

## Arcanum in the news

### **SPEECH - U.K. DEFENCE ACADEMY: HOW CLOSED THINKING ABOUT “TERRORIST FINANCING” BLINDS WESTERN POWERS**

*November 10, 2010*

*Remarks by M. Ron Wahid*

Why have numerous and sustained attempts to stop or restrict the flow of funding to disguised and overt terrorist groups around the world been less than effective? Ron Wahid, Chairman and CEO of Arcanum, AG, described how closed thinking and the hybridisation of terrorist groups have confounded the best efforts of U.S. and European governments to cut off the flow of money to those organisations in a speech delivered to the Defence Academy of the United Kingdom late last year. The full text of the speech, which also proposes new approaches to handling the issue, appears below.

Good Afternoon. I am grateful to have this chance to speak to my own experience, which has accumulated from various stages of my career.

For much of the past decade, I have watched well-intentioned official and private efforts to choke off, or at least restrict, funding flows to disguised or overt terrorist groups around the world.

Often times it has not been very effective – mainly, as the title of my talk to you suggests, because of closed but resilient thinking about what actually constitutes ‘terrorist financing.’

Today I want to:

- Delve a bit deeper into this problem, including the resilience of state-sponsored terrorism
- Describe the ‘hybridisation’ of criminal and terrorist groups, and
- Set out a few thoughts about how we can tighten our grip on these.

#### **Closed Thinking**

WE are all prisoners of our past. The pre- and post 9/11 working environment and mental landscape have directed enormous effort towards interdiction of funding streams with which we became familiar in the 1980s and afterwards – notably hawala type arrangements outside formal banking systems and away from legal structures. We became

familiar with the activities of nominally charitable foundations, both Islamic and catering to immigrant groups. This mindset had implications for funding and staffing the anti terrorist financing effort. And some important successes have occurred.

That said, we have been much less attentive to the wide ramifications of two phenomena – first, the persistence and creativity of ‘old-fashioned’ state sponsorship of terror (of which Iran is a prime example) and second, the growing convergence of criminal and terrorist groups into a seamless hybrid form.

**Let me expand a bit on the first phenomenon**, state sponsorship of terror and how this is changing. Let me use Iran’s revolutionary guards – the pasdaran – as an example, **as this is an area where most opportunities were missed.**

Since the 1990s, the Revolutionary Guard (IRGC) has been transformed.

- It’s now a commercial and financial giant
- It has become a stateless entity but within a functioning state
- It has a parallel existence to the government of Islamic Republic of Iran
- It pays no taxes and issues no annual reports

The Pasdaran have become a diversified and worldwide conglomerate with financial, engineering, transport and energy arms. On the money-raising side, the IRGC has become indistinguishable within Iran from the bonyads—Iran’s traditional waqf-style charitable foundations. The head of the spear for this concentrated effort is the Al-Quds force; the pasdarans’ internal legitimacy stems from the IRGC’s role as a stalwart “guard” of the Islamic revolution.

Outside Iran, the pasdars’ worldwide commercial and financial reach mirrors the worldwide end-use to which the pasdars put these resources. They give direct and indirect support to a long list of terrorist movements. IRGC takes a liberal view of which terrorist groups serve Iran’s goals: Hezbollah, Hamas, and Yemeni insurgents receive funding. The pasdars even support the Venezuelan state; proceeds from a recent shipment of petrol to POGC went accrued to the IRGC, for example.

Image not found or type unknown

That's just a quick, summary sketch. Suffice it to say, both western corporations and their governments tend either to ignore or under-estimate the IRGC's reach and impact.

Image not found or type unknown

**This exhibit is a copy of the original financial documentation of \$1.5 billion paid by the IRGC for the purchase of 51% of shares of ITC.**

Image not found or type unknown

ITC is conducting business in Austria and Germany. Knowingly or unknowingly both Austrian and German commercial / financial enterprises are conducting business with ITC's Austrian and German units, while the authorities are overlooking their activities. The financial benefits derived from these activities are directly benefiting the IRGC – one of the most energetic proliferators of "Terrorist Financing" – end result – opportunities missed wherein we could cut one of the tentacles of Terrorism Financing.

Now for the second phenomenon, the 'hybridisation' of terror and crime.

In 2007, the UN Office of Drugs and Crime (UNODC) estimated 40-50 tons of cocaine (valued at \$1.8 billion) passed

through West Africa. In truth, the UNODC's figure is probably just one-fifth of the real flow.

It is trite to point out that drug money corrodes minimal state capacity and competence. It distorts economies. But this has a redoubled negative effect whenever terrorist groups and organized crime become intertwined. Unfortunately, that is exactly what is happening.

For example, in Sri Lanka we have witnessed the LTTE (Tamil tigers) blend terrorism and crime seamlessly. Many other self-styled social revolutionaries use terrorism and drug-funding as a matter of routine. Drug money eats away at electoral systems, buying favors and protection from candidates.

In the process, many states have effectively faded away, some altogether as in Somalia. Those stateless regions now rely on the 'order' imposed by criminal syndicates, while other states have degraded into pro forma masks for terrorism/criminal syndicates. Insofar little or no-action has been taken to address the problem.

In short: today's world hosts dozens of hybrid organizations blurring the old distinctions between terrorism and organized crime to the point where they have become meaningless.

Taking a geographic stance, to all intents and purposes the state structure left behind by the colonial powers has now become a fictive shell in much of Africa, where this type of hybrid organization now occupies these territories. Even where some modicum of state structure persists, bare-knuckle contests for petroleum concessions, as in the Nigerian delta, employ terror tactics as a matter of routine.

**Here's the crux:** Terrorist and criminal organizations have grown into a single hybrid through the work of shadow facilitators who exploit the formal international legal and economic systems. Terrorists and criminals funnel money through:

- the same pipelines
- the same illicit methods
- exploit the same state weaknesses

To take just one example, of the forty-three 'Foreign Terrorist Organizations' (FTOs) listed by the U.S. State Department, nearly half (19) rely directly on drug trafficking. The number rises higher when measured by indirect linkages to drug criminals.

We all know that governance in parts of Africa is a catastrophe. Persistent conflicts about natural resources—diamonds, timber, oil, and gold—continue unchecked or lie dormant before flaring up again.

Known as "honey pot" wars, these conflicts spawned the Revolutionary United Front (RUF) in Sierra Leone, a byword for child soldiers and unspeakable atrocities. Liberia's Charles Taylor comes from the same bleak world.

But the natural resource game, bloody as it is, pales by comparison to the cocaine trade. The "blood diamond" trade in Sierra Leone and Liberia never generated more than \$200 million annually in smuggled diamonds. On the other hand,

cocaine easily trumps gems as the world's most lucrative commodity.

These days, as always, supply seeks markets. Cocaine consumption has risen in the last ten years in Europe, in the area formed by the former Soviet Union, and in other new emerging markets. Whereas U.S. demand for cocaine has declined slightly in recent years, consumption elsewhere has risen rapidly.

The money generated in this worldwide schartzwirtschaft (*BLACK MARKET*) staggers belief – And terrorists understand the need for 'muscle;'

Hence they are inserting themselves into the drug pipeline from Africa to Europe. Cocaine from Colombian production sites is now controlled to a large extent by the self-declared Marxist Revolutionary Armed Forces of Colombia (the 'FARC'). Meanwhile, the Hugo Chávez government in neighbouring Venezuela permits the FARC, with which Chávez has a deep relationship, to use Venezuelan transit routes that reduce traffickers' costs.

And let us not forget the nexus between Chavez and the Iranian regime.

In September last year, the US Treasury's Office of Foreign Assets Control (OFAC) applied sanctions to three of Chávez's closest associates, including two intelligence chiefs who helped the FARC buy weapons. West Africa's two largest cocaine busts in recent years involved aircraft originating from Venezuela, whose geographic position enables direct flights or sea journeys to Africa.

While the Colombian government has broken up many of the largest drug cartels, this has opened the field to smaller nimbler groups looking for alternative routes and markets. Bolivian and Peruvian producers of cocaine hydrochloride (HCL – refined cocaine) are also resurgent. Mexican cartels under pressure inside Mexico have collided with stronger U.S. interdiction efforts. The net effect: rising costs are diverting drug sales to Europe—with bad consequences for West Africa, propagating another route for terrorists to channel their money and equipment.

**I think I've made my point.**

These market realities – of rapid transit shifts and increasing fluidity – are accelerating a convergence of criminals and terrorists, in new and dangerous ways. The enormous and untaxed profits enable acquisition of cutting edge technologies (surveillance, monitoring, and evasion of interdiction).

While the best example in South America of this new "hybrid" criminal-terrorist organization is the FARC, the newest kid on the block in Africa should worry us a lot more.

In West Africa, we find **Hezbollah**, the Lebanon-based Shiite Islamist organization active in blood diamond and other illicit activities, becoming more prominent. The Lebanese Diaspora in West Africa pays a sizeable portion of their earnings to support Hezbollah in Lebanon. This occurs with the corrupted acquiescence of African countries in which it

dwells.

arcenum-speechphoto1

Image not found or type unknown

The extent of this revenue stream was abruptly revealed when a charter flight bound for Beirut from Cotonou, Benin, crashed on takeoff on Christmas in 2003.

A deceased passenger turned out to be a Hezbollah "foreign relations" official carrying \$2 million in contributions raised in the region.

Hezbollah also operates in Latin America. The most egregious documented cases of Hezbollah and Iran's direct involvement in terrorist activities are the 1992 bombing of the Israeli embassy in Buenos Aires and the 1994 bombing of the AMIA Jewish center in the same city.



Recent evidence shows the Chávez government giving direct support to Hezbollah, including the June 18, 2008 OFAC designations of two Venezuelan citizens, including a senior diplomat, as terrorist supporters for working with the armed group.

**YET, we have allowed the PVDSA to continue supply oil to the US, moreover have direct ownership of a downstream petroleum company "CITGO". We missed the opportunity and continue to miss the opportunity as we allow these elements to freely conduct commerce while the proceeds of such commerce is directly aiding and abetting terrorist activities.**

We see daily the threats posed by the transnational Mexican drug organization on and across our borders. We have spent significant resources to aid Colombia in its costly wars against the drug cartels and the FARC in recognition that these groups posed a direct challenge to our national security and the stability of areas of vital strategic interest in our hemisphere.

The movement of drugs through West Africa to Europe produces enormous revenues for these groups, allowing them to survive, morph, reconfigure and continue to wreak havoc.

Within the US, the newly created US Africa Command in the Pentagon (AFRICOM), the DEA and the State Department are diverting more attention and resources to African drug issues than before. But by any measure it is way short of what's needed. Beyond that, the usual demons –

**Compartmentalization, stove-piping of information and the continued focus on delimited geographic territories –** continue to hamper counter drug programs.

The old, static model of Latin American drug trafficking organizations is now passé, new organizations in league with terrorists operate on multiple continents rather than a single country or region.

### **What is to be done?**

As the DEA knows well, the vital element in identifying, mapping and dismantling drug trafficking organizations is human intelligence. The DEA is working to identify and target "shadow facilitator," or those individuals who service a variety of organizations, both criminal and terrorist.

A prime example of this type of individual was Viktor Bout, the Russian weapons merchant now in prison in Thailand, awaiting a ruling on whether he can be extradited to the United States. But U.S. and European agencies abroad cannot conduct a sustained operation without local allies. One reason for success in Colombia and elsewhere has been the establishment of effective vetted units within a local police or military force, where information can be exchanged with less fear of leaks or compromise.

**Time and time again we have failed to co-opt and nurture potential allies at the early stages.**

Given the linguistic and cultural complications across West Africa, and the fact that they vary from country to country, the ability to work in some fashion with at least a segment of the national law enforcement community is all the

more essential.

In this endeavour, America must bring our European friends allies, particularly the French, British and Belgians, into a much more robust collaboration. These countries have deep colonial histories in different countries in the region, and have far better and deeper knowledge of the traditional criminal and smuggling networks that operate there.

For example, the Belgians have followed the blood diamond trade for decades and understand and have mapped the Lebanese family and clan networks involved in the trade. This type of information and understanding would take years for U.S. agencies to develop, but can be put to good use in combating drug trafficking in the region, thus choking a critical element of Terrorist Financing.

Our European friends have many more levers of "soft power," through trade and aid, than the United States does, and hence have more tools with which to engage the region on this issue.

In conclusion, we must re-examine old ideas that assumed some type of separation between terrorists and their financing networks, and criminal syndicates operating internationally. A common approach to combating front organizations and very close-in, recurrent cooperation between financial watchdogs (such as the FSA in the UK and our OFAC) must occur. The stove piping between our governments' regulatory agencies and our intelligence agencies must be destroyed or at least partially dismantled.

I don't want to close on a total note of gloom. Unfortunately in the Games of Intelligence, the failures are made up for by award winning journalists, while the successes remain among those who tirelessly work to keep our world safe.

There have been numerous examples of success

I would like to conclude with

... One recent example of success – **the Alavi-Assa case**: in which U.S. and UK authorities including those of the Channel Islands worked tirelessly to successfully decipher the Alavi-Assa scam resulting in the largest confiscation of Iranian assets in the U.S.

#### The Alavi-Assa investigation

- The Iranian government conspired to defraud the USG by creating a shell company named "Assa Company Ltd." in the Channel Islands with a subsidiary in NY that held 40% of a skyscraper on Fifth Avenue.
- **UK (including Channel Island) and other EU authorities cooperated with US investigators, composed of JTTF, Treasury and DoJ.**
- Alavi got support from of banks, accountants and lawyers in criminal activity

#### Lloyds "Stripping"

- European banks ensured that All incoming wire transfer payment messages for USD transactions from Iranian and Sudanese sources were removed from the automated wire processing systems for manual entry
- Special dedicated staff would mark up the payment message to delete any reference to “Iran”, “Sudan” or other OFAC red flags
- Lloyds and other European banks conspired with official Iranian entities to evade U.S. sanctions
- Lloyds moved funds for Assa Corp from NY to Bank Melli PLC
- Lloyds wired funds from Bank Melli Plc and Bank Melli Iran to Iranian “assets” inside the U.S. without mentioning the originator’s name - “Stripping”

At the end of the day due to the joint effort of US and UK authorities and with voluntary cooperation from Lloyds, authorities were able to dismantle the financial network and seize the assets worth several hundred million dollars.

Thank you for your attention. I will welcome any questions.