

# Testimony

## **Terrorist Financing and the Implications for Canada**

Yaya J. Fanusie  
Director of Analysis  
Center on Sanctions and Illicit Finance,  
Foundation for Defense of Democracies

**Testimony before the  
Standing Committee on Finance**

Ottawa, Canada  
Tuesday, May 5, 2015



1726 M Street NW • Suite 700 • Washington, DC 20036

Mr. Chairman, members of the committee, thank you for giving me the opportunity to appear before you today to discuss terrorist financing.

Terrorist operations do not require much capital. Al-Qaeda in the Arabian Peninsula once touted how its failed plot to bomb a plane over North America in 2010 cost only \$4,200.<sup>1</sup> However, what is not captured in such amounts is the general cost of operating.<sup>2</sup> This includes everyday meals, clothing, communication equipment and internet access, housing, salaries, ground transportation, basic training, safehouses – even paying bribes. These make up some of the “fixed costs” terrorist organizations incur.

We have identified four general typologies we see terrorist groups employing in order to meet these costs: Controlling territories and borders, participating in crime and smuggling, tapping wealthy private donors, and state sponsorship.

I will give an overview of examples we have observed in recent years, and for each method, I will identify vulnerabilities within these typologies that serve as opportunities for our governments in North America to disrupt and weaken terrorists’ ability to fund themselves.

### **Terrorists leveraging control of territories, borders, and ports**

Terrorist groups in Africa and the Middle East are taking advantage of their military influence in the regions in which they operate in order to levy taxes and tolls and control trade on their behalf.

As you know, the Islamic State (IS) is trying to recruit Canadians, such as John Maguire,<sup>3</sup> who attended the University of Ottawa and left Canada for Syria in late 2012 to join the group.<sup>4</sup> IS makes between \$1-2 million per day<sup>5</sup> by selling almost 50,000 barrels per day of oil from refineries it controls in Syria and Iraq.<sup>6</sup> It also levies taxes on the sale of goods in the

---

<sup>1</sup> Thomas Joscelyn, “AQAP Releases a ‘Special Issue’ of Inspire Magazine,” *The Long War Journal*, November 23, 2010. ([http://www.longwarjournal.org/archives/2010/11/aqap\\_releases\\_a\\_spec.php](http://www.longwarjournal.org/archives/2010/11/aqap_releases_a_spec.php))

<sup>2</sup> David Cohen, “Confronting New Threats in Terrorist Financing,” *Remarks of Under Secretary for Terrorism and Financial Intelligence David Cohen Before the Center for a New American Security*, March 4, 2014. (<http://www.treasury.gov/press-center/press-releases/Pages/jl2308.aspx>)

<sup>3</sup> “Canadian Killed Fighting for ISIS in Syria: Report,” *CTV News* (Canada), January 14, 2015. (<http://www.ctvnews.ca/world/canadian-killed-fighting-for-isis-in-syria-report-1.2189105>)

<sup>4</sup> Bruce Campion-Smith & Michelle Shephard, “RCMP Charge John Maguire and Two Others in Terror Investigation,” *The Star* (Canada), February 3, 2015. (<http://www.thestar.com/news/canada/2015/02/03/rcmp-to-announce-terrorism-arrest-and-charges-at-3-pm.html>)

<sup>5</sup> Ashley Fantz, “How ISIS Makes (And Takes) Money,” *CNN*, February 19, 2015. (<http://www.cnn.com/2015/02/19/world/how-isis-makes-money/>)

<sup>6</sup> Louise Shelley, “Blood Money: How ISIS Makes Bank,” *Foreign Affairs*, November 30, 2014. (<https://www.foreignaffairs.com/articles/iraq/2014-11-30/blood-money>)

territories it controls,<sup>7</sup> and forces local businesses to pay fees for electricity or general security.<sup>8</sup>

Boko Haram controls or has a strong presence in northeastern Nigeria and sections of Chad, Cameroon, and Niger, and has used its military strength to tax the fish trade in the region.<sup>9</sup> The group's presence in the region has directly impacted the Canadian military: in February 2015 for example, clashes between Boko Haram and government forces in Niger caused multinational troops, including Canadian special forces, to shift locations during a counterterrorism training exercise.<sup>10</sup>

Al-Shabaab's attacks in East Africa have taken the lives of Canadians,<sup>11</sup> as in the Westgate Mall attack. Like IS, the group also has recruited Canadians to join its ranks as foreign fighters. The group also taxes trade in the areas it dominates in Somalia – although it has not controlled the highly-trafficked port of Kismayo since withdrawing from the town in 2012, it still levies taxes on charcoal and other goods<sup>12</sup> which must travel to and from the port. Although the UN Security Council has banned charcoal exports<sup>13</sup> from Somalia, the UN estimates that al-Shabaab still earns between \$75 to 100 million a year through charcoal sales alone.<sup>14</sup>

#### *Opportunity:*

*The control of territories by violent extremists negatively impacts local businesspeople subjected to these groups' excessive taxation and intimidation. Such locals may serve as potential allies in fighting terrorist influence.*

---

<sup>7</sup> Amr Al-Azm, Salam Al-Kuntar & Brian I. Daniels, "ISIS' Antiquities Sideline," *The New York Times*, September 2, 2014. ([http://www.nytimes.com/2014/09/03/opinion/isis-antiquities-sideline.html?\\_r=0](http://www.nytimes.com/2014/09/03/opinion/isis-antiquities-sideline.html?_r=0))

<sup>8</sup> Ashley Fantz, "How ISIS Makes (And Takes) Money," *CNN*, February 19, 2015. (<http://www.cnn.com/2015/02/19/world/how-isis-makes-money/>)

<sup>9</sup> Siobhan O'Grady, "Boko Haram Turns Robin Hood's Strategy On Its Head," *Foreign Policy*, March 5, 2015. (<http://foreignpolicy.com/2015/03/05/boko-haram-turns-robin-hoods-strategy-on-its-head-nigeria-niger/>)

<sup>10</sup> Steven Chase, "Canadian Soldiers Ordered to Leave Region Threatened by Boko Haram," *The Globe and Mail* (U.K.), February 24, 2015. (<http://www.theglobeandmail.com/news/politics/canadian-soldiers-ordered-to-leave-region-threatened-by-boko-haram/article23193519/>)

<sup>11</sup> Public Safety Canada, "2014 Public Report on the Terrorist Threat to Canada," September 23, 2014, pages 25-27. (<https://www.publicsafety.gc.ca/cnt/rsrscs/pblctns/2014-pblc-rpr-trrrst-thrt/2014-pblc-rpr-trrrst-thrt-eng.pdf>)

<sup>12</sup> Tom Keatinge, "The Role of Finance in Defeating Al-Shabaab," *The Royal United Services Institute for Defense and Security Studies*, December 2014. ([https://www.rusi.org/downloads/assets/2014/12\\_WHR\\_2-14\\_Keatinge\\_Web.pdf](https://www.rusi.org/downloads/assets/2014/12_WHR_2-14_Keatinge_Web.pdf))

<sup>13</sup> United Nations Security Council, "Resolution 2036 (2012)," February 22, 2012, page 6. ([http://www.un.org/ga/search/view\\_doc.asp?symbol=S/RES/2036\(2012\)](http://www.un.org/ga/search/view_doc.asp?symbol=S/RES/2036(2012)))

<sup>14</sup> "Study: Charcoal Production by Al-Shabaab Increases in Survey Area," *Phys.org*, February 10, 2015. (<http://phys.org/news/2015-02-charcoal-production-al-shabaab-survey-area.html>)

## Terrorists relying on crime and smuggling to support their operations

Since terrorist groups are often cut off from legitimate business markets, they commonly partake in crime and illicit trade to fund their operating costs.

For example, kidnapping for ransom is the leading method of terrorist financing, after state sponsorship.<sup>15</sup> Since 2008, al-Qaeda in the Islamic Maghreb (AQIM) has received more than \$90 million from various governments to release hostages it has kidnapped.<sup>16</sup> In fact, al-Qaeda and all of its affiliates have received more than \$125 million in ransom payments just since 2008.

The jihadist conflicts in Syria and Iraq have opened the floodgates for the illegal trade of ancient artifacts. After oil sales, the antiquities trade makes up IS' next-highest source of funding.<sup>17</sup> IS has taken advantage of the large swathes of land it controls in Iraq and Syria to profit from the selling of artifacts sometimes thousands of years old. The group does not necessarily pillage directly, but rather allows locals to dig for artifacts in exchange for taxing the proceeds.<sup>18</sup> This practice systematically incentivizes cultural looting.

It is difficult to calculate the exact amount IS receives from the antiquities trade, but the *Guardian* has cited an intelligence source estimating that the group accrued \$36 million through selling artifacts from a single region in Syria.<sup>19</sup>

While Boko Haram secures major resources by robbing banks<sup>20</sup> and stealing Nigerian military equipment and vehicles,<sup>21</sup> the group also sustains itself by threatening poor farmers – and kidnapping their family members<sup>22</sup> – in order to steal livestock and food.

---

<sup>15</sup> David Cohen, "Confronting New Threats in Terrorist Financing," *Remarks of Under Secretary for Terrorism and Financial Intelligence David Cohen Before the Center for a New American Security*, March 4, 2014.

(<http://www.treasury.gov/press-center/press-releases/Pages/jl2308.aspx>)

<sup>16</sup> Rukmini Callimachi, "Paying Ransoms, Europe Bankrolls Qaeda Terror," *The New York Times*, July 29, 2014.

([http://www.nytimes.com/2014/07/30/world/africa/ransoming-citizens-europe-becomes-al-qaedas-patron.html?\\_r=0](http://www.nytimes.com/2014/07/30/world/africa/ransoming-citizens-europe-becomes-al-qaedas-patron.html?_r=0))

<sup>17</sup> Duncan Mavin, "Calculating The Revenue From Antiquities To Islamic State," *The Wall Street Journal*, February 11, 2015. (<http://www.wsj.com/articles/calculating-the-revenue-from-antiquities-to-islamic-state-1423657578>)

<sup>18</sup> Amr Al-Azm, Salam Al-Kuntar & Brian I. Daniels, "ISIS' Antiquities Sideline," *The New York Times*, September 2, 2014. ([http://www.nytimes.com/2014/09/03/opinion/isis-antiquities-sideline.html?\\_r=0](http://www.nytimes.com/2014/09/03/opinion/isis-antiquities-sideline.html?_r=0))

<sup>19</sup> Martin Chulov, "How An Arrest In Iraq Revealed ISIS's \$2bn Jihadist Network," *The Guardian* (U.K.), June 15, 2014. (<http://www.theguardian.com/world/2014/jun/15/iraq-isis-arrest-jihadists-wealth-power>)

<sup>20</sup> Heather Murdock, "Analysts: Nigeria's Boko Haram Funding Vast, Varied," *Voice of America*, March 20, 2014. (<http://www.voanews.com/content/analysts-nigerias-boko-haram-funding-vast-varied/1875921.html>)

<sup>21</sup> Aminu Abubakar, "Boko Haram Mount Dynamic Raid, Rob Bank, In Looting Spree," *AFP*, November 5, 2014. (<http://www.businessinsider.com/afp-boko-haram-mount-dynamite-raid-rob-bank-in-looting-spree-2014-11>)

<sup>22</sup> Siobhan O'Grady, "Boko Haram Turns Robin Hood's Strategy On Its Head," *Foreign Policy*, March 5, 2015. (<http://foreignpolicy.com/2015/03/05/boko-haram-turns-robin-hoods-strategy-on-its-head-nigeria-niger/>)

The worldwide illegal trade in wildlife generates \$7-\$10 billion in revenue,<sup>23</sup> and terrorists based in areas near protected and endangered wildlife are capitalizing on this market.

For example, al-Shabaab has used its proceeds from the illegal ivory trade to fund terrorist attacks in Kenya. A 2012 non-profit group investigation showed that al-Shabaab was at one point was earning \$200,000 to \$600,000 a month trading ivory tusks.<sup>24</sup>

In the Democratic Republic of Congo, the Lord's Resistance Army poaches elephants to fund its violent operations across central Africa.<sup>25</sup>

#### *Opportunity:*

*Crime and extortion alienate the local populations that terrorist groups exploit, thus creating potential allies in the fight against extremists.*

*Regarding hostage taking, it is increasingly clear that terrorist groups choose their targets based on which national governments pay ransom. One U.S. Treasury official observed that al-Qaeda has apparently shifted in recent years from kidnapping Americans because the U.S. Government does not pay to release hostages.<sup>26</sup> This may bode well for the Canadian Government's similar stance against terrorist negotiations.*

*The global concern over endangered species can be leveraged to propose stronger economic measures against wildlife traffickers. Juan Zarate and Gretchen Peters, both board members for FDD's Center on Sanctions and Illicit Finance, recently wrote an op-ed calling for "Earth sanctions" to target the assets of traffickers, shippers, and front companies that facilitate this trade.<sup>27</sup>*

### **Wealthy donors financing terrorist groups**

Since the September 11th attacks, Canadian and U.S. officials have dealt terrorist financing a major blow by clamping down on the use of international charities to fund terrorist groups. Still, a considerable amount of funding, particularly in the Persian Gulf states, continues to elude financial oversight. Terrorist fundraising in the Gulf is a particularly challenging target

---

<sup>23</sup> Ted Poe, "How Poaching Fuels Terrorism Funding," *CNN*, October 22, 2014.

(<http://www.cnn.com/2014/10/22/opinion/poe-poaching-terrorism-funding/>)

<sup>24</sup> Nir Kalron, "Africa's White Gold Of Jihad: Al-Shabaab And Conflict Ivory," *Elephant Action League*, accessed May 1, 2015. (<http://elephantleague.org/project/africas-white-gold-of-jihad-al-shabaab-and-conflict-ivory/>)

<sup>25</sup> Peter Jones, "Elephant Poaching On Rise In Lord's Resistance Army Stronghold," *Reuters*, May 14, 2014. (<http://www.reuters.com/article/2014/05/14/us-congodemocratic-poaching-kony-idUSKBN0DU1AR20140514>)

<sup>26</sup> Rukmini Callimachi, "Paying Ransoms, Europe Bankrolls Qaeda Terror," *The New York Times*, July 29, 2014. ([http://www.nytimes.com/2014/07/30/world/africa/ransoming-citizens-europe-becomes-al-qaedas-patron.html?\\_r=1](http://www.nytimes.com/2014/07/30/world/africa/ransoming-citizens-europe-becomes-al-qaedas-patron.html?_r=1))

<sup>27</sup> Gretchen Peters & Juan Zarate, "How Financial Power Can Be Used To Save Iconic Species From Extinction," *Business Insider*, April 22, 2015. (<http://www.businessinsider.com/how-earth-sanctions-can-save-iconic-species-from-extinction-and-make-the-world-safer-2015-4>)

because many of the regimes that cooperate with our governments in some military and diplomatic areas nevertheless continue to allow terrorist financiers to operate largely unabated. In fact, the U.S. Treasury Department has labeled Qatar and Kuwait as permissive jurisdictions for terrorism financing.<sup>28</sup>

For example, at one point during the Second Persian Gulf War, a Qatari national named Abdulrahman al-Nuaymi oversaw the transfer of \$2 million per month to al-Qaeda in Iraq. In 2013, the U.S. Treasury designated him for channeling money between Qatari donors and al-Qaeda leaders not only in Iraq, but also in Syria and Yemen, and to leaders of al-Shabaab in Somalia.<sup>29</sup> However, his designation has not inspired Qatari authorities to act; he apparently still lives freely in Doha.<sup>30</sup>

Various jihadist fighters in Syria are receiving funds from Kuwait through fundraisers who collect monies for ostensibly humanitarian purposes, but instead channel those funds to military groups.<sup>31</sup>

Fundraisers in Qatar and Kuwait adroitly utilize social media to accommodate donors in other countries seeking to donate outside the constraints set by their governments, many of which have banned unauthorized charity campaigns for Syria.

#### *Opportunity:*

*Gulf states' reliance on military support from North America is a lever that Canada and the U.S. can use to pressure regimes to arrest terrorist financiers and seize their assets.*

*As more fundraisers rely on social media to reach donors for funding terrorist causes, Ottawa and Washington can track key facilitators and educate decision-makers at social-media forums like Facebook and Twitter about instances where their platforms are being used for illegal activities.*

### **State sponsorship of global terrorism**

---

<sup>28</sup> William Mauldin, "U.S. Calls Qatar, Kuwait Lax Over Terror Financing," *The Wall Street Journal*, October 23, 2014. (<http://www.wsj.com/articles/u-s-calls-qatar-kuwait-lax-over-terror-financing-1414108799>)

<sup>29</sup> U.S. Department of the Treasury, Press Release, "Treasury Designates Al-Qa'ida Supporters In Qatar And Yemen," December 18, 2013. (<http://www.treasury.gov/press-center/press-releases/Pages/j12249.aspx>)

<sup>30</sup> Robert Mendick, "Terror Financiers Are Living Freely In Qatar, U.S. Discloses," *The Telegraph* (U.K.), November 16, 2014. (<http://www.telegraph.co.uk/news/worldnews/islamic-state/11233407/Terror-financiers-are-living-freely-in-Qatar-US-discloses.html>)

<sup>31</sup> David Cohen, "Confronting New Threats In Terrorist Financing," *Remarks Before The Center For A New American Security*, March 4, 2014. (<http://www.treasury.gov/press-center/press-releases/Pages/j12308.aspx>)

State-sponsored terrorist financing poses unique challenges to our democracies because the funders typically have access to vast resources to support the costs of running large, sophisticated organizations. Governments that facilitate terrorism are able to provide training, weapons, and equipment under the full protection of sovereign borders, thereby making disruption more difficult.

Iran is the most active state sponsor of terrorism.<sup>32</sup> Its Islamic Revolutionary Guard Corps, with its external arm the Qods Force, facilitates violent activities around the globe.<sup>33</sup> Tehran funds hundreds of millions of dollars annually to terrorist organizations such as Hezbollah and Hamas.

Despite sharp ideological and sectarian differences between Iran's leadership and al-Qaeda, Tehran has provided safe haven to high-ranking al-Qaeda members over the last 10 years, and the U.S. Treasury has designated several al-Qaeda leaders operating in Iran.<sup>34</sup> These al-Qaeda leaders used Iranian soil to transfer funds and recruits between Middle East conflict zones and Pakistan.<sup>35</sup> Notably, the two men recently convicted for plotting to bomb a Toronto-bound train from New York in 2013 received guidance from al-Qaeda members in Iran, according to investigators.<sup>36</sup>

#### *Opportunity:*

*The Canadian court decision in 2014 to seize \$7.1 million in Iranian assets in Canada was a milestone for the families of victims of Iranian terrorism.<sup>37</sup> The court noted that assets owned by Iran in Canada are often channeled through front companies, and this decision should serve as a precedent for further action to identify resources within Canadian jurisdictions that may be used for state-sponsored terrorism.<sup>38</sup>*

---

<sup>32</sup> David Cohen, "Confronting New Threats In Terrorist Financing," *Remarks Before The Center For A New American Security*, March 4, 2014. (<http://www.treasury.gov/press-center/press-releases/Pages/j12308.aspx>)

<sup>33</sup> U.S. Department of State, "Country Reports On Terrorism 2013," April 2014. (<http://www.state.gov/j/ct/rls/crt/2013/>)

<sup>34</sup> Bill Roggio, "Canadian Terror Plot Linked To Al Qaeda In Iran," *The Long War Journal*, April 23, 2013. ([http://www.longwarjournal.org/archives/2013/04/canadian\\_terror\\_plot.php](http://www.longwarjournal.org/archives/2013/04/canadian_terror_plot.php))

<sup>35</sup> U.S. Department of the Treasury, Press Release, "Treasury Targets Key Al-Qa'ida Funding And Support Network Using Iran As A Critical Transit Point," July 28, 2011. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1261.aspx>)

<sup>36</sup> "Two Men Convicted Of Terrorist Plot To Attack New York-Toronto Train," *The Guardian* (U.K.), March 20, 2015. (<http://www.theguardian.com/world/2015/mar/21/two-men-convicted-of-terrorist-plot-to-attack-new-york-toronto-train>)

<sup>37</sup> *Edward Tracy v. The Iranian Ministry Of Information And Security*, CV-14-10403-00CL (2014 ONSC 1696, March 17, 2014). (<http://www.canlii.org/en/on/onsc/doc/2014/2014onsc1696/2014onsc1696.html>)

<sup>38</sup> "Iran To Forfeit \$7M In Canadian Assets For 'Supporting Terrorism'," *CBC News* (Canada), March 20, 2014. (<http://www.cbc.ca/news/canada/iran-to-forfeit-7m-in-canadian-assets-for-supporting-terrorism-1.2580632>)

In conclusion, as terrorists vary their means for securing funds, it becomes more critical that authorities fully address the multiple strategies they deploy. Although the above typologies for terrorism finance demonstrate our enemies' adaptive nature, each of these methods comes with vulnerabilities which Canada can exploit.

Mr. Chairman and members of the committee, thank you very much for your time and for the opportunity to testify before you today.