

**THE ENEMY IN OUR BACKYARD:  
EXAMINING TERROR FUNDING STREAMS  
FROM SOUTH AMERICA**

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**HEARING**  
BEFORE THE  
TASK FORCE TO INVESTIGATE  
TERRORISM FINANCING  
OF THE  
COMMITTEE ON FINANCIAL SERVICES  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED FOURTEENTH CONGRESS  
SECOND SESSION

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## **THE ENEMY IN OUR BACKYARD: EXAMINING TERROR FUNDING STREAMS FROM SOUTH AMERICA**

**Wednesday, June 8, 2016**

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 9:03 a.m., in room 2128, Rayburn House Office Building, Hon. Michael Fitzpatrick [chairman of the task force] presiding.

Members present: Representatives Fitzpatrick, Pittenger, Ross, Rothfus, Schweikert, Williams, Poliquin; Lynch, Ellison, Himes, Foster, and Sinema.

Chairman FITZPATRICK. The Task Force to Investigate Terrorism Financing will come to order. The title of today's task force hearing is, "The Enemy in Our Backyard: Examining Terror Funding Streams from South America."

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 purpose of making an opening statement or questioning the witnesses.

The Chair now recognizes himself for 2 minutes for an opening statement.

First, thank you, everyone, for joining us for the eighth hearing of the House Financial Services Committee's Task Force to Investigate Terrorism Financing. I would like to again thank Chairman Hensarling and Ranking Member Waters, as well as my colleagues here, for their unwavering support as we continue to investigate the threat of terror finance.

In previous task force hearings, Latin America, specifically the tri-border region, has repeatedly been cited as an area of concern regarding anti-money laundering and terror finance. As chairman of this task force, we have met with our regional partners, as well as U.S. personnel on the ground in South and Central America who are working to identify and choke off funding to terrorist and organized criminal groups. While in country, including in Argentina and Paraguay, we investigated and engaged the efforts put forth by our allies, the means being employed, the efforts being made by the United States in the region, and whether the United States law-

makers need to provide new tools or engage the Administration to more effectively use the authority and resources that they already have.

Today, with this expert panel of witnesses before us, we aim to continue our investigation. This hearing will examine how South American criminal enterprises, including those designated by the State Department as foreign terrorist organizations, fund their operations, including through the illicit uses of the financial system.

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

Mr. LYNCH. Thank you, Mr. Chairman.

I want to thank our witnesses for your willingness to help this task force with its work.

I also want to thank Vice Chairman Pittenger, whom I understand was renominated in the Republican primary yesterday. So congratulations on that.

I am pleased we are holding today's hearing so we can further examine terrorist financing streams from South America. Today, I would like to put particular focus on the revelations contained in the leaked financial documents known as the Panama Papers. This past April, millions of leaked documents from the Panama-based law firm Mossack Fonseca exposed how some of the world's most powerful people used a web of complex financial transactions, including offshore bank accounts and shell companies, to hide their wealth.

According to the International Consortium of Investigative Journalists, ICIJ, more than 214,000 offshore entities appear in the leak connected to people in more than 200 countries and territories, including alleged drug traffickers from South America. In addition, the files include at least 33 people and companies blacklisted by the U.S. Government because of evidence that they have been involved in wrongdoing, such as doing business with Mexican drug lords or terrorist organizations like Hezbollah, and these revelations highlight the need to combat secrecy and corruption in the global financial system.

In response, we on this committee have been working, along with some of our colleagues on the larger committee and on this task force, on legislation to combat corruption by foreign governments. Our legislation would authorize the Department of the Treasury to pay rewards that help identify and recover stolen assets linked to foreign government corruption. This is necessary because no existing reward program provides monetary incentives for identifying and recovering stolen assets linked solely to foreign government corruption. Individuals who come forward to expose this type of corruption do so at great risk to themselves and their families, and monetary rewards can provide a necessary incentive to expose corruption and provide financial means to provide for their well-being after the fact.

Another common theme throughout this task force that is reinforced through the release of the Panama Papers is the need to collect information on the true ownership of these entities. Earlier this week, The New York Times did a terrific article written by Eric Lipton and Julie Creswell. I want to compliment them. It is



a thoroughly researched and well-written article that demonstrates how U.S. citizens used the Mossack Fonseca Law Firm to create shell companies to hide their wealth overseas. According to that article, Mossack Fonseca had at least 2,400 U.S.-based clients over the past decade and set up at least 2,800 companies on their behalf in jurisdictions that specialize in helping clients hide their assets.

Shell companies are particularly susceptible to exploitation by terrorists as they are often used to mask the identities of their beneficial owners. It is critical that the United States collect information on beneficial ownership in order to prevent criminals and terrorists from exploiting anonymity to conceal their illicit activity.

Now, these constructs are principally used to avoid paying U.S. taxes. However, they also facilitate terrorist financing. I am proud to be an original cosponsor of the bipartisan Incorporation Transparency and Law Enforcement Assistance Act of 2016 sponsored by my colleague, Mrs. Maloney of New York. Anonymous corporations significantly hinder investigations into terrorist financing. By strengthening beneficial ownership disclosure requirements, this legislation will tighten a weak link in our current efforts to follow the money that is funding terrorist organizations around the world.

This is an urgent national security issue, and I look forward to working with my colleagues on this task force and the House Financial Services Committee to close this loophole. I am pleased to hear from our witnesses today so we can better understand terrorist funding streams in South America, including the revelations from the release of the Panama Papers.

I yield back the balance of my time. Thank you, Mr. Chairman.

Chairman FITZPATRICK. Thank you.

And I now recognize the vice chairman of the task force, Mr. Pittenger of North Carolina.

Mr. PITTENGER. Thank you, Chairman Fitzpatrick and Ranking Member Lynch, and the distinguished panel before us today.

Mr. Chairman, I am particularly grateful for today's hearing, which will focus on the illicit finance operations in South America. As you know, a delegation from this task force recently visited Colombia, Panama, Paraguay, and Argentina to meet with government officials and view firsthand the problems that they face in South America.

When I was in Argentina, I had the pleasure of meeting with one of the distinguished panelists, Mr. Mariano Federici. Mr. Federici is an outstanding public servant, a representative of the Argentinian people. Mr. Federici's role with Argentina's government gives me great hope and certainty of Argentina's serious commitment about combating illicit finance operations. Furthermore, I would like to highlight that Mr. Federici will be participating with us in a parliamentary security conference that I will be hosting in Vienna in 2 weeks where he will be able to share his work before parliamentarians from over 25 countries.

Thank you for your continued partnership with us on these issues and your willingness to participate in the forum.

Back in October, I cohosted a similar security forum here in Washington with another panelist, Mr. Braun, who also participated.

Mr. Braun, it is great to see you back here again in Washington. Thank you for your continued work and dedication to these issues. Mr. Chairman, thank you, and I yield back.

Chairman FITZPATRICK. We now welcome our witnesses.

Mr. Mariano Federici has been the president of the Financial Intelligence Unit of Argentina since January 2016. In this capacity, Mr. Federici directs the country's anti-money laundering and counterterrorist financing efforts. Previously, Mr. Federici was a country lawyer, regional adviser, and senior counsel to the International Monetary Fund in Latin America. He also worked as an associate for an Argentina law firm, advising financial institutions and companies in a wide spectrum of transactions and matters involving regulatory and statutory interpretation.

At the start of his career, Mr. Federici worked as a clerk for the national criminal courts of the City of Buenos Aires. He was born in Buenos Aires, holds a juris doctor from the Catholic University of Argentina, and a master of laws in law and finance from the University of Virginia School of Law.

Mr. Michael Braun is a cofounder and one of two managing partners at SGI Global. Mr. Braun has 33 years of extensive experience in Federal, State, and local law enforcement. He spent 24 of these years at the U.S. Drug Enforcement Administration where he developed the DEA's successful counternarcoterrorism programs, including the formative development of the agency's Foreign-Deployed Advisory and Support Teams, the FAST teams, and other programs addressing narcoterrorism. He is also responsible for the agency's extensive expansion in Afghanistan from 2004 to 2008.

Mr. Braun retired from the DEA as Assistant Administrator and Chief of Operations in 2008. And when we were down in Central America, we ran into some former colleagues who called Mr. Braun an icon in law enforcement. They talked about how his influence and his leadership and vision continue to define the DEA even a decade after his retirement.

So, sir, we thank you for your service.

Dr. Emanuele Ottolenghi is a senior fellow at the Center on Sanctions and Illicit Finance at the Foundation For Defense of Democracies (FDD). Dr. Ottolenghi's research focuses primarily on Iran's Islamic Revolutionary Guard Corps, the European Union's Middle East policymaking, transatlantic relations, and the Arab-Israeli conflict, as well as Israel's domestic politics.

Prior to joining the FDD, Dr. Ottolenghi headed the Transatlantic Institute in Brussels and taught Israel studies at Saint Anthony's College at Oxford University. He obtained his Ph.D. in political theory at the Hebrew University of Jerusalem and an undergraduate degree in political science at the University of Bologna.

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 questions.

For the witnesses, on your table there are three lights: green; yellow; and red. Yellow means you have 1 minute remaining. Red means your time is up.

With that, Mr. Federici, you are now recognized for 5 minutes.

**STATEMENT OF MARIANO FEDERICI, PRESIDENT, FINANCIAL INTELLIGENCE UNIT OF ARGENTINA**

Mr. FEDERICI. Thank you very much, Mr. Chairman, and members of the Task Force to Investigate Terrorism Financing.

I would like to start by sharing with you that in September 2001, I was a young lawyer working for Sullivan & Cromwell in New York. I was at the firm's Wall Street office when the attacks took place and saw the collapse of the second tower with my own eyes. I still vividly remember that moment, the frustration and the anger at the terrorists, but also the respect and admiration towards the people of this great Nation and how fast they came together to bring it back on its feet.

It is therefore a true and special honor for me to be sitting at this hearing today with Representatives of the people, only a few months away from the 15th anniversary of that tragic day, to discuss how we can suppress terrorism and prevent such attacks from happening again. I would like to talk about what we found in Argentina upon taking office 4 months ago and our vision on how to improve things.

We encountered a challenging situation in the area of financial integrity left by the people who preceded us in the Argentine Government. It is clear to us by now that there was a complete lack of political will to fight money laundering and terrorist financing in Argentina during the last 12 years. There was a lack of strategic planning which prevented the government from prioritizing its efforts and making an efficient use of public resources. This in turn led to a serious lack of effectiveness with a related impact on risk levels.

Throughout the last 10 years, the threats to financial integrity increased significantly as criminals exploited the advantages of a sophisticated financial system with the vulnerabilities of an uncommitted government.

One of the main structural vulnerabilities exploited by criminals in recent years was corruption. Corruption under the previous administration was the rule, not the exception, and corrupt officials were rewarded rather than punished.

At our Financial Intelligence Unit in particular, the situation was also critical. The strategy was to have no strategy, which allowed for discretionary use of anti-money laundering and counter-terrorist financing tools.

We are now working at full speed in repairing the damages. There is a clear and strong political will to fight organized crime and terrorism. Our objective is to protect the financial system and the broader economy from the threats of money laundering and terrorist financing, thereby strengthening financial sector integrity and contributing to safety and security.

Our main focus will be placed on effectiveness, as we believe Argentina has the necessary legal and institutional instruments in place to begin producing results. To achieve this, it is important to strengthen the role of operational agencies such as ours, and the government of President Macri has committed to a stronger Financial Intelligence Unit.

In particular, we will be very focused on assessing terrorist financing risks, which we believe have been irresponsibly underestimated by the previous administration. Our plan is to begin using our CFT regime to pursue international terrorism cases representing a present threat to our system and to global peace and security.

We are also embarking on a wide regulatory reform process that will allow reporting entities to adopt a risk-based approach to AML/CFT compliance. The reform will also contribute to removing existing barriers to financial inclusion and generate incentives to reduce the circulation of cash and the use of informal mechanisms.

Over the last 5 years, the FIU issued more than 70 regulations which imposed significant obstacles to operating in the Argentine financial system and economy and contributed little to mitigating the real risks of money laundering and terrorist financing. We are actually of the view that many of these regulations prevented people at the lowest segments of our society from accessing financial markets and expelled others to the informal economy.

We are also planning to adopt a risk-based approach to AML/CFT supervision, and this is something we hope to be able to do with the support of the U.S. Government. This will rationalize the use of our limited resources and allow us to place focus on what is really relevant to protect the integrity of our financial system and broader economy.

On the intelligence side, we are working to regain confidence in our domestic and foreign partners. We are updating our MOUs with financial intelligence units of strategic importance to us. We are in the process of updating our MOU with FinCEN following an unauthorized leak of information during the previous administration. We are also strengthening our strategic analysis capabilities.

As we move forward in building a stronger AML/CFT framework in Argentina, the support from our international community, and particularly our main partners, such as the United States, becomes critical. I would like to take this opportunity to express my deepest appreciation to FinCEN's leadership for the trust deposited in us at the earliest of stages and the opportunity to work fast towards a reestablishment of our MOU. We embrace this partnership and will live up to our commitments to protect the information and use it only for authorized purposes and to our mutual benefit as nations.

Finally, I would like to close by saying that we are not just interested in adhering to international standards. We are interested in becoming leaders in financial integrity matters in our region. This is because we truly believe in the value of financial integrity to the soundness of our financial systems and its significance to economic stability, safety, and security, which are necessary preconditions to economic growth and development.

Thank you very much.

[The prepared statement of Mr. Federici can be found on page 40 of the appendix.]

Chairman FITZPATRICK. Thank you.

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

**STATEMENT OF MICHAEL A. BRAUN, CO-FOUNDER AND  
MANAGING PARTNER, SGI GLOBAL, LLC**

Mr. BRAUN. Thank you. Good morning, Chairman Fitzpatrick, Ranking Member Lynch, Vice Chair Pittenger, and other distinguished members of the committee and the task force. I deeply appreciate the opportunity to appear before you today and to make a few comments and to help you in any way that I can as you move forward.

So our success in prosecuting the global war on terror has successfully degraded two very important funding streams to terrorist organizations—those from very powerful private donors, as well as state sponsors. Consequently, terror organizations, many of them, have had to resort to other means, alternate means, to keep their movements alive and keep their operations flowing. And that is what we are really here to talk about today. That is why we are here today.

I will use Hezbollah as the best example of what we are up against today and make three important points in that process.

First, Hezbollah is not the same organization that they were 15 years ago, just 15 short years ago. In the early 2000s, they began moving small quantities of cocaine from the tri-border area of Latin America into fledgling markets at that time in Europe and the Middle East.

Flash forward to 15 years later, they are now moving multitonns of cocaine into Europe in an attempt to satisfy the ever-increasing demand for cocaine in Europe, in the Middle East, and other emerging markets. They possess a demonstrated ability to move, again, hundreds of tons of cocaine over that 15-year period and move massive amounts of currency, hundreds of millions, perhaps billions of dollars in currency around the world in the most sophisticated money laundering scheme or schemes that we have ever witnessed. They have metastasized into a hydra with international connections that the likes of ISIL and groups like Al Qaeda could only hope to have. Those connections are with transnational organized crime groups, with terror and insurgent groups throughout the world.

We need to build organized crime and investigative judicial capacity to deal with the threats that we are up against. We are here to talk about illicit finance today. We need to develop very close partnerships and even closer partnerships with our partner nations around the world to help them build judicial capacity and organized crime and terror investigative capacity in their countries.

But we also need to do some work at home, because I can assure you that the vast majority of Federal agents in our country, I don't care what agency that they work for, are not experts in dealing with or investigating necessarily with what we are up against today.

So we talk about illicit finance and the importance of going after the money, following the money, but in our obsession with following the money over the past many years, for some unknown reason, we seem to have missed out on one opportunity after another. We seem to have forgotten about the importance of disrupting the supply chain, about interdicting drugs and other contraband.

It is important for this committee and task force to understand—and the American people to understand, quite honestly—that groups like Hezbollah, the FARC, transnational criminal organizations, use drugs and other contraband as an alternative form of currency. It is the oldest form of alternative currency that they utilize and it is very precious to each and every one of them. They trade drugs for vehicles of all sorts, aircraft, boats, limousines. They trade currency for smuggling operations, to pay for smuggling operations for counterfeit documents. The list goes on and on. And if we don't start focusing as much energy at disrupting the supply chain as we do at attacking illicit finance, we will never get to where we need to be.

In closing, I am a career law enforcement professional, Mr. Chairman, as you said. I am not here to tell this committee or to proclaim to this committee, or anyone else for that matter, that a judicial approach to attacking terrorism is a panacea. It is certainly not. But I will tell you what it can deliver that no other tool in our counterterrorism toolbox can deliver.

When real justice is meted out in a Federal courthouse somewhere in the United States or some other competent jurisdiction around the world, where we have brought a terror leader to justice, that message that we can deliver by identifying that terrorist for who he or she really is: an organized crime thug of international proportions that preys on the very weakest in our global society and someone who is not a freedom fighter, as so many have been indoctrinated or charmed into believing they are.

Thank you for allowing me to make my comments, for being here today. I look forward to meeting and working with all of you and your staffs to help in any way I can.

[The prepared statement of Mr. Braun can be found on page 30 of the appendix.]

Chairman FITZPATRICK. Thank you.

Dr. Ottolenghi, you are now recognized for 5 minutes.

**STATEMENT OF EMANUELE OTTOLENGHI, SENIOR FELLOW,  
CENTER ON SANCTIONS AND ILLICIT FINANCE, FOUNDATION  
FOR DEFENSE OF DEMOCRACIES**

Mr. OTTOLENGHI. Chairman Fitzpatrick, Vice Chairman Pittenger, Ranking Member Lynch, and members of the task force, on behalf of the Foundation for Defense of Democracies, I thank you for the opportunity to testify.

In Latin America, the combination of weak governments, porous borders, widespread corruption in public institutions, and the lack of adequate legislative tools to combat terror finance creates an ideal environment for transnational organized crime.

Drug trafficking, trade-based money laundering, and terror financing can no longer be treated as distinct phenomena. Terror organizations help drug traffickers move merchandise to their markets. They then launder revenues through sales of consumer goods, profits that fund terrorist activities.

In Latin America, Hezbollah plays a central role in this new landscape thanks to a vast network of support. Hezbollah generates loyalty among local Shia communities by managing their religious and educational structures. It then leverages loyalty to so-

licit funds and use business connections to its own advantage, including, critically, to facilitate its interactions with organized crime. My written testimony explains how the group's religious, charitable, educational institutions, its clerics, its supporters' licit commercial activities, and its illicit finance network all overlap.

The tri-border area of Argentina, Brazil, and Paraguay, or TBA, illustrates this overlap. It also shows how the absence of proper local legislative tools to combat terror finance has limited the impact of U.S. measures to counter it. The Galeria Page in Paraguay's Ciudad Del Este, which Treasury designated in 2006, merely changed its name to Galeria Uniamerica. Its owner, Hamzi Ahmad Barakat, continued his activities until his arrest in Brazil in 2013, not for terror finance, but for fraud. And Mohsen Bilal Wehbe, a Hezbollah cleric that Treasury designated in 2010, continues to operate openly in Brazil.

Porous borders compound these problems. Trade-based money laundering in the TBA, a key component of the narcotraffic-terrorism nexus, relies on commercial goods not produced in Paraguay. Imported goods are re-exported through the TBA, a porous border at the southern end of a long, lawless frontier infamous for drugs and weapons trafficking.

A recently leaked investigation into tax fraud in Ciudad Del Este, which local authorities have dubbed a mega-evasion due to its size, brings all this together. Local accountants issued false invoices on behalf of 285 companies registered in the TBA for an estimated \$270 million in tax evasion.

Authorities are focusing on a cluster of companies with alleged links to Hezbollah through two shareholders, Ja'afar Balhas and Walid Amine Sweid. Paraguay's media have documented their close connections to politicians and custom officials, suggesting these links ensure lax custom inspections. Import-export data for their companies show merchandise deliveries from China arrived by air with cargo flights operated by Emirates via Dakar, Senegal, and the Miami-based Centurion Air Cargo. Both airlines fly regularly to Ciudad Del Este.

For example, a bill of lading that appears in my written testimony details delivery by air to the TBA business Ponto Com Megastore from Spaltec Electronics in Hong Kong. Sweid owns both companies, as well as Global Logistic Solutions, the Hong Kong-registered shipping company. In short, Sweid controlled every company involved in the transaction. Given the false invoicing, it is highly plausible that this is a trade-based money laundering scheme involving false shipments. This pattern is common to other companies under investigation, some of which use LLCs incorporated in Miami, rather than Hong Kong, as their transit point for merchandise and paperwork.

Successive U.S. Administrations have over the years repeatedly designated Hezbollah financiers and financial networks. The TBA and other border areas in Latin America offer a target-rich environment for new designations.

Additional measures should be adopted to diminish Hezbollah's ability to exploit structural weaknesses prevalent in the region that have made it possible for it to interact with local criminal syndicates. There should be more stringent controls and better moni-

toring of merchandise travelling to the TBA. Problematic shipments by air reach the TBA from two points of departure, Miami International Airport and Dubai via Dakar. The United States should institute stricter controls over shipments from Miami and perform more stringent and timely due diligence on companies shipping to the Paraguayan city.

The same can be said over cargo arriving to the TBA from Dubai via Dakar. Washington should ask and work with authorities in both countries to exercise greater scrutiny over merchandise and its recipients before planes leave. Stricter controls could reduce illicit shipments and raise the costs for Hezbollah middlemen in the TBA.

These are just some of my recommendations. I thank you for the opportunity to testify, and I look forward to your questions.

[The prepared statement of Dr. Ottolenghi can be found on page 46 of the appendix.]

Chairman FITZPATRICK. We thank the witnesses for their opening statements, and the Chair now recognizes himself for 5 minutes for questions.

Mr. Federici, 4 months is a relatively short period of time, but so much has happened, and we want to congratulate you on getting Argentina's FIU back online. I want to thank you for the information sharing which is now occurring between your country, your intelligence unit, and our Department of the Treasury and FinCEN. It is so important to Argentina and to the United States and to the region and the security.

We are aware that a number of countries in Latin America don't necessarily perceive the risk of terrorism financing as a relevant risk in the context of their domestic relations. In your opinion, are these perceptions duly justified? What can you tell us about the perceptions of terror finance in the domestic context of individual nations?

Mr. FEDERICI. Thank you very much for your question, Mr. Chairman. Indeed, having worked as a regional adviser for Latin America and the Caribbean at the IMF for the past 10 years, I have had the chance to listen to discussions related to perceptions of risk of terrorist financing in the context of the GAFILAT, which is the FATF group for Latin America, and the CFATF, which is the same type of regional body for the Caribbean. And many countries in the region, unfortunately, express publicly their perception that the terrorist financing risk is not a risk pertinent to the region. It is a problem of the United States, it is a problem of Europe, and other parts of the world.

I have always emphasized from the IMF, and I am doing it so now with much more strength from my public position in Argentina, that these type of opinions lightly thrown in international bodies like the ones I referred to are, to say the least, irresponsible if they are done without having previously conducted a thorough and professional terrorist financing risk assessment in the jurisdiction.

There are very few countries that have completed the conduct of money laundering and terrorist financing risk assessment in their jurisdictions as the FATF Recommendation 1 currently requires.



However, many of these countries publicly express the opinion that terrorist financing is not a problem in their country.

So I think this is related also with a confusion on what the risk of terrorist financing is. The fact that there may not be terrorist elements operating in the jurisdiction does not mean that you are not exposed to the risk of terrorist financing. The mere fact that you have a financial system interconnected with the rest of the world, with the global financial system, in and of itself exposes you to the risk of terrorist financing and this is a subtleness that many public officials in our region do not yet fully understand.

That is why it is very important to continue to raise awareness on the risk of terrorist financing, and that is why it is very important to continue to have the United States support in raising awareness on these risks in the region.

Chairman FITZPATRICK. Thank you.

Mr. Braun, in your written statement, you mention that Hezbollah is hiding behind criminality in Latin America and other locations. Can you further elaborate or explain what you mean by that?

Mr. BRAUN. Thank you for the question, Mr. Chairman.

Listen, here is the way I look at the situation. Organizations like Hezbollah—ISIL is no different, Hamas, you name them—their operatives, especially working in clandestine ways abroad, they don't carry ID cards, they don't wear uniforms, they pound their chest and proclaim to be terrorists for some important reasons. They don't want to draw attention by the United States, and they don't want to draw the attention of many of our partner nations around the world that we work very, very closely with.

So they have been dispatched. How do they operate really with impunity at the same time accomplishing so many of Hezbollah's kind of strategic global goals? And I think what it really comes down to in a large way more and more these days is their involvement in the global drug trade. They are involved in criminality, but at the same time they can reconnoiter at will. They can photograph and look at what may be very strategically important targets for some future events. I believe firmly that Hezbollah feels that prolonged asymmetric conflict in the Western Hemisphere and other places in the world, it is going to be playing out some days.

So they have all the time in the world to engage in international drug trafficking and at the same time establish the rat lines that they need to establish to support that asymmetric conflict down the road. As I said, they can reconnoiter at will. They can make all of the nefarious contacts that they need to make with other terrorist organizations' insurgent groups, as well as transnational criminal organizations around the world. And in the process, they can generate enormous amounts of contraband revenue that ultimately go back to the cause and help the team.

Chairman FITZPATRICK. Thank you.

I now recognize the ranking member of the task force, Mr. Lynch, for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman.

Mr. Braun, let me stay right on that issue. We had a significant success operating against the Lebanese Canadian Bank. I think they were, at their peak, funding Hezbollah at about \$200 million

a month through the same procedures: drug trafficking; consumer products. They were selling—they had a used car deal there in Senegal and West Africa. They are now defunct. We were able to take them out through a 311 action as a primary money laundering concern.

Are we missing something, though, in terms of that process? It seems as though as we adapt, some of these terrorist groups are readapting and reengineering their organizations to sort of escape our measures of accountability. Are there new and different approaches that we should be taking that address what this new iteration of terrorist financing is undertaking?

Mr. BRAUN. Thank you for that question.

Listen, terror organizations like Hezbollah, that is really now a hybrid terror organization, they are one part designated terrorist organization by our country and many other countries around the world, but they are also an enormously powerful transnational organized crime group that is distributing, as I said, hundreds of tons of cocaine and generating hundreds of millions of dollars in contraband revenue behind that effort every single year.

It is important to understand, though too—let's go back in time. You can talk about the cartel. You can talk about the Medellin Cartel. You can talk about the Cali Cartel. Look at what has been playing out in Mexico for many, many decades.

What most folks in America don't realize is what has been going on in Mexico with respect to drug trafficking has really been playing out for more than 70 years, right? And with every action that we take, I don't care if it is law enforcement or our military or our intelligence services, with every aggressive action that you take against these what have evolved into ultimately into very powerful threats, they are going to evolve, they are going to change their tactics, techniques, and procedures.

It is going to take law enforcement a little time to figure out what they are doing before they can hit them again.

Mr. LYNCH. Let me sharpen my question then.

Mr. BRAUN. Okay.

Mr. LYNCH. We don't have that much time. Our current protocol is to work through FATF and the FIUs, the financial intelligence units, and that has been somewhat effective in terms of stopping the financing, the wire transfer of resources from one institution to another to fund terrorist financing. That system is fairly effective, I think. The problem now is that they are going off the grid.

Mr. BRAUN. Sure.

Mr. LYNCH. They are going off the grid. So those measures, that world that we are operating in, is not as effective as it once was because of these new networks that, as I say, are off the grid and are not subject to the formal regulatory process that we are adapting. They are doing consumer products now as separate entities. They are deep into the drug trade. There is a lot of cross-border smuggling of assets and bulk cash transfers across the border.

Now maybe speak to the situation at the Mexican border. You talked about Mexico quite a bit. Is the vulnerability at the Mexican border a factor, is it a large factor in our ability to combat some of what is going on in South and Central America and in Mexico?

Mr. BRAUN. It is part of the problem. But we have done, thanks to you and many of your colleagues here in the House, a phenomenal job at shoring up many of the gaps along the southwest border. We have over 20,000 Border Patrol agents now, most of which are down in that area interdicting drugs, interdicting money, et cetera. So we have done a good job there.

Where we are really lacking is defense in depth, if you will. The Department of Defense's detection and monitoring assets that they had before 9/11, after 9/11 over 60 percent of those assets went away. They went to other parts of the world, rightfully where they needed to be, but for the most part they have never come back into theater.

And every four-star admiral and general who has commanded SOUTHCOM since 9/11 has talked about this very, very troubling situation that they find themselves in where they are tracking load after load after load of suspected cocaine and probably loads of cash and they cannot do anything about it. They literally sit by and watch these targets pass on the screen.

The one thing, though, that I believe that this committee can do that I believe very much needs to be done is we really need to tighten the noose on the beneficial ownership issue and lower the curtain once and for all and expose these people for who they are, because that is the linchpin, that is the choke point for all of the money laundering that has been discussed, and probably will continue to be discussed, that Hezbollah is engaged in. And you are right, the LCB was moving over \$200 million a month in Hezbollah cocaine money through that institution and many of its affiliated institutions and banks.

Mr. LYNCH. Thank you. I yield back.

Chairman FITZPATRICK. The vice chairman of the task force, Mr. Pittenger, is recognized for 5 minutes.

Mr. PITTENGER. Thank you, Mr. Chairman.

Mr. Federici, our objective is to assist you in any way possible as you emerge as a major regional leader in our efforts to counter illicit finance. What else can be done that you would like to see from the United States specifically related to an OTA presence that would be important? Just kindly give us your insights into what would help you be successful.

Mr. FEDERICI. Thank you very much for your question.

I think to begin with, I have to express my appreciation for the support that the United States is already providing to our new government in Argentina. The presence of President Obama, I think less than 2 months ago, with the early arrival of President Macri was a very strong political sign of support, and the presence of Jennifer Shasky, FinCEN's former now director in Argentina a couple of days before the arrival of President Obama, was a very strong support to my job.

I think that type of international and political support is very important, not only to motivate us to continue to work in the right track, but also to show a sign to the rest of the region and the world that we can work as partners and allies.

I also think your support is fundamental in helping us raise awareness, particularly on the importance of addressing terrorist financing risks in our country and in our region. I would like to see

the presence of U.S. officials more often coming to Argentina, helping us convey the right message in Buenos Aires, in the tri-border area, and I hope to be able to team up in partnership with our Brazilian and Paraguayan counterparts in those efforts as well.

Now, we also need technical assistance, and I think that is where OTA's support, the Department of Treasury's OTA support, can be of great help. We had a first mission to conduct a diagnostic of the situation at the FIU and the broader AML/CFT system, and we are looking forward to receiving their support, particularly to strengthen our AML/CFT supervisory capabilities, because apart from being an intelligence agency, we are also a regulator for the entire financial system, and our main role is to protect financial integrity, and that is where I think OTA can really add value to our work.

We also need technology. And, unfortunately, over the past 10 years there has been little investment in technological resources, and this really affects our capacity to conduct sophisticated analysis. And I think that is where the United States can also help us come closer to providers and companies that can offer solutions to our current challenges.

Thank you very much.

Mr. PITTENGER. Thank you. I would like you to weigh in some more on the tri-border area. As we went to the tri-border area, of course it is very open, and we did not see any presence of any law enforcement there, just free flow of individuals and traffic.

What do you see, Mr. Braun—and all the panel can weigh in on this, we have about a minute-and-a-half left in my time—that can be done specifically to address the tri-border area?

Mr. BRAUN. What it really comes down to is, if not ungoverned space, undergoverned space, places like the tri-border area. And it is important to understand, Congressman, that both transnational organized crime as well as terror organizations are attracted to those areas because they can thrive in those areas, they can operate with impunity, because of a lack of law enforcement resources and other security forces and really a lack of any type of meaningful judicial process whatsoever or, the more raw side of power, almost a total lack of any kind of a military or other security presence. So they are attracted to those areas because, again, they can operate with impunity in those areas.

What I tried to touch on in my opening remarks is one thing that we can do is we can help our foreign counterparts, I believe, develop their capacity, both criminal investigative, organized—think of it this way, anti-organized crime capacity and judicial capacity to attack these threats. And I believe that things like task forces, international task forces, can be brought to bear in places like the tri-border area to help to, if nothing else, monitor and collect intelligence that is enormously important to efforts outside of that area.

Mr. PITTENGER. Thank you. My time has expired.

Chairman FITZPATRICK. Mr. Ellison of Minnesota is recognized for 5 minutes.

Mr. ELLISON. Let me thank the chairman and the ranking member and thank our witnesses today.

It is great to see you again, Mr. Federici, and thank you for the great work that you do, and all the panelists. But I just want to remark that I thought your comments at our recent trip were par-

ticularly illuminating, and I was grateful for you sharing your insights. So thank you.

I won't go over what some of my colleagues already asked, but one of the things in front of the world and our hemisphere right now is that two out of three foreign terrorist organizations operating in Latin America, the FARC and the ELN, are now in a process of negotiating peace with the government. I think this is a good thing.

But what is your opinion on how we are going to deal with some of these money laundering issues in the aftermath? I think that this is an important question that needs to be asked: Are these organizations going to be demobilized? And their support for terrorism and their role in international money laundering, how is that going to be addressed in the course of this peace? Could you all offer any insights you have?

Mr. BRAUN. Congressman, I would say one thing, front and center, that, listen, I applaud Colombia's efforts to bring the FARC, ELN to the peace table and to bring peace to the country for the first time since the FARC stood up in 1964. They have been around for over 50 years now.

But the most important point is, and the Colombian government realizes this, they know it, is if anyone thinks for a moment that these combatants are going to blend back into society, are going to take jobs at the local factory or other places, the vast majority of them simply won't. They have gotten a taste for the excitement. They have gotten a taste for the money, enormous amounts of money, especially the leaderships of those organizations, where ideology went out the window a long time ago after they got a taste for the money, and that is what absolutely motivates them to this day. So personally, I don't see a great deal of change.

Mr. ELLISON. Any other ideas?

Mr. Federici?

Mr. FEDERICI. Sorry, Congressman, I would just like to add one point and try to bring the conversation back to a sort of broader level looking at the region, because I think that what is happening in Colombia with the peace process and the challenges that it poses are a reflection of a broader regional problem, namely that all of these illicit activities do occur, to some extent, because of the corruption, complacency, and complicity of sectors of public institutions and politicians in the region. There is a vested interest among these categories of public servants not to prosecute and go after these networks.

Now, this is a challenge across the continent, across the region. And one of the things that I think can be done to improve the response of the international community, and particularly of the United States, is that if you cannot persuade the political classes—and the FARC will join the political class of Colombia if the peace process comes to fruition—if you cannot persuade the political classes to abide by the law, international standards, financial integrity, and prosecute criminals, what you need to do is to institute mechanisms of enforcement outside of their jurisdictions.

One example that I would make here is when I was recently myself in the tri-border region, 2 months ago, Paraguayan officials showed me data about cash flows out of the country. More than 90

percent of funds that are wired out of Paraguay end up or transit through the United States financial system. So here you have a perfect tool to go after some of these money flows without the need for the cooperation of those who do not wish to help.

Mr. ELLISON. Thank you.

Dr. Federici?

Mr. FEDERICI. Yes. I would like to go back to your question because I think it is a very interesting question. As part of the international community as well, we have begun to think about this because Colombia is coming up for an assessment against the international standard pretty soon. It is going to be conducted by the International Monetary Fund. And this question is going to be raised: How is the money that the FARC has been harboring in Colombia and out of Colombia going to be treated? Because there may be differences in treatment on what the Colombians decide to do with that money and what other countries decide to do with that money. And how compliant is an amnesty of the type that Colombia is contemplating with the international standard?

I don't have the real, the final answer to the question yet. I think it deserves some thought from the international community as a whole. But I do have my reflection on this topic, which is that the money that has been flowing from the FARC and other terrorist organizations is money that has contaminated the integrity of financial systems outside of Colombia as well.

And so I think we have an interest in protecting the integrity of our financial system, and these flows have been a real threat to that objective. I have in my country had to deal with flows related with these organizations, and to the moment our policy has been to treat them as terrorist funds and apply the necessary measures to suppress them.

So we need to be very thoughtful of how we are going to treat this after the final amnesty agreements are signed, and it very much will depend on the letter of those agreements on one side and on the consensus that we manage to reach internationally as to how to treat these money flows.

I do want to say that, regardless of that, I also share and applaud Colombia's efforts to come to peace within their country.

Mr. ELLISON. Mr. Chairman, may I just say—I know I am way over time—but I would just like to say I absolutely look at this as a positive thing, the peace effort, but if these terrorist groups turn their attention away from fighting the government and turn it onto just criminal behavior around the world, that is not necessarily a good thing.

So I am glad all of you are thinking about it, and I appreciate your comments.

Chairman FITZPATRICK. The gentleman from Texas, Mr. Williams, is recognized for 5 minutes.

Mr. WILLIAMS. Thank you, Chairman Fitzpatrick.

And thanks to all the witnesses for being here today, and for your testimony.

Mr. Federici, here in the United States much of our immigration debate—and I am particularly sensitive to that issue because I represent Texas—is on border security. We often argue on how much to spend on Border Patrol agents, equipment, new technologies. Yet

in your testimony you talk about Argentina's border and how it was completely unprotected. You go on to say that those working at the Financial Intelligence Unit were not qualified and had no understanding of money laundering, terrorist financing risk, and strategy. I think that probably makes some of us in this room, like myself, a little worried, especially since we know that our enemies would exploit our southern border if given the opportunity.

One of the major things that these task force hearings have uncovered has been the importance of working with a willing and equal partner when it comes to combating terrorist financing. So, Mr. Federici, I know you talked about some of this in your testimony, but can you expand on what steps Argentina is taking within its borders to fight money laundering and how well they work with the United States to achieve their goals?

Mr. FEDERICI. Yes. Thank you very much. This is an excellent question, and, in fact, it is part of the tragic situation that we found the country in after so many years of disinterest for the public thing in Argentina.

As I said, I think corruption had a lot to do with this. Corruption affected particularly the law enforcement agencies, including the border protection agencies. Law enforcement agencies were seriously dismantled. When we stepped in, we found them really badly equipped, with very poor salaries, untrained, and even mistreated, and with a very lack of trust in themselves. Of course, this led to very little capacity to conduct the job that the law mandates them to do.

With regards to the border in particular, we found that only 17 percent of the borders were controlled by radars and a very limited air defense system. We found that the airplanes that were supposed to protect our borders were not flying, the ships that were supposed to protect our seas and our rivers were not working, and the military forces, the armed forces, were very badly equipped to conduct their preventative job.

Steps are being taken. There was an increase in salaries for all the armed forces very recently. I don't have the exact figures because this is an area that is not under my competence, but I can provide you with the figures upon my return to Buenos Aires.

This decision was made by the Ministry of Defense and the Ministry of Security last week.

So a recognition, first of all, of the importance that our armed forces have and that our border protection forces also have in protecting our national security and protecting our country, and a recognition and a commitment expressed in tangible actions, like an increase in the salary, was the first step to do. Now we need to train them again. We need to equip them with the necessary resources. We need to provide the technology that they need to conduct the job. And we need to do this at the same time while thinking strategically how to use these resources in the most efficient way.

I think with regards to border protection in particular, we need to bring to our table our neighboring countries, in particular Bolivia, Paraguay, and Brazil, which is where most of our threats related with drug trafficking and terrorist financing are coming from. We need to sit together and start working as a team again. And

I think in particular related with the tri-border area problem and terrorist financing, as I said, that is an opportunity to reengage also with the support of the United States.

Mr. WILLIAMS. Okay. The State Department released a report last year that found there was a significant amount of money in Argentina which was outside of government supervision, an estimated 25 to 40 percent of an informal economy.

Mr. FEDERICI. Right.

Mr. WILLIAMS. In other words, this money isn't being taxed and Argentina isn't sure where the money is from. So what steps in Argentina are you taking to change or rein this in?

Mr. FEDERICI. This is also an excellent question. I think that is correct. Our estimates are even greater than that. We think an amount close to the same amount of our GDP is held outside of Argentina or basically outside of the radar of our tax authorities. And this is related to many reasons. Economic instability, inflation, devaluation, and political and institutional instability have led many Argentines, in many cases Argentines who have legitimately earned their income, to protect their wealth in safer currencies and in safer jurisdictions.

The most important measure that we are taking these days to overcome the situation is to launch a voluntary tax compliance program. We have drafted a bill that is currently in the house of representatives in Argentina for discussion to basically create an incentive for Argentines holding assets abroad undeclared to come clean, and we think this will reduce the amount of undeclared cash in the economy and will also reduce the amount of informality.

But I would also like to say that part of this problem has been the excess regulatory framework, the excess of regulatory pressure. To give you an example, in the area of AML/CFT, in the last 5 years Argentina issued more than 5 laws, more than 4 decrees, and our FIU issued more than 70 regulations which in a way obstructed the functioning of the financial system and the economy, in many cases prevented financial inclusion, and in some cases even led some people to be expelled from the formal financial system.

Mr. BRAUN. There was a proliferation of informal and underground channels to move that money in and out of Argentina. And while most of these funds were really related with Argentines that have legitimately earned their income and were seeking protection, these are also channels that I have no doubt could have been used, and most likely were used, by criminals and particularly by drug trafficking and terrorist financiers.

So I think this is a problem that needs to be addressed. Our voluntarily tax compliance measure will tackle part of this problem, but we also need to have more efficient regulations with a risk-based approach that don't obstruct the functioning of the financial system and the economy and really focus on what is important.

Mr. WILLIAMS. Thank you for your testimony.

I yield back.

Chairman FITZPATRICK. The gentleman from Illinois, Mr. Foster, is recognized for 5 minutes.

Mr. FOSTER. Thank you, Mr. Chairman.



And thank you to our witnesses for your participation in this important hearing.

As you are probably aware, there have from time to time been legislative proposals in Congress to eliminate anonymous shell corporations in the United States. And as I understand it, they have been eliminated in many advanced economies.

And so I was wondering if, Mr. Braun, or any of you, could comment on the importance of anonymous shell corporations in the United States, and drug money laundering, terrorist financing, international corruption, and other activities, and what the essential features of some legislative reforms in this area would be to really help us fight these.

Mr. BRAUN. Thank you for the question, Congressman.

As I said earlier, the single most important piece of Hezbollah's money laundering operation, or their apparatus, extremely sophisticated, and this holds true, certainly, for most of the transnational drug trafficking organizations that are spanning the globe today as well as many other terrorist organizations, is the importance of shell—the anonymity related to those shell corporations in those accounts.

And anything that this committee and task force can do, again, to raise the veil, drop the curtain, whatever, to expose the beneficial owners of those corporations I believe would have a significant impact on the way today's very nefarious, very sophisticated money launderers are doing business.

One thing for sure, it would cause them to change their tactics, techniques, and procedures. What law enforcement needs, in our country, I believe, needs to get better at is some real coordination with folks like you, because when those changes take place, those changes result in opportunities for law enforcement to take action, to really knock these folks off their heels. And then the important thing is to be on top of them after that.

Mr. FOSTER. And are there countries that you think really do this right in terms of transparency of ownership?

Mr. OTTOLENGHI. If I may step in, Mr. Congressman. And thank you for your questions.

I think there are two things that countries can do better. One is, of course, disclosure, namely, the obligation to make the identity of beneficial owners publicly available. And the second is transparency, to make it easy for those interested in finding out to be able to disclose that information.

The problem is that beyond these formal conditions and requirements, you do have to confront very informal, well-established systems of concealing that information. And, again, I go back to the investigation I mentioned that is ongoing in Paraguay of the—the false invoices that are at the center of this investigation involved people who had issued invoices for up to \$1 million who were, in one case, a street vendor of ice cream in Ciudad del Este. They were unskilled workers. One of them was actually constrained to his bed for an endless—for months and hadn't been earning—they didn't even know that they themselves were declared as the official owners of the companies that were issuing the invoices.

So, here, you had a situation from a formal point of view, you knew who the owners of the businesses were, but you cannot go be-

yond that formality if there is an informal system of criminal complicity where officials, accountants, attorneys, customs, and law enforcement are allowing this mechanism to go on.

So, again, I think that what is important to complement this gap, to fill this gap, is that we have to identify those areas where we can intervene operating in a system that is more structured and more law abiding. Again, these networks rely on the structural weaknesses of these countries and border regions. But they are global networks.

In the examples that I brought, you have false invoicing and shipments going from Hong Kong through Miami, Dubai, West Africa, into the border regions and back out into the international financial system. If we cannot improve standards of transparency in those countries, we can at least intervene in those points further away in the supply chain where there is the rule of law, there are governments that are allies and friendly and willing to cooperate in order to mitigate the consequences of the system.

Mr. FOSTER. Now in the example that you just gave, where it went through Miami, would there typically be an anonymous U.S. shell corporation involved in that kind of operation?

Mr. OTTOLENGHI. Thank you for the follow-up question. Actually, that is precisely the point. In the cases that I have seen, actually, you can find out who the officers are in the companies. You can identify enough names. For example, in the case of Miami, there is one individual who is a certified public accountant and who is incorporating companies, all of these companies that are involved somehow in this investigation.

And he has been involved in the past at least twice in cases where there were convictions for fraud and terror finance against Hezbollah operatives here in the United States. So clearly, this is an individual to whom Hezbollah operatives go in order to incorporate companies. The information is there. The difficulty is to connect the dots.

Mr. FOSTER. Yes. Thank you.

Chairman FITZPATRICK. The gentleman from Maine, Mr. Poliquin, is recognized.

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

And thank you, gentlemen, for being here.

Mr. Braun, if I may, Hezbollah is an entrenched international terrorist organization predominantly operating in the Middle East, or at least that's been the understanding of many of us who are wrestling with this whole international security issue.

And now we learn from you folks, and others, that their tentacles now are reaching into our hemisphere and operating now in South America and the drug trafficking trade. And I am sure you folks are well aware of the fact that we have a heroin epidemic in this country, and it doesn't spare any location. I represent the great State of Maine, in particular, northern Maine and in other parts of our State, and we have a real problem up there.

Now, we learn, Mr. Braun, that about 95 percent of the heroin entering this country enters our southwest border. It goes to our southwestern border.

Do you have any evidence that Hezbollah, in their drug trafficking operations in South America, has any kind of impact or influence on the heroin entering this country that is now reaching all the way to northern Maine, is coming through our southwest border?

Mr. BRAUN. Thank you, Congressman.

Listen, I have been out of government now for about 7½ years, so I don't have access to the information like I used to have in my old job. But what I can tell you is this, Hezbollah has become so proficient at not only engineering the wiring diagram, if you will, for what is needed to conduct their very effective money laundering operations, but they are now providing those same services to both Colombian and Mexican drug trafficking cartels.

So by doing so, if nothing else, they are certainly facilitating what is sadly happening in Maine and all across our country. And I thank you for bringing that up. Because one thing we have to remember, folks, is we experienced over 47,000 drug-related overdose deaths last year.

That is 129 Americans dying every day of the week. And folks aren't talking about drugs these days. They have just absolutely turned their heads. They don't want to hear about it. But if we don't get this problem in check, if we don't get back to what we used to do, we are going to have an even worse situation in the decades ahead.

Mr. POLIQUIN. Thank you, Mr. Braun.

Dr. Ottolenghi, we have a terrific neighbor to our north, of course, the Canadians, and they are a major trading partner with our country. We have a 3,000-mile border. In the State of Maine alone the land border with Canada is about 311 miles. You can be in a snowmobile in the middle of the field, Doctor, and step off your machine, and one foot is in Canada and the other foot is in Maine.

Do you worry at all, and do we have any evidence whatsoever that as we put more and more pressure on our southwest border that we may be at risk for additional activities that are unlawful and beyond, on our northern border?

Mr. OTTOLENGHI. Thank you for your question. Again, like my colleague on the panel, I do not have access to intelligence and to classified information. I only rely on open sources. So my ability to answer is somewhat constrained and limited by what I know and by what I know I don't know.

Having said that, I can tell you that the building blocks of Hezbollah's money laundering terror finance operations in Latin America, so the social infrastructure, the networks of support and their interconnectivity, which enables them to leverage the businesses and the so-called illicit commerce for their nefarious purposes, do exist also across the northern U.S. border with Canada. They do exist in the United States to be fair as well, though perhaps not to the same extent.

And so while not being able to conclusively tell you that this is happening, I do see the signs of this language there. The difference is, I think, the strength of the financial system, the transparency of our corporate laws, the fact that you do have the rule of law functioning, that you have strong institutions, which are all ele-

ments lacking in the regions of South America where Hezbollah is more successful.

Mr. POLIQUIN. Thank you, Doctor, very much.

Mr. Federici, could you shed any light on your experience in your part of the world where there has been pressure put on one border, one international border, and it causes problems on another border? Can you share any light on that to help us in this committee?

Mr. FEDERICI. Yes. Thank you very much, Congressman. And absolutely, we are actually experiencing this as we speak today.

In recent years, Argentina has become a very important transit country for the export of illegal drugs out from our borders towards—mainly towards Europe and West Africa. And I am talking mostly about cocaine flowing south from Bolivia and also from Peru and leaving our ports towards the ocean.

And what we are seeing is that in the last 6 months that the new government has been in office, due to all the pressure that we have been putting in controlling our borders and controlling the drug routes that we have identified, there have already been changes, slight changes for the moment but changes in the routes that drug traffickers take. And we have been receiving signals from our neighboring countries, as well, that some of these changes are starting to affect them, particularly south Brazil and Uruguay are seeing an increase in movements, suspicious and unusual movements, that they haven't seen before due to the pressure that we are placing.

This is something that is very subtle for the moment, because we have only been in office for less than 6 months, but that we believe will increase significantly as we continue to put pressure against these organizations. The routes and their flows.

Mr. POLIQUIN. Thank you very much.

Thank you, Mr. Chairman. I appreciate it.

Chairman FITZPATRICK. The gentleman from Pennsylvania, Mr. Rothfus, is recognized for 5 minutes.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Dr. Ottolenghi, there seems to be some dispute about the influence of Iran in South America. Some, including the Obama Administration, claim that Iran's influence in the region is waning; however, there are other news reports that cite military and intelligence officials who directly contradict this narrative and claim that Iran's influence is still present and potentially growing, particularly through both Hezbollah and the so-called cultural centers that are being ruled by the Islamic Revolutionary Guard Corps.

Where do you fall on this issue?

Mr. OTTOLENGHI. Thank you very much, sir, for your question. That is a very important point, and I would like to answer by addressing two themes: the first is Iran and its Latin America policy; and the second is the connection between Iran and Hezbollah.

Let me turn to Iran first. I think that the assessment or the influence or the emphasis of Iran in Latin America is waning is based on the differences in approach between the previous president of Iran and his enthusiasm for Latin America and the current president who hasn't visited the region yet and no other officials, senior officials, of his government have put the same emphasis.

However, the point about Iran's Latin America policies is that this is not a file that is mainly handled by the elected government and its ministries. It is a file that has always been held by the Supreme Leader's office through his own personal representatives to Latin America, Mr. Mohsen Rabbani, infamous for his role in the AMIA bombing in Buenos Aires, in 1994, when 85 people were murdered and many more grievously injured.

So that policy continues. It is expanded. It is ongoing. It is well-financed, sustained, and I see no signs that there is any change in approach. It is a policy that has been ongoing for over 30 years that relies on the social network—

Mr. ROTHFUS. And you are saying that it is expanding?

Mr. OTTOLENGHI. It is expanding, yes, sir. It is expanding because it is making a conscious, sustained, well-funded effort to actually reach out not just through the local Shia communities, which are mainly Syrian and Lebanese, but it is actually reaching out to convert non-Muslims to Shia Islam.

Mr. ROTHFUS. So you have the Supreme Leader surrogates there, on the one hand, and then in tandem with that, you have Hezbollah?

Mr. OTTOLENGHI. Correct. And what I see is that the Hezbollah clerics are mainly focusing on the Shia communities of Arab immigrants of Lebanese and Syrian descent. The Iranians are focusing on the outreach missionary effort, but they are combined. Most of the time they are overlapping in the same mosques, in the same centers. They are interacting. There is a stream of very senior clerics coming from both Iran and Lebanon to visit on a constant basis, and the Hezbollah representatives together with Iranian ones are constantly cooperating on this effort.

And this effort, to a large extent, is geared towards building support, galvanizing, so to speak, the troops, indoctrinating and radicalizing and it is also designed as a facade for the financial activities, which are managed in coordination.

I just want to give you one example that, to me, is very revealing. We have spoken a lot about the tri-border, but the tri-border is just one reality of many. And just along the Brazilian-Paraguay frontier, which is mostly lawless and severely underguarded and underpatrolled, you have several other cities that have the same characteristics of the tri-border area, mainly cities that are on both sides of the frontier with significant Shia and Lebanese communities involved in trade. One of the cities is called the Punta Corral on the Brazilian border and Pedro Juan Caballero on the Paraguay border. There is a very big Shia community run by—

Mr. ROTHFUS. What is the population of that community? How many people would you say?

Mr. OTTOLENGHI. The two cities combined have a little over 200,000—

Mr. ROTHFUS. How many in the Shia community?

Mr. OTTOLENGHI. A few thousand, sir. A few thousand. But in that city, Mohsen Rabbani has a personal representative. Social media information from his own personal Facebook page shows that this individual was about 6, 8 weeks ago in Qom celebrating his marriage with Mohsen Rabbani in person officiating. Now, this is akin to having a very senior member of the clergy of Iran, a per-

sonal representative of the Supreme Leader, celebrating the marriage of a Muslim convert to Islam in a very remote region of South America. It tells us how important that connection is, and it shows the link in this religious social infrastructure in a critical point, place that is considered to be one of the highest in crime in Latin America currently, even worse than some of the Colombian cities during the height of the drug crisis, of Pedro Juan, the importance that the city has come to have in the design of Iranian policy and their interaction between Hezbollah and Iran in Latin America.

Mr. ROTHFUS. Thank you.

Mr. Chairman, I wish I could take more time. I didn't even get to any of the other issues. The Iranian connection here, though, I would just recommend that we might want to take another look at this and continue to shine that light. This is fascinating testimony that we are hearing today, so thank you.

Chairman FITZPATRICK. Yes, agreed. And we may have a second round of questioning if we have time before the Joint Session of Congress.

With that, we will recognize the gentleman from Arizona, Mr. Schweikert, for 5 minutes.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

Mr. Fererici, having been in Argentina just a couple of months ago, I know Members of Congress and I think much of the world is enthusiastic to see a country that could be such a powerful player on the world stage, sort of back as a player on the world stage. And we truly wish you and the new government the very best. We truly want to know how we can share information and actually be a good partner, because I think there is a level of trust of the new administration that has not existed in, what, 17-some years, and that is really important.

I have a whole bunch of things here. But first off, do we fixate too much on the tri-border region?

Mr. FEDERICI. First of all, thank you very much for your comments and for having visited our country, and we really do need the support of our partners with the United States in particular. I think we share values; we share a common vision of the world, and I think we need to team up together to face the threats that affect us both as nations. So I really do thank you for those words, and we are counting on your support.

I have so say that from the perspective of our countries, I think we fixate too little on the tri-border area. And as I said in my testimony, I think we need to quickly and professionally assess the risks to money laundering and terrorist financing coming out of that area and start developing a joint strategy among the countries that are affected by this problem in that part of the world and ideally with the support of those that have information about—better information about what is going on in that part of the world.

I think personally that my country has irresponsibly unattended the risks extending out from that area. That is why we need to get back into the game. We need to re-engage our neighbors in that assessment and start developing a joint strategy together.

Mr. SCHWEIKERT. That is not actually where I wanted to go. But to that point, is your counterpart in Brazil, are they reaching out and also working with you?

Mr. FEDERICI. Okay. I don't want to say something inappropriate speaking about another country given that I am a public official—

Mr. SCHWEIKERT. You can just say you are working on it.

Mr. FEDERICI. But I do want to say that Brazil's role in helping us assess the risks in this part of the world and in developing a strategy is fundamental. This cannot be done without their engagement. That is why we need Brazil at that table, and we need to start working together with them.

They are currently attending, I think, priorities that may be somewhat different, but in my view are also related to this problem, because, as we have heard, much of this problem is related with the lack of institutional quality, corruption that has allowed for these threats to grow and to develop in that part of the world.

So we need to work together. We are hopeful that with the new focus that Argentina will put into assessing risks in that area and with the support that we may receive from international partners like the United States, we will be able to bring all of our neighbors to the table and start tackling this problem seriously.

Mr. SCHWEIKERT. Okay. Can I pitch a sort of theory, and I would love your comments from all three of you on this, and that is whether it be from the Shia communities, whether it be from money laundering for drug trades, or human smuggling, or political corruption that there is an almost—a very complex, sort of, semi-formal backbone actually around the world but particularly coming out of Central and South America to move assets, move money around, and today, that network's client could be drug money, tomorrow it could be the cash from weapons sales, tomorrow, the day after, that it could be from something else, and that may be a constant misunderstanding we have as we think of we think of it as terrorism financing or drug money financing, that money laundering network is often the same.

Am I being fair?

Mr. BRAUN. I believe you are being fair, and again you are very accurate. As I said earlier, transnational organized crime groups as well as terror and insurgent groups around the world rely on the same shadow facilitators to move their agendas forward. In a private sector that I have been in now for 7½ years, we call that outsourcing. All right? They use many of the same money laundering organizations; they use many of the same arms traffickers; they rely heavily on many of the same human smuggling groups, those who provide fictitious or counterfeit travel documents that is much needed. They also do things that are very unique like corrupting the private sector, strategically corrupting aspects of the private sector, as the transportation industry, communication industry, and the like.

Mr. SCHWEIKERT. To that point, and Mr. Chairman, this is something I beg of you, even for your staff, to consider. We, our committee, is structured to look at terrorism financing and money laundering, but as we have heard testimony after testimony over, a year or so you have been doing this, which is incredibly appreciated, if you connect the dots, the very networks that are washing money for terrorism are the very networks that are, for political corruption, are washing and moving money for drug trafficking, who are washing money for human trafficking. How do we bring

these different law enforcement mechanisms that our international partners—because my fear is we have too many silos out there. How do you bring them together and combine the intelligence that is there and focus? Because if the backbone that is being used to launder, move money is for lots of pretty evil causes, maybe we can get some focus here.

And with that, Mr. Chairman, I will yield back.

Chairman FITZPATRICK. The gentleman yields back.

The gentleman from Florida, Mr. Ross, is recognized for 5 minutes.

Mr. ROSS. Thank you, Mr. Chairman.

Ever since this committee has continued its investigation in discovery, we have learned about a great deal of tools that have been utilized for intelligence purposes, data sharing, and otherwise identifying money laundering and terrorism finance networks.

What has concerned me and continues to concern me has been the lack of enforcement. So what do we do with this information? What have we done with this information?

And, Mr. Braun, I am particularly impressed with your comments and your testimony when you state that to successfully disrupt or defeat the threat, the information collected, analyzed, and imported must be actioned.

Could you go into a little bit of detail about that? Because I think that is the fulcrum to where we need to go. All for show is great, but if we don't have some element of success in actually preventing what we are setting out to do, then what good is all this intelligence and surveillance that we are doing?

Mr. BRAUN. Thank you, Congressman.

I don't want to diminish in any way the important work that—

Mr. ROSS. And you won't. And my only concern would be, because I am interpreting that, as to mean there are things we could do better. This task force needs your recommendations as to what we can do to increase enforcement. We have seen an administration that exercises prosecutorial discretion in this country on Federal laws that are being broken and, yet, that are being just turned a blind eye to. And no matter how many laws and even if Brazil does what we want them to do, if there is no enforcement, then what good is it that we do, and how can we—how can we accomplish that enforcement?

Mr. BRAUN. There has to be a greater deal of sharing. Our intel community, and to a lesser degree, our military, now that they have become heavily interested in counter threat finance, are collecting enormous amounts of data. But the problem is that if you are outside of a declared area of war, that is pretty tough to action other than with the use of a judicial model. And that is why I keep going back to, this is the responsibility of Federal law enforcement to action this work, but they—

Mr. ROSS. And jurisdiction?

Mr. BRAUN. —flowing.

Mr. ROSS. Right. But would there not be an opportunity? Because you talk about having financial incentives in providing incentives, or providing assistance, whether it be financial or technical governments. Is there not a way that we can impose incentives to our partners that would require that in order to have this assistance,



in order to have this technical or financial support, there has to be enforcement? Because jurisdictionally, there is only so far that the long arm of the United States can go. We have to rely on our partners. And while our partners are, of course, welcome to accept our assistance, if they are not using it for enforcement purposes, then what recourse do we have?

Mr. BRAUN. With our counterparts abroad, one thing that could be done legislatively is if they are not willing to share the information that we are working with them to build capacity to collect—

Mr. ROSS. Right.

Mr. BRAUN. —then we turn off the tap. That is what it comes down to.

Mr. ROSS. I appreciate that. And I think that is what it comes down to. I don't want to see it come down to that, because I think the source could be in their country. And yet, even if they share the intelligence with us to where it gets to our country, we can exercise our enforcement jurisdiction, I would like to see it stopped at the source.

Mr. Federici, I am very grateful to you for being here. I am very impressed with what Argentina is doing. How have we been as a partner? Do you see us in an opportunity to provide these incentives? There has to be a good quid pro quo there for nation-building, if you will, to defeat anti—money laundering and antiterrorism financing. Your comments about enforcement?

Mr. FEDERICI. I think we are just starting to rebuild our trust, I think, as nations with this new government.

Mr. ROSS. Yes.

Mr. FEDERICI. There's been a paralysis in the relationship over the last few years, and I assume, and I am very sure this is mostly the responsibility of our previous administration that has been unwilling to cooperate.

Now, I think we need to start building this new trust fast, because the threats are there. They are—

Mr. ROSS. They are growing exponentially, almost.

Mr. FEDERICI. Exactly. What we mostly need at the moment, to be able to operate, and to be able to enforce these actions, is intelligence right now. We need high-quality intelligence on our hands to be able to use the tools that the law grants us to seize the assets of criminals, to interrupt the flows of potential terrorists—

Mr. ROSS. You would do that if you had the intelligence?

Mr. FEDERICI. I have the absolute determination to do that. You can count on that for sure.

We have information that there have been flows of terrorist money coming out from Argentina to the hands of foreign terrorist fighters that have enlisted with ISIL, and we need more of that type of information in order to be able to put our hands on those flows to be able to share it internationally as well and to take the enforcement action that is necessary.

Mr. ROSS. I am hopeful that if that happens, we will exercise our rules of engagement and stop it.

And I see that my time is up, and I will yield back. Thank you, Mr. Chairman.

Chairman FITZPATRICK. The gentleman yields back.

And we would like to thank our witnesses for their testimony today. We have additional questions, but there is a Joint Session of Congress for which we need to get in our seats.

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.

This hearing is adjourned.

[Whereupon, at 10:38 a.m., the hearing was adjourned.]

# **A P P E N D I X**

June 8, 2016

**STATEMENT FOR THE RECORD  
US House of Representatives  
House Financial Services Committee  
June 8, 2016**

**Joint Hearing Before  
The Task Force to Investigate Terrorism Financing**

Terrorist Financing and Related Illicit Finance in Latin America  
And  
The Increased Activities of Hezbollah in the Area and the Response of Local Officials to These Challenges

By  
Michael A. Braun  
Co-Founder and Managing Partner  
SGI Global, LLC  
  
Former Assistant Administrator and Chief of Operations (Retired)  
United States Drug Enforcement Administration

## Introduction

Chairmen Fitzpatrick and Ranking Member Lynch, and Honorable Members of the Task Force to Investigate Terrorism Financing, I deeply appreciate the invitation to participate in this very important hearing on terrorism financing and the increased Hezbollah activities in Latin America. Let me start by thanking you for your service and for your unwavering support of federal law enforcement, our military and our intelligence services. However, just as important is your valuable support to security institutions in many of our neighboring countries in Latin America and the Caribbean. I have testified before many of you over the years and worked with outstanding members of your staff. I have the utmost respect for each of you and the tremendous contributions that you have made, and continue to make, in keeping America safe.

I spent 33 years in law enforcement serving in some of the toughest and most austere locations around the globe and retired from the US Drug Enforcement Administration (DEA) approximately seven and one-half years ago. I was very fortunate to have ascended through the ranks of the DEA where I ultimately served as the Acting Chief of Intelligence for approximately one year and as the Assistant Administrator and Chief of Operations for almost four years. In that assignment I had operational oversight responsibility for DEA's 227 domestic and 86 foreign offices and several Headquarters divisions, including the Special Operations Division.

With the support of a phenomenal team, I was responsible for leading the efforts to design and implement the DEA's significant expansion in Afghanistan, as well as for the Foreign-deployed Advisory and Support Teams (FAST) program and the agency's Drug Flow and Financial Attack Strategies. I was also responsible for leading the formative development of the Department of Justice multi-agency Organized Crime Drug Enforcement Task Force Fusion Center after being appointed by the Deputy Attorney General to serve as the Center's first Director. The Center supports both terrorism and drug trafficking investigative efforts by seven federal law enforcement agencies.

I served in DEA field assignments at various ranks on both the East and West Coasts, on our Southern and Northern borders, in the Midwest, in Washington, DC during three separated Headquarters tours, and also led joint tactical operations for several years with host-nation counterparts in the Andean Region and the northern-tiered countries of Central America. I also volunteered for an assignment with the Department of Defense Coalition Provisional Authority during the summer of 2003 to serve as the SES Chief of Staff for the Iraq Interim Ministry of Interior. I served in local and state law enforcement for almost twelve years prior to joining the DEA and enlisted in the US Marine Corps in 1971 where I served fourteen months deployed overseas, including limited duty in the Republic of Vietnam. Two days after retiring from the DEA in late 2008 I co-founded SGI Global, LLC and started work as a Managing Partner, a role that I continue to serve in to this day. SGI is currently supporting critically important security projects for our military and government agencies in Afghanistan, Central Asia, the Middle East, Africa, Mexico and Panama, as well as in various locations here at home.

From that, I believe you can conclude I am not a politician, a diplomat or an academic. I am a career law enforcement practitioner and it is in that context that I appear before you today to address, from purely my perspective, the threat posed by terrorism financing and increased Hezbollah activities in Latin America.

**Perspective on Attacking Terrorist Finance in Latin America and the Caribbean:  
(Or Anywhere Else for that Matter)**

I applaud our military for developing and implementing Counter Threat Finance (CTF) policy over the past few years and engaging in this very specialized area of intelligence. However, to successfully disrupt or defeat the threat, the information collected, analyzed and reported on must be “actioned.” Unless things change, the lead responsibility for this whole of government initiative falls to our Departments of Justice, Treasury and Homeland Security, but our military and Intelligence Community play an important role in contributing to this effort.

It is important to understand CTF investigations do not play out in high-tech intelligence centers where extremely talented analysts construct cases with the touch of buttons on a keyboard as they drill deep into supercomputers in search of incriminating data. To experience genuine success, CTF entails lots of old fashioned “gum shoe” detective work; frequent globe trotting to the most security challenged countries on the face of the earth; demanding and sometimes painful interagency collaboration, coordination and de-confliction; difficult investigative methods that include dangerous undercover operations, Title III wire/wireless taps, exhaustive surveillance, informant handling, and never ending witness interviews, to name just a few; finally, these investigations require a great deal of time – typically several years. For the sake of this hearing, I will focus on some things we can be doing to experience greater success.

I believe it is essential for federal law enforcement to prioritize the investigation of illicit finance in all transnational criminal organization and terrorism initiatives and to develop the unique intelligence and investigative methods required to disrupt and ultimately defeat threat finance. It is one thing to have agency policy requiring the financial aspect of every criminal investigation be addressed, but it’s something very different when agency heads demand it. This becomes even more important when considering that most transnational criminal and terrorist organizations do not possess organic money laundering capacity; they have to outsource that requirement. And these criminal and terror groups rely on many of the same shadow facilitators to move their agenda’s forward, including the same international money-laundering grids. That alone is a vulnerability that should be exploited far more aggressively than is currently being done. In today’s transnational drug trafficking and organized crime investigations, if you are merely following contraband, then you will most assuredly find contraband; if you are genuinely following the money, you will most often uncover facets of your investigation (e.g. terrorism) you never dreamed possible.

The single most productive method for identifying a terrorist or transnational criminal organization’s ability to launder contraband revenue is to identify and exploit how they communicate their business. Just as kingpins command and control every aspect of the transportation and distribution of drugs on a global level, so do those responsible for laundering their billions of dollars of illicitly derived funds. Money laundering consortia are likely to be even more dependent on communication devices and systems than terror and organized crime groups. Consequently, we need to transition from a “white collar crime” to an “organized crime” mentality as we pursue many of today’s illicit finance investigations, because money laundering is of paramount importance to criminal, terrorist and insurgent organizations.

In so doing, agents need to rely heavily on the long-standing investigative methods utilized by the FBI and DEA to attack organized crime and to work seamlessly with the Department of Treasury FinCEN and OFAC to tactically and strategically attack the shadowy, global financial networks that enable criminal and terror organizations to carry out their dirty business. Conducting net-worth assessments and other traditional means of examination are significant to any financial investigation and I do not want to diminish their importance in anyway. However, we should not hesitate to utilize judicially approved electronic intercept and other organized

crime investigative tools whenever and *wherever* possible in pursuit of the money laundering networks supporting these threats to our national security.

Let me address the importance of the *wherever* part of that last sentence. As DEA has increased its use of electronic surveillance over the past few decades, the agency and DOJ have concurrently worked to help their foreign counterparts transition from ‘intelligence only’ electronic surveillance to judicially approved models like U.S. federal law enforcement’s Title III (Omnibus Crime Control and Safe Streets Act of 1968) authority.

Thanks to decisions in a number of Federal District Courts over the last two decades that allow U.S. law enforcement to utilize evidence derived from judicially authorized electronic intercepts by law enforcement in other countries, the DEA and its foreign counterparts are regularly sharing evidence to attack the most sophisticated drug trafficking organizations ever investigated. It is exactly this type of activity that has resulted in the arrests, convictions and lengthy incarcerations of notorious transnational drug and arms traffickers such as Haji Bashir Noorzi, Haji Jouma Khan, Victor Bout, Haji Bajko, Monsur al Kasar and Chapo Guzman, to name just a few. This is one very powerful method for fighting organized crime and terrorism – and this is how we have to fight the illicit finance consortia supporting it.

However, a substantial challenge faced by law enforcement and the courts in many Latin American and Caribbean countries, and many other places around the world, is that they do not possess organized crime legislation and authorities required to identify, investigate, bring to justice and ultimately incarcerate powerful organized crime and terror leaders. Law enforcement in these places lack the ability to conduct undercover operations because of agent provocateur prohibitions; lack the authority to conduct judicially approved electronic interception of *any* communications; lack the authority to cooperate with other countries in the international delivery of seized contraband; and lack powerful conspiracy laws, extraterritorial jurisdiction and stiff sentencing guidelines to effectively counter the threats posed by sophisticated terror and criminal organizations. Many also lack the authority to conduct meaningful financial investigations. Consequently, it is almost impossible for our counterparts to bring the leadership ranks of these organizations to justice, because they have to be caught red handed with contraband, or directly involve themselves in some other related criminal activity. And these bad actors obviously didn’t ascend to leadership by being stupid.

One of the most important things we can do to enhance our ability to conduct high-level illicit finance investigations is to assist willing nations with the development of counter-organized crime legislation and the investigative and prosecutorial capacity of their judiciary and law enforcement, as well as their financial investigative capacity that is usually the responsibility of finance ministries. To experience success, capacity building must include the entire judicial spectrum: law enforcement, prosecutors, judges and prison officials. If not, it will most certainly fall apart like a house of cards. A comprehensive, fully vetted and totally dedicated counter-organized crime judicial model may be the best option in countries plagued with corruption. This will require funding, legislation and diplomacy on the part of the U.S. – and a great deal of hard work.

#### **The Currency of Contraband and the Importance of Denying Revenue:**

While I applaud our military and our Intelligence Community for developing and implementing Counter Threat Finance policy over the past few years, we seem to have forgotten that drugs and other types of contraband are routinely traded by terror and transnational criminal organizations for virtually every necessity required to stay in business, and in the fight. As an example, drugs are routinely traded for myriad weaponry; for communications systems; for the actual smuggling of contraband (payment in kind); for all types of vehicles, including large aircraft and maritime vessels; for safe houses and other Real Estate; for assassinations and other violent attacks; for counterfeit travel documents such as passports and visas; for services such as human trafficking – and yes, drugs are even traded for money-laundering services. Some money-launderers realize they can make far more profit from the sale of drugs than they could ever hope to make on a standard money-

laundering commission. They take payment in drugs and then outsource their distribution to affiliated indigenous organized crime groups. Mexico based drug trafficking organizations (DTO), in a successful attempt to feed their insatiable appetite for more profit, stopped accepting cash from Colombian traffickers in the early 1990s for smuggling Colombian DTO cocaine into the U.S. The Mexican DTOs demanded “payment in kind” for their services (a percentage of drugs from each load to be smuggled). The Mexican DTOs’ profits went through the roof and this transition allowed them to carve out new territories west of the Mississippi River for the first time in history. And it ultimately resulted in their dominance of drug trafficking in our Country today. *We seem to have forgotten that drugs and other contraband are the oldest form of alternative currency.*

Shortly after 9-11 about 60 percent of our Department of Defense detection and monitoring (D&M) resources were moved from Southern Command’s (SOUTHCOM) area of responsibility to other parts of the world and most have never returned. Every four-star general and admiral who served as Combatant Commanders at SOUTCOM since 9-11 have testified about this concern, as well as the growing influence of Iran and Hezbollah in their theatre of responsibility. Joint Interagency Task Force-South in Key West, which is staffed by U.S. military and federal law enforcement personnel, tracks aircraft and maritime vessels suspected of transporting major drug shipments in the SOUTHCOM area of responsibility and the Task Force works hard to coordinate the interdiction of these smuggling operations. The aircraft “tracks”, denoted by red lines on maps between the Andean Region of South America and Venezuela, looks like a mass of spaghetti on any typical month. Most of these suspicious aircraft go absolutely untouched, because the U.S. government and our Latin American counterparts no longer possess the resources necessary to interdict them. Sadly, most all of those tracked flights represent airplane loads of cash. *We seem to have forgotten that successful contraband interdiction ultimately denies revenue to transnational drug trafficking, criminal and terror organizations.*

Each of those aircraft also represent lost opportunities to build ever-stronger, multifaceted conspiracy investigations targeting sophisticated drug trafficking and money laundering organizations, just like the Ayman Joumaa case that I will address in the next section. Every time one of those wasted targets of opportunity drop off the radar we lose another critically important overt act in a complex conspiracy investigation – powerful evidence that will never be presented to a federal jury.

If we do not begin exerting as much brainpower and brawn toward interdicting drugs and other contraband, as we are on illicit finance, we will never experience any meaningful level of success against the most sophisticated drug trafficking, criminal and terrorist organizations we have ever faced. If you do not subscribe to that theory, *then please consider the fact we lost over forty-seven thousand (47,000) Americans to drug overdose deaths in 2015* and the numbers are no better this year. That equates to 129 fellow Americans lost each day in our Country – the highest losses in our Nation’s history. This situation is shameful.

#### **Perspective on Hezbollah’s Involvement in Transnational Organized Crime:**

History has repeatedly shown that when a terrorist organization loses funding from its state sponsor(s) it will inevitably turn to organized crime activity to generate revenue to keep the movement alive. Hezbollah is no different and its meteoric rise in the global cocaine trade has generated far more contraband revenue over the past 15 years than the ever-diminishing funds provided by Iran during that same period. This rise was most likely precipitated by Iran’s inability to match its previous funding levels due to the effect of stiff sanctions over the past several years. However, many experts believe the Iranian tap will again be turned to the Hezbollah “full-open” position as sanctions against that country are systematically lifted.

I testified before the Homeland Security Committee about four years ago concerning a Department of State report on Iranian influence in Latin America and the Caribbean. The findings documented in the report reflected that Iran’s influence was waning in the area because Iran was cash starved as a result of sanctions.



The report also stated there were no known Hezbollah cells operating in the Western Hemisphere. At the time, many experts believed Iran was providing no more than \$200 million dollars a year to Hezbollah.

I pointed out to the Committee the recent Patriot Act Section 311 findings against the Lebanese Canadian Bank as the result of a DEA investigation that clearly revealed Hezbollah was laundering as much as \$200 million dollars a month in cocaine revenue through the bank and some of its affiliate institutions. My hypothesis was that thanks to Hezbollah's (and Quds Force) increased involvement in global cocaine trafficking, the organization was not predominantly reliant on Iran for funding. I also pointed out that all cocaine trafficked by Hezbollah destined for its world markets emanates from the Andean Region of South America and passes through Venezuela and parts of the Caribbean. This activity alone required Hezbollah to significantly increase the numbers of its operatives throughout the region. Rest assured that today Hezbollah and Iran, just as they were four years ago, are thriving throughout the region.

Additionally, after 40 years in this business, I can assure you Hezbollah will not revert to ideology as their principal motivator for doing what they do if Iran starts pumping funding into the terrorist organization as they once did. Hezbollah's hierarchy and its lieutenants honed their criminal skills to a finely sharpened edge over the past 15 years and in the process they have developed a voracious attraction for the massive revenue generated by their involvement in worldwide cocaine trafficking. Just like the FARC, the Taliban and so many other terrorist and insurgent groups, Hezbollah will principally continue to use ideology as a very effective recruiting and indoctrination tool aimed at the young, disenfranchised masses needed to do its dirty work. But make no mistake; the executive secretariat now has a taste for drug money and there is no turning back.

Just 15 short years ago Hezbollah was involved in moving small, ten to twenty kilogram quantities of cocaine to Middle East markets from the Tri-Border region of South America, the remote criminal and terrorist "free-zone" where the borders of Paraguay, Argentina and Brazil come together. Today, the terrorist group is responsible for smuggling hundreds of tons of cocaine from the Andean Region of South America into Venezuela where they then ship the drugs to emerging European markets via West and North Africa. This phenomenon is not based on mere speculation by agencies that garner intelligence from second or third party sources; rather, it is based on evidence that can, and already has met the judicial test in federal courts here at home.

There is no better example of what started as DEA's Operation Titan, followed by successor initiatives, that precisely capture Hezbollah's involvement in the international drug trade, exposes the complexity of its transnational criminal and terrorist network and identifies many of the nefarious connections that make it all work. The evidence and intelligence gleaned during ongoing investigative efforts come from tested and trusted confidential sources, backed up by judicially approved electronic intercepts, extensive witness interviews, exhaustive surveillance, search warrants and other organized crime investigative methods.

Much of this investigative success story rests with the DEA's outstanding partners, Treasury's FinCEN and OFAC, and the unique authorities they possess. Their tactical and strategic use of sanctions and Patriot Act 311 actions during this investigation peeled back the complicated protective layers that exposed the financial vulnerabilities of Hezbollah and other terror and criminal networks so they could be fully exploited by DEA investigators. The raw power behind this effort was the outstanding collaboration between DEA, FinCEN and OFAC and DOJ prosecutors that involved a relentless and elaborate cycle of investigation, analysis, sanctions, indictments and arrests and seizures – all conducted with cunning coordination and de-confliction. Another team member that also deserves credit for the success of this operation were analysts from the Department of Defense. The "silent professionals" made important contributions.

This international conspiracy investigation, initiated by DEA in 2007, began to gain significant momentum after an OFAC Kingpin Act designation in January 2011 that identified Ayman Joumaa, a Lebanese Colombian,

and several members of his global illicit network as Specially Designated Narcotics Traffickers. The following month FinCEN announced Patriot Act Section 311 findings against the Beirut-based Lebanese Canadian Bank (LCB), the Prime Bank of Gambia and other affiliate financial institutions of the LCB for facilitating a Hezbollah cocaine money laundering scheme involving as much as \$200 million dollars per month. The LCB, which was sold just a few weeks after the 311 findings, was long known to be a Hezbollah influenced and preferred financial institution used for money laundering purposes. In December 2011 the US Attorney's Office for the Southern District of New York (SDNY) filed a \$450 million dollar civil complaint against the LCB. This action ultimately led the bank's new owners to reach a \$102 million dollar settlement agreement with the SDNY in June 2013.

By 2015 there were ten OFAC Kingpin Act designations against DTOs and money laundering organizations and over 180 designations against entities and individuals, as well as two Patriot Act Section 311 actions. Also worth mentioning were the endless stream of indictments, arrests and seizures of/from a host of characters who were members of financial institutions, transnational drug trafficking and organized criminal organizations, money laundering operations, more than 30 used car dealerships in the U.S., and designated terrorist organizations including the Hezbollah and the FARC; all of which spanned more than twenty-five countries on four continents. Other Hezbollah connections were made as a result of the investigation that generated another 15 OFAC designation actions and one other 311 action against a Lebanese originated bank in Cyprus.

One of the exposed money-laundering schemes started with cocaine shipped by Hezbollah operatives from the Andean Region of South America to Venezuela, where it was then shipped to Europe and the Middle East via West and North Africa. This sophisticated supply chain is only made possible through Hezbollah's strong alliances with indigenous organized crime groups and the centuries old, nomadic Tuareg smugglers in North Africa, not to mention corrupt senior politicians and security officials in Venezuela and many other countries. The cocaine was (and continues to be) sold in Europe and the Middle East by Hezbollah for as much as \$200,000 dollars per kilogram. To put that in proper perspective, the US value for a kilogram of cocaine seldom exceeds \$40,000 dollars. The bulk cash from the enterprise was collected and amassed in West Africa where it was cached at safe sites.

The legitimate trade portion of the scheme was tied to over 30 US-based used automobile dealerships owned and operated by Lebanese Americans on the East Coast. The US dealerships acquired used automobiles here at home, shipped them to automobile lots in West Africa where they were sold for profit. The sales prices of the vehicles were inflated in the financial records and the cash proceeds were co-mingled with the cached drug proceeds and then transported in bulk to Hezbollah operated and controlled financial exchange houses in Lebanon. Some of the proceeds were then wired to the US dealerships to continue the money laundering cycle. By all counts the total number of suspect used automobile dealerships identified in the investigation is incredible, none of which existed before 9-11.

One lead in the investigation resulted in overhead imagery that showed an enormous vacant field in West Africa and corresponding imagery one year later showing the area filled with hundreds of used vehicles that had been shipped from the US. Evidence revealed that an average of \$180 million dollars in bulk cash per quarter was being transported from Togo to Ghana, West Africa where it was placed on commercial aircraft and flown directly to Beirut. The illicit revenue generated by this enterprise exceeded the annual GDP for several small West African countries.

One example of the bulk cash involved in this conspiracy involved approximately \$20 million dollars in U.S. currency that was seized after a Lebanese Colombian and close Hezbollah associate delivered the cash to an undercover DEA agent in Central America. Reportedly another \$16 million dollars in bulk cash was supposed to be delivered to the agent within 48 hours of the first delivery, but unfortunately that delivery was not completed.

**Essential Points:**

There are some very important points to be made about the events described above:

1. Those who believe Hezbollah is in some way primarily dependent upon Iran to supply them with funding are dangerously uninformed.
2. No terrorist or international drug trafficking organization has the ability to execute complex drug trafficking and money laundering operations involving multi-ton quantities of cocaine and bulk cash with just a handful of rogue operatives, or rogue cells for that matter. It takes scores of loyal Hezbollah soldiers to make it all work in this case and they are now operating throughout the Western Hemisphere, including right here at home. Congressman Peter King, then Chairman of the Homeland Security Committee during a hearing approximately four years ago, stated that government officials had briefed him that as many as 250 Hezbollah operatives were active in the US.
3. Iran's inability to match its past levels of funding over the last several years to its most important proxy has crystalized in the eyes of Hezbollah the strategic importance of Latin America, Mexico, our Southwest Border and the Caribbean, as well as Africa and Europe. It is Hezbollah's meteoric rise in the global drug trade that should be troubling us most. When it comes to generating contraband revenue, nothing comes close to the drug trade and it is undoubtedly contributing to the Hezbollah's global expansion.
4. Hezbollah has the undeniable ability to move multi-ton quantities of cocaine throughout the world, not to mention bulk cash that weighs thousands of pounds. Many analysts and other experts regrettably continue to woefully underestimate Hezbollah's level of sophistication, both organizationally and operationally, and to ask a very important question: What else could they be moving?
5. The principal leader of any terrorist, drug trafficking, or criminal organization must ensure absolute harmony and loyalty within their ranks. It is all about obedience, commitment and allegiance and it is stringently managed with the use of corruption, intimidation and brutal violence, the long-standing hallmarks of organized crime. To believe Hezbollah's highest level of leadership is not directly complicit in, and sanctioning the organization's global criminal and terrorist operations indicates a total lack of understanding for how the real underworld operates and thrives.
6. We can no longer allow Hezbollah to go unchecked. We need a whole of government approach to fight what former DHS Secretary Michael Chertoff and FBI Director Robert Mueller described as the most sophisticated and dangerous foreign terrorist organization in the world and we need to get serious about doing it as quickly as possible.

**Unconventional Consequences:**

Hezbollah profits in many ways by growing their transnational criminal footprint:

1. It increases their presence in the Western Hemisphere, in Africa and in Europe and is helping the group establish an even greater repertoire of calculated alliances with other transnational criminal and terrorist organizations.
2. As they increasingly engage themselves in this type of activity, the terrorist organization's operatives are, in essence, hiding behind criminality – all the while developing an ever-increasing capacity to strike terror when the time is right.
3. Drug distribution to Western markets is an important part of their Jihad against the West – it kills infidels, tears at the moral fabric of the West, costs hundreds of billions of dollars a year in lost earnings and in medical treatment, education and law enforcement costs, and further destabilizes already weak governments throughout regions of Latin America, Mexico, the Caribbean and Africa, which facilitates Hezbollah's ability to operate with impunity. A senior Hezbollah spiritual leader issued a religious edict,

or fatwa, in the early 1980s that justified selling drugs to Western infidels, which laid the foundation for the group's involvement and expansion in the global drug trade.

4. The global drug trade generates hundreds of millions of dollars each year in contraband revenue for Hezbollah and it provides a never-ending source of funding for their war chest. Hezbollah uses cocaine, other drugs and other contraband as an alternative form of currency. And they have used drugs as payment for information and to successfully corrupt Israeli Defense Force personnel, as well as soldiers in other militaries.
5. Hezbollah becomes even more relevant to Iran and their long-standing partner, the IRGC Quds Force, as they grow their global footprint and their global reach.
6. Finally, and most importantly, it allows Hezbollah and the Quds Force to reconnoiter (at will) potential future battlefields and to establish the rat-lines necessary to sustain imminent, prolonged asymmetric conflict in many parts of the world, including areas very close to home.

#### **What We Can Do To Help Counter The Threat:**

There are three things the U.S. government can do to help counter the threat posed by sophisticated criminal and terrorist organizations that will not require a great deal of funding:

1. We need interlocking counter-terrorism and counter-narcotics policies, strategies and initiatives, and singular funding streams. As the bad guys grow closer together – the good guys are drifting farther apart, and much of this is caused by the way we develop and fund competing national security interests.
2. We need defense in depth strategies and we cannot continue with our obsession for developing strategies and plans to guard the one-yard line (our borders). Shortly after 9-11 many of our Department of Defense detection and monitoring resources were moved from Southern Command's area of responsibility and most have never returned. We need more federal law enforcement personnel deployed to security challenged areas around the world to expand their human source networks and to work shoulder-to-shoulder with host nation counterparts in furtherance of bi-lateral criminal investigations. Further, as already mentioned, we need to help foreign counterparts build the capacity they need to help themselves and us counter 21<sup>st</sup> Century asymmetric threats.
3. We must revitalize interest in pursuing the traditional threats: drugs, arms and human trafficking, and money laundering and counterfeiting. Most importantly, we need to implement aggressive counter-corruption safeguards and initiatives, because our judicial system is under attack. A renewed focus on these threats will naturally lead agents and officers headlong into terrorist organizations and their operatives, which is exactly what is happening with the DEA on a regular basis.

#### **Summary:**

Many federal court documents have been unsealed over the past five years, including the 73-page civil complaint (amended) against the Lebanese Canadian Bank (et al.) (LCB) that was filed by the US Attorney's Office for the Southern District of New York, and they are a must-read. The documents should serve as an eye-opener, because they paint a very troubling picture of Hezbollah's increasing global reach – all facilitated by its involvement in drug trafficking, money-laundering and other transnational criminal operations in the Western Hemisphere, Africa, Europe and the Middle East.

Sophisticated international terrorist organizations like Hezbollah do not issue identification cards, seldom wear uniforms and most often operate in the shadows while conducting highly sophisticated transnational criminal schemes to generate the revenue required to keep their movements alive. These activities also permit Hezbollah to develop and nurture valuable associations with other terrorist, insurgent and transnational criminal organizations, as well as human and weapons trafficking groups, local indigenous organized crime groups and money laundering networks. If we do not move more aggressively to keep Hezbollah in check, the numbers of

their illicit associations and the complexity of their operations will continue to grow. They will continue to evolve and become ever more dangerous.

It is extremely dangerous to perceive Hezbollah as anything other than a terrorist and criminal organization masquerading as a political party. Israeli security experts have long viewed Hezbollah as Iran's fleet of aircraft carriers – possessing the ability to hit Western interests virtually anywhere in the world, including right here at home. It would benefit us to adopt this viewpoint as quickly as possible.

Finally, no two nations will ever agree on a common list of terrorist organizations or terror suspects, but regularly reach mutual consensus on drug trafficking and organized crime targets. One of the most important and cost effective things we can do to protect ourselves here at home is to help willing nations develop and mature their ability to conduct terror and organized crime investigations and prosecutions. Investigating illicit finance is an important part of that practice, as well as the sharing of valuable evidence. In the end, exposing many terrorist leaders for who they really are – predatory international drug traffickers who target society's weak – sends a powerful message to those who were indoctrinated or charmed into believing they were freedom fighters.

**Statement by Mariano Federici, President of Argentina's Financial Intelligence Unit**

Honorable Representatives, Members of the Task Force to Investigate Terrorism Financing.

It is an honor for me to be with you at this hearing today sharing my preliminary assessment of the risks to financial integrity (including money laundering and terrorist financing) in Argentina, and our new vision on how to mitigate them, under the leadership of President Mauricio Macri.

I would like to start by clarifying that our assessment is only preliminary at this stage, as we have only been in office for a little over 4 months, and there is still a full inter-agency money laundering/terrorist financing risk assessment pending completion at the national level. Such risk assessment will serve as a basis for the development of a national money laundering/terrorist financing strategy.

**A preliminary assessment of Argentina's system**

With this caveat, I can begin by sharing with you that we encountered a tragic situation in the area of financial integrity left by the people that preceded us in government. It is clear to us by now that there was a complete lack of political will to fight money laundering and terrorist financing in Argentina during the last 12 years.

There was not only a lack of will to assess and understand the nature and magnitude of the money laundering, and particularly, the terrorist financing threats. There was also a clear intent to conceal them, evidenced by the interruption in the publication of official crime data and statistics that took place since 2008.

These problems led to a notorious lack of strategic planning, which prevented the government from prioritizing its efforts and making an efficient use of public resources. The absence of a strategy meant the government's efforts were characterized by constant improvisation, which in turn resulted in a serious lack of effectiveness, and a related impact on risk levels.

Throughout the last ten years, the threats to financial integrity increased significantly, as criminals exploited the advantages of a sophisticated financial system with the vulnerabilities of an uncommitted government.

Evidence confirms that drug trafficking grew exponentially and currently remains one of the main threats, posing a serious risk to the integrity of our financial system and the security of our people.

As a matter of fact, in December 2015, the polls showed that the main concerns of Argentine citizens were “drug trafficking and insecurity”. According to international assessments, Argentina had become the third exporter of cocaine and the rate of robberies was one of the largest ones in the world. This is the reason why President Macri has made the fight against drug trafficking a central objective of his government.

To give you some numbers, the consumption of cocaine and marihuana more than doubled between 2000 and 2015. Between 2005 and 2015 drug seizures increased by 800% and the number of drug related cases tripled at the judicial level. In the same period, Argentina changed from being a transit country to a country that receives, transforms, consumes and exports illegal drugs to the world at large scale.

Of particular interest is the increase in the import of chemical precursors, and particularly ephedrine, a precursor used for the production of medicines but also used to produce synthetic drugs. In normal times, Argentina would import 200kgs of ephedrine per year for medical use. However, when Mexico prohibited its imports, this amount multiplied 100 times, to 20tns per year, most of which was illegally exported.

One of the main structural vulnerabilities exploited by criminals in recent years was corruption. Argentina ranks 107 of the 168 countries ranked by Transparency International’s Corruption Perception Index. This is far below Uruguay and Chile, but also below Mexico, Brazil, Colombia and Bolivia.

Corruption under the previous administration was part of a strategy, intentionally designed to illicitly enrich public officials proportionally at all levels. Corruption was therefore the rule, not the exception, and corrupt officials were rewarded rather than punished.

At the operational level, corruption affected particularly the law enforcement agencies. Between 2012 and 2015, the Coordination of Transparency at the Ministry of Security received more than 700 complaints of possible incidents of corruption. 90% of such complaints were made by law enforcement officials. 76% of them involved the Argentine Federal Police.

All of this occurred while Argentine law enforcement agencies were being dismantled. When we stepped in, we found our law enforcement agencies badly equipped, poorly paid, untrained and mistreated, with very little capacity to prevent or investigate crimes.

We found our borders completely unprotected, with only 17% of them controlled by radars and a very limited air defense system. In fact, our entire defense system was weakened, with airplanes that do not fly, ships that do not work, and very limited equipment in our entire armed forces.

At the Financial Intelligence Unit (FIU), the situation was not much different. Our agency was over populated with many people that did not fit the technical profile required for the job and, in some cases, not even the legal requirements to be a member of the FIU. There was no understanding of money laundering/terrorist financing risks and the strategy was to have no strategy, which allowed for a discretionary use anti-money laundering/counter terrorist financing (AML/CFT) tools.

On the preventive side, the FIU's regulatory powers were used more for economic policy objectives than for mitigating risks to financial integrity. We found the system overregulated, with controls that obstructed financial inclusion and pushed people towards the use of cash and informal channels. Financial intelligence was mostly used for ideological and political purposes, rather than to detect and contribute to investigate serious criminal threats.

Needless to say, this mismanagement had a direct impact on the lack of effectiveness to prevent, detect and suppress money laundering and terrorist financing. In the 15 years since the criminalization of the money laundering offence and 7 years of the terrorist financing offence, there have been only 13 convictions for money laundering and no convictions for terrorist financing in Argentina.

#### **A new vision to fighting illicit finances and terrorist financing**

This assessment, while negative as it is, should not depress us nor make us angry. It should however provide an idea of the challenges ahead and the urgent need for reform and change.

We are now working at full speed in repairing the damages. There is a clear and strong political will to fight organized crime and contribute to the global efforts in the fight against terrorism. There is also a good understanding that the best way to achieve this is through the economic and financial angle.

Our objective is to protect the financial system and the broader economy from the threats of money laundering and terrorist financing, thereby strengthening financial sector integrity and contributing to safety and security.

Our main focus will be placed on effectiveness, as we believe Argentina has sufficient legal and institutional instruments in place to begin producing results. Efficiency is the key to effectiveness, particularly when resources are limited, as it is certainly our case. It is therefore a matter of being more efficient in the method now to be more effective in the end outcome.

At the FIU, we are placing a strong emphasis on our preventive strategy. This involves assessing, from our own perspective, the risks of money laundering and terrorist financing,



irrespective of the system wide national risk assessment that Argentina must conduct in accordance with international standards.

In particular, we will be very focused on assessing terrorist financing risks, which we believe have been irresponsibly underestimated by the previous administration. In this regard, we are hoping to team up with our Brazilian and Paraguayan counterparts, to assess the threats and vulnerabilities to terrorist financing in the Tri-Border Area. We believe this could also be a good opportunity to work together with the United States.

In the meantime, we have increased our awareness raising efforts on terrorist financing risks in Argentina and we have disseminated to our reporting entities the Bulletin on the risks posed by Foreign Terrorist Fighters, as we committed to do at the Egmont Group level.

In 2014, the FIU issued a few administrative orders to freeze the assets of entities allegedly believed to be involved in terrorist financing. As a result of this intervention, a few so called “state terrorists” were captured using CFT instruments. However, the offenders have largely been former members of the military junta, and the majority has been charged with crimes committed during the military rule in Argentina (1976-1983).

Our plan is to begin using our CFT regime, with due respect for the rule of law, to pursue international terrorism cases representing a present threat to our system and to global peace and security.

We are also embarking in a wide regulatory reform process that will allow reporting entities to adopt a risk based approach to AML/CFT compliance. The reform will also contribute to remove existing barriers to financial inclusion and generate incentives to reduce the circulation of cash and the use of informal mechanisms.

Over the last 5 years the FIU issued more than 70 regulations, which imposed significant obstacles to operating in the Argentine financial system and economy and contributed little to mitigating the real risks of money laundering and terrorist financing. We are actually of the view that many of these regulations prevented people at the lowest segments of our society from accessing financial markets, and expelled others to the informal economy.

Economic mismanagement, an excessive tax pressure, the lack of respect for the rule of law, and a number of restrictive measures and controls, including excessive AML/CFT controls, among other factors, generated a significant demand for informal movements of funds. Such demand was met by a supply of sophisticated illegal underground mechanisms that helped to move money in and out of Argentina in a quick and undetectable way.

While most of such funds may have been related with a legitimate need to protect wealth in safer currencies and jurisdictions, it is clear that such mechanisms and channels also

contributed to illicit finances and very likely to abuse by terrorist financiers. Unlike money launderers, who at some point in the process need to enter in contact with the formal financial system to legitimate their assets, terrorist financiers only need a safe and reliable channel to move money into the hands of terrorists. For such purposes, remaining fully undetected through the use of informal channels represents a major advantage.

As regulators, we are also planning to adopt a risk based approach to AML/CFT supervision, and this is something we hope to be able to do with the US Government's (Treasury's OTA) support. This will rationalize the use of our limited resources and allow us to place focus on what is really relevant to protect the integrity of our financial system and broader economy. We are committed to tackling informal channels through a right balance between incentives to use the formal financial system and deterrents to discontinue using the informal one.

In the coming weeks, Argentina will embark in a voluntary tax compliance program to allow Argentines holding assets abroad to normalize their tax situation ahead of an upcoming multilateral tax information exchange initiative. This will contribute to reduce the levels of informality in our economy and provide the government with resources to address several important obligations. The program does not allow nor create incentives to repatriate funds and it is fully in line with OECD and FATF standards and best practices.

On the intelligence side, we are working to regain confidence in our domestic and foreign partners. We are updating our MOUs with FIUs of strategic importance to us. We are in the process of updating our MOU with FINCEN, following an unauthorized leak of information during the previous administration.

Regaining confidence requires reassuring our partners of our commitment to protect the security of the information and to ensure that information provided will only be used for authorized purposes. This in turn demands investments in our real estate infrastructure and our information technology resources which we are willing to make as a sign of our commitment.

We are also strengthening our strategic analysis capabilities, to be able to better identify money laundering and terrorist financing trends and patterns and to conduct a deeper analysis of our threats that may feed into our strategic planning efforts and a more efficient allocation of our resources.

Our FIU also acts as a party to criminal cases involving money laundering or terrorist financing conducts. In this regard, we have re-defined our criteria for engagement, focusing our participation in strategic money laundering cases, involving drug trafficking and other serious offenses, cases with high volumes of funds or other assets, cases with transnational components, or cases with other economic or financial complexities that may offer a real opportunity for the FIU to add value.

I would also like to share with you that we recently opened our first regional office in Salta (close to the border with Bolivia), which covers 7 provinces in the North-western region of Argentina and will facilitate our interaction with law enforcement, prosecutors and judges dealing with drug trafficking and other expressions of transnational organized crime. We plan to open a second regional office in the North-eastern region to cover the Tri-border area soon.

As we move forward in repairing the damages left by the previous administration and start building a stronger AML/CFT framework, the support from the international community, and particularly our main partners, such as the United States, becomes critical.

I would like to take this opportunity to express my deepest appreciation to FINCEN's leadership, for the trust deposited in us at the earliest of stages, and the opportunity to work fast towards a re-establishment of our MOU.

Sharing information with the United States will be critical to our fight against organized crime and terrorism in the years ahead and to facilitate our contribution to the global efforts against these threats. We embrace this partnership and will live up to our commitments to protect the information and use it only for authorized purposes and to our mutual benefit as nations.

Finally, I would like to close by saying that we are very committed with contributing to the global efforts in this area. We are not just interested in adhering to international standards. We are interested in becoming leaders in financial integrity matters in our region. This is because we truly believe in the value of financial integrity to the soundness of our financial systems and its significance to economic stability, safety and security, which are necessary pre-conditions to economic growth and development.

Congressional Testimony

**The Enemy in our Backyard: Examining  
Terror Funding Streams from South  
America**

Dr. Emanuele Ottolenghi  
Senior Fellow  
Center on Sanctions and Illicit Finance  
Foundation for Defense of Democracies

**Hearing before the House Committee on Financial Services**  
Task Force to Investigate Terrorism Financing

Washington, DC  
June 8, 2016



Emanuele Ottolenghi

June 8, 2016

### Introduction

Chairman Fitzpatrick, Vice Chairman Pittenger, ranking member Lynch, members of the Task Force to Investigate Terrorism Financing, on behalf of the Foundation for Defense of Democracies and its Center on Sanctions and Illicit Finance, I thank you for the opportunity to testify.

In Latin America, the combination of weak central governments, porous borders, and widespread corruption in public institutions creates an ideal environment for Transnational Organized Crime (TOC). According to the U.S. administration, “Not only are criminal networks expanding, but they also are diversifying their activities, resulting in the convergence of threats that were once distinct and today have explosive and destabilizing effects.”<sup>1</sup>

Drug trafficking, trade-based money laundering, and terror financing in Latin America have merged as a single threat to the national security of the United States: drug cartels, smugglers, counterfeiters, insurgent groups, and terror organizations have coalesced, sometimes against local authorities and sometimes with their active complicity and support, for their mutual benefit. The result is a toxic mix in which drug traffickers rely on terror organizations to move their merchandise to their final destinations in North America and Europe. For their part, terror organizations offer the traffickers services that generate profits to fund their own terrorist activities.

Hezbollah plays a central role in this new landscape, as in Latin America. The group’s religious institutions and clerics, charitable and educational activities, its supporters’ licit commercial activities, and its illicit finance network and organized crime are not distinct endeavors involving different people but overlap.

In my testimony, I will illustrate how Hezbollah, thanks to its reliance on local Shi’a communities, is becoming a key player in the complex regional dynamics of Transnational Organized Crime.

### The challenge of Hezbollah’s terror finance in Latin America

Last year, Congress passed the Hezbollah International Financing Prevention Act to “prevent Hezbollah’s global logistics and financial network from operating in order to curtail funding of its domestic and international activities; and (2) utilize diplomatic, legislative, and executive avenues to combat Hezbollah’s criminal activities in order to block that organization’s ability to fund its global terrorist activities.”

This important legislation builds on the October 1997 Department of State designation of Hezbollah as a Foreign Terrorist Organization, and on numerous steps taken by successive U.S. administrations over the years to designate Hezbollah financiers and to target and disrupt its financial networks.

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<sup>1</sup> The White House, National Security Council, “Transnational Organized Crime: A Growing Threat to National and International Security,” accessed June 6, 2016. (<https://www.whitehouse.gov/administration/eop/nsc/transnational-crime/threat>)

Congress and the Administration should continue to leverage these legislative and executive tools by aggressively focusing on the terror organization's activities in Latin America. As important as these tools are, they need to be complemented by additional steps to diminish Hezbollah's ability to exploit structural weaknesses prevalent in the region that have made it possible for it to interact with local criminal syndicates. Ultimately, this can only be possible if regional governments recognize the threat posed by Hezbollah in their own jurisdictions and take concrete steps. U.S. efforts will be far more effective when local governments cooperate.

The United States can help by advising regional partners to make the necessary legislative and law-enforcement adjustments to become more effective in their fight against terrorism. Washington can offer concrete assistance to help build capacity where there is a political will to cooperate in the fight against Hezbollah.

It should be obvious this is in the vital interest of not only the United States but also of Latin American governments. How this is to be accomplished is more complicated, and requires understanding the main factors that facilitate Hezbollah's activities in Latin America:

- Porous borders and a lack of strict custom and police controls at border crossings
- Weak central governments and corrupt public officials
- Lack, until recently, of adequate legislation to combat terrorism and terror finance
- The prevalence of a cash-based economy
- A local network of loyal supporters

These factors do not benefit Hezbollah alone; they are key facilitators of organized crime and terror finance in general. This permissive environment encourages criminal cartels and terror organizations to cooperate for their mutual benefit.

#### *Porous borders*

It is beyond dispute that Hezbollah interfaces with organized crime and drug traffickers. In February 2016, the U.S. Drug Enforcement Administration (DEA) uncovered a massive Hezbollah drug- and money-laundering scheme showing Hezbollah was moving drugs into Europe from South America through West Africa.<sup>2</sup> The DEA described the scheme as:

An intricate network of money couriers who collect and transport millions of euros in drug proceeds from Europe to the Middle East. The currency is then paid in Colombia to drug traffickers using the Hawala disbursement system. A large portion of the drug proceeds was found to transit through Lebanon, and a significant percentage of these proceeds are benefitting terrorist organizations, namely Hezbollah.<sup>3</sup>

<sup>2</sup> Drug Enforcement Administration, Department of Public Affairs, "DEA and European Authorities Uncover Massive Hizballah Drug and Money Laundering Scheme," February 1, 2016. (<https://www.dea.gov/divisions/hq/2016/hq020116.shtml>)

<sup>3</sup> Drug Enforcement Administration, Department of Public Affairs, "DEA and European Authorities Uncover Massive Hizballah Drug and Money Laundering Scheme," February 1, 2016. (<https://www.dea.gov/divisions/hq/2016/hq020116.shtml>)

Hezbollah's links to other criminal organizations in Latin America have also been recently exposed. Brazilian federal police documents leaked in 2014 to the Brazilian daily *O Globo* revealed a connection between Hezbollah and the *Primeiro Comando da Capital*, or PCC.<sup>4</sup> The São Paulo-based prison gang was established in 1992 and, along with the Rio de Janeiro-based *Comando Vermelho* (Red Command), is one of the primary exporters of cocaine through Brazil.<sup>5</sup> According to the daily, Hezbollah allegedly asked the PCC to protect detainees of Lebanese origin inside the Brazilian penitentiary system. Hezbollah, for its part, is said to have helped the PCC gain access to international weapons smuggling channels and especially assisted in the sale of C4 explosives the PCC had stolen in Paraguay. The presumed currency of transaction between the two was cocaine and money laundering.

This association is plausible for a variety of reasons.

Narcotics travel from their production fields in South America to their main export markets through the central areas of South America, eventually reaching Brazil before they move to North America or Europe through West Africa. Porous borders are a critical component of the movement of drugs from the Andean plateaus, where coca is grown, to the distribution points further east in Brazil and Paraguay, where coca paste is refined into cocaine before being shipped to its main markets of the West. The same is true for marijuana: mostly produced in Paraguay, cannabis and its derivatives are then transferred to local and international markets.<sup>6</sup>

Drug cartels need middlemen, as well as commodity and service providers for the supply line and delivery to cartels in Colombia, Venezuela, and Central America. They need assistance facilitating transit to West Africa before drugs cross the Sahara on their way to Western Europe and enabling the producers, refiners, and cartels to launder their revenues and acquire the accessories for the trade in the process. Terror organizations can provide these services. For their part, terror groups rely on drugs, which they buy as well as help move, as a source of revenues for their own activities.

Paraguay plays a critical role in this scheme due to its porous borders. It is a country almost the size of California, but with 7 million citizens, is sparsely populated. It is also mostly an agricultural economy: four of its five top exports are beef, soybeans, and associated derivatives – the fifth is energy.<sup>7</sup> Yet Paraguay is also an unofficial exporter of smuggled cigarettes, narcotics (both cocaine and marijuana), and weapons, alongside contraband electronics. Except for marijuana, which is grown along Paraguay's border with Brazil, and other drugs that are locally

<sup>4</sup> Francisco Reali, "Polícia Federal aponta elo entre facção brasileira e Hezbollah (Federal Police link Brazilian faction and Hezbollah)," *O Globo* (Brazil), November 9, 2014. (<http://oglobo.globo.com/brasil/policia-federal-aponta-elo-entre-facao-brasileira-hezbollah-14512269>)

<sup>5</sup> "First Capital Command – PCC: Profile," *Insight Crime*, accessed June 4, 2016.

(<http://www.insightcrime.org/brazil-organized-crime-news/first-capital-command-pcc-profile>)

<sup>6</sup> In 2011, Paraguay accounted for over 50 percent of South America's and 15 percent of world production, according to statistics compiled by the United Nations Office of Drugs Control. See United Nations Office of Drug Control's Liaison and Partnership Office in Brazil, "Paraguay and UNODC present an Integrated National Programme to Fight Organized Crime," May 4, 2011. (<http://www.unodc.org/lpo-brazil/en/frontpage/2011/05/04-o-paraguai-e-o-unodc-apresentam-o-programa-nacional-integrado-de-luta-contra-o-crime-organizado.html>)

<sup>7</sup> The World Bank, World Integrated Trade Solution, "Paraguay at a Glance: Most Recent Values," accessed June 4, 2016. (<http://wits.worldbank.org/CountrySnapshot/en/PRY/textview>)

refined,<sup>8</sup> none of these goods is produced in Paraguay, making the country a transshipment point for goods, both licit and illicit, that elude custom controls and law enforcement.

Thanks to its free tax commercial area in Ciudad Del Este, Paraguay's second city, the country is also a key hub for selling consumer commodities. Ciudad Del Este at one point generated 60 percent of the country's GDP<sup>9</sup> by selling electronics, alcohol, cosmetics, brand clothing, and other consumer products that Paraguay imports mainly from China – its second-largest trading partner in exports (25.3 percent in 2014) after Brazil.<sup>10</sup> Ciudad Del Este is well known as the Paraguayan side of the so-called Tri-Border Area, or TBA. The confluence of the Iguassu River into the Paraná River forms a natural three-way boundary between Argentina, Brazil, and Paraguay. The Paraná separates Ciudad Del Este from the Brazilian city of Foz do Iguassu but also constitutes, thanks to its geography, an ideal point for criminal activities.

Border trade in Latin America is particularly lucrative due to differentials in taxes and currency exchange rates. When one adds smuggling and, frequently, the virtually non-existent custom controls, the potential for profits is clear. Transnational organized crime is particularly active in these border areas for the same reasons that attract smugglers – lax controls and corruption both favor any traffic, including that of illicit merchandise. The cooperation between criminal cartels trading in drugs and terror organizations using these areas for money laundering is made possible because licit trade is critical to illicit trafficking. Through trade-based money laundering, criminal organizations can dispose of profits from criminal activities – in Latin America, mainly drugs and weapons trafficking, but also tobacco smuggling and the contraband of licit products such as electronics. Porous borders enable terror groups and organized criminals to cooperate in pursuit of profit, which they then use to finance their own agendas.

The exploitation of porous borders by organized crime and terror groups is neither unique to the TBA nor to Hezbollah. Given the structural weakness of central authorities across the region, border areas are problematic. The TBA is rightly infamous for the highly profitable businesses selling tax-free consumer goods on the cheaper side of the border – Paraguay – and the smuggling of these goods, mainly to Brazil. Its notoriety was reinforced over the years by the presence of Hezbollah financiers, which the U.S. Treasury designated in 2006.<sup>11</sup> The TBA still offers numerous examples of how trade-based money laundering, fiscal fraud, smuggling, and trafficking in illicit goods are exploited by organized crime and terror organizations. But the TBA is just one of many places where the confluence of weak central government, porous borders, and corruption enable both organized crime and terror finance to thrive.

Brazil, the largest country and biggest economy in the region, borders every country in South America but two (Ecuador and Chile) and has ten TBAs with its neighbors. Latin America also

<sup>8</sup> Mimi Yagoub, "Paraguay First Ecstasy Lab Shows Brazil Criminal Migration," *Insight Crime*, April 25, 2014. (<http://www.insightcrime.org/news-briefs/paraguay-first-ecstasy-lab-brazil-criminal-migration>)

<sup>9</sup> Leslie Jermyn and Yong Jui Lin, *Paraguay (Cultures of the World)*, (Cavendish Square Publishing, 2010), page 16.

<sup>10</sup> The World Bank, World Integrated Trade Solution, "Paraguay Imports by Country and Region, 2014," accessed June 4, 2016. (<http://wits.worldbank.org/CountryProfile/en/Country/PRY/Year/2014/TradeFlow/Import>)

<sup>11</sup> U.S. Department of the Treasury, Press Release, "Treasury Targets Hizballah Fundraising Network in the Triple Frontier of Argentina, Brazil, and Paraguay," December 6, 2006. (<https://www.treasury.gov/press-center/press-releases/Pages/hp190.aspx>)



has five other tri-border areas that don't include Brazil – such as the Bolivia-Chile-Peru TBA in Visviri, Tripartito, and Charaná.

Many of these areas have common features. They are far from large cities and capitals where power and wealth are concentrated. Local nature is impervious. In some cases, at least one side of the TBA is lawless and dominated by local criminal cartels. Law-enforcement presence is scarce and poorly paid. In such conditions, contraband thrives.

One example is the Bolivia-Peru-Brazil TBA in Bolpebra, Assis Brazil, and Iñapari. Bolpebra, the Bolivian frontier outpost on the Rio Acre across the water from Assis Brasil, is a key transit point for the smuggling of Peruvian cocaine and logging from Brazil.<sup>12</sup> Located in the middle of the Amazonian jungle, the town has only one policeman. Its mayor resides in Cobija, a Bolivian frontier city more than two hours away by car. The Bolivian Army has only an advance force in the area to fight drug traffickers.

These features are also not unique to tri-border areas. Thousands of miles of borders across the continent remain difficult to guard due to the impenetrable nature of the terrain. In such places, the sparse border crossings are insufficiently manned and poorly equipped to stop the flow of illicit goods. Poorly paid police forces are also vulnerable to corruption from organized crime.

The lax presence of authorities and sometimes the corruption of local officials make all this possible. The Paraná River section of the Brazilian-Paraguay border (130 miles of waterway with no human settlement on either side) was seriously undermanned, according to a senior Brazilian official who spoke to me on condition of anonymity. In some places, police presence is symbolic. Action taken against organized crime is not sustained over time, the senior official complained.

Such scarcity occurs on both sides of the border. According to a 2014 report about drug trafficking in Paraguay, published in the Mexican *Domingo Universal*,<sup>13</sup> SENAD, the Paraguayan DEA, had only 12 officers involved in crop eradication operations along the 155 miles of dry border separating Brazil from Paraguay in the marijuana-producing area of Amambay. Paraguay has no aerial radars available to monitor the constant flights of small planes taking drugs in and out of the country.

Given these circumstances, priority is given to catching weapons and drugs, according to a Brazilian official speaking to me on condition of anonymity. Smugglers of cigarettes, electronics, and other consumer goods crisscrossing the river daily are left unmolested due to insufficient resources. Recent steps announced by the new interim government of Brazilian President Michel Temer, if followed by concrete action, are a welcome change. Brazil has announced the deployment of a large permanent military presence to secure the Paraguay-Brazil

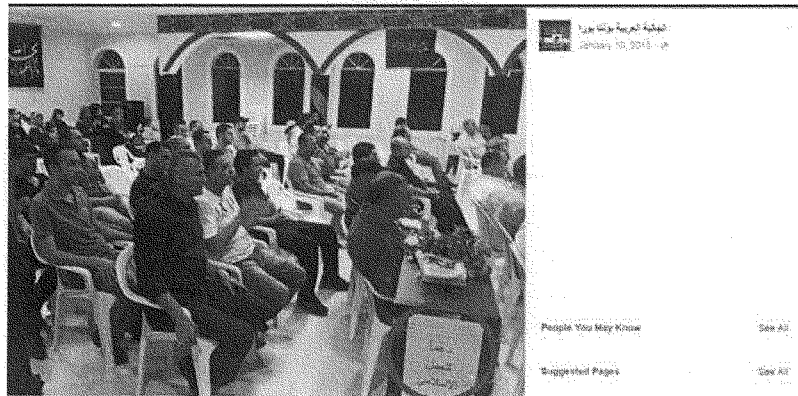
<sup>12</sup> Silvia Antelo Aguilar, "El desafío de Bolpebra en las políticas de desarrollo fronterizo (The Challenges of Bolpebra in the border development policies)," *Sol del Pando* (Paraguay), August 30, 2014. (<http://www.soldepando.com/el-desafio-de-bolpebra-en-las-politicas-de-desarrollo-fronterizo/>)

<sup>13</sup> Pablo Ferri y José Luis Pardo, "El aroma verde de la tierra roja (The green aroma of the red land)," *Domingo Universal* (Mexico), July 27, 2014. (<http://www.domingoeluniversal.mx/historias/detalle/El+aroma+verde+de+la+Tierra+Roja-2682>)

border and the formation of an executive committee to coordinate border controls.<sup>14</sup> But more is needed to secure the frontier.

In particular, the TBA remains a critical transit point for illicit traffic, especially if one extends its area to cover the entire border running between Ciudad Del Este in the south to Pedro Juan Caballero in the north. Both Hezbollah and the PCC, as well as other criminal and terror organizations, have taken roots in Paraguay, especially in the borderlands.<sup>15</sup>

Hezbollah is able to play a role because of sympathetic Shi'a communities involved in cross-border trade. Some of them are simply sympathizers who donate charity money to the group; some are more actively involved and participate in complex trade schemes designed to support illicit finance. Local organized crime is often a partner because its interests in money laundering revenues converge with those of Hezbollah.



*Charity box for the "resistance" – namely Hezbollah's military activities – at the Ponta Porã mosque on the Brazilian side of the Paraguay-Brazil border.<sup>16</sup>*

<sup>14</sup> "Brazil prepara un batacazo al comercio de Ciudad Del Este (Brazil prepares a crackdown on business in Ciudad del Este)," *ADN Paraguay* (Paraguay), May 27, 2016. (<http://www.adndigital.com.py/brasil-prepara-un-batacazo-al-comercio-de-ciudad-del-este/>)

<sup>15</sup> Kyra Gurney, "Arrest of Key Operative Points to Growing PCC Presence in Paraguay," *Insight Crime*, June 4, 2014. (<http://www.insightcrime.org/news-briefs/arrest-of-key-operative-points-to-growing-pcc-presence-in-paraguay>). The operative mentioned in the article, Ledson Moura de Silva (alias "Ledhinho"), was arrested in Pedro Juan Caballero, across the border from the Brazilian city of Ponta Porã.

<sup>16</sup> The sign says: "In Support (*da'aman*) of Islamic Activity." According to FDD's David Daoud, Hezbollah charity boxes collecting money for resistance activities, which are found throughout South Lebanon, are labeled "*da'am*" – and that money goes specifically to "resistance" activities. الجمعية العربية بورتا بورتا (Ponta Porã Arab Community), Facebook, January 10, 2015. (<https://www.facebook.com/photo.php?fbid=363431013837517&set=pb.100005118647246.-2207520000.1462376627.&type=3&theater>)

Hotspots for this type of activity include Encarnacion at the Argentine-Paraguay border in the southeast; Salto de Guairá, on the northern side of the Paraná River section of the Paraguay-Brazil border; and, further west, Pedro Juan Caballero (Paraguay) and Ponta Porã (Brazil). These locations deserve as much attention from U.S. authorities as the TBA.

Before discussing how trade-based money laundering functions in Paraguay for the benefit of Hezbollah and its organized crime partners, I wish to highlight the importance of ongoing Hezbollah networks in the TBA.

#### *Lebanese communities*

Terror organizations, much like organized crime, benefit from the acquiescence and complicity of local populations. Sympathy to the terrorists' political cause becomes a key enabler to their activities. Latin America is no exception, and Hezbollah relies on local supporters. They are mainly members of Shi'a families from South Lebanon who moved to Latin America – mostly to Argentina, Brazil, and Paraguay, and to a lesser extent Venezuela and other countries – during Lebanon's civil war in the early 1980s or soon thereafter. According to Brazilian-Lebanese political scientist Hussein Kalout, Muslim Lebanese have assimilated less into Brazilian society than their Christian counterparts, keeping a much stronger bond with their faith and language and transmitting them down to the next generations.<sup>17</sup>

The arrival of the Lebanese Shi'a in Latin America coincided with two additional key events: in Lebanon, the establishment of Hezbollah rapidly coopted the Shi'a population in the south to its ideology. In Latin America, a well-coordinated effort by the newly established Islamic Republic of Iran to export its revolution began recruiting support among Shi'a expatriate communities.

These two distinct but interconnected phenomena reinforced one another. Local communities that were less willing to assimilate and integrate were more receptive to teachers and preachers from their motherland. Iran's outreach relied mainly on Shi'a clerics of Lebanese extraction who came from the ranks of the newly established Iranian proxy Hezbollah, and thus embraced the Iranian revolutionary principle of loyalty to Iran's supreme leader while not inking Arab sensitivities. To this day, Hezbollah plays a central role in the management of the religious and educational structures tasked with transmitting a strong Lebanese-Shi'a identity to local communities, ensuring that their allegiance is tilted toward the organization.

This patient work conducted over more than three decades by a growing rank of clerics has borne fruit. Today, Shi'a mosques across Latin America are fully integrated into Hezbollah's and Iran's clerical structure; so are numerous schools and scouts groups, where the themes of resistance, anti-imperialism, and hatred for Israel are seamlessly weaved into the school curriculum and the religious calendar. Hezbollah media platforms, like Iran's, have developed Spanish and Portuguese language versions, including media outlets that are entirely hosted, produced, and staffed locally.

<sup>17</sup> Quoted by Joe Dike, "How the Lebanese conquered Brazil," *Executive Magazine*, July 3, 2014. (<http://www.executive-magazine.com/business-finance/society/lebanese-conquered-brazil>)

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The results are frightening. For example, numerous members of the Lebanese community in the TBA have posted memorial pictures of slain Hezbollah commander Mustafa Badreddine on their social media pages since his death in May 2016.<sup>18</sup>



Brazilian-Lebanese national and São Paulo resident Haji Hayat Kabbout eulogizes Mustafa Badreddine on May 14, 2016, on Facebook, a day after his death was announced.<sup>19</sup>



Brazilian-Lebanese national and Foz do Iguaçu resident Ali Maarouf Zahoui posts Badreddine's photo as his Facebook profile.<sup>20</sup>

<sup>18</sup> Anne Barnard and Sewell Chan, "Mustafa Badreddine, Hezbollah Military Commander, Is Killed in Syria," *The New York Times*, May 13, 2016. ([http://www.nytimes.com/2016/05/14/world/middleeast/mustafa-badreddine-hezbollah.html?\\_r=0](http://www.nytimes.com/2016/05/14/world/middleeast/mustafa-badreddine-hezbollah.html?_r=0))

<sup>19</sup> Haji Hayat Kabbout, Facebook, May 14, 2016. (<https://www.facebook.com/hajihayat.kabbout>)



Paraguayan resident of Ciudad Del Este Ahmad Ali Krayem memorializes Mustafa Badreddine on Facebook, May 13, 2016.<sup>21</sup>

Connections to Iran and Hezbollah are constantly reinforced by the steady stream of Iranian and Lebanese senior clerics who visit the region. Recent visits include Iranian clerics Mahmoud Mohammadi Araghi (the director of Iran's seminar for the training of foreign converts in Qom, Al-Mustafa International University) in July 2015;<sup>22</sup> Seyed Hassan Khomeini (grandson of Iran's late supreme leader Ruhollah Ayatollah Khomeini) in June 2015;<sup>23</sup> and Mohsen Qomi (a member of Iran's Assembly of Experts) in December 2012.<sup>24</sup> Lebanese cleric Seyed Ahmad

<sup>20</sup> Ali Maarouf Zahoui, *Facebook*, accessed June 2, 2016. (<https://www.facebook.com/ali.m.zahoui>)

<sup>21</sup> Ahmad Ali Krayem, *Facebook*, accessed June 2, 2016. (<https://www.facebook.com/armando.krayem>)

<sup>22</sup> Arresala – Centro Islâmico no Brasil, *Flickr*, “Sua Eminência Sheikh Mahmoud Mohammadi Araghi, diretor da Universidade Internacional Al-Mustafa, acompanhado de outros membros da instituição, visitaram a sede do Centro Islâmico no Brasil e acompanharam de perto os trabalhos e projetos da entidade (Your Eminence Sheikh Mahmoud Mohammadi Araghi, director of the Internatinoal University of Al Mustafa, accompanied by other members of the institution, visited the headquarters of Centro Islamico in Brazil and followed closely the works and projets of the organization),” July 2015. (<https://www.flickr.com/photos/arresala/albums/72157656707645662>)

<sup>23</sup> Arresala – Centro Islâmico no Brasil, *Flickr*, “No sábado, dia 1 de Dezembro de 2012, o Ayatullah Sheikh Mohsen Ghomi realizou um encontro com a comunidade islâmica brasileira, intelectuais e líderes sociais na sede do Centro Islâmico no Brasil, na cidade de São Paulo (On Saturday, December 1, 2012, the Ayatolah Sheikh Mohsen Ghomi held a meeting with the Islamic Brazilian community, intellectuals and social leaders at the headquarters of the Islamic Center of Brazil in the city of São Paulo),” June 9, 2015.

(<https://www.flickr.com/photos/arresala/albums/72157654244588066>)

<sup>24</sup> Arresala – Centro Islâmico no Brasil, *Flickr*, “No sábado, dia 1 de Dezembro de 2012, o Ayatullah Sheikh Mohsen Ghomi realizou um encontro com a comunidade islâmica brasileira, intelectuais e líderes sociais na sede do Centro Islâmico no Brasil, na cidade de São Paulo (On Saturday, December 1, 2012, the Ayatolah Sheikh Mohsen Ghomi held a meeting with the Islamic Brazilian community, intellectuals and social leaders at the headquarters of the Islamic Center of Brazil in the city of São Paulo),” December 1, 2015. (<https://www.flickr.com/photos/arresala/albums/72157654244588066>)

Fadhlullah, the son of the late Lebanese Grand Ayatollah Seyed Mohammad Hussein Fadlallah, also visited in November 2015.<sup>25</sup>



*Hassan Khomeini with Iran's Ambassador to Brazil and the U.S.-sanctioned Bilal Mohsen Wehbe in São Paulo (June 2015).*

The dual role of Shi'a clerics as religious and political emissaries of the Islamic revolution was underscored in 2010 when the U.S. Treasury identified Bilal Mohsen Wehbe, a Shi'a religious minister, as Hezbollah's representative in Latin America. According to Treasury, Wehbe "relayed information and direction between Hezbollah leaders in Lebanon and Hezbollah elements in South America," and oversaw its counterintelligence activity in the tri-border area of Argentina, Brazil, and Paraguay.<sup>26</sup> Wehbe, who is currently associated with the Mesquita do Bras in São Paulo, continues his activities undisturbed.

Another example is Sheikh Ghassan Youssef Abdallah, a Lebanese cleric who lives in Foz de Iguaçu. Abdallah is the brother of U.S.-sanctioned Mohammed Youssef Abdallah, who also resides in Foz. Treasury designated Mohammed Abdallah in 2006 and identified him as the owner and manager of the Galeria Pagé in Ciudad Del Este. At the time, Treasury viewed him as a senior Hezbollah leader in the TBA who hosted fundraisers for the terror group, personally carried money to Lebanon, met with Hezbollah's security division to coordinate Hezbollah activities in the TBA, and also engaged in a variety of financial crimes, including "the import of contraband electronics, passport falsification, credit card fraud, and trafficking counterfeit U.S. dollars."<sup>27</sup>

<sup>25</sup> Arresala – Centro Islâmico no Brasil, *Flickr*, "Seyyed Ahmad Fadlallah visita o Centro Islâmico no Brasil (Seyyed Ahmad Fadlallah visited the Islamic Center of Brazil)," November 14, 2015. (<https://www.flickr.com/photos/arresala/albums/72157658999093763>)

<sup>26</sup> U.S. Department of the Treasury, Press Release, "Treasury Targets Hizballah Financial Network," December 9, 2010. (<https://www.treasury.gov/press-center/press-releases/Pages/tg997.aspx>)

<sup>27</sup> U.S. Department of the Treasury, Press Release, "Treasury Targets Hezbollah Fundraising Network in the Triple Frontier Region of Argentina, Brazil, and Paraguay" December 6, 2006. (<https://www.treasury.gov/press-center/press-releases/Pages/hp190.aspx>)

Chilean government sources personally confirmed to me that, much like his brother, Ghassan Abdallah is linked to Hezbollah. He is active in Chile through the local Shi'a center in the capital Santiago,<sup>28</sup> and once ran the Shi'a mosque in Ciudad Del Este,<sup>29</sup> which his brother helped establish. Ghassan Abdallah was also one of a handful of Latin American-based Shi'a clerics to attend the Ahlul Bayt World Assembly international gathering in Qom in August 2007 – an indication of his senior rank and closeness to the office of the supreme leader, under whose auspices the Assembly operates.<sup>30</sup>

Through its clerics, Hezbollah cultivates the loyalty of Shi'a communities in Latin America by providing educational services. One example is the *Grupo Escoteiro Libanese Brasileiro* (GELB), or the Lebanese Brazilian Scouts Group attached to Shi'a mosques and communities in numerous Brazilian cities. GELB has the outward appearances of youth movements, but is actually the mirror image of Hezbollah's Mahdi scouts,<sup>31</sup> led by Lebanese instructors<sup>32</sup> who do not hide<sup>33</sup> their sympathy for Hezbollah, and, in São Paulo, supervised by Wehbe,<sup>34</sup> the U.S.-sanctioned Hezbollah cleric.

Images available on GELB's Facebook pages show its members conducting military drills during last year's May 25 celebrations<sup>35</sup> ("Liberation Day"), which marks the date of Israel's 2000 withdrawal from South Lebanon. During the Ashura ceremonies in October 2015, scouts and their instructors at the Mesquita do Bras in São Paulo were wearing Hezbollah T-shirts<sup>36</sup>

<sup>28</sup> "Sheij Ghassan Abdallah," *Centro Cultura Islamica Chile: Corporacion de Cultura y Beneficencia Islamica* (Chile), accessed June 6, 2016. (<http://islamchile.com/home/sheij-ghassan-abdallah/>)

<sup>29</sup> Associação Religiosa Beneficiente Islamica no Brasil, "Quarto Encontro Internacional da Assembléia Mundial Ahlul Bait (A.S.) (Fourth Meeting of the International World Ahlul Bayt Assembly)," August 18, 2007. ([http://www.mesquitadobras.org.br/not\\_vis.php?op=9&cod=10&pagina=28](http://www.mesquitadobras.org.br/not_vis.php?op=9&cod=10&pagina=28))

<sup>30</sup> Associação Religiosa Beneficiente Islamica no Brasil, "Quarto Encontro Internacional da Assembléia Mundial Ahlul Bait (A.S.) (Fourth Meeting of the International World Ahlul Bayt Assembly)," August 18, 2007. ([http://www.mesquitadobras.org.br/not\\_vis.php?op=9&cod=10&pagina=28](http://www.mesquitadobras.org.br/not_vis.php?op=9&cod=10&pagina=28))

<sup>31</sup> منتدى مهدي الكشفي/جمعية كشافة الإمام المهدي (Mahdi Scout Forum / Imam al-Mahdi Scouts Association), Facebook, accessed June 6, 2016. (<https://www.facebook.com/MahdiScoutForum/timeline>). The logos of the two scouts groups coincide: Gelb-sp-396, Facebook, accessed June 6, 2016. (<https://www.facebook.com/Gelb-sp-396-825890264125053/>)

<sup>32</sup> See for example علي محمد الزين (\*Ali Mohammad al-Zein), Facebook, accessed June 6, 2016. (<https://www.facebook.com/profile.php?id=100008799946911>) and Hassan Ataya, Facebook, accessed June 6, 2016. (<https://www.facebook.com/hassan.ataya.52>)

<sup>33</sup> Haissam Fahes, Facebook, accessed June 6, 2016. (<https://www.facebook.com/haissam.fahes>)

<sup>34</sup> Gelb-sp-396, Facebook, May 27, 2015. (<https://www.facebook.com/825890264125053/photos/a.832782546769158.1073741838.825890264125053/832786926768720/?type=3&theater>)

<sup>35</sup> Gelb-sp-396, Facebook, May 27, 2015. (<https://www.facebook.com/825890264125053/photos/a.832782546769158.1073741838.825890264125053/832786256768787/?type=3&theater>)

<sup>36</sup> Gelb-sp-396, Facebook, October 24, 2015. (<https://www.facebook.com/825890264125053/photos/a.896940400353372.1073741880.825890264125053/896941590353253/?type=3&theater>)

showing its logo and the Ashura 2015 logo<sup>37</sup> designed by Hezbollah's media relations department.<sup>38</sup>



*Children from the Grupo Escoteiro Libanese-Brasileiro at Ashura events in Sao Paulo's Mesquita do Bras on October 24, 2015, wearing Hezbollah T-shirts with the official Hezbollah Ashura logo for 2015.*

Hezbollah is also presumed to have an active role in running Shi'a Lebanese schools in the TBA. Ahde Hade, senior educator with Hezbollah's Al Mahdi Schools in Lebanon, is connected through social media to key personnel among scouts leaders and educators such as Wehbe; Amara Abbas,<sup>39</sup> the head of the scouts in Foz; Nisrine Berri,<sup>40</sup> a senior manager; Michelle Hussein, the human resources manager;<sup>41</sup> and Fadia Ibrahim,<sup>42</sup> a teacher at São Paulo's Colegio Islamico-Brasileiro. The confluence of symbols, social media connections, and expressions of support for Hezbollah<sup>43</sup> all suggest that the schools catering to the Lebanese Shia in Brazil and the TBA might be an integral part of Hezbollah's Al-Mahdi network, and are intent on molding young Brazilian Shi'a to be supporters of Hezbollah.

<sup>37</sup> Gelb-sp-396, Facebook, October 24, 2015.

(<https://www.facebook.com/825890264125053/photos/a.897072987006780.1073741881.825890264125053/897073933673352/?type=3&theater>)

<sup>38</sup> "الحسين سر انتصارنا الشعار الرسمي لحملة عاشوراء 1437 - 2015" (Al-Hussein: the Secret of our Victories: The Official Logo of the Ashura Campaign 2015-1437), *Media Relations of Hezbollah* (Lebanon), accessed June 6, 2016. (<http://www.mediarelations-lb.org/article.php?id=14134&cid=324#.VxVY23qjBWB>)

<sup>39</sup> Amara Abbas, Facebook, accessed June 6, 2016. (<https://www.facebook.com/amara.abbas>)

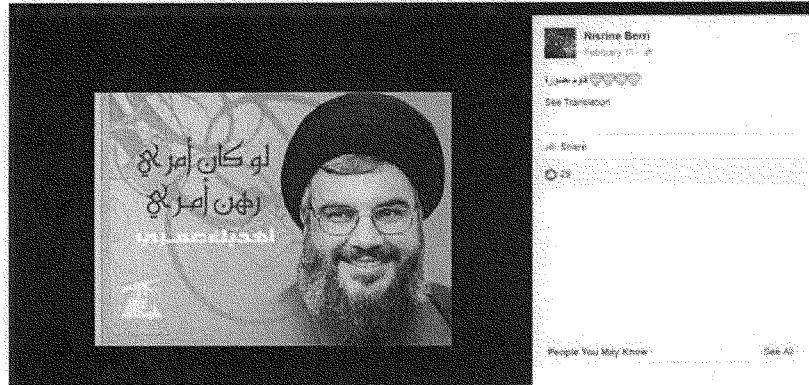
<sup>40</sup> Nisrine Berri, Facebook, accessed June 6, 2016. (<https://www.facebook.com/nisrine.berri>)

<sup>41</sup> Michele Hussein, Facebook, accessed June 6, 2016. (<https://www.facebook.com/muslimah.filhadoislam>)

<sup>42</sup> Fadia Ibrahim, Facebook, accessed June 6, 2016. (<https://www.facebook.com/fadia.ibrahim.12>)

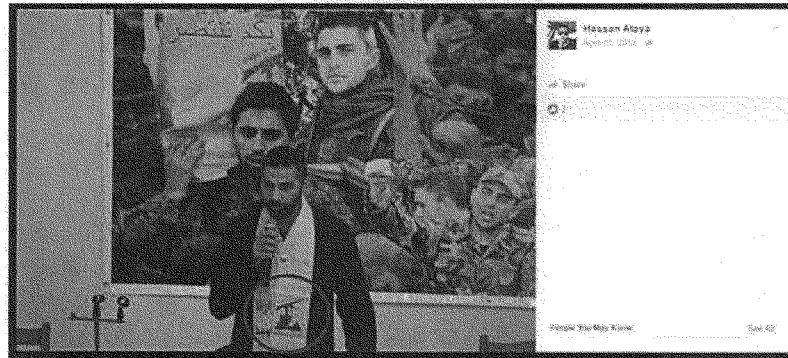
<sup>43</sup> Nisrine Berri, Facebook, February 11, 2016 (<https://www.facebook.com/photo.php?fbid=10153320961311860&set=a.10150877987416860.407698.723761859&type=3&theater>)





*"I love Hezbollah" image posted by Nisrine Berri, a manager at São Paulo's Colegio Islamico Brasileiro, on February 11, the anniversary of Iran's Islamic Revolution of 1979.*

Hezbollah's cult of martyrdom is also prevalent. In June 2014, the Imam Ali mosque in Curitiba – the regional capital of the Brazilian state of Paraná – hosted a well-attended memorial service for Alaa Ataya, a young Hezbollah fighter killed in Syria<sup>44</sup> in March 2014. Hassan Ataya, his Brazilian uncle, led the memorial clad in a Hezbollah scarf<sup>45</sup> and exalted the young fallen as a role model. Ataya himself is a scout leader.

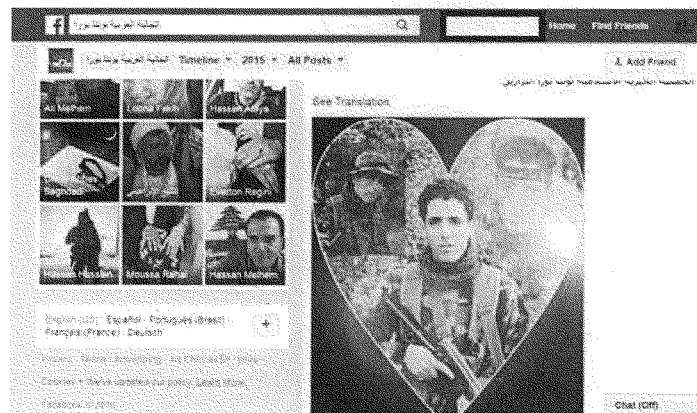


<sup>44</sup> Submit Regime Army Info, *Violation Documentation Center in Syria*, accessed June 6, 2016. (<http://www.vdc-sy.info/index.php/en/details/otherstatistics/121801#.VxRTwfrLcs>)

<sup>45</sup> Hassan Ataya, *Facebook*, April 15, 2014. (<https://www.facebook.com/photo.php?fbid=610243135719751&set=pb.100002022111019.-2207520000.1460950059.&type=3&theater>)

*Scout leader Hassan Ataya eulogizes his nephew, Alaa Ataya, at the Imam Ali Mosque in Curitiba (April 2014).*

More recently, the Shi'a community in Ponta Porã informed its members of the “martyrdom” of Abbas Naseeb Haraz, a relative of a community member from Paraguay – likely from Pedro Juan just across the border – and announced an event to commemorate the fallen Hezbollah fighter.<sup>46</sup>



*Ponta Porã's mosque's Facebook page posting for March 20, 2015, informing the community of the martyrdom of Abbas Naseeb Haraz, a relative of a member of the community.*

Community members routinely post photographs of the Brazilian flag juxtaposed with the Hezbollah logo<sup>47</sup> and photos of young Hezbollah men in South Lebanon proudly holding the same flag.<sup>48</sup> Hezbollah T-shirts can even be purchased online for 30 Brazilian *reals*, or less than \$10.<sup>49</sup>

<sup>46</sup> The message noted that “In the Name of the Almighty. We are pleased to announce to you the news of the martyrdom of the *mujahid* brother Abbas Naseeb Haraz. His relatives in Paraguay (Ali Haraz). And on this occasion we invite you to hold a *Husseini* mourning meeting over His pure soul To be held on Friday, which falls on 03/20/2015 At 7:30 (Brazil time). This is an open invitation. The mourning Haraz family and all of the members of the Arab community of Ponta Porã. The Islamic Charitable Foundation, Ponta Porã, Brazil.”

<sup>47</sup> Chris Heinz, *Facebook*, accessed June 5, 2016.

(<https://www.facebook.com/photo.php?fbid=836256163160105&set=a.134465046672557.25209.100003271888084&type=3&theater>)

<sup>48</sup> Chris Heinz, *Facebook*, accessed June 5, 2016.

(<https://www.facebook.com/photo.php?fbid=771199342999121&set=a.134465046672557.25209.100003271888084&type=3&theater>)

<sup>49</sup> “Camiseta Hezbollah (Hezbollah Shirt),” *Camisetas BR* (Brazil), accessed June 6, 2016.

(<http://www.camisetasbr.com/10e83/camiseta-hezbollah-militares>)



*Profile picture of Cris Heinz, a Brazilian convert to Shi'a Islam married to Mustapha Sabra, a Hezbollah sympathizer from Foz do Iguassu (November 2015).*

Hezbollah and Iran also maintain a strong media presence in the Spanish language. Iranian-sponsored media for Latin America include Hispan TV, the Ahlul Bayt News Agency Spanish version,<sup>50</sup> Radio El Minarete,<sup>51</sup> Annur TV<sup>52</sup> and Takbir TV.<sup>53</sup>

Hezbollah too has devoted considerable attention and resources to Muslim audiences in Latin America. Both Al-Manar<sup>54</sup> and Al-Mayadeen<sup>55</sup> have a Spanish version. Al-Mayadeen also has a subsidiary in the TBA, based in Foz do Iguassu – *A Fronteira*<sup>56</sup> and its Arabic version, *Shabakat Al-Hudud*.<sup>57</sup> The Foz do Iguassu-based network is owned by Ahmad Yassine Hejazi,<sup>58</sup> a local

<sup>50</sup> "Home Page," *Agencia de Noticias Ahlul Bayt*, accessed June 6, 2016. (<http://es.abna24.com/>)

<sup>51</sup> Diario Co Latino, "Asociacion Islamica Chiita inaugural Radio El Minarete (Shiite Islamic Association inaugurate Radio El Minarete)," December 30, 2015. (<http://www.diariocolatino.com/asociacion-islamica-shiita-inaugura-radio-el-minarete/>)

<sup>52</sup> "Homepage," *Annur TV* (Argentina), accessed June 6, 2016. (<http://annurtv.com/sitio/>) and Annur TV, Facebook, accessed June 6, 2016. (<https://www.facebook.com/AnnurTV/>)

<sup>53</sup> Takbir TV, Facebook, accessed June 2, 2016. (<https://www.facebook.com/TakbirTV/>)

<sup>54</sup> Al Manar Espanol is both available directly from Al Manar website (<http://spanish.almanar.com.lb/main.php>) or from its Facebook Page (<https://www.facebook.com/AlManarSpanish/>).

<sup>55</sup> Al Mayadeen Espanol is available directly from Al Mayadeen's website (<http://espanol.almayadeen.net/>)

<sup>56</sup> "Homepage," *Afronteira* (Brazil), accessed June 6, 2016. ([www.afronteira.com/br/](http://www.afronteira.com/br/))

<sup>57</sup> Shabakat Alhudud, Facebook, accessed June 6, 2016. (<https://www.facebook.com/Shabakat.Alhudud>)

<sup>58</sup> "Quem Somos (Who We Are)," *Afronteira* (Brazil), accessed June 6, 2016. (<http://www.afronteira.com/br/quem-somos>)

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Lebanese businessman with Brazilian nationality, and is run by Ali Farhat,<sup>59</sup> a Brazilian-Lebanese resident of Foz do Iguassu who studied journalism at the local university.

The overlap between religious, political, intelligence, and financial activities by the same individuals highlights the difficulty of treating charitable activities as separate categories from radicalization, and terror fundraising. Hezbollah generates loyalty through apparently benign social structures. It then leverages loyalty to solicit funds and use business connections to its own advantage.

#### **Lack of adequate legislative measures to combat terrorism and terror finance**

These networks have been able to thrive partly because Brazil lags behind its Western counterparts in the adoption of legislative tools to combat terrorism and terror finance. Brazil only recently adopted anti-terror legislation,<sup>60</sup> after, in February 2016, the Financial Action Task Force's plenary lamented "Brazil's continued failure to remedy the serious deficiencies" and its failure to criminalize terror-financing.<sup>61</sup> The new legislation stipulates that recruitment, training, and finance of terrorism are also punishable acts. Radicalization and incitement, however, are not, nor are the display of symbols and flags of Hezbollah at demonstrations and sports events.



<sup>59</sup> Ali S Farhat, *Facebook*, accessed June 6, 2016. (<https://www.facebook.com/farhatfoz>)

<sup>60</sup> LEI 13.260, 3.16.2016. (Brazil Regulatory Law 13.260, March 16, 2016) ([http://www.planalto.gov.br/CCIVIL\\_03/\\_Ato2015-2018/2016/Lei/L13260.htm](http://www.planalto.gov.br/CCIVIL_03/_Ato2015-2018/2016/Lei/L13260.htm)) See here for an explanation of the law: Eduardo Soares, "Brazil: New Anti-Terrorism Law Enacted," *Library of Congress*, April 15, 2016. (<http://www.loc.gov/law/foreign-news/article/brazil-new-anti-terrorism-law-enacted/>)

<sup>61</sup> Financial Action Task Force, "Outcomes of the plenary meeting of the FATF, Paris, 17-19 February 2016," accessed June 5, 2016. (<http://www.fatf-gafi.org/countries/a-c/brazil/documents/outcomes-plenary-february-2016.html>)

*A pro-Hezbollah demonstration in the Avenida Paulista, in São Paulo (summer 2006).<sup>62</sup>*



*Cheering Iran and Hezbollah during the Iran-Nigeria world cup soccer match, Curitiba Stadium (June 16, 2014).<sup>63</sup>*

The TBA offers proof of how the absence of proper local legislative tools to combat terror finance has limited the impact of U.S. measures to counter it. Interest in the TBA began in the 1990s and culminated with Treasury designations against nine individuals and two corporate entities (the shopping center Galeria Pagé and Casa Hamze, a business located in it that was owned by the U.S.-sanctioned Hamzi Ahmad Barakat).<sup>64</sup> I visited Galeria Pagé in April 2016. The shopping mall is still there – it has been renamed Galeria Uniamérica, although street currency traders serving its shops were still wearing its distinctive turquoise T-shirts.<sup>65</sup>

Despite U.S. designations, Barakat continued his business activities until his arrest in Brazil in 2013, not for terror finance but fraud. His arrest is the best indication that the 2006 terrorist designation may have cut him off from the U.S. financial system but allowed him to continue to operate his businesses with impunity. It ultimately took a set of financial crimes in Brazil for authorities to take action against him.<sup>66</sup>

<sup>62</sup> Arresala – Centro Islâmico no Brasil, Flickr, “Manifestações em favor do Líbano e seu povo (Rallies in favor of Lebanon and its people),” August 6, 2006. (<https://www.flickr.com/photos/arresala/5349132338/>)

<sup>63</sup> Gamal Oumairi, Facebook, June 16, 2014.

(<https://www.facebook.com/photo.php?fbid=465339460269336&set=a.118174064985879.20187.100003798585566&type=3&theater>). Oumairi is the religious director of the Imam Ali Mosque in Curitiba, the regional capital of the Parana State and a key hub of Hezbollah activities. He personally took the photo before the Iran-Nigeria 2014 World Cup soccer match on June 16, 2014, adding the comment that “The Resistance showed its presence too.”

<sup>64</sup> U.S. Department of the Treasury, Press Release, “Treasury Targets Hizballah Fundraising Network in the Triple Frontier of Argentina, Brazil, and Paraguay,” December 6, 2006. (<https://www.treasury.gov/press-center/press-releases/Pages/hp190.aspx>)

<sup>65</sup> “Listas de preços: Todos as Lojas (List of Prices: All Stores),” *Compras no Paraguai* (Paraguay), accessed June 6, 2016. (<http://www.comprasnoparaguai.com/precos.php?fprod=n&wcat=galt+page>)

<sup>66</sup> “Libanés buscado por terrorismo en la Triple Frontera, cae por estafa de USD 5 millones (Lebanese sought for terrorism in the Tri-Border, caught for a scam for 5 Million USD),” *Ultima Hora* (Paraguay), May 20, 2013. (<http://www.ultimahora.com/libanes-buscado-terrorismo-la-triple-frontera-cae-estafa-usd-5-millones-n621286.html>)

**Case study: the Mega-evasion investigation in the TBA**

Having described the conditions that facilitate Hezbollah's operations in the TBA and its probable cooperation with drug traffickers, I will now turn to explaining the mechanism through which money is laundered there by terror organizations and organized crime. I will do so through reference to a recently leaked investigation into a tax evasion scheme in Ciudad Del Este, which local authorities have dubbed a "Mega-evasion" due to the participation of 285 local companies in the scheme.

The "Mega-evasion" investigation<sup>67</sup> exposed a group of local accountants who had issued false invoices on behalf of 285 companies and people registered in the TBA in order to evade taxes (Paraguayan authorities estimate the fraud at \$270 million).<sup>68</sup>

The list was leaked in February 2016 as the investigation got underway.<sup>69</sup> As part of this investigation, authorities looked into a cluster of six companies on the list of suspects and established a possible link to Islamic terrorism. They also identified a Lebanese national and holder of a Paraguayan identity number, Ja'afar Balhas, as a shareholder in three of the six companies.

<sup>67</sup> "Destapan nueva mega evasion (Uncovering a New Mega Evasion)," *Paraguay.com* (Paraguay), June 4, 2015. (<http://www.paraguay.com/nacionales/destapan-nueva-mega-evasion-129013>)

<sup>68</sup> "Mega-evasion" por USD 270 millones ("Mega Evasion" for 270 million USD)," *La Nacion* (Paraguay), February 10, 2016. (<http://www.lanacion.com.py/2016/02/10/Mega-evasion-millonaria-por-usd-270-millones/>)

<sup>69</sup> "Salta lista de las empresas investigada por Mega-evasion en Ciudad Del Este (List of companies investigated for Mega Evasion in Ciudad Del Este)," *ABC Color* (Paraguay), February 12, 2016. (<http://www.abc.com.py/edicion-impresa/economia/salta-lista-de-empresas-investigadas-por-Mega-evasion-en-ciudad-del-este-1452500.html>)

**UYA PARAGUAY S.A.**

C.I.P.N.	Nombres	Apellidos	Capital	Rol
5.983.765	JAAFER	BALTHAS	6.800.000.000	Director Titular
1.687.518	RICARDO	GALEANO FARINA	6.800.000.000	Accionista
5.368.002	ARACELY MARIA CELESTE	GONZALEZ	6.800.000.000	Sindaco Titular
2.196.376	MAIED MOHAMAD SAID	MOHAMMA	6.800.000.000	Vice presidente
3.399.060	JUAN CARLOS	SOSA BARRETO	6.800.000.000	Accionista
4.183.299	WALID AMINE	SWEID	6.800.000.000	Presidente
1.972.740	VICTOR MANUEL	TABGADA SERKATI	6.800.000.000	Director Titular

Varias de estas personas vuelven a vincularse en distintas empresas dedicadas en mayor o menor medida a la importación de productos electrónicos, maquinarias y su posterior venta. Comprende a

There is a second Lebanese partner in the cluster of companies – Walid Amine Sweid. Sweid is a prominent businessman who lives in the TBA and is associated with a number of successful business endeavors in recent years, including the establishment of a local factory for the production of blank CDs and DVDs. Sweid is the common thread connecting the six companies, all of them tied through the presence, as a shareholder or an employee, of Maria Celeste Aracely Gonzalez, a Paraguayan resident of Ciudad Del Este who works for Sweid.

It remains to be seen whether Sweid and Balhas act as financiers of Hezbollah or whether their companies will be convicted in the Mega-evasion case. Their network of companies is interesting, nevertheless, because it illustrates how money and merchandise are moved around in the TBA.

Las personas que formaban parte de las empresas vinculadas a la Sifa, González, obviándose lo siguiente:

**BRAYAT HOME CENTER S.A.**

C.I.F.N°	Nombres	Apellidos	Capital	Rol
6.663.765	JAAFAR	BALTHAS	2.000.000.000	Vicepresidente
2.162.004	ARACELY MARIA CELI STI	GONZALEZ	2.000.000.000	Actuaria
2.177.742	JOSÉ HENRIQUE	RAMÓN FERNÁNDEZ	2.000.000.000	Presidente
4.044.255	SABIDA A DEL CARMEN	SANTACRUZ AVEZADA	2.000.000.000	Sindico Titular
1.028.750	DIANA PATRICIA	ROSA GAVALLÓN	2.000.000.000	Sindico Suplente

De estas personas JAAFAR BALTHAS de nacionalidad Libanesa con cédula paraguaya N° 6.663.765 se halla vinculado a través de empresas, al caso denominado "Mega Evasión" acaecido en Ciudad del Este, en febrero del 2016, que involucra a 785 empresas y se halla investigada dentro de la Causa N° 09/2015 del Ministerio Público, en una "Investigación Fiscal sobre producción de documentos no auténticos, evasión de impuestos y asociación criminal".

According to an article in the Paraguayan press from August 2015,<sup>70</sup> Sweid is close to senior Paraguayan politicians, customs inspectors, and the Paraguayan-Lebanese businessman, and now Paraguay's ambassador to Lebanon, Hassan Khalil Dia. Dia's family is highly influential in the TBA. His brother Hussein Dia recently posted photos of himself with Brazil's newly sworn-in president Michel Temer outside the National Congress in Brasilia.<sup>71</sup> Hussein Dia owns Colisee SRL<sup>72</sup> and Dia Imports Exports SRL<sup>73</sup> in Ciudad Del Este with his ambassador brother and another family member, Mahmoud, who is on the list of 285 companies and people investigated in the Mega-evasion case.

The Asuncion-based daily *ABC Color* published a photo of Sweid and ambassador Dia on a yacht, taken during a 2015 official visit by the president of Paraguay's parliament, Hugo Velázquez, to Lebanon. Sweid was described as a key player in the shipment of merchandise

<sup>70</sup> "Ex-Fiscal de Marcas con Velázquez, en el Líbano (Ex- Attorney of Brands with Velazquez, in Lebanon)," *ABC Color* (Paraguay), August 23, 2015. (<http://www.abc.com.py/edicion-impresa/politica/exfiscal-de-marcas-con-velazquez-en-el-libano-1400634.html>)

<sup>71</sup> Hussein Dia, *Facebook*, May 12, 2016.

(<https://www.facebook.com/photo.php?fbid=10153480550416498&set=a.10153480550441498.1073741829.631861497&type=3&theater>)

<sup>72</sup> "Colisee S.R.L." *Find the Company*, accessed June 6, 2016.

(<http://fichas.findthecompany.com.mx/l/128331633/Colisee-S-R-L-en-Ciudad-Del-Este>)

<sup>73</sup> "Dia Import. Export S.R.L." *Gaceta Oficial De La Republica Del Paraguay* (Paraguay), June 7, 2005.

([http://www.gacetaoficial.gov.py/uploads/pdf/2014/2014-02-13/gaceta\\_2066\\_BACKEEGDICBEDEJJDJFBCJCDJHJBCICDKBHEIKB.pdf](http://www.gacetaoficial.gov.py/uploads/pdf/2014/2014-02-13/gaceta_2066_BACKEEGDICBEDEJJDJFBCJCDJHJBCICDKBHEIKB.pdf))



from the Far East to the TBA, including shipments suspected of including counterfeited goods.<sup>74</sup> Global Logistics Solutions,<sup>75</sup> a Hong Kong-based company, was mentioned as the merchandise transportation company. Corporate filings for Global Logistics Solutions confirm that Sweid owns the company, which he established in 2014.<sup>76</sup>



Juan Carlos Duarte Martínez era superintendente de fiscales cuando Hugo Velázquez, actual titular de la Cámara de Diputados, se desempeñaba como fiscal general adjunto de Ciudad del Este. Ambos habían sido mencionados en comités sobre el tema de la

#### ETIQUETAS

HUGO VELÁZQUEZ EL LIBANO  
JUAN CARLOS DUARTE MARTÍNEZ

*Walid Sweid on a yacht with the Paraguayan ambassador to Lebanon, Hassan Khalil Dia, the president of the Paraguay parliament, Hugo Velazquez, and other Paraguayan officials. The photo was published by ABC Color in August 2015.*

<sup>74</sup> “Ex-Fiscal de Marcas con Velázquez, en el Líbano (Ex- Attorney of Brands with Velazquez, in Lebanon),” *ABC Color* (Paraguay), August 23, 2015. (<http://www.abc.com.py/edicion-impres/politica/exfiscal-de-marcas-con-velazquez-en-el-libano-1400634.html>): “Global Logistic es una empresa de transporte aéreo que ingresa al país mercaderías chinas por el aeropuerto Guarani de Minga Guazú. Esto a través de las firmas importadoras Manhattan, Multradi, Dimadi, Orel, Bambú, MZ Trading, La Roma, Michigan, Amanecer, Paraguay Informática y G.G.R SA. En reiteradas ocasiones las mercaderías fueron decomisadas por sospechas de falsificación, pero mayormente terminan siendo liberadas por los fiscales de marca de la zona.”

<sup>75</sup> Not to be confused with Global Logistics Solution (HK) Ltd. Sweid’s company appears to have deliberately used the same name (minus an ‘S’) of another transport company in Hong Kong. The domain name for Sweid’s company, [www.glsolution.com.hk](http://www.glsolution.com.hk) is almost the same as the other company ([www.glsolution.hk](http://www.glsolution.hk)).

<sup>76</sup> Corporate entries for the Hong Kong-based Global Logistics Solutions Co. Ltd show that the company was incorporated in 2014. The sole shareholder of Global Logistics Solutions is a Chinese national who is listed as 50% shareholder for Sweid’s other company in Hong Kong, Spaltec Electronics. Spaltec and Global Logistics Solutions share an address. Entries for both companies can be retrieved at the Hong Kong’s Search Centre of the Integrated Companies Registry Information System (<https://www.icris.cr.gov.hk/cscir/>) for a fee.

Along with Sweid, the photo showed Ricardo Galeano, a Paraguayan citizen who works for Sweid alongside Juan Carlos Sosa and Javier Vazquez. An ABC Color exposé of Sweid's businesses suggest that these men have political connections that allow the import of the fake products without paying taxes and "ensure that the whole system has the support of Customs officials, attorneys and business leaders."<sup>77</sup>

As indicated, trade-based money laundering relies on commercial goods that are not produced in Paraguay but imported into it. The weapons often smuggled across the Paraguay-Brazil border for the benefit of criminal cartels are also often legally imported into Paraguay and not produced there.

The porous nature of the borders, therefore, does not relate only to what *exits* Paraguay, but also how and which merchandise *enters* Paraguay.

A landlocked country whose main exports are agricultural products, Paraguay imports most of its consumer goods by land or air. Imports by sea come through nine ports in neighboring countries, where in each, a small area of the harbor facilities acts as a Paraguayan free port. Paraguay maintains free port facilities in Buenos Aires and Rosario (Argentina); Paranaguá, Santos, and Río Grande do Sul (Brazil); Antofagasta and Iquique (Chile); and Montevideo and Nueva Palmira (Uruguay). Some imports come into Paraguay's southern port of Encarnacion and to Asuncion on the Parana and Paraguay Rivers.

Goods also arrive by air cargo to both Asuncion and Ciudad Del Este. Ciudad Del Este, a city of almost 350,000 residents, has a functioning airport but almost no traffic – only three scheduled passenger flights to Asuncion. Nevertheless, the local airport has a runway that allows the landing of large cargo planes.

Two cargo airlines land at Ciudad Del Este's airport – Emirates' Sky Cargo and the Miami-based Centurion Air Cargo. The former flies weekly on Thursday nights to Ciudad Del Este from Dakar, Senegal before continuing on to Campinas, Brazil; Quito, Ecuador; Willemstad, Curacao; Amsterdam; and Frankfurt. Centurion Air usually flies from Miami and sometimes from other regional destinations. Its flights are more frequent, though not as regular as the Emirates' weekly flight.

Flight data obtained from a commercial flight tracker<sup>78</sup> show that since April 21, four out of six Emirates' Skycargo flights were diverted to Campinas. Centurion Air's flights are not as regular, though they are frequent, and usually come in from Miami, where the airline is based. Most merchandise imported for sale to Ciudad Del Este appears to be flying from Miami.

<sup>77</sup> "Acusan a despachantes paraguayos de liderar esquema de contrabando (Paraguayan brokers are accused of leading a contraband scheme)," *ABC Color* (Paraguay), August 9, 2013 (<http://www.abc.com.py/edicion-impresa/economia/acusan-a-despachantes-paraguayos-de-liderar-esquema-de-contrabando-604933.html>)

<sup>78</sup> Data obtained from Flight Radar 24 ([www.flightradar24.com](http://www.flightradar24.com)). Accessed June 3, 2016.

**Cargo Flights to Ciudad Del Este, December 2015 to June 2016**

Airline	Aircraft	Date	From	To	Flight Number	Notes
Emirates	77X/B77L	2-Jun-16	Dakar	Ciudad Del Este	EK9913	diverted to Campinas
Emirates	77X/B77L	27-May-16	Ciudad Del Este	Campinas	EK9913	
Emirates	77X/B77L	26-May-16	Dakar	Ciudad Del Este	EK9913	diverted to Campinas
Emirates	77X/B77L	20-May-16	Ciudad Del Este	Campinas	EK9913	
Emirates	A6-EFK	19-May-16	Dakar	Ciudad Del Este	EK9913	diverted to Campinas
Centurion Air Cargo	N904AR	16-May-16	Miami	Ciudad Del Este	GG551	
Centurion Air Cargo	N904AR	16-May-16	Miami	Ciudad Del Este	GG551	
Emirates	A6-EFK	13-May-16	Ciudad Del Este	Campinas	EK9913	
Emirates	A6-EFK	12-May-16	Dakar	Ciudad Del Este	EK9913	
Emirates	A6-EFG	5-May-16	Dakar	Ciudad Del Este	EK9913	
Centurion Air Cargo	N902AR	1-May-16	Ciudad Del Este	Montevideo	GG515	
Centurion Air Cargo	N902AR	30-Apr-16	Miami	Ciudad Del Este	GG515	
Emirates	A6-EFK	29-Apr-16	Ciudad Del Este	Campinas	EK9913	
Emirates	A6-EFK	28-Apr-16	Dakar	Ciudad Del Este	EK9913	
Centurion Air Cargo	N904AR	25-Apr-16	Ciudad Del Este	Bogota	GG351	
Centurion Air Cargo	N904AR	24-Apr-16	Miami	Ciudad Del Este	GG531	
Emirates	A6-EFL	21-Apr-16	Dakar	Ciudad Del Este	EK9913	diverted to Campinas
Centurion Air Cargo	N904AR	17-Apr-16	Ciudad Del Este	Bogota	GG514	
Centurion Air Cargo	N904AR	16-Apr-16	Miami	Ciudad Del Este	GG515	

Emirates	A6-EFM	15-Apr-16	Ciudad Del Este	Campinas	EK9913
Emirates	A6-EFM	14-Apr-16	Dakar	Ciudad Del Este	EK9913
Centurion Air Cargo	N902AR	10-Apr-16	Ciudad Del Este	Santiago	GG541
Centurion Air Cargo	N902AR	10-Apr-16	Miami	Ciudad Del Este	GG541
Emirates	A6-EFH	8-Apr-16	Ciudad Del Este	Campinas	EK9913
Emirates	A6-EFH	7-Apr-16	Dakar	Ciudad Del Este	EK9913
Centurion Air Cargo	N742WA	5-Apr-16	Ciudad Del Este	Asuncion	GG531
Centurion Air Cargo	N904AR	27-Mar-16	Ciudad Del Este	Asuncion	GG505
Emirates	A6-EFK	26-Mar-16	Ciudad Del Este	Campinas	EK9913
Emirates	A6-EFK	26-Mar-16	Dakar	Ciudad Del Este	EK9913
Centurion Air Cargo	N742WA	21-Mar-16	Ciudad Del Este	Asuncion	GG501
Centurion Air Cargo	N902AR	13-Mar-16	Ciudad Del Este	Santiago	KYE525
Centurion Air Cargo	N902AR	12-Mar-16	Miami	Ciudad Del Este	KYE525
Centurion Air Cargo	N742WA	7-Mar-16	Ciudad Del Este	Asuncion	KYE531
Centurion Air Cargo	N902AR	29-Feb-16	Ciudad Del Este	Santiago	KYE524
Centurion Air Cargo	N904AR	21-Feb-16	Ciudad Del Este	Santiago	KYE504
Centurion Air Cargo	N904AR	21-Feb-16	Miami	Ciudad Del Este	WE555
Centurion Air Cargo	N904AR	13-Feb-16	Ciudad Del Este	Buenos Aires	KYE531
Centurion Air Cargo	N904AR	13-Feb-16	Miami	Ciudad Del Este	KYE531
Centurion Air Cargo	N902AR	12-Feb-16	Ciudad Del Este	Santiago	KYE541
Centurion Air Cargo	N742WA	7-Feb-16	Ciudad Del Este	Santiago	WE531

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Emirates	A6-EFK	5-Feb-16	Ciudad Del Este	Campinas	EK9913	
Emirates	A6-EFH	4-Feb-16	Dakar	Ciudad Del Este	EK9913	
Emirates	A6-EFG	28-Jan-16	Dakar	Ciudad Del Este	EK9913	diverted to Campinas
Emirates	A6-EFJ	22-Jan-16	Ciudad Del Este	Campinas	EK9913	
Emirates	A6-EFJ	21-Jan-16	Dakar	Ciudad Del Este	EK9913	
Centurion Air Cargo	N742WA	17-Jan-16	Ciudad Del Este	Santiago	WE531	
Emirates	A6-EFK	15-Jan-16	Ciudad Del Este	Campinas	EK9913	
Emirates	A6-EFK	14-Jan-16	Dakar	Ciudad Del Este	EK9913	
Centurion Air Cargo	N742WA	10-Jan-16	Ciudad Del Este	Santiago	WE531	
Centurion Air Cargo	N742WA	10-Jan-16	Miami	Ciudad Del Este	KYE531	
Centurion Air Cargo	N742WA	21-Dec-15	Ciudad Del Este	Santiago	KYE540	
Centurion Air Cargo	N742WA	21-Dec-15	Miami	Ciudad Del Este	KYE541	
Emirates	A6-EFL	19-Dec-15	Ciudad Del Este	Campinas	EK9913	
Emirates	A6-EFL	18-Dec-15	Dakar	Ciudad Del Este	EK9913	
Centurion Air Cargo	N904AR	13-Dec-15	Ciudad Del Este	Santiago	KYE515	
Centurion Air Cargo	N904AR	13-Dec-15	Miami	Ciudad Del Este	KYE541	
Emirates	A6-EFK	11-Dec-15	Ciudad Del Este	Campinas	EK9913	
Emirates	A6-EFK	10-Dec-15	Dakar	Ciudad Del Este	EK9913	
Centurion Air Cargo	N902AR	6-Dec-15	Ciudad Del Este	Santiago	KYE520	
Centurion Air	N902AR	6-Dec-15	Miami	Ciudad Del Este	WE971	

An analysis of import and export data for the six companies linked to Sweid and Balhas shows merchandise deliveries from China often coincide with the above flights. Bravat Home, for example, received fifteen separate shipments from China on April 8, 2016 by Emirates' Sky Cargo to Ciudad Del Este via Dakar.<sup>79</sup> The shipper, Spaltec Electronics, is a company registered in Hong Kong and 50-percent-owned by Sweid. Spaltec SA, a company also owned by Sweid in Ciudad Del Este, is under investigation in the same Mega-evasion case.

Spaltec Electronics in Hong Kong is the shipper for all recent deliveries received by Ponto Com Megastore S.A., another company linked to Sweid through one of his associates and currently under investigation in the Mega-Evasion case. Sweid sells electronics and beauty and fashion products with high-end labels through his companies ByDubai, Spaltec and Ponto Com,<sup>80</sup> alcohol and spirits through WASPY Inc.,<sup>81</sup> and manufactures CDs in Factory Group SA.<sup>82</sup> He is also listed as owner of Zomo Tobacco and CYA Paraguay.<sup>83</sup>

A bill of lading for assorted electronics and bathroom accessories to Ponto Com Megastore from Spaltec Electronics in Hong Kong documents a delivery by air on April 29 (the day an Emirates' Sky Cargo flight landed at Ciudad Del Este). Global Logistics was the company responsible for the shipment. In short, Sweid owned every company involved in the transaction – the consignee, shipper, and transportation company.

<sup>79</sup> All shipments references come from data available through the Import Genius Latin American database, a commercial database providing import-export bills of lading from commercial ports in ten Latin American countries.

<sup>80</sup> "Homepage," *PontoCom* (Brazil), accessed June 6, 2016. (<http://www.pontocom.com/>); Spaltec, *Facebook*, accessed June 6, 2016. (<https://www.facebook.com/spaltec/info/?tab=overview>)

<sup>81</sup> "Homepage," *Wine and Spirits* (Paraguay), accessed June 6, 2016. (<http://www.winesandspirits.com.py/>)

<sup>82</sup> "Factory Group S.A. Industrial and Comercial," *Find the Company*, accessed June 6, 2016. (<http://fichas.findthecompany.com.mx/l/128332783/Factory-Group-S-A-Industrial-y-Comercial-en-Ciudad-Del-Este>)

<sup>83</sup> Information provided in person to the author by officials involved in the Mega-evasion investigation.

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## 35 SHIPMENT RECORDS AVAILABLE

Bill Of Lading Number	176 6103316C
Destination Port Name	Ciudad del Este (PY)
Destination Port UN Locode	PVACT
Manifest Number	1601914410000955
Origin Country	China
Origin Country Name	CHINA
Purchase Country	China
Purchase Country Name	CHINA
Shipment Date	2016-04-29
Transport Mode	AF
Transporter Company Name	GLOBAL LOGISTICS SOLUTION S.A.
Transporter Country	Hong Kong
Transporter Country Name	HONG KONG
Unloading Port Coast	#P0RCoast0K00000016580E00
Consignee	Ponto Com Megastore S.A.
Importer Name	PONTO COM MEGA-STORE S.A.
Importer Tax Number	800711044
Shipper	Spaltec Electronic Group Limited
Shipper Name	SPALTEC ELECTRONICS GROUP LIMITED
Brand	REPUESTOS PARA TELEFONOS CELULARES
CIF Value USD	\$16,144
Description	CLAVIETES, BASTIDORES Y ARMADONES, EN 5.003 UNIDADES PARTES PARA TELEFONOS CELULARES (DISPLAY) ORIGEN CHINA
FOB Value USD	\$10,005
Gross Weight Kg	275
HS Code	85177091
Item Quantity	5003
Item Unit	UNID.
Net Weight Kg	275
Unit Value USD	8C

*April 29, 2016 Bill of lading for air shipment from Spaltec Electronics in Hong Kong to Ponto Com Megastore S.A. in Ciudad Del Este.*

Sweid also used a U.S. company – Electro Game Export LLC incorporated in Florida in 2009 – to ship videogames to the Ciudad Del Este-registered Best West S.A. The three shipments from February and April 2010, when Sweid was still a managing director at Electro Game Export LLC, were worth a combined \$1.3 million.<sup>84</sup> Best West S.A. is also being investigated in the Mega-evasion case. Sweid no longer appears on Electro Game Export LLC's directory of personnel.

The shopping center where Sweid's many companies are located is part of a commercial real estate portfolio owned by the Jebai Group, a Lebanese-Paraguayan company that invests in

<sup>84</sup> Record available from Import Genius database.

Miami real estate.<sup>85</sup> Sweid's companies Ponto Com and Spaltec both list their address in the Jebai shopping center. Spaltec's social media suggest they are essentially the same company.<sup>86</sup>

Other companies implicated in the same investigation but not linked to Sweid operate in similar fashion – many using Miami, rather than Hong Kong, as their transit point for merchandise and paperwork.

Tigers del Este, a company trading in electronics at Ciudad Del Este's Jebai shopping center, routinely made shipments of electronics relying on a Miami-based company named Tiger USA Inc. Both companies, Tigers del Este and Tiger USA Inc., are owned by a Lebanese national and Brazilian resident named Walid Abboud.<sup>87</sup>

Abboud's company was incorporated by Joseph Shomar, a Florida-based public accountant who was linked to a 2008 scheme to defraud the Florida State Treasury. Shomar incorporated the construction company used for the scheme by Lebanese national Ali Hassan Hammoud. Hammoud was arrested in Miami on his way to Lebanon after he had managed to transfer \$5.7 million to Lebanon,<sup>88</sup> and was eventually sentenced.<sup>89</sup>

A sample bill of lading, reproduced below, for Grupo Cell Motion S.A., another company investigated in the Mega-evasion case, shows that Chinese merchandise reaches Ciudad Del Este by Centurion Air Cargo flights from Miami. The shipper is also a Miami-based company.

<sup>85</sup> "Projects" *The Jebai Group*, accessed June 6, 2016. (<http://jebaigroup.com/projects/>)

<sup>86</sup> Spaltec, *Facebook*, accessed June 6, 2016. (<https://www.facebook.com/spaltec/>)

<sup>87</sup> Walid Abboud, *LinkedIn*, accessed June 5, 2016. (<https://www.linkedin.com/in/walid-abboud-760a02a4/>); Florida Department of State Division of Corporations, Corporate Filing, "Tiger USA, INC.," 77-0694557, accessed June 6, 2016.

(<http://search.sunbiz.org/Inquiry/CorporationSearch/SearchResultDetail?inquirytype=EntityName&directionType=Initial&searchNameOrder=TIGERUSA%20P070000872870&aggregateId=domp-p07000087287-feb94d4c-eb5a-4ca6-b9a9-6b8cee22d468&searchTerm=tiger%20usa&listNameOrder=TIGERUSA%20P070000872870>)

<sup>88</sup> Lucy Morgan, "Scheme thwarted after nearly taking Florida for millions" *Tampa Bay Times*, July 29, 2008.

(<http://www.tampabay.com/news/politics/state/scheme-thwarted-after-nearly-taking-florida-for-millions/747388>)

<sup>89</sup> Federal Bureau of Investigation, Jacksonville Division Press Releases, "Former Bank Employee Charged with Making False Statements in Fraud Investigation" Accessed June 6, 2016. (<https://www.fbi.gov/jacksonville/press-releases/2010/ja060210.htm>)



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iva SOLUTIONS PRODUCTS OUR DATA PRICING SEARCH ENGLISH SIGN IN	
Manifest Number	16013MAN000088U
Origin Country	China
Origin Country Name	CHINA
Purchase Country	United States
Purchase Country Name	USA
Shipment Date	2016-04-25
Transport Mode	Air
Transporter Company Name	CENTURION AIR CARGO INC
Transporter Country	United States
Transporter Country Name	ESTADOS UNIDOS DE AMERICA
Unloading Port Coast	#-PortCoast:0x00000028c1b880x
Consignee	Grupo Cell Motion S.A.
Importer Name	GRUPO CELL MOTION S.A.
Importer Tax Number	800628535
Shipper	Blue Products Inc
Shipper Name	BLUE PRODUCTS INC
Brand	TOM TOM

HB Games S.A. – a company registered at the Jebai Shopping Center in Ciudad Del Este and implicated in the Mega-evasion case – also appears to be using a Florida-registered LLC, Group HB LLC, to transfer merchandise through the U.S. from China to Paraguay. Hassan Bassal, a resident of Ciudad Del Este, owns both companies. His social media connections show him linked through friendship to Sweid.

This mechanism, whereby a sister company abroad buys merchandise in East Asia, usually China, before shipping it to Ciudad Del Este, appears prevalent among the 285 companies under investigation. Selling merchandise to oneself from jurisdiction to jurisdiction is a typical money-laundering method.

Conclusively proving a direct link between any of these companies and Hezbollah cannot rely on open sources alone. But the Mega-evasion case should raise alarm bells with U.S. authorities. After all, this scheme relied on a small group of accountants used by all companies involved in a massive case of tax evasion implicating companies buying products on U.S. markets and possibly using their limited liability companies to launder it in Florida. Numerous individuals implicated in this case through their companies are Lebanese nationals who do not hide their political sympathies for Hezbollah on social media.

### Recommendations

Mr. Chairman, Ranking Member, and members of the Task Force, I offer the following recommendations:

#### 1. Build local capacity working with regional allies

Paraguay needs its armed forces and drug-enforcement agency to build capacity to patrol border areas. The absence of monitoring capabilities through aerial radars in a region where drugs tend to move by small planes is a serious deficiency.

#### 2. Facilitate cross-border cooperation

Custom and police authorities manning borders need to coordinate with neighbors. Joint cooperation and resource sharing are necessary components to combating the threat of transnational organized crime and terrorism. A key area would be intelligence sharing. Terror finance networks thrive in border areas by exploiting weak coordination among governments to patrol their shared borders. The United States can facilitate this cooperation. One important step would be to revive the Regional Intelligence Center established in 2006 to combat transnational crime and corruption in the TBA.<sup>90</sup>

#### 3. Improve controls at ports of shipment

As outlined in my testimony, Paraguay's borders may be porous, but much of the merchandise being shipped to the country to support illicit activities comes from abroad. Initiating more stringent controls and better monitoring of merchandise is desirable and possible. As noted, most problematic shipments by air reach the TBA from two points of departure – Miami International Airport and Dubai (via Dakar). The U.S. should immediately institute stricter controls over shipments to Ciudad Del Este leaving from Miami, and perform more effective and timely due diligence on companies shipping to the Paraguayan city. The same can be said over cargo arriving to the TBA from Dubai via Dakar. Washington is investing considerable energy working with Gulf allies to fight Hezbollah's terror finance. Seeking greater scrutiny over merchandise and its recipients before the weekly cargo leaves Dubai would go a long way to filter illicit shipments and raise the costs for Hezbollah middlemen in the TBA.

#### 4. Designate more Hezbollah backers in Latin America

The U.S. administration has shown dedication in squeezing Hezbollah's sources of revenue and cutting the group from the global financial system. Still, it is important that the administration, whose focus in recent months appears to have been overwhelmingly on Lebanon and the Gulf, refocus on Latin America and target Hezbollah financiers by seeking new designations. The TBA and other border areas offer a target-rich environment. Recently Washington boasted of causing 10,000 bank accounts to close in Lebanon. It is to be hoped that similar action be soon taken against Latin American targets as well.

#### 5. Work in concert with local authorities to close bank accounts in Latin America

The governments of Argentina, Brazil, and Paraguay are more receptive than at any time in the past ten years to U.S. leadership in the fight against terror finance, and terrorists' increasingly

<sup>90</sup> Eric Green, "U.S. 'Pleased' by Creation of South American Intelligence Center," *IIP Digital*, August 24, 2006. (<http://iipdigital.usembassy.gov/st/english/article/2006/08/200608231715051xeneerg0.9045221.html>)

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brazen cooperation with drug cartels and other criminal groups. The U.S. should therefore encourage authorities to be more proactive in combating terror finance. Washington should also pursue the same approach adopted by Treasury in the past of reaching out directly to financial institutions. Based on internal figures that a senior Paraguayan official shared with me, most of the cash flows out of that country go to the United States. If that is indeed the case, it is plausible to assume that the U.S. financial system is being used to launder revenue from illicit trafficking. Having significant consequences for being on the wrong side of the U.S. Treasury would go a long way towards getting local banks to look at what is happening in their own backyard.

Latin America is a land with huge potential. Transnational crime is a serious obstacle to the development of strong institutions and robust economies, two pillars of democratic consolidation. It is in the national interest of the United States to help Latin American governments build them.

Mr. Chairman, on behalf of the Foundation for Defense of Democracies, I thank you for the opportunity to testify and look forward to your questions.

