Counterfeiting
LINKS TO TERRORIST FUNDING

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COUNTERFEITING OF GOODS: THE RISKS AND LINKS TO TERRORIST FUNDING

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In a statement before the House Committee on International Relations in U.S. Congress on July 16, 2003, Mr. Ronald K. Noble, Secretary General for Interpol advised that the link between organized crime groups and counterfeit goods is well established. However, he also sounded the alarm that Intellectual Property Crime (IPC) is becoming the preferred method of funding for a number of terrorist groups.

“And there’s evidence that it’s increasing,” said Noble, adding “it was almost inevitable that terrorists would follow organized crime into the counterfeiting business. It’s a low-risk, high-profit crime area that for most governments and most police forces is not a high priority. And therefore criminals are more likely to want to get involved in this area rather than drug trafficking.”

According to the International Centre for Political Violence and Terrorism Research IDSS Singapore, the combined global piracy and counterfeit trade clears more than US$ 650 billion annually, compared to the global narcotics trade of US$ 322 billion annually. An article in Time magazine analyzed the issue of software piracy and offered the following scenario: A drug dealer pays about US$ 47,000 for kilo of cocaine, and can sell it on the street for about US$ 94,000, a 100% profit. But for the same outlay of US$ 47,000 – and a lot less risk – an enterprising crook can buy 1,500 pirated copies of Office 2000 Professional and resell them for approximately US$ 450,000, a profit of 900%. The amount of money that can be raised from counterfeiting and piracy is staggering.

“Right now we’re at the tip of the iceberg,” Noble told The Associated Press in an interview at the First Global Congress on Combating Counterfeiting. “If law enforcement and governments focused on it more, we’d find more evidence of it.”

According to Kathleen Millar, “Financing Terror, Profits from Counterfeit Goods Pay for Attacks,” in order to survive, a terrorist organization must first develop and maintain reliable and low key sources of funding. Behind the suicide bombers, hijackers and gunmen stand “criminal entrepreneurs and financiers in suits who understand the best way to bankroll Armageddon is through the capitalist system.”

Terrorist organizations are attracted to counterfeiting and piracy because it is a lucrative business, but also because it allows terrorists to remain relatively anonymous. Counterfeiting and piracy rings often operate as cash enterprises. They lease manufacturing equipment
from third parties and generally do not maintain reliable paperwork or business records. Upon suspicion of detection, terrorist counterfeiters can move merchandise, hide assets and equipment, switch manufacturing locations, destroy evidence, or simply disappear without leaving a paper trail. And, most importantly, any profits made in this type of underground market are obviously difficult to trace.

Mr. James Moody, former Chief of the Federal Bureau of Investigation's Organized Crime Division declared in 2001 that counterfeiting would become "the crime of the 21st century." Trade in counterfeit or pirated goods over the past 20 years has grown exponentially. In 1982, the counterfeiting industry drained an estimated 5.5 billion dollars from the global economy. In 1996, this figure jumped to an estimated $200 billion. As indicated above, this figure approximates US$ 650 billion per year today. The Business Software Alliance and the U.S. automobile industry are each estimated to be losing close to 15 billion dollars annually! The International Chamber of Commerce estimates that the global counterfeit market accounts for more than 9 percent of world trade today. By contrast, bank robberies in the United States involve less than $100 million per year, but seem to garner more public attention and more law enforcement resources.

The counterfeit traders with whom most people come into contact, are small-scale operators or street vendors and in most instances, would not realize that a small portion of the proceeds from their ICP activity may go back to fund terrorism. However, such vendors are only the front end of much wider and more sophisticated networks. Although the term "organized crime" should be used with caution in describing the counterfeiting industry, Interpol states that "extensive evidence" is now available which demonstrates that organized crime syndicates and to a lesser extent, a number of terrorist groups are involved in planning and committing intellectual property related crimes.

Interpol and the International Anti-Counterfeiting Coalition (IACC) repeatedly warn that the innocent purchases from Internet sites and street markets of counterfeit products ranging from knockoffs of Nike and Tommy Hilfiger merchandise to electrical parts to counterfeit CDs and DVDs are funding terrorist and criminal organizations, including al-Qaeda, Hamas, Hezbollah, the Basque ETA, the Irish Republican Army, the Mafia, Chinese Triad gangs, the Japanese Yakuza crime syndicate and drug cartels. The IACC web site advises that "terrorist organizations are using the sale of fake goods to raise and launder money. They specifically state that, "Recovered al-Qaeda terrorist training manuals have revealed that the organization recommends the sale of fake goods as one means to raise funds to support terrorist operations."

The Centre for Defence and International Security Studies, Lancaster University, estimates that al-Qaeda's annual operating budget, at least pre-9/11, ranged between US$ 50 - US$ 100 million a year. The September 11 attacks have been estimated as costing less than US$ 500,000 to fund - a little more than $26,000 per terrorist and certainly not a large or unattainable amount of money. Based on the aforementioned figures, one successful large scale intellectual property crime could potentially fund multiple 9/11 terrorist attacks.

Specific Examples

The Interpol General Secretariat and the IACC cite the following examples of the association between intellectual property crime and terrorist financing:

Al-Qaeda

Several counterfeiting cases that have been reported in the media where there were alleged connections to al-Qaeda include an investigation into a shipment of fake goods from Dubai to Copenhagen, Denmark. This transnational investigation involved intelligence agencies from three countries; Denmark, the United Kingdom and the United States and suggested that al-Qaeda may be funding itself through the smuggling of counterfeit goods. Danish customs, using sophisticated risk analysis software, intercepted a container, containing counterfeit shampoos, creams, cologne and perfume. The goods were destined for the United Kingdom and it was later revealed that the sender of the counterfeit goods was a member of al-Qaeda. This connection was later confirmed by the European Commission's Customs Coordination Office. It is difficult to know whether the funds from this traffic went directly to al-Qaeda or whether only a part of them were remitted. In general, it is
possible that funds generated through
IPC are remitted to al-Qaeda indirectly
through zakat-based (a religious duty to
give money) giving.

According to James Nutron, ‘Why Crime is Not so Harmless, an
intellectual property crime search and
seizure operation in early 2002 on a
souvenir shop in mid-town Manhattan
led to the seizure of a suitcase full of
counterfeit watches and the discovery
of a flight manual for Boeing 767s,
containing handwritten notes in Arabic
along the margins. A similar raid shortly
thereafter on a counterfeit handbag shop
in New York uncovered faxes relating to
the purchase of bridge inspection
equipment. Two weeks after that raid,
another raid revealed fake drivers’
licenses and lists of suspected al-Qaeda
terrorists – including names of some
workers in the handbag shop that had
been raided two weeks earlier.

Hezbollah and Hamas

In his book, ‘Terrorist and Organized
Crime Groups in the Tri-Border
Area,’ authored by Mr. Rex Hudson, he
states another specific example detailing
the link between counterfeiting and
terrorism that deserves a greater degree
of attention. The example concerns the
infamous tri-border region of South
America where the countries of Brazil,
Argentina and Paraguay meet in an area
referred to as the Triple Frontier. For
nearly three decades, the Triple Frontier
has served as a friendly operations
center for international ‘smugglers,
counterfeiters and tax dodgers’ and has
earned a reputation for being one of
the most lawless places on the planet.
Inhabitants of, and visitors to the region
move with relative ease among the
three countries as they attempt to evade
what little official authority exists in the
region. Despite repeated and persistent
industry complaints, counterfeit and
pirated products literally saturate the
region, especially in the Paraguayan
border town of Ciudad del Este.

Interpol is aware of a number of cases
involving intellectual property crime
related activity and terrorist funding in
South America. These cases involve
ethnic-Lebanese who are involved in the
distribution and sale of counterfeit goods
in the Triple Frontier/Tri-border Region
of South America. And, that they remit
some of their profits to Hezbollah in the
Middle-East.

According to Jeffrey Goldberg, ‘In
the Party of God: Hezbollah Sets Up
Operations in South America,’ American
intelligence officials now believe the
region is a hotbed for Middle Eastern
terrorist groups like al-Qaeda, Islamic
Jihad, Hezbollah and Hamas. One
intelligence official reported that some
of the estimated 30,000 Muslims in
the region held celebrations on Sept.
11, 2001, as well as on the one year
anniversary date.

In February 2000, a certain Assad
Ahmad Bakarat was arrested for his
involvement in counterfeit operations
in the tri-border area. Besides the
confiscation of thousands of counterfeit
entertainment software, video tapes
were also confiscated showing military
parades and attacks with explosives in
various parts of the world, descriptions
of thirty attacks in Israel and Israeli-
occupied territories, a letter from a
Hezbollah commander congratulating
Bakarat for his fund raising activities
and US$ 250,000 worth of monthly
monetary transfers to the Middle
East. Additionally, police in Argentina
claimed that Bakarat was involved in the
distributing of US$ 60 million in
counterfeit U.S. currency printed in
Colombia.

One important fund raising figure
for Hezbollah, Ali Khalil Mehri, was
arrested by Paraguayan authorities on
February 25, 2000 in the Tri-Border area
for violating intellectual property laws to
include the manufacture and distribution
of counterfeit CDs. Seized from his
apartment were guns, pirated discs, film
footage of terrorist attacks, interviews
with suicide bombers and documents
showing money transfers worth over
US$ 700,000.

In February, 2003, Fox News
reported that Mohamed Hammoud, and
his brother, Chawki Youssef Hammoud
were arrested, along with eight other
alleged Hezbollah cell members, for
cigarette smuggling and providing aid
to the terrorist organization, Hezbollah.
Mohamad Hammoud was sentenced to
155 years in prison. Over the course
of 18 months, they smuggled over 8
million dollars of counterfeit cigarettes
from North Carolina and into Michigan.
The counterfeit cigarettes were
manufactured in China for US $2.00
per carton, and sold for up to US $70
per carton in Michigan. The indictment
papers, surrounding the case, stated that
Hezbollah officials in Lebanon asked
these cell members in Charlotte to
purchase equipment such as computers,
night vision equipment, mine-detection
devices, global-positioning devices and
advanced aircraft analysis software.
India is the leading country in counterfeit drug production, having as high as 35% of the world production of counterfeit drugs originating from India - W.H.O.

move counterfeit goods. Between the conveyances used to move goods and the warehouses in free-trade zones storing illegal product, the free-trade zones are areas where too many governments take a hands-off approach to illegal conduct. They state that in a number of free-trade zones and "bonded warehouses," underground CD production and illicit cigarette manufacturing lines are often heavily secured sites equipped with hidden cameras for early detection and surveillance purposes. Additionally, it is suspected that large quantities of counterfeit cigarettes are moved through these free-trade zones by organized crime. And, some of the proceeds from this intellectual property crime could be used to fund various terrorist groups without the knowledge of the organized crime syndicates behind it.

In the article, "Paying for Terror," published in the Nov. 27, 2005 edition of the U.S. News and World Report, it was reported that the Abu Sayyaf terrorist group, operating primarily in the southern Philippines, have expanded the funding of their operations from kidnapping and extortion, to now include the sale of counterfeit cigarettes and drugs. It is assumed that such contraband probably enters that area of the Philippines through the southern "back door" from Malaysia, Indonesia and Brunei.

If this is the case, then it is possible that at least a small percentage of the profits made from the very large volume of counterfeit CDs and DVDs that are imported into, and sold throughout the Philippines and other areas around Asia, by those with strong ties to the Middle-East and with possible interests inimical to those of the U.S. and its allies in Asia, may be diverted to those local terrorist groups who also have strong ties to the Middle-East? This is very likely in view of the many examples on record in other areas of the world.

While it is unknown as to the degree of funding terrorists receive annually from the illicit manufacture and sale of counterfeit products, even one-half of one percent of the estimated US$ 650 billion in annual sales would amount to US$ 32.5 billion, much more than the US$ 500,000 which is estimated that 9/11 cost al-Qaeda to fund.

Potential Means for a Terrorist Attack

The World Health Organization, WHO, estimates that counterfeit drugs account for eleven (11) percent of all pharmaceuticals, worldwide; or US$ 39 billion in sales annually. And, it’s estimated that it will reach US$ 75 billion by 2010. And, that percentage rises to 50 - 60 percent in developing countries within Africa. In fact, a survey conducted by the Nigerian Institute of Pharmaceutical Research revealed that up to 80 percent of drugs sold in Lagos, Nigeria were fake or counterfeit. Some senior executives in the pharmaceutical industry estimate upwards to 20% may be counterfeit in India. Especially so in view of the WHO advising that India is the leading country in counterfeit drug production, having as high as 35% of the world production of counterfeit drugs originating from India.

WHO further advise that 16% of

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Tax Free Zones and other Examples

According to the International Anti-Counterfeiting Coalition (IACC) in a report on Special 301 Recommendations to the U.S. Trade Representative in February, 2004, special economic (tax) free-trade zones around the world are being exploited by IPC syndicates to

Approximately 192,000 people died in China in 2001 due to counterfeit pharmaceuticals (Chinese government owned news media)
counterfeit drugs contain the wrong ingredients, 17% contain incorrect amounts of the proper ingredients and 60%+ have no active ingredients whatsoever. According to the Shenzhen Evening News (a Chinese government owned news media), approximately 192,000 people died in China in 2001 due to counterfeit pharmaceuticals, some of which presumably originated from India. And it is doubtful that the Chinese government would have embellished upon these figures, but quite the contrary, may have reduced reporting of the actual numbers involved. So possibly a quarter of a million people died in China in 2001 from counterfeit pharmaceuticals, compared to less than 4,000 from the al-Qaeda attack of 9/11, and this illicit industry continues to grow.

In addition to the concern about counterfeiting organizations financially supporting terrorist cells, authorities also are worried about the use of counterfeit products as a potential means of attack. An International Anti-Counterfeiting Coalition (IACC) White Paper published in January, 2005 advises that the frightening potential exists that terrorists could use the commission of the crime itself as a means of attack. To gain an appreciation for the potential harm factor, one need only consider the possible use of counterfeit pharmaceuticals that, in place of proper ingredients, actually contain deadly chemicals, poisons or biological toxin.

With the increasing number of pharmaceuticals coming from sources that are often beyond the reach of worldwide government regulators at both the national and local levels, it would certainly not be difficult for determined terrorists to slip such deadly products into the stream of commerce. Indeed, the terrorists wouldn't even need to enter the U.S. or a targets country within Asia to carry out the attack. They could ship quantities of tainted medicines into the country, delivering them via mail channels or package delivery companies.

In the event of such an attack, it could take days or perhaps weeks for the problems to come to light. Any efforts at containment would be severely complicated if the tainted drugs were distributed and sold over a wide geographic area.

The Federal Aviation Authority, or FAA, estimates that 2% of the 26 million aircraft parts installed each year on commercial aircraft are counterfeit (that equals 520,000 parts!) 

Sources with at least some access to activities of the Jemaah Islamiyah, in the southern Philippines allege that in January, 2005, J.I. documents were recovered in Cotabato, Mindanao that dealt with chemical and biological warfare; and, some evidence was developed that experimentation of same was being conducted on farm animals or dogs in the area. If these groups, that are constantly ‘on the run,’ in the Philippines, have the time to focus on such matters; what more al-Qaeda in the remote areas of northern Pakistan, or extremist groups within India?

But even without deadly substances at their disposal and even without the expertise necessary to work with such poisons, terrorists could still pose a deadly threat. As it stands now, counterfeit drugs have already been responsible for hundreds of thousands, if not millions of deaths and injuries, worldwide. Those with ill intent could intentionally mislabel bottles with virtually indistinguishable counterfeit labels that contain erroneous information about the dosage or even type of drug contained therein.

The use of false bar codes or lot numbers would make the medicines difficult to track and its origins nearly impossible to trace. A terrorist group could also sell fake pharmaceuticals that contain no active ingredient whatsoever and thus deprive takers of the expected benefits.

Of course, this speculative analysis only covers the pharmaceutical industry. Airline and automobile parts, as well as other types of consumables, present other vulnerable types of mediums as new sets of issues and questions.

The L.A. Times reported that a Norwegian plane crash in 1989 that killed 55 people resulted, in part, from substandard (counterfeit) shear bolts and sleeves of an unknown origin. This operational life of counterfeit shear bolts was found to be 600 hours, while the genuine parts had an operational life of 20,000 hours. The fake parts came complete with fake boxes, labels and paperwork and were only discovered because of a vigilant airline mechanic.

In August 1997, then Inspector General of the U.S. Department of Transportation, Mary Schiavo, admitted that counterfeit aircraft parts had been found on Air Force One (the plane used by the President of the United States) and, the Federal Aviation Authority, FAA, estimates that 2% of the 26 million aircraft parts installed each year on commercial aircraft are counterfeit (that equals 520,000 parts!). If all of the counterfeit aircraft parts were counterfeit toilet seats, this may not present a major problem. But what if they were...
all counterfeit shear bolts and sleeves?

Future Trends

In a paper approved for publication by the U.S. National Foreign Intelligence Board, entitled 'Global Trends 2015: A Dialogue about the Future with Nongovernmental Experts,' it is stated that between now and 2015, terrorist attacks will become increasingly sophisticated and designed to achieve mass casualties. And, they expect the trend toward greater lethality in terrorist attacks to continue.

Chemical and biological threats to the U.S. and their allies will become more widespread; as such capabilities are easier to develop, hide and deploy, than missiles armed with WMD. Couple the issue of seized Jemaah Islamiyah (JI) documents in Cotabato, Mindanao (Philippines) in January 2005 that dealt with chemical and biological warfare, and the experimentation that was taking place on farm animals in the area; with the 2005 U.S. News and World Report article that the Abu Sayyaf (Mindanao, Philippines) is now involved in counterfeit cigarettes and drugs (consumables). Or, worse yet, couple the fact that 35% of all worldwide counterfeit pharmaceuticals originate in India, with access to same that the Kashmiri militants and dozen of other extremist groups active in India may have, and simple train bombings could be a form of terrorist attack of the past.

Global Trends 2015 goes on to state that the trend away from state-supported political terrorism and toward more diverse, free-wheeling, transnational networks—enabled by information technology—will continue. Some of the states that actively sponsor terrorism or terrorist groups today may decrease or even cease their support by 2015 as a result of regime changes, rapprochement with neighbours, or the conclusion that terrorism has become counterproductive.

States with poor governance, ethnic, cultural, or religious tensions; weak economies; and porous borders will be prime breeding grounds for transnational networks seeking safe havens for terrorism. It has already been established that some terrorist groups are receiving funding from IPC. Such sources of funding could originate from the manufacture or importation/distribution of counterfeit goods from those areas that offer the greatest degree of protection within those countries, such as special economic (tax) free zones where governments historically take a hands-off approach to illegal conduct such as Intellectual Property Crime.

Are we unwittingly supporting terrorist operations through the purchase of counterfeit goods, especially goods such as counterfeit CDs or DVDs, an illicit industry within Asia where many of those involved have strong ties to the Middle East and possibly interests inimical to those of the U.S. government and its Asian allies?

Sound incredible? So were the al-Qaeda plans to blow up a dozen airliners in flight originating from Manila that were seized in a Philippine Intelligence "Operation Bohinka" in 1995, which was only a precursor for a second wave of attacks involving the crashing of airplanes into buildings in the U.S., and six years later on 9/11!

About the Author

Mr. Williams was a career Special Agent and Counter-intelligence Officer with the U.S. Air Force Office of Special Investigations (OSI), specializing in worldwide counterintelligence and counter-terrorism matters. He was assigned to the U.S. Embassy, Manila in 1984 as the OSI Commander, working with Philippine intelligence and police throughout the Philippines. He was cited as the Worldwide Counterintelligence Collector of the Year within the entire U.S. Dept. of Defense in 1987 and was the recipient of the Bronze Cross Medal from the Philippine Police in 1990.

Since his retirement from the U.S. Govt. in 1992, he has supervised the successful conduct of several thousand intellectual property rights investigations and enforcement actions, Philippine-wide, with major focus on illegal manufacturing and importation, and the targeting of retail establishments.

Mr. Williams is board certified in Security Management and sits on the Investigations Council of the International.