



Are Your Cigarettes Funding Terror Attacks? Examining the Intersection of Terrorist Financing and Illicit Trade

Stephen Reimer and Tom Keatinge

There is rising interest in how illicit trade contributes to the funding of terrorist activities. Recognising the differences between wholesale and retail illicit trade will be crucial for effectively countering this form of terrorist financing.

Hot on the heels of Al-Shabaab's [recent attack](#) on a US military base in Kenya, President Uhuru Kenyatta addressed a national security conference in Mombasa on steps his government is taking to prevent the group from generating income within the country. Chief among these measures was a heavier crack-down on [cross-border illicit trade](#), which provides Al-Shabaab with a funding opportunity in the form of contraband smuggling routes which they have been known to tax. On 2 February, authorities arrested three people after [discovering secret storage bins](#) – filled with chewing gum and other illicit goods – under the floor of a bus headed towards Nairobi from Dadaab, near the Somali border.

Illicit trade is a persistent global threat

But this is not a particularly new or novel terrorist fundraising technique. Brothers Saïd and Chérif Kouachi, who perpetrated the January 2015 [Charlie Hebdo attacks](#) in Paris, had supported themselves financially with, among other things, the proceeds of [illicit trade](#) in counterfeit goods which were purchased from China via a Western Union money transfer, which the Director-General of French

customs [confirmed](#) shows the 'close links between counterfeiting and the financing of terrorism'.

The scale of illicit trade undertaken by terrorists is less understood than that of the organised crime groups (OCGs) that dominate this activity. Most often, assessments of terrorist-perpetrated illicit trade are predicated on anecdotal information or a small number of oft-cited cases, such as that of Mokhtar Belmokhtar, the notorious Algerian jihadist and terrorist financier whose involvement in cigarette smuggling earned him the moniker 'Mr Marlboro'. One UK government policy officer interviewed by the authors noted that the links between illicit trade and terrorist financing are extremely difficult to prove, with evidence gathering being limited by weak relationships with the right counterparts abroad.

This lack of data means that law enforcement authorities tasked with dealing with the problem do not have a comprehensive understanding of how terrorists use illicit trade to fund their operations, nor indeed why illicit trade is chosen as a financing tactic. This financial blind spot exists despite the vast profits that are to be made through illicit trade – profits which could be transformative for the kinds of terrorist organisations that require only minimal funds to sustain themselves or to perpetrate

attacks – far less than what most OCGs are after.

Global Threat, but 'Soft' Crime?

Illicit trade is a persistent global threat. The impact of globalisation and the growth of new technologies including e-commerce, online markets and social media have provided opportunities for criminals to infiltrate supply chains and provide consumers with ready access to counterfeit and illicit products. In its broadest sense, illicit trade involves acquiring a product at a low price and managing its transportation and storage until it can be sold in another market that offers a higher price. The underlying concept is [arbitrage](#), or taking advantage of a price difference between two or more markets. It [includes](#) smuggling genuine products into a more expensive market, thereby evading the payment of sales tax or excise duties; smuggling counterfeit or unlicensed products; and manufacturing unlicensed or counterfeit products within a market itself. Illicit trade can be carried out for the purposes of wholesale, where smuggled or illegally manufactured goods are sold to a merchant who profits from resale, or retail, where illicit goods are sold directly to their end user.

There is no measure of the true scale of illicit trade, given the clandestine nature of the industry and the broad [range of activities](#) it encompasses, including counterfeiting, piracy,

Jin Ling cigarettes, which have no legal market in Europe, are one of the most smuggled brands of cigarettes in the world. The trade in illicit goods is a growing terrorist-financing risk globally. Courtesy of HMRC.



smuggling legitimate products and tax evasion. Recent estimates, however, are concerning. The World Economic Forum [estimates](#) that the economic leakage caused by illicit trade drains the global economy of \$2.2 trillion each year – nearly 3% of the world’s economy. A [2017 Global Financial Integrity](#) study estimated trade in counterfeit and pirated goods to generate between \$923 billion and \$1.13 trillion annually.

Depriving the Islamic State of territory or its infrastructure for resource development was the most effective way of eliminating its sources of revenue

And yet, addressing illicit trade is perennially under-prioritised, treated as a seemingly soft or victimless crime. This is evidenced by countries’ insufficient investment in disruption – in the view of [Interpol](#), the response is generally

under-resourced, with many countries lacking the necessary specialist investigators, prosecutors and judges. The OECD has [further noted](#) that insufficient checks on small parcels and a lack of information on shipments in free trade zones are exploited by criminals for the purposes of illicit trade. [Project Stella](#), an annual KPMG study of the illicit cigarette market in the EU, found that in 2018, 8.6% of all cigarettes consumed in the EU were illicit, representing €10 billion in lost tax revenue.

Who and Where

When considering the role illicit trade plays in terrorist financing, it may be useful to consider three different types of terrorist actors and their fundraising methods: territory-controlling groups, such as the Islamic State in Iraq and Syria and Al-Shabaab in Somalia; organised crime-type groups, such as Hizbullah and the IRA; and small cells and lone actors, such as the cell that attacked the *Charlie Hebdo* offices. While each terrorist actor varies in structure and

fundraising requirements, there are clear examples in each category of illicit trade being used as a fundraising tool.

Growing interest in this issue among states and international institutions has coalesced into two major instruments. The [Hague Good Practices](#) on the Nexus Between Transnational Organized Crime and Terrorism was endorsed by the Global Counterterrorism Forum and presented to the UN Security Council in late 2018, and [UN Security Council Resolution 2482](#), addressing threats to international peace and security caused by international terrorism and organised crime, was passed in July 2019. In defining the nexus, The Hague Good Practices bring attention to regional variation in how illicit trade is used as a fundraising technique by terrorists. On the one hand, (post)-conflict states or other places lacking governance and security perpetuate instability and create favourable conditions for illicit trade to be conducted out in the open. On the other hand, in politically stable states, terrorist cells engage in crime as a source of financing, including illicit trade, in a less transparent fashion. By comparing three types of terrorist actors and two

domains of their activity, we begin to see a distinction between wholesale and retail illicit trade: territory-controlling groups operating in (post)-conflict states and ungoverned spaces pursue a different kind of illicit trade-based financing than organised crime-type groups and small cells and lone actors that primarily operate in politically stable states.

But wholesale and retail illicit trade for the purposes of terrorist financing are not afforded equal consideration. Multiple references are made to illicit trade in UN Security Council resolutions, such as [2199](#) (2015) on the smuggling of consumer products (including cigarettes), [2347](#) (2017) on the smuggling of cultural property, and [2195](#) (2014) and [2482](#) (2019), both of which concern the nexus between crime and terrorism. Yet, despite the Council's clear concern with the link between illicit trade and terrorism, the response to this form of terrorist fundraising is unbalanced, with retail illicit trade occurring on the streets of European capitals being largely ignored in order to focus attention on disrupting the wholesale activities of high-profile groups such as the Islamic State.

Wholesale Illicit Trade

The most lucrative fundraising strategy at the disposal of territory-controlling groups is to profit from resources within the land they control, including natural resources and antiquities. This was exemplified during the height of the Islamic State's control in Syria and Iraq, when it was [estimated](#) by then-US Treasury Assistant Secretary for Terrorist Financing Danny Glaser that the group may have earned \$500 million through the smuggling and sale of oil in 2015, much of which was then [sold to the regime of Syrian President Bashar Al-Assad](#), despite the two factions being at war with one another. By purchasing the commodity in bulk, either for domestic use or onward exportation, the Syrian regime enabled a wholesale

model of illicit trade that provided the Islamic State with crucial funding.

At around this time, the Financial Action Task Force – the global standard-setter on countering the financing of terrorism – [reinforced the need](#) to 'better identify the origin, middlemen, buyers, carriers, traders and routes through which' oil was being trafficked in Islamic State-controlled areas, and to gain a greater understanding of how the international financial system intersects with the oil trade. Clearly, depriving such actors of their resources by cutting them out of the financial system is critical, as acknowledged by UN Security Council Resolution [2253](#) in its expansion of the sanctions framework to include the Islamic State.

Addressing illicit trade is perennially under-prioritised, treated as a seemingly soft or victimless crime

However, when attempting to financially disrupt the wholesale illicit trade operations of territory-controlling groups, targeted financial sanctions will only go so far; and if a market remains, illicit trade will continue. Therefore, depriving the Islamic State of territory or its infrastructure for resource development was the most effective way of eliminating its sources of revenue. Named Operation *Tidal Wave II* (after the 1943 Allied bombing of Nazi oil refineries), between 2015 and 2017 the US-led coalition focused on destroying tanker trucks, mobile refineries and other oil infrastructure linked to the group to degrade their revenue-generating ability. These strikes are credited with cutting the Islamic State's oil revenues by 90%, down to \$4 million per month from an all-time peak of \$50 million. According to the Counter ISIL Finance Group,

retaking over 98% of the Islamic State's land by 2018 significantly [diminished its revenues](#).

Retail Illicit Trade

Perhaps the most entrepreneurial of terrorist actors are those exhibiting the characteristics of OCGs. By employing sophisticated criminal methods and money-laundering schemes to hide their ill-gotten gains, dissident Irish republican groups such as the Real Irish Republican Army (RIRA) have proven themselves adept at accruing large sums of wealth to further their political agendas, which according to the UK's 2017 National Risk Assessment on Money Laundering and Terrorist Financing [includes](#) cigarette smuggling and fuel laundering. The threat from these groups is rated as 'severe' in Northern Ireland and 'substantial' in Great Britain and they 'do not require significant amounts of money to sustain a campaign of violence'. As such, this kind of retail illicit trade, where untaxed goods are sold on to their end-users, deserves immediate attention.

In January 2018, Forbes [cited the RIRA](#) as the 10th richest terror organisation in the world, with an estimated annual income of \$50 million, earned mostly through a global network that smuggles cigarettes as well as falsified alcohol and fuel products. The PIRA are additionally [reported](#) to have made use of video piracy, counterfeit tax-exemption certificates, income tax frauds and VAT fraud. A [recent study](#) shows that at its peak, the group developed an extensive reliance on criminal gangs for expertise in illegal fundraising. One law enforcement officer interviewed by the authors estimated that around 60% of OCGs in Northern Ireland currently have paramilitary links, noting that there was a significant increase in organised crime activity following the Good Friday Agreement, as the criminal skills of members of terrorist organisations in Northern Ireland were redeployed.

Smuggling across the Irish border has been cited as a concern by UK government officials and law

enforcement, with one analyst stating that a possible hard border between Northern Ireland and the Republic of Ireland following the Brexit transition period would be a 'boon' for illicit trade and paramilitary funding if groups take advantage of different excise duties, VAT regimes and the potentially different regulatory regimes. The activity of dissident republican groups demonstrates how the large profits that are to be made from illicit trade are crucial for their survival.

Retail illicit trade has also been used, on occasion, to finance the operations of small cells and lone actors, such as the pair that attacked *Charlie Hebdo* staff. By their very nature – as groups or individuals that do not facilitate expensive global organised-crime operations or maintain control over territories and populations – these groups require substantially less funds than structured groups. They are more likely to profit off counterfeiting, or the street-level sale of illicit tobacco and drugs than other forms of illicit trade previously described.

In an investigation by *Paris Match*, [links were revealed](#) between the trafficking of cultural antiquities and the small cell responsible for the attacks on the Brussels airport and metro system in March 2016. In 2017, Belgium's Deputy Prime Minister Jan Jambon also [noted](#) that the shadow economy had financed attacks, stating that it is 'not a coincidence that terrorist cells emerge at places where illicit trade is thriving'. Despite these links, it remains unclear through open source investigations the precise type of illicit trade that financed the Brussels attacks.

This does, however, point to the wider manifestation of financing via retail illicit trade at the lone-actor and small-cell level. Analysts have [noted](#) the high prevalence of criminal backgrounds amongst European jihadists and their use of criminal skills such as white collar and petty crime to finance extremism, showing the connection between radicalisation, prisons and crime. Indeed, according to the French counter-terrorism think-tank *Centre d'analyse du terrorisme*, two boxes of contraband cigarettes were [seized](#) from Amedy Coulibaly in 2010, the gunman who would go on to attack

a Parisian kosher supermarket in 2015, reinforcing the notion that lone actors and small cells may have connections with illicit trade.

The risk is that these individuals will be overlooked by authorities, considered as petty criminals, without a potential connection being made to extremist and/or terrorist aspirations. Ultimately, there is no way to entirely cut off lone actors and small cells from the funds they can acquire from engaging in retail illicit trade, particularly given the small amounts of money they require to carry out attacks, not to mention attacks that can be executed without funding.

A Tariff on Inaction

It would appear that terrorist organisations of all stripes have used illicit trade as a fundraising tactic, adopting either a wholesale or retail model based on their area of operation and modus operandi. However, empirical data is still lacking, and until greater light is shed on the extent of illicit trade as a terrorist financing method, it is unlikely to be recognised as an urgent priority by law enforcement and policymakers, which will only make the practice more attractive to terrorist actors.

According to Andrew Bradshaw, president of the Asian Coalition Against Counterfeiting and Piracy, '[terrorism and counterfeiting are inextricably linked](#)', perhaps precisely because of authorities' prioritisation of other crimes such as human and drug trafficking. With illicit actors being sensitive to the [risk versus reward](#) calculation of their activities (with the aim of pursuing the highest rewards with lowest possible risk), it is no wonder that trade in counterfeit, unlicensed or untaxed products is seen as '[a relatively safe option](#)' among many terrorist organisations.

The potential profits that are to be made by terrorists via illicit trade warrants further examination at the very least, and responses should appreciate the distinction between wholesale and retail methods to maximise effectiveness. The outcomes of Operation *Tidal Wave II* and the US-led coalition's efforts to reclaim territory lost to the Islamic State demonstrate perhaps the most effective way of halting wholesale

illicit trade by territory-controlling groups. However, a similar approach would be incompatible with the characteristics of retail illicit trade, where precluding actors from accessing resources to be exploited is virtually impossible. Put simply, while the Islamic State can be deprived of its territory, the RIRA cannot be isolated from the differing duty regimes in the jurisdictions in which they operate, nor can small cells – like the *Charlie Hebdo* attackers – be cut off from their black market dealings in [counterfeit Nike sports shoes](#).

At the same time, it is important not to sensationalise the terrorist-financing risk posed by retail illicit trade or obscure the reality of these enterprises. The economic losses, damage to national economies and facilitation of underground criminal activity brought on by retail illicit trade should, in and of themselves, be a sufficient basis for law enforcement authorities to prioritise this in politically stable countries.

In response to attacks in Europe by lone actors and small cells, in February 2018 the European Parliament [recommended](#) various measures, including stepping up the monitoring of suspicious organisations involved in illicit trade, smuggling, counterfeiting and fraudulent practices via the formulation of joint investigation teams within Europol. This is a laudable effort and could be enhanced through further investigation of the myriad pathways through which petty criminals may become terrorist financiers. These typologies can better inform law enforcement agents of the real terrorist-financing threats posed by retail illicit trade.

Stephen Reimer

Stephen is a Research Analyst at RUSI's Centre for Financial Crime and Security Studies.

Tom Keatinge

Tom is the Director of RUSI's Centre for Financial Crime and Security Studies.

The views expressed in this article are the authors', and do not represent those of RUSI or any other institution.