in activities against their interests right now in the Middle East.

We don't have these laws on the books for nothing. But I do believe an enforcement approach is also critical. We can't just impose sanctions and penalties and force the banks to be the enforcers of the law. We really need law enforcement to get into gear and to build financial cases against these complex conspiracies. They are very complicated, and they are very hard to prosecute, but it can be done.

So I support a hybrid approach. But at the end of the day—

Mr. LYNCH. Let me stop you there. I have another question. I don't want to use all of my time.

We have a problem coming up, which is the agreement that the Administration is trying to pursue with Iran. We have sanctions against Iran and a number of banks that had previously worked with them on nonproliferation issues, and those are major sanctions, the Iran Sanction Act, the Iran-Syrian Sanction Act. And the President is negotiating taking away those sanctions, dropping those sanctions in return for assurances and verification that Iran is not actively pursuing a military nuclear program.

On the other hand, we also have a whole set of sanctions that are based on the work that you have been doing, which is Iran has also been financing Hezbollah, Islamic Jihad. According to Juan Zarate's book, they even gave money to al Qaeda.

So those activities, if we were to drop the sanctions and allow their economy to grow, what is to stop them from continuing that activity with respect to some of the work that the Islamic Revolutionary Guard is perpetrating, which is directly supportive of some of this illicit activity, the criminal activity that is happening in so many other countries?

Mr. ASHER. There will be moral and human outrage if those laws are rescinded. Okay? At the end of the day, the terrorism record stands. For those of us who worked in the war in Iraq, we had more involvement in EFP and other IED-related attacks from Iran than almost certainly any other nation-state.

I was the senior adviser to the United States Government for the Six Party Talks with North Korea. I know what multilateral nuclear diplomacy looks like. I also worked on the dark side to go after their finances in North Korea. I understand we have to have a hybrid approach sometimes in nuclear counterproliferation. But on terrorism we have to draw the line.

Mr. LYNCH. Right. And so is your understanding that those sanctions, 311, things like that, that are targeted towards the criminal activity that have been enforced by banks, these banks that don't want to do business with any bank that is doing business with Iran because of the criminal activity, those should remain, right?

Mr. ASHER. The terrorism record stands.

Mr. LYNCH. Right. Okay.

Chairman FITZPATRICK. The Chair now recognizes the vice chairman of the task force, Mr. Pittenger, for 5 minutes.

Mr. PITTENGER. Thank you, Mr. Chairman.

Dr. Asher, last March I asked Secretary Lew about the effectiveness of our intergovernmental communication and coordination as it relates to stopping the financing of terrorism, specifically, U.S. Customs and their full access of data with limited access by FinCEN.

Do you believe that we should be looking more seriously at better coordination, particularly as it relates to trade-based financing? Should we be looking at and targeting this type of better cooperation?

Mr. ASHER. I don't want to dominate all the questions here.

First, U.S. Customs is an awesome organization. Everyone deserves to take a look at what they do. They don't get nearly enough credit. I have been so impressed by their data systems. They have probably stopped more terrorism than any other organization, including the CIA and the FBI.

However, sharing data is very important. They are very good at receiving data. I think the ability to take some of their data and use it, for example, in organizations like FinCEN would be very proper and to the greater good because so much of the trade-based money laundering is going on in a way that is very difficult to measure. And one of the only ways to measure it is through things like bills of lading, these customs receipts that occur when you export something.

And so to the extent that those data systems aren't linked together, it holds us back in enforcing the law against these trade-based schemes. And trade-based money laundering is where it is at today for money laundering writ large.

Mr. PITTENGER. Yes, sir. You mentioned Section 311 and how effective that was with the Lebanese Canadian Bank. And of course we saw how important it was in the Bank of Macau as it related to North Korea and other instances.

Do you believe that this is a central focus we should have in terms of trying to force some of these institutions to not be able to exist utilizing 311? Do you think that there are other institutions out there that—clearly, we are in an unclassified briefing—should be a focus of our efforts?

Mr. ASHER. Yes, it is the most powerful lever we have ever developed in financial warfare against adversaries. And it is something that needs to be utilized not every day, but periodically. It is an incredible coercive or tool. And there is nothing like cutting someone off from the United States financial system. It is not our job to offer access to terrorist groups and criminals to our financial system. When we see it happening, we should be allowed to cut it off, and 311 offers that opportunity.

Mr. PITTENGER. Mr. Barrett, in your testimony you talked about smuggling and the link between terrorism and crime in some measure. Could you briefly compare ISIL oil smuggling and the smuggling used by Saddam Hussein to evade the Oil for Food Program?

My sense is that ISIL is using the same routes and mechanisms and perhaps the same people, but the United States. And our allies haven't succeeded in stopping this. Why haven't we been able to deal with this the second time around and what should we be doing to stop it?

Mr. BARRETT. It is an interesting question, Vice Chairman Pittenger. Of course, the Oil-for-Food Programme was a huge agreement by the international community through the Security Council in 1991 with Saddam Hussein, as you said, with the government, and did allow a certain amount of export of oil in order to be able to allow the Iraqi government to feed its people. And that was open to many abuses, and it was indeed abused.

But the scale on which Saddam Hussein was operating as a government, of course, was very different from the scale on which the Islamic State is able to operate, whereas Saddam Hussein, I think over the 12 or 13 years of the Oil-for-Food Programme, probably sold about $50 billion worth of oil. Of course, the Islamic State is selling perhaps now up to $2 million a week, so $100 million a year.

And, also, whereas, the export of oil under Saddam Hussein was authorized and, therefore, done in a regular way, in the Islamic State, it is done very much in small scales out of sort of almost homegrown refineries into trucks, which may take it into Turkey, may take it into Kurdish areas, may even sell it to the Syrian government, or most of it, in fact, was probably sold and consumed within the area controlled by the Islamic State itself. So this makes it much harder for outside powers to control them, possibly Turkey. But, generally speaking, it is difficult.

Mr. PITTENGER. Thank you very much.

Professor Realuyo, you mentioned the transport and the illicit sale of oil going out of Iran through Turkey.

Have we been effective at all in trying to minimize that? And what else could we be doing?

Ms. REALUYO. There is the decision specifically to target the oil infrastructure through the military campaign that I described in my testimony, and there has been damage done. But the bigger problem is that we cannot actually outright destroy the actual supply routes that feed the regular illicit economy as well as the movement of people who are actually the innocents who are basically in the way of a lot of the ISIL.

A lot of the market is actually driven by more localized consumption. So I have been asked a lot—having worked on Wall Street at one point, looking at oil markets, it is not—actually, this oil is not entering global OPEC markets. It is actually a question of how to stem the demand locally. A lot of it is crossing into Turkey, which is disturbing. But, more importantly, it is driven by those who are daily looking for a cheaper gallon of gasoline.

Chairman FITZPATRICK. The gentleman's time has expired.

Mr. PITTENGER. Thank you.

And correction: Iraq, that is through Turkey. Thank you.

Chairman FITZPATRICK. The Chair now recognizes the ranking member of the full Financial Services Committee, Ms. Waters, for 5 minutes.

Ms. WATERS. Thank you very much.

I would like to continue with the discussion about money laundering, and I am interested in pursuing information or closing, in time, money-laundering loopholes for persons involved in real estate closings. And this is, I suppose, a question for Ms. Realuyo.

An investigation recently conducted by The New York Times revealed the ease by which anonymous foreign billionaires can purchase luxury real estate in the United States with few questions asked. In fact, nearly half of the most expensive residential properties in the United States are now purchased anonymously through shell companies.

One of the reasons few questions are asked about a buyer's identity is because FinCEN has exempted persons involved in real estate settlements and closings from having to ask basic questions as part of maintaining an anti-money-laundering compliance program in accordance with the Bank Secrecy Act.

The PATRIOT Act allows FinCEN to temporarily exempt certain entities from the requirement to establish anti-money-laundering programs. One of the exemptions was persons involved in real estate closings and settlements.

Do you believe that large cash purchases of luxury real estate by anonymous buyers could pose money-laundering risks that need to be addressed?

Ms. REALUYO. That has always been a question in terms of what we call covert institutions since, basically, the wake of 9/11, the idea that other businesses, including real estate, could be used to launder money as well as move funds that are of an illicit nature.

Under the banking system, you are very well aware of the Know Your Customer practice. So there have been moves afoot not just in the United States, but around the world, to actually try to enforce a broadening of the coverage of who would be required to know your customer and, more importantly, taking a look at things such as real estate.

I do a lot of work in Mexico, where this is a huge issue, of the cartels actually buying businesses, but, more importantly, real estate. And now there is a move afoot there for notary publics, who are critical in order to actually transact the purchase or the sale, to actually also be required to do reporting and due diligence on their clients. And it is something that we might be able to consider here in terms of the United States. as well.

A lot of the flows of the money, particularly in real estate here in the United States, by foreigners is also suspect of tax evasion of their home jurisdiction, which is something that we should also be concerned about, particularly if that money is coming from corrupt governments abroad who are coming to seek financial safe haven within the United States markets.

Ms. WATERS. Several years ago, I became interested in money laundering because we discovered that one of our national banks had purchased a lot of the small banks in Mexico that were known to launder drug money.

And so, in taking a look at that, we discovered that our banks were not following any Know Your Customer policy. I don't even think they had a registration on hand for one of the officials at that time—I think it was a brother of one of the presidents of Mexico—who had large sums of money in this bank. And, of course, the same thing was true with the Abacha brothers from Nigeria, who had all of their money in our banks.

While, of course, I am interested in this real estate aspect of it, you did mention—you brought up Know Your Customer problems with our banks.

And given that the statute that I referenced allowed only temporary exemptions, do you believe it is time that those involved in these types of real estate transactions should be required to implement U.S. anti-money-laundering programs?

Ms. REALUYO. Yes. And that is actually what we are trying to take a look at now. As financial innovations and new ways of moving and potentially laundering money or financing terrorism evolve, things such as the virtual world, we need to think about legislation that keeps up with these financial innovations in order to preclude dirty money from entering the U.S. system.

Thank you very much for your interest on this topic. But anything that moves in terms of hiding money, the criminals and terrorists are very good at trying to circumvent our measures.

Ms. WATERS. Thank you.

And I suppose you are aware of the extensive article that was done about the Time Warner Center. And it is absolutely startling to take a look at the purchase of those properties and who is buying them and how it all operates.

So I think that this information is very instructive, and it certainly should cause us to want to take a closer look at what we do about these kinds of real estate transactions. Thank you very much.

I yield back.

Chairman FITZPATRICK. The Chair now recognizes the gentleman from Texas, Mr. Williams, for 5 minutes.

Mr. WILLIAMS. Thank you, Mr. Chairman. I appreciate it.

I have two questions: the first one to you, Mr. Farah; and the second one to Dr. Asher.

In your testimony this morning, you spoke about how countries likes Iran, whose banks are largely barred from the Western financial systems, have been able to gain access to international markets through countries in Latin America.

Would you help this committee further understand what implications terrorists or criminal groups who are supported or allowed to operate in Latin America have on this country.

Mr. FARAH. Thank you for the question, sir.

I think that, if you look at the way Iran has penetrated the financial systems of the Bolivarian states—particularly where I have documented it is in Venezuela and Ecuador, where you have Iranian banks setting up under falsified banks and operating as Venezuelan banks or, in the case of Ecuador where the president of Ecuador authorized a small state-owned bank to become a channel for Iranian money and authorized it explicitly and they were going to have their communications encrypted and the encryption key for the financial communications was going to be held in the Iranian embassy—that is a little unusual, I would say, for a normal banking structure.

And I think that what—the problem in this setting is that when you have a state sanctioning those activities, no one is going to investigate them and no one is going to move further down the road.

And that goes the point of the absolute impunity that the state cover provides.

So once you have a state that is willing to use either transnational organized criminal organizations or terrorist groups or both as part of their state-sanctioned policy as opposed to what we see perhaps in Mexico, what do the narcos want? They want a judge who won't condemn them. They want a border guard who will let them cross. They want a policeman who will let their things go by.

What these guys—the new construct in Latin America is entirely state-protected and state-driven, and I think that is a fundamental shift. And I think that opens the door for what you see Hezbollah doing in the region, what you see Iran doing in the region, what you see ETA from Spain doing in the region, which is having unfettered access to financial institutions in ways that would not be possible without direct state participation.

Mr. WILLIAMS. Thank you for your answer.

Dr. Asher, let me visit with you really quick, and go back to the used car situation.

What was the number of used cars you said were going out of this country? Was it a billion dollars?

Mr. ASHER. Just to Benin alone, it may be as much as a billion dollars.

Mr. WILLIAMS. Okay. So my question is: Who is buying these cars? Were they buying them in auctions? Were they buying them from dealers? Were they buying them from individuals? Where are these cars being purchased?

Mr. ASHER. They are buying them in auctions, typically. The money is coming out of Lebanon. It is thousands and thousands of people. I think that CBP has probably denied thousands of visas for people from Lebanon. It is an unfortunate thing for our relationship with Lebanon, but there are people coming here who are being told, "Go buy cars" and they just do it.

They are going to get a big cut on the payment because it is drug money. There is a profit associated with it. So they don't really care how much money can be made on the car transaction itself. They just want the car because, without the car, they can't launder the money. So they buy them.

You see it at a lot of car lots just in the State of Virginia or in the City of Baltimore. You go there and you see all these cars sitting there and you never see anyone in the car lot. Ask yourself who is running the racket. They season these cars on these lots. They sit there for a few days and then they are off on a boat to West Africa to car lots owned by Hezbollah.

Mr. WILLIAMS. Now, did you say that the cars they are buying are around $2,500 or do they—

Mr. ASHER. There are a lot of cars they are buying that are below the $2,500 Customs threshold so they don't come into our statistical database.

Mr. WILLIAMS. Okay.

Mr. ASHER. It is sort of interesting. They know our laws better than we do.

Mr. WILLIAMS. So they are beating the system. They know how to beat the system.

Mr. ASHER. They know how to beat the system. These guys are—they are really brilliant, actually.

Mr. WILLIAMS. How are those cars being paid for? Cash, at the—

Mr. ASHER. No. Typically, it is wire-transferred. So the banks are involved, and this is an issue. I don't want to blame our bankers. Our bankers are trying very hard to enforce anti-money-laundering and probably are given a hugely onerous responsibility to do so.

What we need to do is we need to target the Lebanese, who are sending the money, and we need to say that this typology, which is subject to Section 311 of this USA PATRIOT Act, is a money-laundering typology for terror and it shall be banned until it can be proven otherwise not involved with terrorism.

Mr. WILLIAMS. And then you said this, but, again, tell us, so they get these cars. How are they being used?

Mr. ASHER. They are being driven around Nigeria by relatively poor people who want a cheap car. There is nothing wrong with the cars themselves. What is wrong is that they are buying them as part of a money-laundering scheme.

Mr. WILLIAMS. I am in the car business, is the reason I am asking, and I want to talk to you later. Okay?

I yield back my time, Mr. Chairman.

Chairman FITZPATRICK. The Chair now recognizes the gentleman from California, Mr. Sherman, for 5 minutes.

Mr. SHERMAN. Much of our U.S. Government is doing an outstanding job. Some agencies aren't. I have an example that may beat the ones of our witnesses, an example where giving money to terrorists is not only easy; it is tax deductible.

In 2009, I brought to the attention of the IRS that an organization called the IFCO, which was a 501(c)(3) organization, had on its Web site, "Give us the money and we will give it to Viva Palestinia and then Viva Palestinia will give it to Hamas."

It took them 4 years to take it seriously. Then, in October 2013, the organization put on its Web site the IRS report as to why the organization should lose its tax-exempt status and used it as a fundraising device, saying, "Look, the IRS doesn't like us. Give us more money. We will give it to Hamas."

And even today, somebody who looks at the list of organizations to which they can give tax-exempt contributions, can give it to the IFCO. So I think just the fact that we make it a little easy for the terrorists, I have you beat. We make it tax-deductible.

Remittances: a lot of ordinary Americans want to send money to Somalia to their relatives. Would it make sense for the United States to green-list licensed organizations where if you give them the money, the money will go to an individual Somali relative?

Now, of course, there is always a possibility that your relative has been seduced by terrorist propaganda and gives some of the money to terrorists. But at least, if the money gets to the relative of an American, does it make sense for the United States Government to give Americans an avenue where they can feel relatively safe?

Do we have a witness who wants to answer that?

Mr. Barrett?

Mr. BARRETT. Can I address that?

Mr. SHERMAN. Yes.

Mr. BARRETT. Somalia is a very good example. Many, many Somalians rely on remittances to feed their families and to keep going. So it is an essential area of income for them. And, of course, in Somalia, they aren't operating banks. And so, many of these remittances are made through hawalas and so on, informal systems.

You noticed the other day that, after the Garissa attacks in Kenya, the Kenyan government wanted to shut down some of these remittance services because they reckoned they were also funding terrorism. But, of course, there was a huge outcry internationally because it would mean so many Somalis were disadvantaged.

So I think that your question is absolutely right. What needs to be done is to be able to bring these informal systems into a more formal structure rather than banning them and trying to push them out. And one of the problems that we face now is that formal banks are very unwilling to offer banking services to hawalas because they fear the regulations and so on.

Mr. SHERMAN. Thank you.

I want to move on to another issue, ISIL and the Iraqi government. One of the best ways ISIL has financed its uppermost successful way is seizing a lot of currency. What various countries have done is they have issued new currency, replacing old bank notes with new bank notes. This is incredibly inconvenient for criminals and corrupt politicians, say in Baghdad, just as it would invalidate the bank notes stolen at the Mosul regional bank by ISIL.

First, does anyone here have a good estimate as to the value of the bank notes seized by ISIL? I have heard various reports. I don't see anybody—

Mr. BARRETT. I think it is very hard to say. In Mosul, they were alleged to have stolen $500 million worth, but whether that was in gold or in bank notes or what—

Mr. SHERMAN. You would hope that the Iraqi government would at least know the gold and currency it had in its bank before its American armed troops turned tail and ran and left the money for ISIL. But it goes beyond that.

The government is paying salaries to bureaucrats in Mosul, and that money is freely taken by ISIL. It is my understanding—and I would like Mr. Barrett or any other witness to respond—that the Iraqi government is sending electricity into Mosul free and then ISIL gets to collect from the utility users. And I get conflicting arguments or propaganda—well, I don't want to use the word "propaganda," "spin" from our government.

Half of the time the Iraqi government is boasting that they are undermining ISIL's support by making it impossible for ISIL to provide good governance, and the other half of the time they are saying, "We care about the people governed by ISIL and want to make sure their lives are comfortable."

Finally, there is the oil that the Professor spoke about, the oil wells. It is hard to—we can bomb the oil wells. We have chosen to not do that because we want to make sure that Mosul motorists are not inconvenienced.

Ms. REALUYO. More importantly, the bigger question is after you bomb the oil wells, whomever is going to hopefully take back that

territory in a legal manner, this is a bigger question of infrastructure—right?—in terms of—that is actually the question.

They have been targeting those mobile refineries because they are taking a look at the supply chain just like any business in terms of—

Mr. SHERMAN. Professor, I know they are bombing the mobile refineries. I have asked about bombing the oil wells. We didn't hesitate to bomb factories in France in 1941 and 1942 when we were serious.

I yield back.

Chairman FITZPATRICK. The gentleman yields back.

The Chair now recognizes the gentleman from Maine, Mr. Poliquin, for 5 minutes.

Mr. POLIQUIN. Thank you, Mr. Chairman. I appreciate it.

And thank you all very much for being here today and dealing with this new dimension of terrorism financing. I encourage everybody to continue to do your good work to make sure our country stays on offense and make sure we do everything humanly possible to stop the flow of funds to terrorist groups that threaten our homeland.

I am a little bit concerned today as we go down this path and now all of a sudden we see a marriage between organized crime and terrorism and so it is an additional source of funding to terrorism. And I know all of us in this country are getting increasingly alarmed by the savagery that we see over in the Middle East, in particular, dealing with these organizations.

I would like to follow up with you, Professor Realuyo, if I can, with Mr. Lynch's question dealing with the Administration's negotiations currently with respect to a nuclear deal with Iran.

And if, in fact, sanctions are lifted that are currently imposed on Iran, freeing up roughly $125 billion, $150 billion of cash to that country, what might that do with respect to the increased marriage between organized crime and terrorist funding?

In particular, could you walk us through, to the best of your knowledge, knowing that you have a background in international banking and, also, national security, what would happen next?

Ms. REALUYO. One of the concerns that several of us have who are looking at different scenarios of how the Iran nuclear deal might turn out—one of the objections that several who are, I say, proponents of the sanctions regime, the sanctions brought the Iranians to the negotiating table. That is clear. More importantly, the Iranian economy is so suffocated now because of the sanctions.

One of the scenarios that the Iranians would like is immediately upon signature of the agreement that there would be an automatic lifting of the sanctions. And it is very hard to put back in place the genie that is out of the bottle. The bigger issue, too, is you have now a global sanctions regime.

And you know the United States issues sanctions as well as the EU and other countries and then, more importantly, on an international level. Once you actually have countries who are hoping to do business with Iran, not necessarily the United States, see the opening of the lifting of the sanctions, it will be very hard to actually apply what are these so-called snapback sanctions.

More importantly, you will see that they will be able to enter into the global economy licitly as well as illicitly. And, as we all know, Iran is a state sponsor of terrorism, as declared by the State Department. But, more importantly, it is the godfather and patron of Hezbollah, which we haven't raised today, and is actually supplying the foreign fighters for the Assad regime in Syria.

It is so complex and convoluted. But if we take a look at it from an economic point of view, other countries who would like to do trade with Iran or, more importantly, get access to the oil that Iran produces, once you lift the punitive measures of the sanctions, it would be very, very hard to backtrack and re-impose them.

Mr. POLIQUIN. Let's drill down, Professor, a little bit more, if we can, please.

Assuming those sanctions were to be lifted—and, as you stated, Iran is a sponsor of terrorism throughout the Middle East, whether it be Syria or Somalia or Yemen—what would be the mechanics?

What would we see if you were involved in the international banking community with respect to how the lifting of those sanctions might facilitate organized crime interconnecting with terrorism activities? And how might the Iranian regime be involved, specifically, to facilitate that?

Ms. REALUYO. You would actually list first the financial sections, which means that Iran would be able to bank globally, which is perhaps the most painful of the sanctions piece.

More importantly, if we take a look at it from a physical trade piece, their ability to actually think about importing or exporting components that perhaps could be used for other nuclear aspirations.

In terms of the bank itself, we all—and when I was working at Goldman Sachs, I did a ton of compliance. And, more importantly, there are several who are anticipating—not necessarily U.S. institutions, but other global financial actors, who are going to see this and seize the opportunity to increase their physical ability to access Iran.

Once Iran actually also lines its coffers with more money, they will be able to use that money, particularly since there is not a lot of difference between the state and the private sector, the way we have it here in the United States, and that is the thing that we fear.

Doug Farah and I spent a lot of time taking a look at how Iran and its, let's say, actors in the region and Latin America could also destabilize other parts of the world with its nefarious agenda.

Mr. POLIQUIN. Thank you very much.

I appreciate everybody being here. And let's stay on offense. Thank you.

I yield back my time. Thank you, sir.

Chairman FITZPATRICK. The gentleman yields back.

I now recognize the gentleman from Texas, Mr. Green, for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman.

And I thank the witnesses for appearing as well.

And, Mr. Chairman, I am very much concerned about the notion that we should follow the money, but I am also concerned about following the counterfeit money, what is called "supernotes."

This currency is so finely tuned that sometimes it is very difficult to be detected but for some sort of special technology. As you know, the dollar is the reserve currency for most of the world, and there is a war for currency supremacy.

My concern—or maybe I shouldn't be concerned, and I will let you tell me—is whether or not these supernotes flowing in and out of our country and into other countries can pose some sort of threat to security in this country in the long run.

I do understand that we retooled our currency, but I am still concerned about nationals larger than terrorist organizations, countries, if you will, that can play a role in devaluing and creating mistrust in our currency.

Does anyone care to respond?

Mr. ASHER. Having overseen the multiyear initiative for the U.S. Government against North Korea's illicit financial networks, including supernotes, I guess I can comment.

It has been a very costly endeavor for the United States. We have had to redesign our currency twice as a result of North Korea's national-level counterfeiting of our currency. I do not know that they have succeeded at counterfeiting the latest iteration of the $50 and $100 bills, though.

Congressman, I definitely appreciate your interest in this and concern. It is a concerning issue. It has cost us hundreds of millions of dollars to redesign the currency over the years.

And North Korea did spur on several huge bank runs overseas. In Taiwan, I think we had over $500 million in bank runs in just a period of a couple of weeks back in 2003 or 2004.

So the amount of money that the regime in North Korea has actually garnered from supernote circulation is probably not as high as some people think, but the damage they have done is considerable and the damage they could do.

And if they can indeed counterfeit the security features on the new notes, it would be—first, it would be pretty incredible technologically. But they have been pretty good up to now. They have managed to do it four different times, I believe, with notes.

And we know that they are essentially printing their notes and our notes that they are making, their version of our notes, on their printing presses. North Korea is using its absolute best capabilities here. So, it is a concern. I think that the Department of the Treasury is very much on top of it.

But the bigger issue is, why didn't North Korea get prosecuted when we investigated them? The State Department played a very big role supporting the Department of Justice. The FBI had an incredible investigation into North Korea's supernote activity, including its ties to the official IRA and its ties to Japanese terrorist groups from the 1970s. And it was just wild stuff, featured in Vanity Fair and Wall Street Journal articles and things.

President Bush, whom I had the honor to serve, decided that it was too controversial and we couldn't press charges against the Kim regime at the same time we were negotiating with them.

And, of course, I was negotiating with them and I was involved in trying to press charges against them at the same time. I didn't understand the reason not to do that. The North Koreans knew

darn well what they were doing, and somebody needs to be held accountable, but we didn't do it.

That evidence still exists. In theory, somebody could make a case. The statute of limitations probably doesn't expire against a state sponsor of terrorism, if we—at least it was at the time.

Mr. GREEN. Mr. Asher, if I may, I appreciate your answer. I do want to interrupt for this reason. I have one other question for you. This one relates to knockoffs. I want to move to a more pedestrian level now, if I may.

Knockoffs: we see a lot of it on the streets. And the question is, to what extent are these knockoffs related to either networks of criminal activity—not just as individuals, but networks—and, also, the possibility of being linked to terrorism? You talked about cars.

Mr. ASHER. The largest export for North Korea, believe it or not, is counterfeit cigarettes coming out of North Korean government-controlled criminally-run factories. They are making maybe as much as $700 million to a billion dollars a year in revenue on these, and we have them trafficked all the over the United States. Frequently, they appear in the press as coming out of China, but they are actually just coming through China because North Korea doesn't export directly to the United States, particularly.

So is it benefiting the regime? Absolutely. Is it benefiting the most despicable dangerous elements of the regime? Absolutely. Are they tied into transnational organized crime? 100 percent certain. And we have proven it in court repeatedly. So you should be concerned.

Mr. GREEN. Thank you, Mr. Chairman, for the time. I yield back.

Chairman FITZPATRICK. The Chair now recognizes my colleague from Pennsylvania, Mr. Rothfus, for 5 minutes.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Mr. Farah, you point out in your testimony that Iran, whose banks are largely barred from the Western financial system, benefits from access to the international financial market through Venezuela, Ecuador, and Bolivian financial institutions which act as proxies by moving Iranian money as if it originated in their own unsanctioned financial systems.

Can you explain on a practical level how Iran was able to use these institutions to evade international sanctions regimes, and what the United States has tried to do, clearly unsuccessfully, to prevent this?

Mr. FARAH. Thank you, sir.

There are two specific cases that I can go into, in some detail. One is the Banco Internacional de Desarrollo in Venezuela, which was set up as a Venezuelan bank, but all of its directors were Iranian.

And when I and some others dug up the initial documents showing that, in fact, the directorships were all Iranian citizens and it was operating, in fact, as a subsidiary of an Iranian bank, not as a Venezuelan bank, as the Venezuelan government had claimed. OPAC eventually—the Treasury Department eventually sanctioned them. And they are now functioning, but at a much smaller level than they were before, but they still have the Iranian influence.

The other case is the case of COFIEC Bank in Ecuador, where we were able to get the records of some investigative journalists in

the region, and I was able to supplement it with some other stuff. I got the records of the meeting between President Rafael Correa and President Ahmadinejad in February 2012, and President Correa eventually acknowledges these documents were legitimate. So we don't have the debate over whether this was real or not.

President Ahmadinejad asked President Correa for a bank. President Correa says, "Oh, I have a bank for you, COFIEC Bank," which was a national bank that was virtually nonfunctional at the time, but still existed as a bank. So it didn't have to register the bank.

After they reached that agreement, President Correa sent the president of the Central Back of Ecuador with a delegation to Iran to negotiate which bank they would—with whom they would have correspondent relationships.

On their way there, they stopped in Russia on the first stop and opened an account in a Russian bank that maintains corresponding banking relations with Iran. So, therefore, you could have interbank transfers without registering through the Swiss system.

Then they go down and they negotiate with the Iranian banks. There are communications from the people on the delegation saying, "These are all sanctioned banks. Is it okay?" And the Ecuadorian government says, "Yes. Go ahead."

Mr. ROTHFUS. Are there policies that we could implement to better prevent this from happening?

Mr. FARAH. Absolutely. I think that one of the things you are seeing now in the construct I have described in Central America where you have literally billions of unexplained dollars washing through banks is they have regular correspondent relationships with the United States, there would be multiple things which Dr. Asher led on the Lebanese Canadian bank-type thing.

The chairman's first question was, "In Latin America, would those joint task forces be good?" Those guys are looking at pocket litter and different things and did very well in what they did.

What we are looking at now is state-run banking systems where we have multiple banks in Central America that are growing exponentially with no rational explanation for that. We have banks in Panama that are doing exactly the same thing.

Mr. ROTHFUS. Would any measures we take, though, be moot by a lifting of sanctions with respect to Iran's banks?

Mr. FARAH. I think that it would make it much more difficult. I think that, as Professor Realuyo said, once the sanctions are lifted, the snapback is not going to be very rapid or nearly as enforceable as the initial sanctions—

Mr. ROTHFUS. Let me bring the professor in for a minute there, because in your testimony one of the measures that you identified to counter these illicit networks was to maintain a vigorous designation and sanctions regime against state sponsors of terrorism, foreign terrorist organizations, transnational criminal organizations, foreign narcotics kingpins, and specially designated nationals.

I have contended that the sanctions regime in place with Iran today is justified completely on the fact that they have been exploiting terror for decades, responsible for hundreds of American deaths since 1980, really, if you go back to the rescue attempt and

the people we lost there and then go through the list of what they have been doing, including the killing of hundreds of our soldiers in Iraq. That alone justifies a sanctions regime without regard to the nuclear program they have.

I guess my question, Dr. Asher, Professor Realuyo, is if you could address whether you think—if we lift these sanctions on Iran, will we see more terror financing coming from Iran?

Ms. REALUYO. It is one of the things that has actually limited them from supporting Hezbollah as—

Mr. ROTHFUS. The current sanctions have?

Ms. REALUYO. The current sanctions have.

So if you think about it, if that is the measure and they are actually going to alleviate a lot of the economic stress that the country that is a state sponsor is actually—it is a question of—we have been able to basically make their pockets smaller—right?—as a global sanctions regime.

And more importantly, the question is, what are they going to use with all the income they are going to have once they re-enter the global marketplace, whether it is financial as well as the import and export in trade. And there are more than enough other countries that are interested in doing business with Iran.

And, unfortunately, that is the downside of globalization, which I also wrote about in my testimony. As we benefited tremendously from a productive and interconnected world, unfortunately, the terrorists and the criminals are taking the same advantages.

Mr. ROTHFUS. I think my time has expired, Mr. Chairman.

Thank you all for your testimony and for your work in this field.

Chairman FITZPATRICK. I now recognize the gentleman from Arkansas, Mr. Hill, for 5 minutes.

Mr. HILL. Thank you, Mr. Chairman.

And I thank the panel for participating today.

Dr. Asher, reflect for me on when we put pressure on particularly developed countries and through the financial process, through the PATRIOT Act, we squeeze legitimate users and illegitimate users out of those marketplaces relative to the U.K. banking system or the American banking system, and Mutual Legal Assistance Treaties (MLATs) have been a big, important tool that we have had diplomatically, whether it is finding Noriega's assets or other players around the world.

What can we do in that arena? Can we expand the MLAT process? Can we amend it? Is there a mini-MLAT that we could use with countries with which we don't have a full treaty? Would you expand on that for a minute.

Mr. ASHER. I think that is a really interesting question, because we haven't really utilized outside of the world of just straight-up drug trafficking, the MLAT process of asset forfeiture that effectively.

Something I have advocated against with both ISIL and Hezbollah is the use of RICO, which has huge transnational resonance against terrorist organizations as organized criminal entities because terrorism is a specified unlawful act, SUA, under the law. So if you engage in more than two SUAs that are allowed under RICO, you are engaged in a criminal conspiracy that can be prosecuted.

And the thing about RICO and the way it relates to asset forfeitures is you can charge anyone. For example, if you say, "I am an ISIL member" or "I am an al Qaeda member"—a lot of people want to brag about it—you are charged, technically. It is a pretty interesting tool. But you can moreover go after their money.

So if we find there is a foundation in a far-flung land, let's say even a country that doesn't have an MLAT with us or it doesn't honor it, Lebanon, for example—we found $150 million of the proceeds of the forced sale—basically, it was in bankruptcy—of the Lebanese Canadian Bank in a bank called Banque Libano-Francaise. They put their money in that. It was apparently Hezbollah's money.

Under our law, we have a law called Section 981(k) of Title 18 that allows substitute assets to be confiscated where the U.S. Government can actually reach those assets. So even though we didn't have an MLAT with Lebanon—and it would have been better, I guess, if we did—we were able to freeze the money in the correspondent bank account of Libano-Francaise—it was the proceeds the Department of Justice was able to freeze—and forfeit ultimately $102 million of Hezbollah's money without actually going to Lebanon.

So, of course, if we have MLATs, which we should use strategically more effectively for asset forfeiture, it will be exponentially more effective. But even where we don't have them, we have legal tools that can be useful. The key is, we have to deprive financial assets from our adversaries' pockets.

Mr. HILL. Thank you.

Mr. Barrett, is there a formalized model you can see in this charitable arena where you have seen maybe a best practice through forced disclosure of legitimate charities to warn potential donors that they actually have a record of bad acting through the file of their 990 report with the IRS, if it is a U.S. charity, or is there a way to formalize a receipt of remittances in a foreign country like Somalia that might work, that would be a way to better monitor those flows? Do you have a further opinion on that?

Mr. BARRETT. I think you are right. I think public awareness is enormously important, and indeed the public who are donating to charities have a responsibility also to know how the charities are going to spend that money.

There are regulations which have developed over the years, best practices, as you say, in this country, and in the United Kingdom as well, which I think require the registration of charities and the auditing of their accounts with much more detailed scrutiny than there has been in the past.

And I think that is having a real effect. I think there are fewer charities now which can be found to be funding terrorism in jurisdictions where the law is applied properly and fully.

And on remittances, too. I think that there is a mistake often made that hawalas somehow are prepared to turn a blind eye to transactions which banks might otherwise stop. But, in fact, hawalas have to know their customers even more than banks because, of course, it is based entirely on trust rather than on a purely commercial basis.

Mr. HILL. Thank you.

I yield back, Mr. Chairman.

Chairman FITZPATRICK. The Chair recognizes the gentleman from Kentucky, Mr. Barr, for 5 minutes.

Mr. BARR. Thank you, Mr. Chairman, for calling this important hearing to explore and learn more about the dangerous nexus between terrorism and criminal organizations.

I am particularly interested in whether or not there is substantial evidence of U.S.-based criminal organizations that have partnered with Islamic terrorist organizations. And what is the extent of the nexus between—we have heard about international drug cartels' involvement in partnerships with terror organizations. But to what extent are American-based, U.S.-based criminal organizations affiliated with Islamic terrorist organizations like Hezbollah? Like ISIL? Anyone?

Mr. FARAH. I think that there are times when you see U.S.-based criminal organizations overlapping tangentially in the drug trade with Hezbollah activities. I am not aware of any systemic or systematic or larger scale U.S. criminal organizations. I think that is the line that most people won't cross because I think the price would be very, very high for them, and they are aware of that.

I think criminal organizations are largely very rational actors, and when the price they would pay would be that high and the profit would probably—they don't need those groups to do what they want to do, particularly in drug trafficking. I am not aware of that on any significant scale.

Mr. ASHER. I would just say briefly that the Sinaloa drug cartel is not based in the United States, but it derives a lot of income from the United States. The Mejia Salazar cartel, which is supporting Sinaloa, but it is basically Pablo Escobar's empire still living on, is exporting massive amounts of cocaine in the United States in partnership with Sinaloa. So they are earning a lot of income here.

In both cases, there is definitely a partnership going on with Lebanese Hezbollah, especially the darkest side of Hezbollah. In my work personally, I can attest to that in front of you, that we have seen it, and hopefully someday, it is going to be prosecuted in criminal court.

This confluence between these major cartels—and, in criminal states, which Doug has done a great job pointing out, like Venezuela, and organizations like Lebanese Hezbollah is really actually almost out of control.

Mr. BARR. Let me turn to ISIL for just a minute.

We know from your testimony and from previous hearings that the sources of ISIL funds are predominantly in oil and the looting of the banks from Mosul and kidnappings and ransom and the like.

To what extent does the Islamic State have access to and participate in the international financial system? And what could American policymakers do to disrupt the Islamic State's access to financial institutions?

Mr. BARRETT. Yes. I think that is really an excellent question and one, I think, that is puzzling many experts who look at ISIL.

But the fact of the matter, I think, is that most of the money is—it is sort of a cash-based economy and a self-generating economy

and then the money circulates within the territories occupied by ISIL.

Insofar as money is coming from the outside, it does seem to come into ISIL-controlled territory in cash rather than anything else. But I think increasingly we will see the sort of transfer of money through the Internet which is becoming more common elsewhere.

And so people who want to make donations will be able to send it to a bank probably in Turkey or in parts of Syria and Iraq which are not controlled by ISIL, but it will be cashed and then brought over the border. So there will be some sort of interaction with the international—

Mr. BARR. So is Section 311 the best tool available to the United States to disrupt those banking activities?

Mr. BARRETT. I would say that the best tool, really, is to gather intelligence on how that is happening and then deal with the individual cases as they come up.

I think a blanket approach can be very difficult when you look at just sort of the variety that may be available and the fact that predominantly the cash will come into their territory in physical form rather than electronic form.

Mr. BARR. My time is about ready to expire.

But if any of you could just offer an opinion on what is the single most important policy change that this Congress could enact that would disrupt terrorists' access to criminal organizations. Is there any one recommendation that you would highlight?

Mr. ASHER. I think the Bank Secrecy Act of 1971 needs to be fully revised. I think we need to update it. I think there is way too much money being spent on unsuccessful attempts by banks to try to limit terrorism financing and financial crime and we are not focused on the most important things.

There is a huge overregulation of the financial system in this area. I am one of the guys who pioneered this stuff, but I will admit it. It is not working. And that is really why I came before you today.

We could do a much better job with less cost to our financial institutions if we just focused on the problem actors. There are not that many drug cartels in the world.

Our financial institutions need to be told by the Federal Government who is in the cartel, and what they are doing. They need to be given some sort of watch-list information like we do with transportation companies. The airlines know if some terrorist gets on an airplane. Why don't we tell the banks that they are banking with some terrorists?

Mr. BARR. Thank you.

I yield back.

Chairman FITZPATRICK. The Chair now recognizes the gentleman from Arizona, Mr. Schweikert, for 5 minutes.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

There are just so many things we would like to know in this. And when we have 5 minutes, we try to do it very quickly.

Can I just walk through a scenario? Because I am trying to understand flow, and also cost, discounts. The drug cartel sells its illicit products in North America.

First, how does it get the cash back across the border? Is it converting it to gold? Is it carrying suitcases of cash?

Mr. Farah, how are they getting it to Central America first? What would your opinion be?

And then I am going to ask, if they end up in Ecuador, what are they being charged? What is the cost of money laundering? Walk me through a couple of these steps.

Mr. FARAH. Thank you.

I think, on the drug trade, a lot of the money goes back in bulk cash and a lot of it goes back in wire transfers and bank transfers into Central America. The cost is generally about 17 to 22 percent.

There are banks in Central America where, if you deposit over a certain amount of money, generally in the neighborhood of $3 million or $4 million, and pay the 17 percent, they will provide you with a history of justification of that money.

In other words, they will create all of your tax records, all of your employment records, everything, so that money is now untraceable as drug money. It is one of the full services that some of the banks are offering.

Mr. SCHWEIKERT. Mr. Farah, how much of that do you think is going to a spiff to some of the government leaders?

Mr. FARAH. Of the drug—

Mr. SCHWEIKERT. Okay. Let's say I just spent 22 percent to wash my couple million dollars of illicit cocaine money—

Mr. FARAH. Right.

Mr. SCHWEIKERT. —that has come back into the country. The government has created a charter to allow me to have access to this bank.

What is that president, what is that administration, what is that government, taking off of that?

Mr. FARAH. I think you see right now that the vice president of Guatemala just resigned, who was involved—his private secretary—I believe she personally was involved in a really lucrative scheme where there were some banks involved and, also, largely to avoid taxes coming across the border—Customs taxes.

And it gets—because, as the states have criminalized, it becomes a state operation run by a state. They end up paying a lot. I don't know the exact percentages. I know that, in some cases, the government officials will take up to half of what comes out of there.

You look at some of the cases that have been prosecuted, like former President Portillo in Guatemala, who racked up multi-hundreds of millions of dollars. You have former President Paco Flores in El Salvador who was charged with $200 million. You have another former president of El Salvador whose own party investigation showed he had made $450 million.

Mr. SCHWEIKERT. Don't we have investigations going on right now in Panama and other areas in regard to certain issues?

Mr. FARAH. There are. I think that what David Asher said is true. You have a lot of really good, smart people looking at this, operating in severe resource constraints.

And when I talk—you have, for example, the case of Banco Leandro, which is a 311 designation, which collapsed one of the major money-laundering operations just a couple of months ago.

They had three branches operating in Panama, and in that branch we had at least $2 billion from the Venezuelan oil company and many in Russian organized crime, China's organized crime, et cetera.

Okay. When you go to talk to these people—let me finish this thought. When you go to talk to the authorities who deal with it, they simply don't have the resources to reach out and do all that stuff. They say, "This is great. It is great information. We would like to help. We have 3 people to look at 45 cases and a lot get dropped."

Mr. SCHWEIKERT. About 3 weeks ago, I was actually in Panama and sat down with the parliamentarian not from Panama, but from one of the countries you have mentioned, and he swears that he actually sat there and watched the check from, ultimately, Iran being deposited and has tried to speak about it publicly and has made very, very little progress.

Dr. Asher, walk me through—because I am trying to get my head around how formalized this is. We had a hearing a couple of years ago that actually talked about that, in Venezuela, there almost was a shopping list of your prices. If you are washing 100-dollar U.S. currency, you sort of pay this, this, this, and this, and here is how it breaks out. Is it that formalized of a corruption?

Mr. ASHER. It is national policy. It is called a criminal state. It is crime being carried out as a act of national policy to benefit the leaders of that regime, and they can use it.

No surprise there is money in the oil accounts. How do you get money from the United States? Congressman Barr, I think, was asking earlier about, how do you get the money from the United States?

I can't prove it, but there have been way too many cases where you see these oil companies for countries like Venezuela showing up in law enforcement cases related to the movement of funds.

Have you ever heard of Citgo? Who knows what is going on with these things. I have no idea at all if any of these companies are involved.

But when you read the law enforcement cases, things pop up like PDVSA and there has to be something going on with the use of formalized transactions and trade with a lot of these states, and it is concerning, from my think tank perspective, that we are doing perilously little to try to police it because they are being accorded the privileges of governments even if they are engaged in criminal activity.

Mr. SCHWEIKERT. Mr. Chairman, thank you for the time, and thank you for letting me go a little over.

For many of us, we would love to see some of the charting to understand the movement between bad actors in governments, bad actors in business, and just plain old bad actors, and see that flowchart.

Chairman FITZPATRICK. I thank the gentleman.

Without objection, we will proceed to a second round of questions, if any Member wishes to be recognized.

I recognize the gentleman from North Carolina, Mr. Pittenger.

Mr. PITTENGER. Thank you, Mr. Chairman. I appreciate the courtesy.

And I appreciate the courtesy of each of you.

When there is a settlement with a bank related to their being complicit in money laundering, what happens with the proceeds of those settlement funds? Could those funds be used for counterterrorism efforts? And how could we designate that? Who would like to take that as an open question?

Ms. REALUYO. The U.S. Marshals Service actually manages all of the assets that are seized. So there is freezing, which you are very familiar with, but then there is an actual seizure of assets. This has probably been much more popularized through movies that kind of look at the DEA and their raids and going after cartels.

The question then is—it is then divided among the different agencies that were involved in that actual operation. And it is actually a very interesting U.S. model that we are exporting to other partner nations who are looking at asset forfeiture as a very useful tool.

There are two things that they say in Mexico that the cartel leaders are worried about: first, extradition to a solitary cell without a cell phone into the United States; and second, and more importantly, the actual expropriation of their funds, that their children will live less luxurious a life than themselves.

And I have actually advocated that in the actual seizure of those funds, but more importantly, the fines that are levied to the banks and institutions that are violating known sanctions, regimes, and laundering money, there should be a portion dedicated to actually helping those who have actually been involved in uncovering and then, more importantly, investigating and prosecuting these crimes.

I think you have heard so much about how within the U.S. Government there are really fantastic experts and analysts who are doing this, but because of the shortages of financial and, more importantly, human resources and, unfortunately, too, the fact that many of our best experts are actually leaving and going to the private sector, we need to really work on capacity building within the U.S. Government for combating terrorism, crime, and corruption, particularly through that financial end.

Mr. PITTENGER. I agree. Resources are critical. And we are talking hundreds of millions and billions of dollars, and the allocation of those funds, it seems to me, would be very important in advancing our counterterrorism efforts.

Dr. Asher, did you want to make—

Mr. ASHER. In having contributed probably a few hundred millions dollars to the asset forfeiture fund over the years through efforts I have been involved in, I have always wondered whatever happens to the money. It is a great question.

Yes, we have these several billion-dollar pots that are used, but far too little of it is allowed to be used proactively, for example. Now, this is a very controversial issue, I know, on the Hill here, and I respect Members' opinions on this.

This whole fast-and-furious fiasco is something that we will always live to regret. I have no idea how something like that could happen. But the use of money as a tool to do sting operations, as they exist, is indispensable.

We have to put some money on the table in law enforcement to be able to interact with—no kidding—transnational organized crime groups with credibility. Undercover operations are critical. The asset forfeiture funds are critical. But there is a tiny amount, frankly, allowed to be used for any sort of proactive approach, which paralyzes the effectiveness of our law enforcement organizations against them.

So, it is not just the asset forfeiture funds themselves not being used for increasing asset forfeiture and there is insufficiency there, it is how they are being used. I think we have to get much more aggressive like we were in the 1980s and 1990s against the Colombian cartels largely because people are getting shot left, right, and center in the streets of Miami.

Mr. PITTENGER. Thank you.

Any further comments?

Thank you, Mr. Chairman. I yield back.

Chairman FITZPATRICK. The gentleman yields back.

And the gentleman from Arkansas, Mr. Hill, is recognized.

Mr. HILL. Thanks, Mr. Chairman.

I just wanted to follow up. There are so many Members of the House and Senate who are so concerned about the Iranian negotiations that are under way between the Administration and Iran.

And when we had our last hearing, so many of us were, I think, shocked at the magnitude of money that would flow back to Iran were the proposed treaty to be successful: $50 billion signing bonus, then the freeing up of cash in the accounts that had been frozen, and then, of course, the flow, as was noted by the Professor, of future trade capability.

In your role of interdicting terror financing and stopping the expansion of terrorism, how would you rank that $120 billion that may flow to Iran if this treaty proceeds?

If 1 is of low importance to our national security and the ability to stop the expansion of terror finance and 10 is critical, very important, how would each of you rank the freeing up of that $120 billion?

We will start with Dr. Asher and just let each of you rank—give me a number and—

Mr. ASHER. I will give you a rank. I don't think it is 10.

Mr. HILL. Yes.

Mr. ASHER. It may be 5.

Mr. HILL. Okay.

Mr. ASHER. It may be 3. But the big thing is, it is Iran's revolutionary regime and its externalization of that revolution which is its top priority as a policy that is the problem.

When we went to the North Korea six-party talks, we should have been focused not just on the fact they were exporting a nuclear reactor to Syria, which probably had something to do with the Iranians right under our feet, but we also should have been focused on the fact the North Korean regime was not agreeing to negotiate about its destiny as a regime. Its whole orientation was against our existence.

That is the problem with the Iranians. Now, maybe there is something going on where they are going to change that. I hope so.

But that, to me, is the problem that concerns me, is they are inimically opposed to us and it is their national ideology as a state.

Mr. BARRETT. Yes. I think Iran, like all nations, operates in its own best interests and it will identify those best interests in different ways according to the context of the international community around it.

Sure, Iran, if it had more money, might fund actors that the United States and its allies would not like to see better funded.

At the moment, of course, Iran is providing a huge amount of money to Syria, for example, to prop up the Assad regime. It is paying for various militia in Iraq, which, on the other hand, are probably the most effective forces against ISIL.

And I think that the main way of making sure that additional money will not be used in ways that we wouldn't like is to try to bring Iran much more into the international community so they identify their interests alongside everybody else's rather than being the sort of outlier who is always trying to sort of find advantage.

And that, of course, comes back to the fundamental problems in the Middle East of sectarianism, the competition between Saudi Arabia and Iran, and many, many other complex questions.

Mr. FARAH. I agree with David Asher. One of the late prosecutors, Alberto Nisman in Argentina, was the one who pointed out to me when we were talking about Iran and Latin America—he asked, "Have you ever read the Iranian constitution?" And I said, "Frankly, no." And he said, "Read the preamble to the Iranian constitution, their official translation."

It is state policy to expand using the Revolutionary Armed Guard as the armed vanguard of spreading jihad around the world in a world conquest. That is written into their constitution.

So I agree with David that the fundamental nature of the Iranian regime is something that—allowing fungible money into their system will almost inevitably point toward much more aggressive action outside, including terrorism, because that is their core underlying belief, which they acknowledge and write about extensively.

Ms. REALUYO. I think it is of grave concern. Here in the United States, we focus primarily on the nuclear deal, when at the same time a lot of our Arab allies are much more focused on Iranian expansionism, and, more importantly, they talk about the revival of a Persian empire.

You have actually seen now the influence of Iran in four major capitals. They call it the Shia Crescent. And several of our Arab Gulf State allies are worried about becoming a Shia circle. They have, basically, control or influence in Baghdad, in Lebanon, in Syria, and, sadly, what you are seeing devolve in Yemen.

So it is not even a question of a state-sponsored terrorism. It is this question about Iran hegemony in the Middle East, which is so complex because of the religious angle as well as the historical rivalries.

It is something I think that we are not really covering here in the press as much. Since we are so focused on the Iranian nuclear deal, we are not looking at the geopolitical aspirations of Iran.

Mr. HILL. Thank you, Mr. Chairman.

Chairman FITZPATRICK. The Chair now recognizes the gentleman from New York, Mr. Meeks, for 5 minutes.

Mr. MEEKS. Thank you, Mr. Chairman.

And I thank all of you for your testimony. I have been listening very attentively in my office to your testimony.

And let me just ask you first a few questions because my focus has been, on this committee, what we can do in Congress to make sure that we are not allowing the Internet and others to facilitate anti-money-laundering, et cetera.

Mr. Asher, I guess I will ask you the first question. I think that in your testimony, you mentioned that Congress should amend the Bank Secrecy Act to facilitate anti-money-laundering data-sharing among banks.

Now, the issue that we recently had the vote—there is a general concern among Americans about personal information being widely available to a range of institutions with little knowledge about how that information is being used.

So I was wondering if you could elaborate on this conflict and how Congress should proceed with improving the Bank Secrecy Act while also preserving the individual's human rights to privacy debate that we have going on in Congress right now.

Mr. ASHER. That is a great question, and I appreciate you asking it.

Look, the Bank Secrecy Act was actually not passed to protect bank secrets or privacy. It was designed to stop any money laundering in 1971. They just changed the name because of concerns.

I am concerned, as a private American citizen, about personal information being divulged. But unfortunately, the cat is sort of out of the bag as we look at the credit rating bureaus. And the amount of data that an Experian or someone would have about any of us is ridiculous.

It is ironic, though, that banks are reticent to share data with other banks even though that is allowed. Under the USA PATRIOT Act, Section 314(a) or (b)—I can't remember which one—banks can share anti-money-laundering data with each other, but they can't pool it.

If you could pool it, if you could do sort of the Visa or MasterCard processing of anti-money-laundering data, you would see massive schemes that could be stopped by banks at a relatively low cost because you would see that this guy just opened an account at this bank in whatever city and then at this bank in this city, and they are smurfing the system. They are setting up a money-laundering network. But right now, no one can see that.

So sharing the data would not only reduce costs dramatically for the banking system, it would improve effectiveness. They would still be obliged to not share that data with anyone outside of official channels. They couldn't provide it to—they would just be sharing with each other. They are allowed to do that.

It is not going to get divulged any more than it is being getting divulged. So I am not that concerned. I just think economy of scale does help in trying to stop things from occurring. It also can bring down costs.

Moreover, a consortium could be in the position to receive watch-list data, even classified data, from the U.S. Government. And I

think we need to consider providing that. We provided it, again, to our airlines and shipping lines. If we think there is a Maersk ship that is containing a container full of, let's say, weapons coming into the United States, we are going to tell Maersk, "There is a container. You have to inspect it."

Do we tell the banks that they are doing business with drug traffickers or Hezbollah? No. Only through public divulgence. And I think we should keep these things—we don't need to publicly approach these issues and tell the terrorists that we are looking at them.

Mr. MEEKS. You know that debate is going on.

Mr. ASHER. I do. And I think it is a healthy debate. I am concerned, but I don't think—if this system is done right, it is not going to lead to any more divulsion of private information than is occurring already. In fact, it just might be more effective.

Mr. MEEKS. I am running out of time. I would like to have this debate more and more. But, again, I am trying to figure out what we can do as a committee.

Let me jump to Mr. Barrett really quick because I think that you stated in your testimony that corruption, along with other forms of poor governance, particularly in the delivery of justice, is possibly the most significant driver of terrorism in the world today.

So I want to know—maybe you can elaborate on what role the Financial Services Committee, with our oversight authority of international monetary organizations, can play in better ensuring governance in nations struggling with terrorist organizations?

Mr. FARAH. I think—is that for—

Mr. MEEKS. Go ahead. Whomever—

Mr. BARRETT. I think that what you are doing is absolutely right because I think that, as corruption, corrupt officials, criminality, and so on—the lack of the rule of law is such a driver of terrorism in these areas where, essentially, the people are completely dissatisfied with what is provided by government.

The more you can sanction those individuals as government leaders and others who are involved in the corrupt practices and in the financial skullduggery that goes on in the general criminal world, then the less—obviously, the less dissatisfied people will be. If they see justice being served at least in another jurisdiction, even if not in their own, that will be very encouraging to them.

So I think that it has a knock-on effect on the terrorist problem.

Chairman FITZPATRICK. The gentleman's time has expired.

Again, I would like to thank the witnesses for their testimony and their time here today and for the significant expertise that you have shared with the task force. We all appreciate that.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

Without objection, this hearing is adjourned.

[Whereupon, at 12:06 p.m., the hearing was adjourned.]

A P P E N D I X

May 21, 2015

Congressional Testimony

A Dangerous Nexus:

Terrorism, Crime, and Corruption

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The House Committee on Financial Services
Task Force to Investigate Terrorism Financing

Washington, DC
May 21, 2015

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David Asher May 21, 2015

Chairman Fitzgerald, Vice Chairman Pittenger, Ranking Member Lynch, and other distinguished members of the Committee, I want to commend you for forming a task force to take up the subject of terrorism financing. It is one of the most important subjects of inquiry for U.S. and international policy and an area where your attention to the details can have a substantial impact.

Over the last twenty years, I have been honored to be an active participant in a number of U.S. Government efforts to pursue the financial networks of terrorist groups, trans-national criminals, and state level adversaries. In this time, I have witnessed a veritable revolution in policy toward terrorism financing with the development and deployment of a wide range of tools, capabilities, and special measures that have been game changers. Moreover, our government has developed a cadre of counter threat finance Jedi knights who work tirelessly and selflessly in the shadows to follow the money of our most potent opponents and counter, protect, deter, and disrupt their ability to sustain their malevolent financing efforts. I have no doubt that the policies developed and efforts undertaken have had a substantial and positive effect at a disproportionately low cost to the American taxpayer.

This said, I am greatly concerned that our nation's legal and regulatory enforcement framework for counter threat finance has not kept up with the scale, scope, and sophistication of terrorism financing version 2.0. Version 2.0 represents a vast evolution above and beyond the traditional religious charities, mosques, and jihadi financiers and involves a substantial embrace of trans-national organized crime, trade based money laundering, and clandestine international business activity by terrorists groups. Despite protracted, carefully planned, and well-executed efforts, the U.S. and other governments are having insufficient success in countering, let alone substantially disrupting, trade based money laundering and financing schemes, even those which flow directly through the United States.

In this regard, I want to briefly highlight an interagency initiative to counter the narco-terror finances of Lebanese Hezbollah. I will be speaking from a personal perspective based strictly on information in the public eye and in no way will be conveying the views of any government department or agency.

Beginning in 2007, the Drug Enforcement Administration (DEA) began an undercover investigation into Lebanese money laundering for Colombian drug cartels called Operation Titan. Via this investigation, DEA uncovered a multi-billion dollar per year trade-based scheme for laundering the proceeds of tens of tons of Colombian cocaine being trafficked primarily in Europe but reaching as far afield as Australia. The laundering scheme involved the purchase of tens of thousands of used cars in the U.S. and Europe for export to car parks in West Africa, as well the purchase of electronics and textiles in China and Southeast Asia for export to the free trade zones in Panama and Curacao. Detailed analysis of commercial records from the trade based schemes reveals that neither is more than marginally profitable. If there were not huge amounts of dirty funds to be placed and laundered, the schemes would not be self-sustaining.

The scheme centered on the $80 billion dollar Lebanese banking system—one of the world's largest offshore-dollarized financial centers, which historically has enjoyed unfettered access to the U.S. banking system. What made the Lebanese money laundering scheme truly new and different to the DEA was the discovery over the course of the investigation that it was under the

command and control of a global network of agents, officials, and business affiliates of Lebanese Hezbollah who had partnered with Colombian, Venezuelan, and Mexican cartels. In the middle of the money laundering conspiracy was the fastest growing bank in Lebanon, which, perhaps not surprisingly, had the fastest growing banking system in the world, even in the wake of the war in 2006 and an international financial crisis. That bank was the Lebanese Canadian Bank (LCB). LCB was a $5.5 billion bank that was processing well over a billion dollars per year in illicit payments for money laundering drug Kingpins, including Ayman Joumaa, who represented the Colombian cartels and worked with both the Sinaloa and Los Zetas drug cartels. As court documents later illuminated, LCB was thoroughly infiltrated by Hezbollah and held over 249 accounts that Lebanon's Special Investigation Commission later identified as part and parcel of Hezbollah's global illicit financial web. LCB and Hezbollah could not be separated.

Moreover, over the course of the unclassified investigations and through revelations on mysterious websites such as www.stop910.com, it became increasingly clear that the element within Hezbollah that exercises control over the external illicit network and derives huge benefit from its activities apparently is none other than the infamous "Security Apparatus" that oversees military operations, domestic security, and external terrorism operations. Thus, not only was trade based money laundering benefiting the Hezbollah movement, but it represents the largest material support scheme for terrorism operations in the world. It appears that, for Hezbollah's External Security Organization, crime has become a valuable tool for spreading the resistance, encouraging the Shia diaspora to clandestinely provide their support in exchange for material gain. Drug trafficking also serves as a valuable tool for intelligence penetration and collection.

In spring of 2010, DEA began constructing a takedown strategy against the Lebanese Canadian Bank, affiliated exchange houses, the car parks, and the complicit used car brokers in the United States. I served as DEA's advisor in constructing the strategy, and we worked extremely closely with colleagues at the Department of Treasury, State, SOCOM, CBP, and the FBI. We created a true "effects based" counter threat finance and global enforcement strategy that harkened back to the work of the interagency taskforce I had led during the North Korean Illicit Activities Initiative from 2001 to 2005. Indeed, for the first time since the North Korea initiative, Treasury decided to revive the use of Section 311 of the USA Patriot Act and cut the Lebanese Canadian Bank off from the U.S. financial system, just as we had severed Banco Delta Asia's links to the U.S. in 2005 to considerable effect.

Over the course of 24 months, DEA and Treasury unleashed the financial furies against the Hezbollah money laundering network, while CBP and OFAC froze assets and access for Lebanese criminals tied to the scheme in the United States. In late January 2011, Ayman Joumaa was designated as a drug Kingpin for "laundering as much as $200 million per month" through LCB and other Hezbollah affiliated channels. Simultaneously, the Lebanese exchange houses and the West African car parks central to the scheme were designated by OFAC. Then, in February 2011, Treasury designated LCB under Section 311. This triggered bank runs and panic inside LCB, and within three weeks the bank headed into state receivership.

Hezbollah, which had long acted with near financial and political impunity inside Lebanon, was rocked by the actions. However, this was only the start. In December 2011, the Southern District of New York unsealed a historic $483 million dollar civil forfeiture action against LCB. The 60-

page forfeiture complaint, which deliberately reads like a criminal indictment, provides incredible detail on how LCB, the exchange houses, and the car parks were controlled by and provided systematic material support to Hezbollah. In August 2012, the DOJ sprang to action again, seizing $150 million from a U.S. correspondent account of a Lebanese bank at which proceeds of the fire-sale of the Lebanese Canadian Bank were on deposit. The effort continues to this day, with DEA and partners in Europe, Australia, and Africa arresting dozens of drug traffickers and key super facilitators as well as seizing over 20 tons of cocaine.

By most signs the counter Hezbollah illicit financing effort was a great success. There was tremendous interagency cooperation. Law enforcement was applied strategically. Treasury yet again demonstrated that its authorities play an essential role in the deep fight against terrorists and their networks. State provided support at the highest of levels, including in the Office of the Secretary. And for those doubting Thomas's in the IC who may question that such a thing as narco-terrorism exists, a critical lesson should have been learned.

However, I'm here to deliver some bad news. Hezbollah's trade based laundering scheme has only expanded since the designations. Based on commercial imagery, the designated car lots in Benin have more cars in them than ever before. Based on commercial data records, the ownership of the lots has changed, but by all signs they remain under the Hezbollah network (and have the same phone, fax, and P.O. Box numbers). Worst of all, the trade statistics indicate that the amount of U.S. used cars being exported to Benin has increased dramatically, by one measure nearly doubling since 2011. As one of my friends in law enforcement quips, the narco-terrorists are laughing at us.

To defeat narco-terrorism financing, including that running right through the heart of the American financial system, we need better laws, better enforcement, and, frankly, humility when our strategy isn't working. This work isn't easy. The bad guys know our laws, our legal thresholds, and our insufficient resolve to upset the Lebanese banking system. They, not we, have the upper hand currently.

We can regain the high ground and crush this scheme while also improving our AML (anti-money laundering) enforcement efforts writ-large. I propose the temporary designation of the jurisdiction of Benin under Section 311 of the USA Patriot Act, imposing special measures one and two. Together these would require special record keeping and enhanced customer due diligence in regard to the used car trade as a class of transactions. I further advocate that special measure five (which can cut a bank or jurisdiction off from the US entirely) be threatened, unless and until the Beninese government can prove that Hezbollah is no longer extracting benefit and laundering narcotics funds through the used car trade with the US. Moreover, I believe Section 311 should be invoked against Lebanon's banking system with regard to the used car trade as a specific class of transaction and that special measures one, two, and four (related to the use of correspondent accounts of banks in the US) be imposed until such a time that the Secretary of the Treasury can verify that Lebanon is no longer acting as a banking safe haven for Hezbollah trade based money laundering schemes being carried out via the United States.

In addition to the strategic use of 311 to safeguard our nation's financial system from money laundering and terrorism financing, I commend the House for passing H.R. 2297, the "Hezbollah

International Financing Prevention Act of 2015" and urge your Senate colleagues to do the same. This important piece of legislation contains numerous reporting requirements that will help compel the administration to crack down further on Hezbollah's illicit financial and operational networks around the world. Finally, I support a number of broader measures to help update our legal and regulatory infrastructure for anti-money laundering and financial law enforcement against terrorist groups. These steps include a revision of the Bank Secrecy Act to facilitate anti-money laundering data sharing among banks, the creation of a Federal watch list portal for terrorism financing and financiers that can be accessed by cleared bank Financial Intelligence Units, and the revival of DEA CENTAC task forces to take on trans-national criminal networks.

RICO

Drawing on the evidence gathered during the investigation of the Lebanese Canadian Bank and from over forty years of terrorist acts committed and documented against Americans, the Department of Justice should seek to indict and prosecute Hezbollah's Islamic Jihad Organization/Security Organization/"Military Wing" under The Racketeer Influenced and Corrupt Organizations Act (RICO).

The Racketeer Influenced and Corrupt Organizations Act (RICO) provides for extended criminal penalties and a civil cause of action for acts committed as part of an ongoing criminal organization. The RICO Act, unlike other federal statutes, provides law enforcement officials with the ability to charge the leaders of an organization with crimes that they orchestrated, directed and controlled. To that end, it also provides the context to charge unrelated individuals in the same conspiracy, as long as they are acting on behalf or at the direction or control of the organization. RICO includes "hub and spoke" conspiracies where one person or entity, the "hub," has different conspiratorial agreements with various "spokes" – i.e., people who sometimes have nothing to do with each other. In this case, Hezbollah as an organization is the hub and each co-conspirator is a different spoke. The significance is that separate spokes don't have to be aware or compliant with other spokes, only the hub – though, in the particular case of Hezbollah's illicit activities, there are countless examples of connectivity between the spokes. The hub does not have to be a single person and instead can be identified as leadership figures with the ability to make decisions on behalf of the group.

For example, if Hezbollah had agreements with forty different weapons providers, money launderers, drug traffickers, etc., their agreements would constitute their role as the hub. Hezbollah and their leadership are the one common entity among all of the agreements. On the surface, the spokes have nothing to do with each other; yet they all have agreements with the hub. Therefore, in this example, Hezbollah has forty different ongoing conspiracies which, without RICO, would mandate prosecutors to prove forty separate conspiracies. The RICO statute was passed by Congress to thwart this criminal isolation, allowing prosecutors to prove that the individual or organization (in this example Hezbollah) had a conspiracy with one of the spokes, and based on that agreement, all forty spokes could be successfully charged if in compliance with the guidelines more specifically described below.

Any person who has committed at least two acts of racketeering activity within a 10-year period that are related in one of four specified ways to an "enterprise" could be charged under the RICO

statute, In addition, the racketeer (Hezbollah and its leaders) must forfeit all ill-gotten gains and interest in any business gained through a pattern of "racketeering activity." Despite its harsh provisions, a RICO-related charge is considered less problematic to prove in court, as it focuses on patterns of behavior as opposed to criminal acts.

The meaning of racketeering activity is set out at 18 U.S.C. § 1961. As currently amended it includes:

- Any violation of state statutes against gambling, murder, kidnapping, extortion, arson, robbery, bribery, dealing in obscene matter, or dealing in a controlled substance or listed chemical (as defined in the Controlled Substances Act);
- Any act of bribery, counterfeiting, theft, embezzlement, fraud, dealing in obscene matter, obstruction of justice, slavery, racketeering, gambling, money laundering, commission of murder-for-hire, and many other offenses covered under the Federal criminal code (Title 18);
- Embezzlement of union funds;
- Bankruptcy fraud or securities fraud;
- Drug trafficking;
- Criminal copyright infringement;
- Money laundering and related offenses;
- Bringing in, aiding or assisting aliens in illegally entering the country (if the action was for financial gain);
- Acts of terrorism.

There must be one of four specified relationships between the defendants (spokes) and Hezbollah (hub). The relationships are defined as:

1. the defendants invested the proceeds of the pattern of racketeering activity into the enterprise; or
2. the defendants acquired or maintained an interest in, or control over, the enterprise through the pattern of racketeering activity; or
3. the defendants conducted or participated in the affairs of the enterprise "through" the pattern of racketeering activity; or
4. the defendants conspired to do one of the above.

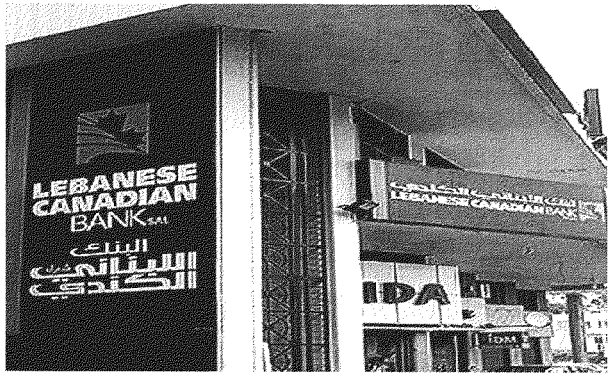
The U.S. Supreme Court has instructed federal courts to follow the continuity-plus-relationship test in order to determine whether the facts of a specific case give rise to an established pattern. Predicate acts are related if they "have the same or similar purposes, results, participants, victims, or methods of commission, or otherwise are interrelated by distinguishing characteristics and are not isolated events." The material support and conspiratorial activities of key officers, customers and owners of Lebanese Canadian Bank in support of Hezbollah, for example, fit nicely into the guidance provided by the Supreme Court.

Finally, RICO has massive financial punching power against the assets of a convicted organization. As summarized by the FBI, "Criminal forfeiture provisions such as those found in the Racketeer Influenced and Corrupt Organizations Act (RICO) and Controlled Substance Act

(CSA) identify property that can be forfeited upon conviction of a defendant in broader terms than the provisions of law concerning most civil forfeitures. Criminal forfeiture laws name interests subject to forfeiture that are more complex, including property acquired or maintained in violation of RICO, and various types of legal interests in property that have afforded a source of influence over the illegal enterprise. The civil forfeiture laws generally name specific property that is integrally connected with prohibited activity, including conveyances used, money furnished, and real property used." (http://www.fbi.gov/about-us/investigate/white_collar/asset-forfeiture). Through America's extensive network of Mutual Legal Assistance Treaties (MLATs), assets that exist outside of the US can be sought for forfeiture. Moreover, in places like Lebanon, where the US does not have an MLAT in place, statutes like U.S. Code, Title 18, Section 981k can be used through Civil procedures to seize substitute assets in US correspondent bank accounts of financial institutions where funds being sought abroad are on deposit. Hezbollah would have no effective financial safe-haven from US law enforcement if RICO were successfully prosecuted. Of all the potential weapons in America's arsenal against Iran and Hezbollah's global terrorist enterprise, law enforcement is both the most potentially effective and the least utilized.

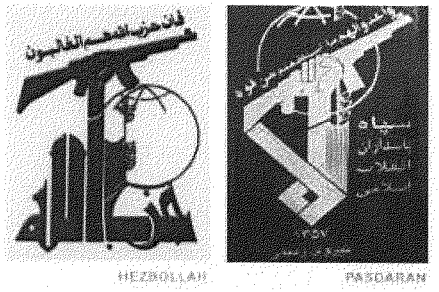
In closing, I commend the efforts of your task force and request that my revised and extended remarks, written statement, and PowerPoint slides be submitted for the Congressional record.

FOUNDATION FOR DEFENSE OF DEMOCRACIES



Hezbollah:
The World's Greatest Criminal Terrorist Organization

Dr. David L. Asher
CSIF Board Member



The Foundation for Defense of Democracies' Center on Sanctions and Illicit Finance (CSIF)
May 21, 2015

Center on Sanctions & Illicit Finance
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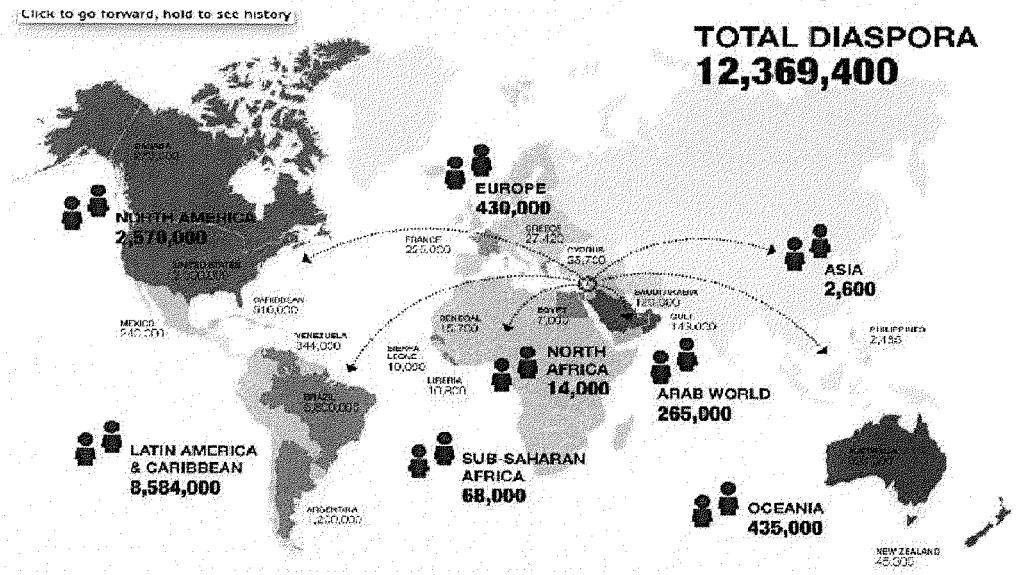
FOUNDATION FOR DEFENSE OF DEMOCRACIES

From Party of God to Party of Fraud

- Over the last decade, Lebanese Hezbollah has morphed from being a terrorist organization and pol-mil resistance movement to becoming a trans-national criminal terrorist resistance organization fueled by a large and global illicit financial and business apparatus.
- Hezbollah's drug for intelligence program has morphed into a massive drugs for profit initiative.
- Hezbollah, partnered with Latin American cartels and para-military partners, is now one of the largest exporters of narcotics from South & Central America to West Africa into Europe and is perhaps the world's largest money laundering organization.
- Organized crime has become a much larger source of funding for Hezbollah than support from Iran.
- Hezbollah's External Security Organization (i.e. its terrorist wing) uses crime for exporting its influence, increasing followers around the world and generating income.

Hez Organized Crime is Conducted Top Down
Secretary General
Political Advisor
Deputy Secretary General
Deciding Consultative Council
Executive Council
Judiciary Council
Political Council
Jihad Council
Parliamentary Council
Finance Unit
Information Desk
Islamic Resistance
Apparatuses
Social Unit
National Parties Desk
Nasr Region
External Security Apparatus
Education Unit
Islamic Movements Desk
Badr Region
Party Security Apparatus
Islamic Health Unit
Foreign Relations Desk
Beirut
Culture Unit
Christian Movements Desk
Bekaa
Syndicate Unit
Party Desk
Engagement & Coordination Unit
External Relations Unit
The LH Security Apparatus is the Control Point for international Criminal Activity. Crime is part and parcel of the resistance....
Source: The Meir Amit Intelligence & Terrorism Information Center (ITIC) Dr. David L. Asher CSIF Board Member
Center on Sanctions & Illicit Finance
FOUNDATION FOR DEFENSE OF DEMOCRACIES

LH has Drawn on the Lebanese Diaspora

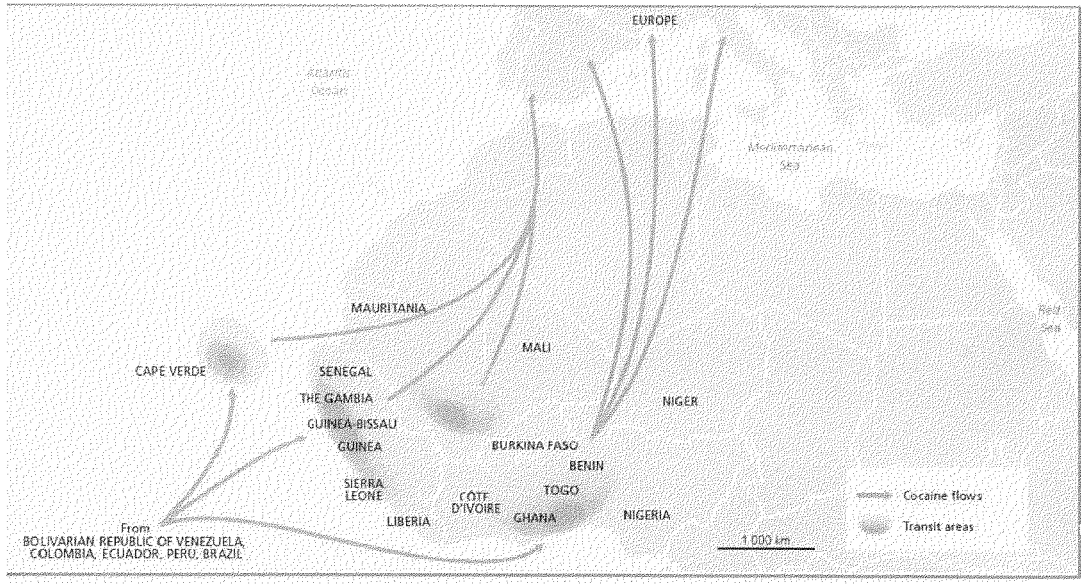


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Source: http://kadmous.org/wp/the-global-impact-of-the-lebanese-diaspora/

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LH Principal Drug Routes to Europe



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US Hezbollah Counter Threat Finance Strategy:

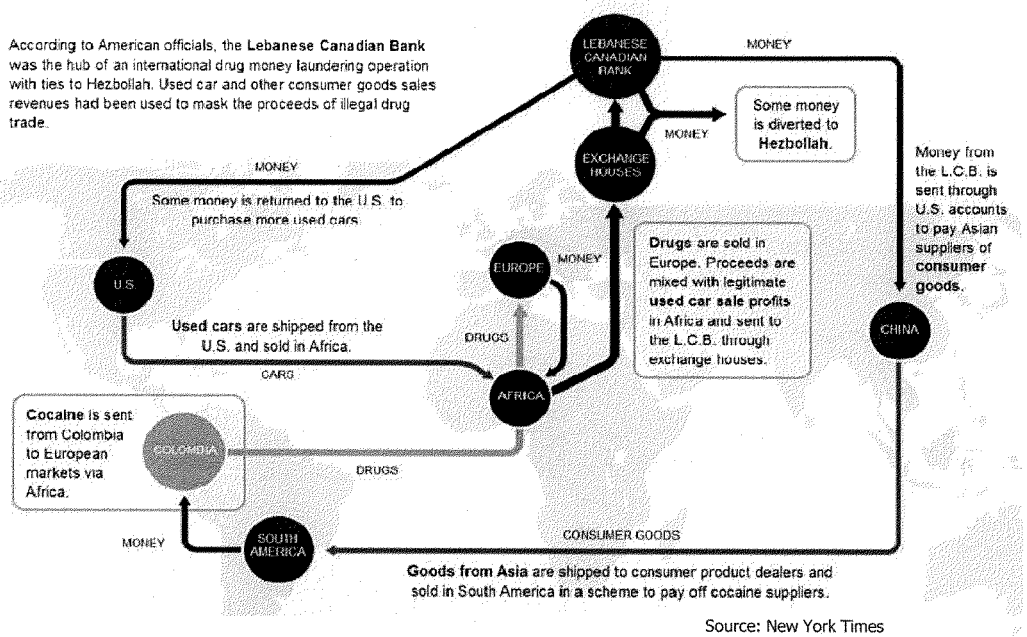
Use evidence from criminal investigations to support designations as well as make criminal cases.

- ***Pursue the narco money launderers:*** Designation of the Joumaa and Ellissa under Drug Kingpin Act (Jan 2011)
- ***Pursue the bankers:*** Designation of LCB as "a primary money laundering concern" under section 311 of the USA PATRIOT act (February 2011)
- ***Pursue the used car money laundering scheme:*** $483 million SDNY IEEPA forfeiture complaint (December 2011)
- ***Seize financial assets:*** USC 18- 981K strategy
- ***Use 311 against exchange houses*** (Halawi/Rmeity)
- ***Pursue the kingpins, Super-Facilitators, and OC conspiracy***

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Money Laundering at Lebanese Bank

The chart below shows the intricate money laundering system the Lebanese Canadian Bank used to divert money to the Shiite militant group Hezbollah, according to United States officials.

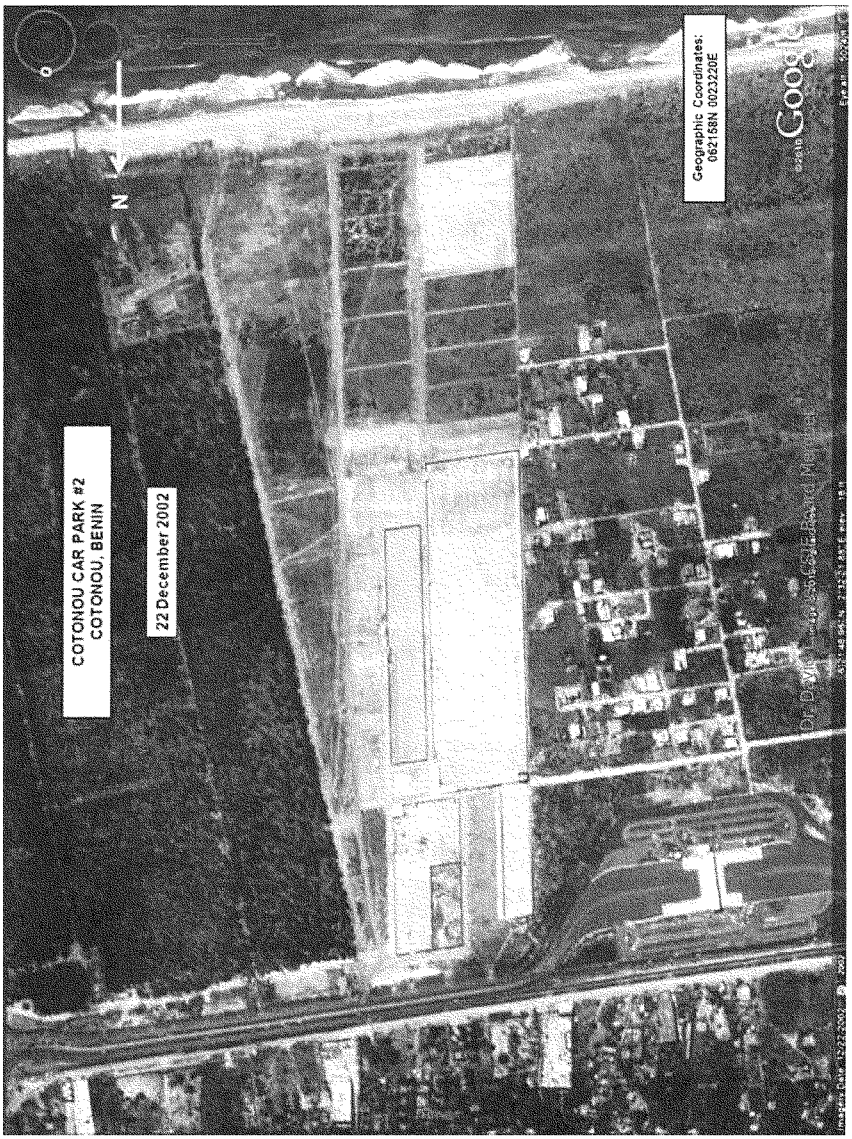


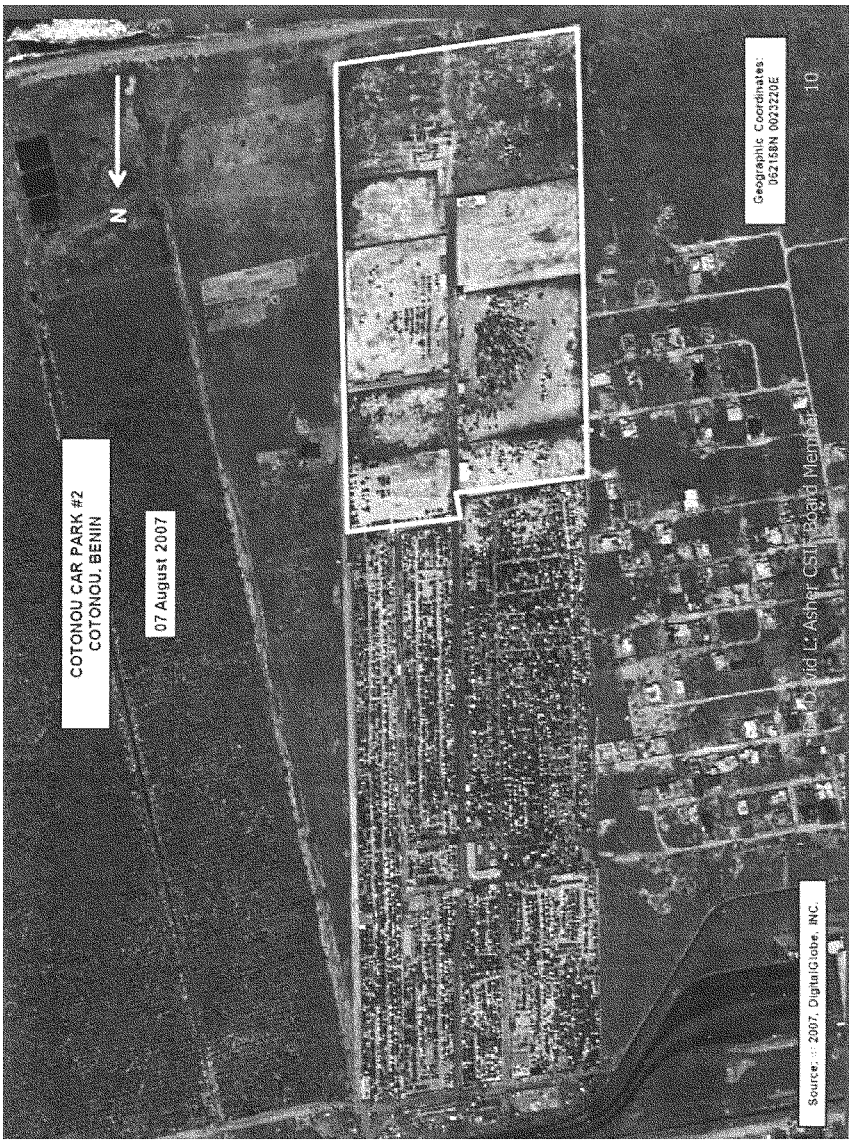
Source: New York Times

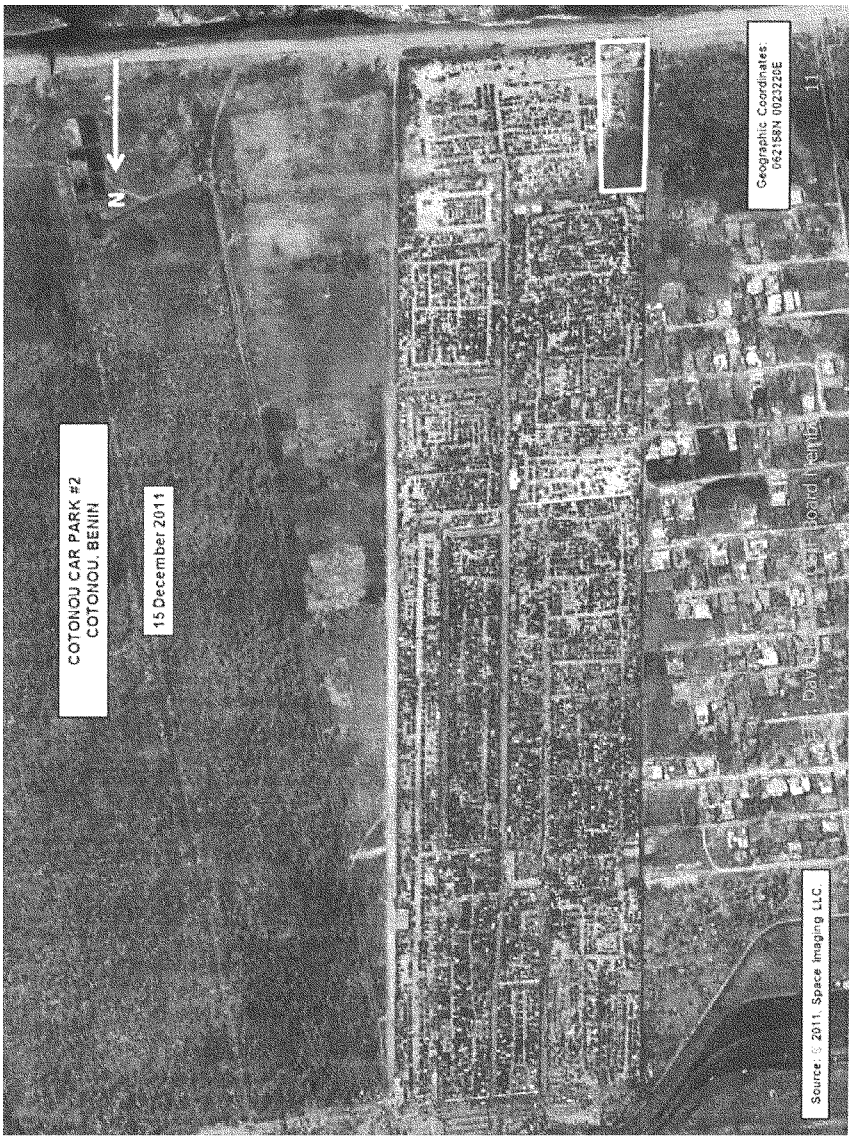
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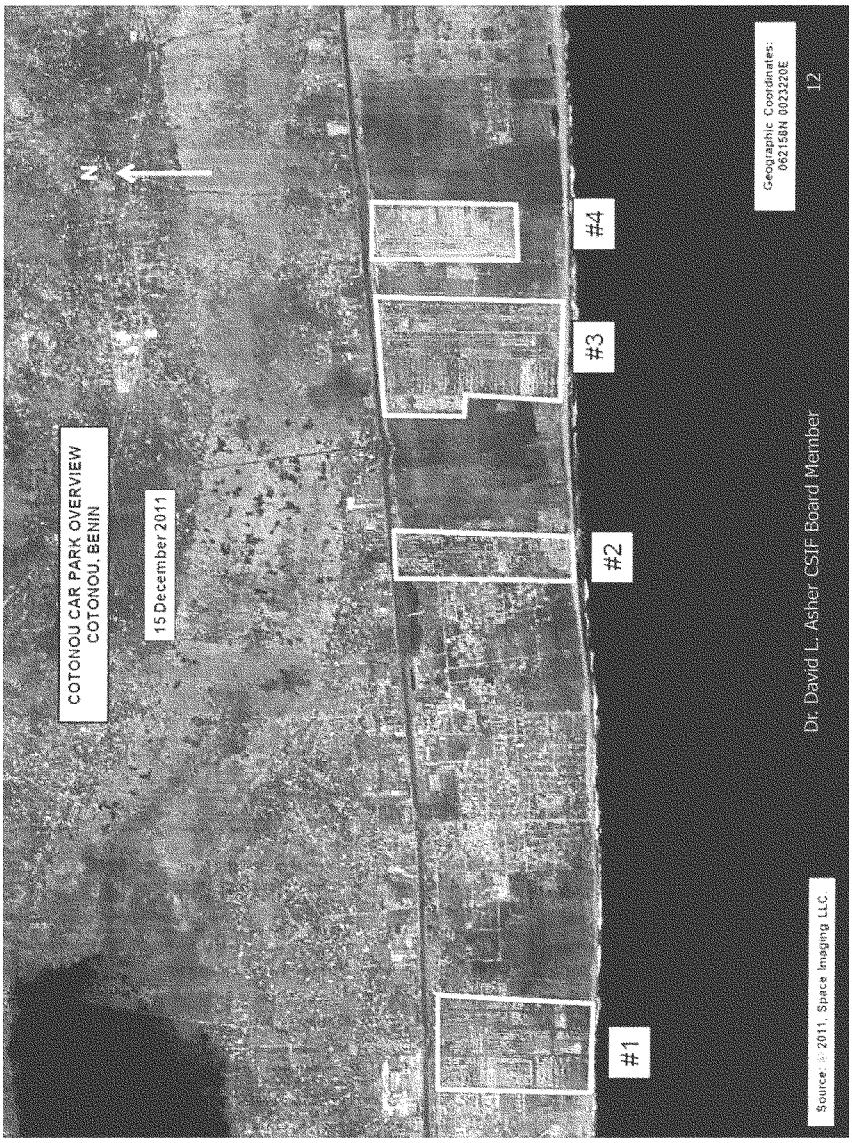
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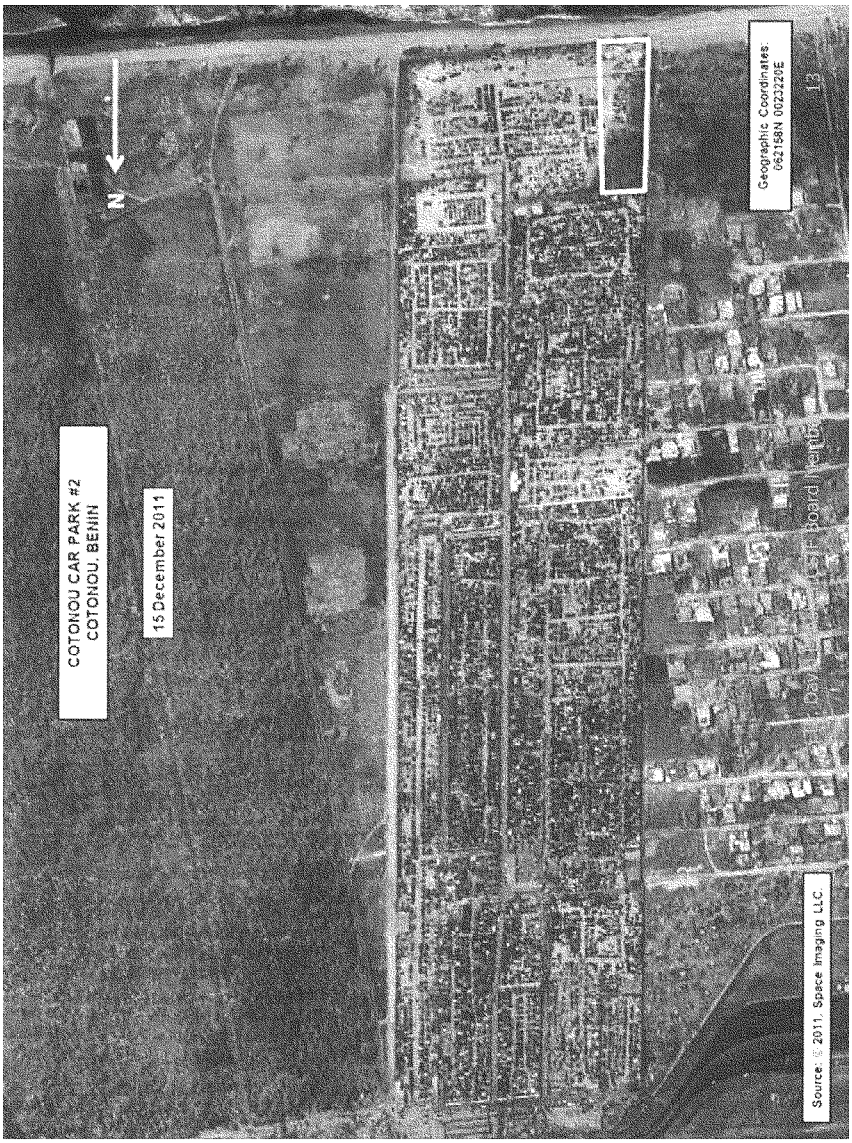
COTONOU CAR PARK OVERVIEW
COTONOU, BENIN
22 December 2002
ELLISSA GROUP SA
#1
#2
#3
#4
Geographic Coordinates:
062158N 0023220E
Image © 2012 DigitalGlobe
Image © 2012 TerraMetrics
Asher CSIF Board Member
Google


COTONOU CAR PARK #2
COTONOU, BENIN
22 December 2002
N
Geographic Coordinates:
06°21'58N 002°32'20E
Google


COTONOU CAR PARK #2
COTONOU, BENIN
07 August 2007
N
Geographic Coordinates:
06°21'58"N 002°32'20"E
Source: © 2007 DigitalGlobe, INC.


COTONOU CAR PARK #2
COTONOU, BENIN
15 December 2011
N
Geographic Coordinates:
0621588N 0023226E
Source: © 2011, Space Imaging LLC.


COTONOU CAR PARK OVERVIEW
COTONOU, BENIN
15 December 2011
N
#1
#2
#3
#4
Geographic Coordinates:
06215'N 00232'20E
Dr. David L. Asher CSIF Board Member
12
Source: © 2011, Space Imaging LLC

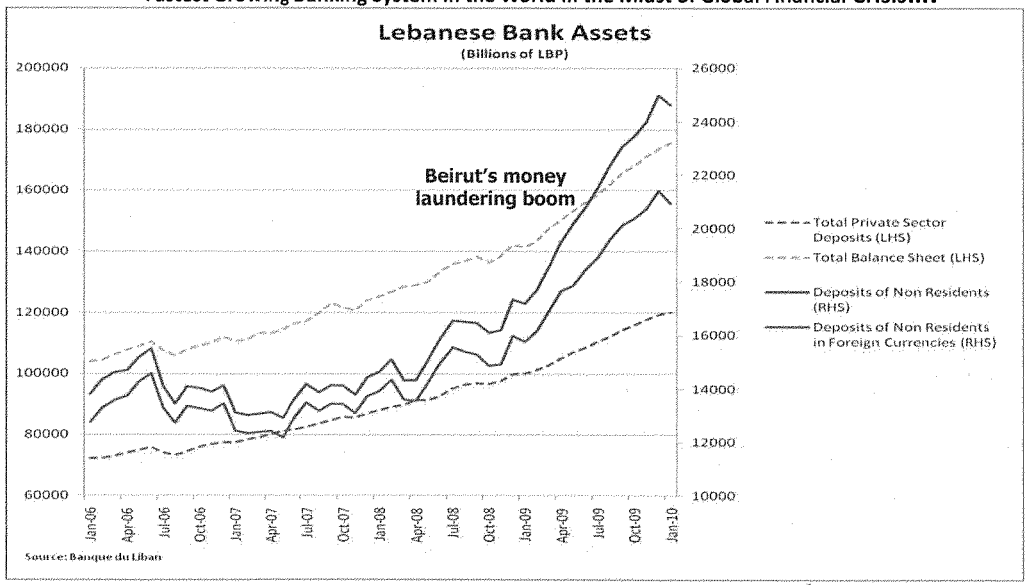

COTONOU CAR PARK #2
COTONOU, BENIN
15 December 2011
N
Geographic Coordinates:
06 21 58N 002 22 20E
Source: © 2011, Space Imaging LLC

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Background on the LCB 311 Designation

Financial Miracle or Money Laundering Safehaven?

Fastest Growing Banking System in the World in the Midst of Global Financial Crisis....

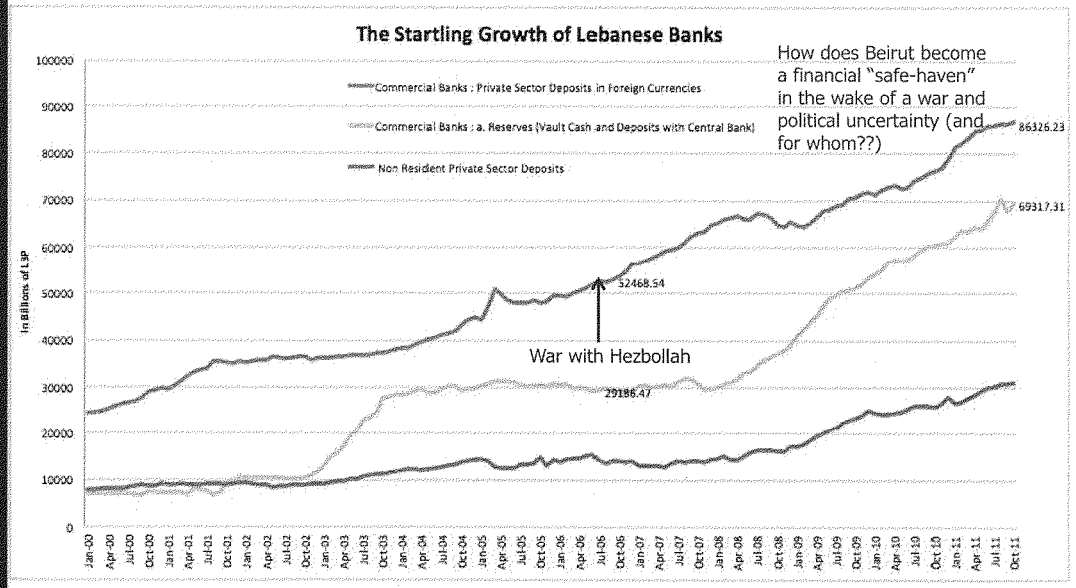


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Background on the LCB 311 Designation

How Beirut Became the Macao of the Middle East?

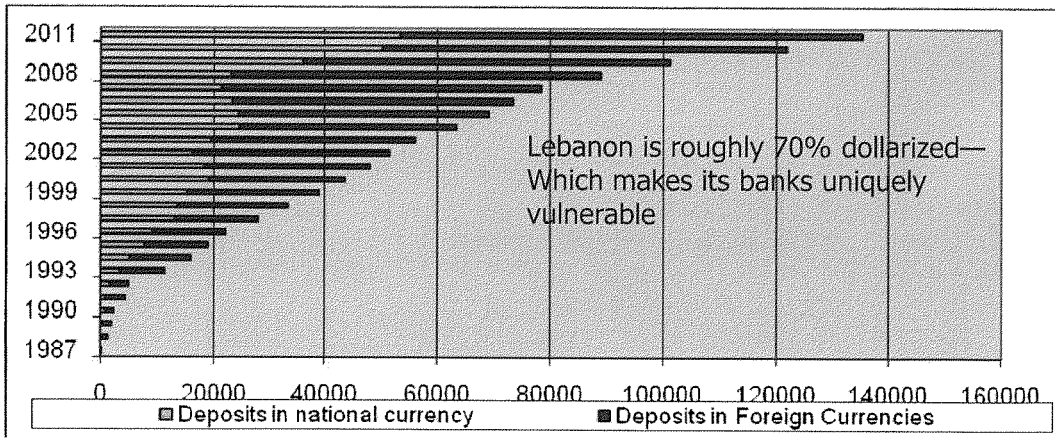


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Startling growth of Foreign Currency Deposits

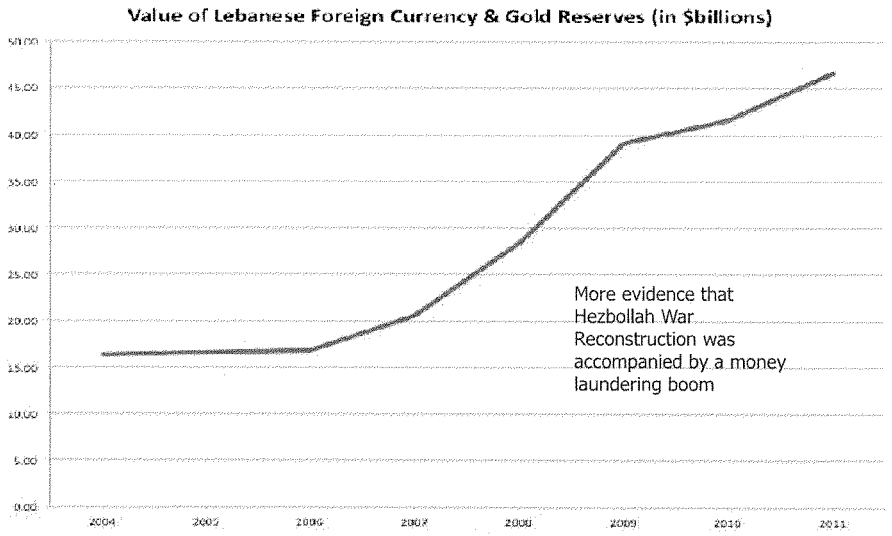
Figure 1: Foreign currency denominated resident deposits as compared to total bank deposits for Lebanon.



Lebanese Central Bank

Background on the LCB 311 Designation

Booming foreign exchange reserves



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Background on the LCB 311 Designation **$5.5 billion bank controlled by Hezbollah?**

LCB: Fastest Growing Bank in Lebanon….

LEBANESE CANADIAN BANK SAL

الترتيب	Customers' Deposits ودائع الزبائن	المجموع (ملايين الليرة اللبنانية)
1	Audi (Group Audi Saradar)	25,973,686
2	BLOM Bank	22,776,373
3	Byblos Bank	12,606,680
4	Bankmed	11,129,391
5	Fransabank	10,778,950
6	BLF	8,081,695
7	Bank of Beirut	6,955,673
8	Crédit Libanais	6,919,845
9	Lebanese Canadian Bank	6,295,192
10	BBAC	4,254,756
11	SGBL	3,667,694

الترتيب	Growth in Total Assets نمو مجموع الأصول	النمو
1	Lebanese Canadian Bank	22.06%
2	SGBL	20.61%
3	Audi (Group Audi Saradar)	20.54%
4	Byblos Bank	20.11%
5	Crédit Libanais	19.45%
6	Fransabank	14.88%
7	BBAC	13.92%
8	Bank of Beirut	12.81%
9	BLF	11.40%
10	BLOM Bank	10.14%
11	Bankmed	1.91%

الترتيب	Growth in Loans & advances نمو في القروض والتسليفات للزبائن	النسبة
1	Lebanese Canadian Bank	28.65%
2	Crédit Libanais	27.88%
3	Fransabank	21.13%
4	BLF	13.27%
5	Audi (Group Audi Saradar)	11.25%
6	Byblos Bank	11.13%
7	BBAC	10.55%
8	BLOM Bank	7.18%
9	Bank of Beirut	5.88%
10	SGBL	1.72%
11	Bankmed	-12.62%

الترتيب	Cost to Income الكلفة إلى الأرباح	النسبة
1	BLOM Bank	39.22%
2	Byblos Bank	47.39%
3	Lebanese Canadian Bank	47.39%
4	Bank of Beirut	48.97%
5	BLF	51.60%
6	Fransabank	52.70%
7	Crédit Libanais	53.32%
8	Audi (Group Audi Saradar)	54.54%
9	BBAC	62.07%
10	SGBL	62.62%
11	Bankmed	62.75%

Lebanese Canadian Bank sued for alleged Hezbollah connections

Posted: July 07, 2006, 12:14 PM by Jeremy Barker
World, News

By Stewart Bell, National Post

Four Canadians filed a lawsuit against the Lebanese Canadian Bank in Montreal today, alleging it provided financial services for the terrorist group Hezbollah. They are seeking more than $6-million for injuries and property damage they suffered during Hezbollah's 2006 rocket attacks on Israeli towns.

A statement of claim filed in Quebec Superior Court by Sarah Yefet, Shoshana Sappir, Rochelle Shahnoon and Oz Shalnoon says the bank allowed the Martyrs Foundation and the Youssef Company to transfer millions of dollars to the Iranian-backed Hezbollah, an outlawed terrorist group under Canadian

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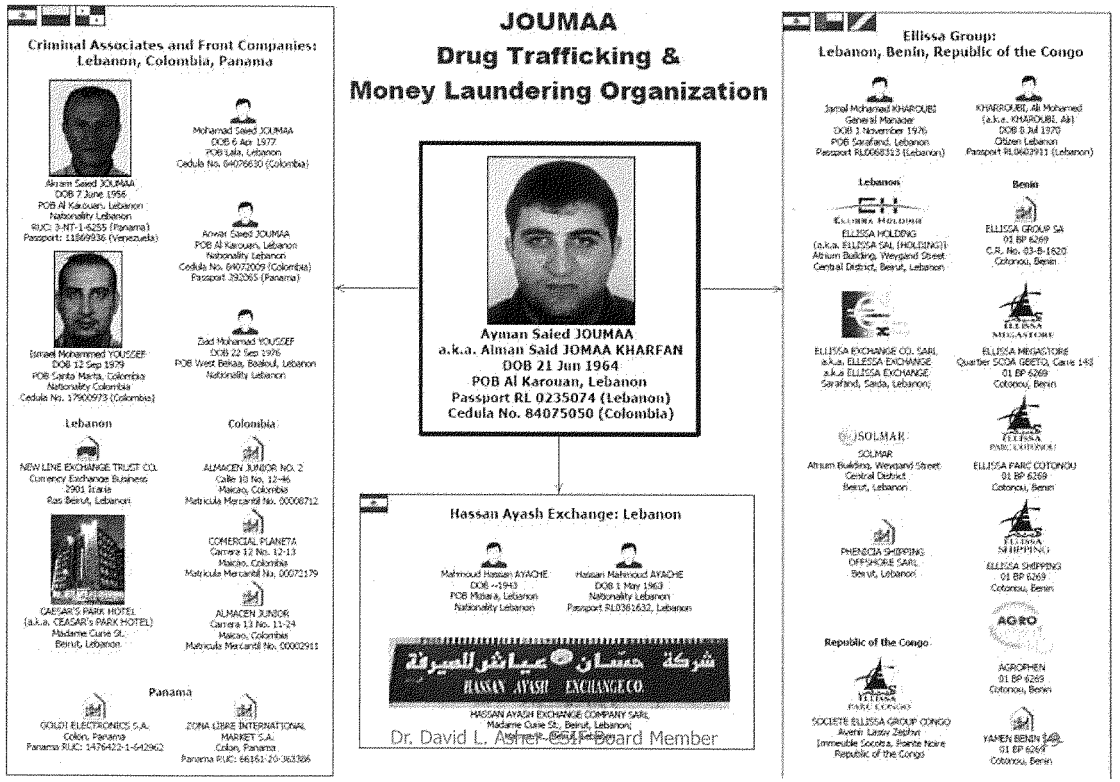
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Foreign Narcotics Kingpin Designation Act
January 2011

Step One: January 27, 2011

Moved as much as $200 million per month

U.S. Department of the Treasury
Office of Foreign Assets Control



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Step Two: February 10, 2011
LCB 311 Designation

LEBANESE CANADIAN BANK

U.S. DEPARTMENT OF THE TREASURY

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Treasury Identifies Lebanese Canadian Bank Sal as a "Primary Money Laundering Concern"

2/10/2011

Treasury Acts to Protect the U.S. Financial System from Bank with Ties to a Global Narcotics Trafficking and Money Laundering Network and Hizballah

To view a Fact Sheet on Section 311 of the USA PATRIOT Act, visit link.

WASHINGTON – The U.S. Department of the Treasury today announced the identification of The Lebanese Canadian Bank SAL together with its subsidiaries (LCB) as a financial institution of primary money laundering concern under Section 311 of the USA PATRIOT Act (Section 311) for the bank's role in facilitating the money laundering activities of an international narcotics trafficking and money laundering network. This network moves illegal drugs from South America to Europe and the Middle East via West Africa and launders hundreds of millions of dollars monthly through accounts held at LCB, as well as through trade-based money laundering involving consumer goods throughout the world, including through used car dealerships in the United States. Treasury has reason to believe that LCB managers are complicit in the network's money laundering activities. Today's action also exposes the terrorist organization Hizballah's links to LCB and the international narcotics trafficking and money laundering network.

"This action seeks to protect the U.S. financial system from the illicit proceeds flowing through LCB and to deprive this international narcotics trafficking and money laundering network of its preferred access point into the formal financial system," said Under Secretary for Terrorism and Financial Intelligence Stuart Levey. "Any financial institution that collaborates in illicit conduct on this scale risks losing its access to the United States."

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Step Three: December 15, 2011

SDNY Civil Complaint against Hizballah seeks $480 mil+

- "2007-2011 at least $329 million was transferred to the United States for the purchase and shipment of used cars…shipped to Cotonou, Benin.
- A significant portion of the cash proceeds from the car sales was transported to Lebanon by a Hizballah-controlled system of money couriers, cash smugglers, hawaladars, and currency brokers.
- Cash transported from West Africa was often received at the Beirut airport, where Hizballah security safeguarded its passage to its final destination.
- This same used car, Hizballah-controlled money laundering infrastructure is used to conceal and funnel hundreds of millions of dollars in narcotics proceeds from West Africa back to Lebanon."

UNITED STATES ATTORNEY'S OFFICE
Southern District of New York
U.S. ATTORNEY PREET BHARARA

FOR IMMEDIATE RELEASE
Thursday, December 15, 2011
http://www.justice.gov/usao/nys

CONTACT: U.S. ATTORNEY'S OFFICE
Ellen Davis, Carly Sullivan,
Jerika Richardson
(212) 637-2600

DEA
Dawn Dearden, Rusty Payne
(202) 307-7977

MANHATTAN U.S. ATTORNEY FILES CIVIL MONEY LAUNDERING AND FORFEITURE SUIT SEEKING MORE THAN $480 MILLION DOLLARS FROM ENTITIES, INCLUDING LEBANESE FINANCIAL INSTITUTIONS, THAT FACILITATED A HIZBALLAH-RELATED MONEY LAUNDERING SCHEME

Lebanese Financial Institutions, Including Institutions Linked to Hizballah, Allegedly Wired Over $300 Million into the United States for the Purchase and Shipment of Used Cars to West Africa as Part of Money Laundering Scheme

Proceeds from Car Sales and Narcotics Trafficking Allegedly Were Funneled Back to Lebanon Through Hizballah-Controlled Money Laundering Channels

Preet Bharara, the United States Attorney for the Southern District of New York, and Michele M. Leonhart, the Administrator of the U.S. Drug Enforcement Administration ("DEA") announced today the filing of a civil money-laundering and in rem forfeiture complaint (the "Complaint") alleging a massive, international scheme in which Lebanese financial institutions including a bank and two exchange houses linked to Hizballah, used the U.S. financial system to launder narcotics trafficking and other criminal proceeds through West Africa and back into Lebanon. As part of the scheme, funds were wired from Lebanon to the United States to buy used cars, which were then transported to West Africa. Cash from the sale of the cars, along with proceeds of narcotics trafficking, were then funneled to Lebanon through Hizballah-controlled money laundering channels. Substantial portions of the cash were paid to Hizballah, which the U.S. Department of State designated as a Foreign Terrorist Organization in 1997. As alleged in the Complaint, the Hizballah-linked financial institutions involved in the scheme include the Lebanese Canadian Bank ("LCB") and two Lebanese exchange houses – the Hassan Ayash Exchange Company and Ellissa Holding – and their related subsidiaries and affiliates.

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SDNY Targets Hezbollah's bank (and Iran's)

LCB's Central Role in Hezbollah Finance

- LCB allowed privileged Hizballah individuals and entities to make large deposits without reporting these deposits and their sources.
- LCB provided services and loans to **Yousser Company** for Finance and Investment (and multiple affiliates) – part of "Hizballah's unofficial treasury, holding and investing its assets and serving as intermediaries between the terrorist group and mainstream banks." These LCB loans were guaranteed by Hezbollah Treasury Secretary, **"Hussain Shami."**
- LCB maintained a banking relationship with numerous Hizballah associated entities while aware of UN reporting that these **entities** were **reportedly involved in counterfeiting, money-laundering and diamond smuggling.**
- **Treasury 311 complaint earlier indicated "Iranian officials' access to LCB and key LCB managers, who provide them banking services."……..**

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Step Four: August 20, 2013
DOJ seizes $150 million

PRESS RELEASES



Manhattan U.S. Attorney Announces Seizure Of $150 Million In Connection With A Hizballah-Related Money Laundering Scheme

FOR IMMEDIATE RELEASE — Monday, August 20, 2012

Preet Bharara, the United States Attorney for the Southern District of New York, and Michele M. Leonhart, the Administrator of the U.S. Drug Enforcement Administration ("DEA"), today announced the seizure of $150 million in connection with a civil money laundering and forfeiture complaint (the "Complaint") filed in December 2011 alleging a massive, international scheme in which entities linked to Hizballah, including the now defunct Lebanese Canadian Bank ("LCB"), used the U.S. financial system to launder narcotics trafficking and other criminal proceeds through West Africa and back into Lebanon. In September 2011, Société Générale de Banque au Liban ("SGBL") agreed to purchase most of the assets of LCB, and at least $150 million in purchase price funds related to that sale are being held in escrow in Lebanon at the Banque Libano Française SAL ("BLF"). The seized funds are substitutes for the money in the LCB escrow account at BLF, and came from an account at a U.S. bank that is used by BLF to conduct U.S. currency transactions (the "correspondent account"). The funds were seized pursuant to seizure warrants issued on August 15, 2012. There are no allegations of wrongdoing against BLF, SGBL, or the U.S. bank that maintains the correspondent account for BLF in the U.S.

18 USC § 981(k) - Civil forfeiture

(k) Interbank Accounts.—

(A) In general.— For the purpose of a forfeiture under this section or under the Controlled Substances Act (21 U.S.C. 801 et seq.), if funds are deposited into an account at a foreign financial institution (as defined in section 984 (c)(2)(A) of this title), and that foreign financial institution (as defined in section 984 (c)(2)(A) of this title) has an interbank account in the United States with a covered financial institution (as defined in section 5318 (j)(1) of title 31), the funds shall be deemed to have been deposited into the interbank account in the United States, and any restraining order, seizure warrant, or arrest warrant in rem regarding the funds may be served on the covered financial institution, and funds in the interbank account, up to the value of the funds deposited into the account at the foreign financial institution (as defined in section 984 (c)(2)(A) of this title), may be restrained, seized, or arrested.

(2) No requirement for government to trace funds.— If a forfeiture action is brought against funds that are restrained, seized, or arrested under paragraph (1), it shall not be necessary for the Government to establish that the funds are directly traceable to the funds that were deposited into the foreign financial institution (as defined in section

FOUNDATION FOR DEFENSE OF DEMOCRACIES

The Foundation for Defense of Democracies' (on Sanctions and Illicit Finance (CSIF) May 8

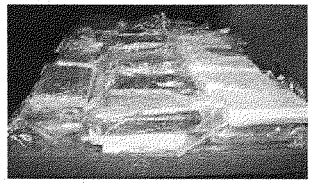
Halawi and Rmeity 311s

The U.S. Department of the Treasury today named two Lebanese exchange houses, Kassem Rmeiti & Co. For Exchange (Rmeiti Exchange) and Halawi Exchange Co. (Halawi Exchange), as foreign financial institutions of primary money laundering concern under Section 311 of the USA PATRIOT Act (Section 311) – the first time the Department has used Section 311 against a non-bank financial institution. Today's action reflects the Treasury Department's continuing commitment to target illicit financial networks that launder millions of dollars in funds for narcotics traffickers and that, in the process, provide substantial financial benefits to the terrorist organization Hizballah.

Dr. David L. Asher CSIF Board Member

U.S. Accuses 2 Lebanese Exchange Firms of Laundering Money for 'Hizbullah-Linked' Drug Kingpin

by Naharnet Newsdesk 23 April 2013, 13:16



The United States designated two Lebanese foreign exchange firms as significant money launderers on Tuesday, saying they "moved money for drug traffickers and benefited Hizbullah."

The U.S. Treasury named Kassem Rmeiti & Co. For Exchange and Halawi Exchange Co. for sanctions which freeze any assets they have on U.S. soil and ban Americans and U.S. businesses from any transactions with them.

It said both had been used to move money by the Ayman Joumaa narcotics network, a primary target in recent years of U.S. law enforcement, since the Treasury cracked down on the Lebanese Canadian Bank in 2011 for its alleged money laundering activities.

After sanctions deprived the Lebanese Canadian Bank access to key parts of the global financial system, the Treasury said, the Joumaa group used Kassem Rmeiti and Halawi to move its money, including passing millions through other banks into the United States to buy used cars, which are then exported to West Africa.

Both were linked to Benin-based money launderers and drug groups, according to the Treasury.

Both were also cited by the Treasury for money transfers for Hizbullah or the party's officials.

Halawi especially poses "a substantial threat to the U.S. and international financial systems," the Treasury said, due to its "extensive illicit financial activity on behalf of a variety of international narcotics trafficking and money laundering networks."

"Today's action reflects the Treasury Department's continuing commitment to target illicit financial networks that launder millions of dollars in funds for narcotics traffickers and that, in the process, provide substantial financial benefits to the terrorist organization Hizbullah," the Treasury said in a statement.

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Bolder USG Hezbollah Strategy Needed

- Hezbollah is no longer an Iranian proxy– it is at war, alongside Iran and Assad's regime, in Syria, in Iraq and apparently in Yemen as well.
- Hezbollah's money laundering activities have placed Lebanese banks at grave risk of sanction and enforcement action; Iran, Syria, and Russia's use of Beirut to skirt sanctions jeopardize entire Lebanon banking system.
- Lebanon's financial system is built around the dollar and access to the US banking system to clear transactions is vital. Benin and Togo's reliance on the used car trade is also a major vulnerability. The US has huge leverage that needs to be used, starting with Section 311.
- The current US strategy is not stopping Hezbollah from laundering billions of dollars in drug money through the used car trade in Europe and the US. This is the largest material support scheme for terrorists in the world.
- Hezbollah is a narco-terror cartel ala the FARC. Hezbollah leadership Kingpins and associated criminals should charged with orchestrating a Racketeering and Corrupt Organizational (RICO) conspiracy ala the Mob. The Party of Fraud needs to be pursued as a criminal organization.

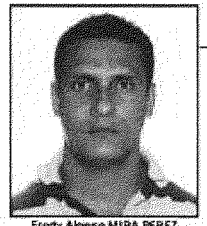
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Center on Sanctions & Illicit Finance
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Foreign Narcotics Kingpin Designation Act
July 2014

Office of Foreign Assets Control

Medellin, Colombia-based Drug Money Laundering Network



Fredy Alonso MIRA PEREZ
a.k.a. "Fredy Colas"
DOB 02 July 1966
POB Bogota, Colombia
Cedula No. 71683988 (Colombia)

Laundered drug money

LA OFICINA DE ENVIGADO
Medellin, Colombia
Designated by OFAC on
June 26, 2014



Pedro Claver MEJIA SALAZAR
DOB 19 May 1943
POB Granada, Antioquia, Colombia
Cedula No. 3606361 (Colombia)

Frequent partners in
drug money laundering operations



Ayman Saied JOUMAA
Previously designated by
OFAC on January 26, 2011

Individuals Acting on Behalf of Mejia Salazar





















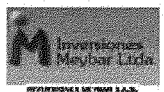
Companies with ties to the Mejia Salazar Network



El complemento de tu belleza
GRUPO EMPRESARIAL KARON PROFESIONAL S.A.S.
Calle 4 No. 50-11 Int., Sector Cotillanos, Medellin, Colombia
Carrera No. 9 Sur-1 18, Medellin, Colombia
NIT # 900340272-8 (Colombia)



TRITCON S.A.S.
Circular 73B No. 97B-119 Of. 902
Medellin, Colombia
NIT # 900215xxx-2 (Colombia)



INVERSIONES MAYBAR S.A.S.
Calle 50 No. 53-42 Int. 902
Medellin, Colombia
NIT # 830xxx-8 (Colombia)



HOTEL DOS PLAYA
Carrera 32 No. 35A 50
La Pintada, Antioquia, Colombia
Matricula Mercantil No. 8704xxx (Medellin)



GRUPO EMPRESARIAL GHEMA S.A.S.
Carrera 80 No. 49B-119, Medellin, Colombia
Calle 70 No. 31-58, Ofic. 605, Bosota, Colombia
NIT # 900411xxx-8 (Colombia)

INVERSIONES [illegible]
Calle 3 No. [illegible], Medellin, Colombia
Matricula Mercantil No. 4352xxx3 (Medellin)

INVERSIONES [illegible]
Circular 73B No. 97B-119 Of. 902
Medellin, Colombia
NIT # 900321xxx-8 (Colombia)

PROMOTORA TURISTICA DEL PLAYA S.A.
Circular 73B No. 97B-119 Of. 902
Medellin, Colombia
NIT # 81102xx-7-6 (Colombia)

ALMACEN GUIMAR
Cali, Colombia
Matricula Mercantil No. 441xxx (Cali)

MEJIA AJIATE ANCIZAR Y CIA. LTDA.
Circular 73B 97
No. 119-106
Copacabana, Antioquia, Colombia
Medellin, Colombia
NIT # 8002-34xxx-1 (Colombia)

CANTERAS CONCASAMA S.A.
a.k.a. TRIMACO S.A.
Circular 73B No. 97B-119 Of. 902
Medellin, Colombia
NIT # 811023-3xx-3 (Colombia)

ARENERA EL CERRAJON
Km 3 via Alejandria
Sasaima, Cundinamarca, Colombia
Matricula Mercantil No. 1272xxx (Sasaima)

VARIEDADES JOSE ALBERTO GARCIA M.
Calle 48 52-42 Bodg. 1-202
Medellin, Colombia
Matricula Mercantil No. 606-17xxx (Medellin)

ALMACUFF S.A.S.
Circular 73B No. 97B-119 Of. 902
Medellin, Colombia
NIT # 900321xxx-9 (Colombia)

EXCAVACIONES Y CONSTRUCCIONES MUNICIPALES Y AMBIENTALES S.A.
Matricula, Caldas, Colombia
Matricula Mercantil No. 1230xx (Manizales)

Dr. David Asher, CSIF Board Member

The Foundation for Defense of Democracies'
Center on Sanctions and Illicit Finance (CSIF)
Car Park Area #2
Cotonou, Benin
Jan 2013
Google Imagery/Digital Globe
Bight of Benin
Google

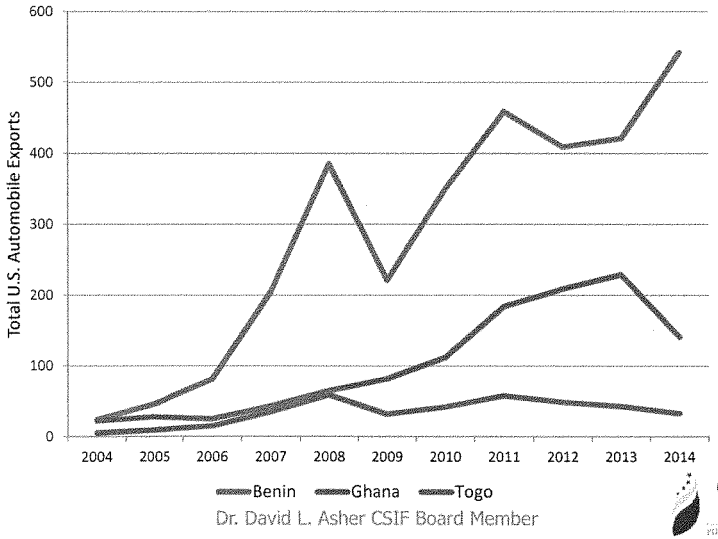
The Foundation for Defense of Democracies' Center on Sanctions and Illicit Finance (CSIF)

May 8, 2015

Despite the designation, used car exports to Benin have increased.

(Note: historic data based on bills of lading would capture many more used cars than the Commerce figures below that only record cars over $2500 in value; many cars worth less than $2500 are being exported...)

U.S. Automobile Exports to West Africa
(2004-2014)

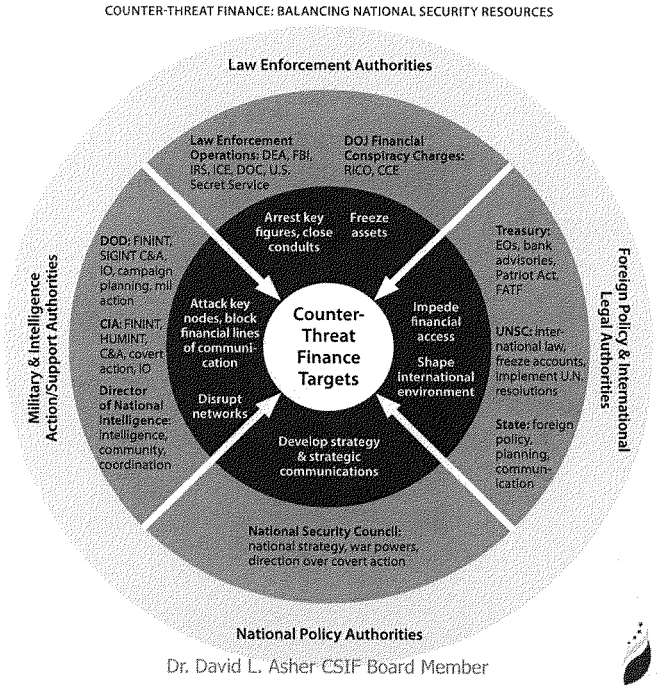


Dr. David L. Asher CSIF Board Member

Center on Sanctions & Illicit Finance
FOUNDATION FOR DEFENSE OF DEMOCRACIES

FOUNDATION FOR DEFENSE OF DEMOCRACIES

Whole of Government Approach is Required



Dr. David L. Asher CSIF Board Member

Center on Sanctions & Illicit Finance
FOUNDATION FOR DEFENSE OF DEMOCRACIES

Committee on Financial Services - Task Force to Investigate Terrorism Financing

A Dangerous Nexus: Terrorism, Crime and Corruption.
Testimony by **Richard Barrett**, Senior VP The Soufan Group

Chairman Fitzpatrick, Vice Chairman Pittinger, Ranking Member Lynch, distinguished members of the House Financial Services Committee, it is an honor to testify before you today on this issue of perennial concern.

Inevitably, it is hard to disaggregate the amount of money raised and used by terrorists or terrorist groups within the trillions of dollars that move around the world in connection with other sorts of crime. But as this is the area where terrorists must – to a certain extent – come out into the open and engage with financial institutions, law enforcement agencies and all the trappings of the world they seek to change, they have to operate on our terms rather than ones purely of their choosing. Rightly or wrongly, we see terrorists as most vulnerable in their need for money, and it is in the financing of terrorism, that the international community has made most effort to limit their operational abilities, even more I would argue than in attacking them militarily.

Isolated acts of terrorism, such as the Boston Marathon bombing in April 2013, do not generally cost much, and are most often financed by the individuals concerned, whether through legal or illegal means. Legal funding – by definition - will be hard to spot. And although Suspicious Activity Reports filed by banks or other financial institutions may provide possible indicators of terrorist planning worthy of investigation by an alert official, SARs do not often initiate terrorist-related investigations. Typical sources of illegal funding for terrorist acts can also easily be lost against the background of the overwhelming quantity of credit card fraud, theft, benefits fraud and other forms of minor crime that occur on a daily basis and have nothing to do with terrorism.

Terrorist groups however, depending on their size and ambition, need more significant amounts of money to survive; whether to recruit members, train and equip them, or merely to meet all the ancillary expenses that any organization must meet, such as food, shelter and care for dependents. Inevitably, the size of the terrorist group's budget will determine its ability to function. There has therefore been considerable national and international effort since 2001 to analyze and restrict the ways in which terrorists raise, move and store their financial assets.

Although terrorism is a crime, it differs from most other forms of crime in that it does not have money as its principal objective. For terrorists, money is a means to an end, not the end in itself. While obvious enough, this is an important factor when

examining the nexus between terrorism, crime and corruption. While there are many examples of terrorist groups operating alongside or in conjunction with more normal criminals, the relationship is not always close. Criminals will not seek out the opportunity to work with terrorists just as terrorists will not naturally seek partnerships with criminals. For the criminals, association with terrorists increases the risk of attention from the authorities, undermines their relationships with corrupt officials, and increases the penalties if they are caught, including the risk of death. Terrorists also see increased risks in working with criminals who are motivated purely by money, especially as they cannot assume that the bonds that keep their own members under control, such as a shared belief or a loyalty to the leader, will keep their criminal associates from betraying them. Similarly, terrorist groups will fear that a criminal group, with its shifting and largely anonymous membership, is more likely to be known to the authorities than the tight knit, clandestine networks that make up their own membership.

Nonetheless, as terrorist groups have become larger and more organized and have sought to raise more money, they have been forced into closer cooperation with organized criminals and have copied some of their methods. There are two main reasons for this. First terrorist groups are drawn to poorly governed or ungoverned areas where many criminals also operate, and second because terrorist groups are driven to adopt criminal fund raising techniques which bring them into contact, or even competition, with others operating in the same space. It is also relevant that licit forms of fund raising have become more difficult as Countering the Financing of Terrorism measures have become more sophisticated and better implemented, and more people have become aware of the dangers and possibilities of terrorist financing.

The principal areas of overlap between terrorist financing and conventional criminal activity appear to be the following:

Kidnapping for Ransom: Kidnapping for ransom is an old and well-established form of fund raising that persists in areas of West Asia, South Asia and South East Asia where terrorist groups have now become rooted. In Yemen for example, kidnapping for ransom is commonplace, as it is in the Pakistan-Afghanistan border area and in areas of The Philippines. Initially, terrorist groups did not indulge in this form of fund raising, either directly or indirectly, but its success and ease, combined with the necessity of raising money, has made it a standard method in areas of the Middle East, South and South East Asia and West Africa, if not more widely.

Much of the money comes from the families of the victims, but increasingly Western nationals have been targeted on the assumption that their governments will pay for their release. A study by the New York Times in the middle of 2014 estimated that al Qaeda and its direct affiliates alone had collected $125 million since 2008, a figure corroborated by the US Treasury which estimated that the total in ransoms paid to terrorist groups topped $165 million during the same period. Well over $100 million of this amount is reported to have come indirectly or directly from

governments. It is highly likely that the massive payments made, running as high as $10 million per captive, has increased both the frequency and attraction of kidnapping for ransom.

As an early example, it is believed that a ransom of $1 million was paid to Mokhtar Belmokhtar, then a member of al Qaeda in the Islamic Maghreb (AQIM), in December 2008 for the release of a Canadian diplomat Robert Fowler and his colleague, Louis Guay. Although not confirmed, it is believed that the original kidnap may have been inspired by an AQIM offer to buy westerners from independent groups who merely sought a reward. Similarly, the kidnap of Warren Weinstein in Pakistan in August 2011, who died in a drone strike in January 2015, was held by al Qaeda at the time of his death, having, it is believed, been passed through the hands of other groups whose motivation may have been more purely mercenary.

Over time, many other groups have seen the value of human life, and even the more ideologically driven among them have not been shy to try to cash in on this relatively risk-free source of income. Although not taken as a serious negotiation, the Islamic State endorsed the principal of ransom when it demanded $200 million from the Japanese Government for the release of Haruna Yukawa and Kenji Goto, both subsequently murdered by the group in January 2015.

Bank raids: The Islamic State has also raised money through bank raids, having taken over major urban centers in its rampage across Iraq and Syria. It is said that there was about $430 million stored in banks in Mosul when the Islamic State took over the city in mid 2014. Whether or not it stole this money, it will have nonetheless underpinned the economy of the area under Islamic State control, so allowing taxation, extortion and other forms of revenue-raising to keep the organization going. Al Qaeda in the Arabian Peninsular is also said to have stolen money from banks in cities like al Mukalla, which it took over in April 2015.

Taxation: As terrorist groups take over territory and operate as the local authority, they also turn to traditional forms of revenue such as taxation. The Islamic State, for example, has set tariffs for government services of all kinds, such as the issuing of license plates or provision of utilities, even when it does not actually produce the commodity. It also levies taxes on sales and other services, and on the passage of vehicles through its territory. The Islamic State also taxes income, including that of state employees who continue to collect their salaries. It even issues parking tickets.

Extortion: The borderline between taxation and extortion is finely drawn, with non-Muslims for example paying a special protection tax (*jizya*) in order to be able to stay in their homes. Similarly fines are levied for the infringement of rules set by the Islamic State. Protection money has proved an easy source of income from all violent groups, and terrorists are no exception. Boko Haram is well known for this, but so too are many smaller groups, particularly those operating in urban areas where the rule of law is weak and the authorities are easily intimidated.

Confiscation: Associated with this conventional fund raising, groups that have gained control of territory routinely confiscate/steal the property and possessions of people who have fled their advance. This may extend to their houses and fields, or in the case of businesses, to their plant and machinery. Sometimes the group will attempt to justify its actions by offering to return the property if the owner returns within a set period; an offer of limited attraction to most victims.

Permits and licenses: Where terrorist groups control territory but have less aspiration to establishing a proto-State, they have both a greater opportunity and a greater inclination to cooperate with organized criminals who wish to take advantage of the general lawlessness of the area. In areas such as Somalia, where the al Qaeda affiliate al Shabaab managed to control areas of the coast, a symbiosis emerged between organized crime and the terrorist group. For example, although, so far as is known, al Shabaab had no direct involvement in piracy, which became a major industry in Somalia following the fall of the government in 1991, it nonetheless managed after some time and effort to levy payments from major pirate groups as a form of license for them to operate unmolested. A similar arrangement pertained in West Africa, where terrorist groups that operate across smuggling routes take payments from drug traffickers and others without necessarily joining the business as partners or competitors. In Syria, the Islamic State has licensed or taxed the excavation of ancient sites and export of antiquities.

Drugs: The attitude towards drug production by terrorists has been ambivalent and often contradictory. Groups that claim religious justification for their actions have often regarded drug production and sale as against their beliefs, even going so far in some cases as punishing smugglers that they caught. But as financial pressures have increased, these groups have tolerated the trade, especially where they can argue that the end consumer will be in an enemy country. Both FARC and Hezbollah have a long history of direct involvement in the drug trade or in the money laundering that spins off from this multi billion dollar sector, but more recently terrorist groups in South Asia have cashed in on the heroin and hashish production in Afghanistan. On the other hand, there are reports that Al Qaeda in the Arabian Peninsular has banned the sale and use of *Qat*, the pervasive and popular stimulant used by Yemenis.

Smuggling: Although there has been a tendency for terrorist groups to embrace the techniques and synergies offered by criminals as the financial advantages have come to outweigh any moral qualms they might have, some groups defy categorization in one camp or the other. The Haqqani network that operates on the Afghan-Pakistani border is of concern to the United States Government as a terrorist organization, but its traditional activity is smuggling, and it still makes its money from the import and sale of white goods, second hand cars and other commodities that can be sold on one side of the border or the other at a profit.

Smuggling is prevalent in many areas of the world, particularly in areas where ethnic or tribal groups span a border or where government control is limited

through the lack of capacity or by topographical challenges. In West and North Africa, people smuggling has become big business, as it is in areas of Asia. This has provided terrorist groups a new source of income in areas where smugglers have to pass through areas where they are present. Arms smuggling is similarly a source of both income and materiel for terrorist groups and the collapse of government authority in Mali and Libya has boosted this trade in West Africa.

Illegal extraction and forestry: Similarly in the Afghanistan-Pakistan border area and other areas where there are natural resources, terrorist groups have indulged in illegal mining and forestry. Al Shabaab for example continues to make money from the charcoal trade, which is a mainstay of the Somali economy, although it no longer controls the port of Kismayo through which vast amounts of charcoal are still exported illegally to customers in the Gulf and elsewhere. In Iraq and Syria, the Islamic State has benefitted from its control of oil fields and refineries to steal and then sell oil products to middle men who then smuggle it across borders. In some cases, the Islamic State has been able to sell oil itself, including to the Syrian government.

Corruption: Corruption is a curse that impacts many countries and on a global scale is a more pervasive threat to the rule of law and the development of a peaceful society than terrorism is ever likely to be. In fact corruption, along with other forms of poor governance, particularly in the delivery of justice, is possibly the most significant driver of terrorism in the world today. There is not much evidence to suggest that corruption finances terrorism in a more direct sense, but in terms of encouraging people to support terrorism whether through financial or other means, it is of extreme significance.

Legal fund raising: Despite the great variety of criminal means for raising money and the increasing opportunity to do so as terrorist groups morph into insurgencies and then into quasi States, groups still raise money through 'legal' means. These are most often through the collection of money from witting or unwitting donors through established charities or by direct donation. There is no reason to believe that organized terrorist groups like al Qaeda have given up approaching long-standing donors in Gulf countries who provided the mainstay of their finances in the years immediately preceding and following the attacks of 9/11. Witting donors may now be more careful because of the financial and reputational risks of being caught, but their motivation to help is unlikely to have eroded.

The international effort to ensure the adequate supervision of charities has undoubtedly reduced the exploitation of this avenue of funding by terrorists, but however well regulated charities may be, they remain vulnerable to the diversion of their funds if only because they aim to deliver aid to areas that are not generally well policed.

Internet: The Internet is becoming more and more popular as a way to transfer funds, and no doubt terrorists use it just as anyone else might. But more

importantly, the Internet is proving a rich resource for criminals to make money. While there have been no reported examples of terrorist groups using the Internet to raise money, except in eliciting donations, it is only a matter of time before they do so routinely. Just as with any other area of criminal activity, terrorists will exploit the vulnerabilities of the Internet to fund their operations.

Final observation: This leads me to my final observation: although terrorists may appear to favor one form of financing over another, ultimately they do what any other criminal might do – they seek the easiest way available to make money, combining minimum effort and maximum return with minimum risk.

Testimony of Douglas Farah

President, IBI Consultants LLC
Senior Non-Resident Associate, Americas Program, CSIS
Senior Fellow, International Assessment and Strategy Center

Before the Task Force to Investigate Terrorism Financing
House Committee on Financial Services

A Dangerous Nexus: Terrorism, Crime and Corruption

May 21, 2015

RHOB 2128

Chairman Hensarling, Ranking Member Waters and Members of the Task Force:

Thank you for the opportunity to testify on the important issue of the dangerous nexus among terrorism, crime and corruption. I speak only for IBI Consultants and myself at this hearing, and not on behalf of the other institutions I am affiliated with.

While I and others, including my distinguished colleagues on this panel, have discussed the nexus between transnational organized crime and terrorist networks, the explicit role of corruption is often assumed but not explained or understood as an integral part of the threat.

I am going to focus my remarks on Latin America where we are seeing the convergence of these three factors in new and dangerous forms. The long-held assumption undergirding traditional analytical frameworks – that criminal networks seldom if ever overlap with terrorist groups – has been shown to overtaken by events in the past decade. However, the debate over whether such a nexus exits continues in the policy and intelligence communities.

President Obama's 2011 Strategy to Combat Transnational Organized Crime showed a new recognition of the rapidly changing world, acknowledging that

> Terrorists and insurgents increasingly are turning to crime and criminal networks for funding and logistics. In FY 2010, 29 of the 63 top drug trafficking organizations identified by the Department of Justice had links to terrorist organizations. While many terrorist links to TOC are opportunistic, this nexus is dangerous, especially if it leads a TOC network to facilitate the transfer of weapons of mass destruction material to terrorists.[1]

The convergence of terrorism; transnational crime; and corruption, are at the core of what I believe is a significant strategic threat to the United States, and one that is little understood or studied. I have described this emerging tier-one security priority in my published work as "criminalized states." By this I mean states where the senior leadership is aware of and involved – either actively or through passive acquiescence – on behalf of the state, in transnational organized crime (TOC), where TOC is used as an instrument of statecraft, and where levers of state power are incorporated into the operational structure of one or more TOC groups.[2] In these states the government, relying on revenues from illicit activities to survive, often facilitate the overlapping activities with different terrorist organizations.

As I wrote in a study for the Army War College

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[1] "Fact Sheet: Strategy to Combat Transnational Organized Crime," op. cit.

[2] This definition is drawn from my study of transnational organized crime in Latin America. For a full discussion see: Douglas Farah, *Transnational Organized Crime, Terrorism, and Criminalized States in Latin America: An Emerging Tier-One National Security Priority* (Carlisle, PA: Strategic Studies Institute, U.S. Army War College, August 2012), accessed at: http://www.strategicstudiesinstitute.army.mil/pubs/display.cfm?pubID=1117.

> This emerging combination of threats comprises a hybrid of criminal-terrorist, and state- and non-state franchises, combining multiple nations acting in concert, and traditional TOCs and terrorist groups acting as proxies for the nation-states that sponsor them. These hybrid franchises should now be viewed as a tier-one security threat for the United States. Understanding and mitigating the threat requires a whole-of-government approach, including collection, analysis, law enforcement, policy and programming. No longer is the state/non-state dichotomy viable in tackling these problems, just as the TOC/terrorism divide is increasingly disappearing.[3]

There are multiple examples from around the world of this model: North Korea, with its direct involvement in counterfeiting, drug trafficking and money laundering; Desi Bouterse and his cocaine trafficking in Suriname; Charles Taylor in Liberia facilitating the operations of both Hezbollah, Russian organized crime, and al Qaeda in the blood diamond trade, reaping millions in process[4]; the operations of weapons merchant Viktor Bout, who provided weapons to terrorist organizations such as the Taliban and the FARC while operating under the protection of multiple governments.[5] All relied on a multinational web of corruption that allowed them to carry out their activities while accumulating significant financial gains.

In each of these cases, howver, the state remained relatively isolated and without a coherent international support network. What has changed in the Western Hemisphere is that a bloc of countries, led by Venezuela, now operate jointly both as a political project with an underlying goal of harming the United States, and as a joint criminal enterprise.

Rather than being pursued by state law enforcement and intelligence services in an effort to impede their activities, TOC networks and protected terrorist groups are able to operate in a more stable, secure environment, something that most businesses, both licit and illicit, crave.

Rather than operating on the margins of the state or seeking to co-opt small pieces of the state machinery, the TOC groups in this construct operate in concert with the state on multiple levels. Within that stable environment, a host of new options become available, from the sale of weapons, to the use of national aircraft and shipping registries, to easy use of banking structures, to the use of national airlines and shipping lines to move large quantities of unregistered goods, and the acquisition of diplomatic passports and other identification forms.

There is little doubt that Venezuela has for a decade now posed a significant threat not only to U.S. security interests in the Western Hemisphere, but to the survival of democracy and the rule of law in the region. The Maduro administration is the central component to a multi-state ongoing criminal enterprise, carried out in concert with Iran and a growing

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[3] Douglas Farah, *Transnational Organized Crime, Terrorism, and Criminalized States in Latin America: An Emerging Tier-One National Security Priority*, op cit.

[4] For a full discussion of this, see: Douglas Farah, Blood From Stones: The Secret Financial Network of Terror, Doubleday, New York, 2004.

[5] For a look at the case of Viktor Bout, see: Douglas Farah and Steve Braun: Merchant of Death: Money, Guns, Planes and the Man Who Makes War Possible, J. Wiley and Sons, New Jersey, 2007.

Russian presence, whose primary strategic objective is to cling to power by whatever means necessary and harm the United States and its allies.

As legendary Manhattan district attorney Robert M. Morgenthau warned as he left public service in 2009 after decades of prosecuting high profile criminal cases, including pursuit of numerous (and ongoing) criminal investigations into the Venezuelan government's role in TOC:

...[L]et there be no doubt that Hugo Chavez leads not only a corrupt government but one staffed by terrorist sympathizers. The government has strong ties to narco-trafficking and money laundering, and reportedly plays an active role in the transshipment of narcotics and the laundering of narcotics proceeds in exchange for payments to corrupt government officials.[6]

The threat originating in Venezuela is not confined to Venezuela. The late Hugo Chávez, acting in concert with his allies Rafael Correa in Ecuador, Evo Morales in Bolivia, Daniel Ortega in Nicaragua, Cristina Fernández de Kirchner in Argentina, set out to redefine the political landscape in Latin America. Senior members of El Salvador's Salvador Sánchez Ceren's FMLN party in El Salvador are also allied with this movement.[7]

To a large degree this movement, self-described as the Bolivarian alliance[8], has been successful in reshaping Latin America's political and economic environment. Unfortunately the changes wrought under the banner of "Socialism for the 21st Century" have brought massive corruption, rising violence, a disdain for the rule of law, the rise of equating an individual leader as the state ("Chávez is Venezuela"), a significant and ongoing concerted effort to silence peaceful opposition and independent media; and the collapse of institutions designed to guarantee oversight and transparency of public individuals and entities.

On the strategic level, this has brought new alliances with Iran and Hezbollah, Russia, Russian organized crime, China and Chinese organized crime, as well as Mexican drug cartels and Colombian criminal organizations. The Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia*- FARC), a designated terrorist organization by both the United States and the European Union[9] and a major drug trafficking organization, is directly supported by the Bolivarian nations as a matter of state policy.

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[6] Robert M. Morgenthau, "The Link Between Iran and Venezuela: A Crisis in the Making," speech at the Brookings Institution, September 8, 2009.

[7] For a look at the weapons transfers see: "Los 'rockets' Venezolanos," Semana (Colombia), July 28, 2009. For a look at documented financial and logistical support of Chávez and Correa for the FARC see: "The FARC Files: Venezuela, Ecuador and the Secret Archives of 'Raúl Reyes,'" An IISS Strategic Dossier, International Institute for Strategic Studies, May 2011. To see FARC connections to Evo Morales see: Douglas Farah, "Into the Abyss: Bolivia Under Evo Morales and the MAS," International Assessment and Strategy Center, 2009.

[8] The self-proclaimed "Bolivarian" states (Venezuela, Ecuador, Bolivia, El Salvador and Nicaragua) take their name for Simón Bolivar, the revered 19th Century leader of South American independence from Spain. The espouse 21st Century Socialism, a vague notion that is deeply hostile to free market reforms, to the United States as an "imperial power", and toward traditional liberal democratic concepts.

[9] "FARC Terrorist Indicted for 2003 Grenade Attack on Americans in Colombia," Department of Justice Press Release, September 7, 2004. accessed at:

Into that mix Chávez also introduced Hezbollah and possibly other terrorist groups who operate under official protection of the Venezuelan, Ecuadoran, Bolivian, Nicaraguan and Salvadoran states.

Such a relationship between non-state and state actors provides numerous benefits to both. In Latin America, for example, the FARC and Hezbollah gain access to Venezuelan territory without fear of reprisals; they gain access to Venezuelan identification documents; and, perhaps most importantly, access to routes for exporting cocaine to Europe and the United States -- while using the same routes to import quantities of sophisticated weapons and communications equipment. In return, the Maduro government offers state protection, and reaps rewards in the form of financial benefits for individuals as well as institutions, derived from the cocaine trade.

Iran, whose banks are largely barred from the Western financial systems, benefits from access to the international financial market through Venezuelan, Ecuadoran and Bolivian financial institutions, which act as proxies by moving Iranian money as if it originated in their own, unsanctioned financial systems.[10]

There is a great deal of recent documentation of the criminalization of the most senior levels of the Venezuelan government from the time of Chávez continuing to Maduro.

- A recent investigation by Veja, a respected Brazilian magazine, shows that Venezuela, with the help of Argentina, actively tried to help Iran's nuclear program in violation of international sanctions.[11]

- Recent testimony of Leamsy Salazar, one of former President Hugo Chávez's bodyguards, describes witnessing the direct participation of senior Venezuelan officials in organizing large shipments of cocaine, including Diosdado Cabello, the president of the National Assembly.[12]

- The Wall Street Journal this week wrote of the ongoing efforts by U.S. prosecutors to build cases against Cabello and other senior Venezuelan officials, many of whom have allegedly been directly involved in arranging for cocaine shipments to pass freely through Venezuela.[13]

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http://www.usdoj.gov/opa/pr/2004/September/04_crm_599.htm and: Official Journal of the European Union, Council Decision of Dec. 21, 2005, accessed at: http://europa.eu.int/eurlex/lex/LexUriServ/site/en/oj/2005/l_340/l_34020051223en00640066.pdf

[10] For a look at how the Ecuadoran and Venezuelan banks function as proxies for Iran, particularly the Economic Development Bank of Iran, sanctioned for its illegal support of Iran's nuclear program, and the Banco Internacional de Desarrollo, see: Farah and Simpson, op cit.

[11] Leonardo Courinho, "Chavistas confirmam conspiracao denuciada por Nisman," Veja, March 14, 2015, accessed at: http://veja.abril.com.br/noticia/mundo/chavistas-confirmam-conspiracao-denunciada-por-nisman

[12] Elisa Vásquez, "Drug Lords of Chavismo," PanAm Post, February 3, 2015, accessed at: http://blog.panampost.com/elisa-vasquez/2015/02/03/drug-lords-of-chavismo/

[13] José de Córdoba and Juan Forrero, "Venezuelan Officials Supsected of Turning Country into Global Cocaine Hub," Wall Street Journal, May 18, 2015, accessed at:

- A recent blockbuster book in Spanish, El Bumerán Chávez: Los Fraudes Que Llevaron al Colapso de Venezuela (The Chávez Boomerang: The Frauds That Led to the Collapse of Venezuela) describes in detail from numerous eye witnesses cocaine dealing and high level contacts between Venezuelan government officials and Hezbollah operatives, where the Venezuelan government authorized financial activities of the terrorist group in Venezuela.[14]

- The recent designation by the Treasury Department's Financial Crimes Enforcement Network (FINCEN) of Banca Privada d'Andorra as a foreign financial institution of primary money laundering concern, in part because senior bank officials helped the Venezuelan national oil company PDVSA launder $2 billion through the institution.[15]

This new wave of information comes after more than a dozen senior Venezuelan officials have been publicly identified by U.S. officials as being directly involved in supporting and participating in drug trafficking and support of designated terrorist groups FARC and Hezbollah.[16]

The Treasury Department's Office of Foreign Assets Control (OFAC) has taken the lead in designating Venezuelan officials as drug traffickers and terrorist supporters and the charges were buttressed by the public release of an analysis of all the FARC documents -- captured by the Colombian military from the March 1, 2008 killing of senior FARC commander Raúl Reyes -- by a respected British security think that outlined the strong ties of the FARC to the governments of Venezuela, Ecuador, Bolivia, Nicaragua and members of the current government of El Salvador;[17] and the public statements of Walid Makled, a Venezuelan who was formally designated a drug kingpin by the U.S. government.

Arrested by Colombian police after he fled Venezuela, Makled was eventually extradited back to Venezuela. Preet Bharara, U.S. Attorney for the Southern District of New York, dubbed Makled, also known as "The Turk," a 'king among kingpins'. While in Colombian custody Makled gave multiple interviews and showed documents that he claimed showed he acquired control of one of Venezuela's main ports, as well as an airline used for cocaine trafficking, but paying millions of dollars in bribes to senior Venezuelan official.

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http://interamericansecuritywatch.com/venezuelan-officials-suspected-of-turning-country-into-global-cocaine-hub/

[14] Emili J. Blasco, El Bumerán Chávez: Los Fraudes Que Llevaron al Colapso de Venezuela, Center for Investigative Journalism in the Americas, 2015, Washington, D.C.

[15] "FinCEN Names Banca Privada d'Andorra a Foreign Financial Institution of Primary Money Laundering Concern," Department of Treasury FinCEN Press release, March 10, 2015, accessed at: http://www.fincen.gov/news_room/nr/html/20150310.html

[16] "Treasury Targets Venezuelan Government Officials Support of the FARC," U.S. Treasury Department Office of Public Affairs, Sept. 12, 2008. The designations came on the heels of the decision of the Bolivian government of Evo Morales to expel the U.S. ambassador, allegedly for supporting armed movements against the Morales government. In solidarity, Chavez then expelled the U.S. ambassador to Venezuela. In addition to the designations of the Venezuelan officials, the United States also expelled the Venezuelan and Bolivian ambassadors to Washington.

[17] The FARC Files: Venezuela, Ecuador and the Secret Archives of 'Raúl Reyes,'" An IISS Strategic Dossier, International Institute for Strategic Studies, May 2011.

According the U.S. indictment against him, Makled exported at least 10 tons of cocaine a month to the United States by keeping more than 40 Venezuelan generals and senior government officials on his payroll. "All my business associates are generals. The highest," Makled said. "I am telling you, we dispatched 300,000 kilos of coke. I couldn't have done it without the top of the government."[18] What added credibility to Makled's claims were the documents he presented showing what appear to be the signatures of several generals and senior Ministry of Interior officials accepting payment from Makled. "I have enough evidence to justify the invasion of Venezuela" as a criminal state, he said.[19]

While there has been little public acknowledgement of the Hezbollah ties to Latin American TOC groups, recent indictments based on DEA cases point to the growing overlap of the groups. In December 2011, U.S. officials charged Ayman Joumaa, an accused Lebanese drug kingpin and Hezbollah financier, of smuggling tons of U.S.-bound cocaine and laundering hundreds of millions of dollars with the Zetas cartel of Mexico, while operating in Panama, Colombia, the DRC and elsewhere.

"Ayman Joumaa is one of top guys in the world at what he does: international drug trafficking and money laundering," a U.S. anti-drug official said. "He has interaction with Hezbollah. There's no indication that it's ideological. It's business."[20] Joumaa was tied to broader case of massive money laundering case that led to the collapse of the Lebanese Canadian Bank, one of the primary financial institutions used by Hezbollah to finance its worldwide activities.

The decision made by the leadership of the governing FSLN in Nicaragua and the governing FMLN in El Salvador, to work with the ALBA bloc of nations[21] and their non-state allies such as the FARC in Colombia to move hundreds of millions of dollars in untraceable ways through inter-connected state oil companies, sets them apart from other Central American nations. Both presidents Ortega in Nicaragua and Sánchez Cerén in El Salvador are former leaders of revolutionary movements in their home countries and have deep historic and abiding ties to both the FARC the Chávez/Maduro criminal structure.

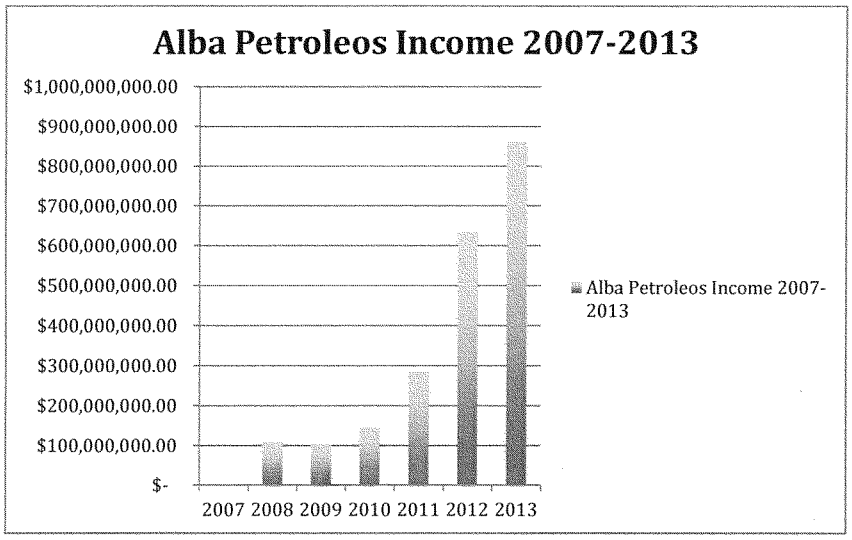
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[18] The Colombian decision to extradite Makled to Venezuela rather than the United States caused significant tension between the two countries and probably means that the bulk of the evidence he claims to possess will never see the light of day. Among the documents he presented in prison were checks of his cashed by senior generals and government officials and videos of what appear to be senior government officials in his home discussing cash transactions. For details of the case see: José de Córdoba and Darcy Crowe, "U.S. Losing Big Drug Catch," The Wall Street Journal, April 1, 2011; "Manhattan U.S. Attorney Announces Indictment of one of World's Most Significant Narcotics Kingpins," United States Attorney, Southern District of New York, November 4, 2010.

[19] "Makled: Tengo suficientes pruebas sobre corrupción y narcotráfico para qye intervengan a Venezuela," NTN24 TV (Colombia), April 11, 2011.

[20] Sebastian Rotella, "Government says Hezbollah Profits From U.S. Cocaine Market via Link to Mexican Cartel," ProPublica, December 11, 2011.

[21] The name is derived from former Venezuelan President Hugo Chavez's desire to recreate the original country created by South American liberator Simón Bolivar, which included Venezuela, Colombia, Panama, Bolivia and Ecuador. Chávez dubbed his movement, which has relied heavily on the FARC both for financing and as a non-state armed actor, the Bolivarian Revolution. The radical populist bloc is formally known as ALBA, the Bolivarian Alliance for the Peoples of Our America or *Alianza Bolivariana Para los Pueblos de Nuestro America*. It members include Venezuela, Ecuador, Bolivia, Nicaragua, Jamaica, the Dominican Republic and El Salvador.



In El Salvador, the governing FMLN controls ALBA Petróleos, which is 60 percent owned by PDVSA, the Venezuelan state oil company. Sánchez Cerén is a member of the ALBA leadership, as is Ortega.

According to public statements of FMLN leaders such as José Luis Merino, ALBA Petróleos began with $1 million from PDVSA in 2007 and by the end 2013 had revenues of $862 million, with no explanation for the massive growth.[22] Merino, who is a senior ALBA Petróleos advisor, publicly stated that he knew that "many people are nervous because ALBA Petróleos was born six or seven years ago with $1 million and now has $400 million. Let me correct myself, $800 million, and we are trying to change the lives of Salvadorans."[23] In Nicaragua, Ortega runs an almost identical structure, and has publicly acknowledged that Albanisa, the Nicaraguan state oil company also majority owned by Venezuela, provides him with more than $400 million a year that does not pass through the normal budgeting process and for which there is no legislative or judicial oversight.

Taken together, these two structures, officially relying on largely non-existent Venezuelan oil supplies, move more than $1 billion in unexplained revenues that are never accounted for.

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[22] These figures are taken from ALBA Petróleos official financial filings.

[23] "José Luis Merino defiende a Alba Petróleos por ataques de ANEP," Verdad Digital, October 31, 2013.

The implications of this joint criminal enterprise abetting terrorist groups and fueling massive corruption across the region are important and urgent.

There is the staggering toll in terms of human rights abuses, economic destruction, rising drug consumption, undermining of the rule law, rising violence (Venezuela now ranks among the top five homicide rates in the world and Caracas as one of the most violent cities), destruction of the independent media and the risk that what is left of the fragile democratic processes in these nations will be extinguished. The flood of drug money, the collapse of entire government branches such as the judiciary, the growing control of violent transnational gangs all make the future look grim in the failed Bolivarian experiment.

Beyond that, there are the strategic issues for the United States. There are the concerns about the flow of drugs, primarily cocaine, as well as the flood of explained billions sloshing through the financial systems, pushing legitimate businesses into bankruptcy.

The traffic of drugs, weapons and humans from Latin American north relies on the same basic pipeline structures to move. The same recombinant chains also move bulk cash, stolen cars and weapons from the United States south.

This demonstrates that these groups can successfully cross our border, and do, multiple times each day, in both directions. The pipelines are seldom disrupted for more than a minimal amount of time, in part because the critical human nodes in the chain, and key chokepoints in the pipelines are not identified, and the relationships among the different actors and groups are not understood adequately. As noted, pipelines are flexible, flat and can be hybrid—the epitome of modern management systems—often intersecting with formal commercial institutions (banks, commodity exchanges, legitimate companies, etc.), both in a physical and virtual/cyber manner, in ways difficult to determine, collect intelligence on, or disaggregate from protected commercial activities which may be both domestic and international in nature, with built-in legal and secrecy protections.

But there is a further cause for concern that transcends the flows of drugs, money, weapons and people. The only common bond among governments espousing 21st Century Socialism, a radical Shi'ite theocratic regime, a Marxist insurgency and conservative armed militia operating in the region is a common hatred for the United States. In public statements, the United States is defined as humanity's greatest enemy, The Empire, or the Great Satan.

This ideological element that is often overlooked. Venezuela has adopted as military doctrine a doctrine of asymmetrical warfare that justifies the use of weapons of mass destruction against the United State. Jointly these actors are using licit and illicit funds to fund a host of regional associations whose explicit purpose is to eradicate U.S. influence in the region. Entire new military academies are being stood up to open the doors to Russian, Iranian and Chinese training and doctrine while weakening existing institutions in which the United States has traditionally been a player.

In a multi-polar world this would not necessarily be alarming but for the belief among these groups that the United States is the enemy, and that these groups have access to state and non-state actors and state and non-state financial resources with which to advance their agenda.

For Iran the benefits are numerous, particularly in building alliances with nations to break its international isolation. It also affords Iran the opportunity to mine strategic minerals for its missile and nuclear programs, position Quds Force and Revolutionary Guard operatives under diplomatic cover, greatly expand and enhance its intelligence gathering, and operate state-to-state enterprises that allow for the movement of just about any type of goods and material.

One glimpse at the type of shipments such a relationship can used for came to light in 2009, when Turkish authorities randomly inspected some crates being shipped from Iran to Venezuela at the port of Mersin. The 22 crates were labeled "tractor parts" but in fact carried equipment for manufacturing explosives.[24]

One need only look at how rapidly Iran has greatly increased its diplomatic, economic and intelligence presence in Latin America to see the priority it places on this emerging axis, given that it is an area where it has virtually no trade, no historic or cultural ties and no obvious strategic interests. The gains, in financial institutions, bilateral trade agreements and state visits are almost entirely within the Bolivarian orbit and, as noted, the Bolivarian states have jointly declared their intention to help Iran break international sanctions.

Given this reality, it is imperative that United States intelligence community, military and law enforcement agencies develop a much deeper and more nuanced understanding of how the criminalized state/TOC/terrorist groups and foreign hostile state and non-state foreign actors exploit the ungoverned or stateless areas in an areas of close proximity to U.S. borders -- and the dangers they represent both in their current configuration, and their future iterations.

Understanding how these groups develop, and how they relate to each other and to groups from outside the region, is vital -- particularly given the rapid pace with which they are expanding their control across the continent, across the hemisphere, and beyond. Developing a predictive capacity can only be done based on a more realistic understanding of the shifting networks of actors exploiting the pipelines, the nature and location of the geographic space in which they operate, the critical nodes where these groups are most vulnerable, and their behaviors in adapting to new political and economic developments, market opportunities and setbacks, internal competition, and the countering actions of governments.

Thank you.

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[24] "Turkey holds suspicious Iran-Venezuela shipment," Associated Press, June 1, 2009. http://www.ynetnews.com/articles/0,7340,L-3651706,00.html

Statement of

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on

Leveraging the Financial Instrument of National Power to Counter Illicit Networks

at a Hearing Entitled

"A Dangerous Nexus: Terrorism, Crime and Corruption"

Before the Task Force to Investigate Terrorist Financing,

Committee on Financial Services,

U.S. House of Representatives

May 21, 2015

* The views expressed in this testimony are my own and do not necessarily reflect the views of the William J. Perry Center for Hemispheric Defense Studies, National Defense University, or the Department of Defense.

Thank you Chairman Fitzpatrick, Vice Chairman Pittenger, Ranking Member Lynch, and members of the Task Force to Investigate Terrorist Financing for the opportunity to appear before this committee today to testify on the dangerous nexus of terrorism, crime and corruption that threatens U.S. national security interests at home and abroad. Globalization has positively transformed our lives in an increasingly interconnected and thriving world, with the free flow of goods, services, capital, ideas and technology; at the same time however, these drivers of globalization have allowed illicit networks of terrorists, criminals, proliferators and their facilitators to empower themselves and threaten the security, prosperity and integrity of the global community. These illicit actors actively capitalize on weak governance, socioeconomic vulnerabilities and corruption to conduct their illegal activities and expand their nefarious power and influence throughout the world. After examining the critical enablers of illicit networks, in particular financing, and illustrating the case for the convergence of illicit networks in examples like ISIL, I will propose some domestic and international measures to further leverage the financial instrument of national power to combat terrorism, crime and corruption.

Illicit networks jeopardize the four key missions of the nation-state to its citizens: (1) to guarantee the nation's security and sovereignty, (2) to promote economic prosperity, (3) to safeguard society and the rule of law and (4) to ensure that the government represents the political will of the people. Illicit networks include criminals, terrorists, proliferators and their facilitators, and they leverage the global marketplace with their illegal activities to promote their respective interests around the world; such activities threaten the national security of the United States and its allies. The transnational trafficking of drugs, arms, people, and counterfeit goods and the money laundering that accompanies these illicit activities compromise the safety of consumers, rob inventors of their intellectual property, deny governments significant tax revenues, and undermine our economies. While nation-states and terrorist groups are motivated by ideological aspirations, transnational criminal organizations (TCOs) are driven primarily by greed. What we are witnessing today is the dangerous convergence of terrorism and

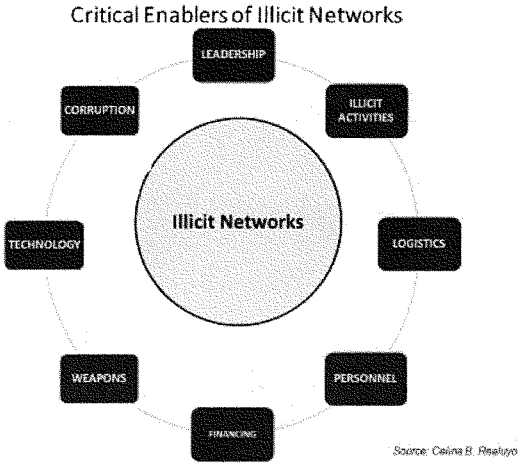
crime that threatens our national security and must be confronted through interagency and international cooperation that draws on all the instruments of national power to promote peace and prosperity in the 21st century.

The Critical Enablers of Illicit Networks

Illicit networks (terrorists, criminals and their facilitators) require the following critical enablers to sustain their activities and realize their political or revenue objectives:

- *Leadership.* Illicit networks need leadership that directs and manages resources to achieve their mission of political objectives or maximizing profits. Their leadership can be organized as hierarchies or, more likely, as loose networks of affiliates that diversify the "key man risk" associated with relying on a sole leader for command and control.
- *Personnel.* Illicit networks must recruit and maintain personnel to support all aspects of their activities.
- *Illicit activities.* Illicit networks can engage in a broad spectrum of illicit revenue-generating activities including trafficking in narcotics, arms, humans, exotic wildlife, and contraband, as well as money laundering, cybercrime, extortion, and kidnapping for ransom.
- *Logistics and supply chains.* Illicit networks rely on global supply chains, commercial transportation, resources and other logistical support to move materiel, personnel, services and funding from supply to demand points of their enterprises.
- *Weapons.* Illicit networks use force or the threat of force to dominate their operating areas; therefore, access to weapons, the ability to deploy them, and a lack of concern for collateral damage make illicit networks so violent and lethal.
- *Technology and communications.* Illicit networks diligently adopt new technology and communications methods to avoid detection by security forces and monitor and adapt to changes in their areas of operation.

- *Corruption.* Illicit networks enjoy operating in ungoverned or weakly governed spaces where state control and oversight are lacking or can be compromised. While they may not necessarily aspire to topple and replace governments, they seek out officials vulnerable to corruption who can facilitate illicit activities in certain geographic areas.
- *Financing.* Illicit networks consider revenue as both a key objective in case of crime and an essential enabler for terrorism. Financing serves as the lifeblood for these networks and their illicit endeavors; they derive power from their wealth and use it to corrupt and co-opt rivals, facilitators, and/or government and security officials.[1]



Financing as the Most Critical Enabler of Illicit Networks

Financing is perhaps the most vital enabler of illicit networks, as all the other critical enablers require funding. Consequently, financial intelligence and investigative

[1] Celina B. Realuyo, "The Future Evolution of Transnational Criminal Organizations and the Threat to U.S. National Security," *The Shifting Human Environment: How Trends in Human Geography Will Shape Future Military Operations*, Paul T. Bartone & Mitchell Armbruster, Editors, Defense and Technology Paper 107, National Defense University Press, May 2015, http://ctnsp.dodlive.mil/2015/05/06/dtp-107-shifting-human-environment-how-trends-in-human-geography-will-shape-future-military-operations/

tools like "following the money trail" are instrumental to better understand, detect, disrupt and dismantle these illicit networks of terrorism, crime and corruption. Tracking how terrorists and criminals raise, move, store and use money has been instrumental in degrading and defeating groups such as Al Qaeda Core, the Tamil Tigers (LTTE) in Sri Lanka and the FARC in Colombia.[2]

Money serves as the oxygen for any activity, licit or illicit. In a globalized world, we have grown to appreciate how "following the money trail" can enhance our efforts to counter terrorism, crime, and corruption around the world. Since the tragic attacks of September 11, 2001, the U.S. and other governments have incorporated the financial instrument of national power in efforts to combat terrorism and crime. The financial instrument of national power in the counter-threat finance arena has been manifested three-fold through:

1. Intelligence and law enforcement operations like the Iraq and Afghan threat finance cells to pursue terrorist financiers and money launderers
2. Public designations, sanctions and asset freezes and seizures
3. Domestic and international capacity building in the counter-threat finance discipline in the public and private sectors.

Enhanced anti-money laundering and counterterrorism finance measures have significantly damaged the illicit networks. Over the past decade, Al Qaeda operatives and affiliates from Iraq to Afghanistan complained about increased difficulty in funding terrorist operations and supporting their networks. Similarly, transnational criminal organizations in the Western Hemisphere, like the Mexican cartels, realized that greater oversight of international bank transactions and offshore accounts post-September 11 complicated their ability to launder profits through the formal banking sector. Following the money trail and the surveillance of facilitators, like the bankers and lawyers moving and sheltering money for terrorist and criminal groups, produced critical financial

[2] Celina B. Realuyo, "Following the Money Trail to Combat Terrorism, Crime and Corruption," U.S. Institute of Peace, International Network for Economics and Conflict, April 15, 2013, http://inec.usip.org/blog/2013/apr/15/following-money-trail-fight-terrorism-crime-and-corruption

intelligence that has led to the weakening of illicit actors such as Al Qaeda and the drug cartels.[3]

Once the tighter measures to fight money laundering and terrorist financing were put into practice, they had an unexpected but constructive side effect – rooting out corruption. Mexico strengthened its anti-money laundering regime to track and combat the Mexican drug cartels. Some of these "follow the money" measures, including tracking suspicious bank transactions, resulted in the February 26, 2013 arrest of the most prominent teacher union leader in Mexico, Edna Esther Gordillo, on corruption and embezzlement charges. According to Mexican Attorney General Jesus Murillo Karam, investigators from Mexico's treasury found that more than $200 million had been diverted from union funds into private bank accounts abroad (including some managed by Gordillo) between 2008 and 2012.[4] Mexico's Financial Intelligence Unit determined union funds were used to pay for $3 million of Neiman Marcus charges on Gordillo's account and more than $17,000 for bills to plastic surgery clinics and hospitals in California. It was discovered that Gordillo was living large with significant real estate holdings in Mexico City as well as two luxury properties in Coronado, California.[5] The Gordillo case is an illustrative example of how financial forensics, intended to pursue terrorists and drug traffickers, are yielding promising corollary results in the fight against corruption.

The Convergence of Terrorism and Crime

Terrorism, crime and corruption have existed since the beginning of human civilization and had been traditionally addressed as local security issues. In an age of globalization, the magnitude and velocity of terrorism and crime, driven by

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[3] Celina B. Realuyo, "Following the Money Trail to Combat Terrorism, Crime and Corruption," U.S. Institute of Peace, International Network for Economics and Conflict, April 15, 2013, http://inec.usip.org/blog/2013/apr/15/following-money-trail-fight-terrorism-crime-and-corruption

[4] Catherine E. Shoichet, "Mexican union leader accused of embezzling millions," CNN.com, February 26, 2013, http://www.cnn.com/2013/02/26/world/americas/mexico-union-leader-arrested/index.html

[5] Sandra Dibble & Lily Leung, "Suspicious Home Purchase Went Unnoticed Suspicious Real Estate Sales Tough to Track," UT San Diego, March 24, 2013, http://www.utsandiego.com/news/2013/mar/24/tp-suspicious-home-purchase-went-unnoticed/

interconnected economies and advances in communications and technology, have resulted in record levels of violence and have transformed illicit networks into a global security threat. In many cases, terrorist groups, international drug cartels, mafias, and gangs are better armed, funded, and trained than the government security forces charged with confronting them.

In recent years, terrorist groups have become increasingly reliant on criminal activities in order to sustain themselves as state sponsorships and donor support have evaporated. The insurgent movements, like the FARC in Colombia and Shining Path in Peru, are examples of this evolution in Latin America, as these terrorists have become increasingly involved in and dependent on the cocaine and other illicit trade. Meanwhile, some criminal organizations have adopted ideological agendas and act more like terrorists, using violence against innocents; this is the case of the Haqqani Network in Afghanistan and Pakistan once considered a criminal mafia controlling supply routes. In 2012, it was designated as a Foreign Terrorist Organization by the U.S. due to several high-profile insurgent attacks on U.S. and other foreign personnel in Afghanistan, including the assault on the U.S. Embassy in Kabul in 2011.[6]

We are witnessing a disturbing trend – the dangerous convergence of terrorism and crime that is becoming a formidable threat to nation-states. Convergence is defined as "the process of coming together and having one interest, purpose, or goal." In the case of terrorists that purpose is a political end state and in the case of criminals, it is maximizing profits. What terrorists and criminals have in common and how they converge is in the threat they pose to national security and sovereignty. Such is the case with the Haqqani Network in Afghanistan, the FARC in Colombia, al Qaeda in the Islamic Maghreb, Hezbollah's global networks and now ISIL, leveraging illicit activities to realize their terrorist agendas.[7]

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[6] Karen DeYoung, "Haqqani Network to be Designated a Terrorist Group," *The Washington Post*, September 7, 2012, http://www.washingtonpost.com/world/national-security/haqqani-network-to-be-designated-a-terrorist-group-obama-officials-say/2012/09/07/e6576ac0-f8f6-11e1-a073-78d05495927c_story.html

[7] Celina B. Realuyo, Hezbollah's Global Facilitators in Latin America. *Terrorist Groups in Latin America: The Changing Landscape*: testimony before the Subcommittee on Terrorism, Non-Proliferation, and Trade, House Committee on Foreign Affairs, U.S. House of Representatives. February 4, 2014. http://docs.house.gov/meetings/FA/FA18/20140204/101702/HHRG-113-FA18-Wstate-RealuyoC-20140204.pdf.

All Eyes on ISIL

ISIL has dominated the news since last summer with the brutal beheadings of Western hostages, remarkable military offensives in Iraq, persecution of Christian minorities and compelling foreign fighter recruitment campaign. ISIL is designated as a foreign terrorist organization by the United Nations and U.S., and represents a formidable example of the convergence of illicit networks, as ISIL combines the ideological aspirations of a terrorist group and the profit-seeking objectives of a criminal organization. ISIL is a militant movement that has conquered territory in western Iraq and eastern Syria that includes some six and a half million residents and has recruited over 20,000 foreign fighters. Though spawned by al-Qaeda's Iraq franchise, it split with Osama bin Laden's organization and evolved to not just employ terrorist and insurgent tactics, but the more conventional ones of an organized militia. In June 2014, after seizing territories in Iraq's Sunni heartland, including the cities of Mosul and Tikrit, the Islamic State proclaimed itself a "caliphate," claiming exclusive political and theological authority over the world's Muslims. Its state-building project, however, has been characterized more by extreme violence than institution building.[8]

The dramatic rise of ISIL with its ability to conduct terrorist atrocities, occupy territory in Iraq and Syria, attract ideological support, recruit foreign fighters, and harness economic resources has refocused counterterrorism efforts worldwide.[9] At the United Nations General Assembly, the Security Council unanimously adopted Resolution 2178 (2014) on September 24, 2014 that it condemns violent extremism and underscores the need to prevent the "recruiting, organizing, transporting or equipping of individuals who travel for the purpose of the perpetration, planning of, or participation in terrorist acts,

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[8] Council on Foreign Relations The Islamic State Backgrounder, http://www.cfr.org/iraq/islamic-state/p14811http://www.cfr.org/iraq/islamic-state/p14811

[9] Celina B. Realuyo, "Combating Terrorist Financing in the Gulf: Significant Progress but Risks Remain," The Arab Gulf States Institute in Washington, January 2015, http://www.agsiw.org/wp-content/uploads/2015/01/AGSIW_Combating-Terrorist-Financing-in-the-Gulf.pdf

associated with the Islamic State in Iraq and the Levant (ISIL), Al-Nusra Front (ANL) and other affiliates or splinter groups of Al-Qaida."[10]

ISIL's Diversified Portfolio of Financing Activities

In addition to the world headlines reporting their vicious acts of violence against non-believers, ISIL is characterized as the "richest" terrorist group in the world. To conduct its ambitious military operations, recruit and support its fighters and maintain control of its occupied territories or "caliphate," ISIL requires significant financing and is engaged in a broad spectrum of criminal activities. Accordingly, the financial front has once again become an indispensable aspect of combating terrorist groups like ISIL by attacking their financing abilities.

The principal source of ISIL finances is derived from its control and sale of oil, estimated at bringing in $1 million a day, according to the U.S. Treasury Department as of fall 2014. [11] Additional funding comes from extortion networks, kidnap for ransom, criminal activities like stolen antiquities and human trafficking, and some donations from external individuals.[12]

Oil extraction comprises ISIL's largest source of income. The group is estimated to produce forty-four thousand barrels a day from Syrian wells and four thousand barrels a day from Iraqi ones. The group then sells the crude to truckers and middlemen, netting an estimated $1 to $3 million a day. By selling well below market price, traders are incentivized to take on the risk of such black-market deals. The oil-starved Assad regime,

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[10] United Nations, "Security Council Unanimously Adopts Resolution Condemning Violent Extremism, Underscoring Need to Prevent Travel, Support for Foreign Terrorist Fighters," September 24, 2014, http://www.un.org/press/en/2014/sc11580.doc.htm

[11] David S. Cohen, "Attacking ISIL's Financial Foundation" Remarks of Under Secretary for Terrorism and Financial Intelligence, The Carnegie Endowment For International Peace, Washington, DC, October 23, 2014, http://www.treasury.gov/press-center/press-releases/Pages/jl2672.aspx

[12] Charles Lister, "Cutting off ISIS' Cash Flow," The Brookings Institution, October 24, 2014, http://www.brookings.edu/blogs/markaz/posts/2014/10/24-lister-cutting-off-isis-jabhat-al-nusra-cash-flow

Turks, and Iraqi Kurds—all putative enemies of ISIL—are rumored to be among its customers.[13]

ISIL is believed to extort businesses in Mosul, netting upwards of $8 million a month. Christians who have not fled the city face an additional tax levied on religious minorities. Protection rackets bring in revenue while building the allegiance of some tribesmen. Exploitation of natural resources and trafficking in antiquities also contribute to the ISIL's coffers.[14]

Ransom payments have provided ISIL upwards of $20 million in 2014, including large sums for kidnapped European journalists and other captives, according to the U.S. Treasury. The United States maintains a no-concessions policy, at odds with its European counterparts.

ISIL pays its fighters monthly wages estimated to be upwards of $350, more than rival rebel groups or the Iraqi government offer, and as much as five times what is earned by ordinary Syrians in territory controlled by the Islamic State.[15] This diversified portfolio of income generation makes ISIL a challenging adversary to attack in terms of cutting off its financing.

Coalition Efforts to Counter-ISIL

As articulated by the White House, the U.S. has built a global coalition of willing partners with the goal of degrading and ultimately defeating ISIL. The President has set forward a comprehensive strategy featuring nine lines of effort to counter ISIL:

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[13] Financial Action Task Force, *Financing of the Terrorist Organisation Islamic State in Iraq and the Levant,* February 2015, http://www.fatf-gafi.org/documents/documents/financing-of-terrorist-organisation-isil.html

[14] Micah Zenko, "Preventing Cultural Destruction by ISIS," CFR.org, March 6, 2015, http://blogs.cfr.org/zenko/2015/03/06/guest-post-preventing-cultural-destruction-by-isis/

[15] Council on Foreign Relations The Islamic State Backgrounder, http://www.cfr.org/iraq/islamic-state/p14811http://www.cfr.org/iraq/islamic-state/p14811

- Supporting Effective Governance in Iraq: We are supporting the new Iraqi government on efforts to govern inclusively and effectively as well as to strengthen its cooperation with regional partners.

- Denying ISIL Safe-Haven: We are conducting a systematic campaign of airstrikes against ISIL in Iraq and Syria. Working with the Iraqi government, we are striking ISIL targets and supporting Iraqi forces on the ground. We will degrade ISIL's leadership, logistical and operational capability, and deny it sanctuary and resources to plan, prepare and execute attacks.

- Building Partner Capacity: We will build the capability and capacity of our partners in the region to sustain an effective long-term campaign against ISIL. Our advisors are working to advise Iraqi forces, including Kurdish forces, to improve their ability to plan, lead, and conduct operations against ISIL, and we will provide training to help the Iraqis reconstitute their security forces and establish a National Guard. Our train and equip program will strengthen the Syrian moderate opposition and help the defend territory from ISIL.

- Enhancing Intelligence Collection on ISIL: Continuing to gain more fidelity on ISIL's capabilities, plans, and intentions is central to our strategy to degrade and ultimately destroy the group, and we will continue to strengthen our ability to understand this threat, as well as to share vital information with our Iraqi and Coalition partners to enable them to effectively counter ISIL.

- Disrupting ISIL's Finances: ISIL's expansion over the past year has given it access to significant and diverse sources of funding. So, we are working aggressively with our partners on a coordinated approach to reduce ISIL's revenue from oil and assets it has plundered; limit ISIL's ability to extort local populations; stem ISIL's gains from kidnapping for ransom; and disrupt the flow of external donations to the group.

- Exposing ISIL's True Nature: Clerics around the world have spoken up in recent weeks to highlight ISIL's hypocrisy, condemning the group's savagery and criticizing its self-proclaimed "caliphate." We are working with our partners throughout the Muslim world to highlight ISIL's hypocrisy and counter its false

claims of acting in the name of religion.

- Disrupting the Flow of Foreign Fighters: Foreign terrorist fighters are ISIL's lifeblood, and a global security threat—with citizens of nearly 80 countries filling its ranks. On September 24, the President convened an historic Summit-level meeting of the UN Security Council, focused on this issue and we will continue to lead an international effort to stem the flow of fighters into Syria and Iraq.
- Protecting the Homeland: We will continue to use the criminal justice system as a critical counterterrorism tool, work with air carriers to implement responsible threat-based security and screening requirements, and counter violent extremism here at home.
- Humanitarian Support: We and our partners will continue to provide humanitarian assistance to the displaced and vulnerable in Iraq and Syria.

Pursuing the nine lines of effort to advance the comprehensive strategy is a whole of government effort.[16]

Counter-ISIL Financing Measures

The U.S. counter-ISIL financing strategy is focused on disrupting ISIS revenue streams, restricting ISIS access to the international financial system, and targeting ISIS leaders, facilitators and supporters with sanctions. The U.S. is also collaborating with international partners on this issue and in March 2015, the U.S., Italy and Saudi Arabia established the Counter-ISIL Finance Group.[17]

The international coalition to counter ISIL has been conducting a military air campaign since August 2014. "Operation Inherent Resolve" conducts targeted airstrikes of Iraq and Syria as part of the comprehensive strategy to degrade and defeat the Islamic

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[16] The White House, FACT SHEET: The Administration's Strategy to Counter the Islamic State of Iraq and the Levant (ISIL) and the Updated FY 2015 Overseas Contingency Operations Request, November 7, 2014, https://www.whitehouse.gov/the-press-office/2014/11/07/fact-sheet-administration-s-strategy-counter-islamic-state-iraq-and-leva

[17] Carla E. Humud, Robert Pirog, Liana Rosen, *Islamic State Financing and U.S. Policy Approaches*, Congressional Research Service, April 10, 2015, https://www.fas.org/sgp/crs/terror/R43980.pdf

State of Iraq and the Levant. Some airstrikes have been directed at ISIL-linked oil infrastructure and supply networks in Syria and Iraq; as of May 8, 2015, 152 oil infrastructure targets have been damaged or destroyed.[18] Mobile refineries have been specifically targeted to reduce the availability of refined oil products, and their successful destruction has impacted but not destroyed ISIL's illegal oil sales. Due to the diversified sources of income supporting ISIL, the campaign against ISIL's financing will require perseverance and a multi-pronged approach across agencies and jurisdictions.

Leveraging the Financial Instrument of National Power to Combat Terrorism, Crime and Corruption

On the financial front to counter illicit networks, the U.S. and other governments have increased their efforts to detect the financing of terrorism and crime, imposed economic sanctions, and raised awareness among the private and civic sectors about how terrorists and criminals can abuse the international financial system to fund their infrastructure, members, and deadly operations. These efforts to leverage the financial instrument of national power against terrorism, crime and corruption are commendable but could be further expanded at the national, regional and international levels with the following measures:

- Dedicate more financial, human, and technological resources to government agencies, like financial intelligence units, responsible for investigating and prosecuting terrorist financing, money laundering and other financial crimes.
- Enhance U.S. and international financial intelligence and information sharing to combat terrorism, crime and corruption.
- Retain the Afghan threat finance cell and consider establishing new threat finance cells to counter emerging threats such as ISIL to conduct more effective targeting.

[18] U.S. Department of Defense Operation Inherent Resolve website, http://www.defense.gov/home/features/2014/0814_iraq/

- Maintain a vigorous designation and sanctions regime against state sponsors of terrorism, foreign terrorist organizations, transnational criminal organizations, foreign narcotics kingpins and specially designated nationals.
- Revive the Terrorist Finance Working Group, established in the wake of the tragic September 11, 2001 attacks, to coordinate U.S. government efforts to combat terrorist financing via designations, the enforcement of sanctions and technical assistance and capacity building programs.
- Dedicate a percentage of forfeited assets and/or fines levied on financial institutions for sanctions evasion, money laundering and compliance infractions to domestic and international capacity building programs.
- Promote public-private partnerships; raise awareness among bank and non-bank financial institutions of emerging trends in money laundering and terrorist financing to empower the private sector to serve as the eyes and ears of governments to detect financial crimes.
- Anticipate how new financial innovations, services, technology could possibly be used and abused by terrorists and criminals to finance their operations.

In summary, illicit networks comprised of terrorists, criminals, proliferators, and their facilitators are presenting unprecedented asymmetrical threats to U.S. national security interests at home and abroad. The dangerous convergence of illicit networks undermines the sovereignty of the nation state in the new global security environment and must be actively confronted. These illicit networks require critical enablers, most importantly financing, to realize their nefarious agendas of terrorism or crime. To attack these networks, we must understand their enablers and deny these groups access to those enablers. Stemming the flow of funding to groups like ISIL, Hezbollah, the Haqqani Network, FARC, and Shining Path can undermine their violent operations and negative impact on security and prosperity. As these illicit networks evolve, we must constantly update our methods of detecting, disrupting, dismantling and deterring our adversaries with the financial instruments of national power. Only through comprehensive and proactive interagency and international strategies can we effectively combat terrorism, crime and corruption around the world.

Thank you, Mr. Chairman and committee members for your time and attention.

