

In Paraguay, Piracy Bleeds U.S. Profits, Aids Terrorists

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By Trish Regan and Andrew Fisher | 04 Oct 2007 | 09:48 AM ET

CIUDAD DEL ESTE, Paraguay - This grimy city is a black hole at the border of Brazil, Paraguay and Argentina — the Tri-Border region — where billions of dollars in pirated goods are smuggled and sold each year. The economic crimes are a major problem for U.S. companies. But even more troubling is what is being done with the profits.



By Trish Regan

Checking out the counterfeit sunglasses — knockoffs of almost any brand imaginable are available here.

The Tri-Border is the home of the largest illicit economy in the Western Hemisphere, and the specialty is financial crime. Counterfeiting, intellectual property fraud, trademark fraud, money laundering and smuggling add up to an estimated \$12 billion a year in illegal trade in Ciudad del Este.

Illegal knock-offs for almost every conceivable product can be found in every store on every street. It's been a part of Paraguay's troubled economic history for decades.

After World War II, the country offered refuge to Nazi war criminals. Dictator Alfredo Stroessner believed his land-locked country needed an illicit economy to survive, so he created Ciudad del Este. But there's an effort afoot to change that. Some major multi-national companies like **Motorola**, **Kodak**, **Canon** and **Nintendo** have hired investigator Mark McCabe to shut down the counterfeiters.

"Couldn't Do Anything"

"All the corporations felt that they couldn't do anything in the Tri-Border region. They couldn't take action because of corruption in the government," McCabe said. "We said, 'Just give us some time and a budget to do it, and we'll find a way to get it done.'"

His company, McCabe Associates, has investigators all over Latin America, tapping people from the FBI, CIA, DEA, U.S. Customs, the U.S. military and several prosecutors' offices. In the last



ten years, McCabe's investigations have led to the seizure of more than \$100 million worth of counterfeit goods.

His team recruits informants, gathers intelligence, and works with a special investigative team funded by the U.S. government to raid pirates.

The first company to send him into the Tri-Border was Motorola, with the goal of slowing the flow of counterfeit cell phone parts — parts like knock-off batteries that look like the real things, but can overheat and explode.

"They sell that for the full retail value and say it's a genuine Motorola product," McCabe said. "It's [looks] just the way the Motorola product looks."

Hundreds of Boxes

On a good day, McCabe's teams confiscate tens of thousands of dollars worth of pirated goods — hundreds of boxes brimming with everything from illegal software to counterfeit cell phone batteries, electronics, Barbies, illegal drugs.

Almost any product you can think of has an illegal knock-off available in this city. And every day, millions of these goods make their way across the border from Paraguay into the Brazilian and Argentinian marketplace.

Even with state officials watching, sneaking the counterfeits through customs is far from difficult. For example, a whopping 25,000 people a day cross just a single bridge into Brazil, making it easy for the local locals — who are expert at moving the illegal products — to smuggle even in broad daylight.

Even more troubling though, is the destination for much of the earnings from this illicit economy: terrorist financing. Some 25,000 Lebanese nationals live in the Tri-Border. American officials say Middle East terror groups like Hamas, Islamic Jihad and Hezbollah are receiving huge amounts of money from the region's illegal activities. So much that it has become a very important source of terrorist support. How important?

"It's critically important from the standpoint of consistency," said Dennis Lormel, an investigator with the Federal Bureau of Investigation. "The tri-border area is probably the most lucrative area for Hezbollah outside of the state sponsors."

After Sept. 11, Lormel was in charge of investigating terrorist financing for the FBI.

"We had agents specifically assigned who overlooked Hezbollah and they recognized very quickly that they needed to focus on the Tri-border area," Lormel said. "Certainly with the corruption in the area and all the demographics and logistics, the Tri-border area is a very attractive area to operate from."

Authorities say that from the Tri-Border, Hezbollah launched the terrorist attacks that destroyed the Israeli embassy and the Jewish Cultural Center in Argentina in the 1990s, killing 114 people.

The situation has drawn the attention of Manhattan District Attorney Robert Morgenthau, who says hundreds of millions of dollars coming out of the region is being laundered through New York banks.

"Huge Flow of Money"

"Between \$50 million to \$500 million goes to Hamas and Hezbollah," Morgenthau said. "On a quiet day, \$4 trillion goes through New York, so it's relatively easy to hide a million or a billion dollars when you have this huge flow of money."

Last year, the U.S. Treasury Department named nine individuals from the Tri-Border as key financial operatives for Hezbollah. *Business Nation* obtained intelligence documents showing bank records, wire transfers, and detailed financial links, as well as letters written by Hezbollah's leader, Hassan Nasrallah, thanking Lebanese in the region for their support.

"If that letter had been mailed to an individual in the United States and we got that letter, that individual would have been arrested as a terrorist operative or would've been charged with material support to terrorism," Lormel said.

In Paraguay, however, Hezbollah is not considered a terrorist organization, and there are no laws against donating to terror groups. As such, U.S. concerns go essentially unheeded, and crimes that threaten America's security and commerce continue to thrive.

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