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Aim of the study

In the war on terror, measures seeking to **reduce terrorist financing** are a **priority** for international and European bodies, the police and the judiciary.

Terrorist organizations need to cover **two types of costs**: the **direct costs** generated by preparing and executing an attack (travel, weapons, vehicles, safe houses, fake identification, etc.) and **indirect or operating costs**, which are recurrent and usually more significant (propaganda, recruitment, wages, financing sleeper cells, intelligence, etc.). Their **sources of financing**, which evolve over time, depend on their location, needs and opportunities, as well as the international context. Whilst donations (from "sponsor" countries or individuals, via charities or directly) were a major source of revenue a few decades ago and some organizations continue to **exploit local resources** (natural and human)¹, the recourse to **illegal activities** (illicit trade, criminality, etc.) is growing sharply.²

Although **the link between illicit trade and terrorist financing has been proven** for decades³, it is reaching new proportions: it provides a **particularly attractive source of funding** in the current climate, which terrorist groups are using both **deliberately** and **opportunistically**.

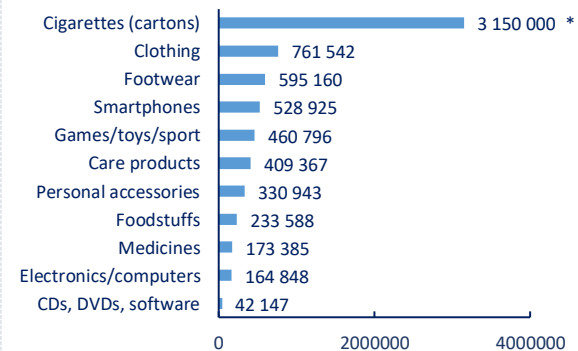
Therefore, examining **terrorist organizations' involvement in illicit trade, particularly in smuggling and counterfeiting**, is a key step in action against their financing. This study seeks to analyze that involvement, the **continuum** between **illegal activities** and **terrorist enterprises**, and the **unique porosity between these criminal spheres**. It also aims to **determine illicit goods' contribution to terrorist financing**. This illustration will be based on the **assessment of the smuggled and counterfeit market for a range of products**⁴ in the main **French cities**.

The study's results are designed to **aid the authorities** in considering the importance of action against illicit trade. If its **economic and social cost** is proven, efforts to tackle the phenomenon should form part of **the larger and no less urgent context of action against terrorism**.

Boom and impact of illicit trade

Illicit trade is growing sharply: its total value more than doubled between 2008 and 2015, increasing from \$650 billion to \$1,700 billion⁵ (i.e. an average annual growth rate of 15%⁶) due to **rising volumes** of counterfeit or pirated goods.⁷ The rise results primarily from **open economies and borders** around the world, which are facilitating smuggling, and a context of **financial crisis boosting parallel markets with knockdown prices**.⁸

French customs seizures by category – 2015
(In number of items)



*i.e. 31.5 millions packs of cigarettes

Source: Ministry of Finance and public accounts
French customs report, 2015

In France, **the market is experiencing major growth**. The **seizures are significant** in size, covering a wide range of products (cf. graph above), and as well as **the economic, social and ethical issues**⁹, illicit trade is also a **public health challenge**¹⁰ (with counterfeit goods often not meeting the required standards). It causes a substantial shortfall for companies and the State, with €2.3 billion in uncollected taxes.

These effects on the economy, society, health and the environment are joined by a **sizable security issue**: numerous examples show how terrorist organizations are financed (directly or indirectly) via illicit trade.

Illicit trade and terrorism financing

Petty and serious crime on the one hand and **terrorist organizations** on the other follow **different patterns**.

The former seeks **economic and financial profit** whilst the latter pursue **ideological or political objectives**. Nevertheless, **illicit trade is making a growing contribution to the financing of terrorist activities**, with the former's economic interests boosting the latter's political goals.

Many examples illustrate terrorist groups' involvement in illicit trade: Hezbollah (cigarettes, brake pads), Chechen rebels (counterfeit CDs), ETA (clothing and handbags), the FARC (CDs), Al-Qaida (textiles and CDs), the IRA (cigarettes), etc.¹¹ This involvement can also be indirect, as is the case for certain forms of smuggling, particularly cigarettes, a source of major profit for AQIM, either by levying taxes or facilitating their transport.¹² Recently, **illicit trading in branded clothing and footwear** by Chérif Kouachi, one of the terrorists involved in the Charlie Hebdo attack in 2015, in the years before the attack, demonstrate these links. The involvement of Amédy Coulibaly¹³, the Hyper Casher gunman in January 2015, in **cigarette smuggling** five years earlier is another recent example. More generally, the authorities have found that a **large proportion of the jihadists travelling to Syria and Iraq were previously involved in illicit trade**.¹⁴

In the case of counterfeiting, **terrorist organizations' involvement varies from participating in production¹⁵ to simply collecting the proceeds** of sales made on an individual level, in a context of **decentralizing largely self-financed terrorist cells¹⁶** (cf. graphic).

Terrorist groups' involvement in illicit trade, whether deliberate or opportunistic, follows various patterns.

A marked presence in unstable political environments

Despite **different aims** (profits for some, politics for others), **criminal and terrorist organizations operate in**

certain areas due to the **weak governments** and **porous borders**. They include **entire regions** such as the Sahel or **smaller lawless areas** in the West, where **institutional, administrative, police or military failings** provide a **breeding ground for criminal activities**.

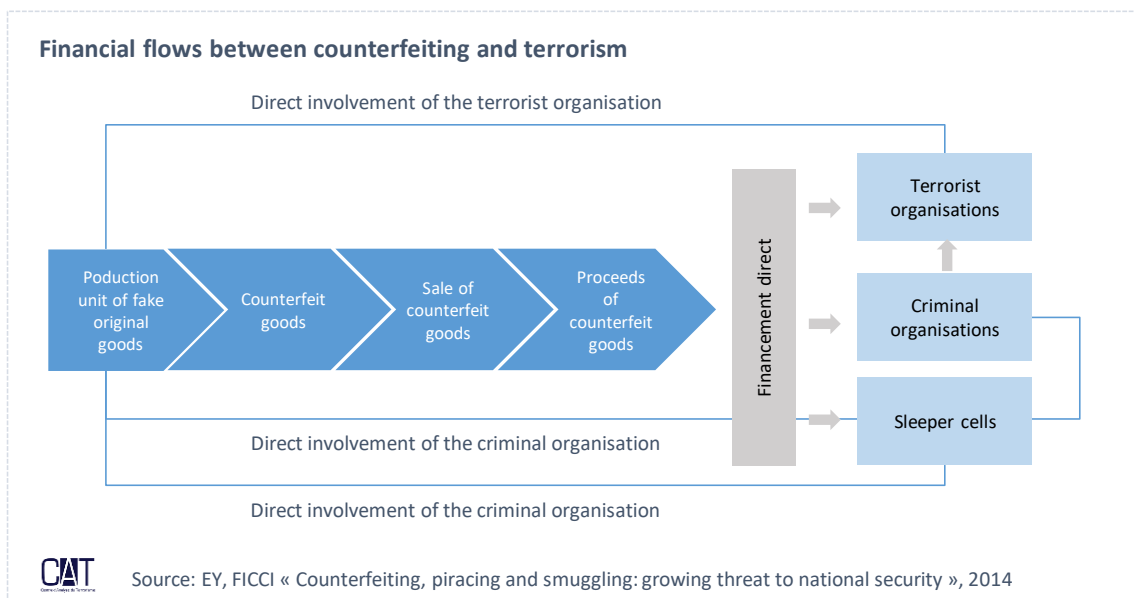
A deliberate economic strategy

Whilst **drug smuggling** appeared to be one of the **most common means of financing** terrorist organizations in previous decades, the **counterfeiting or smuggling of legal goods have been their fastest growing source of revenue** for approximately ten years.¹⁷

In comparison with other illicit activities (drugs, arms, etc.), they offer the advantage of **low risks for high profits**.¹⁸

In France, sellers of counterfeit goods risk three years' imprisonment and a €300,000 fine, and five years' imprisonment and a €500,000 fine when the crimes are committed in organized gangs or involve goods that are hazardous to consumer health or safety. This should be compared to the much harsher sentences for drug smuggling: thirty years' imprisonment and a €750,000 fine.¹⁹ The sales networks thrive in the centres or outskirts of cities, with the authorities having insufficient resources to stop them (cf. text box: cigarettes). Therefore, **counterfeiting and smuggling legal goods make it possible to generate potentially large revenue, whilst presenting the lower risk of hindering terrorist groups' political and strategic agenda.**

The use of illicit trade as a means of financing is also a deliberate attempt to diversify the sources of revenue. Since the end of the Cold War and the reduction in terrorist financing by State "sponsorship", and particularly since the UN's introduction of **international sanctions** targeting these sources of financing following 9/11, terrorist organizations have **swopped the traditional banking sector for more opaque**



transactions, which were already popular with criminal organizations.

In this context, they have pursued a **strategy of self-financing**, which also offers the advantage of **reducing their political and ideological dependence** on States or individual donors. This strategy is also reflected in the **decentralization of terrorist cells**, which are encouraged to self-finance at their level.

Islamic State's military withdrawal, limiting its access to resources and so means of financing, will **increase this diversification of financing**, particularly in illicit trade. Finally, despite the display of political superiority, **some organizations "fluctuate" between an ideological and economic agenda** ²⁰ whilst others give both equal

Case study: cigarettes

At the international level, the volume of cigarette smuggling comes in at third rank, behind drug smuggling and human trafficking.

In the EU, 53 billion of a total 590 billion cigarettes smoked in 2015 resulted from illicit trade, i.e. 9%, creating a tax shortfall of €11.3 billion.*

France is the largest consumer of counterfeit cigarettes in Europe, ahead of Poland, with 9 billion of a total 61.5 billion cigarettes smoked in 2015 (i.e. 14.6%).¹

As part of a study conducted by the Center for the Analysis of Terrorism (CAT), investigations were carried out at the main sites in Paris, Lyon and Marseille. The structures are similar, with retail and wholesale to sellers who then dispose of the goods via more discrete networks. The sellers, sometimes several dozen, operate in networks and not in competition. As well as cigarettes, smartphone accessories, watches, glasses, clothes and drugs are sold. The police action varies by location. Although the sellers occasionally need to be wary, as in Paris where sales are often disrupted, they operate more openly in other places (e.g. in Lyon).

Many of the cigarettes sold at the investigated sites were Marlboro Red "from back home." The packs were priced at around €5, i.e. 70% of the official sale price. Based on projections of the CAT's preliminary investigations, the annual revenue is estimated at €1.7 M for four locations in Paris, €2.8 M for three locations in Marseille and €2.7 M for three locations in Lyon (including €2.5 M for Place Gabriel Péri alone). These projections (weighted for peak times and holidays) include only retailing.

**KPMG, Project Sun: A Study of the Illicit Cigarette Market in the EU, Norway and Switzerland, 2015*

priority, thereby operating as **"diversified multinationals."**²¹

Exploitations of synergies with illicit trade networks

Terrorist groups' use of illicit trade networks is one part of the larger **exploitation of synergies with criminal networks at operational, logistical and human level.**

The **techniques used** by illicit trade and criminal networks **adapt to operational requirements, particularly the preparation of attacks.** Transport in false bottoms, transshipment, experience of concealment, access to weapons, knowledge of established routes and awareness of the limitations of the law or police action are some of the skills utilized by terrorist organizations.²² Maintaining **online anonymity** is another **essential area of expertise**, with the organizations regularly devoting part of their media to **basic encryption or browsing via anonymous networks under hidden identities.**

The synergies described above are both the cause and effect of the interpenetration of terrorist and criminal spheres. Recognizing the possibilities offered by these synergies, terrorist groups will occasionally attempt to join criminal gangs. Alongside this, members of criminal networks are often **good candidates for terrorist recruitment.** The individual members of petty crime networks are **receptive to certain recruitment messages** spread by jihadist organizations.²³ **The theme of "redemption" by jihad**, which is said to **cleanse individuals of previous sins**, gives them the possibility to "atone". Moreover, **jihadist discourse legitimizes the financing of jihad with spoils (ghanimah)** acquired via the "dispossession of the enemy by force, theft or deception"²⁴ to **rationalize, maintain and find moral and religious justification for illicit activities**²⁵ and use them **solely for jihadist purposes.**²⁶ Chérif Kouachi, who was already involved in counterfeiting, continued down that path when he needed to finance his attacks. Alongside this idea of redemption, **the terrorist networks' "offering" meets the wants and needs** that push individuals towards criminality: rebellion, a taste for violence, an antisocial stance and a strong identity.

Conclusion

Measures tackling illicit trade contribute to action against terrorist financing. Destabilizing the organizations' financing channels also hinders major initiatives with a larger and more systematic approach of immediate sanctions against petty crime.

Faced with the **growing interpenetration of terrorist and criminal spheres** with increasingly fluid boundaries, **cooperation between counterterrorism services and those dedicated to action against criminality,**

smuggling or counterfeiting should be increased, as with the exchange of information between TRACFIN and the financial and banking sector. To that end, public-

private partnerships should also be encouraged as both companies and the State have an interest in limiting the illicit trade that causes considerable losses.²⁷

¹They include "territorialized" organizations, particularly Islamic State – cf. *The Financing of the Islamic State in 2015*, Centre for the Analysis of Terrorism, June 2016

²Approximately 40% of attacks and planned attacks in Europe are financed at least in part by petty crime: Rajan Basra, Peter R. Neumann, Claudia Brunner, *Criminal Pasts, Terrorist Futures*, ICSR, October 2016

³An Al-Qaida military manual, seized from Anas al-Libi in 2000, listed smuggling and counterfeiting money as recommended sources of financing

⁴Including: clothing, footwear, cigarettes and glasses

⁵Frontier Economics Study commissioned by ICC BASCAP (Business Action to Stop Counterfeiting and Piracy)

⁶July 2012 statistics published by the European Commission indicated a similar rise (+15%) in customs seizures in volume between 2010 and 2011

⁷As measured by reported customs seizures and greater worldwide access to high-speed Internet and mobile technologies (BASCAP, *Confiscation of the Proceeds of IP Crime*, 2013)

⁸Other factors explain the strong growth in illicit activities: technological advances making it possible to produce counterfeit goods at a modest cost, limited customs resources reducing the monitoring of smuggling, the low risks posed by the production, purchase or sale of counterfeit goods, and greater worldwide access to high-speed Internet and mobile technologies

⁹40,000 jobs annually in France and 2.5 million in the G20 countries (BASCAP, *Role and responsibility of intermediaries: fighting counterfeiting and piracy in the supply chain*, 2015)

¹⁰Nearly one in three consumers is affected by counterfeiting (Unifab)

¹¹Examples quoted in EY and FICCI, *Counterfeiting, piracy and smuggling: Growing threat to national security*, 2014, and in *The Financing of Terrorism: The Smuggling and Counterfeiting of Cigarettes*, Centre for the Analysis of Terrorism, March 2015

¹²*Illicit Trade Converging Criminal Networks*, OECD, April 2016

¹³*The Financing of the Paris Attacks (7–9 January and 13 November 2015)*, Centre for the Analysis of Terrorism, October 2016

¹⁴Christian Eckert, Budget Minister "it's known that many jihadists are central to smuggling and counterfeiting (...). Tackling counterfeiting also means tackling terrorism", press conference in March 2015 and during the third national customs operation targeting counterfeit goods on 5 November 2015

¹⁵EY and FICCI, op. cit.

¹⁶For over ten years, some jihadist groups have encouraged the self-financing of independent cells whilst promoting simple, lower cost attacks. This is one of the strategic angles of the theorist Abu Musab Al-Suri, *The Global Islamic Resistance Call*, 2004

¹⁷Van Djick, *The link between the financing of terrorism and cigarette smuggling: what evidence is there?*, 2007

¹⁸The margins can be extremely high, sometimes reaching 900% for the sale of counterfeit goods (EY and FICCI, op. cit.)

¹⁹Network heads risk life imprisonment – Unifab, *Counterfeiting and Terrorism*, 2016

²⁰Some groups legitimize their criminal activities with political motivations, as was the case for Mokhtar Belmokhtar, who politicized his kidnappings – Samuel Aronson, *AQIM's Threat to Western Interests in the Sahel*, CTC Sentinel, April 2014

²¹Interview with Louise Shelley, founder of the George Mason University Terrorism, Transnational Crime and Corruption Center (TraCC) "Are terrorist organizations multinationals?", *Le Point*, 15 January 2015

²²This is part of the convergence of modus operandi between criminal networks (drugs, firearms, human trafficking) and counterfeiting networks. In 2013, the Container Control Program (CCP) developed jointly by **UNODC and the World Customs Organization**, although initially introduced to help the authorities seize the drugs circulating in containers, detected counterfeit goods in over a third of the intercepted containers.

²³The messages do not necessarily address those specific spheres. The only example is that of Rayat al-Tawheed, a jihadist network in Syria that joined IS in 2014, one of whose videos explains how to "quit gangster life for jihad" (Rajan Basra, Peter Neumann, *Criminal Pasts, Terrorist Futures: European Jihadists and the New Crime-Terror Nexus*, ICSR, 2015)

²⁴Anwar Al-Awlaki, a radical theologian, one of those behind the AQAP *Inspire* magazine, said repeatedly throughout the 2000s: "Stealing from the enemy is not only allowed, but in some cases mandatory"

²⁵Ibid.

²⁶Rajan Basra, Peter Neumann, *How Crime and Terror Have Merged: European Jihadists and the New Crime-Terror Nexus*, ESPAS, 16 November 2016

²⁷27% of French companies spend more than €1 M annually to protect themselves against counterfeiting, according to Unifab, *Impact of Counterfeiting as seen by Companies in France*, 2010