

"A masterpiece... This book should be required reading for everyone in the White House, State Department and Pentagon"

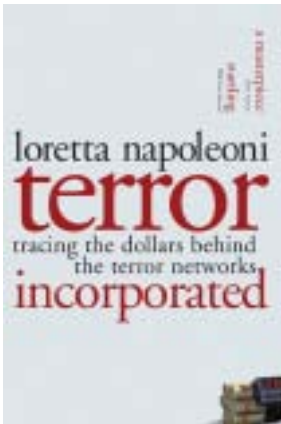
– Greg Palast, journalist and author of The Best Democracy Money Can Buy

Terror's Unwilling Ally

An excerpt from
**Terror
Incorporated**
Tracing the Dollars
Behind the
Terror Networks

ColdType

**LORETTA
NAPOLEONI**



An excerpt from

Terror Incorporated

Tracing the Dollars Behind the Terror Networks

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The Author

Loretta Napoleoni, a former Fulbright scholar at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies and Rotary scholar at the London School of Economics, is an expert on international terrorism who has worked as an economist and foreign correspondent for Italy's financial papers. She has translated and edited books on terrorism and was among the few people to interview the Red Brigades in Italy after three decades of silence.

About the book

In **Terror Incorporated**, Loretta Napoleoni maps out the arteries of an international economic system that feeds armed groups the world over. Chasing terror money, she takes the reader from CIA headquarters to the smuggling routes of the Far East, from the back rooms of Wall Street to hawala exchanges in the Middle East.

Napoleoni describes the "New Economy of Terror," "a fast-growing international economic system with a turnover of about \$1.5 trillion [that] is challenging Western hegemony." It is made up of illegal businesses such as arms and narcotics trading, and oil and diamond smuggling, as well as charitable donations and legal profits. Napoleoni reveals the interdependency between economies run by armed groups and western economies." As in the Crusades, religion is simply a recruitment tool; the real driving force is economics."

The following excerpt is Chapter 18 of the book.

ColdType previously published an excerpt, titled **The New Economy Of Terror**, from the British edition of the book. You can download it at <http://www.coldtype.net/index2.html>

Terror's Unwilling Ally

*"Injustice is inflicted on us and on you
[Western people] by your politicians."*

Osama bin Laden

DAYS after the March 11 attacks in Madrid, al-Qaeda distributed through the Internet a new terror manual. "Strikes within cities are a type of military diplomacy," stated the document. "This type of attack is often written with blood, embellished with body parts and perfumed with gunpowder." The manual is a chilling reminder of the reasons why, since the tragic events of September 11, the incidence of terror attacks in Muslim and Western cities has increased exponentially. "Strikes bear a political meaning related to the conflict in ideology. They are considered as messages sent to multiple parties, thus choosing the targets is done with extreme precision. Those bombings – such as the CIA building bombing, the East Riyadh operation – were well executed and were the sparks to awaken the struggling youth." The lexicon of Islamist armed groups is encrypted in their urban terror actions; these attacks bear a double message: a deadly political warning for the enemies and a powerful revolutionary call for the followers.

Among al-Qaeda's primary aims is the destruction of the economy of Western countries. The aim is "to create a disruption in the stability

required for moving the economic sector towards development,” summarizes the terror manual. It is in this context that one has to analyze the sabotage of oil wells and pipelines in Iraq; they were ad hoc measures to keep Western economic interests at bay and to damage the interests of Western oil companies. Iraqi oil revenues are managed by the Fund for the Development of Iraq, which is controlled by a committee of the Provisional Coalition Authority, formerly headed by Paul Bremer, and composed of seven Americans, one British and one Australian representative, in addition to the foreign minister of Iraq and the president of the committee (both appointed by Bremer). “Another goal is to withdraw, or force the withdrawal of, foreign capitals from the local market. . . . As a result of the blessed strikes in Madrid, for instance, the entire European economy suffered. This was a double strike to the economy of the governments of the Crusaders, the Jews or the apostates.” Indeed, following the Madrid bombings and the disinformation campaign of the Aznar government – who initially blamed ETA for the bombings – the markets reacted badly: the euro fell vis-à-vis all major currencies, European stocks plummeted all over the world and a climate of uncertainty tainted the confidence of international market operators in the Spanish economy.

The economic consequences of September 11

ISLAMIST terror groups have an in-depth knowledge of the functioning of Western capitalism. Not only did they successfully speculate before the September 11 and the March 11 attacks, they were able to predict the markets’ long-term reaction to such tragic events. Thus, beyond the symbolism of the destruction of the World Trade Center lies the assault against the real enemy; al-Qaeda’s final objective is to inflict a mortal blow to the hegemony of the U.S. economy. Indirectly, the attack also hit hard at countries linked to the U.S. The closure of the markets, for example, had tremendous consequences for foreign institutional and private investors;

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the Saudis alone lost \$24 billion. But the most profound impact was felt by the U.S. economy. A study conducted by a group of OECD economists confirms that September 11 contributed to the fall in the value of the U.S. dollar which in turn slowed down the American economy. While the immediate impact of the Bush war on terror was positive – the dollar in fact rallied – the medium- to long-term reaction was negative. As early as November 2001, “the markets showed signs of nervousness and lack of confidence towards the American economy and went elsewhere to invest,” explained a Wall Street broker.

Contrary to what many believe, the weakening of the dollar began well before the U.S. budget deficit was even an issue of concern in the international financial markets. The lack of confidence in U.S. foreign policy precipitated the decline in activity in the U.S. financial markets, which in turn reduced the global demand for dollars. Oil-producing investors were, understandably, among the first to show concern. “People no longer have any confidence in the U.S. economy or in the U.S. foreign policy,” admitted a financial consultant based in Riyadh to the BBC in October 2002. A few months earlier the Iranian government had admitted to be considering switching crude oil sales from dollars to euros for fear of further depreciation in the American currency. In 2002, Iranian oil revenues were about \$10 billion, equivalent to 80 percent of its foreign income.

Islamist terror groups also understand the interdependencies of the tightly knitted global economy. The weakening of the dollar initiated a chain effect which affected negatively some of America’s trade partners, i.e. its main exporters. Several of those countries had been already targeted by the Islamists, for example Indonesia. A weaker dollar reduced U.S. imports from South East Asia, which in turn curbed economic growth. In addition, the war in Iraq produced a drastic fall in the volume of foreign direct investments in the region. It is against this background that the October 2002 Bali bombing took place. The attack was part of a global strategy to destroy the traditional economy of Indonesia and to create the necessary

socio- economic void for the Islamists and their sponsors to take over – to build their shell-state. The economic impact of the Bali bombing confirms this analysis: its immediate effect was a 10 percent drop in the Jakarta Stock Exchange and a drastic reduction in the yearly \$5 billion tourist industry. In the long term, it reduced Indonesia's GDP, which, for the whole of 2002, experienced a 1 percent drop.

Unlike Islamist terror groups, Western governments seem to have a limited knowledge, if any, of terror economics; at the same time, they are conditioned by the maintenance of a deregulated global market, which implies as few controls as possible. These are the two main factors which so far have hindered the financial war on terror. The last UN Security Council report on the finances of al-Qaeda, produced in December 2003, states that since September 11, a modest \$150 million of terror funds have been frozen across the world. Seventy percent of the money was held in bank accounts in the West, predominantly by charities used as fronts by armed organizations; virtually nothing was frozen in 2003 because terror funds had vanished from areas under Western jurisdiction. By the time Western authorities started to follow al-Qaeda's money trail, the organization had relocated and decentralized most of its wealth in the Muslim world and was using the informal banking system, e.g. the hawala; terror money was simply out of reach.

Before September 11, al-Qaeda restructured its portfolio: it closed several bank accounts held in the West – predominantly in the U.S. – and used the funds to invest heavily in commodities, e.g. diamonds and gold; it decentralized its operational and financial network and shifted its offshore activities to the Old Continent. The organization has turned to the hawala as well as to couriers to move money around the world. Fifty thousand of the one hundred thousand dollars used to fund the November 2003 bombing in Turkey were delivered by an al-Qaeda courier to the cell that carried out the attack, the balance was provided by funds which were already in Turkey. The objective of the restructuring was twofold: to shield the orga-

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nization's wealth from the counter-terrorism measures which al-Qaeda anticipated would inevitably follow the September 11 attacks, and to profit from market changes generated by their economic consequences. These changes are now apparent to us all. The invasion of Afghanistan and the war in Iraq, milestones in the war on terror, accelerated the fall of the dollar vis-à-vis the euro and the Swiss franc, the other two widely traded currencies. From the end of 2001 to March 2003, an almost perfect correlation exists between the depreciation of the dollar and the appreciation of these two currencies. Over the same period, a similar correlation characterized the relationship between the price of gold and the value of the dollar. Is it feasible to say that, thanks to its remarkable knowledge and understanding of the world's financial markets, al-Qaeda predicted the economic consequences of the Bush war on terror? While this thought may be repulsive to many, it is a distinct possibility which needs to be considered and analyzed.

The UN report also laments the inability of the West to track profits of legitimate businesses which are diverted to terror groups, as well as the difficulties encountered in blocking funds generated by business empires managed by Islamist terror sympathizers, as, for example, that of Youssef Nada. These difficulties sprang from the idiosyncrasies of the globalized financial market. Until December 2003, Nada, an Egyptian national living in Switzerland, designated as a terror financier by the UN and subjected to sanctions (including a travel ban), traveled freely in Europe, where he had access to most of his wealth. Nada used the flexibility of the financial markets to liquidate several companies by appointing himself as liquidator and relocating the funds elsewhere and out of reach of the authorities. The Financial Action Task Force (FATF), an international organization based in Paris which is attempting to block dirty and terror money from flowing into legitimate economies, blames the lack of cooperation and poor information-sharing practices among countries for the failure to cut off terror finances from the Western financial system. However, counter-terrorism

officers often have little to share, especially when money travels through the offshore banking system. The FATF agrees with the UN that targeting Islamist charities has also proved very difficult. Often those closed in one country reappear after a few months under a new name or move to another country. Al Haramain, which in 2002 had been found guilty of acting as a front for al-Qaeda in its Bosnian and Somalian branches, opened an Islamic school in Jakarta in December 2003. A FATF officer admitted that charities can be relocated as quickly as money can be wired from one place to the next. The speed at which offices are moved from country to country is also a by-product of globalization and deregulation. So far, globalization seems to have been more of an obstacle than an advantage in tracking terror money.

Almost three years since September 11, the Islamist religious colonization is still in full swing and charitable organizations are its most powerful tool in penetrating new markets. Today Africa is the new frontier; Wahhabism is rapidly spreading in both East and West Africa. In East Africa, Somalia, Kenya, and Tanzania are among the countries targeted by Saudi terror financiers. Funds are used to build new mosques and madaris. A Wahhabi follower from Tanzania admitted to Time magazine that Saudi Arabian and Yemeni charities regularly send money to his country. "Officially, the money is used to buy medicine, but, in reality, the money is given to us to support our work and buy guns." In West Africa, Saudi Arabia and Sudan are the major sponsors. Thanks to their money, Islamist insurgency has exploded in Senegal, Gambia, Niger, Mauritania and Chad. In Nigeria, the introduction of the Sharia law is spreading from region to region; bin Laden has even declared that the country is "ready for liberation."

In Africa, as in South East Asia, the colonization forces have found a fertile terrain in the failure of the domestic political economies. Corruption, unemployment, slow economic growth, poverty, inequitable distribution of wealth – these are all-too-familiar economic factors boosting the spread of Islamist insurgency. In Africa, as in South East Asia, the Islamist religious

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colonization is promoted by Arab economic forces; Saudi financiers and Yemeni businessmen, for example, represent the driving economic backers of Islamist terror in South East Asia. Centuries ago, traders and merchants from the Southern tip of the Arabian Peninsula, a region that today belongs to Yemen, brought Islam to South East Asia. Thus religious as well as trading and commercial ties between these two regions go back several centuries. This explains why Yemeni businessmen have a strong presence in South East Asia and why they are among the major investors in the region; unfortunately some of them control joint ventures which operate as fronts for al-Qaeda.

The Patriot Act

IN October 2001, the U.S. Congress approved the Patriot Act, the first financial counter-terrorism measure. The Act is based on the conviction that money laundering and a lack of financial transparency have facilitated the financing of global terrorism. At a macro level, the Patriot Act targets three areas of the financial system which are believed to have been exploited by terror groups: offshore banking, correspondent banking and the private banking service. The Act specifically prohibits U.S. banks from doing business with shell banks, e.g. to let them open correspondent accounts, and from entertaining relations with foreign banks which do business with them. De facto the Patriot Act has banished shell banks from the U.S. banking system, explains Raymond Baker. Shell banks are banks which do not have a physical presence in any country; often they are nothing more than a name registered offshore. They are the hard core of offshore banking: unregulated, elusive and often without a street address.

Domestically, the Patriot Act also regulates the businesses of private banks. Following the shocking revelation that the September 11 hijackers used ATM machines to withdraw money, the U.S. government launched a full investigation of their bank accounts. It emerged that the 19 hijackers

had opened 24 accounts in the U.S. at large branches of four well-known U.S. banks. These accounts never held more than \$5,000 at any given time. According to the testimony of Dennis Lormer, chief of the FBI financial crime unit, to the House Financial Services Committee, the hijackers kept their deposits at relatively low levels to remain below the financial radar screen. To open the accounts they used visas issued by Saudi Arabia or the United Arab Emirates, as they did not have social security numbers or permanent addresses. All the accounts were joint accounts, with three or four members entitled to use them. These discoveries prompted the introduction of a series of restrictions in the U.S. banking system to reinforce the “know your customer” requirement. Thus, today, opening a bank account in the U.S. requires several checks on the identity of the account holder and on the origins of the cash deposited.

The Patriot Act goes against the principles of deregulation of the international financial markets, which call for the abolition of any restriction to the movement of funds. It departs from the spirit of globalization and deregulation which has characterized Western economies since the early 1990s. Therefore, it has not been welcomed by the international banking community. For a start, it puts tremendous pressure upon U.S. banks and U.S.-registered foreign banks. The act makes criminal the failure of any American and U.S.-registered foreign banks to report to the U.S. authorities “suspicious” activities or transactions. Its implementation is costly; banks have to train their staff, at their own expense, to make sure they know how to comply with the Act. Many bankers feel that certain provisions have produced excessive and costly paperwork and others regard the new legislation as an intrusion in to the privacy of their customers. However, the most serious impact of legislation such as the Patriot Act, which limits the degree of freedom of foreign banks, is the growing belief among the international banking community that America has become unfriendly to foreign investors. This perception is reinforced by the passing of other measures which clearly discriminate against foreign investors, for

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example Bush's tax bill, which reduces tax on capital gains for U.S. taxpayers while maintaining a high withholding tax on foreign investors' dividends. This legislation, coupled with the lack of confidence in the U.S. created by the September 11 attacks, has prompted a decline in private foreign investments held in U.S. dollars, which, in turn, is one of the factors that has weakened the dollar. So far, the immediate beneficiary of these changes has been the euro. As the international economy moves closer and closer to a dual-currency standard, i.e. the dollar and the euro, private foreign investments gravitate towards Europe. In December 2003, a UK banker admitted to me that several merchant banks operating in Asia and Africa had detected a tendency of legitimate investors to shift away from the dollar towards the euro. Amid the uncertainty of the war on terror, the euro seemed a more secure reserve currency in which to "park" capital.

To curb money-laundering activities, capital flight and terror transactions, the Patriot Act monitors money transfers denominated in dollars all over the world. This measure reduces the flow of illegal and terror money into the U.S. However, because similar legislation has not been implemented in Europe, since September 11 illegal capital flows have headed for the Old Continent, from which they penetrate the legality of Western economies. I recently interviewed a South African businessman who used to circumvent the South African foreign-exchange controls. With the help of "friendly" local banks he converted funds denominated in Rand into U.S. dollars, which ended up in U.S. dollar accounts in the U.S. Since the introduction of the Patriot Act, he admitted to having been unable to do so. "American authorities are watching closely dollar flows into the U.S.," he explained. "South African banks are very wary of such screening and refuse to cooperate with businessmen like me who want to take money out of the country." Today, the most common way to break the foreign-exchange control is to purchase diamonds and gold and smuggle them out of the country for sale in Europe. The profits are then deposited into euro-denominated bank accounts in European offshore centers, where they find

their way into the European economy. It is likely that al-Qaeda is following the same strategy.

The Black Market Peso Exchange

THE Patriot Act and other counter-terrorism financial measures, for example those imposed by the FATF, have had a very limited impact, if any, in reducing the activities of both drug traffickers and terror groups handled through the informal banking system. This system can be described as a series of alternative and unregulated networks, through which money moves from country to country. One of these networks is the Black Market Peso Exchange, another one is the hawala. The Black Market Peso Exchange is the system of money laundering most commonly and widely used by the Colombian and other South American drug cartels. The hawala, which is very popular in the Muslim world, is predominantly used by Islamist terror groups. Both networks are extremely elusive to traditional monetary controls because they do not involve the physical movement of cash from one country to another. Ironically both systems function according to principles of globalization and deregularization: they are truly transnational, they are self-regulated (failure to deliver the cash often results in death) and they are fast (the hawala operates in real time).

In the early days of the Medellin drug cartel, cash was flown back to Colombia by the same planes which took the drugs to America. Once in Colombia, dollars had to be converted into pesos with the help of corrupt bankers. But the process was slow and the drug traffickers had to store huge amounts of cash. Cash storage created several problems. One Colombian drug trafficker, for example, buried so much cash on his property that occasionally, when it rained heavily, the resultant floods washed U.S. dollars downstream, clogging the sewage system. According to Marci Forman, who directs the U.S. custom services financial investigation unit, in Colombia today there are still warehouses full of U.S. currency. U.S. dol-

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lars are of no use to the Colombian drug cartel or to FARC, the terror group which is acting as its militia, or to Sendero Luminoso in Peru. Members of these organizations live in secluded areas where they use local currencies and never travel abroad. They need domestic money to pay the growers, to buy protection, to corrupt politicians, to recruit and to purchase arms and explosives. In the 1990s, to avoid storage problems and guarantee a steady flow of local currency, drug traffickers and terror groups successfully infiltrated the currency black market and transformed it into their own illegitimate and informal banking system.

The way the Black Market Peso Exchange works is fairly simple. The drug traffickers hand over bulk cash to a money broker in the U.S., who agrees to exchange it at a discount to the official rate, generally around 40 percent. The cash is handed over in boxes, suitcases or even inside the trunk of a car and the corresponding pesos are delivered in Colombia a few weeks later. The broker distributes the cash among its vast staff of runners, who deposit it in small amounts into thousands of U.S. bank accounts. Once the money is in the bank, it can be easily manipulated. At the same time the broker has an office in Colombia where legitimate businessmen go to buy foreign products, ranging from U.S. cigarettes to TV sets, and pay in pesos. The purchases are done with an exchange rate which generally is 20 percent above the official exchange rate. The broker buys the goods in the U.S., often from companies which know the origins of the money, ships them to Colombia and uses legitimate pesos to pay back the drug traffickers. The purchases are always in cash and below the \$10,000 limit imposed by the IRS. The technique of breaking down large sums of deposits into several transactions of less than \$10,000 is also illegal. In January 2003, two Miami-Dade women were sentenced to six years in prison for using their company, Pride International, an appliance export business, to launder \$5 million in drug money.

The Black Market Peso Exchange is also used by South American professionals, as well as politicians, to send dollars to their children studying in

the U.S. Thus, it functions in a fashion similar to the hawala. It presents the same advantages: it is faster, cheaper and avoids any type of monetary controls. According to the IRS, from 1999 to 2003, the volume of money laundered via the Black Market Peso Exchange has risen from \$1 to \$6 billion. According to Raymond Kelly, Commissioner of the U.S. Customs Service, the Back Market Peso Exchange is “the ultimate nexus between crime and commerce, using global trade to mask global money laundering.”

The hawala

IN 2001, the restructuring of al-Qaeda’s finances involved the movement of large quantities of gold out of Afghanistan. This was achieved using both couriers and the hawala system. From Afghanistan and Pakistan, al-Qaeda successfully transferred gold to Dubai from where it was redirected around the world to sustain the organization’s elusive network. For the hawaladors, transferring either currencies or gold is not a problem; they use gold to balance the books from one country to another, therefore they hold gold reserves around the world. De facto, the hawala system operates on a strict gold standard; currency exchange rates, for example, are set according to the value of the metal. In the developing world, gold is often the most reliable means of exchange. Hawaladors are, therefore, intimately interlinked with gold brokers; in Kashmir, for example, they operate from Srinagar’s main gold market, Lal Chowk. There is virtually no limit to the amount of gold that a big gold broker can handle using the hawala system. “If you say you want 100 kilos of gold, I can give it to you wherever you want in 12 hours” admits one of Dubai’s largest gold bullion dealers.

It is through the hawala system that gold becomes a highly liquid commodity, one that can be converted into any type of currency in a very short time. Thus the decision to convert a considerable amount of al-Qaeda wealth into gold was facilitated by the efficiency of the system for transforming gold into cash; in turn, this boosted the volume of transactions

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handled via the hawala. Naturally, the other great advantage of this informal system is its widespread presence in areas where Islamist terror is blossoming and where the banking system is weak. In Pakistan, it is estimated that on a yearly basis between \$2 and \$5 billion of foreign remittances pass through the hawala system, as compared with as little as \$1.2 billion which are transferred via the banking system. In South East Asia, for example, the hawala is the most common system of foreign exchange remittances; in downtown Manila's Ermita District, there are block after block of hawaladors, which handle on a yearly basis about \$350 million of remittances from the 1.4 million Filipinos who work in the Middle East. In India, where Indira Gandhi pursued a strong campaign to eradicate it, the hawala is believed to handle transactions equivalent to as much as 40 percent of the country's gross national product.

Foreign exchange controls are another factor that increases the popularity of the hawala. In 1998, when the Malaysian government imposed capital controls to prevent capital flights, the hawala became the principal source of foreign exchange.

Western terror backers also resort to the hawala to send money to Islamist armed groups. In the summer of 2002, the Indian police unmasked a scheme through which money raised by a pro-Kashmiri British charity group was transferred to Kashmiri terror organizations. A hawalador delivered the money to the UK charity's contact in India. The man then deposited it in a bank account as funds for his magazine. He then wrote several checks, transferring the money into other bank accounts. Eventually the funds reached a bank in Kashmir from where he withdrew the money and delivered it in person.

Europe: Terror's new financial and logistical hotbed

FAR from being defeated or even seriously wounded, since September 11

al-Qaeda and its global network of affiliates, cells and sleepers, have grown exponentially and today are more elusive than ever. Islamist terror has shown a remarkable ability to adapt to counter-terrorist measures. In response to the closure of the training camps in Afghanistan, Sudan and the Balkans, for example, al-Qaeda began training its followers “virtually.” It uses documents containing military training courses, such as manuals on how to build bombs, which can be downloaded from the Internet only at a set time. “The documents are never online for longer than an hour,” explains Nick Fielding, the Sunday Times investigative journalist specializing in Islamist terror, “but it is enough time for thousands of people across the world to download them. These manuals contain all the necessary information to train people in the ‘art of terror.’” The manuals also have information about the intended targets. According to Indira Singh, an event-risk architect who designs econometric models to offset the impact of exceptional events such as 9/11, for major banks, messages related to when and where to launch an attack are often hidden in pictures. “This technique is called steganography, linguistic steganography,” explains Ms. Singh. “It mixes letters and words of some text within the millions of pixels of a picture; the mixture is done using specific softwares.”

Al-Qaeda has been able to exploit the different approaches that the U.S. and Europe have towards terror financing. For example, while the U.S. adopted a zero-tolerance approach vis-à-vis charities that are somehow linked to terror organizations, the European Union protected organizations which perform humanitarian work and worried about affecting their valuable activity.⁴⁵ However, the biggest advantage that Europe has offered terror finances is the absence of homogenous legislation similar to the Patriot Act.

The limits of the EU financial counter-terrorism policies range from the lack of a EU-wide definition of terrorism, which some states have yet to introduce, to the failure to introduce monitoring of bank accounts or to implement measures such as the pan-European arrest warrant, approved

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two years ago. The European inefficiency in tracking terror money is outlined by the modest amount of funds frozen since September 11 – about \$40 million. From South Cyprus to the British Channel Islands, European offshore facilities are still fully operational. It was only after the Madrid bombing that the EU decided to address the role that offshore Gibraltar plays in funding terror.

In Europe, shell banks and offshore facilities are the primary channels used by terror sponsors to move money. Italian magistrates have discovered that Islamist cells operating in Italy have received funds from Arab countries via British offshore facilities. An intercepted conversation inside a mosque in Milan confirmed the identity of the sponsors. “The thread begins in Saudi Arabia,” said an unidentified Arab visitor to the Imam. “Do not even worry about money because Saudi Arabia’s money is your money.” Once the money has successfully entered the European banking system it can be wired and withdrawn anywhere. Members of terror groups operating in Europe use ATM machines, as the September 11 hijackers did, to access the cash made available by their sponsors. ATM machines were also used by those who participated in the Bali, Istanbul and Madrid attacks.

Undoubtedly, since September 11 the appreciation of the euro vis-à-vis the dollar boosted the appeal that Europe presents to money launderers and terror sponsors. According to Raymond Baker, it takes between six months and one year to launder dirty money.⁴⁸ During this period the launderers hold cash. If the currency they have depreciates, this amounts to an additional cost. In 2003, the dollar lost significantly vis-à-vis the euro. If one adds this extra cost to the rising fees for money laundering in U.S. dollars due to the restrictions imposed by the Patriot Act, the total cost of washing dirty money in U.S. dollars may be so expensive as to reduce the profits generated by illegal/criminal activity.

The introduction of a common European currency has facilitated the activity of laundering bulk cash in Europe. In Italy, customs police have recently busted a major operation run by the 'ndrangeta, the Calabrian

organized crime group, where drug money was laundered through real estate transactions in Brussels. The cash was shipped in bulk inside containers to Brussels, where it was used to buy existing properties or to fund the construction of new ones. The Italian police estimate that the 'ndrangeta bought an entire section of Brussels using this method. Since 9/11, both the Mafia and the 'ndrangeta are increasingly laundering drug money in Europe. The principal countries where this activity takes place are Belgium and Holland. Total earnings of the four major criminal organizations, i.e. mafia, camorra, 'ndrangeta and sacra corona unita, amounts to 10 percent of Italian GDP (euro 100 billion).

If Italian organized crime is increasingly using euros to conduct its drug-trade activities, this means that the euro is also used along the drug route. "It is unfeasible to think that couriers are paid in dollars," explains an Italian anti-drug covert agent, "when the sales and the money laundering in Europe is conducted in euros." The agent also confirmed that the bulk of the drugs sold in Europe comes from Afghanistan and Central Asia and that drug smuggling is an area where crime and terror have forged a joint venture. In December 2003, for example, the U.S. Navy blocked a cargo ship sailing in the Persian Gulf. When they inspected it they discovered that it was carrying two tons of hashish and that it was operated by suspected al-Qaeda affiliates. The drug was stored in 54 bags, which weighed about 70 pounds each. Its street value ranges from \$8 to \$10 million dollars. Drug smuggling is not the sole commercial link between Islamist terror and organized crime. According to an FBI report handed over to the September 11 commission in the U.S., before the attacks on the Twin Towers, bin Laden had approached Cosa Nostra to purchase false U.S. passports.

The European mosque network

IN August 2002, the relatives of the victims of September 11 launched a legal action against several members of the Saudi elite, Sudan and a num-

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ber of Gulf banks and charities accused of having funded al-Qaeda. A few days before the lawsuit was filed, \$200 billion of Saudi assets held in the U.S. left the country. The bulk of the money was reinvested in Europe in equities, bonds and real estate. Overall, Saudi financiers are believed to have had about \$750 billion invested in the U.S.⁵² According to the UN, Saudi funds still find their way to support Islamist terror groups in the Muslim world and in Europe.

European counter-terrorism is adamant that the presence of large Saudi investments in Europe facilitates the funding of mosques and madaris in the Old Continent. The mosque network is perceived as the most powerful instrument for recruiting, funding and coordinating the activity of cells and armed groups linked to Islamist terror in Europe and abroad. Spanish counter-terrorism officers have defined European mosques as “havens for al-Qaeda planning and fund-raising.” Until the Madrid bombing, counter-terrorism intelligence may have undervalued the role played by the European mosque network in bankrolling Islamist terror during the preparatory stages of September 11. Spanish magistrates have recently discovered that a Spanish cell, Soldiers of Allah, which started in Madrid’s Abu Baker mosque in 1994, provided support and money to the Hamburg cell which participated in the September 11 attack.

The European network is also recruiting European Muslims to carry out suicide missions. The two British suicide bombers who last year carried out attacks in Tel Aviv were residents of Hounslow and Derby. Italian magistrates have revealed that Italian mosques supplied several suicide bombers to Iraq, including those who participated in the attack against the hotel Rashid during the visit of Paul Wolfowitz. Some of the funds used to recruit and forge came from Arab sponsors and reached Italy via Britain and were denominated in euros.

The man in charge of the supply of European suicide bombers to Iraq is known as “Mullah Fouad,” described as the “gatekeeper” of Iraq. Mullah Fouad was born Mohammed Majid and is an Iraqi Kurd member of Ansar

al-Islam, the Iraqi Islamist terror group linked to al-Qaeda. Before fleeing to Syria in 2003, he resided in Parma for several years. From Syria he is supervising the smuggling of European suicide bombers into Iraq. According to Jean-Louis Bruguiere, the French anti-terrorism investigative magistrate, since the summer of 2003, dozens of new European recruits have reached Iraq. In a conversation intercepted by the Italian authorities, Mullah Fouad asked a member of the Italian cell to send more people "like those that were in Japan," clearly using the analogy with kamikaze. Mullah Fouad is the right-hand man of Abu Musab al Zarqawi, a Jordanian born 37-year-old; the man who the European counter-terrorism forces believes is at the center of a network of cells, sleepers and terror groups in the Old Continent. Al Zarqawi is believed to have masterminded the attacks in Casablanca, those against the UN and the Red Cross in Iraq, as well as the Istanbul bombing; he also had links with the people who participated in the Madrid bombing. Ironically, the first time the world heard his name was in February 2003, when Colin Powell accused him of being the link between Saddam Hussein and al-Qaeda. Far from being a go-between, al Zarqawi is an ingenious terror manager, a representative of a new generation of Islamist leaders.

European mosques are also the headquarters of radical Islamist preachers, people who in the last decade have successfully obtained political asylum in European countries because of persecution in their own. Several of them are linked to al Zarqawi, including Mullah Krekar, one of the founders of Ansar al-Islam. Krekar, who was born in Iraqi Kurdistan, took refuge in Norway 13 years ago to escape Saddam Hussein's executioners. In 2001, the Dutch authorities arrested him when they found him in possession of an inventory of Ansar al-Islam fighting capabilities, including small arms and explosives. He was put on trial in Norway and acquitted soon after of terrorist charges on the grounds that he was waging war against Saddam's regime, an action which cannot be considered terrorism. This incident highlights the need to find a proper definition of terrorism,

one which will be embraced universally. Presently, Krekar is being held by the Norwegian authorities for organizing two attacks in Iraq using suicide bombers recruited and trained through the mosque network in Norway.

Eastern Europe

THE European Islamist terror network uses Eastern European countries as bases for their activities. The lack of controls, i.e. efficient counter-terrorism activity, coupled with porous borders, makes it easy for them to move freely. Operating on the eastern fringes of the EU presents other advantages. An investigation by the Observer, published in January 2004, showed that Islamist cells based in Eastern Europe have established contacts with the Balkan mafia to purchase arms and explosives. This is a very important fact, as acquiring explosives in Western Europe presents serious difficulties due to the controls of the police. The explosives used in the Madrid bombing, for example, were collected over a period of one year by a worker in a coal mine in Asturia. He stole small amounts almost daily so that the theft would not be discovered through the routine checking of the inventories. The explosives were swapped with drugs, hashish and Ecstasy by the Madrid cell.

Porous borders in Eastern Europe also make it easy to move to and from Iraq; the two British suicide bombers who carried out the attacks in Tel Aviv traveled via the Balkans to Syria from where they entered Israel. Another route is through the Mediterranean Sea. According to Italian magistrates, Italian cells linked to al Zarqawi and Ansar al-Islam smuggled European suicide bombers into Iraq by sea from Syria from where they entered North West Iraq.

Eastern Europe is also the most important and efficient supplier of false identities. Nick Fielding of the Sunday Times has successfully obtained several fake European identities by answering an ad in a UK-based Russian language newspaper that offered “help” with passports. He was

contacted by a former KGB agent who resides in London and who became the go-between with the supplier. The false passports and driving licenses were manufactured in Bulgaria and sold to him by a gang of criminals from Eastern Europe operating in the UK. According to Fielding these false identities are produced in “factories” in Eastern Europe and are extremely authentic and very cheap, costing as little as \$1,000 each, while on the black market forged passports cost \$11,000.

Funding the European network

THE European network continues to rely upon the financial support of al-Qaeda, however, this organization is today acting more like a venture capitalist of terror than as an organizer of terror attacks. This metamorphosis is apparent when comparing September 11 with the bombings in Bali, Istanbul and Madrid. The September 11 attack was planned, funded and executed under the direct supervision al-Qaeda, the most recent bombings were the work of separate groups loosely linked to al-Qaeda. As in the venture capital model, al-Qaeda provided part or most of the funds and a sort of supervision; the decision to back one attack instead of another is taken upon a detailed cost-benefit analysis of the bombing, as has emerged from the investigation into the Bali bombing. Once the attack has been successfully implemented, the leadership of al-Qaeda officially endorses it. In an April 2004 tape of Osama bin Laden, where he offered a truce to the Europeans, he specifically refers to the Madrid bombing as an al-Qaeda attack.

Since September 11, Islamist armed groups across the world have successfully developed several techniques to self-finance themselves, and no longer have to rely upon the funding of al-Qaeda. The Madrid bombing was almost entirely self-financed. Following the model of al-Qaeda, the Islamist terror network is shaping a life of its own. In Europe the mosque network represents a strong backer; another is direct sponsorship from

TERROR'S UNWILLING ALLY

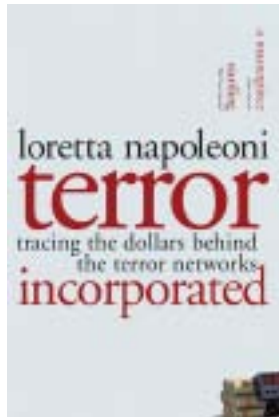
Arab sympathizers. Groups use a mixture of legitimate and criminal activities. In Spain and in Italy, members of Islamist armed groups worked as mechanics and waiters to support themselves and to reduce the financial burdens of the organization. However, crime remains the most important source of revenues. Farid Belaribi, an Algerian immigrant jailed in England in the summer of 2003, helped raise \$250,000 through an international fraud network. He admitted to having defrauded banks and credit card companies though he denied knowing the money was used for terrorist purposes. Credit card fraud was conducted with skimming devices. The credit card numbers were used throughout Europe and in Dubai. In 2002 credit card losses due to fraud accounted for \$424 million. Experts are adamant that this type of fraud bankroll crime and terrorism.

The European network also funds itself by smuggling drugs, as was the case in the Madrid bombing – bankrolled through the sale of hashish and Ecstasy – and revenues from petty crime. The link between al Zarqawi and Ansar al-Islam, which is involved in the smuggling of drugs from Afghanistan, confirms that European Islamist groups benefit from the sale of illegal narcotics in Europe.

Three years after September 11, the Islamist terror network has evolved throughout the world. Emulating al-Qaeda's military actions, appealing to similar sponsors and utilizing the techniques of self-financing, it is becoming a global organism with a life of its own. Moqtada al-Sadr has been bankrolled by Iraqi money-changers who hope that when he gains control of the holy cities of Iraq he will hand them the monopoly on currency exchanges. With millions of Shia pilgrims traveling to those shrines each year, profits will be plentiful. Al Zarqawi's European network is sustained by mosques and charities.

Not only have Western counter-terrorism policies been unable to stop the financing of terror, they have failed to curb the distribution of wealth inside the network, a key element in the spreading of Islamist terror. Paradoxically, the new generation of Islamist terror leaders, those who

eventually will replace Osama bin Laden, understand globalization and are using its tools: virtual training courses, ATM machines, offshore bank accounts. They also complement them with ancient instruments, heritage of their culture and religion, such as the hawala or the Zakat. What we are facing today is a powerful enemy, one who has an in-depth knowledge of our world: an enemy we hardly know.



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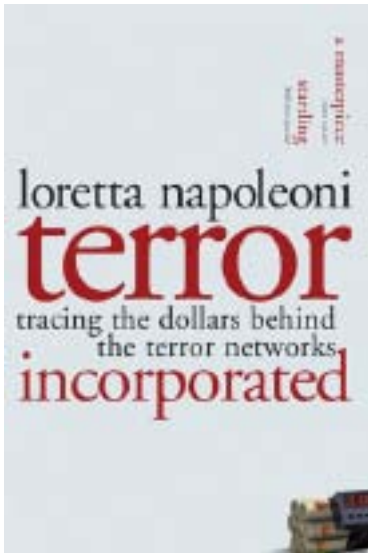
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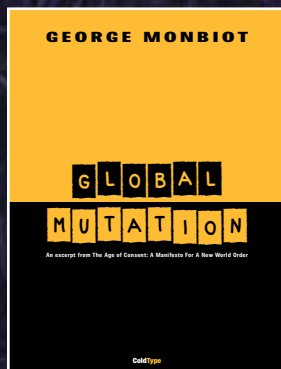
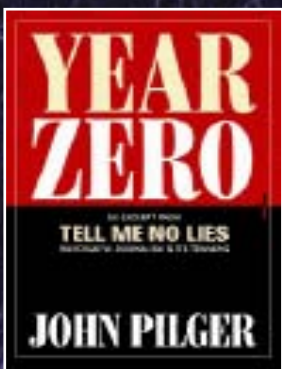
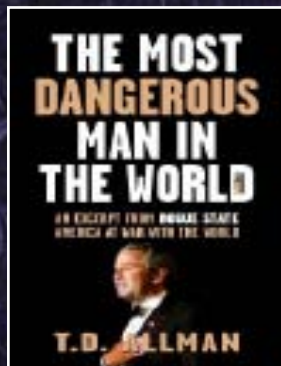
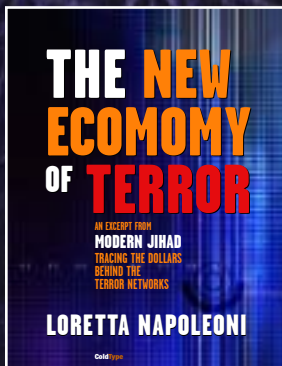
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