Praise for Black Market Billions

“Most people wouldn’t think that buying an off-the-truck designer bag could fund terrorism. In my three decades of experience as a former Detective Investigator with the NYPD and now running a private investigation firm, I can say that Hitha understands and explains why this is a dangerous mentality to have. In Black Market Billions, she spells out why the mindset that a stolen designer handbag is a bargain disappears once you consider that your purchase may be funding a deadly organized crime group.”

—Thomas Ruskin, Former NYPD Detective Investigator and President of CMP Protective and Investigative Group, Inc.

“Written like a financial thriller, Black Market Billions shines a bright light on the dark side of capitalism. The book opened my eyes to what really goes on behind the scenes in high-end retail, and the best part is you can feel her courage and passion on every page.”

—Lawrence G. McDonald, The New York Times Bestselling Author, A Colossal Failure of Common Sense

“Black Market Billions is a must-read for all government policymakers, business leaders, opinion makers, and consumers. With global markets in chaos, states in recession, and extremists waging war against civilization, few topics are as vital to our security as the nexus between organized retail crime and terrorism. This book will change the debate as we come to understand just how much terrorism depends on funds raised by crime. This is an immensely important book for understanding why terrorism remains part of modern politics and why societies must find ways to cut off the financial tentacles of support.”

—William C. Martel, Associate Professor of International Security Studies, The Fletcher School of Law and Diplomacy, Tufts University
“Counterfeiting is one of the least-acknowledged, most-damaging crimes of our time. In Black Market Billions, Hitha exposes this nefarious world of the violent syndicates and the crimes they commit—human trafficking, forced child labor, money laundering—and discovers that the profits fund even worse acts such as terrorism. You’ll never look at a fake Louis Vuitton handbag the same way again.”

—Dana Thomas, Author, Deluxe: How Luxury Lost Its Luster
Black Market Billions
How Organized Retail Crime Funds Global Terrorists

Hitha Prabhakar
This book is dedicated to the memory of my grandmother Susila—\textit{the ultimate truth teller}.
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About the Author

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Introduction

Was he kidding?

Sitting at my computer on December 26, 2007, I couldn’t believe what I was reading in my instant message window. I was checking my e-mail when a bizarre series of messages1 from a former colleague and friend appeared like a flashing For Sale sign in the middle of my screen. (I’ve changed my contact’s name and IM address to protect his identity, as well as that of the retailer in question.)

HermCGC: Did i ever tell you i have hook ups sometimes with bags?

I had no idea what that meant. Did Herman have a direct connection to Marc Jacobs? Did he lose his job in the IT department of my former company and get a job at Neiman Marcus? Did he have some inside track to a sample sale unknown to fashion insiders? I had to find out.

HithaPrabhakar: you do???
HithaPrabhakar: where??
HermCGC: right now i have 2 bags for sale
HithaPrabhakar: is it black market
HermCGC: yes
HithaPrabhakar: wait. what??
HithaPrabhakar: how did you get them?
HermCGC: a hook up
Black Market Billions

HithaPrabhakar: what does that mean?
HermCGC: How about a Givenchy Grained Leather Bettina and that one in black just like its shown
HithaPrabhakar: i love the givenchy bag!! where did you get these??
HermCGC: They fell off the truck
HithaPrabhakar: HERMAN!!
HermCGC: he wants $300 for the Givenchy and $400 for the Lanvin
HithaPrabhakar: really?
HermCGC: i just sell them! i dont have nothing else to do with it
HermCGC: when i need a hookup its there for me

Having covered the retail and fashion industry the majority of my career, I had heard of fashionistas acquiring merchandise through less-than-legitimate sources. There was always a friend of a friend who worked at a luxury designer who had a glut of last year’s “it” handbag that didn’t sell well and who was trying to get rid of them so that she didn’t have 20 of the same handbag in her closet. I’d also heard of “handbag parties,” usually hosted by a middle-aged mom in a fancy apartment or home. She would somehow get ahold of 40 or 50 real Fendi, Coach, or Louis Vuitton handbags, or in some cases fakes, and sell them to her friends while they ate paté topped Wasa crackers and drank Dom Pérignon. I never inquired where these bags came from because, quite frankly, I wasn’t interested in buying them. But, for some reason, I had to know what Herman meant when he said, “when i need a hookup its there for me.”

HithaPrabhakar: totally off the record
HithaPrabhakar: did he steal them?
HermCGC: yes
HithaPrabhakar: NO seriously??
HermCGC: dont get my hookup in trouble
HithaPrabhakar: i would never. what is he doing stealing bags? i could definitely NOT buy the bag
HermCGC: actually from what they tell me... their entire staff does it.
HermCGC: alot get caught and alot dont
HithaPrabhakar: wow
HermCGC: they also told me most of their bags they get for 2/3rds cheaper than what they sell them for

When Herman confirmed that stealing from a luxury retailer was not uncommon and that the entire staff was stealing from the store, I knew there was more to the story. This wasn’t a minor case of petty employee theft. Clearly a theft ring was at work. I had to find out who was behind it, why it was so easy to steal the merchandise, and, more importantly, what they were doing with the proceeds once the merchandise was sold. I couldn’t understand how a retailer that had such high-end clientele was skimping on the most basic fixed cost a retailer could have: good security.

“Stores literally go out of business because of theft,” says Alan Herbach, president at American Theft Prevention Products, in an interview with me. “And the more technology you add [to the item], the more expensive it is. Someone is not going to put a $10 security tag on a $50 coat and pass the price hike on to the customer. They would rather have the merchandise sit out unprotected than put on an additional cost.”

I found out two facts as I did more research. First, it wasn’t just the store where Herman’s hookup worked that was having a security problem. It was retailers from Walgreens to Bloomingdale’s. Second, this kind of theft had a name: organized retail crime (ORC).

Organized crime has been a part of the American and global landscape for centuries. Back in the 1800s, Italian crime families started to surface and weave their way into the global economic fabric.
Although extortion, bootlegging alcohol, and having shell businesses fronting for illegal activity are often affiliated with crime rings, ORC has started gaining traction. On the surface, ORC looks like your average petty theft, often equated with shoplifting. However, this brand of crime costs retailers nearly $30 billion a year. And states lose billions more in sales taxes. (Ohio, for example, recently reported $61 billion in lost sales taxes due to retail theft.2) This is a lot more damaging than just a couple items being lifted from a store.

Since 9/11, ORC has grown exponentially, with the global recession as a catalyst. Crime ring members realized (like Herman and his criminal cohorts) that unsuspecting women like me hadn’t lost the desire to carry around an expensive handbag just because the economy was tanking. On a different level, these crime rings also realized that parents who were losing their jobs and being forced to cut back on staples such as baby formula were seeking deals on over-the-counter drugs and beauty items as mundane as Crest White Strips and Prilosec OTC.

“Why would anyone care if people are buying stolen merchandise at cheaper prices?” asked a friend over lunch one day.

She admitted purchasing makeup at a local makeup wholesaler in midtown Manhattan, and she didn’t see anything wrong with doing so. It was true: the American consumer’s purchasing psyche had changed as stock prices dropped and unemployment rates hit their highest levels since the Great Depression. During the recession, it was every person for himself. Uncertainty dominated how people spent. Most importantly, it was all about saving as much as you could. So why would anyone care when the objective was conserving dollars? But while the consumer was busy pinching pennies, something more sinister was going on that would have a significant impact on the economy at a global, national, and individual level.

Retailers and consumers were being duped by sophisticated schemes created by ORC rings. These rings were communicating via the Internet, disposable cell phones, and social media to move stolen
merchandise from the store to a warehouse and back to another seemingly legitimate retailer within hours. These schemes had opened the floodgates for international criminals based in the U.S. to steal upwards of $2 million in merchandise in one hit alone. The worst part was that these crime rings were funding terrorist cells such as Hezbollah, the IRA, Hamas, Harkat-ul-Mujahideen, and al Qaeda. That’s right—the discounted designer handbags, soap, and baby formula that people were buying to save a buck were funding terrorism. To prove it, I decided to follow the money trail.
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Organized Retail Crime Goes Global

A hush falls over the room as a man in a designer suit jacket walks to the podium. The man is tall and well spoken and is comfortable addressing an audience of 30,000. Methodically pointing to charts projected onto a screen using high-tech equipment, he reviews how much this organization spent within the last year, its new financial targets, how it can make more money in the upcoming year, and, most importantly, how the American army fighting across the border in Afghanistan is no match for his organization. In the wings, spokespeople for the organization take notes furiously, ready to communicate the main points of the meeting to the rest of the world.1

This man isn’t the chief executive of a Fortune 500 company. He is Baitullah Mehsud, head of Pakistan’s Tehreek-e-Taliban terrorist group.2 (Mehsud was subsequently killed in August of 2009 along the Afghan border in U.S. air strikes.)

As it turns out, consumers and businesses weren’t the only ones suffering from the repercussions of the global recession. Terrorist organizations such as al Qaeda that once brought in close to $30 million a year before the 9/11 attacks felt the financial pinch just like legitimate businesses around the world. Abd al Hanid Al Mujil, known as al Qaeda’s “million dollar man,”3 at one point turned to charitable donations to raise money for the terrorist group. When the U.S. government realized in 2006 that he was using his position as the executive director of the eastern province branch of the International Islamic Relief Organization (IIRO) to funnel money back to al Qaeda, he was removed from his post, costing the IIRO millions of dollars
in potential donations. With its once large bank account dwindling, al Qaeda decided to decentralize. Instead of having one major unit functioning in the Afghanistan and Pakistan regions, al Qaeda suddenly had affiliates all over the world that shared the same ideals but planned and executed their own terrorist attacks.

Professor Bill Martel of Tufts University’s The Fletcher School of Law and Diplomacy told me, “Pre-9/11, the conventional wisdom was that groups like al Qaeda were tightly organized with clear lines of control from its leadership. What’s happening now is that al Qaeda has lost central control [of] its power as well as its financing. Once the U.S. began to attack al Qaeda, it became a very dynamic organization with a constantly evolving set of networks all connected to the core group. These subgroups are all highly adaptable as well and take it upon themselves to recruit from within—convincing their own people that supporting their group is one step closer to God while using the Internet for self recruitment, planning and financing.”

Martell notes that al Qaeda wasn’t the only organization facing a funds shortage once these groups started to come under greater scrutiny and attack. After all, they declared war on the U.S. and attacked it, and in response the U.S. attacked al Qaeda and its financial means of support. Hezbollah and the Taliban also became decentralized, creating an opportunity for subgroups to crop up in unsuspecting areas such as Latin America, Africa, South and Southeast Asia, and even the U.S. These affiliated groups supported the main organization and indoctrinated extremist ideals shared by their members worldwide. However, they were on their own when it came to getting money to fund attacks. They raised funds by increasing the cocaine trade, carrying out kidnappings, and running scams that bilked donors out of money meant for charitable organizations. Transferring funds via hawalas was commonplace and in fact was a standard way of accumulating money.

What wasn’t typical was that the Lashkar-e-Taiba (LeT), al Shabaab, and South American cells of Hezbollah were increasingly
relying on gangs, cartels, and international sympathizers to build their bank accounts. One of the main sources of money was organized retail crime (ORC).

**Why Is ORC Such a Threat?**

Once known to the retail community as the minor crime of shoplifting, in the past decade ORC has grown into an estimated $38 billion a year black market operation. U.S. government agencies such as Immigration and Customs Enforcement (ICE), the Federal Bureau of Investigation (FBI), and the Department of Homeland Security (DHS) have all tracked ORC synchronized teams that steal from our economy and use the money to attack us and support international terrorist groups. These groups include Partiya Karkeren Kurdistan (PKK) in Iraq (led by Saddam Hussein’s son, Uday, until his death), the FARC (Revolutionary Armed Forces of Colombia), the IRA in Ireland, as well as Hezbollah, Hamas, and Lashkar-e-Taiba (Pakistan/India).

These terrorist organizations are hell-bent on destroying not only the lives of the people within their own countries who don’t stand with them (or their mission) but also the American economy, its people, and its way of life. While it is difficult for government organizations to track exactly how much money is actually being made, the National Retail Federation (NRF), ICE and FBI estimates the proceeds from stolen goods equal $600 million dollars annually and have been funding everything from weapons, to fake visas and passports, to paramilitary equipment. ORC is one of the easiest and least detectable ways for criminals to make money quickly and send it to terrorist groups overseas. What’s even more disturbing is that these terrorist organizations are using grassroots tactics to recruit people into ORC rings. According to Joe LaRocca, spokesperson for the NRF’s ORC initiative, the rise in ORC, especially within the past two years, has
had to do with the economy. Consumers were quite literally “dying for a deal” by purchasing items that were stolen by crime rings with links to terrorist organizations overseas—they just didn’t realize it.

“The economy played a big role in the organized retail crime and the resale market,” says LaRocca. “Consumers who were cash-strapped and lost their jobs looked for alternative places to purchase everyday items at an affordable cost. When places like Walmart, Target, and Walgreens became too expensive for them, the only option was to tap into resale markets, flea markets, pawn shops, and online web sites. These consumers forfeited their comfort and trust with retailers they knew, and chose those [retailers] who had what they were looking for at lower prices in order to save some money. And when the economy is tight like that, consumers made those tough choices. Suddenly, shopping at a desolate warehouse or purchasing a clearly fake or stolen purse at a handbag party thrown by a friend seemed like a good idea, regardless of who or what the ripple effect may be [impacting].”

LaRocca sat down with me one humid afternoon at the Atlanta National Retail Foundation conference on loss prevention. He explained how domestic ORC groups were fully aware of American consumers’ spending vulnerabilities and took advantage of them. “People were forced to do more with less, and these guys were smart enough to make money off of it,” he said. LaRocca also pointed out that with the economic downsizing that was taking place, retailers had to cut back, creating an endless cycle of understaffed stores that aided criminal acts.

Another reason why these crimes are so attractive to ORC rings is that they are not looked upon as federal crimes. Retail theft falls into the category of “property theft” and takes on a lesser charge than an offense that would fall within the jurisdiction of the major crimes division. Despite ORC rings stealing upwards of $1 million in a couple of months, they are still viewed as petty thefts in some instances.
One ORC ring, which was busted in Polk County, Florida in 2008, involved an orchestrated group who stole $100 million in over-the-counter (OTC) drugs, beauty products, and baby formula, reported Casey Chroust, executive vice president of retail operations at the Retail Industry Leaders Association (RILA). This group was a well-organized crime ring, masterminded by someone who knew how the system worked. They worked as a team, blocking cameras and using boosters (someone who steals items from a store) to steal the merchandise, making handsome profits.

Up the coast in New York City, another ORC leader established and oversaw a ring of about 75 to 100 people. Jerry Biggs, director of the organized retail crime division at Walgreens, called this man “Samuel Elias.” Elias’ ring stole upwards of $2.5 million in merchandise from Walgreens per hit and used it to fund everything from his gambling addiction to overseas accounts based in Jordan.

Both of these rings are similar in how they organized and executed and profited from ORC. However, neither was prosecuted under federal statutes despite engaging in anti-American acts for years, including sending money overseas to support terrorist organizations.

These are just small examples of a larger issue that spans three continents and involves people and cultures from around the world, including the U.S.

Although some involved in ORC are doing it for personal financial gain, most are motivated by the idea of jihad and having a hand (small or large) in plotting the demise of one of the world’s greatest superpowers—the United States of America.

The Promised Land: Money Talks

Chris from the Congo arrived in New York only to get caught up in the world of counterfeit handbag sales. He told me his story on
a July day in 2010 as we sat on a stoop on Lespinard Street, just steps from Chinatown. Let me assure you that although Chris is involved in retail crime, he is not part of any terrorist cell.

Chris hails from the Congo by way of Paris. Although he is only 28, he already has a strong business sense. He looks like a normal, well-educated member of high society. When I met up with him, his shorts were tailored and pressed. His basic white T-shirt was crisp and fit perfectly and was tucked into his shorts. Chris even sported a pair of Prada driving moccasins, often seen on the feet of Upper East Side chief executives, not downtown on Chinatown street merchants. In his right ear was a lattice-patterned earring made of diamonds.

Chris comes from a professional family. His sister works in financial services at a bank in London. His brother is in medical school. Following in his sister's footsteps, Chris came to the U.S. to get a business degree from Pace University in New York City. His family believes this is all he is doing. But the truth is that upon arriving to the city, a contact told him to get in touch with a man from Somalia who ran a couple of businesses and could potentially give him a job. “I didn’t come to New York not to make money,” said Chris. “I had everything in Paris—free healthcare, free social security and benefits. The only reason you would leave that is if you wanted to make real money, and you can do that here.”

When Chris arrived in New York, he hooked up with a warehouse owner, from whom he would purchase handbags for $20. He then sold each bag for $60, making $40 in profit per bag. When he first started out, he was moving 30 to 40 bags a day on average. Now, he sells approximately 100 to 150 bags a day at $60 per bag and keeps almost all of the profits. Let me reiterate at this point that Chris keeps the money he earns and is not involved with terrorist rings, but he is very familiar with those who do send their earnings to such groups.

Chris and I made our way to a nearby Starbucks, where he paid for the two drinks on his business debit card from JP Morgan Chase. He explained that he also runs another clothing business, where he
sells pants, shoes, and shorts online. “If I am not making money on my web site, then I want to be making money doing this. If I am not working here, I am learning. I have to constantly be improving my situation.”

Just as he said this, Chris got a phone call on his cell. It was a colleague of his who also sells handbags in the same Chinatown area, telling him the cops are near. “Come on; we have to go,” he said as he gathered his bags, took a last gulp of coffee, and headed out the door. Chris and I ran to the street corner to gather the rest of his merchandise before it could be confiscated by the patrolling NYPD. Chris is constantly moving around; he doesn’t have a stand (like some handbag sellers) for fear that he will get arrested. In fact, most of his colleagues operate their businesses like this.

He said some people bring in so much money that they feel they have no choice but to stay in this industry. Chris explained, “When I was put in touch with the warehouse owner, I didn’t realize how much money people could make doing this. While I brought in about $10,000 a month, enough to pay for my living expenses and tuition, some people bring in close to fifty or sixty thousand dollars a week, specifically those who have sellers working under them. And you better believe they are the ones sending the money home through the mosques and family members via hawalas. Their American dollars are supporting their economies and political groups back home.”

Most of Chris’s colleagues who come from Somalia and send money back to their homeland spend their days voicing their disdain toward the U.S. Many of the gripes center around the U.S.’s perpetuation of capitalism and the “in your face” display of money by Americans, in addition to how they spend it. According to Chris, many of his colleagues have a love/hate relationship with that aspect of the U.S. Likewise, the racial undertones that make it more difficult for immigrants to establish themselves as business owners or to get jobs is a topic of heated conversation. “The United States isn’t the easiest place for immigrants if they want to establish themselves,” said
Chris. “I think all of the rules and regulations, mixed in with overt racism and a general disdain for Muslims, perpetuates a feeling that we not only need to make and take money from this country, but we need to use it to help our home countries. It’s the right thing to do.”

Given the political state of the Somali government, it’s understandable how anti-American sentiment could rise quickly. In a Bertelsmann Transformation Index report conducted by Bertelsmann Stifung over two years ending in 2010, Somalia experienced escalating violence and a deteriorating level of security. This has led to massive population displacements and the worst humanitarian crisis in the country since 1991–1992. Not only did the Transitional Federal Government fail to establish national unity, but it also has been involved in a war against insurgent groups, including Islamists and clan-based militias, such as al Shabaab.13

Speaking to several of Chris’s colleagues confirmed the anti-American sentiment. One man I spoke to (we’ll call him “Edward”) told me that after years of economic and social oppression by the government, America was seen as “The Promised Land” where upon arrival, success, security and most importantly monetary gain would happen almost instantly. And while Edward acknowledged his situation was much better once he arrived to New York, it’s not up to the standards he had dreamed of. “I thought my big house came the minute I walked off the plane,” said Edward laughing slightly. “It wasn’t like that to say the least. I have problems here too. It’s almost as if the American Dream is just that—a dream.”

The country was also significantly affected by the global economic crisis. As many Arab nations felt the sting of sinking oil prices, local stock markets cut in half the value of investments in the global marketplace, with Somalia catching the brunt of it. While most of the population lived in poverty, the crisis catapulted them into extreme poverty, living lives of shocking insecurity.14 Somalia’s labor force of nearly 3.5 million contains few skilled laborers, and its GDP is $2.731 billion. Given these factors, the country has had to sustain itself on an
informal economy that is based on livestock, remittance/money transfer companies, and telecommunications.15

Somalia isn’t the only country brewing with instability and anti-American feeling. We saw this same sentiment expressed by Faisal Shahzad during his initial indictment hearing in June 2010. Shahzad, a Pakistani-born U.S. citizen, devised a plot to detonate a bomb in Times Square—a plan that took two years for him to come up with. It involved multiple trips back to Pakistan, covert ways of obtaining funding for the plot, and, most importantly, a deep disdain for the country of which he was a citizen.

“I want to plead guilty, and I’m going to plead guilty a hundred times forward, because until the U.S. pulls its forces from Iraq and Afghanistan and stops the drone strikes in Somalia and Yemen and in Pakistan and stops the occupation of Muslim lands and stops killing the Muslims and stops reporting the Muslims to its government, we will be attacking the U.S., and I plead guilty to that,”16 said Shahzad as he pled guilty to ten counts of attempted bombing and engaging in terrorist training.

His statements weren’t altogether surprising. Hating America had become the driving force and justification for extremist organizations to plan attacks. But what was shocking was that this hatred was brewing on American soil and sprouting seeds of domestic terrorism.

Made in America: Homegrown Terrorism

Suspected New Jersey terrorists Mohamed Mahmood Alessa and Carlos Eduardo Almonte also felt the need to wage a domestic attack on the U.S. They traveled to Somalia by way of Egypt to train with al Shabaab. According to a friend who belonged to the same mosque, as well as an informant who tipped off the FBI, these troubled young men were talking about “waging a violent jihad.” They kept saying that all Americans are their enemies, that everyone other than their
Islamic followers are their enemies, and they all must be killed. Both suspected terrorists were funded by money raised from the sale of merchandise stolen from retailers.

Muslim extremists do not think of themselves as members of separate countries. Rather, they belong to a greater organization whose sole purpose is to create a world free of non-Islamists. This sentiment was expressed by a senior Taliban commander, Mullah Minbullah, in Nuristan in an interview with a pro-Islamist web site. “First of all, Muslims are one,” says Minibullah. “Among us there are no foreign and inlanders. We are all Muslims, and I can gladly tell you that nobody can match Afghans in fighting. No Iranians, Arabs, or anyone can fight like we do. But the important fact is that we are, thanks to Allah, Muslims. And for us Muslims, it doesn’t matter if you are Afghan, Arab, Pakistani, Tajik, or whatever... and in every household in every corner weapons are present. And the expenses of these weapons are not so expensive to prevent us from financing them ourselves. We get financial aid from people...Muslims from all around the world.”

To engage in a full-out jihad, you need weapons, and weapons cost money. As funds are raised by illicit means (such as by selling counterfeit handbags, contraband merchandise, or stolen product), the money made from these illegal sales is being sent back by sympathizers. Taliban groups, such as al Shabaab and Tehreek-e-Taliban, used the funds to train people such as Shahzad in explosives training while he was in Pakistan. The Federally Administered Tribal Areas (FATA) of Pakistan, widely known as a safe haven for al Qaeda fugitives and a staging area for Taliban forces, is largely financed by smuggling goods and persons across the border.

Likewise, two compounds were located within the U.S.—one known as “Islamberg,” in Hancock, New York, and the other, a commune called “Red House,” in Virginia. Both have ties to the Jamaat al Fuqra, the terrorist group known for kidnapping and killing journalist Daniel Pearl, and both were known to have their own ORC rings.
involved in the sale of stolen and counterfeit products. According to sources, members of the Islamberg community supplied Shahzad with explosives for his failed attempt to detonate a bomb in Times Square.21

Members of the Red House compound (an alleged Muslim 50-acre compound in Charlotte County, Virginia) were recently involved in a $7 million fraud scheme. Under the name Talib’s Sportswear, they sold counterfeit-label clothing to retail merchants throughout the country. The probe into the Talib firm led to the arrests of Ronald Gerald “Talib” Roundtree and his wives Berna Robbin, Terri Lynn Singleton, and Keisha Janelle Simms, who reside on “Fatima Lane” in Red House.22

“American-based operatives of terrorist groups have increasingly turned to criminal endeavors to finance their murderous actions,”23 Stephen I. Landsman, director of National Security Law and Policy on the Investigative Project on Terrorism, told me. Whether through drug trafficking, ORC and black-market smuggling, the production and sale of counterfeit name-brand goods, or car theft rings, terrorists have demonstrated that they are willing and able to resort to the types of activities normally reserved for street gangs for financial support. U.S. law enforcement has stopped and should continue to stop these activities with the same proven techniques it has always relied on to combat illicit financial activity. Those efforts, however, must be accompanied by measures aimed at preventing the actual flow of money supporting terrorism—and thwarting the means used to recruit potential ORC ring members.24

Recruiting from the Inside

On a hot day in the Santa Ana California State prison, a group of men congregate in the prison’s parole yard area. Although they look like typical prison inmates in orange jumpsuits, what they are talking
about is anything but ordinary. They are part of a group called the Jam‘iyyat Ul-Islam Is-Saheeh (JIS), which translates as “the Assembly for Authentic Islam.”

The group was started by Kevin Lamar James, a wiry African-American who sports cornrows, oval-shaped glasses, and an untrimmed goatee. James has what is known in Muslim circles as a “raisin” in the middle of his forehead—a symbol of a pious man who grinds his forehead to the ground during prayer. A California native and 32 years old at the time, James was sentenced for plotting attacks on military recruitment centers, synagogues, the Israeli consulate, and Jewish facilities in 2005. While imprisoned in Folsom in 1997 for gang-related armed robbery, he recruited Levar Washington and Gregory Patterson, who were also sentenced to jail time for assisting James in these attacks. According to an FBI press release, James recruited Washington into the organization by making him swear an oath of loyalty to him and the JIS. A couple weeks after he took the oath, Washington was released from prison and subsequently recruited Patterson and a fourth accomplice, Hammad Samana (a Pakistani native), to form a cell. The three would rob gas stations (because of oil and its political symbolism). They took everything from money to personal care items and over-the-counter medicine for the purpose of reselling it and raising money for the organization. The men stole upwards of $50,000 within ten months. And that’s just three people.

“Prisons literally provide a captive audience of disaffected young men easily influenced by charismatic extremist leaders,” explained FBI Deputy Assistant Director Donald Van Duyn in a statement before the Senate Committee on Homeland Security and Governmental Affairs and Related Agencies. “These inmates, mostly minorities, feel that the United States has discriminated against them or against minorities and Muslims overseas. This perceived oppression, combined with a limited knowledge of Islam, makes this population vulnerable for extremists looking to radicalize and recruit.”
Anti-American sentiment has been historically prevalent in immigrant communities—especially Latin American communities—dating as far back as the early 19th century. A poll done by UNESCO and USIA provided statistical confirmation that U.S. values had great appeal for much of the world’s population.\textsuperscript{28} Data from the 1958 National Intelligence Estimate found that Latin American attitudes “expressed envy by disparaging U.S. materialism, yet wanted our consumer goods and capital; they espoused pan-Americanism, but engaged in petty nationalism; they chafed at our military power but wanted our protection.”\textsuperscript{29} Clearly anti-American sentiment has been long-standing and was deep-rooted. (9/11 only accelerated this sentiment worldwide. In a survey done by the Pew Trust in 2001, opinion leaders in many countries stated that U.S. policies were a principal cause of the 9/11 attacks. 58% of the Latin Americans who responded in the survey agreed.\textsuperscript{30})

James wasn’t the only inmate to recruit or be recruited out of a California prison. Jose Padilla, a native Puerto Rican who was also a U.S. citizen, converted to a radical form of Islam while in jail. He had been involved in many crimes connected to gang activities in Chicago. Padilla (aka Abdullah al Muhajir) admitted he had ties to the Maniac Latin Disciples, the largest Latin street gang in Chicago. He was arrested at Chicago O’Hare airport for plotting a terrorist attack with a dirty bomb.\textsuperscript{31} According to Chicago authorities, Padilla was tagged as a potential al Qaeda terrorist and trained with the network.\textsuperscript{32}

\textbf{From Prison to Gangs to the World’s Most Notorious Terrorist Group}

The MS-13 (Mara Salvatrucha) gang’s\textsuperscript{33} connection to al Qaeda was facilitated after 9/11 when the terrorist group realized the gang could help smuggle operatives and weapons into the U.S. over the
Mexican border. According to Steven McCraw, the former assistant director of the FBI’s Office of Intelligence and current director of the Texas Department of Public Safety, a *matricula consular* provides an opportunity for terrorists to move freely within the U.S. without triggering name-based watch lists.

The cross-border gangs, known as the Maras, came about in the early 1980s when conflict-ridden zones in Central America, such as El Salvador, Guatemala, and Nicaragua, caused hundreds of thousands of people to migrate north to the U.S.—especially into California, Arizona, and New Mexico—as illegal aliens. Once in America, these immigrants (mostly men) encountered difficult work and social situations in terms of integrating into other ethnic-based gangs such as the Crips, Bloods, and Mexican Mafia. Some joined the M-18 (also known as the 18th Street gang, named after a street in Los Angeles), and others created their own gang, the MS-13. The number 13 also refers to a street in Los Angeles. Trained and very familiar with military combat and guns due to the insurgency in their countries, the MS-13 would wage war in the streets of Los Angeles, involving themselves in violent crimes, theft, and drug dealing. When they were arrested and put in jail, MS-13 members would use their time to recruit more members, hone gang identities and criminal skills, and make their cells stronger.

As soon as the peace process ended the strife in El Salvador in 1992, many of the Maras members (who were now M-18 and MS-13 members) were deported and sent back to their homeland. While in their war-torn cities of Guatemala City, San Pedro Sula, and San Salvador, they reestablished themselves and have been expanding their cells all over the world ever since. Today the MS-13 has more than 11,000 active members (compared to the 8,000 members of M-18), with a regional total of 69,145 members in 920 groups.

MS-13 quickly became globally ranked for criminal activity, along with drug trafficking organizations (DTOs) and Mexican Zetas, according to Samuel Logan, author of *This Is for the Mara Salvatrucha:*. 
Inside the MS-13, America’s Most Violent Gang. Despite being from various parts of Central and South America, these gangs have one thing in common. Their strong paramilitary backgrounds allow them to structure themselves into “cliques”, individual groups that can number in the hundreds, which operate together within a common network to wage violence with militaristic fervor. Their structures are elaborate, flexible, and sustainable, with solid leadership at the helm and another person to back it up. They function as networks with extensive transnational linkages. Their internal functions are broken into groups and include recruiting, logistics, battle, intelligence (gathering and propaganda), and juvenile delinquents. These are the ones engaging in ORC, in addition to extortion, selling drugs, and committing homicide for pay.\(^{39}\)

Similar to how non-Afghan mujahideen soldiers eventually formed Al-Qaeda, the Zetas originated from ex-Mexican Special Forces operatives. Not only were these soldiers trained in the art of psychological warfare, but they also were trained to kill like combat forces. “These special forces soldiers just got too close to the money and defected,” says Logan. “They are the most sophisticated and well run as far as organized crime rings go. Leaps and bounds over Pablo Escobar (a late Colombian drug lord once know as “the world’s greatest outlaw” and certainly the richest). And because of their level of sophistication, they were able to take on the Mexican government head on.” Members of these organizations are also known to be heavily armed, with weapons including M-16s, AK-47s, and grenades.\(^{40}\)

But weapons cost money, and so does running a 69,000-member organization.

To have consistent cash flow to pay for hotel rooms, cars, transportation, and overhead costs, the MS-13 raised funds by escorting people across the U.S. border for thousands of dollars per person. If they are crossing through Mexico, they work with Mexican organized crime rings such as the Zetas or the Tijuana, Juarez, or Gulf drug cartels. The organizations and cartels monitor who the MS-13 traffics
in because they take an increased percentage per head depending on whether those crossing are Chinese, Central Americans, or Mexicans. To bring an Arab into the U.S., the “tax” and percentage per person is much higher.41

“It is possible that the MS-13 is working with Hezbollah as well as the al Qaeda to smuggle [operatives] into this country. The question is to what extent they are involved and if Hezbollah or al Qaeda really requires their help,” says Logan. “There are some Latinos who are becoming Islamic radicals and are engaged in activities that support the Hezbollah. Because of the MS-13’s strong ties to Latin and Central America, and because their organization is so vast, adaptable, flexible, and connected, the U.S. government would have a hard enough time going up against them. Forget about the Mexican government. It makes sense that the [MS-13s] would be the main facilitators of illegal entry into the United States.”42 Logan points out that in illegal border crossings, rarely do people give their correct names, nor are they asked what their real names are. “Based on what is happening in Latin America, in countries where the Hezbollah have a strong presence as well as the MS-13, you can’t assume they’re not working together.”43

In addition to making money from smuggling people into the U.S., some of whom could be sympathetic to terrorist organizations, many members of the MS-13 are members of or have created organized crime rings (OCRs). This helps them generate income for paying off drug cartel border taxes in their country of origin. They also use the money to help support their families back where they came from. Members who are based in port cities, such as Los Angeles, Miami, New York, Chicago, and Houston, operate rings that fence everything from baby formula to pirated DVDs and cigarettes.

“I wouldn’t be surprised if it [organized retail crime] makes up 5% to 6% of what they earn,” says Logan. “Half of their extortion, one quarter of the proceeds, comes from being hired hit men; the other 20% or so of the income pie is derived from between five or six things, like drug sales and shady business deals. But ORC is definitely
a significant portion of their income because it’s a lucrative business. They will steal several quarts of baby formula, cut it with generic powdered milk like they would a powdered drug, and repackage it so that they get more quantity. If you steal a kilo, you can make pretty good money with it.44

Members of the MS-13 are obliged to support other members’ families, wives, girlfriends, and children if those fellow members are in prison. Logan estimates that almost 60% of the MS-13 funds made through ORC is sent back to El Salvador or other countries via underground banking systems. There is very little accountability, so it’s hard to determine exactly how much is sent back per month. However, Logan estimates that thousands of dollars per week per clique could be sent back, with payouts to families in amounts that range from $500 to $800 a week, so that they are taken care of and don’t get turned out on the street. In addition, funds are used to pay off corrupt judges within their countries of origin. Logan notes that 20 MS-13 members were essentially let out of jail because their sentences were paid off by other members of the organization. What’s more, judgments are made based on what facts a judge writes in a statement. Bribes are often paid to change the facts or sway the judge in favor of the person on trial. Logan recalls one judge getting paid nearly $30,000 to let a single MS-13 member go free.

Access to Funding Gets Creative

Avoiding banking systems is the modus operandi of most homegrown terrorists. For example, Faisal Shahzad worked with four other men in Pakistan as well as the U.S. to move money to and from Pakistan to fund his failed Times Square terrorist plot in May 2010.

According to a report on terrorist financing by the U.S. General Accounting Office, the use of informal banking systems is one of the ways in which organizations earn, move, and store assets. Like other
criminals, terrorists focus on crimes of opportunity in vulnerable locations and seek to operate in relative obscurity by taking advantage of close networks of people. The Financial Action Task Force (FATF) requires all member countries to ensure that individuals and entities providing money transmission services must be licensed and registered and subjected to the international standards set out by the FATF. But as seen in the case of Shahzad, countries, including the U.S., have a difficult time regulating money transfers.

Terrorist organizations have to stay two steps ahead of law enforcement even when it comes to the transferring of money. Federal law may cover bulk cash transfers over borders, “just like Tony Montana did in Scarface,” says John Tobon, Unit Chief of Financial Programs of the Cornerstone Unit of Immigration and Customs Enforcement. These perpetrators are prosecuted in a federal court if they are caught. Laws do not take into account just how technologically advanced money transfers are becoming and that they are evolving rapidly. The use of stored value cards, PayPal, and wire transfers in conjunction with hawalas allows potential terrorists to move money quickly and remain undetected. When there is more than $10,000 on a stored value card in someone’s wallet, customs enforcement doesn’t know about it.

In an interview with me in July 2010, Tobon explained how his unit tracks 20 different initiatives by looking at the utilization of shell corporations. These corporations are fronts, acting as legitimate businesses so that terrorist cells can transfer laundered money more readily and easily. Tobon spends his time investigating wire transfers, Ponzi schemes, and ATM fraud—the real issue he says is the generational gap between law enforcement and the criminals.

“We are dealing with a group of people where the virtual world is the only world they know,” says Tobon. “Law enforcement is full of 37-year-old guys, all of whom didn’t grow up with the Internet and are at times slow adapters. This is where we see the generational gap widen. In a recent financial fraud case, a loose confederation of very bright and young men all under 25 got together every six to eight
months to defraud customers via stealing their identities and credit card numbers online. The shocking part was that they were making $20 to $25 million a year just on their ability to manipulate web sites. We are going to see that more and more, especially within terrorist cells and networks. In order to arrest them, we have to know them, and the only way we are going to do that is to technologically evolve.”

**Burrowing In: The Hezbollah Finds a Home in the U.S. and South America**

As terrorist organizations such as al Qaeda, Hezbollah, and Hamas began to disassemble, cells of the organizations started to crop up in unlikely areas of the world. The Tri-Border Area in South America (the border intersection of Argentina, Brazil, and Paraguay) piqued the interest of the FBI and ICE in 2002 when word got out that terrorist operatives were meeting in the area. Meetings took place in and around Cuidad del Este that were attended by representatives of the Hezbollah and other groups sympathetic to Osama bin Laden’s terrorist network. Capitalizing on the frustrations of about 25,000 Arab and Lebanese residents living in the area, the Hezbollah set up shop in the South American region. It used the millions of dollars it raised via counterfeit and stolen product smuggling schemes to fund terrorist training camps, propaganda operations, and bomb attacks in South America.

With porous, ill-patrolled borders within the region, U.S. officials fear the rate of potential terrorists entering the U.S. via Brazil or Mexico is extremely high.

Cars, motorcycles, and people can slip between countries’ borders without documents being checked. According to the CIA, the Hezbollah militiamen are less likely to raise suspicions because they have Latin American passports, speak Spanish, and look like Hispanic tourists. In addition, many of the alien smuggling networks that move non-Mexican aliens over the borders have ties to Muslim communities in Mexico. According to a 2004 paper on terrorism threats
from the CIA’s Counterterrorism Center, “Non-Mexicans often are more difficult to intercept because they typically pay high-end smugglers a large sum of money to efficiently assist them across the border, rather than haphazardly traverse it on their own.”

Even more significant than members of terrorist organizations getting smuggled into the U.S. is how they are getting the money to pay for it.

**Supporting the Enemy Through Charitable Donations**

Muslims are required to give away 2.5% of their earnings as a form of *zakat*, or alms. Hezbollah, al Qaeda, and al Shabaab sympathizers concur wholeheartedly with this sentiment. Since zakat guidance is broad, alms can be given to whomever or whatever organization donors see as worthy. For example, when a *fatwa* was issued by the late Ayatollah Khomeini, it legitimized the use of zakat funds to finance the resistance movement against Israel.

This gesture is more for charitable giving and supporting those in need. However, the lines get blurred when it comes to Hezbollah, al Qaeda, and al Shabaab sympathizers who willingly give zakat to fund terrorist acts and shroud this as a religious duty. In testimony given by Dr. Matthew Levitt, senior fellow and director of terrorism studies at the Washington Institute for Near East Studies, Hezbollah receives significant financial support from Hezbollah sympathizers living abroad, especially from Lebanese nationals living in Africa, South America, and other places with large Lebanese Shia expatriate communities. Hezbollah’s main income, according to Hezbollah Parliamentarian Mohammad Raad, comes from the group’s own investment portfolios and wealthy Shias.

**From America to South America: Ties Get Stronger in the Tri-Border Region**

South America’s Tri-Border Area has been a lucrative region for Hezbollah. Because of its dense population, designated free-trade
area, access to ports (Puerto Iguazu, Argentina), hidden air strips, and minimal law enforcement presence, smuggling merchandise is a significant way in which sympathizers raise funds. And it’s taking place within U.S. borders.

The connection to the Tri-Border Area has deep roots in the U.S. Within a couple months of each other, two men were arrested in connection with providing material support to the Hezbollah in the Tri-Border Area in the form of smuggled and stolen merchandise. Moussa Ali Hamdan, a 38-year-old native of Lebanon, was a naturalized citizen of the U.S. By day he worked as a carpet installer from 2007 to 2008. He then operated a low-end car dealership. During that period he bought more than $154,000 worth of what he thought were stolen electronics and cars from undercover agents. While he sold some of the stolen product for personal profit, he was allegedly smuggling merchandise to South America, with the proceeds benefitting the Hezbollah, according to court documents.

What Hamdan didn’t know was that his smuggling was also playing a pivotal role in helping law enforcement investigate high-level Hezbollah operatives who were selling counterfeit cash to purchase assault weapons to be shipped overseas. Using the money made from the sale of stolen and smuggled merchandise, Hezbollah operatives worked “18 hours a day producing high-quality counterfeit currency for the Hezbollah.” In addition, Hamdan helped his co-conspirator and well-connected Hezbollah operative, Dib Hani Harb (who was also involved in producing the counterfeit currency), broker a meeting between the FBI informant and Hassan Hodroj, a member of Hezbollah’s political bureau in Beirut. Hodroj requested 1,200 Colt M4 machine guns, a model used by U.S. special forces, for which Hodroj said he would pay $1,800 per gun. “His arrest underscores the global nature and reach of Hezbollah’s financial and logistic support,” said Levitt in an interview with me.

Prior to Hamdan’s arrest, three men in Miami were also arrested for selling stolen Sony PlayStation 2 consoles, cameras, and other
electronics to the Galeria Page mall in Ciudad del Este in Paraguay, which we will delve into later in the book. The men, Khaled T. Safadi, Ulises Talavera, and Emilio Gonzalez-Neira, created a sophisticated ring that involved buyers, sellers, and freight forwarders, as well as people who could create fake documents and invoices.

“While engaging in criminal activity often increases a group’s vulnerability by further exposing them to scrutiny of law enforcement authorities, Hezbollah’s reliance on fellow sympathizers and members of local expatriate communities minimizes that potential exposure,” says Levitt. “Hezbollah is very criminally oriented for its fundraising in the U.S., including legitimate and illegitimate business activities.”

These cases are just the tip of the iceberg. With such a large portion of money from ORC theft up for grabs and because of the federal government’s unwillingness to prosecute these criminals as felons, the problem continues to grow at an astronomical rate. Retailers and government officials have one option—step up their game, or keep putting their country at risk.

And as if the state of national security weren’t enough, another group is also being severely affected by ORC—the consumer.
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