



Hezbollah's Tri-Border Area terror finance comes under fire at last

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Introduction

► On July 13, Argentina's Financial Intelligence Unit **froze** assets of 14 Lebanese nationals and residents of the Tri-Border Area of Argentina, Brazil and Paraguay, or TBA. According to the FIU, the targeted individuals were part of a criminal organization linked to Hezbollah and associated with the **Barakat clan**, a powerful Lebanese Shi'a family whose leader in the TBA, **Assad Ahmad Barakat, was sanctioned** by the U.S. Department of Treasury in 2004. The network transferred large quantities of cash across the TBA to the Argentinian side in Puerto Iguazu, using the local casino, just yards passed Argentinian customs at the border crossings, to launder the money.

► The assets freeze is the culmination of months of investigations, in cooperation with the U.S. Department of Treasury's FinCen, which on July 16 **praised** the FIU for its action against Hezbollah. Argentina's move follows closely the arrest of two Lebanese nationals suspected of ties to Hezbollah, **on May 17** and **June 25**, respectively, on the Paraguayan side of the TBA, by Paraguayan authorities. These recent events highlight both the continuing importance of the TBA to Hezbollah's terror finance and a renewed willingness by regional powers to confront Hezbollah's local networks. U.S. cooperation in all instances proved critical. To successfully continue to disrupt Hezbollah's illicit revenue streams in the TBA the United States needs to step up its engagement with regional powers, thus ensuring that investigations, arrests, asset freezes and extraditions continue.

The Casino laundering scheme

► Argentina's FIU targeted a scheme that exploited a cash intensive business – the casino in Puerto Iguazu, on the Argentinian side of the TBA – and weak cross-border controls. The Brazilian-Argentinian border in the TBA experiences approximately **40,000 transits per day**. These include tourists visiting both sides of the world-famous Iguazu Falls and cross-border

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workers. Given such numbers, authorities cannot control each vehicle without bringing traffic to a halt. Without real-time intelligence, it is virtually impossible for Argentina's authorities to catch large quantities of undeclared cash and thus prevent the exploitation of the casino, merely a hundred yards beyond Argentina's customs station, for money laundering purposes.

- ▶ According to the asset freeze order, members of the Barakat criminal network did exactly that. Members of the network crossed the border hundreds of times with large quantities of cash and used the casino to convert the cash into chips and back – sometimes adding gambling wins in the process.

- ▶ The key figure in this network is **Hassan Ali Barakat**, a first cousin of **Assad Ahmad Barakat** and a man whom Argentinian authorities link to narco-trafficking. Information collected at the Brazilian-Argentinian border indicate that Barakat transited at least 620 times between January 1, 2015 and October 19, 2017, including 332 entries into Argentina, with an average of three entries per day on the days he visited. The FIU found no business interests associated with him inside Argentina, yet the asset freeze order by the FIU says he is “an assiduous frequenter” of the local Casino in Puerto Iguazu and Punta Del Este, a famed sea resort in Uruguay. Hassan's brother Hussein Ali Barakat was also found to have crossed the Brazilian-Argentinian border 257 times during the same period, often alongside Hassan.

- ▶ Both brothers moved significant sums of money through the casino – more than 18 million Argentinian pesos, or about US\$660,000. They also frequently came accompanied by others who either travelled with the Barakat in the same car or drove in a separate vehicle that crossed the border about the same time as the Barakat's. Eventually, Argentina's authorities identified 12 additional individuals as Barakat's travelling companions to the casino.

- ▶ All 14 individuals investigated are Lebanese nationals; 11 are residents of Brazil, the other three live Paraguay. None of them works or has a business on the Argentinian side of the TBA. The combined funds they injected into the casino amount to the equivalent of approximately US\$ 3.75 million at the current exchange rate. Yet none of them ever declared to Argentina's customs that they were carrying US\$10,000 or more, as required by Argentinian law. It is also possible they violated Brazilian law, for failing to declare large sums of cash as they crossed into Brazil.

Policy implications

- ▶ There are both positive and negative implications to the recent asset freeze ordered by Buenos Aires.

- ▶ On the positive side, Hezbollah no longer enjoys impunity in the area. The Argentinian government is likely determined to expand its actions against Hezbollah. Coupled with the recent arrests of Hezbollah financiers on the Paraguayan side, it appears that two of the three regional powers responsible for the TBA are taking the threat of Hezbollah in their backyard more seriously than in the past. Also significant is the fact that the action benefited from months of cooperation with FinCen, the FIU's U.S. counterpart. This type of partnership with Washington is likely to yield more results and, if expanded to a full-fledged coordination of all three countries involved in the TBA, it could be a game changer with serious consequences for Hezbollah's illicit revenue streams.
- ▶ U.S. neglect of the region since the last round of designations, in 2006, meant that U.S. sanctions deterrence **eroded** over time. Hezbollah financiers **continued their activities** largely unmolested. Local authorities did little to stamp out Hezbollah's terror finance networks once it became clear that the U.S. lost interest in the TBA.
- ▶ The U.S. needs to rectify this state of affairs and ramp up its pressure against Hezbollah's networks in the TBA, a key hub of their illicit finance networks in Latin America.
- ▶ New tough economic measures hitting local Hezbollah businesses would restore credibility to sanctions. Washington must keep this pressure now to signal that assistance provided to Argentina for the asset freeze is not a one-off but the beginning of a sustained effort against Hezbollah's TBA infrastructure.
- ▶ Besides sanctions, there are additional ways the U.S. can help regional powers build capacity through training, provision of technical assistance and equipment. It can also prod local powers to take actions they would be reluctant to do on their own. The two arrests carried out in Paraguay in May and June were both the result of U.S. requests to arrest and extradite the suspects. Such requests shield local powers from potential political pressures not to prosecute Hezbollah financiers as they offer political cover.
- ▶ Ultimately though, local authorities also need to step up pressure.
 - ◆ **First**, at the political level, all three regional powers need to recognize Hezbollah as a terrorist organization and deal with it accordingly. Argentina's action and Paraguay's arrests show that both countries are willing to take action against Hezbollah's local operation. Brazil is more reluctant – and little at the political level may be expected until presidential elections this fall. Still, the United States should continue to work

with Brasilia to ensure that Hezbollah's presence in the region – including important operations within Brazilian territory – does not go unchecked.

◆ **Secondly**, more work needs to be done at the operational level to strengthen cooperation. A key obstacle to successful arrests and prosecutions is the pervasive corruption within local authorities, which Hezbollah routinely leverages to its own advantage. Identifying trustworthy interlocutors who can be allies in the battle against Hezbollah is critical to overcome such obstacles. These allies – members of the bureaucracy, the judicial branch, law enforcement and the intelligence community – do exist and need to be supported and strengthened through public and discreet U.S. action that includes training, joint ops with vetted units the U.S. trusts and can work with, as well as political cover from local embassies.

◆ **Third**, Treasury needs to revamp its sanctions against Hezbollah targets in the TBA, while the Justice Department needs to ensure ongoing investigations have the necessary political backing and resources to yield indictments. Despite repeated efforts by Hezbollah proxies **to deny** Hezbollah has any meaningful presence in the TBA, their presence has significantly grown over recent years, with increasingly bolder money laundering schemes and participation in drug trafficking. Treasury could start by designating the 14 individuals targeted by the FIU's asset freeze.

◆ **Fourth**, the Administration should **designate** Hezbollah as a Transnational Criminal Organization – a measure now long overdue.

◆ **Fifth**, Congress needs to complete the passage of the **Hezbollah International Finance Prevention Amendment Act**, a bill designed to increase pressure tools the executive branch can wield against not just Hezbollah financiers but also their facilitators.

The TBA remains a hub of Hezbollah's terror finance activities. U.S. action, especially now that regional governments may be more amenable to come along, is imperative.