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White Paper

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Transnational Organized Crime Convergence

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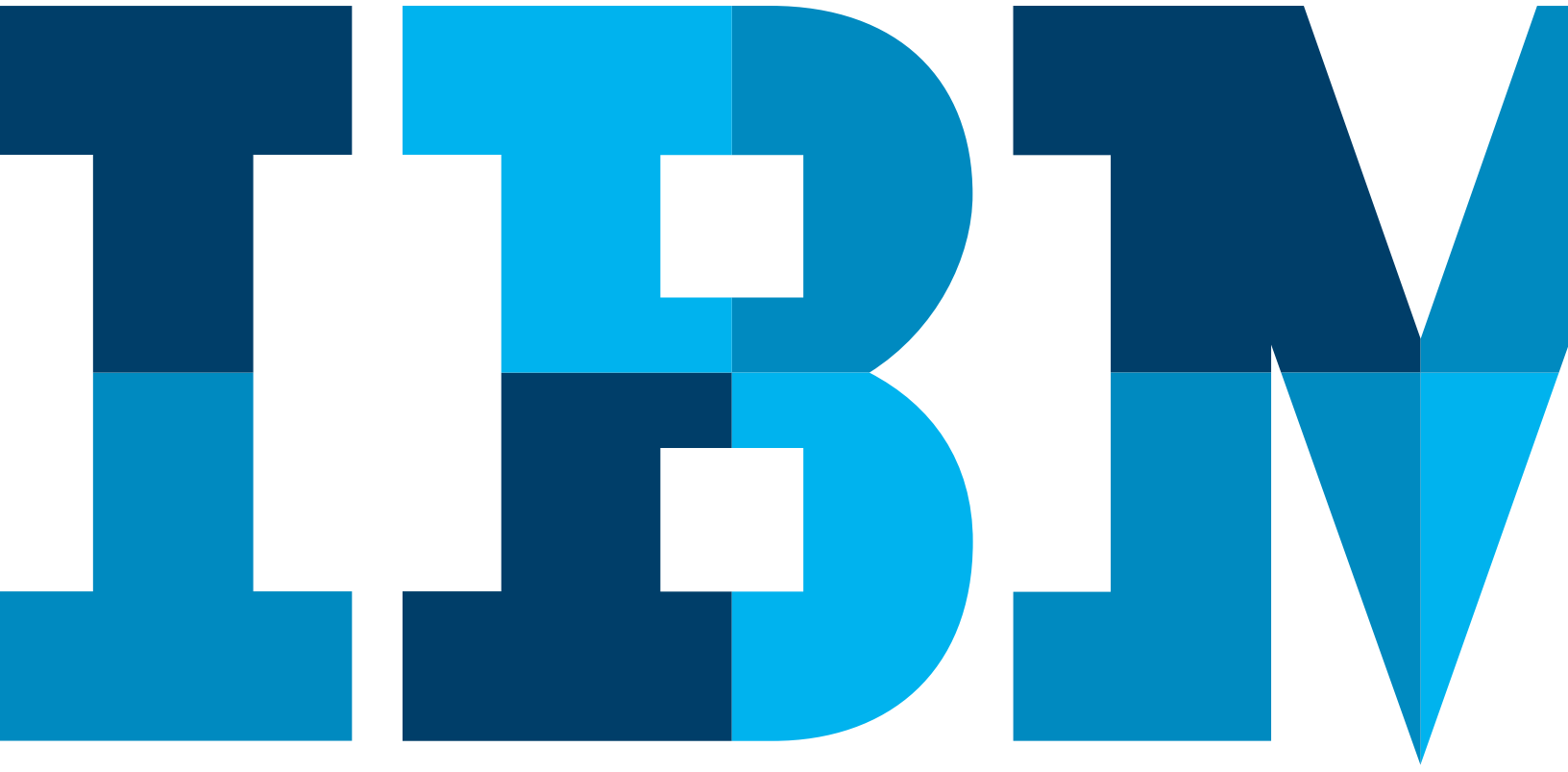

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Executive Summary

Intelligence community documents, congressional hearings and media reports point to a growing international convergence of organized crime groups (OCG) and terror organizations to take advantage of the specialized skills and assets in each group.

There is evidence of Hezbollah establishing strong bases in Latin America over the last decade and working with Mexican Drug Cartels (DTO) in money laundering, terrorist financing, and human smuggling operations, the Mafia has worked with Al Qaeda and DTOs have worked with U.S. outlaw motorcycle gangs to carry-out illicit operations.[1]

This paper provides historical and logistical background on notable OCGs and their operations and highlights how legitimate economies and governments are affected. Note: This report is provided for *situational awareness only*.

Background

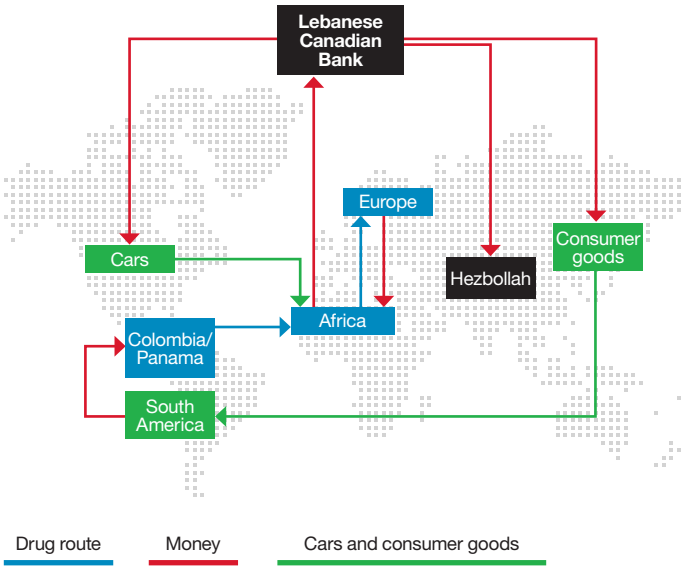
In January 2010, the United States Government completed a review of international organized crime (IOC), the first comprehensive study of IOC since 1995. It found that IOC had expanded dramatically, leading the government to alter its position and view IOC as a serious national security threat. Based on organized crime's expansion across national boundaries and the influence it exerts, the government refers to this group as "transnational organized crime (TOC)." TOC more accurately reflects its reach and the potential impact from converging threats of drug, human, and weapons trafficking organizations with traditional terrorist groups, such as Hezbollah.

"In years past, TOC was largely regional in scope, hierarchically structured, and had only occasional links to terrorism. Today's criminal networks are fluid, striking new alliances with other networks around the world and engaging in a wide range of illicit activities, including cybercrime and providing support for terrorism."[2] TOC presents an international threat to financial systems through cybercrime and sophisticated fraud schemes to create channels to fund terror campaigns and mass casualty weapons.

TOC includes all types of profit-motivated crime involving more than one country, such as:

- Money laundering
- Terrorist financing
- Drug trafficking
- Human trafficking
- Migrant smuggling
- Weapons trafficking
- Counterfeit goods
- Cybercrime (certain aspects)

The United Nations Office on Drugs and Crime (UNODC) in 2009 estimated that TOC activities were valued at USD870 billion, or approximately 1.5 per cent of global GDP. Today, TOC value is well above USD1 trillion per year. These sums of money have the potential to compromise legitimate economies and have direct political impact on elections through corruption and bribery.[3] Developing countries with limited resources may be particularly vulnerable, creating opportunities for transnational criminal organizations (TCOs) to provide financial assistance in exchange for being allowed to operate more freely.



One compromised country may lead to others creating a regional cluster for organized crime. As an example, the Tri-Border Area (TBA) in Latin America is one such place. The Middle Eastern terrorist group Hezbollah has created a strong foothold in the region. According to a 2012 Majority Report of the US House Committee on Homeland Security, the large Lebanese population and friendly local governments provide Hezbollah a base from which to operate in the Western hemisphere.

The report says that the TBA is the largest underground economy in the Western Hemisphere providing Hezbollah with an estimated USD12 billion a year in illegal commerce. Financial crimes are a specialty in the TBA and include money laundering, intellectual property fraud, counterfeiting and smuggling.

Factors in Growth of Transnational Organized Crime

For decades, organized crime was largely localized and regional. In the 1900's, as Europeans immigrated to the United States, so too did members of organized crime groups, most notably the Italian Mafia. They established their group, called La Cosa Nostra, in the US. But they maintained links back to Italy, an early transnational crime network.

Later that century, Colombian drug cartels made in roads to the US creating international drug trafficking organizations and the "model" Mexican Drug Organizations would use, rising to power as the Colombian cartels weakened.

TOCs have expanded over the past 25 years due to a number of factors. The collapse of the Soviet Union and rise of the European Union (EU) created many loosely controlled borders from Europe to the Pacific.[4] With easier movement of people and goods throughout the EU, OCGs were more easily able to expand their operations across borders. The collapse of the Soviet Union and subsequent privatization initiatives allowed Russian OC groups to grab power and money, which helped fuel their growth.

The expansion of commercial air travel and international scope of legitimate businesses created opportunities for TCOs to move illicit goods, money and people around the globe. According to the World Trade Organization, world trade has grown by more than 170 percent since 1990 and free trade zones have grown rapidly since 2000. The combination of the two has allowed criminal groups to transfer illicit goods and launder money through trade-based techniques with minimal risk.

An estimated 25 million cargo containers enter US ports annually, the value of which exceeds USD18 trillion. Although the number is not disclosed, it is believed that US Customs and Border Protection inspect less than ten percent of these containers.

Increasingly, agreements such as the North American Free Trade Agreement (NAFTA) and trusted-shipper programs, designed to make cross-border shipments of goods between Canada, the US and Mexico more efficient, are exploited by OCGs. They pose as legitimate traders (using companies that have been compromised) and gain safe passage for smuggled goods such as weapons, drugs, and cigarettes across the borders.

With only a fraction of the trucks crossing the borders searched, trucking has become an ideal channel for drug trafficking and human smuggling. A 2012 National Post story highlighted the use of legitimate truckers to smuggle shipments into the U.S. An RCMP intelligence report, obtained by a freelance journalist, cited that truckers, who earn $1,000 or less per week, could make as much as $28,000 for shipments of cocaine to Montreal from California. The trusted-shippers program allows for many truck shipments to cross borders without scrutiny.[5]

The worldwide growth of free trade zones (FTZ) has enabled TCOs to exploit container traffic and transfer drugs, contraband tobacco, and counterfeit merchandise. Panama is a major hub for the transnational shipment of maritime containers, many of which originate in cocaine-producing countries in South America and are destined for Europe and North America.

The expansion of the Panama Canal will allow super cargo ships, called New Panamax ships, to cross the Panama Canal and will increase the amount of criminal activity in Europe and North America. New Panamax ships can carry twice the number of containers than conventional Panamax ships. TCOs are well aware that very few containers are inspected and conceal illicit cargo within legitimate shipments. The canal expansion will also drive an increase in trade-based money laundering between South America, North America and Europe.

The ability to communicate via mobile phone, e-mail, and online further enhanced organizations' ability to expand their reach into all corners of the world. The rise of social media and social online networks has dramatically increased the ability for TCOs to communicate, sell stolen property, including credit cards and identities to generate massive amounts of revenue through online fraud schemes. For terrorist groups, social media has become an invaluable tool to raise awareness and recruit new members. This development is a significant factor in the increased "lone wolf" threat (for example, the Boston Marathon bombing and the Fort Hood, Texas shooting.)

TCOs are now able to decentralize their operations and establish "branches" in foreign countries. Globalization has improved the prospects of legitimate businesses but it has also fueled the growth of TOC. The increased globalization of trade, communication, and logistics has helped TOC evolve into sophisticated organizations not unlike a multinational corporation. Organized crime and terrorism activities may have achieved equal status. Fraud, extortion and other OCG activities are needed to fund terror operations.[6]

Convergence

Over the last 25 years, organized crime and terrorist organizations have developed relationships that allow them to be more successful by using the expertise and specializations of each other's network. Criminal and terror groups work together despite often having dissimilar goals and/or cultural animus. It is the corporate equivalent of outsourcing. To meet their objectives, large corporations require vast networks of employees with specialized expertise (for example, lawyers, accountants, and logistics specialists) located throughout the world. TCOs are similar. They operate on an international scale and forge partnerships with other OCGs or terror groups to source needed expertise.

While organized crime is traditionally associated with the Mafia or drug trafficking, it can extend to money laundering, human trafficking, and white-collar crimes like insurance, mortgage, and prescription frauds.[7] Terrorists pursue political and/or religious objectives through overt violence against civilians and military targets. They often turn to OCG for the money they need to survive and operate.[8]

Organized crime groups are "in business" to make money. Terrorist groups, on the other hand, are motivated by ideology. Money is only needed to fund their operations. While organized crime groups do not share the same values as terror groups, they may share a common enemy—the government. To achieve their objectives, each group looks to the other for lessons learned and strategy development in areas such as funding, recruiting, training and morale-boosting techniques. Groups that possess a specialized capability will sell or trade it. Communication and logistics advances over the last 20 years have made it easier for unrelated groups to connect and share information.

Hezbollah and the Mexican Drug Cartels (MDC) are an example of the convergence of a terror group with organized crime. MDC tunnels have become increasingly more advanced with the addition of ventilation and lighting; high ceilings; medical facilities; dormitories and other high-tech additions. These features are believed to be the work of Hezbollah, which has created a vast network of tunnels in Lebanon to protect themselves from Israeli airstrikes.

In addition to OCGs and terrorist groups converging, there has been an increasing convergence of nation states and cybercriminal organizations. Cybercriminals have often taken on a patriotic role, waging cyber war on behalf of governments as they became more sophisticated. Evidence of this can be seen as early as the 1990s in Chechnya and Kosovo.[9] Patriotic roles persist today. Social unrest and changing political landscapes across Eastern Europe and the Middle East have given cybercriminals ample opportunity to act in the name of their country or ideological movement.

There is also an active market in which certain governments hire cybercrime groups to carry out attacks or acts of espionage against other governments and private companies. "FireEye researchers have even seen one nation-state develop and use a sophisticated Trojan, and later (after its own counter-Trojan defenses were in place) sell it to cybercriminals on the black market. Thus, some cyber-attack campaigns may bear the hallmarks of both state and non-state actors, making positive attribution almost impossible."[10]

In today's world of organized crime, bad actors sell their specialized services to other OCGs to assist in the execution of large frauds and money laundering. The following illustrates the actors involved in a data breach compromising thousands of credit card holders, a common occurrence today. The "possible location" shows the potential transnational reach and interaction with other OCG.

- The target company is breached and credit card information harvested by hackers. (Possible location: Russia or China)
- The raw credit card data is sold to a buyer, typically through a "carding forum" on the Internet. The group that stole the card information is paid and their involvement is ended. (Possible location: Romania and other Eastern bloc countries)
- The buyer uses the card information to make online purchases of merchandise or create fake cards encoded with the stolen information. In either case, this fraudster needs individuals to accept delivery of merchandise or money derived from the operation. These individuals are called money mules and are available from groups that specialize in recruiting money mules. These groups are typically referred to as "mule herders." (Possible location: Romania and other Eastern bloc countries)
- Mule herders constantly recruit suspecting or unsuspecting people to accept cash or receive goods on behalf of the OCG executing the fraud. Mules are recruited, often through Internet advertisements, for "work-at-home" schemes. The mules accept merchandise and reship to a foreign address or they receive electronic funds transfers into their account or they receive and deposit worthless checks. The mules are then instructed to wire money to a foreign account or an account of another mule, minus their fee. Mules are typically the ones that are left to be caught when the EFT or deposited check is returned. (Possible location: Russia, United States, European Union countries)

Each step in the "supply chain" around a data breach requires specialized capability: the hackers who obtain and sell the data, the buyers who translate the stolen data into goods or money, and the mules who are the conduits through which the money or merchandise flows to create a layer of anonymity for the fraudsters.

Examples of Transnational Organized Crime Groups

Eurasian Transnational Organized Crime (ETOC)

The FBI considers Eurasian OCGs to be any group comprised of criminals born in, or with family from, the former Soviet Union or Central Europe. Eurasian groups operate in countries all over the globe. In the US, these groups cause hundreds of millions of dollars in losses to businesses, investors, and taxpayers through various schemes.

With the collapse of the Soviet Union in 1991, OCG had the opportunity ally themselves with corrupt public officials and acquire control of industries and resources that were being privatized. Privatization in the former Soviet Union provided a huge one-time opportunity for OCG to grab power and billions of dollars. The Russian interior ministry estimates that more than one-half of the Russian economy is controlled by organized crime. The country's banks are exploited by ETOC to easily transfer billions out of Russia each year.[11]

ETOC groups in the U.S. are involved in "healthcare fraud, auto insurance fraud, securities and investment fraud, money laundering, drug trafficking, extortion, auto theft and interstate transportation of stolen property. They are also heavily involved in human smuggling and prostitution."[12]

Italian Transnational Organized Crime (ITOC)

Italian organized crime, often referred to as the 'Mafia,' is comprised of four organized crime groups within Italy: the Sicilian Mafia (Sicily), the Camorra (Naples), 'Ndrangheta (Calabria), and the Sacra Corona (Puglia). The FBI estimates that the groups have approximately 25,000 members and 250,000 affiliates worldwide. The major threat within the US by these groups is drug trafficking and money laundering. However, they are also involved in fraud, kidnapping, extortion, counterfeiting, weapons trafficking and infiltration of legitimate businesses.

In the US, the Italian Mafia is known as La Cosa Nostra, or LCN. It has its roots in Italy, but has been run as a separate entity for many years. LCN works with various criminal groups in Italy. Its major threats to the US include drug trafficking and money laundering. However, it is involved with other activities such as gambling, extortion, corruption, labor racketeering, and financial fraud.

Balkan Transnational Organized Crime (BTOC)

BTOC describes criminal activity originating from Albania, Bosnia-Herzegovina, Croatia, Kosovo, Macedonia, Serbia, Montenegro, Bulgaria, Greece, and Romania. The fall of communism in this region allowed regional black-market activities to expand globally. European nations consider BTOC as their greatest criminal threat. They are seen to be rapidly taking over human smuggling, prostitution and car theft rings.

Balkan organized crime began in the 1980's with low-level crimes. Eventually, the Albanians partnered with LCN in New York and grew strong enough to operate their own organization. While BTOC has been involved in many types of crimes over the years, more recently groups have expanded into sophisticated crimes including real estate fraud. BTOC is considered an emerging organized crime threat in the U.S. It does not yet have the criminal sophistication of Eurasian or LCN groups, but it has proven itself as capable of running financial fraud schemes.

Romania has been labeled the global center for cybercrime and internet scams. The lure of easy profits at the expense of US consumers has provided a great incentive for young Romanians to easily exceed the national income average of $14,000. One quarter of Romania's population of 20 million people are under the age of 25. This provides and abundant source of technology-savvy youth to generate Internet scams. Organized cybercrime groups have exploited US and European consumers for billions of dollars.

WANTED
BY THE FBI

Conspiracy to Commit Wire Fraud, Money Laundering, Passport Fraud, and Trafficking in Counterfeit Service Marks; Wire Fraud; Money Laundering; Passport Fraud; Trafficking in Counterfeit Service Marks

NICOLAE POPESCU

Aliases: Niculae Popescu, Nicolae Petrache, Nae Popescu, "Nae", "Stoichitoiu"

DESCRIPTION

Date(s) of Birth Used:	February 6, 1980	**Hair:**	Brown
Place of Birth:	Alexandria, Romania	**Eyes:**	Green
Height:	5'10" (178 cm)	**Sex:**	Male
Weight:	187 pounds (85 kg)	**Race:**	White
NCIC:	W216389854	**Nationality:**	Romanian

Remarks: Popescu speaks Romanian. He may have travelled to Europe.

Asian Transnational Organized Crime (ATOC)

Originally emerging from China, Asian criminal groups in the US, today are identified more with East and Southeast Asian countries. Increasingly, groups out of the South Pacific islands and Southwest Asia are emerging as international threats. Many of these groups are multi-lingual, mobile and very adaptable. They are capable of operating highly sophisticated operations and are well financed. A key characteristic of ATOC groups is their ability "to elicit cooperation of other groups that cross ethnic and racial heritage lines."[13]

African Transnational Organized Crime (AFTOC)

African organized crime has emerged rapidly over the last ten years. This has been fueled by political and social unrest in the region. Poor economic conditions and weak governments have led to widespread corruption. The most significant international threat is from Nigerian criminal groups, which operate in more than 80 countries. Nigerian TOC groups are very skilled at financial fraud schemes that ultimately cost the US approximately USD2 billion per year. Nigerians are masters of using the Internet and e-mail correspondence to further various schemes such as lottery winning scams. More recently, they have engaged in virtual kidnapping in which the recipient of their e-mail or telephone call is falsely notified of an abduction of a family member traveling overseas. Targets of these scams are often the elderly who are more easily confused and persuaded to act.

Impact of TOC on the Legitimate Economy and Governments

Organized crime is undoubtedly "big business." OCGs have benefited from the same technological and logistical advances that legitimate businesses have enjoyed over the last two decades and longer. Many experts indicate that TOC poses substantial threats to economically fragile countries and those with weak governments. While that is true, TCOs thrive in financially healthy economies with strong governments. Some estimates put the value of illicit activities at 8-15 percent of global GDP. There is no doubt that OC is a disruptive force and hurts legitimate businesses by stealing revenue (for example, counterfeit goods) and deprives governments of tax revenue. The idea that TOC is a threat to fragile, failed governments may be misperceived or overstated. Many of the factors that support and foster healthy legitimate business, like a solid infrastructure, also apply to OCGs.

The real threat is the penetration of TOC leaders into positions of leadership and power within the government itself and not the breakdown of the state. There is abundant evidence that OCG groups work with and obtain positions of influence within governments across the globe. In the article, Mafia States, Moises Naim wrote that in some countries the lines between state and criminal networks are "irreparably blurred." Naim suggests that a new threat of "mafia states" is taking hold in many countries around the world. The recent economic crisis has allowed cash-rich OCGs to acquire cheap property and companies. The penetration into legitimate businesses has given them more power and influence. Further, in some countries, governments have taken over illicit operations to enrich themselves and their families. Naim states, in countries such as Bulgaria and Kosovo, crime and the state have become so intermingled that one cannot be distinguished from the other.

Like any other organized entity or business, TOC cannot thrive in a failed state. To thrive, OCGs require the same infrastructure that legitimate businesses need to be successful: roads, bridges, banks and more.[14] Another element indicative of a strong government is effective law enforcement. Capable law enforcement equals a significant barrier of entry for OCGs, without which any group could set up shop. As with any business, a low barrier to enter a market means more competition and less profit.

Therefore, one can make the argument that strong law enforcement and a vibrant illicit economy go hand-in-hand. Additionally, criminals are human. Why make millions of dollars if it cannot be enjoyed in a life of leisure and luxury? "This can only be achieved somewhere relatively stable and with a decent infrastructure, which means organized crime requires a country with a functioning central government."[15]

What can be done about TOC?

Combating TOC is a complicated issue. Limiting TOC is not just a law enforcement responsibility. The cooperation and awareness of many groups is required. The United Nations Office on Drugs and Crime (UNODC) suggests partnerships across governments, businesses, international organizations and civil society. UNODC has listed the following elements as critical in fighting organized crime:

- *Coordination:* Integrated action at the international level is crucial in identifying, investigating and prosecuting the people and groups behind these crimes.
- *Education and raising awareness:* Ordinary citizens should learn more about organized crime and how it affects their lives. Consumers need to be aware of the pervasiveness of counterfeit items. They must understand that items for sale on the street and on the Internet that are considered "great deals" are likely counterfeit. Although many consumers may seek out counterfeit items because they are affordable, they must understand that by purchasing that item they are supporting organized crime, or worse terrorist organizations, with that purchase.
- *Intelligence and technology:* Criminal justice systems and conventional law enforcement methods are often no match for powerful criminal networks. Better intelligence methods need to be developed through the training of more specialized law enforcement units, which should be equipped with state-of-the-art technology.
- *Assistance:* Developing countries need assistance in building their capacity to counter these threats. An important tool that can help is the United Nations Convention against Transnational Organized Crime, which has been ratified by 170 parties and provides a universal legal framework to help identify, deter and dismantle organized criminal groups. At a practical level, UNODC helps strengthen the capacity of states to track and prevent money-laundering with training and technical assistance on following the money trail. These measures can help cut off the profits of crime.

For more information

To learn more about IBM REDCELL, IBM's Advanced Threat, Fraud, and Financial Crimes Intelligence team go to securityintelligence.com/redcell.

And to learn more about IBM's Smarter counter fraud initiative, please contact your IBM marketing representative or IBM Business Partner, or visit the following website: **ibm.com**/smartercounterfraud.

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