



# Hezbollah and the Counterfeit Goods Industry

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Hezbollah's system for financing terror includes criminal activities such as involvement in counterfeit goods. The organization has established an extensive infrastructure for counterfeiting materials in Latin America, Lebanon, the United States, Europe, and elsewhere, and deals in forged goods such as CDs, clothing, food, cigarettes, medicines, currency, and documents in an industry that has generated hundreds of millions of dollars in revenue for the organization over the years. This article examines the development of the Hezbollah counterfeit goods operations. Sketching a picture of the counterfeit goods business as one of Hezbollah's varied sources of financing, it heightens awareness of the involvement of terror organizations in the industry. The findings show that counterfeit goods are not Hezbollah's main source of income, but they illustrate important features of the organization, such as its goal of financial independence and its broad involvement in crime. The impact of the industry on the Israeli economy is insignificant, but it has the potential for increasing Hezbollah's capabilities to wage war on Israel.

*Keywords:* Hezbollah, terror, funding, Iran, Lebanon, crime, counterfeit goods, forgery, fake medicines

## Introduction

Terrorist activity requires considerable financial resources (Darshan-Leitner & Katz, 2020; Gendron, 2017; Shelley, 2014). It is funded in part by transfers of money from terror-supporting countries, donations from charitable

associations, exploitation of resources from failed states, and involvement in crime (Shay, 2020; Gendron, 2017; Shelley, 2014).

Almost any product, good, or document can be the subject of forgery processes, including CDs, cigarettes, fashion labels, medicines, currency, and various documents (Arena, 2006; Unifab, 2016; UNODC, 2019), and one of the criminal activities pursued by terrorist organizations is the production of counterfeit goods, forged cash, and faked documents. These are crimes relating to intellectual property where the terrorist organizations manufacture, copy, and sell fake or pirated products. The faking process requires the organization to invest considerable resources

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in the preparation of infrastructure by acquiring machinery, establishing factories, recruiting suitable human capital, and collaborating with crime organizations (Arena, 2006; EUIPO, 2020; Unifab, 2016).

Hezbollah, which is deeply entrenched in the social, political, and security establishment in Lebanon (Shay, 2020), is engaged in various fundraising activities. Iran is its main financial resource, providing hundreds of millions of dollars every year (U.S. Department of State, 2020), but the organization also operates independently to raise additional capital, whether legally or illegally (Ottolenghi, 2021). Beyond Tehran, Hezbollah's sources of income include donations from charity organizations, private donations, revenues from legitimate businesses, and from the activities of criminals and organized crime. Income from crime includes the drug trade, arms dealing, fraud, smuggling, and counterfeiting goods (Shay, 2020; Besenyő et al., 2022).

The counterfeit goods and forged cash industry run by Hezbollah is hardly mentioned in academic research; the legal authorities in many countries tend to focus on crimes with a more prominent social, judicial, and economic profile, such as the drug trade, and there is often a tendency in society to downplay the seriousness of intellectual property crimes such as forged goods, even when they are carried out by terrorist organizations (Darshan-Leitner & Katz, 2020; Levy, 2022; Unifab, 2016; EUIPO, 2020). Studies on Hezbollah's trade in counterfeit goods have revealed worrying findings. For example, Boaz Ganor and Miri Halperin Wernli (2013), who focused on Hezbollah's production of fake medicines, found that the income from the fake medicine trade amounted to tens and even hundreds of millions of dollars per annum. Researchers Nitsana Darshan-Leitner and Samuel Katz (2020) claim that Hezbollah has produced forged banknotes of very high quality for tens of millions of dollars. Nonetheless, research into Hezbollah's counterfeit goods industry

as a source of funding for the organization is still lacking.

Against this backdrop, this study examines the development of Hezbollah's trade in fake goods, an area that has not attracted much academic research. The article does not intend to develop a theoretical infrastructure on the subject of counterfeit goods, but rather to increase awareness about the involvement of terrorist organizations in forged materials. It shows that at this stage there is little international effort to combat this criminal activity, while strong international efforts are devoted to other types of crime involving Hezbollah, such as the drug trade.

The article opens with a description of the involvement of terror organizations in the counterfeit goods market. This section stresses that the engagement of terrorist organizations in crime, including fake goods, is not exceptional, and that it is actually just one source of funding. This is followed by a survey of Hezbollah's sources of income, showing how Iran has been and remains Hezbollah's main source of finance, although over the years the organization has developed other sources of funds, including apparently legitimate activities, as well as extensive involvement in crime. The third section focuses on a description of the Hezbollah counterfeit industry, and deals with the development of different types of fake goods, from brand-name cigarettes to CDs, medicine, and cash, and discusses Iranian involvement and the impact on Israel. It shows that Hezbollah's counterfeit goods business yields it substantial revenues, and illustrates the organization's ability to adapt rapidly in its search for alternative sources of funds.

The failure by the law enforcement agencies and security services in many countries to focus on Hezbollah's fake goods activities (while not necessarily ignoring the organization's involvement in crime in general) hinders the ability to gather data on the scope of the phenomenon. The article attempts to deal with

the methodological limitation by collecting data from primary sources, such as government reports in Israel, the United States, Europe, and international organizations such as the UN and the OECD that have focused on the involvement of terrorist organizations, among them Hezbollah, in various types of crime, including counterfeit goods. The sources review Hezbollah's counterfeit goods activity from the early 2000s to the start of 2023, in order to reveal as much as possible about the fake goods industry and show how it has changed over the years. The combination of sources allows the construction of a clearer picture of Hezbollah's involvement in the industry over the past two decades. In addition, this study uses traditional academic resources such as articles and the historical literature dealing with terrorist organizations' involvement in criminal activities such as counterfeit goods as a source of funding.

### **Terrorist Organizations and Counterfeit Goods**

As terrorist attacks require a great deal of finances, terrorist organizations must find and maintain regular sources of income for their activities. The organizations need access to financing to recruit people, supply their basic needs such as food, drink, and accommodations, and promise them protection. They must also buy weapons, set up infrastructures such as explosives workshops, collect intelligence, produce propaganda, and help the families of their fighters (Darshan-Leitner & Katz, 2020; Gendron, 2017; Shelley, 2014). The cost of a terrorist operation varies from organization to organization and according to the type of action, where some types of attack can cost a few hundred dollars (from recruitment to execution), while a more complex operation such as the September 11 attacks cost al-Qaeda almost half a million dollars (Lowe, 2006; The 9/11 Commission report, 2004). In the end, however, every terrorist action involves some degree of financial cost.

Terrorist organizations can obtain funding for their operations from a variety of sources, including funds from supporting countries, exploitation of precious resources of failed states, donations from charitable associations and private individuals, management of ostensibly legitimate businesses, and involvement in crime (Shay, 2020; Gendron, 2017; Shelley, 2014). Therefore, many countries and international organizations such as the UN that work actively to thwart terror sometimes monitor the organizations' sources of funding. For example, Article 2 of the 1999 International Convention for the Suppression of the Financing of Terrorism forbids all forms of terrorism funding, whether directly or indirectly, or in any way that money can be collected and transferred in full or in part, knowingly or unknowingly, for use in terrorist activities (United Nations, 1999). As a result of international monitoring of terrorism funding and the accompanying penalties, terrorist organizations turn to criminal activities to finance their activities (Shelley, 2014; UNODC, 2019).

Although there is a difference between the motives for terror—most attacks have political, religious, or ideological objectives—and the motives for crime, which are primarily financial, there is a partial overlap between terror and criminal activity, and there are even collaborations between organizations (Gendron, 2017; UNODC, 2019). The ways in which terror organizations can derive economic gain from crime are quite varied, and include arms dealing, drug trade, human trafficking, and trade of banned goods; smuggling; kidnapping; theft; fraud, including cyber fraud; money laundering; piracy; faking goods; and forging cash (Gendron, 2017).

Counterfeiting goods is defined by the World Trade Organization in the framework of intellectual property theft. Intellectual property falls under a legal right intended to protect intellectual activity in industry, science, and art, which includes protecting patents, trademarks, and copyright. Counterfeiting involves dealing

in “goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which therefore infringes the rights of the owner of the trademark in question under the law of the country of importation” (World Trade Organization, 1995, p. 342). However, counterfeit goods take many different forms, such as CDs, movies, books, fashion items, graphical images, patents, and others. It is also possible to fake certificates and documents, and forge money (banknotes and coins) (Unifab, 2016).

The OECD estimates that in 2019 the total extent of the global counterfeiting industry amounted to about \$464 billion (the latest available figure); about \$500 billion in 2017; \$509 billion in 2016; and over \$600 billion in 2014. While these figures show a downward trend in the trade in counterfeit goods, they are based only on goods seized by the customs authorities and therefore do not include goods not seized, or intangible goods such as computer software. These amounts represent 3.7 percent of global trade in 2014, and 2.5 percent in 2019 (OECD/EUIPO, 2019, 2021).

These official figures could well be significantly lower than the real extent of counterfeiting, largely because of the difficulty of identifying fake goods among the huge volumes of shipments of legitimate products (Shelley, 2014). Therefore, a crude estimate by the US Department of Commerce is that before the outbreak of the COVID-19 pandemic, global trade in fake and pirated goods was worth between \$1.7 and 4.5 trillion (U.S. Department of Commerce, 2020). International enforcement agencies stress that this is the biggest black market economy. It is therefore not surprising that terrorist organizations are part of the counterfeit industry, because of the huge potential for financial gain (UNODC, 2019).

Nevertheless, the involvement of terror organizations in the counterfeiting of goods is not self-evident, since it requires specific

infrastructures, such as factories and workshops, the recruitment of suitable professionals, or collaboration with criminal elements that already have the required means to fake goods and produce forgeries. Assuming that terrorist organizations prefer to channel their resources to terror attacks, the question is why they divert resources to set up the infrastructure for counterfeiting, which could expose them to police and security inspection. There are several reasons: first, the perception is that the severity of penalties for the crime is relatively mild when compared to crimes such as drug dealing and human trafficking (Unifab, 2016; EUIPO, 2020; Arena, 2006). For example, in Israel the penalty for counterfeiting ranges on average between three and seven years in prison, and the penalties in Europe are similar (Unifab, 2016). By contrast, the penalty for human trafficking is 16 years in prison (Penal Code, 1977), and the penalty for making and dealing in drugs can be up to 20 years in prison (Dangerous Drugs, 1973).

Second, this is an industry in which the profit remains high relative to the investment. Counterfeit goods have a potential international market significantly bigger than the market for other banned products such as drugs. There is a wide range of fake goods available, such as medicines, fashion items, CDs, books, certificates, documents, and money, while the drug market is relatively limited, aimed only at drug users. At the same time, the high price of drugs compensates for the “limited” market size in comparison with fake goods (Unifab, 2016; EUIPO, 2020), and this also explains why people are prepared to deal in drugs in spite of the severe penalties.

Third, the legal authorities in many countries tend to focus on crime with a prominent social, economic, and judicial profile, such as arms and drug dealings, and less on intellectual property crime (EUIPO, 2020; Lowe, 2006; Unifab, 2016). One reason why police and security forces tend to downplay the struggle against counterfeiting by terror organizations is the assumption that

over the years the drug trade has brought in billions of dollars for terrorist organizations such as Hezbollah (Darshan-Leitner & Katz, 2020), while other crimes such as counterfeit goods and forgery bring in profits estimated at “only” tens or hundreds of millions of dollars (Unifab, 2016). Apparently counterfeiting to this extent does not significantly affect Western economies (Levy, 2022).

Another challenge facing law enforcement in their struggle to tackle the problem is that the fake industries are very decentralized, and individual infrastructures are not developed to commercial levels, so that it is hard to identify their activity and their motives. The authorities often also categorize crime in different ways, such as “organized crime,” “terror,” “product fraud,” and “counterfeit goods,” and this has a direct effect on how the authorities regard it and on the extent of their powers to deal with it. In addition, it can be hard to identify the link between sales of counterfeit goods and terrorism finance. Investigations of counterfeiting tend to focus on the criminal aspects, and thus miss the opportunity to link it to terrorism (Spink, 2017).

Terrorist organizations that decide to deal with counterfeit goods do so in a variety of means, including direct involvement in the production, manufacture, distribution, and sale of the fake products (Shelley, 2014). The process is managed by the organization, and the proceeds are transferred directly to its terrorist operations. Another way involves the activity of criminals or supporters of the terrorist organization, who are themselves engaged in the counterfeit products business and send some of their profits to the organization (Shelley, 2014). When goods are faked by supporters of the organization, the usual motive is personal profit for the producers and not necessarily strong ties to the ideological motive. In other words, the counterfeiters are first of all trying to profit by crime, and they only divert their surplus profits to the organization (Sullivan et al, 2014; Spink, 2017). The money is usually transferred

to the terrorist organization indirectly, through charity associations, religious associations, and social services operated by the organization (Lowe, 2006). Faking of goods by terrorist organizations and their supporters can be identified on all continents—North America, Europe, Africa, Latin America, the Middle East, and parts of Asia (Shelley, 2014).

A widely-quoted estimate by international security elements is that almost all the older terrorist organizations have engaged at one time or another in the business of counterfeit goods—be it manufacture, transportation, or storage, or by obtaining financing from other criminals engaged in counterfeiting who support the aims of the terrorist group. Apart from Hezbollah, organizations that have been involved in the counterfeiting business include the Irish IRA, which inter alia faked veterinary medicines (Lowe, 2006); the Basque group ETA, which faked clothing and branded accessories; the Colombian FARC, which faked CDs; al-Qaeda, which inter alia faked medicines and branded clothing; Lashkar-e-Taiba in Pakistan, which faked cigarettes; Islamic State, which inter alia engaged in forging documents; and Hamas in Gaza, which faked food brands and clothing brands. All these organizations enjoyed huge profits from the counterfeit business, amounting to tens and even hundreds of millions of dollars every year (Unifab, 2016).

## Funding Hezbollah

While operating under Iranian sponsorship, Hezbollah is carefully incorporated into all areas of life in Lebanon. In the eyes of Iran, Hezbollah is the most successful model for exporting the Iranian Islamic Revolution, particularly to Shiite communities worldwide (Shay, 2020). However, the variety of such activities requires Hezbollah to rely on extensive funding to promote its objectives. Data from the US administration show that in recent years Hezbollah’s funding is estimated at over a billion dollars, of which at least \$700 million were grants from Iran—in addition to the weapons that Iran supplies to the



organization (U.S. Department of State, 2020; U.S. CRS, 2023), while another \$300 million were obtained through legal and illegal activities initiated by Hezbollah itself (Ottolenghi, 2021).

A more conservative approach from the RAND research institute, which inter alia studies security issues, stresses that the estimate of \$700 million from Iran may be exaggerated, but Iran is still the organization's main source of funding and weapons (Tabatabai & Clarke, 2019). The Foundation for Defense of Democracies (FDD) states that Iran's annual direct funding to Hezbollah is \$100-300 million, with the variations due to the sanctions imposed on Iran, fluctuations in the price of oil (which affect the Iranian economy), and Iran's involvement in other conflicts, such as in Syria and Yemen (Fanusie & Entz, 2017). In addition, due to international sanctions on Iran, there are reports that in the previous decade, Qatar helped to fund Hezbollah's political wing to the tune of a cumulative \$300 million,<sup>1</sup> while Russia also indirectly sent weapons to Hezbollah, as part of the aid given to the organization to shore up the Assad regime in Syria during the Syrian civil war (Shaw, 2019).

In spite of the international sanctions on Iran, the extent of Iranian aid to Hezbollah has increased over the years, from some \$100-200 million almost a decade ago, without considering the range of weapons that Iran supplies to the organization (Gendron, 2017; Cannon, 2015). But this longstanding aid from Iran is not sufficient for Hezbollah's needs, since it is engaged in building up and extending its military force, in addition to its involvement in community life in Lebanon. It has therefore decided to develop additional sources of finance, and to secure a regular income in case of future problems with the Iranian support for whatever reason (Berkowitz, 2007; Shaw, 2019). In other words, it appears that the organization wishes to establish a sustainable financing system so that it can achieve economic independence, particularly if the flow of aid from Iran stops.

Reports show that Hezbollah's additional sources of funding, apart from Iran and involvement in crime, cover a wide range of income streams: charity associations—generally located outside Lebanon; private donations—mainly from Shiite individuals and communities living in Africa and Latin America (Shay, 2020); legitimate businesses and links with a variety of commercial elements (Besenyő et al., 2022); and services that the organization provides to civil institutions in fields such as education, health, and welfare, some of which are provided free of charge and others for payment (Shay, 2020). In addition, some of the Lebanese government budget is seen as a source of income for Hezbollah, which participates in political activity and has representatives in the parliamentary system. The budgets allocated by the Lebanese government are ostensibly intended for the organization's civilian objectives, such as working in health and welfare and helping Shiite communities (Shay, 2020).

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Hezbollah's financial sources are designed to enable it to maintain a large fighting force to deploy against Israel, and to extend its activities inside Lebanon, as well as increase its aid to Shiite and other communities. For example, it has regular expenses for its military needs, such as salaries, aid to wounded fighters and their families, training, and other operational activities. Its civilian activities involve regular expenses for the upkeep of its institutions, such as its social welfare system, which is separate from Lebanon's failed state system, its network of schools, reconstruction of regions, and assistance for populations that suffered during clashes with Israel (Berkowitz, 2007).

However, its sources of funding expose the organization to two main weaknesses. First, the Iranian grant makes it heavily dependent on Tehran, so that any reduction in the finance from Iran will cut into its military and civilian operations (Berkowitz, 2007). This dependence could also act as a restraining influence on Hezbollah, as happened after the Second Lebanon War. At the end of the war, Iran criticized Hezbollah for embarking on a military escapade against Israel without consulting it, thus forfeiting part of the missile repository supplied by Iran specifically for use in the event of an Israeli attack on Iran (Zisser, 2011). The second weakness is that the additional sources of finance—and particularly finance based on illegal activity—exposes the organization to monitoring by the international system. The broader Hezbollah's array of activity and the more widely dispersed geographically, the greater the risk of exposure to international monitoring of its foreign funds (Berkowitz, 2007).

Over the years there have been international moves that challenged the organization and its supporters with respect to the transfer of money and equipment. For example, Hezbollah is recognized as a terrorist organization (including its organizational structure—both military and civilian) by dozens of countries, among them the United States, Australia, Britain, Germany, Holland, and Latin American countries such as Argentina, Colombia, and Paraguay, and even the Arab League (Intelligence and Terrorism Information Center, 2020b). In addition, UN Security Council Resolution 1701 (UNSCR, 2006) passed after the Second Lebanon War in 2006, prohibits the sale of weapons and associated equipment to any military force in Lebanon, except the Lebanese government (U.S. Department of State, 2020; Besenyő et al., 2022).

In 2018 the United States declared Hezbollah to be one of the world's five largest criminal organizations (U.S. Department of Justice, 2018). As a result, it is subject to international sanctions as a terrorist organization, while

it, its members, and its supporters are also subject to sanctions as a criminal organization (Intelligence and Terrorism Information Center, 2018). Hezbollah has thus become a criminal organization similar to the international drug cartels and other groups, due to its involvement in money laundering, the drug trade, fraud, and forgery. The US move has led to the establishment of a special task force with resources and powers to monitor and stop the activity of international criminal organizations, and to indict them not only for terrorism but also for criminal activity on behalf of Hezbollah and its supporters. The task force will also facilitate diplomatic cooperation between countries to track Hezbollah's financial activities, as part of a joint struggle against organized crime, and not only the war on terror (Intelligence and Terrorism Information Center, 2018).

In view of the international efforts to tackle Hezbollah's sources of funds, including crime, the question arises as to what portion of Hezbollah's funding is indeed based on crime. In 2016, the leader of Hezbollah claimed that all its funding came from Iran, in an attempt to ward off international accusations of involvement in crime. In fact, Iran provides only 70-80 percent of its finances each year, which varies due to the sanctions imposed on Iran, changes in oil prices, and Iran's involvement in other conflicts (Shaw, 2019).

Naturally, the data on Hezbollah funding is not consistent, since the organization tries to hide this information, but another report states that after the Drug Enforcement Administration (DEA) in the United States launched the Cassandra Project in 2008 to fight Hezbollah's drug trade, it was estimated that the organization's revenues from activity based on crime totaled over a billion dollars a year (Meyer, 2017). In spite of the lack of clarity regarding the exact figures, it is obvious that Hezbollah derives enormous income from international criminal activity, including the drug trade, weapons smuggling, and counterfeit goods (Shaw, 2019).

## Hezbollah Counterfeit Goods and Money

Hezbollah's counterfeit operations are carried out in a number of ways: directly by the organization, which establishes infrastructures to manufacture and market counterfeit goods (Ganor & Halperin Wernli, 2013); through countries that support Hezbollah, such as Iran, which sends the organization counterfeit products and forged money that it then distributes and sells (Besenyő et al., 2022); through individual supporters who raise money from criminal activities and send the organization some of their profits (Shelley, 2014); and through criminal organizations and individuals in several countries, such as China, Argentina, Canada, and Brazil, which are engaged in counterfeiting goods and forging money and documents, and knowingly or unknowingly collaborate with Hezbollah or its activists (Levitt, 2016).

Hezbollah's forgery industry is an integral part of the international criminal network operated by the organization. The network, involved in numerous illegal activities, including the drug trade, smuggling, money laundering, counterfeit goods, and of course forgery, spans the globe, but is concentrated in areas such as Latin America, Europe, and Africa, where most forgery takes place (Levitt, 2017).

The organization's principal center for forgery is in Ciudad Del Este in southeast Paraguay, at the hub of the triangle where the borders of Argentina, Brazil, and Paraguay meet. This is one of the world's most prominent crime centers, where among other crimes, large quantities of goods are faked, forged, and smuggled. The three countries define the triangle as a free trade area, and it is considered the most important center of financing for Islamic terror outside the Middle East (Ottolenghi, 2021; RAND, 2009; Shelley, 2014).

### *Cigarettes, Tax Stamps, and CDs*

Early evidence of Hezbollah's involvement in counterfeit goods and money was gathered

in the mid-1990s, when it was engaged in forging tax stamps for cigarettes and credit cards in the United States. During Operation Smokescreen, run by the US Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), the FBI, and other authorities in 2002, it was revealed that Hezbollah operatives in North Carolina had been busy since the 1990s forging credit cards, checks, and Social Security cards for fake identities, as well as cigarettes and tax stamps on cigarette packs (ATF, 2016). The scope of the forgeries was estimated at over \$8 million (Unifab, 2016).

In fact, the production of cigarettes with forged tax stamps on the package was considered one of Hezbollah's first large-scale counterfeit endeavors. Counterfeit cigarette factories operated by Hezbollah were found in the United States and in the Brazil/ Argentina/ Paraguay triangle. In the early 2000s, one factory in the US is estimated to have made profits of half a million dollars each week from thousands of cartons of cigarettes (Belli et al., 2015). The business did not all take place under one roof, and there is evidence of other factories in North Carolina, Detroit, Los Angeles, and elsewhere, but the forged tax stamps on the packs were made in Paraguay and Brazil, and the cigarettes with the tax stamps were then smuggled to markets worldwide (Levitt, 2016). The US legal authorities estimate that in the years 1996-2004, the Hezbollah cigarette counterfeiters in the United States generated over \$30 million in revenues, which were transferred to the organization's terror activities (Sullivan et al., 2014).

Repeated exposure of fake cigarette factories and warehouses in the United States by the ATF led to collaboration between authorities in the US and Latin America, and above all in the triangle mentioned above, and revealed Hezbollah's extensive network of faking and smuggling in the years 2005-2009. Apart from cigarettes and tax stamps, the organization forged documents such as passports and ID cards, and also produced fake medicines (Levitt,



2016). Sometimes the networks worked on a number of unrelated products at the same time, including hosiery, sports clothing from international brands, toilet paper, and even Similac baby formula (Belli et al., 2015; Levitt, 2016; U.S. House of Representatives, 2014).

Sometimes Hezbollah opens stores and stalls solely for the purpose of selling its own or an agent's counterfeit products. Stores of this sort selling sports clothes, CDs, and other products have been found in Los Angeles and in Ciudad del Este. They appear to be legitimate stores, but raids by the local police and tax authorities exposed their true character. The raids generally discovered counterfeit products, as well as other illegal equipment such as thousands of undeclared dollars and weapons, along with Hezbollah symbols and flags (Levitt, 2016; Shelley, 2014).

In the early 2000s, Hezbollah identified that the CD market (DVDs, computer games, software, and audio CDs) was flourishing, and so the organization quickly entered this industry. CDs are faked by Hezbollah supporters from a store in Ciudad del Este, and from there they are smuggled and sold all over the world (Shelley, 2014). The phony CDs are often produced in collaboration with criminal gangs from China, who send them to Ciudad del Este for smuggling to other countries in order to avoid import taxes. They are sold all over the world by a network of Hezbollah supporters and activists from the Middle East (Unifab, 2016).

One of the most prominent CD counterfeiters, Assad Ahmed Birkat, even donated some \$3.5 million of his profits to Hezbollah, and received a certificate of appreciation from the organization's leader, Hassan Nasrallah (RAND, 2009). Birkat's criminal activities include counterfeiting, extortion, drug dealing, money laundering, arms dealing, and document forgery, from which Hezbollah received \$15-150 million each year. Birkat has been arrested a number of times by the authorities in Brazil and Paraguay; his latest arrest was in 2018, when his forgery infrastructure was exposed by the

local authorities (Intelligence and Terrorism Information Center, 2019). Government agencies in the United States estimate that the counterfeiting activity in Ciudad del Este alone has brought Hezbollah revenues of some \$20 million each year since the start of the millennium (RAND, 2009). When the profits from fake CDs declined due to technological changes, Hezbollah and its supporters moved to other illegal business initiatives, such as faking medicines (Belli et al., 2015).

### *Phony Medicines*

Sham medicines, whether made by the organization itself or smuggled from other counterfeiters, are a prominent feature of Hezbollah's counterfeiting industry. Among the most common faked medicines were Viagra and similar drugs (Levitt, 2016). The fakes are produced in countries like China and in the United States, where in 2006, 19 people were arrested on suspicion of distributing fake Viagra pills. These sales brought Hezbollah revenues of about half a million dollars per month (Unifab, 2016). Moreover, because of the need to rebuild Lebanon and Hezbollah after the Second Lebanon War, the organization decided, with Iran's blessing, to fake medicines as a source of additional income (Ganor & Halperin Wernli, 2013).

Experts in crime and terrorism believe that terrorist organizations consider faking drugs to be fairly straightforward, and some 60 percent of terrorist groups worldwide are involved in the production and distribution of fake medicines (Ganor & Halperin Wernli, 2013). This is because the process of making existing (generic) medicines is fast and easy, since it involves none of the research and development costs required for new medicines. The processes of faking and copying medicines do not comply with the high standards followed by large pharma companies, but the potential global market is very profitable. Hezbollah has established the basic means to make the medicines, by setting up factories and acquiring the raw materials.

Thus hundreds of thousands of various kinds of fake pills are produced every day in Lebanon and marketed all over the Middle East, generating vast profits amounting to hundreds of millions of dollars over the years (Cannon, 2015; Ganor & Halperin Wernli, 2013).

Hezbollah not only manufactures fake medicines, but also markets fakes made by others. Companies in Lebanon such as City Pharm, New Allpharma, and International Pharma Group that had contacts with Hezbollah imported fake medicines from Asia and transferred them to Europe, where they were repackaged and stamped as if made in Europe. Hezbollah's trade in fake medicines, including pills for sexual dysfunction, stimulants, cold remedies, and other common medicines has been identified in the United States, Canada, and Africa. The main production facilities include sites in China and Lebanon (Ganor & Halperin Wernli, 2013). In many cases the fakes were sold by official pharmacies, who offered them at lower prices. The pharmacists knew they were buying the cheap pills from local counterfeiters, or from China or through brokers in the United States and Europe, who operated secretly under the patronage of Hezbollah. The fake pills sometimes damaged the health of people who took them (Shelley, 2014; Williams, 2014).

In spite of the risks of fake medicines, sales in Lebanon enabled Hezbollah to reinforce its status in the country during the severe economic crisis that began in 2020. The people who were involved in faking medicines are currently engaged in supplying and selling them in Lebanon. The Lebanese company City Pharma, whose name was previously linked to the manufacture and marketing of fake medicines, helps in the sale and distribution of essential medicines in Lebanon. Hezbollah can thus respond to the shortage of medicines in the country during the economic crisis (Intelligence and Terrorism Information Center, 2020a, 2021).

It is not only shaky governance in Lebanon (which was exacerbated by the economic crisis)

that enables Hezbollah to set up counterfeiting operations in its territory. The fact that Lebanon is not a member of the World Trade Organization also lessens its commitment to maintain standards of protection for intellectual property rights and prevent faking, so Lebanon does not monitor or report seizures of fake products in the country. The Lebanese Ministry of Economy and Trade recently published a new draft law intended to improve the existing protection of copyright law dating from 1999, but it is still waiting for approval by the parliament and cabinet in Lebanon (U.S. Department of State, 2022).

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### ***Hezbollah-Iran Collaboration on Counterfeit Cash and Medicines***

Iran's involvement in Hezbollah's counterfeit industry includes the provision of religious-based support, to justify and approve the business and the actual production of fake products (Ganor & Halperin Wernli, 2013). Hezbollah's economic activity is combined with serious crime, which creates moral dilemmas since religious practice forbids crime, particularly crimes that could endanger the lives of people who are not part of the enemy. Therefore, following the establishment of Hezbollah in the 1980s, Iranian religious leaders looked for religious rulings (*fatwas*) to justify the engagement in "impure" and criminal activity such as drug dealing (Levitt, 2012). For example, one *fatwa* states that "We are making drugs for Satan—America and the Jews. If we can't kill them with rifles, then we will kill them with drugs" (Levitt, 2012, p. 35). This religious ruling justifies drug dealing in order to weaken the enemy.

The faking of products such as medicines also created an ideological-religious dilemma

requiring a ruling. Fake medicines are distributed to markets and sold to the enemy, but they are marketed to Lebanese residents too, including children, so the trade raised a moral and religious dilemma. Iranian Supreme Leader Ali Khamenei therefore issued a *fatwa* approving the continuation of the criminal activity because it was a source of funds for Hezbollah (Ganor & Halperin Wernli, 2013).

As well as providing religious justification for crimes, Iran helps Hezbollah to counterfeit money, while assisting with attacks and the transfer of weapons to Hezbollah. Iran is involved in counterfeiting various banknotes and coins, with the emphasis on US dollars, and sending them to Hezbollah (Ottolenghi, 2018). Iranian involvement in forging American (and other) cash began back in the 1990s; the US even called the Iranian products “superdollars.” They are printed in a government-run printshop, which has the technological and technical resources to acquire suitable paper and maintain complex printing machines. The high quality fake notes printed in Iran were transferred to international markets, criminal organizations, and various terror groups—principally Hezbollah (Intelligence and Terrorism Information Center, 2003; Wege, 2010).

Together with Iran, Hezbollah also engages in forgery, with the emphasis on the currencies of the United States, Kuwait, Saudi Arabia, and the European Union. The forgery is done with Iranian help in facilities around Baalbek in Lebanon, which operate 18-20 hours a day to maximize production for fast distribution (FATF-OECD, 2013; Levitt, 2013a). Baalbek is considered the center of Hezbollah’s forgery industry in Lebanon (because of its large Shiite population and the extensive drug dealing, which began during the Civil War in the 1970s). The forged cash from Iran was formerly moved to Lebanon, and from there to international distribution. Later Baalbek became the focus for forged superdollars, when Iran sent Hezbollah suitable equipment (Wege, 2010). The estimate is that at the beginning of the 2000s, there were

at least 15 printshops in Baalbek producing forged banknotes (Intelligence and Terrorism Information Center, 2003).

Israeli intelligence agencies estimated that Hezbollah in Lebanon forged no less than \$50 million in the first decade of the millennium. This is the most popular hard currency in the world and can be used for almost any trade deal worldwide (Darshan-Leitner & Katz, 2020); another figure claimed forgery of \$100 million. Some of the forged banknotes were closely examined by police laboratories in Israel and found to be very difficult to identify. Only the authorities in the United States managed to identify them as extremely high quality forgeries, made in collaboration by Hezbollah, Iran, and North Korea (Levy, 2022).

Hezbollah’s knowledge of forged banknotes, learned from Iran, helped the organization to forge complex documents such as passports and ID cards. These forged documents not only helped Hezbollah activists, but were also “exported” to other countries, including Russia, Ukraine, Cyprus, and countries in the Middle East and Latin America. Attempts were likewise made to flood the Israeli market with large quantities of forged dollars from Lebanon, but the Israeli security services and police forces exposed the activity (Intelligence and Terrorism Information Center, 2003). Hezbollah has sent hundreds of thousands of forged dollars to Palestinian terrorist organizations, but several times, in repeated raids on centers of Palestinian terror, the Israeli security forces have located the forgeries and confiscated them (Darshan-Leitner & Katz, 2020).

Over the past decade, forged dollars sent from Hezbollah or made by them (usually \$100 notes) have been used to purchase digital coins on several crypto markets such as bitcoin and others, and mainly on the Darknet. The forged dollars were examined by various government agencies, which found them to be of very high quality, such that automated machines were unable to identify them as forgeries (Besenyő et al., 2022). The fact that forged notes are now part

of the contemporary crypto currency system and of the Darknet is evidence of their extended impact, since the notes can be found in markets long after their printing and distribution, and can be used to purchase digital currency, making them more legitimate.

Hezbollah tends not to distribute their forged bills of \$100 and €200 within Lebanon, using the “moral-religious-ideological” excuse that this is “blood money” (illegally and immorally obtained money), forged in Iran or stolen by Hezbollah activists worldwide, and smuggled from Iran in various ways through Iraq, Turkey, and Syria and then to Lebanon and the terrorist organization. They prefer to use the forged notes to flood international markets and thus damage foreign traders, rather than inject them in the Lebanese market. Forged or stolen notes are sometimes sold to criminals at a price of 40-60 cents per dollar, from where they are used in a variety of criminal transactions in local and international markets (Levitt, 2013a).

Further involvement of Iran in the Hezbollah counterfeit industry came when the medicine facilities were set up in Lebanon. After the Second Lebanon War, Iran sent the first machines to Hezbollah to make fake Captagon tablets. These tablets contain stimulants such as fenethylline from the amphetamine family, which was previously manufactured legitimately to treat attention deficit hyperactivity disorder (ADHD) and sold under the brand name Captagon. The Hezbollah tablets contained more easily manufactured stimulants, such as caffeine and other chemicals. Hezbollah's profits from the sale of these tablets, in the hundreds of millions of dollars, allowed Iran to save on the aid it was giving Hezbollah and Lebanon, thus lending Hezbollah greater flexibility and economic autonomy (Ganor & Halperin Wernli, 2013).

Hezbollah's Captagon industry is currently operated in partnership with Lebanese drug baron Hassan Muhammad Dekko, who has been arrested several times. Dekko, known as “the Captagon King,” has close ties with

Hezbollah and enjoys its protection. The Captagon is mainly produced in Syria, but is sent to Lebanon and other destinations with an export value estimated at \$25-30 billion, to pay for the rebuilding of war-damaged Syria and to serve as a source of income for Hezbollah. The cost of producing a Captagon tablet is about 3 cents, but the sale price can reach \$1-2 in Lebanon, and up to \$25 in Saudi Arabia. At the end of 2021, about five million tablets smuggled from Lebanon to Saudi Arabia with agricultural produce were seized; a few months later the Saudis imposed restrictions on all agricultural imports from Lebanon. This drug is distributed all over the Middle East, beyond Saudi Arabia (Valensi & Mizrachi, 2023).

Hezbollah has also tried to smuggle fake Captagon tablets into Israel as a form of Ecstasy. In 2015 the Israeli Customs Administration exposed such an attempt at the Allenby border crossing, when officials found a suspect with several hundred Captagon pills in a cigarette pack, apparently made by Hezbollah (Israel Tax Authority, 2015). It is possible that this was an initial trial to test the potential for smuggling larger quantities of Captagon across the land border. Indeed, Hezbollah is constantly trying to smuggle various kinds of drugs into Israel, with the aim of weakening or undermining Israeli society, and these attempts involve not only fake pills like Captagon, but also the production of other original drugs (Israel Security Agency, 2014). So far there has been no large-scale attempt to smuggle Captagon into Israel from Lebanon or Syria, largely due to the presence of the IDF on the border between the countries (Valensi & Mizrachi, 2023).

## Impact on Israel

The legal authorities in Israel such as the Police and the Customs Administration, as well as government ministries such as the Treasury and the Ministry of Justice, claim to have no information about the penetration of Hezbollah counterfeit goods into Israel, and there is no clearly recognized impact on the

local economy.<sup>2</sup> The lack of data on this subject, however, is not proof that it does not exist. Nonetheless, available data based on public sources of information identified by this study have found no significant effect on the Israeli economy due to Hezbollah's counterfeit goods.

The important challenge for Israel is Hezbollah's ability to achieve the funds to increase its military power and execute terror attacks (Darshan-Leitner & Katz, 2020; Levy, 2020). The enormous amounts of cash obtained by the organization, both from Iran and by its own efforts, enable it to continue its battle against Israel while also giving it the ability to repair any damage it suffers in a war with Israel, as happened after the Second Lebanon War. In this way it makes it easier for Hezbollah to decide whether to embark on another war against Israel (Paskin, 2015).

A further dilemma for Israel: the more support Hezbollah receives from Iran in the form of money and weapons, the greater Iran's influence on the organization and Lebanon as a whole. Over time the organization will serve Iranian interests rather than Lebanese interests. While Lebanese interests could seek to restrict Hezbollah's warmongering and criminal activities, with the aim of reinforcing the country's stability, Iran's interests in fact lie in accumulating power and deterrence with respect to Israel, and making use of Hezbollah as the need arises (Shay, 2020). There is somewhat of a benefit here in that a Hezbollah attack on Israel does not currently serve Iranian interests (Zisser, 2011).

On the other hand, the more Iran tries to maintain its support for Hezbollah, the more vulnerable the organization becomes in terms of financial stability. International sanctions imposed on Iran limit its ability to allocate significant resources to Hezbollah. This shows why the organization is always looking for additional sources of funds—whether legal or illegal—and has developed them over the years in order to achieve financial independence (Dostri, 2020; Shaw, 2019). Hezbollah's search

for financial independence shows that it wants to maintain its military capabilities against Israel as well as its social and political activity in Lebanon, while hinting at its doubts over the Iranian Islamic regime's ability to hold onto power in the long term. That explains why Hezbollah's criminal activity is diverse and adapts to changes on the ground, and why it sees economic independence as vital to its continued existence (Shaw, 2019).

Yet in recent years as more and more countries have defined Hezbollah, with all its branches, as a terrorist organization, so the struggle against its financial independence is also widening. Hezbollah assets outside Lebanon continue to be exposed and frozen, thus weakening the organization and just at the worst time, when Lebanon finds itself in a deep economic crisis. For Israel this is in fact an opportunity to expose Hezbollah's criminal activity worldwide, thus persuading more and more countries to cease distinguishing between its political wing and its military wing, and to define all its activities as contributing to terrorism. Such a move would put greater international pressure on Hezbollah, and weaken it further (Dostri, 2020).

Indeed, this process is gradually occurring. For example, since the end of the 1990s, some 128 United States federal criminal files have been opened against Hezbollah supporters. Of these cases, 87 percent contain accusations relating to financing Hezbollah with the proceeds of crime and in other ways, and only 13 percent deal with accusations of engaging in military activity. This shows that most Hezbollah supporters in the United States are engaged in raising funds for the organization, in collaboration with existing criminal networks (Congressional Research Service, 2023).

The struggle against fake medicines such as Captagon also leads to international collaboration. In 2022 the United States passed the Captagon Act, whereby the US must develop a strategy for interfering with the drug's manufacture and distribution. The



law also enables the various arms of the US administration to work together and with other countries. The United States is currently formulating a strategy for disrupting Hezbollah's drug industry in Syria, and in the course of 2023 will incorporate cooperation with other countries in the Middle East (Humud, 2023).

In 2020 Germany defined Hezbollah entirely as a terrorist organization, mainly because of the criminal activities of its supporters and even its official representatives in Germany. The most common of these activities are drug trafficking and money laundering, but other criminal activities include the dissemination of antisemitic propaganda against Israel and recruitment of new operatives (Dostri, 2020). Germany was not the only country that took this step, and countries such as Estonia, Slovenia, Latvia, Kosovo, and others have ceased to distinguish between Hezbollah's military and political wings. This is due to these countries' increasing cooperation with Israel, the United States, and Britain, which have exposed Hezbollah's military and criminal activities on the continent (U.S. Department of State, 2021).

## Conclusions

Hezbollah is involved in criminal enterprises to fund its general activity. These include dealing in drugs and weapons, smuggling, fraud, and counterfeiting goods. Over the years crime has brought the organization billions of dollars, in addition to the funding it receives from Iran. Fake goods have provided Hezbollah with dozens if not hundreds of millions of dollars each year, and that is just one branch out of a whole network of criminal operations run by the organization.

However, the counterfeit industry is considered less profitable than other areas of crime such as drug dealing, which has brought the organization billions of dollars over the years. Nevertheless, this branch should not be discounted, because fake goods are another significant source of income that Hezbollah can use to reduce its financial dependence on

Iran. Hezbollah's aim is to develop sustainable business activities. If Iran is unable to continue providing Hezbollah with large sums of money, the organization will still have the funds to engage in terrorism as well as its civilian activities, although on a smaller scale. Above all, Hezbollah's involvement in the counterfeit goods business symbolizes its ability to adapt to frequent changes, integrate business initiatives into its activities, and engage in crime in order to diversify its sources of funds.

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**Although Hezbollah manages most of the counterfeiting business itself, it appears that it also needs to collaborate with other countries and criminal organizations. Above all it is possible to identify Iranian involvement in this activity.**

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Hezbollah has faked and continues to fake a range of goods, including cigarettes, CDs, clothing, medicine, money, documents, and more. It conducts this business all over the world, with the emphasis on defined areas in Latin America and Lebanon. For this purpose, it has established sophisticated facilities with special machinery, professional human resource management, procurement of suitable raw materials, and management of smuggling and distribution routes. All this shows the importance of this well-run counterfeiting industry to Hezbollah.

Although Hezbollah manages most of the counterfeiting business itself, it appears that it also needs to collaborate with other countries and criminal organizations. Above all it is possible to identify Iranian involvement in this activity, including religious, material, and professional support, which has enabled Hezbollah to improve its faking and forging capabilities significantly. However, in addition to the collaboration with Iran, it is possible to identify Hezbollah's cooperation with international criminal elements in the Far East, Europe, and the United States. By cooperating with these elements, Hezbollah can

improve its ability to fake goods and distribute them internationally. On the other hand, this exposes the organization to inspection by local authorities in other countries and by international agencies, thus helping the fight against Hezbollah's counterfeiting activities.

Yet in spite of the potential for global collaboration against Hezbollah's criminal activities, the law enforcement and security authorities in many countries tend to direct more of their attention to the fight against other crimes that are perceived as more serious in social, legal, and economic terms, such as the trade in drugs and weapons. For that reason, it appears that the struggle against the Hezbollah counterfeiting industry is not sufficiently outlined and monitored by the authorities. Of course, the US decision in 2018 to define Hezbollah as one of the world's five leading criminal organizations, thus facilitating the establishment of a special task force to combat the organization, is significant. However, this process happened long after Hezbollah had already made hundreds of millions of dollars from fake goods. Moreover, the US decision to tackle the Captagon business of Hezbollah and Syria arose from the fight against making and dealing in illegal drugs, rather than the fight against fake medicines.

Moreover, the decision by a number of European countries to cancel the distinction between Hezbollah's political and military wings was due to the organization's other activities, such as drug dealing, recruitment of activists, and military activity on their territory, while they largely ignored the fact that the organization was using Europe as a platform for its counterfeiting industry—forged banknotes (euros) and fake medicines.

While the sale of fake goods helps finance terrorist organizations, regarding damage to Israel, Hezbollah's counterfeit industry apparently has little effect on the Israel economy. Nevertheless, revenues from these activities help to build Hezbollah's military strength, which could be used against Israel at

some time. On the one hand, Israel has managed to identify fake money and medicines that were smuggled into Israel or to the Palestinians by Hezbollah, and this limited any economic and social damage. On the other hand, as the organization accumulates capital and maintains a steady income stream estimated in the hundreds of millions of dollars, it can build up its military strength, which could eventually strike at citizens and infrastructures in Israel. Therefore, there must be an uncompromising international campaign against Hezbollah's industry of counterfeit goods. It is essential to increase cooperation between the law enforcement agencies of various countries and international organizations, and to stress that marketing counterfeit goods is no less dangerous than other types of crime.

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## Notes

- 1 Qatar's involvement in funding terrorist organizations is not new, and Qatar is considered an ally of Iran. Therefore, Arab states such as Saudi Arabia, Egypt, the UAE, Bahrain, and others announced in 2017 that they were severing diplomatic relations with Qatar and imposing a boycott until it stopped supporting terror, the Muslim Brotherhood, and Hezbollah, and distanced itself from Iran and Turkey. Qatar refused these demands, but the boycott ended in 2021 through a compromise with the Arab states (most of the agreement remains confidential) (Houri & Reuters, 2021).
- 2 This is based on a question I posed in December 2022 to various government offices such as the Prime Minister's Office, which is in charge of intelligence organizations in Israel; the Treasury; the Police; Customs Administration; and the Justice Ministry, in accordance with the 1988 law on the right to information. The purpose was to check whether counterfeit goods suspected to be produced by Hezbollah were seized in Israel from 2000 onward. The answer I received was that in general they have no data or other information on Hezbollah counterfeit goods seized or identified in Israel.