

Opening Statement
Senator Susan M. Collins
Chairman, Homeland Security and Governmental Affairs
Committee
“Counterfeit Goods: Easy Cash for Criminals and Terrorists”
May 25, 2005

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During the last two years, this Committee has held three hearings to investigate terrorism financing. From the flow of money through certain Islamic charities in this country to terrorist organizations around the world to the role played by Saudi Arabia, described to the Committee as the “epicenter of terrorism financing,” we have learned much about this complex and murky subject.

Today, we explore another aspect of the shadowy world of terrorism financing. The theft of intellectual property rights through the counterfeiting and pirating of consumer goods is a huge and growing criminal enterprise. It is estimated that counterfeit merchandise accounts for between five to seven percent of all the goods moved in world trade. According to Interpol, this counterfeit

merchandise is worth approximately \$450 billion annually.

According to the U.S. Trade Representative, American businesses

lose as much as \$250 billion each year to counterfeiters. The U.S.

Bureau of Customs and Border Protection seized about \$138 million

in fake goods in 2004, compared with \$94 million in 2003. Compact

discs, computer software, sneakers, golf clubs, perfume, soft drinks,

baby food, electronics, auto parts -- name the product and someone's

selling a bogus or pirated version on a street corner in some

American city.

For those unfamiliar with the terminology, counterfeit goods are knock-offs or look-alikes of brand-name products, such as this counterfeit Louis Vuitton watch. Goods are referred to as “pirated” when criminals steal and sell the content of a legitimate product, such as the latest Star Wars movie, and copy it illegally, without the permission of the owner of the intellectual property. Both kinds of illegal goods are often referred to as “counterfeit.”

Combine counterfeiting's high profits with the uninformed

notion that the purchase of a knock-off designer handbag, a fake designer wristwatch, or a pirated DVD is a victimless crime, and it's no surprise that the trade in counterfeit goods is extremely lucrative. This criminal activity has damaging consequences for our economy and for honest businesses and their employees. Moreover, given the evidence that terrorists are engaging in counterfeiting to secure money to support their operations, the potential consequences are far more dire than economic damage.

The unclassified evidence linking terrorism and counterfeiting is compelling and spans several years and agencies. For example, in a 2002 advisory entitled, "Financing Terror: Profits from Counterfeit Goods Pay for Attacks," the U.S. Customs Service warned of an increasingly close connection between transnational crime and terrorism, with the profits from counterfeit and pirated goods the strongest link.

In 2003, the Secretary General of Interpol testified before Congress that intellectual property crime – the pirating of such

products as software, CDs, and DVDs – is becoming the preferred method of funding for a number of terrorist organizations. He cited direct and indirect connections between counterfeiting and Hezbollah, Chechen rebels, extremist groups in Kosovo, and al Qaeda, among others.

Also in 2003, and as this board shows, the Terrorist Financing Operations Section of the FBI provided a document to this Committee stating that the sale of counterfeit goods is among the ways in which Hezbollah finances its terrorist activities.

In its 2004 report, Patterns of Global Terrorism, the State Department wrote that the tri-border region of South America – Argentina, Brazil, and Paraguay – is a regional hub for Hezbollah and Hamas fundraising activities, including the manufacture and movement of pirated goods.

In a January 2005 white paper, the International Anti-Counterfeiting Coalition stated that there is ample evidence to confirm that terrorist organizations are exploiting America's

valuable intellectual property and profiting from the manufacture and sale of counterfeit and pirated goods.

In addition to the high profits, there is another reason terrorists have turned to this method of financing. The United States and our allies around the world have made significant progress in shutting off the flow of terrorist money through established financial mechanisms and institutions. These concerted efforts are making a difference.

But we know that the terrorists are nothing if not resourceful and determined. When we shut off one avenue, they will seek out another. This point was well made recently by Treasury Undersecretary Stuart Levey when he said: "We have indications that terrorist groups like al Qaeda and Hamas are feeling the pressure and are hurting for money. We are also seeing terrorist groups avoiding formal financing channels and instead resorting to riskier and more cumbersome financial conduits like bulk cash smuggling." One rich source of bulk cash is the sale of counterfeit

consumer products.

Finally, I would note that the focus to date by this Committee, our government, and our allies has been on high-level terrorist financing: for example, by multi-million-dollar charities and foundations, by Iran, and by entities linked to Saudi Arabia. That certainly is where a primary focus should be.

But we know that terrorism also is funded by street crime. There are many examples of this. Ahmed Ressam, the Millennium bomber, funded his activities by stealing tourists' suitcases in hotels and by credit card fraud. In testimony before this Committee last June, David Aufhauser, former General Counsel at the Department of the Treasury, noted that the Madrid train bombers were financed through criminal activity, including drug dealing.

We also know that it does not take a large sum of money to commit a devastating terrorist attack. After all, the organizing, planning, and training for 9/11 cost only an estimated \$500,000, a sum easily generated by criminal activities such as counterfeiting.

The purpose of this hearing is to focus much-needed attention on what appears to be a fertile source of financing for terrorists. It is my hope that this attention will lead consumers to reject these low-cost, street-corner bargains that can carry such an awful price. It is my expectation that this attention will lead to increased efforts by our government and our allies to close off this rich avenue of terrorist financing.