

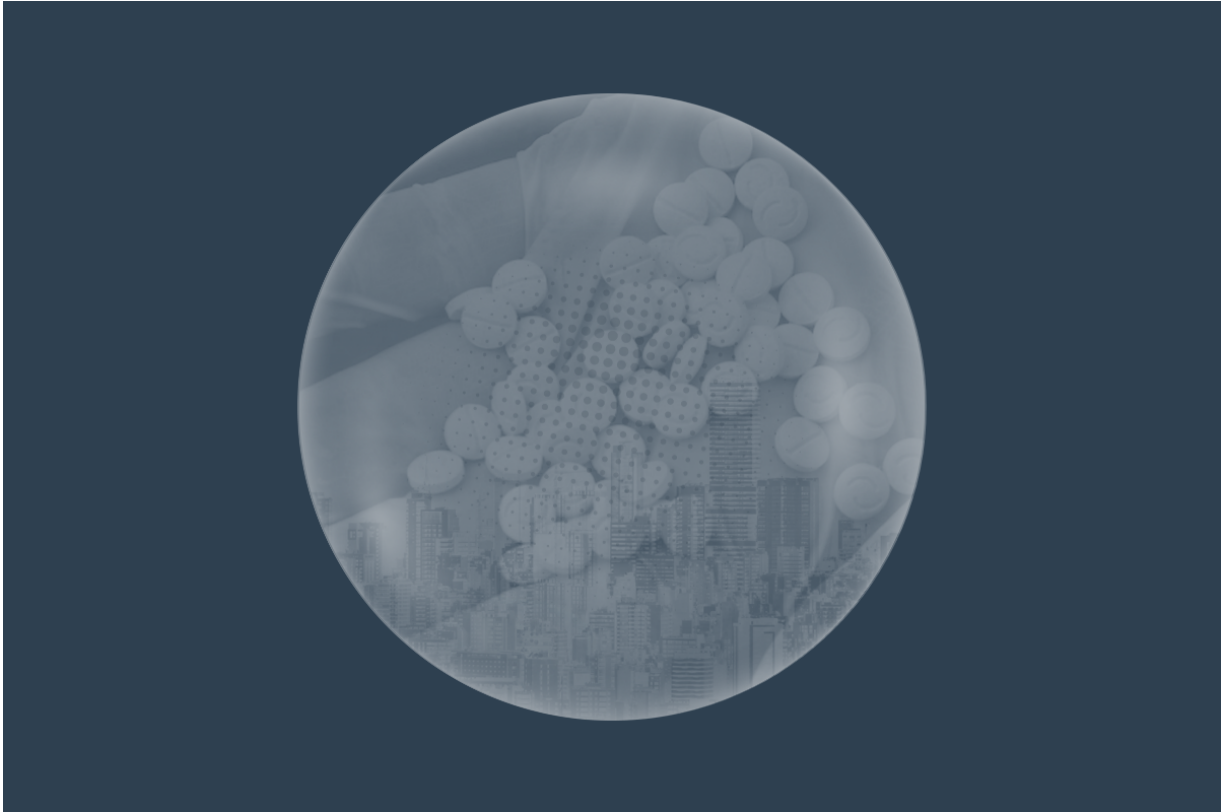


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Captagon: The Beirut-Latakia Shadow Economy

On the illicit trade of Captagon between Lebanon and Syria

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Between the ports of Beirut and Latakia, an underground economy has spread its roots, generating over ten billion dollars annually. This benefits primarily the Syrian regime and Lebanese Hezbollah. This underground economy thrives on the import, export and smuggling of banned

medical supplies, narcotics, arms and oil. It has grown so extensive that it is pushing the economies of both nations – or more specifically, the economic foundations of the Syrian regime and Hezbollah – to the brink of collapse.

The Syrian regime has adeptly woven the production, promotion and smuggling of drugs, notably Captagon, into its financial fabric. For decades, this economy leaned on a combination of Arab aid, subpar local production, revenue from natural resources, and the systematic looting of both Syrian and Lebanese assets.

Historical Background

The Syrian regime has historically addressed its financial shortfalls by exploiting both Syrian and Lebanese groups and communities. One significant method has been its influence in Lebanon prior to 2005. It established a comprehensive bribery network, capitalizing on corruption to broaden its base of supporters. This was done by granting undue favors to industrialists or by overlooking significant smuggling activities by figures within the regime, whether the roles they held were significant or minor.

For nearly a decade, several factors have diminished the viability of this hybrid economic model, which relied on three sources: legitimate, ambiguous, and outright illegal revenues. When the Revolutionary Guard and, subsequently, Hezbollah entered the Syrian conflict scene about ten years ago, there was a pressing need to identify new funding avenues. This was especially true as both entities faced international sanctions and a struggle over their existing financial resources, all during a period when the Iranian regime was courting the U.S. administration

under President Barack Obama.

After conventional smuggling operations, narcotics became the optimal revenue source for the Iranian Revolutionary Guard, Hezbollah, and the Syrian regime.

When discussing the war economy, particularly the arms and drug trade, one might think it operates in a shadowy realm, benefiting only a select few through drug production and smuggling. However, the current situation in Syria paints a different picture. The Syrian regime and Lebanese Hezbollah have effectively woven the drug trade into their broader economic tapestry. This industry has become deeply rooted in the Syrian economy and has also made significant inroads into the Lebanese economic landscape. Investigating the drug trade and its financial implications has now surpassed the abilities of Western intelligence agencies, who are still scrambling to gather on-the-ground and technical data about its production and smuggling processes.

There is a pressing need for in-depth academic studies, more significant than minor research projects, on the drug trade's transformation into an integral part of Syria's economy. Until such comprehensive studies are conducted, we can summarize based on existing research, reports and insider information.

The Syrian conflict necessitated diverse funding streams. Hezbollah began using Beirut's port for more than just routine activities. Beyond importing materials, evading taxes, profiting from the Lebanese market, and smuggling goods into Syria, they also started importing vital ingredients for manufacturing barrel bombs. With the

escalation of the Syrian conflict and the depletion of the Syrian regime's traditional explosives reserves, substances like ammonium nitrate became crucial. Tragically, this culminated in the devastating explosion at Beirut's port on August 4, 2020.

Ministries and corporations

By 2008, Hezbollah had firmly established control over a majority of state institutions, having subdued other Lebanese factions and started to erode their influence within the government. Around this time, Hezbollah's private enterprises began to flourish, and the structured smuggling of goods into the consumption-friendly Lebanese market took off. Hundreds of small to medium-sized businesses, alongside several major enterprises, secured a presence at key entry points like Beirut International Airport and the Beirut Seaport, and occasionally at ports like Tripoli.

These companies spanned various industries, from medical and financial to electronics, construction, metals, and chemicals. Shielded by influential party members with economic clout, they collectively created a shadow economy across all sectors. This growth was accelerated by Hezbollah's political ascension following the 2005 Syrian withdrawal.

Not all the capital in these industries came directly from Hezbollah. The organization leveraged the financial networks of the newly affluent, those who had amassed wealth from places like Africa or the U.S. and then funneled it into dubious Lebanese financial ventures. These individuals poured vast sums into Hezbollah's import

markets, in exchange for interest rates that surpassed what traditional banks offered. Additionally, the Qard al-Hasan Association evolved into a bona fide bank, drawing financial investments and storing gold and foreign currency reserves.

When the focus shifted to importing raw materials for Captagon production, the required infrastructure was already in place. The network of companies under Hezbollah's administrative umbrella effectively managed all import and export operations for Captagon. There was also an abundance of expertise, passed down among families who had been involved in drug trading in parts of Lebanon for decades.

Now, under Hezbollah's protection, many pharmaceutical and chemical companies involved in both production and distribution import Captagon's raw materials, as well as related industrial equipment and machinery, tailored to their production capacities. This includes machines for pressing pharmaceuticals and chocolate, equipment for powering medical plants, replacement parts, and the essential fuel needed to operate such machinery.

Much like every aspect of Captagon production, this stage is purely business-driven. Those who import industrial parts sell them to the factories that make the narcotic pills, while those who bring in raw materials resell them to the pill producers. Across Lebanon, there is no shortage of small factories churning out Captagon pills. Hezbollah is instrumental in this, providing not only expertise and manpower but also the vital equipment these factories need, whether they are in Lebanon or Syria. They also have a hand in managing major factories that have close ties

with Unit 4400 and the Quds Force of the Iranian Revolutionary Guard.

Hezbollah ensures the high quality of Captagon exports from Lebanon to Syria and takes meticulous care in disguising shipments from the Port of Beirut, the Beirut-Rafic Hariri International Airport or the Port of Latakia. They also provide crucial engineering consultations for these camouflage operations.

While these services generate additional revenue, the primary income streams stem from Hezbollah's stakes in imported materials, operational companies, and small factories in Lebanon, both directly owned and otherwise. Profits also arise from selling raw materials, manufactured goods, and expertise to Syria, either through local drug intermediaries or direct channels.

The thousands of tonnes of raw materials annually entering Lebanon instigates significant port activity: ship unloading, customs bribes, truck movements in ports, storage facilities, benefiting families and enterprises, internal conflicts, pursuit of profits, and professional rivalries. This bustling activity eventually culminates in these goods crossing into Syrian territory, where even more parties share the spoils.

In Syria

When Captagon production materials, engineers, chemical specialists, and technical equipment are transported from Lebanon to Syria, we can identify two primary groups. The first group operates under the influence of Lebanese Hezbollah (often in collaboration with Syrian Hezbollah) and includes the Captagon factories in the Qalamoun region.

While these factories remain independent of the Fourth Division, a coordination mechanism exists between them. The second group comprises major producers, traffickers, and smugglers affiliated with the Syrian regime, operating under the direct supervision of the Fourth Division and accounting for the interests of the Iranian Revolutionary Guard.

Within Syria, materials originally sourced from Lebanon are repurchased. Main factories, which operate under the guidance of Fourth Division officers, have direct dealings with Hezbollah's specialized units. These interactions primarily involve buying and selling through the Al-Tafil regions, while smaller factories generally transact with intermediaries chosen by Hezbollah.

Such operations contribute hundreds of millions, potentially exceeding a billion dollars annually, to Lebanese Hezbollah. Field experts estimate that a substantial portion of these earnings benefits senior individuals in this sector, the party's financial reserves, and investors who might unknowingly funnel their capital into illicit Lebanese financial entities.

In Syria, countless Captagon factories, ranging from small to large-scale, are dispersed, particularly around Latakia and the borders with Iraq and Jordan. Recent reports highlight a surge in Captagon production near the Turkish border.

Aside from the Qalamoun areas dominated by Hezbollah, factories are strategically located near international borders to streamline transportation to their target markets. These could be through Iraq to the Gulf states or the Iraqi

domestic market, through Jordan towards the Gulf, via the Latakia port to European destinations, or recently, towards Turkey, aiming to rival products from certain Syrian opposition factions and ISIS.

Key traders and manufacturers import raw materials, then resell supplies to other factories under various ownerships. All these transactions occur under the watchful eye of Maher al-Assad and the Fourth Division. Materials are then passed on to professional smugglers. Some importers even process raw materials directly, package them for smuggling, and leverage Hezbollah's expertise in packaging and concealment. All this while enjoying protection and intel from the Fourth Division regarding border surveillance intensity.

It is also worth noting the involvement of smaller entities, like the Al-Bustan Association, which operates under the patronage of Asma al-Assad. This association plays a role in Captagon's production and distribution, especially within the Syrian domestic market.

Drugs for weapons

Different teams manage trade with the Russians. At times, direct transactions occur between Hezbollah, the Iranian Revolutionary Guard, and the Russian entities, where manufactured Captagon is swapped for intelligence or arms and ammunition. Officers from the Fourth Division, responsible for liaising with the Russian side, also engage in similar exchanges with their Russian counterparts.

These operations always adhere to business logic and calculations. It is not just a minor group dealing with narcotic production and sales. The vast network of

importation, production, packaging, and smuggling, along with the involvement of numerous Fourth Division officers and soldiers, ensures that profits are distributed among participants, their workers, traditional manufacturers involved in disguising and smuggling operations, shipping companies, and business owners with international financial networks to facilitate money laundering into Syria. Consequently, drug money has become intertwined with the finances of Syrian households, some aware and others oblivious to their association with this illicit industry.

Internal Syrian trade drives a significant cash flow. Eliminating this would mean depleting the Fourth Division's financial resources, sidelining the key players, and wiping out tens of thousands of jobs linked, in part, to the underground trade. As is often the case in Syria, only a select few flourish, while the vast majority grapple with global poverty standards. The Syrian regime's reliance on the drug trade, which has intensified over the past five years, now accounts for a staggering profit. International reports estimate this at \$10 billion annually (from a total Syrian Captagon value pegged at \$57 billion, according to a UK government report). These profits are unevenly divided among everyone involved, from transportation laborers to high-ranking Fourth Division officers and prominent members of the Assad family.

Small investments

More alarming is the entanglement of the Syrian state's economy with Captagon. Amidst the ongoing economic turmoil in Syria, characterized by rampant inflation and the devaluation of the lira, it has become more lucrative for top-tier industrialists and merchants to invest in illicit

sectors. These ventures vary from manipulating currency exchange rates (which could have dire consequences if the regime decides to control the exchange rate), to the more subtle (and sometimes even encouraged) ventures like investing in Captagon or laundering its proceeds, particularly from exports to the Gulf and the West, as well as dealings with Syria's Fourth Division and smaller exporters.

The allure of this trade threatens to overshadow local industries, already struggling to compete internationally and reintroduce hard currencies into a sanctioned economy. While hard currency exchanges between Lebanon and Syria have provided some relief, they are insufficient to buoy two economies drowning in crises. This has necessitated involvement from Syrian entrepreneurs with overseas operations, as their foreign businesses generate much-needed revenue and serve as fronts for money laundering operations. Both the Syrian regime and Lebanese Hezbollah capitalize on their extensive experience in this arena, especially as the latter has faced international scrutiny over suspicious money transfers for over a decade.

But Captagon investments are no longer solely the realm of the wealthy. Reports suggest multiple Syrian regions now house financial investment firms offering enticing returns, vastly outpacing traditional bank rates, luring modest savings from Syrians grappling with the nation's worst financial crisis. Such investments typically flow into smaller Captagon production and smuggling operations, allowing them to carve a larger slice of the illicit trade market.

The intertwining of Captagon's economy with both public and private finances poses significant and fairly obvious

risks. Investing in this sector has become one of the most lucrative avenues, and its downfall could trigger not just an economic but a monetary collapse, affecting even those untouched by the drug trade.

Yet, the core issue lies elsewhere. The sustained Captagon trade nurtures an economic bubble that shields a political dilemma far larger than Syria and Lebanon's confines. Disregarding Iran's regional ambitions and its apparent colonial aspirations, Western interventions targeting Captagon are bound to falter. Sanctions, whether international or those encapsulated in the emerging Captagon-focused legislations, are unlikely to halt or even effectively mitigate this issue.

Hezbollah's research hubs consistently outpace these sanctions, adeptly navigating around them. The central issue is Syria's politically and economically beleaguered system, which is fervently fighting against its downfall. As it struggles to keep pace with modern nations, it clings to any means for survival, including this nefarious trade. Whether it is capitalizing on Syrian refugees, manipulating aid, or recently, relying on Captagon, mere customs oversight or intelligence-driven security measures will not cut it. Addressing the core political aspect is the only solution.