

# **The Mechanics and Beauties of Gunrunning: The *Otterloo* Incident**



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## Introduction

As media and government attention to black markets increased over the past decades, the phenomenon of gunrunning for fun and profit has been mythicized. The best example of this fictionalization is the 2005 movie *Lord of War*. Supposedly inspired from the life of Russian arms dealer Viktor Bout, the film completely romanticizes illegal gunrunning activities. Drugs, sex, weapons, love story, law enforcement saints, and evil arms traffickers come together in another perfect Hollywood story. Focusing on the specific arms trafficking named the *Otterloo* incident<sup>1</sup> (1999-2002), this paper aims to shatter this erroneous view and present a rational analysis of illegal gunrunning. While the study principally centers on the elements of this particular case and the context surrounding it, it also discusses the larger picture in addressing the similarities or differences between the *Otterloo* incident and other gunrunning scenarios.

The paper is structured as follows. The first part looks at the necessary conditions for any arms deal to occur: a supply and a demand. The second section analyzes the central role of brokers in gunrunning, the tricks they use to acquire weapons, as well as their ties to defense and intelligence agencies. The third portion focuses on the transport of the goods. The fourth segment addresses the central role of side actors in the making of gunrunning schemes. The fifth part follows the flow of payments and favors made. The sixth and last section discusses the implications of the *Otterloo* incident for arms control policies. The conclusion wraps up the main ideas of the paper and emphasizes the relevance of studying black markets through rational, rather than moralistic, lenses. In order to maintain an analytical approach, the paper does not directly recount the *Otterloo* incident in its body. A narrative summary of the case and actors involved, obtained from the Organization of American States (OAS) Investigative report on the issue, is included in Analytical Appendix I for reference.

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<sup>1</sup> It was denominated the *Otterloo* incident after the ship that carried the weapons.

### **Supply and Demand: The Necessary Conditions**

Gunrunning does not occur randomly. Like any other traded commodity, the illegal dealing of weapons requires both supply and demand sides. Occurring across Colombia, Nicaragua, Guatemala, and Panama – in other words Central America – the *Otterloo* incident does not escape this basic rule. Where do the supply and the demand come from in this part of the world? The former stems principally from large firearms stocks supplied by the United States and the Soviet Union, as part of their Cold War ideological struggle, during the civil wars in Guatemala (1960-1996), El Salvador (1980-1992), and Nicaragua (1972-1991) to counterinsurgency state forces and rebel groups.<sup>2</sup> The Iran-Contra Affair is the most infamous case. Once the conflicts over, attempts at disarmament were undermined by the collapse of state authority in Central American countries at the end of the 1990s. This left huge pools of weapons unattended behind. For instance, the AK-47s and rounds of ammunitions traded in the *Otterloo* incident came directly from the Nicaraguan Army stocks.

The demand-side of gunrunning activities in Central America originates in the collapse of state authority at the end of the 1990s and beginning of the 2000s. As the state's influence over rural regions declined, armed rebel groups such as the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) gained prominence in those areas. To fight them, weak Central American governments started to militarize and secretly delegate the job to private para-military forces like the United Self-Defense Forces (AUC) of Colombia. Rather than pledge allegiance to the state, paramilitaries took this as an opportunity to curve their own spheres of influence in places where they had defeated the rebel movements. The trilateral struggle between governments, paramilitaries, and insurgent armed groups established a large

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<sup>2</sup> UNODC, "Firearms within Central America" in *Transnational Organized Crime in Central America and the Caribbean: A Threat Assessment* (2012), 59.

and stable demand for firearms. The *Otterloo* incident fits into this larger picture. The weapons and ammunitions were delivered to the AUC in Colombia.

### **The Brokers**

A discussion of gunrunning must address the role of the brokers: the key actors of any arms trafficking scheme. Without them, there would simply be no deal since they are the middlemen that “bring together buyers, sellers, transporters, financiers and insurers.”<sup>3</sup> In the case of the *Otterloo* incident, the men that made the deal possible were two Israeli arms dealers, Ori Zoller and Shimon Yelinek, along with their respective partners Uzi Kissilevich and Marcos Shrem. The overall deal followed a two-step process where Zoller and Yelinek respectively played the role of brokers. First, Zoller acquired the weapons from the Nicaraguan Army, then shopped for a buyer and finally settled down on Yelinek. Secondly, the latter organized the shipment of the weapons from Nicaragua to Colombia. For more detailed information, the exact chain of transactions is presented in the OAS narrative summary (see Analytical Appendix I).

It is in the course of these proceedings that Yelinek employed a subterfuge widespread in gunrunning schemes: a phony purchase order and end-user certificate. Yelinek and his partner Shrem pretended to be working as brokers for the Panamanian National Police. They gave Zoller a Panamanian Police purchase order, which was meant to represent an end-user certificate as well. The OAS investigation clearly indicates that a blank purchase order form and forged signatories were used to create the alleged document.<sup>4</sup> Two former Israeli military officers

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<sup>3</sup> Brian Wood and Johan Peleman, “Making the Deal and Moving the Goods: The Role of Brokers and Shippers” in *Running Guns: The Global Black Market in Small Arms*, edited by Lora Lumpe (London: Zed Books, 2000), 130.

<sup>4</sup> OAS, *Report of the General Secretariat of the Organization of American States on the Diversion of Nicaraguan Arms to the United Defense Forces of Colombia*, (January 6, 2003), 11.

employed the exact same trick in the 1990 *Guns for Antigua* scandal, ordering Israeli weapons on behalf of the Antiguan and Bermudian Defense Forces to then divert them to Colombia.<sup>5</sup>

Interestingly, Zoller and his associate Kissilevich are tied to the Israeli military apparatus. Not only are they representatives of the Israeli Military Industry (IMI) in Central America, but the former is an ex-member of the Israeli Army's special forces as well as a former intelligence officer while the latter belonged to the Israeli military. This is not a coincidence and must be put in the larger context of the historical military connection between Israel and Central America. Central American national leaders turned to Israel for military support in the 1970s for two main reasons: the US had suspended their military assistance to the region and Israeli military equipment proved to be highly competitive.<sup>6</sup> This military honeymoon has centered around two elements over the past decades: the supply of both Israeli-made weapons and advisors to respectively equip and train counterinsurgency state forces. Once decommissioned, these Israeli military advisors decided to set up, as Zoller and Kissilevich illustrate, their private arms dealing companies.

### **Transporting the Goods**

Once the brokers have directly or indirectly brought sellers and buyers together, time comes to move the goods. Arms dealers rely essentially on air and sea freights to smuggle the goods. The reason of their choice is strategic. While international regulations controlling air cargos are old and loose, millions of ships are constantly carrying goods at sea.<sup>7</sup> Combined with

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<sup>5</sup> Jeff, Gerth, "Israeli Arms Diverted to Colombia Drug Traffickers," *The New York Times* (May 6, 1990). Robert, Glass "Arms Diversion to Colombia Clouds Antigua Ruling Family," *Los Angeles Times*, (May 20, 1990).

<sup>6</sup> Milton Jamail and Margo Guterrez, *It's No Secret: Israel's Military Involvement in Central America*. (Association of Arab-American University Graduates, 1986), 27.

<sup>7</sup> Brian Wood and Johan Peleman, "Making the Deal and Moving the Goods: The Role of Brokers and Shippers," 140 and 144

enforcement problems such as the lack of resource for custom services, these elements create the perfect conditions for the secret transportation of weapons by air or maritime routes. For the case discussed in this paper, the AK-47s and ammunitions were shipped by sea (see Analytical Appendix II).<sup>8</sup>

Analyzing the transportation of the goods in the *Otterloo* incident offers a great insight into the tactics used by arms dealers to remain under the radar. As the OAS investigation indicates, the shipping company Trafalgar Maritime Inc. was set up by a Mexican citizen in Panama City at the exact same time that the deal between Zoller and Yelinek was concluded.<sup>9</sup> The company registered in Panama the only ship it owned: the *Otterloo*. Why choose Panama? First, this Central American country is known to have commercial and bank secrecy laws. Second, obtaining a Panamanian flag of convenience is simple: it is cheap and there is no clear regulation. Third, the captain of the ship can obtain the papers necessary for the cargo without having to specify the destination.

The second subterfuge used in the *Otterloo* incident is the provision of fake documents to various authorities along the route. The captain of the *Otterloo* gave to the Mexican – the ship initially sailed from Veracruz, Mexico – and Nicaraguan custom agencies Bills of Lading, which indicated that Panama was the ship’s final destination.<sup>10</sup> Yet, the Bill of Lading<sup>11</sup> (see “Copies of Main Sources”) delivered to the Colombian authorities by the captain stated that the port of discharge was Turbo, Colombia. Even though the three Bills mentioned the same alleged cargo, plastic balls, they differed in regards to the quantity: nine, fourteen, and finally twenty-three containers. The discrepancies in the Bills of Lading clearly demonstrate that the captain used

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<sup>8</sup> Annotated maps in Analytical Appendix II outline the route followed by the goods from the Nicaraguan military barracks in Managua, Nicaragua, to the AUC in Planeta Rica, Colombia.

<sup>9</sup> OAS Report, 12.

<sup>10</sup> *Ibid.*, 12.

<sup>11</sup> From “The Chiquita Papers” (see “Full List of References”).

three different documents in order to hide the true nature of the shipment and its final destination. On the last Bill of Lading, the consignee is referred as Banadex S.A. However, an annex<sup>12</sup> (see “Copies of Main Sources”) signed by the captain of the *Otterloo* specifies that there is an error and Inversiones Banoly Ltda. should be written under this category. As the following part exposes, this request was intended to hide the role of Banadex S.A., subsidiary of American banana producer and distributor Chiquita Brands International, in the *Otterloo* incident.

### **Secondary Actors**

Moving the goods from point A to point B in gunrunning activities is not simply a matter of finding a ship or a plane and someone to run it. It also requires multiple levels of logistics such as loading and unloading the cargos, which in turn demands the expertise of side actors. Although not the organizers of the arms trafficking scheme, secondary players remain nonetheless central to its successful conduct. Their complicity depends on their knowledge of the deal. Gunrunners can also use corruption to acquire the conscious participation or silence of side actors. In the case of the *Otterloo* incident, Colombia’s Secret Police and Interpol arrested seven people working for the Colombian National Tax and Customs Direction (DIAN) as well as the shipping companies Turboaduanas and Banadex S.A.<sup>13</sup> The case of Banadex S.A. is the most interesting one, the two others involving usual payoffs to Customs officials and workers.

Through Banadex S.A., Chiquita Brands International financially supported the AUC between 1997 and 2004. In exchange, the AUC protected Chiquita banana-producing operations from worker strikes and other armed groups. The 2007 US Justice Department indictment against Chiquita (see Analytical Appendix III for the main pages of the document) outlines the monthly

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<sup>12</sup> From “The Chiquita Papers.”

<sup>13</sup> Hernan David Quiñones Pabón, Report of the Investigation and Proceedings on the DIAN and Banadex S.A. workers (July 23, 2004). Main pages included in “Copies of Main Sources.”



payments made by the company and approved by the senior executives for a total of roughly \$1.7 million dollars. This context explains why the Banadex's facilities were used to unload the AK-47s and ammunitions from the *Otterloo*.<sup>14</sup> The emails and written notes exchanged by Chiquita and Banadex officials in 2002,<sup>15</sup> when the *Otterloo* incident started to get media attention in the countries concerned, reveal even more bluntly Chiquita's involvement in the arms deal. One note reads: "DIAN interviewed our people related to the 2 DIAN employees. They wrote their own internal memo on our computer. Did not delete: Very clear they are not focused on us." Another annotation on a printed email, whose subject is "Colombia Television Program Referring to AK-47s," states: "No indication that Chiquita is being investigated. *Ojo* [Pay attention in Spanish]: Original B/L [Bill of Lading] had Banadex as consignee. Captain changed this." Chiquita's participation in the *Otterloo* incident demonstrates that secondary actors are central to any gunrunning activities. It also reveals that these side actors do not come out of the blue. They are connected in some ways to the buyers, sellers or brokers. In the case of the *Otterloo* incident, Chiquita had a long and substantial financial partnership with the AUC.

### **The Money Trail**

Arms dealers and brokers do not simply smuggle weapons because they are bored with life and want to entertain themselves. The main attraction is profit. Hence, a thorough analysis of any gunrunning scheme must pay attention to the money trail. In arms trafficking, money trail refers to both the stream of payments and the flow of favors. Money is not always involved. More often than expected, a gunrunner accepts to organize the deal in return for natural resource

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<sup>14</sup> See DIAN official document (obtained from "The Chiquita Papers") named "Planilla de Recepcion: Deposito Habilitado O Zona Franca" in "Copies of Main Sources."

<sup>15</sup> The ones cited (obtained from "The Chiquita Papers") are included in "Copies of Main Sources" at the end of the paper.

concessions or services.<sup>16</sup> In the *Otterloo* incident, both money and favors were involved. Even though Zoller assured that GIR S.A. profited little from the deal,<sup>17</sup> the company's bank accounts tell a different story (refer to Analytical Appendix IV).<sup>18</sup> The more interesting finding revealed by these bank files is that Yelinek, after making a down payment, wire-transferred the money to Zoller in seven chunks using different bank accounts – named after different people – located in Geneva, Switzerland, or Tel Aviv, Israel. This is a calculated move. First, Israel and Switzerland conveniently have very tight bank secrecy laws. Second, increasing the number of wire-transfers and diversifying their origins are methods of layering meant to give the authorities a hard time if they discover the gunrunning scheme. In the *Otterloo* incident, this proved to be effective since the OAS investigators did not attempt to trace the money trail any further.

With the money trail ending there, the rest of the analysis becomes speculative. According to a 2011 US Department of the Treasury Office of Foreign Assets Control diagram<sup>19</sup>, Yelinek provided support to the Jorge Milton Cifuentes Villa's drug trafficking activities. The US Bureau of International Narcotics and Law Enforcement Affairs<sup>20</sup> and Colombia's independent Noticias Uno television news program<sup>21</sup> alleged that Cifuentes Villa was behind the whole *Otterloo* Incident. These suspicions, if they are true, reveal another method of payment commonly used in arms trafficking: the exchange of favors. Cifuentes Villa supposedly sponsored the *Otterloo* shipment to the leaders of the AUC at the time – Carlos and Vincente

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<sup>16</sup> R. T. Naylor, "Gunsmoke and Mirrors: Financing the Illegal Trade" in *Running Guns: The Global Black Market in Small Arms*, edited by Lora Lumpe (London: Zed Books, 2000), 162.

<sup>17</sup> McFarland, "Secret Guatemala Cable 001013. Visas Donkey: - ISRL (Zoller, Ori)," (2 December 2009).

<sup>18</sup> Edited OAS Chronology of Payments Made to GIR S.A.

<sup>19</sup> US Department of the Treasury Office of Foreign Assets Control, "Cifuentes Villa Drug Trafficking Organization" (February 2011).

<sup>20</sup> US Department of State, "Narcotics Rewards Program: Jorge Milton Cifuentes-Villa, Bureau of International Narcotics and Law Enforcement Agencies," *US Department of State* website.

<sup>21</sup> Eric Jackson, "Few degrees of separation," *The Panama News*. August 18, 2012.

Castaño – in exchange of the protection they provided to his drug-trafficking facilities in Colombia. Yelinek's gains from the entire deal remain unknown.

### **Implications for Arms Regulations**

What are the broader implications of the *Otterloo* incident for arms international regulations? First, in order to be effective, solutions need to target both demand and supply sides. For Central Latin American countries, this requires long-term political, economic, and social reforms centered on the demilitarization and the strengthening of state institutions. On one hand, counterinsurgency tactics, used for example in Colombia, have only led to a sharper rise in the demand of firearms from both the state and independent armed groups. On the other hand, weak states are unable to enforce the suppression of arms stocks. Second, the ease with which the brokers and the captain of the ship falsified documents illustrates the need for tougher regulations vis-à-vis commercial transactions and international cargo freights.

Yet, one simple but colossal problem is that rules need to be international in order to achieve anything concrete. As long as bank and company secrecy laws will exist in some countries across the globe, risks of getting caught will remain substantially low. Another important element to keep in mind when discussing regulations is that enforcing them is extremely expensive. National customs services and law enforcement agencies demand equipment, infrastructures and personnel. Furthermore, gunrunners can easily corrupt people working for these agencies as the *Otterloo* case illustrates.

Like in any other black market, arms dealers are always one step-ahead of regulatory agencies. Transporting weapons hidden in the hold of a ship is indeed easier than finding its exact position and destination in the middle of the Atlantic or Pacific Oceans when thousands of

other sea cargos are travelling in the same area at the same time. This is not to say that international rules are doomed to fail. Tough regulations will certainly limit the damage. The heart of the problem however lies in the goods themselves and the incentives to smuggle them. As long as trafficking weapons remain a profitable business, there will always be someone to do it. On a final note, change might appear on the horizon if the American, Israeli, Chinese, French, British, Russian and other governments start to admit their hypocrisy. After all, they are the ones setting up the bad example by “legally” running guns.

## **Conclusion**

Through its study of the *Otterloo* gunrunning operation, the context surrounding it, and arms trafficking in general, this paper has completely shattered the myths that envelop this black market. Maintaining a rational and analytical framework is essential when addressing gunrunning. Moralistic approaches inherently distort the facts since their ultimate aim is to divide the world in the comfortable dichotomy of saints and villains. Smuggling weapons is not a black and white activity with evil arms dealers on one side and good law enforcement agents on the other. Once more, the *Otterloo* case provides a perfect illustration. Zoller was cooperating with a US Drug Enforcement Agency (DEA) investigation on Yelinek at the time of the incident and had previously been a valuable source of information for the US Military Groups (MILGP) and the US Defense Attaché Office on the Government of Guatemala military affairs.<sup>22</sup> Finally, this paper has shown that, to be fully understood, a gunrunning scheme must be placed in a larger historical and global frame. Arms trafficking activities do not occur in a closed world. They are fundamentally shaped by the conditions and context in which they are set up. To implement effective rules, arms control regulators must assimilate this golden rule.

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<sup>22</sup> McFarland, “ Secret Guatemala Cable 001013. Visas Donkey: - ISRL (Zoller, Ori),” (2 December 2009).

