



Former Police Officer of Puerto Rico Convicted for Role in Providing Security for Drug Transactions

(USDOJ: Justice News)

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Javier A. Diaz Castro, 30, was convicted on Dec. 12, 2011, of two counts of conspiracy to possess with intent to distribute more than five kilograms of cocaine, two counts of attempting to possess with the intent to distribute more than five kilograms of cocaine, and two counts of possession of a firearm in furtherance of a drug transaction.

Beirut Bank Seen as a Hub of Hezbollah's Financing

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The New York Times on December 14, 2011 released the following:

“By JO BECKER

BEIRUT, Lebanon — Last February, the Obama administration accused one of Lebanon's famously secretive banks of laundering money for an international cocaine ring with ties to the Shiite militant group Hezbollah.

Now, in the wake of the bank's exposure and arranged sale, its ledgers have been opened to reveal deeper secrets: a glimpse at the clandestine methods that Hezbollah — a terrorist organization in American eyes that has evolved into Lebanon's pre-eminent military and political power — uses to finance its operations. The books offer evidence of an intricate global money-laundering apparatus that, with the bank as its hub, appeared to let Hezbollah move huge sums of money into the legitimate financial system, despite sanctions aimed at cutting off its economic lifeblood.

At the same time, the investigation that led the United States to the bank, the Lebanese Canadian Bank, provides new insights into the murky sources of Hezbollah's money. While law enforcement agencies around the world have long believed that Hezbollah is a passive beneficiary of contributions from loyalists abroad involved in drug trafficking and a grab bag of other criminal enterprises, intelligence from several countries points to the direct involvement of high-level Hezbollah

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knowledge of the matter in the United States and Europe. The companies appeared to be serving as fronts for Hezbollah to move all sorts of dubious funds, on its own behalf or for others.

The system allowed Hezbollah to hide not only the sources of its wealth, but also its involvement in a range of business enterprises. One case involved perhaps the richest land deal in Lebanon's history, the \$240 million purchase late last year of more than 740 pristine acres overlooking the Mediterranean in the religiously diverse Chouf region.

officials in the South American cocaine trade.

One agent involved in the investigation compared Hezbollah to the Mafia, saying, “They operate like the Gambinos on steroids.”

On Tuesday, federal prosecutors in Virginia announced the indictment of the man at the center of the Lebanese Canadian Bank case, charging that he had trafficked drugs and laundered money not only for Colombian cartels, but also for the murderous Mexican gang Los Zetas.

The revelations about Hezbollah and the Lebanese Canadian Bank reflect the changing political and military dynamics of Lebanon and the Middle East. American intelligence analysts believe that for years Hezbollah received as much as \$200 million annually from its primary patron, Iran, along with additional aid from Syria. But that support has diminished, the analysts say, as Iran's economy buckles under international sanctions over its nuclear program and Syria's government battles rising popular unrest.

Yet, if anything, Hezbollah's financial needs have grown alongside its increasing legitimacy here, as it seeks to rebuild after its 2006 war with Israel and expand its portfolio of political and social service activities. The result, analysts believe, has been a deeper reliance on criminal enterprises — especially the South American cocaine trade — and on a mechanism to move its ill-gotten cash around the world.

“The ability of terror groups like Hezbollah to tap into the worldwide

The seller was a jet-set Christian jeweler, Robert Mouawad, whose clientele runs from Saudi royalty to Hollywood royalty. The buyer, at least on paper, was a Shiite diamond dealer, Nazem Said Ahmad.

In fact, according to people knowledgeable about Beirut real estate, the development corporation's major investor was a relative of a former Hezbollah commander, Ali Tajeddine. The investor, in turn, received money that flowed through the bank from companies

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criminal funding streams is the new post-9/11 challenge,” said Derek Maltz, the Drug Enforcement Administration official who oversaw the agency's investigation into the Lebanese Canadian Bank.

In that inquiry, American Treasury officials said senior bank managers had assisted a handful of account holders in running a scheme to wash drug money by mixing it with the proceeds of used cars bought in the United States and sold in Africa. A cut of the profits, officials said, went to Hezbollah, a link the organization disputes.

The officials have refused to disclose their evidence for that allegation. But the outlines of a broader laundering network, and the degree to which Hezbollah's business had come to suffuse the bank's operations, emerged in recent months as the bank's untainted assets were being sold, with American blessings, to a Beirut-based partner of the French banking giant Société Générale.

Of course, a money-laundering operation does not just come out and identify itself. But auditors brought in to scrub the books discovered nearly 200 accounts that were suspicious for their links to Hezbollah and their classic signs of money laundering.

In all, hundreds of millions of dollars a year sloshed through the accounts, held mainly by Shiite Muslim businessmen in the drug-smuggling nations of West Africa, many of them known Hezbollah supporters, trading in everything from rough-cut diamonds to cosmetics and frozen chicken, according to people with

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the United States has since designated as Hezbollah fronts, and from dealers implicated in the trade in so-called conflict diamonds and minerals, the Americans and Europeans with knowledge of the matter said. The Lebanese Canadian Bank provided a crucial loan.

And the deal fit a pattern, highly controversial in this religiously combustible land, in which entities tied to Hezbollah have been buying up militarily strategic pieces of property in largely Christian areas, helping the movement quietly fortify its geopolitical hegemony.

In a recent interview at his home in Taybeh, just north of the border with Israel — or as the signs here say, “Palestine” — Hezbollah’s chief political strategist and a member of Parliament, Ali Fayyad, denied that his organization was behind the Chouf purchase or other, similar land deals. He dismissed the American drug-trafficking allegations as politically motivated “propaganda,” adding, “We have no relationship to the Lebanese Canadian Bank.” The United States, he said, was simply persecuting innocent Shiite businessmen as a way “to punish us because we won our battle with Israel.”

For the United States, taking down the bank was part of a long-running strategy of deploying financial weapons to fight terrorism. This account of the serpentine, six-year inquiry and what has since been revealed is based on interviews with government, law enforcement and banking officials across three continents, as well as intelligence reports and police and corporate records.

As the case traveled up the administration’s chain of command beginning in the fall of 2010, some officials proposed leaving the Hezbollah link unsaid. They argued that simply blacklisting the bank would disrupt the network while insulating the United States from suspicions of playing politics, especially amid American alarm about ebbing influence in the Middle East. But the prevailing view was that the case offered what one official called “a great opportunity to dirty up Hezbollah” by pointing out the hypocrisy of the “Party of God” profiting from criminal activity.

Certainly the United States had ample cause to want to dirty up Hezbollah, Iran’s armed proxy and a persistent irritant to American interests in a chronically troubled region. (Just last week, in fact, Hezbollah’s long-running feud with the Central Intelligence Agency heated up when the organization broadcast what it said were the names of 10 American spies who had worked in recent years at the

embassy in Beirut.)

The time was ripe, too, for taking on Hezbollah — a moment that crystallized its ascent but also its vulnerability. Just weeks before, Hezbollah’s political wing had played Lebanese kingmaker, engineering the fall of Prime Minister Saad Hariri, an American ally, and installing its own choice in his stead. At the same time, though, a United Nations tribunal was preparing to indict Hezbollah members in a spectacular bombing that killed Mr. Hariri’s father, former Prime Minister Rafik Hariri, in 2005.

John O. Brennan, the president’s counterterrorism adviser, recalled the debate in a recent interview. “I thought that if Hezbollah was involved in the drug trade,” he said, “let’s make sure that gets out.”

A State Within a State

Founded three decades ago as a guerrilla force aimed at the Israeli occupation of southern Lebanon, Hezbollah has never before had such a prominent place in the country’s official politics. Yet much of its power, and its ability to operate with some impunity, derives from elsewhere: from its status as a state within the Lebanese state.

Its militia is considerably stronger than the national army. Its social service agencies perform many of the functions of government, and it controls the international airport and the smuggling routes along the Syrian border, as well as the budgets of the government agencies charged with policing them.

In an interview, the chief of Lebanese customs’ drug and money-laundering unit, Lt. Col. Joseph N. Skaf, described a Sisyphean task: Passengers are allowed to bring in unlimited amounts of cash without declaring it. He has only 12 officers to search for drugs, and scanners at the airport and seaport do not work. “My hands are tied,” he said.

That this sliver of a country would be a crossroads for all manner of trade owes much to the flourishing of a worldwide diaspora; more Lebanese live abroad than at home. Through criminal elements in these émigré communities, Hezbollah has gained a deepening foothold in the cocaine business, according to an assessment by the United Nations Office on Drugs and Crime described in a leaked 2009 State Department cable.

From a trafficking standpoint, the émigrés were in the right places at the right time. As demand increased in Europe and the Middle East, the cartels began plying new routes — from Colombia, Venezuela and the lawless frontier where Brazil, Paraguay and Argentina meet, to West African countries like Benin and Gambia. From there, drugs

moved north through Portugal or Spain, or east via Syria and Lebanon.

According to Lebanon’s drug enforcement chief, Col. Adel Mashmoushi, one path into the country was aboard a weekly Iranian-operated flight from Venezuela to Damascus and then over the border. Several American officials confirmed that, emphasizing that such an operation would be impossible without Hezbollah’s involvement.

In South America and in Europe, prosecutors began noticing Lebanese Shiite middlemen working for the cartels. But the strongest evidence of an expanding Hezbollah role in the drug trade, that it was not just the passive recipient of tainted money, comes from the two investigations that ultimately led to the Lebanese Canadian Bank.

The trail began with a man known as Taliban, overheard on Colombian wiretaps of a Medellín cartel, La Oficina de Envigado. Actually, he was a Lebanese transplant, Chekri Mahmoud Harb, and in June 2007, he met in Bogotá with an undercover agent for the Drug Enforcement Administration and sketched out his route.

Cocaine was shipped by sea to Port Aqaba, Jordan, then smuggled into Syria. After Mr. Harb bragged that he could deliver 950 kilos into Lebanon within hours, the undercover agent casually remarked that he must have Hezbollah connections. Mr. Harb smiled and nodded, the agent reported.

(Jordanian officials, after extensive surveillance, later told the D.E.A. that the Syrian leg of the shipment was coordinated by a Syrian intelligence officer assigned as a liaison to Hezbollah. From there, multiple sources reported, Hezbollah operatives charged a tax to guarantee shipments into Lebanon.)

Soon the cartel was giving the agent money to launder: \$20 million in all. But before Mr. Harb could reveal the entire scheme and identify his Hezbollah contacts, the operation broke down: The C.I.A., initially skeptical of a Hezbollah link, now wanted in on the case. On the eve of a planned meeting in Jordan, it forced the undercover agent to postpone. His quarry spooked. In the end, Mr. Harb was convicted on federal drug trafficking and money-laundering charges, but the window into the organization’s heart had slammed shut.

It was “like having a girl you love break up with you,” one agent said later, adding, “We lost everything.”

A New Target

Actually they had not. Before long, a new



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target emerged.

A call had come in to a wiretapped phone tied to Mr. Harb and the cartel. The caller had arranged for cocaine proceeds to be picked up at a Paris hotel and laundered back to Colombia. The meeting turned out to be a sting.

“He says, ‘I just lost a million euros in France,’ ” recalled one of the agents listening in. “The way he talked — no one loses a million euros and is so nonchalant about it. Usually, there are bodies in the street.”

Agents had known that there was a major money launderer whose phone sat in Lebanon. Now they had a name: Ayman Joumaa, formerly of Medellín, now owner of the Caesars Park Hotel in Beirut. He was a Sunni Muslim, but cellphones seized at the Paris hotel linked him to Shiites in Hezbollah strongholds in southern Lebanon, according to Interpol records.

He was also known to Israeli intelligence. Israeli intercepts showed him in contact with a member of Hezbollah’s “1,800 Unit,” alleged to coordinate attacks inside Israel. Mr. Joumaa’s contact, in turn, worked for a senior operative who the Israelis believed handled Hezbollah’s drug operations.

His name was Abu Abdallah, and he had popped up in the Harb wiretaps, too: At one point, as Mr. Harb was complaining about “the sons of whores I owe money to,” a relative from his hometown warned that the “people of Abu Abdallah, the people we do not dare have problems or fight with,” were looking for him, wanting money.

Eventually an American team dispatched to look into Mr. Joumaa’s activities uncovered the used-car operation. Cars bought in United States were sold in Africa, with cash proceeds flown into Beirut and deposited into three money-exchange houses, one owned by Mr. Joumaa’s family and another down the street from his hotel. The exchanges then deposited the money, the ostensible proceeds of a booming auto trade, into the Lebanese Canadian Bank, so named because it was once a subsidiary of the Royal Bank of Canada Middle East.

But the numbers did not add up. The car lots in the United States, many owned by Lebanese émigrés and one linked to a separate Hezbollah weapons-smuggling scheme, were not moving nearly enough merchandise to account for all that cash, American officials said. What was really going on, they concluded, was that European drug proceeds were being intermingled with the car-sale cash to make it appear legitimate.

Hezbollah received its cut either from the

exchange houses, or via the bank itself, according to the D.E.A. And the Treasury Department concluded that Iran also used the bank to avoid sanctions, with Hezbollah’s envoy to Tehran serving as go-between.

In Washington, after a long debate over when to act and what to make public, the administration decided to invoke a rarely used provision of the Patriot Act. Since the bank had been found to be of “primary money-laundering concern,” the Treasury Department could turn it into an international pariah by forbidding American financial institutions to deal with it. President Obama was briefed, and on Feb. 10, Treasury officials pulled the trigger.

As for Mr. Joumaa, the indictment announced Tuesday goes beyond the Europe-based operation outlined in the Lebanese Canadian Bank case. It charges him with coordinating shipments of Colombian cocaine to Los Zetas in Mexico for sale in the United States, and laundering the proceeds.

Whether he will ever face trial is an open question. The United States has no extradition treaty with Lebanon, and Mr. Joumaa’s whereabouts are unknown. He did not respond to several messages left at his hotel by The New York Times. Around Beirut, rumors abound.

Growing Skepticism

The Americans had identified only a handful of drug-tainted accounts at the Lebanese Canadian Bank. The search for further trouble began over the summer, after the Société Générale de Banque au Liban, or S.G.B.L., agreed to buy the bank’s assets.

As part of its own agreement with Treasury officials, Lebanon’s Central Bank set up a process to scrub the books. But compliance officers at S.G.B.L.’s French partner, Société Générale, were skeptical of the Central Bank’s choice of investigators. One of them, the local affiliate of the international auditing firm Deloitte, had presumably missed the drug-related accounts the first time around, when it served as the Lebanese Canadian Bank’s outside auditor.

And, according to people knowledgeable about Lebanese banking, the central bank’s on-the-ground representative had been recommended to that post by Hezbollah.

As an extra step, to reassure wary international banks, the chairman of S.G.B.L., Antoun Sehnaoui, commissioned a parallel audit, with the help of Société Générale’s chief money-laundering compliance officer. And to make sure that his bank did not run afoul of Treasury officials by inadvertently

taking on dirty assets, he also hired a consultant intimately familiar with the Patriot Act provision used to take the bank down: John Ashcroft, the former attorney general whose Justice Department wrote the law.

Identifying suspicious accounts is not a subjective business. Banks rely on internationally recognized standards and software that contains certain triggers.

For the assets of the Lebanese Canadian Bank, the process worked this way, according to the Americans and Europeans knowledgeable about the case:

Initially, the auditors looked only at records for the past year. As they began combing through thousands of accounts, they looked for customers with known links to Hezbollah. They also looked for telltale patterns: repeated deposits of vast amounts of cash, huge wire transfers broken into smaller transactions and transfers between companies in such wildly incongruous lines of business that they made sense only as fronts to camouflage the true origin of the funds.

Each type of red flag was assigned a point value. An account with 1 or 2 points on a scale to 10 was likely to survive. One with 8 or 9 cried out for further scrutiny. Ultimately, the auditors were left with nearly 200 accounts that appeared to add up to a giant money-laundering operation, with Hezbollah smack in the middle, according to American officials. Complex webs of transactions featured the same companies over and over again, most of them owned by Shiite businessmen, many known Hezbollah supporters. Some have since been identified as Hezbollah fronts.

At the center of many of these webs were companies trading in diamonds, which experts say are fast replacing more traditional money-laundering vehicles because they are easy to transport and are generally traded for cash. Large transactions leave no paper trail, and values can be altered through bogus transactions. A number of these dealers had been implicated in the buying of “conflict diamonds” and other minerals used to finance civil wars and human-rights abuses in Africa.

In some cases, money moved in amounts — tens of millions of dollars at a clip — that made no sense, given the business models and potential sales of the companies involved.

“It’s like these guys no one had ever heard of became the most successful multimillionaires overnight,” said one person with knowledge of the investigation. “It’s Hezbollah’s money.”

Mr. Sehnaoui closed the deal in



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September. He declined to discuss details, but said: “We bought certain assets of the Lebanese Canadian Bank, and only the clean ones. We did not take any even slightly questionable clients.”

Lawyers for Mr. Ashcroft’s firm said all the problematic accounts had been excised, even though it meant losing nearly \$30 million a year in interest and fees. “As current and potential problems have been uncovered, he has not hesitated to act,” Mr. Ashcroft said of his client.

From the Treasury Department’s perspective, the case is a victory, albeit an incremental one, in the battle against terrorism financing. Lebanon’s Central Bank showed that it was willing to shut down the Lebanese Canadian Bank and sell it to a “responsible owner,” said Daniel L. Glaser, assistant Treasury secretary for terrorism financing. An important avenue to Hezbollah has been blocked.

Still, Treasury officials have no illusions that their work here is done. From the beginning, the blacklisting was also intended as a wider warning to a banking industry that, with secrecy to rival the Swiss, forms the backbone of Lebanon’s economy: henceforth, other bankers did business with Hezbollah at their peril.

“What the Central Bank hasn’t fully demonstrated, and the jury is still out, is whether they will use this as a launching pad to ensure that these illicit actors aren’t migrating elsewhere,” Mr. Glaser said.

The signs are not terribly encouraging. The Central Bank governor, Riad Salameh, cut short an interview when asked about the aftermath of the American action, calling it an “old story.” As for those nearly 200 suspect accounts, Mr. Salameh would only say that he does not involve himself in such commercial questions.

Privately, he has played down the findings to the Treasury Department, attributing much of the suspicious activity to peculiarities in the way business is done in Africa. Those accounts he did deem problematic, he told the Americans, have been referred to Lebanon’s general prosecutor. But the prosecutor refused to comment, and his deputy, who handles money-laundering inquiries, said last week that he had received nothing.

In fact, as Treasury officials acknowledge, on Mr. Salameh’s watch, most of the accounts were simply transferred to several other Lebanese banks.”

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