

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 exists 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

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 process⁴; 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, however, 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

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 alliance⁸, 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 Union⁹ and a major drug trafficking organization, is directly supported by the Bolivarian nations as a matter of state policy.

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 Bolívar, 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

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 denunciada 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 Ferrero, "Venezuelan Officials Suspected 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.

<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 to 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 the 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 a broader case of massive money laundering that led to the collapse of the Lebanese Canadian Bank, one of the primary financial institutions used by Hezbollah to finance its worldwide activities.

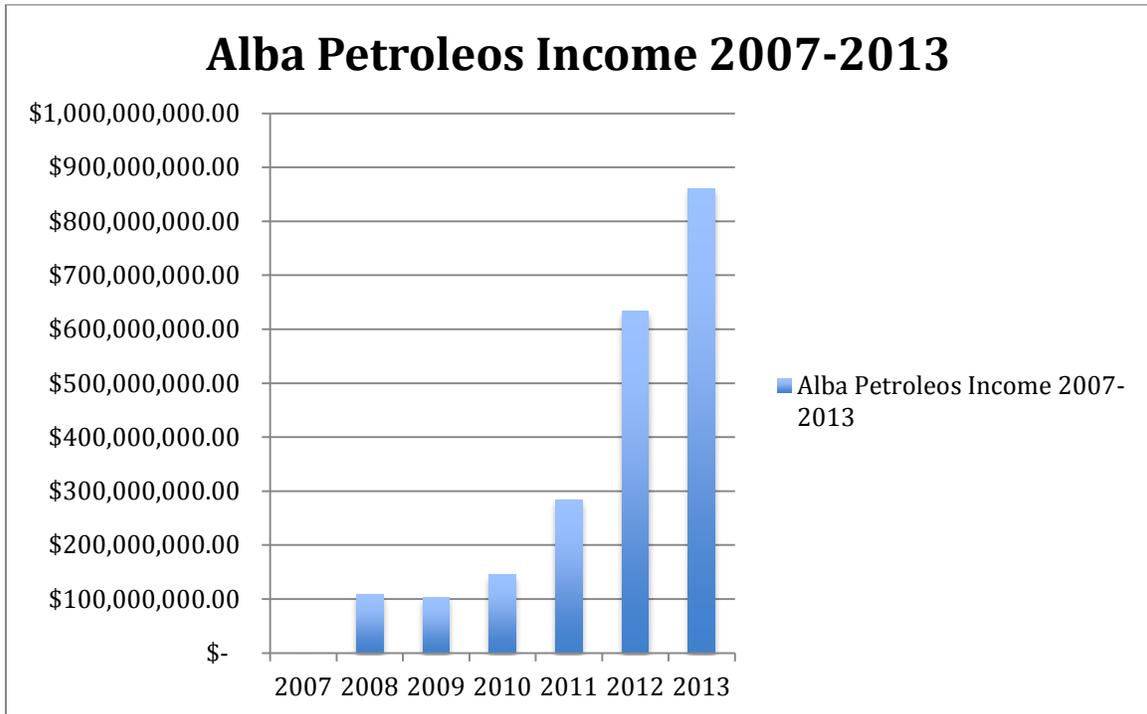
The decision made by the leadership of the governing FSLN in Nicaragua and the governing FMLN in El Salvador, to work with the ALBA bloc of nations²¹ and their non-state allies such as the FARC in Colombia to move hundreds of millions of dollars in untraceable ways through inter-connected state oil companies, 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 and the Chávez/Maduro criminal structure.

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 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 que 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 Bolívar, 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 Nuestra America*. Its 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.

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 of 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 be 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.

²⁴ “Turkey holds suspicious Iran-Venezuela shipment,” Associated Press, June 1, 2009. <http://www.ynetnews.com/articles/0.7340.L-3651706.00.html>

