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THE MONEY LAUNDERING MITIGATION FIRM

due diligence *training *asset tracing *compliance & assurance *investigations *strategic advice
*research

MONEY LAUNDERING & BUSINESS CRIME NEWSLETTER ISSUE 10 JANUARY 2002

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HOW SEPTEMBER 11 WAS FINANCED

As our last full newsletter was published in the immediate aftermath of 11 September, it seems appropriate that we should begin with the findings into how that atrocity was financed. Leaving aside the long term ramifications of money laundering by terrorists, the results of US investigations into how money was channelled to the hijacking teams are now known. More than \$325,000 has been accounted for relating to the 19 individuals involved which have enabled a number of important patterns to be identified. However the US authorities have not made public these tell-tale signs but have confirmed that major US banks are co-operating in an effort to identify similar patterns elsewhere in the financial system.

Nevertheless the actual origins of the estimated \$500,000 needed for the 11 September attacks remains unclear: US intelligence sources argue that this sum was generated by a number of methods including diamond trafficking, credit card fraud and the sale of honey. The funds were then carefully (and slowly) moved by wire transfer from foreign bank accounts to US ones held by the hijackers. Central to this money flow was Mutafa

Ahmed al-Hawsawi who is believed to be al Qaeda's Finance Chief. His whereabouts are currently unknown - but there are reports that he disappeared in Karachi, Pakistan just before 11 September. He is alleged to have organized the transfers which then paid for the hijackers' pilot training, living expenses and the fateful airline tickets. Central to these transfers was the banking environment of the United Arab Emirates where funds appear to have been originally deposited but the financial systems of other countries were also used - specifically in Germany and Pakistan. The US investigation is now focusing on those transactions, as it is believed that all that can be done has been in the US. Recently the US administration has sent teams to Saudi Arabia and the United Arab Emirates to assist in upgrading their financial systems, which have been described by a senior US official as "having a 1920 level of automation".

The overall conclusion of the investigation into the hijackers funding is that the entire mission was financed from outside the US and due to good planning the funds could be transferred into the US without raising suspicions thus avoiding detection. In the longer term it has become obvious that the Bush administration view the ongoing investigation into the overall financing of terrorism (and efforts to break down these financial flows), as the key to defeating the problem and thus avoiding future attacks.

POST SOVIET CRIME

A classified UK police report on the impact and threats posed by post-Soviet crime groups published in 2001, together with various other recent research projects have thrown some new light on this topic. Although, in all honesty, the material that we have seen confirms what was already known rather than radically altering it. Typical criminal activities attributed to these groups are:

- Money laundering
- Tax and excise fraud
- Illicit drug trafficking
- Prostitution
- Human trafficking
- Counterfeiting/forgery

However, as always, the problem of how to disentangle and differentiate between capital flight and money laundering remains ever present. Current intelligence suggests that the major criminal threats to Western Europe come from criminal groups in Lithuania, Russia and Ukraine (as opposed to groups from other Republics). But this does not mean that individuals from other post-Soviet Republics are not involved in criminal activities, rather that the threat from organized groups in these areas is less than in the three countries named.

It is now becoming clear that the proliferation of Internet sites offering "escorts", partners, future wives and sex tours are almost certainly - to varying degrees - a front for organized criminal activity and human trafficking. This is specifically happening in Russia, Ukraine and the Baltic States.

One key element, which facilitates criminal activity that reappears regularly, is the continued prevalence of corruption in the post-Soviet republics. Combined with this is the willingness of different criminals and groups to collaborate - which could imply a network structure (which is obviously difficult to identify and break down) or alternatively that individuals/gangs are weak in some areas of their activities and thus must rely on others.

Interestingly comments have also been raised concerning the exaggeration and distortion which is prevalent concerning post-Soviet crime groups, such as:

- The over use of the term "Organized Crime" to include many topics which may not be criminal
- The over use of the term "Red Mafia" (or similar) - implying that there is one all powerful "gangster gang"
- Over emphasis on the threat posed by post-Soviet criminal groups may blind organizations to other threats from equally dangerous groups such as those originating in Colombia, Mexico, Turkey and Italy (to name but a handful)
- There is a common public misconception (fostered by press coverage) that all criminal activity from the post-Soviet republics is "Russian", rather than being attributed to its exact country of origin

NIGERIA REVISITED (AGAIN)

We return once again to our old favourites to report on an almost surreal turn of events. A new type of advance fee fraud has come out of Nigeria, which goes something like this: the victim (as normal) is made to believe that he/she will receive a large amount of money for performing a "risk free" task – such as supplying a letter of credit "which will never be invoked" (?!). Then the victim has to make a series of payments to process the transaction – these payments become increasingly larger in amount. Of course the massive amount of money promised by the fraudsters never materialises – but the victim does receive a "certificate" which confirms that the money is totally clean as confirmed by the "Nigerian-American Bilateral Commission on Anti-Drug and Money Laundering". A copy of this wonderful (and totally fraudulent) document is enclosed with this newsletter as a JPEG image file.

MIDLAND GUARANTEE RESERVE – PAY \$29.95 AND RECEIVE \$6,000!

We have been sent – by the "lucky" recipients, copies of a new "offer" that appears to be currently prevalent particularly in Switzerland and the UK. The package that is received comprises what looks like a cheque for US\$ 6,000 made payable to the addressee together with a form which confirms that "You are guaranteed an incentive premium of check in the amount of \$6,000". Also enclosed is an "Official Confirmation Document" which reads as follows:

MIDLAND GUARANTEE RESERVE

OFFICIAL CONFIRMATION DOCUMENT

Directed to and Certified for (YOUR NAME APPEARS HERE)

\$\$ YOU HAVE BEEN OFFICIALLY GUARANTEED AN INCENTIVE PREMIUM OR CASH PAYMENT IN THE AMOUNT OF \$6,000.00 US.

*\$\$ The cash payment of \$6,000.00 US shall be disbursed to you in the form of a Corporate Check, provided your pre-assigned Certification Number is confirmed as a positive match to the aforementioned cash payment; **the check will then be released immediately and sent to your home address via MAIL SPECIAL DELIVERY or other courier service.***

\$\$ *Your prompt response to this Official Confirmation Document – before the established deadline – is absolutely required. If you fail to respond, any cash payment or incentive premium to which you may be entitled will be cancelled forthwith. Please follow these important instructions.*

\$\$ *You are further advised that a nominal, one-time administration fee of \$29.95 US is required for shipping processing, computerized data retrieval, and other attendant expenses. This fee must accompany your completed Form 1055 and should be remitted by US check (drawn on a US bank), US money overdraft, US money overdraft, US cash, or credit card made payable to Midland Guarantee Reserve.*

On the back of this impressive looking document is the small print, which reads as follows:

Terms and conditions: Each individual who returns Form 1055 with the required administration fee by June 30, 2003 will be purchasing and is guaranteed to receive one of the items listed.

The cash and incentive premiums featured in this offer are three each of \$6,000.00 US cash, Hewlett-Packard Omnibook 4150 Notebook PC, Sony DVP-FX1 Portable DVD Player with LCD Screen, Canon Digital IXUS APS Camera, and approximately one million five hundred thousand of Lyndhurst Designer Jewelry.

In essence you are being lured into paying \$29.95 in the hope of receiving a cheque for \$6,000 – even though there are upto 1,500,000 of these letters being sent out around the world, thus the mathematical probability of this being the case is low. Or put another way – if only 5% of the recipients send in \$29.95 then the turnover generated for the company behind this is \$2,246,250! Presumably also (based on the fine print) you will not know what you have been awarded until after the closing date of June 30, 2003.

MONEY LAUNDERING IN PLACES YOU NEVER THOUGHT OF...

With the higher public profile of all things relating to money laundering, various “new” methods and industry sectors have been identified as being used to wash dirty money. Police in Madrid have arrested six Dominican men and two Ecuadorian brothers for making more than \$43 million worth of currency exchanges through a telephone call centre and beauty parlour. These businesses were nothing more than a front for a serious money laundering operation, which was identified following a tip-off which claimed that there was a serious discrepancy between the low number of customers and high turnover. It now appears that 400 of the transactions were made in the name of one individual.

In the United States itself, the problems relating to drug profits from Colombia have again come under scrutiny. It has been known for many years that such money has been used to purchase white goods and automobiles. General Electric, for example, has had an awareness program since 1993 for their employees to identify money laundering. The Dallas Morning News reported in November 2001, just one small example of how such a company could be used for money laundering: Dwayne Kahl, a GE Employee, received an order for \$40,000 worth of air-conditioning units. The customer then paid for his purchase with 35 money orders – which luckily threw up a red flag to Mr Kahl who stopped the transaction. However a transaction that was not stopped was a \$1.5 million helicopter bought from Bell Helicopter Textron, based in Fort Worth Texas. Ultimately the

helicopter was seized by Panamanian authorities at the request of the US Government. The US Customs Service had discovered that the purchase was made by 25 third-party wire transfers from 16 different bank accounts – all of which could be traced directly back to Colombian drug traffickers.

DUE DILIGENCE WARNING LIST

We detail below various dubious, questionable or fraudulent entities and transactions that we have recently become aware of. As always – Caveat Emptor.

1. GARRISON OVERSEAS BANK AND TRUST, INC. – Allegedly incorporated in Nauru and associated with GARRISON OVERSEAS FINANCIAL SERVICES LTD. At the very least this entity does not hold the necessary authorisations to do business.
2. SPLENDID BANK – Incorporated in Montenegro and associated with MARINE & GENERAL UNDERWRITING, Brussels. At the very least this entity does not hold the necessary authorisations to do business.
3. BANK OF CENTRAL ATLANTIC – Incorporation location is unknown, this entity is also doing business as ISLAND ATLANTIC SECURITIES. At the very least this entity does not hold the necessary authorisations to do business.
4. CARIBBEAN BUILDING SOCIETY – The Central Bank of Belize has issued a warning that this entity is advertising on the Internet as “a fully licensed financial institution”. Unfortunately it is not licensed as such in Belize, where it claims to be based. Under relevant legislation in Belize it is an offence to do this. The website of this entity (<http://www.cbsbelize.com/CBSGroup/CBS.asp>) also lists various related entities:

CBS Trust Limited
CBS Fiduciary Asset Management
CBS Investment Management Ltd.
CBS Administrative Services Ltd.
CBS E-Accounts Ltd.
CBS Real Estate Ltd.

5. FIRST PACIFIC DEVELOPMENT BANK LTD – Previously registered in Palau, but this entity has had its corporate charter revoked (however it was never authorised as a bank, anyway). It is believed that various “subsidiaries” are still operating in Germany, Ireland and Spain.
6. GOODMAN HART ASSOCIATES & AD RENTACAR – Subject to a warning issued by the Banking & Finance Commission of Belgium on 21 December 2001, because of the lack of relevant authorizations in Belgium. Goodman Hart are offering shares in the IPO of AdRentaCar: both entities claim to be based in Spain, and both have websites:

Goodman Hart Associates
Ramon Gomoiz de la Serna 5
Edif Marbella Azul Bajo 8
Marbella
Spain
www.goodmanhart.com

AdRentaCar
Poligno Industrial Villarosa
Calle Carril Guetara 75
Malaga

Spain
www.adrentacar.com

7. MORGAN INTERNATIONAL INVESTMENT GROUP INC. – The subject of a warning from the Luxembourg authorities who confirm that this firm has not been given the necessary authority to offer investment services either in or from Luxembourg. This entity operates from:

6 Circuit de la Foire internationale
BP 2507
L-1025 Luxembourg

8. The Central Bank of Ireland has recently issued warnings about various entities that are operating in Ireland without the necessary authorisations. These entities include:

MEDICAL RESEARCH ASSOCAITES VENTURE CAPITAL FUND (USA)
CRANLEY & ASSOCAITES (SPAIN)
CHAMBERLAIN MANAGEMENT INC. (SPAIN, SWITZERLAND & USA)
MONTGOMERY INTERNATIONAL LTD. (GIBRALTAR)
CARTER JAMES SL (SPAIN & USA)
MIDLAND PARTNERS LTD. (UK)
ALLIED CAPITAL SERVICES INC. (PANAMA & COSTA RICA)

9. We are also aware of a completely fraudulent cheque that is circulating (and probably simultaneously the subject of numerous copies). The cheque is dated 19 August 1991 and is for the amount of \$131,783,000 payable to the order of Walter Hes/W M Van Der Schler drawn on the Federal Government of Nigeria and payable at the Federal Reserve Bank of New York. The criminals presenting the cheque are also commenting that officials at the Federal Reserve Bank of New York have confirmed that the cheque is valid and will be honoured. The reality is that the cheque is totally false and has no monetary value whatsoever.

IF YOU OR YOUR COLLEAGUES WOULD LIKE TO BE ADDED TO OUR DISTRIBUTION LIST PLEASE E-MAIL US AT lynne@proximalconsulting.com or go to our web site and use our newsletter subscription form.

IF YOU WOULD LIKE COPIES OF OUR PREVIOUS NEWSLETTERS PLEASE E-MAIL US WITH YOUR REQUEST.

IF YOU WOULD LIKE TO DISCUSS A SPECIFIC PROBLEM OR PROJECT WITH US PLEASE CALL US ON +44 1672 516725, OR FAX US ON +44 1672 516759.

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