

Cryptocurrencies: A Fuel for Terrorism

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The EU has to adapt faster to the terrorism-related threats emerging from cryptocurrencies and virtual assets.

Introduction

Technological innovation has reshaped finance. New technologies such as online banking and other solutions shortening the process of financial transactions made financial services more accessible and practical. These innovations have also led to the emergence of cryptocurrencies – virtual assets that provide a faster, more accessible, and secure alternative to traditional banking. In addition to creating new opportunities, these assets are also a tool for criminal and terrorist organizations to conceal their financing as they are anonymous and unregulated – posing an urgent threat to the European and the global community (Kfir, 2020). This paper analyses the potential dangers of the finance of terrorism through cryptocurrency and evaluates the European Unions's (EU) actions to combat these dangers.

Cryptocurrencies and terrorism

Cryptocurrencies have long been favored by criminals to facilitate money laundering, theft, or drug trafficking (Kfir, 2020). An increasing number of cases related to crypto assets were reported by European authorities to have links to terrorism financing (European Commission, 2020). First, cryptocurrencies such as Bitcoin can be easily transferred back to standard currencies with complete anonymity. Therefore, terrorists use these assets as an anonymous alternative to traditional bank transfers and transactions (Teichmann, 2018). For instance, terrorists can transfer Bitcoin from a location outside Europe and then transfer the crypto fund into Euros in the country where they need to access the funds – all without being scrutinized by a bank. It is suggested that the perpetrators of the 2015 Paris and 2016 Brussels attack purchased their equipment on the darknet – an encrypted part of the internet, inaccessible through traditional browsers – using cryptocurrencies for the transaction (Townsend, 2018). In 2017, a terrorist group related to al-Qaida started a bitcoin-fundraising campaign on Telegram – an encrypted communication platform (Teichmann, 2018). These instances highlight the

potential dangers cryptocurrencies can pose to the security of Europe as a tool for terrorism financing.

Additionally, cryptocurrencies lack regulations. Since central banks do not issue these virtual currencies, they are not regulated like traditional currencies. This unregulated sphere and the anonymity of crypto transactions make it extremely hard for authorities to flag and investigate illegal financing activities. While larger transfers may be tracked more efficiently by law enforcers, cryptocurrencies remain the most convenient method to finance terrorism (Teichmann, 2018). Based on a recent working document from the European Commission, the threat posed by terrorism financing through virtual currencies is highly significant. This threat is only predicted to grow over the next few years, which calls for the need for urgent intervention (European Commission, 2019).

Regulating new EU regulations for cryptocurrencies

Clearly, cryptocurrencies are hard to regulate and monitor. Since central banks do not issue cryptocurrencies they are not subject to governmental control, and due to the fast-paced nature of innovation within financial technology, various regulatory challenges arise for lawmakers (Kfir, 2020). Despite this, the EU is attempting to make progress in addressing the problem of terrorism by limiting virtual asset availability to terrorist groups. Following the 2015-2016 Paris and Brussels attacks, the European Commission proposed an action plan to the Council and the Parliament (Keatinge, 2022). With two main objectives, the plan stressed the importance of preventing terrorist organizations from making financial transactions and obstructing their revenue stream by limiting how they can gather funds. This plan, however, quickly failed due to the need for more engagement from both Member States and the EU. Furthermore, the plan only set minimal recommendations for Member States regarding transaction monitoring and compliance measures. However, meeting minimum requirements is not enough to combat terrorism financing. Currently, Member States are left with many unanswered questions about how these methods work, and understanding the intelligence behind crypto-financed terrorism remains poor (Keatinge, 2022).

The EU has recently proposed numerous ambitious plans to address the issue. For instance, new legislation under the Markets in Crypto-assets rules (MiCA) framework – the EU’s primary set of regulations and recommendations regarding cryptocurrencies – aims to ensure that crypto transactions are traceable (Scanlon, 2022b). In practice, this means providers of crypto-assets (such as Bitcoin) will have to provide information on the sources and beneficiaries of crypto-transactions. Additionally, under this prospective new regime, crypto-providers must verify the risks of money laundering or terrorism-related transactions (European Commission, 2020). The EU will also establish the Anti-Money Laundering Authority (AMLA) – also set to supervise, coordinate and support the combat against terrorism financing (European Commission, 2021). While these proposals are ambitious and promising, they still lack elements on how Member States can implement these mechanisms. Subsequently, Member States must receive enough intelligence and practical, security-based advice on enforcement.

Conclusion

The anonymity and unregulated environment of cryptocurrencies present a significant opportunity for terrorism financing in Europe and worldwide. In the past two years, the EU devised numerous plans to tackle the issue by introducing guidelines and standards that Member States can implement to limit these risks. While standards are vital, the need for action and a security-based approach is pressing. Hence, there is an urgent need to provide tools and intelligence to the Member States, as local authorities might lack the necessary resources to combat terrorist financing through virtual assets. While the proposed amendments to the MiCA and establishing the AMLA can perhaps fill this gap between standards and actual enforcement, the EU still needs to specify exact details surrounding the operation and scope of the agency, as well as the implementation of new regulations.

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