

Congressional Testimony: House Financial Services Committee, Subcommittee on National Security, International Development and Monetary Policy

Witness: Joshua T. Fruth, Co-Founder/CSO, Section 2 Financial Intelligence Solutions, LLC

“From Timber to Tungsten: How the Exploitation of Natural Resources Funds Rogue Organizations and Regimes.” Washington D.C., 11/4/2021 at 10:00AM EST**Witness Testimony:**

“Chairman Himes, Ranking Member Barr, Representative McHenry, and distinguished members of the committee: I am honored to appear before you to discuss how environmental crime in Afghanistan will enable China to choke off critical supply chains, fund terrorists with External Operations (Ex-Ops) ambitions, and how humanitarian assistance and evacuation support can precede interagency soft-power policy options to help mitigate these threats.

My name is Joshua Fruth, and I am a co-founder of risk consultancy Section 2 Financial Intelligence Solutions (S2FIS.com). I was previously the Director of Anti-Money Laundering (AML) Advisory Services at New Jersey based Matrix International Financial Services (Matrix-IFS). Most of my career, however, has been spent in the public sector as a law enforcement officer, U.S. Army Intelligence Officer, and Federal Contractor. Today, I am here apolitically as a private citizen representing only my views and feedback on Afghanistan to assist legislators in framing the post-drawdown operating environment and the potential for policy solutions going forward.

From 2018 to 2019, I served as a DOD contractor assigned to the Drug Enforcement Administration’s (DEA) Kabul Country Office (KCO), embedded at Special Operations Joint Task Force – Afghanistan (SOJTF-A). I was the lead Counter Threat Finance (CTF) advisor to two successive Commanding Generals of NATO special operations in Afghanistan: Major General (Ret.) Buck Elton and Major General Chris Donahue. On November 1, 2021, Maj Gen Elton and I co-authored a white paper for the U.S. Air Force, Air University, Journal of Indo-Pacific Affairs (JIPA), titled: “Evacuation Operations, Great-Power Competition, and External Operations Terror Threats in Post-Drawdown Afghanistan: Mapping Out the Path Ahead.” This document serves as the basis for my testimony today and was submitted as part of my written testimony into the record.¹ In this white paper, we argue that there are two types of environmental crimes in Afghanistan with national security implications, to include the drug trade and China’s emergent Rare Earth Elements (REE) mining operations.

Narco-terrorism & Ex-Ops Threats to the Homeland

The Taliban have been prevalent in the opiates business for decades, but the Afghan drug trade recently made a drastic change for the worst. Around late 2017, the Taliban discovered a plant indigenous the mountainous areas of central referred to locally as the “Oman Bush.” A dry, barky plant that grows like a weed, Afghanistan’s Oman Bush is comprised of highly pure

ephedra, which is the primary reagent used in the production of amphetamines like methamphetamine and ecstasy. Within one year of discovering this plant, the Taliban developed an industrial scale crystal methamphetamine production infrastructure and earned more operating revenue from methamphetamine than they had earned in the prior two decades in the heroin trade.

After a series of highly successful operations corroborating the massive, industrial scale of this problem set, U.S. and Afghan forces conducted a record-breaking successful operation in mid-2019 to destroy the Taliban's meth trade. However, in the two years of power vacuum that have followed, the Taliban has been able to reconstitute their meth production capability.ⁱⁱ At the end of my tenure on that assignment, I authored a white paper for U.S. Central Command (USCENTCOM) titled "Counter Threat Finance 2020: Afghanistan. Laying the Framework for Post-Drawdown Preventive and Forensic Targeting." That document is available by request to subcommittee members at both controlled unclassified and classified levels.

With a degraded financial system, lack of international recognition, and frozen financial assets, the Taliban could consolidate, professionalize, and industrialize the drug trade. It is entirely possible that the Taliban's new "Islamic Emirate" regime could rapidly develop into the world's largest drug cartel and narco-terror state. In order to launder the drug proceeds, the Taliban will rely on the *hawala* system with *Sarafi* Exchange settling debts for *hawaladers* through China and Pakistan's banking systems; and to a lesser extent – Qatar, Turkey, and the United Arab Emirates. In a potential worst-case scenario, the Taliban may align itself with Mexican and South American drug cartels, due to the fact that they mutually utilize the same Chinese interlocutors for precursor chemicals and money laundering services.^{iii iv}

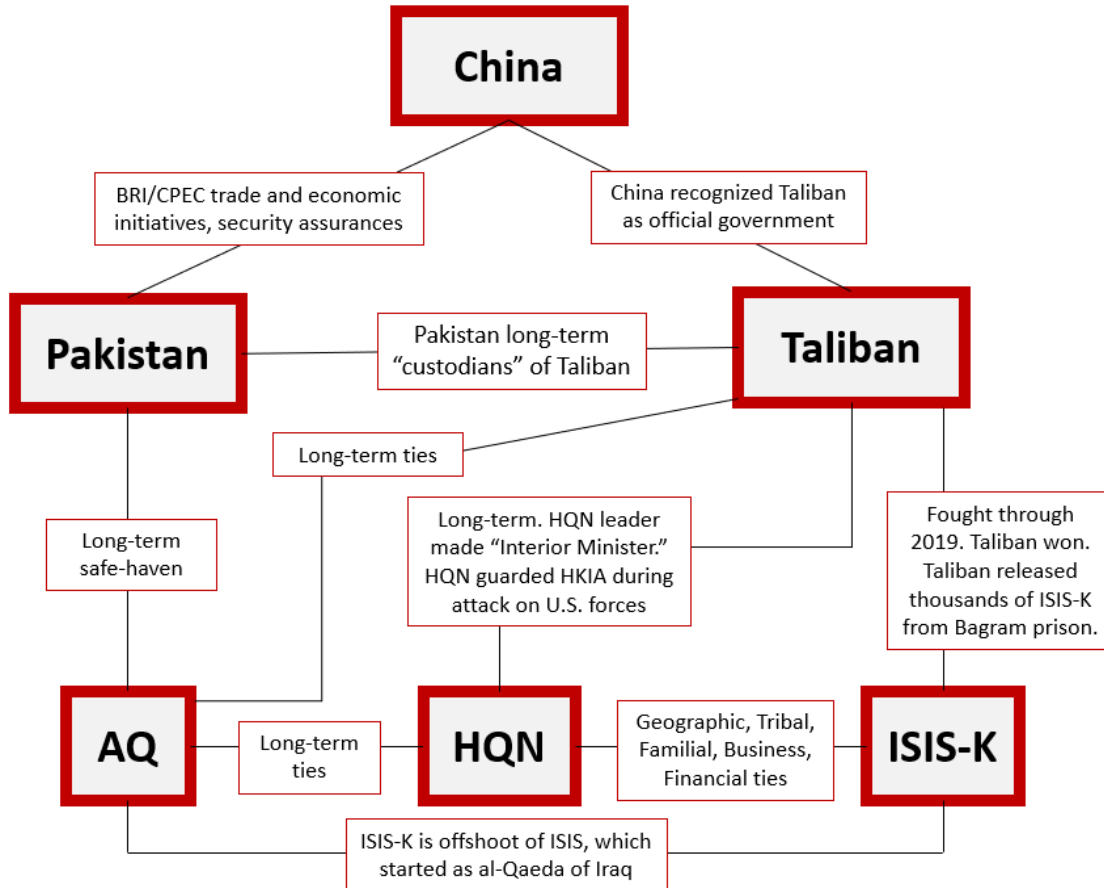
The drug trade has killed more Americans than the War on Terror, and it is likely that those profits will be used to fund future terrorist attacks. Under the protection of a narco-terror state supported by foreign intelligence agencies, armed with American weapons, and funded by drugs and Chinese mining operations, we concur with Undersecretary of Defense for Policy Colin Kahl's assessment that ISIS-K and al-Qaeda may have the capability to attack the homeland within 6-12 months.^v We assess that they could exploit our porous southern border in an undercover capacity posing as refugees fleeing Afghanistan's humanitarian crisis. Without positive identification, pockets of ungoverned spaces might emerge where terrorists could exploit poor population resource controls to develop a U.S. base of operations for attack planning. I am particularly concerned about the prospect of crypto currency and the casino business being used as part of the financial facilitation scheme to operationalize and sustain these cells within the United States.

Rare Earth Elements (REE) for China's Great Power Competition (GPC) Aspirations

The most serious environmental crime issue in Afghanistan is a Hybrid Threat Finance (HTF) network built around Beijing's rare earths mining. We assess China is financially incentivizing Pakistan to in turn fund Afghan terror groups in order to create a stable security environment and mitigate risk to anticipated mining operations.^{vi vii viii ix x xi xii xiii} As the "gatekeeper" and

“middleman” in this enterprise,” degrading Pakistan economically may be the most effective way to gain leverage in disrupting this network.

**Afghanistan’s Hybrid Threat Finance (HTF)
Network - China Rare Earths**



Known as the “the Saudi Arabia of lithium,”^{xiv} Afghanistan is home to over \$1 trillion USD and 1.4 million metric tons of rare earth minerals, many of which are necessary for the lithium-ion batteries used in electric vehicles (EV).^{xv} Neodymium is one of the minerals prevalent in Afghanistan’s Helmand Province that is used in magnets which dramatically extend the drive range of EV batteries.^{xvi} On September 21st, 2021, the Department of Commerce initiated an investigation to determine the national security impacts of neodymium magnet imports.^{xvii} If China were to seize control of Afghanistan’s lithium, neodymium, cobalt, nickel, dysprosium, and other related deposits, it could result in a serious and long-term threat to the American automotive industry at a time when we are rapidly transitioning towards electrification.^{xviii xix xx}

Afghanistan is not the only place where we can extract these minerals. However, China is also competing to undermine and undercut, and beat our price in other rare earth markets, like the Democratic Republic of Congo (DRC), Brazil, and Australia.

This comes at a time when our domestic deposits of these minerals can't keep up with our demands. We have historically imported about 80 percent of our rare earths from China, compared to about 23 percent of our oil imported from the Middle East. As a frame of reference, OPEC only accounts for 40 percent of the world's oil, but China currently accounts for about 75 percent of global lithium-ion battery cell capacity, compared to just 7 percent for the United States.^{xxi} For us to achieve our green-energy ambitions in the automotive industry, we face significant upward hurdles if China remains unopposed in a post-U.S. drawdown Afghanistan. The electric vehicle battery industry is just one example of many of the supply chain challenges that will become significantly more complicated if and when Beijing seizes and mines Afghanistan's rare earth minerals.



Rare Earths, clockwise from top center: praseodymium, cerium, lanthanum, neodymium, samarium and gadolinium.^{xxii}

China's planned mining operations in Afghanistan align directly with its plans to seize Taiwan. If Beijing were to both gain control of Afghanistan's rare earths and seize Taiwan's semiconductor and silicon industries,^{xxiii} it would enable them to choke off critical emerging technology supply chains to gain military, diplomatic, and trade leverage with other nations. This could enhance the attractiveness of the Belt and Road Initiative, making China a preferred trade partner and solidifying their global leadership role. According to a 22 October 2021 report from the National Counterintelligence and Security Center (NCSC) titled "Protecting Critical and Emerging U.S. Technologies from Foreign Threats," U.S. authorities outlined five critical emerging technologies "*that may determine whether America remains the world's leading superpower or is eclipsed by strategic competitors in the next few years.*" They included artificial intelligence, bioeconomy, autonomous systems, quantum computing, and semiconductors. These areas of emerging technology focus require significant reserves of rare earths and a high availability of advanced semiconductors.

Beijing's two-pronged approach to winning the Great Power Competition (GPC) involves dominating both emerging technology and the information environment. China is taking a page from Sun Tzu's playbook in the *Art of War* by attempting to win a fight without fighting. Once they achieve emerging technology superiority, Beijing will continue to expand their space, sea, and land-based telecommunications infrastructure, particularly to developing nations. They will flood the market with Chinese-sourced hardware from Huawei and ZTE. Once they control the rare earth source materials, semiconductor technology, hardware, software, data, and 5G internet infrastructure, China can then collect intelligence on end-users around while controlling the information environment to the benefit of the Chinese Communist Party (CCP) through propaganda, information suppression, disinformation, and misinformation.^{xxiv}

While we live in a nation deeply divided on nearly every policy issue, it is our ability as free people to exercise our strong opinions on these matters that inherently makes us American. If China gains superiority in both emerging technology and the information environment, I fear we as a people risk our voices being suppressed and drowned out by a globally dominant CCP, *and that is contingent in part on environmental crime in Afghanistan.*

Summary

We provided policy recommendations in the white paper^{xxv} for how to employ non-combat interagency authorities and capabilities to counter the nefarious operations of China, Pakistan, and terrorist groups operating in Afghanistan in a post-U.S. drawdown environment. Our recommendations included a combination of proposed actions from the Departments of Defense, State, Treasury, Commerce, Homeland Security and the New York Department of Financial Services (NYDFS). They included the formal recognition of the pro-American National Resistance Front (NRF) anti-Taliban force in the Panjshir Valley, financial and economic pressure on Pakistan (for its long-term support to the Taliban, other terror groups, and China), and a functional (rather than geographic) approach to offensive information operations, among other recommendations.

We are however concerned that a currently ripe Kidnapping-for-Ransom (KFR) environment could obstruct those efforts.^{xxvi} In order to succeed in these proposed operations, we must first support evacuation operations for westerners, our Afghan Special Immigrant Visa (SIV) allies, and underserved population groups (prominent women and girls, LGBTQ, and religious or ethnic minorities). This will reduce the risk of high value hostage-taking and ongoing humanitarian abuses being used as negotiating leverage by China and Pakistan to weaken our interagency disruption efforts. Failure to do so could diminish our credibility with allies and surrogate intelligence networks, making it more challenging to execute some of our proposed solutions.^{xxvii} We believe evacuations could be enabled via humanitarian aid in the forms of medical supplies and food, thereby avoiding direct terrorist financing while concurrently reminding Afghan citizens who we are, and how sharply our values contrast with the Taliban.”



About Section 2 Financial Intelligence Solutions, LLC

Section 2 (S2) is a financial services industry risk and compliance consultancy focused on mitigating the risks posed by Hybrid Threat Finance (HTF) networks to Anti-Money Laundering (AML) compliance programs. S2 provides advisory and investigative services, original data and technology products, transaction monitoring system implementation and optimization services for detection programs, and Threat Finance Academy (TFA) training for regulated financial institutions. Learn more at www.s2fis.com.

Joshua T. Fruth



Joshua Fruth serves in the private sector as Co-Founder and Chief Strategy Officer for risk consultancy *Section 2* (s2fis.com), and previously served as Director of Anti-Money Laundering Advisory Services at New Jersey-based Matrix International Financial Services (Matrix-IFS). Josh has served in the public sector as a Captain and Intelligence Officer in the U.S. Army Reserves, civilian Police Officer, and Federal Contractor. He has completed assignments within U.S. Central Command (USCENTCOM), U.S. Indo-Pacific Command (USINDOPACOM), U.S. Army Civil Affairs and Psychological Operations Command (USACAPOC), U.S. Army Intelligence and Security Command (INSCOM), the National Counterterrorism Center (NCTC), Drug Enforcement Administration (DEA), Special Operations Joint Task Force – Afghanistan (SOJTF-A), U.S. Department of Commerce, Bureau of Industry & Security (BIS), and spent a decade as an inner-city law enforcement officer combating violent and sexual crimes and the organized criminal trafficking of narcotics, weapons, and persons.

Fruth is a published contributor, trainer, and keynote speaker featured by various national and international media outlets, technology, financial crime, and banking associations. Fruth is an Honor Graduate of the Special Operations Forces Captains Career Course (SOFCCC) at the John F. Kennedy Special Warfare Center and School (USAJFKSWC), Distinguished Honor Graduate of the Basic Intelligence Officer's Course (MIBOLC) at the U.S. Army Intelligence Center of Excellence (USAICoE) and a graduate of the Fort Benning School of Infantry and Ohio OPOTA Police Academy. He pioneered the Hybrid Threat Finance (HTF) doctrine and has spent the past five years instructing the interagency and banking sector on how to utilize this doctrine in Anti-Money Laundering (AML) transaction monitoring and Counter Threat Finance (CTF) targeting practices. He is currently located in the Washington, D.C. area.

Sources

- ⁱ Elton, Buck and Fruth, Joshua. (2021, November 1). U.S. Air Force Journal of Indo-Pacific Affairs. "Evacuation Operations, Great-Power Competition, and External Operations Terror Threats in Post-Drawdown Afghanistan: Mapping Out the Path Ahead." Retrieved from <https://media.defense.gov/2021/Nov/01/2002883845/-1/-1/1/JIPA%20-%20ELTON,%20FRUTH,%20&%20NEUMANN%20-%20WHITE%20PAPER.PDF/JIPA%20-%20ELTON,%20FRUTH,%20&%20NEUMANN%20-%20WHITE%20PAPER.PDF>.
- ⁱⁱ Fruth, Joshua. (2019, August). U.S. Central Command (USCENTCOM). "Counter Threat Finance 2020: Afghanistan. Laying the Framework for Post-Drawdown Preventative and Forensic Targeting." Available upon approved request.
- ⁱⁱⁱ Hernandez, Anabel. DW. "Could the Taliban form an alliance with Mexico's drug cartels?" Retrieved from <https://www.dw.com/en/could-the-taliban-form-an-alliance-with-mexicos-drug-cartels/a-59086206>.
- ^{iv} Arthur, Andrew R. (2021, December 8). Center for Immigration Studies. "Chinese Intermediaries Launder Cartels' Drug Proceeds in the United States: From the U.S. to China to the cartels." Retrieved from <https://cis.org/Arthur/Chinese-Intermediaries-Launder-Cartels-Drug-Proceeds-United-States>.
- ^v Chamberlain, Samuel. (2021, October 26). NY Post. "Top Pentagon official: ISIS-K could attack US in '6 or 12 months.'" Retrieved from <https://nypost.com/2021/10/26/top-pentagon-official-isis-k-could-attack-us-in-6-or-12-months/?>.
- ^{vi} Gupta, Manoj. (2021, September 1). CNN-NEWS 18. "Pakistan's BIG Admission: On TV, Minister Says They are 'Custodians of Taliban.'" Retrieved from www.news18.com/amp/news/world/afghanistan-taliban-news-live-updates-kashmir-al-qaeda-india-pak-uncsc-joe-biden-kabul-4150958.html.
- ^{vii} Staff. (2021, September 6). The Mall. "Pro-NRF Indian IT cells claim Pakistan Air Force attacked Panjshir after Faheem Dashti killed." Retrieved from <https://thenamal.com/featured/pro-nrf-indian-it-cells-claim-pakistan-air-force-attacked-panjshir-after-faheem-dashti-killed/>.
- ^{viii} Staff. (2021, September 6). India Today. "Panjshir bombed by Pakistani Air Force drones: Reports." Retrieved from <https://www.indiatoday.in/world/story/panjshir-bombed-pakistani-air-force-drones-smart-bombs-reports-1849570-2021-09-06>.
- ^{ix} Shakil, FM. (2021, October 14). Asia Times. "Pakistan's spy agency gets shaken, but not stirred." Retrieved from <https://asiatimes.com/2021/10/pakistans-spy-agency-gets-shaken-but-not-stirred/>.
- ^x Staff. (2010, March 3). SAMAA. "US to supply laser-guided bombs to Pakistan: official." Retrieved from <https://www.samaa.tv/news/2010/03/us-to-supply-laser-guided-bombs-to-pakistan-official/>.
- ^{xi} Reuters Staff. (2010, March 2). Reuters. "US to send Pakistan laser-guided bomb kits." Retrieved from <https://www.reuters.com/article/usa-pakistan-weapons/us-to-send-pakistan-laser-guided-bomb-kits-idUSN0217277420100302>.
- ^{xii} Reality Check & BBC Urdu. (2021, September 8). BBC News. "Afghanistan: Could Pakistani drones hit the Panjshir Valley?" Retrieved from <https://www.bbc.com/news/58480299>.
- ^{xiii} Staff. (2021, October 6). India Times. "Pakistan army replaces ISI chief in surprise reshuffle." Retrieved from <https://timesofindia.indiatimes.com/world/pakistan/pakistan-army-transfers-isi-chief-lt-gen-hameed-as-peshawar-corps-commander-in-surprise-reshuffle/articleshow/86809920.cms>.
- ^{xiv} IER. (2021, October 14). Institute for Energy Research. "Afghanistan's Vast Mineral Resources Need Foreign Investment." Retrieved from <https://www.instituteforenergyresearch.org/international-issues/afghanistans-vast-mineral-resources-need-foreign-investment/>.
- ^{xv} (2019). Ministry of Mines & Petroleum, Islamic Republic of Afghanistan. "Mining Sector Roadmap." Retrieved from <https://momp.gov.af/sites/default/files/2020-07/MoMP%20Roadmap-1-merged.pdf>
- ^{xvi} Montgomery, Scott L. (2021, August 31). The Conversation. "Afghanistan has vast mineral wealth but faces steep challenges to tap it." Retrieved from <https://theconversation.com/afghanistan-has-vast-mineral-wealth-but-faces-steep-challenges-to-tap-it-166484>.
- ^{xvii} (2021, September 28). Thompson Hine. "Commerce Initiates Section 232 National Security Investigation into Imports of Rare Earth Magnets." Retrieved from <https://www.thompsonhinesmartrade.com/2021/09/commerce-initiates-section-232-national-security-investigation-into-imports-of-rare-earth-magnets/>.

-
- ^{xviii} Goldman, Josh. (2017, October 25). Union of Concerned Scientists. “Electric Vehicles, Batteries, Cobalt, and Rare Earth Metals.” Retrieved from <https://blog.ucsusa.org/josh-goldman/electric-vehicles-batteries-cobalt-and-rare-earth-metals/>
- ^{xix} Harper, Casey. (2021, August 5). The Center Square. “Critics pan Biden order calling for half of US vehicle sales to be electric by 2030.” Retrieved from https://www.thecentersquare.com/national/critics-pan-biden-order-calling-for-half-of-us-vehicle-sales-to-be-electric-by/article_17bff648-f633-11eb-9edf-2f23d81dba09.html#:~:text=President%20Joe%20Biden%20signed%20the%20executive%20order%20Thursday,curently%20electric%2C%20according%20to%20the%20Pew%20Research%20Center.
- ^{xx} Statements and Releases. (2021, August 5). “FACT SHEET: President Biden Announces Steps to Drive American Leadership Forward on Clean Cars and Trucks.” Retrieved from <https://www.whitehouse.gov/briefing-room/statements-releases/2021/08/05/fact-sheet-president-biden-announces-steps-to-drive-american-leadership-forward-on-clean-cars-and-trucks/>.
- ^{xxi} IER. (2021, October 14). Institute for Energy Research. “Afghanistan’s Vast Mineral Resources Need Foreign Investment.” Retrieved from <https://www.instituteforenergyresearch.org/international-issues/afghanistans-vast-mineral-resources-need-foreign-investment/>.
- ^{xxii} Choi, Charles Q. (2014, September 5). LiveScience via Yahoo News. “\$1 Trillion Trove of Rare Minerals Revealed Under Afghanistan.” Retrieved from https://news.yahoo.com/1-trillion-trove-rare-minerals-revealed-under-afghanistan-114520215.html?fr=sycsrp_catchall.
- ^{xxiii} Green, Joe. (2021, May 11). Tech HQ. “Global silicon shortage set for repeat – this time with lithium.” Retrieved from <https://techhq.com/2021/05/taiwan-silicon-battery-lithium-eu-recycling-it-sustainability-batteries-chips/>.
- ^{xxiv} (2021, October) Office of the Director of National Intelligence, The National Counterintelligence and Security Center. “Protecting Critical and Emerging U.S. Technologies from Foreign Threats.” <https://www.dni.gov/>.
- ^{xxv} Elton, Buck and Fruth, Joshua. (2021, November 1). U.S. Air Force Journal of Indo-Pacific Affairs. “Evacuation Operations, Great-Power Competition, and External Operations Terror Threats in Post-Drawdown Afghanistan: Mapping Out the Path Ahead.” Retrieved from <https://media.defense.gov/2021/Nov/01/2002883845/-1/-1/1/JIPA%20-%20ELTON,%20FRUTH,%20&%20NEUMANN%20-%20WHITE%20PAPER.PDF/JIPA%20-%20ELTON,%20FRUTH,%20&%20NEUMANN%20-%20WHITE%20PAPER.PDF>.
- ^{xxvi} Seligman, Lara; Banco, Erin; and Ward, Alexander. (2021, September 9). Politico. “White House approves partnership with vets evacuating U.S. citizens, Afghan allies.” Retrieved from <https://www.politico.com/news/2021/09/09/white-house-afghanistan-evacuation-partnership-510815>.
- ^{xxvii} Campbell, Charlie. (2021, September 3). Time via Yahoo News. “The Retreat from Afghanistan Has Made America’s Allies Nervous. None More So Than Taiwan.” Retrieved from https://news.yahoo.com/retreat-afghanistan-made-americas-allies-070351327.html?fr=sycsrp_catchall.