



Common Abbreviations



ARS--Alternative Remittance System
CBRN--Caribbean Basin Radar Network
CFATF--Caribbean Financial Action Task Force
DEA--Drug Enforcement Administration
DOJ--Department of Justice
DOS--Department of State
ESF--Economic Support Fund
EU--European Union
FATF--Financial Action Task Force
FBI--Federal Bureau of Investigation
FinCEN--Financial Crimes Enforcement Network
FIU--Financial Intelligence Unit
GCC--Gulf Cooperation Council
IBC--International Business Company
IMF--International Monetary Fund
INCSR--International Narcotics Control Strategy Report
INM--See INL
INL--Bureau of International Narcotics Control and Law Enforcement Affairs
IRS--Internal Revenue Service
IRS-CID--Internal Revenue Service, Criminal Investigation Division
JICC--Joint Information Coordination Center
MLAT--Mutual Legal Assistance Treaty
MOU--Memorandum of Understanding
NBRF--Northern Border Response Force
NNICC--National Narcotics Intelligence Consumers Committee
OAS--Organization of American States
OAS/CICAD--Inter-American Drug Abuse Control Commission
OFC--Offshore Financial Center
OPBAT--Operation Bahamas, Turks and Caicos
PC-R-EV--Council of Europe's Select Committee of Experts on The Evaluation of Anti-Money Laundering Measures
UN Convention--1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
UNODCCP--United Nations Office for Drug Control and Crime Prevention
USAID--Agency for International Development
USG--United States Government

ha--Hectare
HCl--Hydrochloride (cocaine)
Kg--Kilogram
Mt--Metric Ton

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Introduction

Legislative Basis for the INCSR

The Department of State's International Narcotics Control Strategy Report (INCSR) has been prepared in accordance with §489 of the Foreign Assistance Act of 1961, as amended (the "FAA," 22 U.S.C. §2291). The Year 2000 INCSR is the fourteenth annual report prepared pursuant to the FAA. In addition to addressing the reporting requirements of FAA §489 (as well as §481(d)(2) and §804 of the Narcotics Control Trade Act of 1974, as amended), the INCSR provides the factual basis for the Presidential narcotics certification determinations for major drug-producing and/or drug-transit countries ("Majors List") required under FAA §490. FAA §490 requires that fifty percent of certain kinds of assistance be withheld from all such countries, required to be identified and reported to Congress by the President by November 1 of each year, pending the President's March 1 certification determinations. If a country is not certified, most foreign assistance is cut off and the United States is required to vote against funding by six multilateral development banks to that country.

The statute requires a report on the extent to which each country that received INL¹ assistance in the past two fiscal years has "met the goals and objectives of the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances" ("the 1988 UN Drug Convention"). FAA §489(a)(1)(A). Similarly, the President's certification determination must address whether a country, during the previous year, has cooperated fully with the United States or has taken adequate steps on its own to achieve full compliance with the goals and objectives established by the 1988 UN Drug Convention. FAA §490(b)(1)(A), FAA §489(a)(4)(A).

Although the Convention does not contain a list of goals and objectives, it does set forth a number of obligations that the parties agree to undertake. Generally speaking, it requires the parties to take legal measures to outlaw and punish all forms of illicit drug production, trafficking, and drug money laundering, to control chemicals that can be used to process illicit drugs, and to cooperate in international efforts to these ends. The statute lists action by foreign countries on the following issues as relevant to evaluating performance under the 1988 UN Drug Convention: illicit cultivation, production, distribution, sale, transport and financing, and money laundering, asset seizure, extradition, mutual legal assistance, law enforcement and transit cooperation, precursor chemical control, and demand reduction.

In attempting to evaluate whether countries are meeting the goals and objectives of the 1988 UN Drug Convention, the Department has used the best information it has available. The Year 2000 INCSR covers countries that range from major drug producing and drug-transit countries, where drug control is a critical element of national policy, to mini-states, where drug issues and/or the capacity to deal with them are minimal. The reports vary in the extent of their coverage. For key drug-control countries, where considerable information is available, we have provided comprehensive reports. For some smaller countries where only sketchy information is available, we have included whatever data the responsible post could provide.

The country chapters report upon actions—including plans, programs, and, where applicable, timetables—toward fulfillment of Convention obligations. Because the 1988 UN Drug Convention's subject matter is so broad and availability of information on elements related to performance under the Convention varies widely within and between countries, the Department's views on the extent to which a given country is meeting the goals and objectives of the Convention are based on the overall response of the country to those goals and objectives.

Some countries and other jurisdictions are not yet parties to the 1988 UN Drug Convention; some do not have status in the United Nations that would allow them to become parties. For such countries, we have nonetheless considered actions taken by those countries in areas covered by the Convention as well as plans (if any) for becoming parties and for bringing their legislation into conformity with the Convention's requirements. For some of the very smallest countries that are not on the Majors List, the Department has insufficient information to make a judgment as to whether the goals and objectives of the Convention are being met.

Unless otherwise noted in the relevant country chapters, INL considers all countries and other jurisdictions with which the USG has bilateral narcotics agreements to be meeting the goals and objectives of those agreements.

Information concerning counternarcotics assistance is provided, pursuant to section 489(b) in sections entitled "FY 1999–2001 Fiscal Summary and Functional Budget" and "Other USG Assistance Provided."

Statement on Certification

FAA 490(b)(2) requires that, in making determinations regarding full certification, the President consider the extent to which each major illicit drug producing or drug–transit country has:

- Met the goals and objectives of the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances including action on such issues as illicit cultivation, production, distribution, sale, transport, and financing, and money laundering, asset seizure, extradition, mutual legal assistance, law enforcement and transit cooperation, precursor chemical control, and demand reduction;
- Accomplished the goals described in an applicable bilateral narcotics agreement with the United States or a multilateral agreement; and
- Taken legal and law enforcement measures to prevent and punish public corruption—especially by senior government officials—that facilitates the production, processing, or shipment of narcotic and psychotropic drugs and other controlled substances, or that discourages the investigation or prosecution or such acts.

The statute provides, alternatively, that a country that cannot be certified under the foregoing standard may be certified on the grounds that "vital national interests of the United States require" that assistance be provided to and the United States not vote against multilateral development bank lending to such country. FAA 490(b)(1)(B).

Major Illicit Drug Producing, Drug Transit, Significant Source, Precursor Chemical, and Money Laundering Countries

Section 489(a)(3) requires the USG to identify:

- (A) Major illicit drug producing and major drug–transit countries,
- (B) Major sources of precursor chemicals used in the production of illicit narcotics; and
- (C) Major money–laundering countries.

These countries are identified below.

Major Illicit Drug Producing and Drug–Transit Countries

A major illicit drug producing country is one in which:

- (A) 1,000 hectares or more of illicit opium poppy is cultivated or harvested during a year;
- (B) 1,000 hectares or more of illicit coca is cultivated or harvested during a year; or
- (C) 5,000 hectares or more of illicit cannabis is cultivated or harvested during a year, unless the President determines that such illicit cannabis production does not significantly affect the United States. FAA 481(e)(2).

A major illicit drug–transit country is one:

- (A) That is a significant direct source of illicit narcotic or psychotropic drugs or other controlled substances significantly affecting the United States; or
- (B) Through which are transported such drugs or substances. FAA 481(e)(5).

The following major drug producing and/or drug–transit countries/jurisdictions have been identified and notified to Congress by the President pursuant to 490(h) of the FAA in 1999: **Afghanistan, The Bahamas, Bolivia, Brazil, Burma, Cambodia, China, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, Hong Kong, India, Jamaica, Laos, Mexico, Nigeria, Pakistan, Panama, Paraguay, Peru, Taiwan, Thailand, Venezuela, and Vietnam.**

Major Precursor Chemical Source Countries

The following countries have been determined to be major sources of precursor or essential chemicals used in the production of illicit narcotics: Argentina, Brazil, China, Germany, India, Mexico, and the Netherlands. Information is provided pursuant to 489 in the section entitled "Chemical Controls."

Major Money Laundering Countries

"A major money laundering country is defined by statute as one whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking" FAA 481(e)

(7). However, the complex nature of money laundering transactions today makes it difficult in many cases to distinguish the proceeds of narcotics trafficking from the proceeds of other serious crime. Moreover, financial institutions engaging in transactions involving significant amounts of proceeds of other serious crime are vulnerable to narcotics-related money laundering. This year's list of major money laundering countries recognizes this relationship by including all countries and other jurisdictions, whose financial institutions engage in transactions involving significant amounts of proceeds from all serious crime. The following countries/jurisdictions have been identified this year in this category: **Antigua and Barbuda, Australia, Austria, the Bahamas, Brazil, Burma, Canada, Cayman Islands, China, Colombia, Cyprus, Dominica, the Dominican Republic, France, Germany, Guernsey, Hong Kong, Hungary, India, Indonesia, the Isle of Man, Israel, Italy, Japan, Jersey, Lebanon, Liechtenstein, Luxembourg, Mexico, Nauru, the Netherlands, the Netherlands Antilles, Nigeria, Pakistan, Panama, Paraguay, Russia, Singapore, Spain, Switzerland, Taiwan, Thailand, Turkey, United Arab Emirates, United Kingdom, United States, Uruguay, and Venezuela.**

Further information on these countries/jurisdictions and United States money laundering policies, as required by section 489, is set forth in the section entitled "Financial Crimes and Money Laundering."

¹ The Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) is responsible for managing more than \$200 million a year in narcotics control and anti-crime assistance to foreign countries.

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Policy and Program Developments

Policy and Program Overview for 1999

The drug trade had little to celebrate at the end of the twentieth century. Successful international counternarcotics efforts over the past few years have gradually narrowed the drug syndicates' field of action. Crop reduction and chemical control programs have caused major shifts in cultivation and refining operations. Effective law enforcement operations have fragmented the large cartels that once dominated the cocaine trade. Better interdiction now forces traffickers constantly to shift transportation routes to move drugs to market. Improved judicial systems make it more difficult for drug criminals to buy their freedom, while tougher extradition laws deny them the national safehaven they once could count on. Also, closer international cooperation among governments and financial institutions has made it more difficult for the drug trade to legitimize its profits through money laundering schemes.

The most striking change at the end of 1999 was the continuing, steady decline in the Andean coca crop, the source of all the cocaine destined for the United States. Even taking into account a marked expansion of cultivation in Colombia, overall Andean coca cultivation totals are at a new low. The most dramatic declines occurred in Peru and Bolivia, formerly the world's two principal coca producers. They now rank a distant second and third behind Colombia. At the end of 1999, coca cultivation in Peru and Bolivia was at its lowest point since 1986, when we completed the first accurate surveys of Andean coca.

The joint effort first begun in 1995 to sever the "airbridge" that carried Peruvian coca to Colombian refineries and then to eradicate coca crops paid big dividends by the end of the decade. Of the 115,300 hectares of coca under cultivation in Peru in 1995, only 38,700 hectares remained at the end of 1999—a drop of two thirds. But Peru was not the only success story. During the same four-year period in Bolivia, Bolivian government eradication programs cut coca cultivation by more than half, from 48,600 hectares to 21,800 hectares. By any measure, these are remarkable accomplishments. Reductions on this scale were only possible through close, long-term cooperation between the governments of the United States and all of the governments concerned. They are tangible proof of what can be achieved when committed governments work together effectively toward a common goal.

There was also some bad news in 1999. Coca cultivation in Colombia increased by 20 percent. The expansion in the Colombian coca crop, however, came as no surprise. It was a predictable consequence of the successes in Peru and Bolivia. Faced by the ultimate loss of its major source of coca—and thereby a large source of its income—the Colombian drug trade has been racing to make up for the shortfall in the other two Andean producers. Realizing that the only way to have a guaranteed source of coca was to plant it in lands under their immediate control, the Colombian syndicates have been steadily moving cultivation to the conflict-ridden south and southwest of the country. Since cocaine profits also in part fund Colombia's principal insurgency, the convergence of interests has led to expanded cultivation in guerrilla-dominated territory, where security conditions make it difficult for the central government to conduct eradication operations. Through this displacement, Colombian cocaine syndicates expanded the coca crop from the 101,800 hectares at the end of 1998 to the current estimate of 122,500 hectares. Yet even with this expansion in coca, the total Andean coca crop at the end of 1999 stood at 183,000 hectares, the lowest figure since 1987.

Another disturbing development is confirmation that the Colombian syndicates have achieved extraordinary levels of efficiency in extracting cocaine from their coca crops. While, as we have reported in earlier INCSRs, we had anecdotal information that Colombian cocaine yields might be greater than initially reported, scientific confirmation did not come until 1999. Fieldwork carried out under Operation Breakthrough, an interagency yield study that has been under way for much of the past decade in the Andean region, indicates that higher yielding varieties of coca are being grown in parts of Colombia. Likewise, preliminary reporting suggests that Colombian laboratory operators are more efficient in processing coca leaf into cocaine base than previously believed. As a result, we adjusted upwards our estimates of potential cocaine HCl production in Colombia over

the past five years. In 1999, Colombian refiners potentially produced 520 metric tons of cocaine HCl, a twenty percent increase over the comparable amount for 1998. Yet, even with that enormous ratcheting up of Colombian production, reductions in Peru and Bolivia brought total potential HCl from the Andean countries to 765 metric tons, a five-year adjusted low.

To help Colombia address the problem of drug expansion, the United States has proposed a two-year, \$1.3 billion assistance package to strengthen Colombian democracy and reinvigorate the economy, at the same time as we attack the drug trade. In addition to coca eradication, this assistance will help train special counternarcotics battalions, purchase additional helicopters, upgrade the Colombian government's interdiction capability, promote alternative development, and increase the protection of human rights.

Cutting heroin flows to the United States also ranks high on our list of counternarcotics priorities. Though heroin abuse is still relatively limited, there are worrisome signs of increasing use, especially by young people. Stopping heroin at the source is more difficult than attacking cocaine supply. To do so we have to limit cultivation of opium poppy, from which heroin is refined. Unlike coca, which only grows in three Andean countries, the opium poppy can be found in nearly every region of the world. Also, unlike coca, opium is an annual crop and in Latin America can produce as many as three harvests per year. Where a perennial coca bush may not become productive for about two years, one can harvest opium gum an average of four months after planting. A further obstacle to U.S. efforts to limit its cultivation is that nearly 80 percent of the world's estimated opium poppy (141,000 hectares out of some 178,000) is cultivated in Burma and Afghanistan, countries where the United States has limited influence.

The opium poppies that interest us most, however, are those grown in Colombia and Mexico. Though these two countries together cultivate less than six percent of the world's total opium poppy, their production has a significant impact on the United States. Most of the heroin identified in the United States in 1999 was of Colombian or Mexican origin. With such a small crop supplying such a large share of the market, opium poppy control programs in those two countries can seriously affect the flow of heroin to the U.S. The United States Government estimates that in 1999 Mexico took out of production some 7,900 hectares, leaving 3,600 hectares for opium production. This is the lowest figure since 1992. In Colombia, however, opium poppy cultivation increased by 23 percent to 7,500 hectares. This figure would have been much larger had Colombian authorities not destroyed more than 8,000 hectares of opium poppy in 1999.

Drug Syndicates Suffer

Capturing key traffickers demonstrates—to the criminals and to the governments fighting them alike—that the syndicates are highly vulnerable to coordinated international pressure sustained over time. In the Western Hemisphere, the drug syndicates continued to suffer reverses, as key governments pursued the leaders of the major organizations. In October 1999, Operation Millennium, a joint effort involving the Colombian and U.S. governments, resulted in the arrest of scores of major Colombian traffickers. More significantly, it disrupted an international drug trafficking network that reached as far as Peru, the United States, and Europe.

Mexico continued to strike at the Juarez cartel. In 1999, Mexican law enforcement and military units moved against the remnants of the Carrillo Fuentes Organization operating in the state of Quintana Roo, especially in the resort city of Cancun. The Government of Mexico formally indicted Quintana Roo's governor, Mario Villanueva Madrid, on numerous drug trafficking charges stemming from his association with Alcides Ramon Magana. Until late 1998, Magana, in collusion with remnants of the cartel, had been coordinating multi-ton cocaine shipments from Colombia into the Yucatan. The ex-governor is a currently a fugitive. Also among those arrested was Juan Quintero Payan, co-founder of the Juarez Cartel.

Promoting Institutional Change

An underlying premise of our international drug control strategy has been to promote long term change in key national institutions of the main drug source and transit countries. Through training programs conducted by the principal U.S. Government law enforcement agencies, we have helped governments to modernize and professionalize law enforcement agencies. In an effort to narrow the opportunities for manipulation by the drug trade, we have worked to assist governments in strengthening their judicial and banking systems. Without a professional judicial system based on the rule of law and administered by officials of integrity, the best law enforcement operations can come to naught. There have been instances where law enforcement agencies in key drug-affected countries have captured and jailed prominent traffickers, only to see them set free by the arbitrary decision of a single judge or magistrate. Thanks to several long-standing cooperative administration of justice programs, such instances are becoming rarer. In 1999, several countries continued to modernize their laws and professionalize their court systems through reforms ranging from installing more modern equipment to major changes in the way judges are appointed. Though there will undoubtedly continue to be instances of judges arbitrarily dismissing evidence against or releasing well known drug traffickers, we can expect to see the number of such cases decline, as governments make basic reforms such as giving judges better pay and greater personal protection, while streamlining administrative procedures.

Extradition

Aside from dying at the hands of their rivals, there is perhaps no sanction that drug lords fear more than extradition to the United States. The long sentences already meted out to notorious international drug criminals by U.S. courts are stark reminders of what can happen to even the most powerful cartel leaders when they are subject to a justice system that they cannot manipulate through bribes and intimidation. Extradition for such crimes, however, is still far from universal. In many countries, where sovereign jurisdiction is politically sensitive, the laws still prohibit the extradition of their nationals. Powerful drug criminals are adept at exploiting such national sensitivities to their advantage. For example, a ban on extradition in the 1980's and 90's allowed the Medellin and Cali cartels to use their prisons as a high-security drug operations center.

In November, Colombia marked an important turning point in counternarcotics cooperation. Colombian authorities extradited a Colombian citizen to the United States for the first time in nine years, fulfilling one of the United States Government's most sought-after but elusive counternarcotics goals in that country. Despite narcotics traffickers' attempts to throw up legal roadblocks, and at least one bombing possibly linked to the extraditions, the Colombian government now appears ready to send narcotics traffickers to justice in the United States regardless of citizenship. The Colombian government's courageous decision to reverse the ban on extradition diminishes the possibility of a domestic safehaven to the current generation of drug syndicates. Other countries that extradited nationals to the United States in 1999 were Mexico and Pakistan. We hope to see similar actions by other countries whose nationals currently enjoy legal or de facto immunity from extradition.

Money Laundering

No matter how large the profits of the drug trade, drug money is worthless until it can be moved into legitimate financial and commercial channels. Disguising deposits of hundreds of millions of illegal dollars is not easy. International drug syndicates probably devote as much energy and ingenuity to finding ways of legitimizing their profits as they do to producing and moving drugs. They have been forced to become more creative thanks to international success in gradually closing off the drug trade's back avenues to international banking and financial systems. Working with our partners in the Financial Action and Caribbean Financial Action Task Forces, in 1999 we focused on expanding collective measures to make it as difficult as possible for the drug trade to legitimize its illicit fortune, especially in offshore financial institutions that accept money with few questions asked. Though several countries' financial institutions are still willing to turn a blind eye to—or even solicit—funds of questionable provenance, there has been progress over the past year. Thailand, for example, passed money-laundering legislation called for in the 1988 UN Drug Convention. Such actions move us closer to our common goal of eventually excluding drug money altogether from the international financial system.

The Drug Trade—A Formidable Opponent

Though we can take pride in our progress at the end of the century, we are still a long way from putting the drug trade out of business. As one of the pillars of international organized crime, it remains a formidable enemy. It has access to financial resources available to few national governments, without formal restraints on how they can be used. The drug syndicates also have the advantage of experience. Long before transnational crime had become recognized as a genuine threat to international stability, the Colombian and Mexican syndicates already had in place an impressive network of supply centers, distribution networks, foreign bases, and reliable entree into the governments of source and transit countries. They pioneered many of today's advanced money laundering techniques, hiring first-rate accountants, and investing in state-of-the-art technology. Even after suffering considerable losses, the drug trade's wealth, power, and organization equal or even exceed the resources of many governments.

International drug trafficking becomes more sophisticated every year, as it adapts to counternarcotics offensives. Although our collective efforts to cut drug traffic in 1999 have kept drug traffickers on the defensive, they were still able to move hundreds of tons of cocaine not only to the United States and Western Europe, but to markets in Latin America, Asia, Africa the NIS and CIS countries. The major drug trafficking syndicates are the criminal equivalent of large multinational organizations, with drug distribution centers and money laundering on every continent. But they are not alone, as Italian, Albanian, Turkish, Russian, Nigerian, and Southeast Asian crime syndicates, to name but a few, compete successfully for a share of the business.

The drug trade also promotes and adapts to changing trafficking and consumption patterns. It seeks to blur the lines between cocaine, heroin, and methamphetamine-consuming countries. During the past few years we have observed more polydrug use, with addicts combining cocaine and heroin to offset each drug's respective stimulant and depressant effects. National tastes are also changing. Europe, once the preserve of the heroin trade, has developed a growing appetite for cocaine and amphetamines. In parts of Eastern Europe and Russia, cocaine sells for up to \$300 per gram, three times the average cost in the United States.

In North America, heroin consumption has been gradually increasing, as cocaine use has declined sharply from

skyrocketing use during the 1980's. (Between 1985 and 1998, the number of cocaine users dropped 70 percent, from 5.7 million to 1.8 million estimated users and has not risen appreciably since.) Although heroin use has not risen proportionately, the growing willingness of American high school students to experiment with heroin is disturbing. According to the 1998 National Household Survey on Drug Abuse released in August 1999, the rate of initiation for youths from 1994 to 1997 was the highest since the early 1970s. Though we cannot yet say whether this is the beginning of a trend, the Colombian and Mexican drug syndicates' major investment in heroin production indicates that they view the United States as a lucrative and expanding market for heroin. Given the drug trade's record in anticipating--and stimulating--market demand, the drug syndicates' persistent cultivation of opium poppy must be a cause for concern.

Dangerous Synthetics: Methamphetamine and Ecstasy

Another troubling development is the growing popularity of methamphetamine and the related drug, MDMA ("Ecstasy"). These stimulants are now an important and highly lucrative component of the international illegal drug market. Methamphetamine rivals cocaine as the stimulant of choice in many parts of the globe. The demand for methamphetamine and other synthetic stimulants, including amphetamines and MDMA, has been on the rise not only in the industrialized nations, but also in many countries of the developing world. In Thailand, for example, methamphetamine has displaced heroin as the most heavily abused drug.

The relative ease of manufacturing methamphetamine and the similarity of the refining process for MDMA appeal as much to small drug entrepreneurs as to the large international syndicates, since neither has to rely on vulnerable crops, such as coca or opium poppy. Synthetics allow individual trafficking organizations to control the whole process, from manufacture to sale on the street. Synthetics also have large profit margins and can be made anywhere from commercial chemicals. Mexico is the principal foreign supplier of methamphetamine and precursors for the United States, but there are centers of methamphetamine production in countries as far apart as Burma, Poland, Japan, the Philippines, Vietnam, and North Korea. The United States has its own domestic methamphetamine production, as demonstrated in 1999 by the seizure of 1,916 methamphetamine laboratories by DEA and another 1,984 by state and local authorities.

Ecstasy, an amphetamine derivative, is another drug that is growing in popularity. Ecstasy first gained notoriety in the 1990's along with the "rave culture" that swept over Europe's younger generation. Ecstasy's stimulant properties furnished the chemically induced stamina to dance for hours at all-night discotheque parties known as "raves." It has now developed an international cult following, as one can see from internet sites that give detailed instructions on how to make and use MDMA "safely." Most of the MDMA available on the European drug market is manufactured in clandestine laboratories in the Netherlands and in Poland.

One pernicious aspect of Ecstasy is that many of its users do not consider it a dangerous drug. It is seen as a non-addictive stimulant. When an addictive drug develops a reputation for being relatively benign, efforts to suppress it become correspondingly difficult. Seizure data in many of this year's INCSR country chapters indicate a surge in Ecstasy consumption in Europe, suggesting that the drug's popularity is on the rise. France and Estonia are cases in point. But we have our own Ecstasy problems. The University of Michigan's Monitoring the Future study noted a rise in Ecstasy use by high school students. In 1999, slightly more than four percent and five percent of tenth and twelfth graders respectively reported using the drug.

Precursor Chemicals

But even synthetics have their Achilles' heel. Traffickers who manufacture stimulants and other synthetic drugs need precursor chemicals that they cannot produce themselves. Whereas opiates and cocaine require widely available and relatively substitutable "essential chemicals," amphetamine production requires "precursor chemicals", such as ephedrine, pseudoephedrine or phenylpropanolamine. These chemicals have important but fewer legitimate uses and are commercially traded in smaller quantities to discrete users. It is crucial to chemical control that each country have an effective, flexible system that regulates the flow of key precursor chemicals, without undue burdens on legitimate commerce. For that reason, the United States, the European Commission, and the UN's International Narcotics Control Board worked in 1999 with key governments to strengthen an informal multilateral system of information exchange on chemicals.

Controlling Drug Supply

Our mission is to stem the flow of drugs to the United States. How effectively we do so depends on our ability to attack drug supply at critical points along a five-point grower-to-user chain linking the consumer in the U.S. to the grower in a source country. Where cocaine or heroin are concerned, the chain begins with the growers cultivating coca or opium poppies, for instance, in the Andes or Burma, and ends with the cocaine or heroin user in a U.S. town or city. In between, lie the processing (drug refining), transit (shipping), and wholesale distribution links.

Our international counternarcotics programs target the first three links of the grower to user chain: cultivation, processing, and transit. The nearer to the source we can attack, the greater our chances of halting drug flows altogether. Where crops are destroyed or left unharvested, no drugs can enter the system. It is analogous to

removing a malignant tumor before it can metastasize. Crop control is by far the most cost-effective means of cutting supply. In an ideal world, with drugs halted at the source, none could enter the distribution chain and there would be no need for costly enforcement and interdiction operations.

In the real world of counternarcotics programs, however, crop control has enormous political and economic implications for the producing country, for it inevitably means attacking the livelihood of an important sector of the population. Implementing crop control programs takes time, as governments develop alternatives for the affected population. As a result, while pursuing the goal of crop elimination, we cannot neglect the processing and distribution stages. Our programs therefore must constantly direct resources toward those links where we can have both an immediate and a long-term result.

Though eradication is the most direct way of eliminating a drug crop, it is not the only way. In many countries, large-scale eradication is neither politically nor socially feasible. As our experience the past few years in Peru and Bolivia has shown, the right combination of effective law enforcement actions and alternative development programs can produce truly remarkable results. We therefore work closely with the governments of the coca growing countries to find the best way to eliminate illegal coca in any given national context.

Reducing Coca

The coca crop offers the best prospect for dramatic reductions for several reasons. Coca is confined to a specific geographical region. Significant coca cultivation takes place in only three countries--Colombia, Peru, and Bolivia--and with modern technology we can locate the growing areas precisely. Thus, unlike a multi-ton load of finished cocaine distributed among trucks, boats, and aircraft, a coca field is a large, stationary target. Eliminating coca on the ground is also highly cost-effective. Current studies indicate that in Bolivia and Peru, where alkaloid content is high, every 200 hectares of coca taken out of production deprives the drug trade on average of a metric ton of refined cocaine. So even manual eradication can make a difference. But our high-speed spray aircraft offer a more effective alternative. If these planes had unobstructed access to the principal coca plantations, they could destroy a large percentage of the coca crop in a matter of months using environmentally safe herbicides.

Because the situation varies from country to country, the United States Government has been working with each Andean government to find the best way to eliminate illegal coca in the light of prevailing local conditions. Crop reduction successes in Peru, Bolivia, and the traditional growing areas of Colombia have created a new situation by driving coca production into areas in southern and southwestern Colombia controlled by the insurgency. The situation has therefore become simultaneously better defined and more dangerous. The concentration of coca cultivation in a geographically confined area gives counternarcotics spray aircraft a better target. But the determination of the guerrillas and the drug trade to protect their vital source of income by quasi-military action poses a new level of threat to eradication aircraft that were not designed for use in hostile environments. The United States Government's proposed \$1.3 billion narcotics assistance to Colombia over the next two years should offer new possibilities of dealing with this problem.

Political Will

While cooperative anti-drug programs have proven their value, the most powerful defense against the drug trade is an intangible--political will. If political will is weak where organized crime is strong, corruption soon sets in. Left unopposed, such corruption ultimately vitiates the rule of law and puts democratic government in jeopardy. Consequently, a basic objective of U.S. counternarcotics policy is to prevent drug interests from becoming entrenched by bolstering political will to oppose illicit drug trade in the key source and transit countries. In those countries where political leaders have had the courage to sacrifice short-term economic and political considerations in favor of the long-term national interest, we have seen the drug trade weaken. And where political will has faltered, the drug syndicates have prospered accordingly.

The Power to Corrupt

The drug trade's ability to subvert even relatively strong societies stems from its access to nearly unlimited amounts of money. In what resembles economic alchemy, drug syndicates transform an intrinsically cheap, available, and easily renewable commodity (e.g., coca leaves) into an almost inconceivably remunerative product. In terms of weight and availability, there is currently no commodity more lucrative than drugs. Illegal drugs are relatively cheap to produce and offer enormous profit margins that allow the drug trade to generate criminal revenues on a scale without historic precedent. At an average retail street price of one hundred dollars a gram, a metric ton of pure cocaine has a retail value of \$100 million on the streets of a U.S. city--two or three times as much if the drug is cut with adulterants. By this gauge, the 100 or so metric tons of cocaine that the United States Government typically seizes each year are theoretically worth as much as \$10 billion to the drug trade--more than the gross domestic product of many countries. Even if only a portion of these profits returns directly to the drug syndicates, we are still speaking of hundreds of millions, if not billions, of dollars. To put these sums into perspective, in FY 2000 the United States Government's overall budget for international drug control operations is approximately one and half billion dollars. That is the street value of approximately

16 metric tons of cocaine. The Mexican drug cartels have lost that much in a few shipments and barely felt the loss.

Such boundless wealth offers the large trafficking organizations an almost unlimited capacity to corrupt. Though less obvious, in many ways the drug syndicates are a greater threat to democratic government than many insurgent movements. Guerrilla armies or political terrorist organizations seek to topple and replace governments through overt violence. The drug syndicates, on the other hand, covertly seek to manipulate existing governments to their advantage and guarantee themselves a secure operating environment. They can do so only by co-opting the right officials. A real fear of democratic leaders should be that one day the drug trade might take de facto control of a country by putting a majority of elected officials, including the president, directly or indirectly on its payroll. Though it has yet to happen, in the past few years there have been some disquieting near-misses. By keeping the focus on eliminating corruption, we can forestall the possibility of a government manipulated by drug lords from ever becoming a reality.

The Certification Process and Corruption

Drug corruption thrives in the shadows. It needs anonymity for survival. Since it shuns the light, the best way to attack drug corruption is to expose it regularly to public scrutiny. The drug certification process offers a means of forcing corruption to the surface. It gives the U.S. government the legislative equivalent of an international spotlight to shine on corruption. Section 490 of the Foreign Assistance Act requires the President to certify annually that each major drug producing or transit country has cooperated fully or has taken adequate steps on its own to meet the goals and objectives of the 1988 UN Convention, including rooting out public corruption. Governments that do not meet the standard lose eligibility for most forms of U.S. military and development assistance; they also face a mandatory "no" vote by the United States Government on loans in six multilateral development banks.

Controversial but Effective

By now, most governments know that U.S. law requires the President to provide this annual assessment of counternarcotics cooperation based on factual information. Setting certification benchmarks is not a unilateral process. Through regular and sustained consultation throughout the year, we work with our partners to establish realistic, mutually acceptable goals for certification evaluation purposes, based on goals and objectives of the UN Convention. Though controversial, throughout the 14 years it has been in effect the certification process has proved to be a powerful policy instrument. Its strength lies in its reliance on public, rather than on traditional diplomacy. In a sharp departure from the confidentiality inherent in traditional bilateral diplomacy, public diplomacy stresses openness and transparency. Because of its public nature, the drug certification process makes every government concerned publicly accountable for its actions, including the United States. While the United States Government obviously cannot certify itself, most governments recognize that the President of the United States cannot issue such an important public declaration without being certain of--and held accountable for--his facts. The goal of the certification process is not to sanction; it is to hold all countries to a commonly acknowledged international standard of cooperation. By its nature it also exposes the United States to full public scrutiny by the rest of the international community. We become as accountable as any other country for our successes and our failings. As uncomfortable as it may be for all concerned, it is a healthy process.

Next Steps

Our achievements at the end of 1999 suggest that we are still on the right track. Concerted, sustained action over the year has kept the drug syndicates on the defensive. In the year ahead, we will build upon our gains by further pressing the drug trade at every point--targeting drug syndicates, reducing drug cultivation, destroying labs, disrupting the flow of the necessary processing chemicals, interdicting large drug shipments and attacking drug money flows. Though we cannot neglect any stage in the process, we know that we can inflict the most lasting damage at the crop cultivation and financial operations stages. Having seen again this year how cooperative ventures pay off in reducing drug crop cultivation, we will continue to strengthen these programs. Now we need to beef up our collective efforts to curb the illegal drug conglomerates' financial operations.

Though drug syndicates are powerful in their underworld milieu, they lose their advantage when they have to operate in the legitimate world. They are especially vulnerable when it comes to cashing in their profits. The drug trade's ability to generate vast amounts of cash is simultaneously its strength and its weakness. To stay in business it needs a steady flow of drugs to generate revenue; at the same time it requires a steady flow of money to buy the drug. Like a legitimate enterprise, the drug syndicates partially finance future growth by borrowing against future earnings. So every metric ton of drugs that does not make it to market represents a potential loss of tens of millions of dollars in essential revenue. On the revenue end of the process, cash proceeds are useless unless they can be reinvested in new drug crops, arms, bribes, advanced technologies and other assets to keep the syndicates operating. If we can cut off the flow of money and drugs long enough, we can choke off the lifeblood of the drug trade.

The international financial community, working through the Financial Action Task Force (FATF) and the regional Financial Action Task Forces, has made considerable headway in closing off the major avenues for legitimizing the proceeds of international crime. Long gone are the days when organizations could bank large blocs of cash or transfer enormous sums to anonymous bank accounts with no questions asked. Yet our progress has only blocked off some of the more obvious money laundering channels. Since we have obliged international criminals to become more sophisticated in circumventing our roadblocks, we have to become even more ingenious in devising new ones. Therefore, working closely with our partners, we will encourage all governments to refine their oversight mechanisms, tighten regulations, enact anti-money laundering legislation, and strictly enforce all money laundering laws. We also will seek better ways to identify, freeze and, ultimately, cause forfeiture of illegal drug proceeds before they can be invested. Where the United States itself is concerned, we will continue to make use of the International Economic Emergency Powers Act to keep the drug trade from exploiting legitimate companies for criminal purposes.

We enter the twenty-first century with considerable experience and success in fighting the international drug trade. In the decade and a half since the flow of cocaine pouring into the United States reached crisis proportions, we have achieved many of our immediate critical goals. Cocaine use has fallen dramatically; the coca crop is at an historic low; the big drug cartels have become fragmented; and most of the flamboyant drug syndicate bosses of the 1980s and '90s are either dead or behind bars. The foundations for long-term counternarcotics cooperation among the majority of affected countries are in place. Collectively, we can take pride in how far we have come.

There is no room, however, for complacency. Fighting the international drug trade is a complex, dynamic process. The incentives for wealth and power are enormous, while opportunities are constantly springing up in the form of a new generation of potential users across a wide range of countries. The drug trade will be quick to exploit these openings. Though the affluent societies of the West offer especially inviting prospects, no country is safe from a drug abuse crisis. Illegal drugs also will remain one of the principal sources, if not the primary source of revenue for a diversity of insurgent and criminal organizations in both hemispheres. They will also continue to be a potential source of corruption. Yet, as menacing as this opposition may be, we have shown that it cannot overcome the sustained, collective efforts of a coalition of governments committed to its destruction. Our task in the year ahead will be to make that coalition even stronger.

Coca and Cocaine

Though demand for cocaine has fallen over the last decade and a half, it remains our most serious illegal drug threat. Every year, several hundred tons enter the United States to feed a body of hard-core users. Crack, the smokable--and most quickly addictive--form of cocaine, still incites much of the violence in America's cities. Crack is simultaneously the drug dealer's dream and society's nightmare. It is cheap, potent, and addictive; it is also widely available, easily distributed, and highly profitable. Competition for the lucrative crack market continues to fuel much of the gang violence in major U.S. cities.

The United States remains the largest single market for the drug, but we may be losing that distinction. The long-term decline and leveling off in American demand for cocaine has caused the drug syndicates to seek out markets where there are better prospects for growth. Europe has been their principal target, since the Continent's general prosperity offers potential markets ripe for exploitation. In many countries of Eastern and Central Europe cocaine has the cachet of novelty that once made the drug attractive to American athletes, media stars, and Wall Street traders in the 1980s. Its stimulant properties appeal to aspiring overachievers. Russia offers another attractive growth opportunity. The combination of overnight millionaires anxious to consume and well organized criminal syndicates ready to provide drugs suits the syndicates' aims perfectly. With reports that cocaine sells for up to \$300 per gram in Russia--three times the going price in the U.S.-- it is easy to see why Latin American drug syndicates continue to view Europe as a safe source of income for the next few years.

Europe, however, is not the only continent experiencing a major influx of cocaine. It is available in virtually every major city of the world. Though the volume may not be as great, cocaine is common in Asia and the Middle East, Africa, and South America. If our own experience in the last decade and a half is any guide, demand for cocaine in the rest of the world will continue to escalate until governments implement serious counternarcotics programs. If governments can strengthen the whole gamut of counternarcotics measures, including prevention, demand reduction, and enforcement programs, they may spare themselves the economic and social consequences of a major cocaine and crack epidemic.

Source and Transit Country Highlights

The United States has longstanding cooperative drug control programs with the principal source and transit countries of Latin America. The oldest of these programs are those that help the major coca growing and processing countries eliminate coca at the source. These initiatives have had remarkable success. With assistance from the United States, Peru and Bolivia have now demoted themselves to second and third tier suppliers of coca leaf and cocaine. Successes in Peru and Bolivia, however, have increased pressure on

Colombia's drug syndicates to make up for losses by expanding cultivation into areas under guerrilla control. Colombian coca cultivation in 1999 increased by 20 percent. This figure would have been considerably higher if spray aircraft had not attacked caused considerable damage to the crop.

The decision to concentrate the bulk of cultivation within zones of hostile activity has raised the stakes for all concerned. Modern weapons protecting the coca fields under the control of trafficker-guerrilla and trafficker-paramilitary alliances have escalated the risks for Colombian spray planes. In 1999, the Thrush and OV-10 spray aircraft took more frequent hits as more powerful anti-aircraft weapons were brought on line. This ratcheting up of the threat has forced a rethinking of tactics, leading to a major boost in United States Government programs to assist the Colombian government in eliminating cultivation. Colombia for its part has activated its elite, U.S.-trained, counternarcotics battalion and formed an air-mobile interdiction unit to augment its power to challenge the narco-insurgent forces.

Over the next two years, the United States Government will propose \$1.3 billion in assistance to help the Colombian government fight drug trafficking, bolster its economy, and strengthen its democracy. In the year ahead, the United States will provide Colombia with assistance to push into the coca growing areas now dominated by guerrillas. Among other programs, United States Government funds will train special counternarcotics battalions, purchase 30 Blackhawk and 33 Huey helicopters and provide eradication equipment.

Bolivia, which only permits manual destruction of coca, eliminated 16,999 hectares of coca, 46 percent more than in 1998. At the end of 1999, Bolivia had 21,800 hectares of coca under cultivation, a 43 percent drop from 1998. Since 1995 Bolivia's crop has decreased by more than half and is now the smallest in a decade. The government's success in crop reduction has moved it within reach of its goal of eliminating all illicit coca by the year 2002.

Peru, once the world's major coca producer, had 38,700 hectares of coca under cultivation at the end of 1999. This was a 24 percent drop from the 1998 total of 51,000 hectares. In five years, the Peruvian coca crop has been reduced by two-thirds--an extraordinary achievement.

As drug flows have been diverted to riverine and land routes, **Ecuador** continued to make important cocaine seizures. In 1999, Ecuadorian authorities seized nearly one metric ton of cocaine, more than twice the amount confiscated in 1998.

Central America and the **Caribbean** are the natural transit areas for drugs moving to the United States. Better law enforcement operations by governments in both regions have forced the drug trade constantly to vary their routes. In Central America, government action appears to have diverted many cocaine shipments from traditional overland routes. For example, cocaine seizures in **Costa Rica** fell drastically compared to the previous two years (approximately two tons in 1999, versus eight tons in 1998 and seven the year before.) Successful interdiction efforts may have caused traffickers to move drug shipments directly to **Guatemala** and points north via go-fast boats and aircraft. In 1999, Guatemalan agencies seized over ten metric tons of cocaine, including the largest seizure ever made by Guatemalan authorities. They also seized over 51 kilos of heroin and three kilos of crack cocaine. Reduced seizures in **Panama** confirm the apparent shift of trafficking patterns away from the established drug routes.

Mexico is the transit and distribution hub for the bulk of the drugs moving to the United States. Once Colombian cocaine reaches Mexico and Central America, powerful Mexican drug syndicates move the drug to U.S. markets. There are indications that flows into Mexico may have increased in 1999. Mexican authorities seized 37.2 metric tons of cocaine in 1999, a 65 percent increase over the 1998 figure of 22.6 metric tons.

Though the **Caribbean** remains an important transshipment area for the drug trade, cocaine seizures in 1999 fell in many countries of the region. As of November, law enforcement officials in the **Bahamas** had seized slightly less than two tons of cocaine in 1999, roughly half of the previous year's levels, but close to the two and a half metric tons seized by **Jamaica**, a record for that country. The **Dominican Republic** seized 1.1 metric tons, nearly twice the 430 kilograms seized by **Haiti** in 1999.

Heroin and Opiates

Heroin, unfortunately, is no longer the once discredited drug of "dead-end" addicts. Throughout the 1990s it gradually crept back onto the U.S. drug scene to a degree that worries epidemiologists and drug control experts today. They fear that heroin use could gradually take root in a new generation ignorant of the usually irreversibly addictive qualities of the drug. Heroin has an insidious property that appeals to trafficker and addict alike: it allows many addicts to develop a long-term tolerance to the drug, giving the illusion that they can control use. Where cocaine--especially crack cocaine--abuse usually leads to escalating consumption that can kill an addict in five years, an addiction to heroin can last a decade or more. Many addicts can function and hide their addiction, as long as they have access to a maintenance "fix." There have been prominent heroin addicts known to have preserved the facade of a normal life for decades, a fact that can feed youthful skepticism over heroin's real dangers.

Worse, over the past few years heroin has acquired an upscale image--"heroin chic"--among the younger generation. The archetypal heroin addict injecting him--or herself--with a dirty needle and dying miserably in a filthy back alley is a phenomenon of the past. For today's prospective heroin user in the United States, needles are not obligatory. The high purity of Colombian heroin currently available in much of the United States can be sniffed like cocaine, sparing the user from both the need for syringes and the fear of contracting AIDS from infected needles. The consequences of addiction, however, are the same--a physical and psychological dependency with withdrawal symptoms that make conquering an addiction extremely difficult. Estimates of the United States heroin addict population, which for the better part of two decades had remained at about 600,000 individuals, were revised upwards to 980,000 addicts in 1998. Including casual use, the figure may be 1.2 million. Evidence of combined drug use suggests that growing numbers of the United States' 1.8 million cocaine addicts are using heroin to cushion the "crash" that follows the "rush" of using crack.

Despite the popularity of cocaine, heroin still reigns as the hard drug of choice in much of the world. Although, according to United States Government estimates, total potential world-wide opium production in 1999 was at its lowest point in a decade and half, the approximately three thousand metric tons potentially available were more than enough to supply global heroin demand many times over. Europe, the principal consumer of Southwest Asian heroin, received some bad news in 1999. Afghanistan now is second only to Burma in the area under opium poppy cultivation and has actually surpassed Burma in potential opium gum production. Afghan opium poppy cultivation rose by 23 percent in 1999 to a total of 51,500 hectares, enough potentially to produce 1,670 metric tons of opium or 167 metric tons of heroin. By comparison, though Burma cultivated 89,500 hectares in 1999, their potential yield was 1,090 metric tons of opium gum, two-thirds of the Afghan total. As opium gum yields are much higher in Afghanistan, that country now potentially produces 55 percent of the world's opium gum.

This boom in supply can only exacerbate heroin addiction problems, not only in Europe but also in all the intervening countries along the heroin supply routes. Despite active enforcement programs in most transit countries, high-quality Afghan heroin continues to move in large quantities along the Balkan Route's northern, central, and southern branches into every important market in Europe, Russia, and the other countries of the former Soviet Union. From the size of seizures, it appears that larger and larger amounts are entering the pipeline. In 1999, Turkey seized 2.2 metric tons of heroin. Italy seized 1.2 metric tons. By comparison, the United States Government's largest heroin seizure was 490 kg in 1991. With heroin demand potentially open-ended and heroin availability unlikely to be seriously diminished, in the twenty-first century we can expect to see a continuing flow of the drug to nearly every country on the globe.

The drug trade is clearly anticipating growing market demand in North America. The Colombian drug syndicates have committed substantial resources to heroin production, most, if not all, of it destined for North America. Over the past four years there has been a shift in heroin supply patterns to the United States. Colombian and Mexican heroin have displaced Southeast and Southwest Asian heroin in much of the United States. While some Southeast heroin continues to flow to U.S. markets in undetermined quantities via Canada and by international mail, the bulk of the heroin seized and identified by United States Government agencies in 1999 was of Colombian and Mexican provenance. Most of the heroin seized by United States Government law enforcement agencies in 1999 east of the Mississippi River was of Colombian origin. West of the Mississippi, Mexican heroin dominated seizures. Since the big drug syndicates are in effect large multinational criminal organizations that carefully follow drug demand patterns and plan their operations accordingly, it appears that these syndicates may be counting on rising heroin consumption in the younger generation to keep them in business.

Source and Transit Country Highlights

A second year of unfavorable growing conditions in 1999 reduced opium cultivation in the Golden Triangle region of **Southeast Asia** by 29 percent to 112,135 hectares, the lowest level since 1988. The decline was significant in **Burma**, which produced approximately 50 percent of the world's illegal opium. Burma's crop fell by 31 percent to 89,500 hectares, the smallest crop since the explosion of poppy cultivation in 1988. Burma's crop could potentially yield 1,090 metric tons of opium, convertible to 109 metric tons of heroin, enough to supply much of the world's demand. In 1999, opium poppy cultivation in **Laos** fell by 16 percent to 21,800 hectares, potentially yielding 140 metric tons of opium, or 14 metric tons of heroin. That is approximately 11 percent of the region's estimated output. Already marginal production in **Thailand** further plummeted by 38 percent to 835 hectares, capable of yielding six metric tons of opium gum or one ton of heroin, less than a fraction of one percent of Southeast Asian potential production. In **Vietnam**, poppy cultivation dropped by more than 30 percent to an estimated 2,100 hectares, a new low for the country. Potential yields were 11 metric tons of opium or slightly over a metric ton of heroin.

In **Southwest Asia**, total poppy cultivation rose by 19 percent in 1999 to 53,570 hectares. The estimated yield rose from 1,350 metric tons of opium gum in 1998 to 1,670 in 1999. All of the increase occurred in Afghanistan, which thanks to very high yields per hectare is now the world's leading source of illicit opium

gum. The Afghan crop was at an all-time high of 51,500 hectares, a 23 percent increase. In contrast, opium poppy cultivation in Pakistan was at an all-time low of 1,570 hectares, having fallen 48 percent below the 1998 figure of 3,030 hectares. Government of **Pakistan** initiatives played an important role in this decline. In 1999, Pakistani authorities tripled their opium seizures to 11.5 metric tons and increased their heroin seizures by 57 percent to nearly four metric tons.

Any increase in Southwest Asian heroin production is especially bad news for **Europe**. Afghanistan furnishes most of the heroin that has been flooding European cities for years. Heroin moves to Europe along the so-called Balkan Route, a series of overland routes out of Afghanistan and Pakistan. After passing through Turkey, it splits into several branches. The northern route carries heroin to Romania, Hungary, the Czech and Slovak Republics, and points north. The southern branch crosses through Croatia, Slovenia, the Former Yugoslav Republic of Macedonia, Greece and Albania to the countries of Western Europe. Every country along the route now faces serious domestic drug problems. Turkish drug syndicates, with distributors in ethnic enclaves in a large number of European cities, dominate most of the Balkan Route commerce. In Italy, Albanian traffickers control much of the heroin trade.

Russian criminal organizations also play an increasingly evident role in drug trafficking in Europe and Central Asia. Many of these gangs--often controlled by Russian ethnic minorities from the Caucasus--survived even under the Soviet regime. Thus they entered post-Soviet Europe with the advantage of criminal expertise, contacts, and established smuggling and distribution networks. With the head start of heroin sources developed during the Soviet Union's war with Afghanistan, the Russian gangs are now a major factor in the European drug trade. They use their networks to transport Southwest Asian heroin through Central Asia to Russia, as well as onward to the Baltics and Western Europe.

Russia itself is now suffering serious addiction problems. Government authorities put the number of addicts at about two million, although the figure could well be higher. According to the Russian press sources, the Interior Ministry has noted a continuing increase in the growth rate of hard drug addiction. Opium, heroin, cocaine, and synthetic drugs are taking the place of crude traditional narcotics such as poppy straw extract.

Geography and history make **Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan**, formerly important poppy growing regions for the Soviet Union, natural conduits for much of the drug traffic in Russia. Kazakhstan provides a bridge for Southeast Asian heroin to move to Europe and Russia from Asia. The other countries offer profitable access routes for Southwest Asian, especially Afghan, heroin into Russia, the New Independent States, and Europe. Heroin, which fetches high prices in Russia and Europe, has been a tempting source of cash to finance the civil wars in Afghanistan and Tajikistan.

Just as Colombian and Mexican traffickers dominate the cocaine trade, Nigerian criminal organizations control a large part of the world's heroin traffic. Nigeria continues to be Africa's most important heroin distribution hub. Nigerian drug couriers dominate the international heroin smuggling trade and are the principal means of smuggling heroin into the United States. There is hardly a country in the world that does not report arrests of Nigerians for heroin trafficking. They surface in Brazil, Ecuador, Ethiopia, India, Indonesia, Pakistan, Russia, Saudi Arabia, Thailand, and in every country in Europe. Though the Government of Nigeria has taken radical steps to suppress the endemic corruption that facilitates drug trafficking, the heroin smuggling organizations are so well entrenched that they are likely to remain the principal international conduits for the drug.

With a poppy crop responsible for less than four percent of the world's opium production, Colombia is nonetheless the Western Hemisphere's largest grower of opium poppies. High purity Colombian heroin now accounts for much of the heroin in the eastern United States. Colombian opium poppy cultivation in 1999 increased by 23 percent to 7,500 hectares capable of producing 750 metric tons of opium gum or nearly eight tons of heroin.

After Colombia, **Mexico** is the largest opium producer in the Western Hemisphere. It currently supplies the bulk of the heroin flowing to states west of the Mississippi. In 1999, Mexican government eradication efforts were remarkably successful. They cut opium poppy cultivation by a third to 3,600 hectares, the lowest level since 1992. This crop could potentially have yielded 43 metric tons of opium gum or slightly over four metric tons of heroin. In 1999, Mexican authorities seized 214 kilograms of heroin and three quarters of a metric ton of opium gum, a new record for the country.

International Organizations

International organizational efforts continue to be a key component of the overall U.S. counternarcotics strategy. Through multilateral organizations the United States has the opportunity to multiply contributions from other donors and decrease the erroneous perception that drugs are exclusively a U.S. problem. The U.S. participation in multilateral programs also supports indigenous capabilities in regions where the U.S. is unable to operate bilaterally for political or logistical reasons. Moreover, the U.S. contributions to UNDCP have had significant impact on the operations and expansion of UN counternarcotics programs and policy. In 1999, Andorra and Indonesia became parties to the 1988 UN Convention.

In 1999, OAS/CICAD, with United States Government participation, worked to develop the Multilateral Evaluation Mechanism (MEM), a hemispheric peer review system to evaluate each OAS Member State's anti-drug strategies and efforts. The MEM, which was mandated by the 1998 Summit of the Americas, was negotiated over an 18 month period by an Inter-governmental Working Group (IWG), and was completed at the August IWG session in Ottawa. The OAS formally approved the MEM in October, 1999 and will produce its first evaluations during 2000.

Demand Reduction

Drug "demand reduction" refers to efforts to reduce world-wide use and abuse of, and demand for narcotic drugs and psychotropic substances. The need for demand reduction is obvious, since escalating drug use and abuse continue to take a devastating toll on the health, welfare, safety, security, and economic stability of all nations. As a result, foreign countries are requesting more technical assistance from the United States Government to address their demand problems, citing long-term U.S. experience and efforts in this area. Assisting countries to reduce drug consumption helps in a small, but important way, to preserve the stability of that country.

Our demand reduction strategy integrates a broad spectrum of initiatives. These include efforts to prevent the onset of use, intervention at "critical decision points" in the lives of vulnerable populations to prevent both first use and further use, and effective treatment programs for the addicted. Other aspects encompass education and media campaigns to increase public awareness of the deleterious consequences of drug use/abuse and community-coalition building. This latter effort involves the development of private/public sector demand reduction coalitions designed to mobilize national and international opinion against the drug trade and to encourage governments to develop and implement strong counternarcotics policies and programs. The demand reduction program also provides for evaluations of the effectiveness of these efforts and for research studies to use these findings to improve similar services provided in the U.S.

In 1999, INL fostered the development of the first-ever international network of drug prevention programs with over 400 representatives from 44 countries at an international prevention summit in Bangkok. At the same time, INL worked with NGOs to enhance the Drug Prevention Network of the Americas (DPNA), a coalition of prevention programs from Canada, the U.S., the Caribbean, and Latin America. A complementary network of 3,000 Latin American treatment programs was also significantly enhanced. Developing countries that were the recipients of INL-funded training and technical assistance continued to self-fund their own programs developed from this assistance. Of particular note, Thailand and the Philippines developed millions-of-dollars worth of correctional-based drug intervention programs following INL-funded training. In 1999, multi-year studies were initiated on INL-funded pilot projects and programs developed from INL-funded training to learn how these initiatives can help assist U.S.-based demand reduction efforts. Preliminary results indicate that projects for high-risk youth in Peru and Brazil are evidencing high program retention rates and reduced rates of violence and recidivism.

Chemical Control

Chemical diversion control is a proactive and straightforward strategy to deny traffickers the chemicals they must have to manufacture illicit drugs. It involves the regulation of licit commerce in the chemicals most necessary for drug manufacture to ensure that only transactions for which legitimate end-uses have been established are permitted to proceed, thereby preventing the diversion of drug-producing chemicals from licit trade to illicit drug manufacture.

The need for chemical control has been internationally accepted. Article 12 of the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988 UN Drug Convention) establishes the obligation for parties to the Convention to control their chemical commerce to prevent diversion to illicit drug manufacture. The two tables of the Annex to the Convention list 22 chemicals as those most necessary for drug manufacture and, therefore, subject to control.

The United Nations International Narcotics Control Board has a central role in the implementation of international chemical control initiatives.

The essential element of effective international chemical control is rapid multilateral exchange of information between competent national authorities on proposed transactions in regulated chemicals in order to identify and stop or seize those shipments involving chemicals likely to be diverted to illicit drug manufacture. National control systems alone cannot prevent diversion. The United States Government continues to seek the establishment of formal and informal mechanisms for this information exchange.

An obstacle to more effective implementation of chemical control regimes as part of a comprehensive counternarcotics strategy is the proclivity of many governments to consider chemical control as a trade issue to be handled by trade ministries/agencies with a bias toward promoting, not regulating, trade. This leads to a reluctance to participate in the multilateral information exchange initiatives required for effective chemical control out of concern for commercial confidentiality.

There needs to be greater involvement of law enforcement agencies in the implementation of chemical control regimes. Regulatory agencies need to accept that chemical control can be effectively achieved without harm to indigenous commercial interests, and that law enforcement agencies have an essential role in its implementation. When implementation of chemical control regimes is restrained by commercial concerns, criminals can more easily obtain the chemicals they require for illicit drug manufacture, hindering international cooperative efforts against criminal drug trafficking.

Methodology for Estimating Illegal Drug Production

How Much Do We Know? The INCSR contains tables showing a variety of illicit narcotics-related data. These numbers represent the United States Government's best effort to sketch the dimensions of the international drug problem at this time, but the image is less precise than we would like it to be. The numbers range from cultivation figures, relatively hard data derived by proven means, to crop production and drug yield estimates, figures that become softer as more variables come into play. As in previous years, we publish these data with an important caveat: the yield figures are potential, not final numbers. Although they are useful for determining trends, they are ultimately approximations.

Each year, as we get better data through field research, we revise our estimates. This type of field research is far from easy. The clandestine, violent nature of the illegal drug trade makes it difficult to develop precise information. At the same time, the harsh terrain on which many drugs are cultivated is not always easily accessible. This is particularly relevant given the tremendous geographic areas that must be covered, and the difficulty of collecting reliable information over diverse and treacherous terrain.

What We Know With Reasonable Certainty. The most reliable information we have on illicit drugs is how many hectares are under cultivation during any given year. For a decade and a half, the United States Government has estimated the extent of illicit cultivation in a dozen nations using proven statistical methods similar to those used to estimate the size of licit crops at home and abroad. We can therefore estimate the area under cultivation with reasonable accuracy.

What We Know With Less Certainty. The picture is less clear where crop yields are concerned. How much of a finished product a given area will produce is difficult to estimate. Small changes in factors such as soil fertility, weather, farming techniques, and disease can produce widely varying results from year to year and place to place. Moreover, most illicit drug crop areas are not easily accessible to the United States Government, making scientific information difficult to obtain. Again, we are estimating potential crop available for harvest. Not all of these estimates allow for losses, which could represent up to a third or more of a crop in some areas for some harvests. The value in estimating the size of the potential crop is to provide a consistent basis for a comparative analysis from year to year.

Since cocaine remains at the top of the United States Government's drug-control priority list, we have gradually improved our yield estimates. Our confidence in coca leaf yield estimates, as well as in the finished product, has risen in the past few years, based upon the results of field studies conducted in Latin America. Eight years ago, after completing preliminary research, the United States Government for the first time began to make its own estimate of dry coca leaf yields for Bolivia and Peru instead of relying solely on reports from the governments of those countries. This year we are at last able to estimate coca yields in Colombia. Additional research and field studies have helped refine these estimates and make similar improvements possible in estimates of other drug crops. In all cases, multiplying average yields times available hectareage indicates only the potential, not the actual final drug crop available for harvest.

Harvest Estimates. Estimating how much coca leaf, opium gum, and cannabis is actually harvested and available for processing into finished narcotics remains a major challenge. Although we are improving our techniques, at this time we cannot accurately estimate this amount with precision for any illicit crop in any nation.

While farmers naturally have strong incentives to maximize their harvests of what is almost always their most profitable cash crop, the harvest depends upon the efficiency of farming practices and the wastage caused by poor practices or difficult weather conditions during and after harvest. Up to a third or more of a crop may be lost in some areas during harvests.

In addition, mature coca (two to six years old), is more productive than immature or aging coca. Variations such as these can dramatically affect potential yield and production. Additional information and analysis is allowing us to make adjustments for these factors. Similar deductions for local consumption of unprocessed coca leaf and opium may be possible as well through the accumulation of additional information and research.

Processing Estimates. The wide variation in processing efficiency achieved by traffickers complicates the task of estimating the quantity of cocaine or heroin that could be refined from a crop. These variations occur because of differences in the origin and quality of the raw material used, the technical processing method employed, the size and sophistication of laboratories, the skill and experience of local workers and chemists,

and decisions made in response to enforcement pressures. (See Yield Estimates below.)

Figures Change as Techniques and Data Quality Improve. Each year, research produces revisions to United States Government estimates of potential drug production. This is typical of annualized figures for most other areas of statistical tracking that must be revised year to year, whether it be the size of the U.S. wheat crop, population figures, or the unemployment rate. For the present, however, these statistics represent the state of the art. As new information becomes available and as the art improves, so will the precision of the estimates.

Status of Potential Worldwide Production

In evaluating the figures below, one must bear in mind that they are theoretical. They represent estimates of potential production--the amounts that the United States Government estimates could have been produced if, *and only if*, all available crops were to be converted into finished drugs. Since these estimates do not always make allowance for losses, actual production is probably lower than our estimates. The figures shown are mean points in a statistical range.

Potential Opium Production. In **Southeast Asia**, for the third year in row, estimated opium cultivation and production in the Golden Triangle countries fell. In 1999, total cultivation fell by 29 percent, while yield fell by 35 percent. According to United States Government estimates, in 1999, growers in **Burma, Laos, and Thailand** cultivated an estimated 112,135 hectares of opium poppy, potentially producing 1,236 metric tons of opium. Burma's production accounts for 80 percent of this amount, down from 95 percent in 1998. In Burma, estimated opium poppy cultivation fell by 31 percent to 89,500 hectares from the 130,300 hectares reported for 1998. Estimated yield fell to 1,090 metric tons of opium gum for 1999, a 38 percent drop from 1,750 metric tons in 1998. Weather conditions were largely responsible for the decrease in the crop. In **Laos**, a 16 percent drop in estimated cultivation brought the estimated crop down to 21,800 hectares, down from the 26,100 hectare figure for 1998; estimated production, however, remained at 140 metric tons. Estimated opium poppy cultivation in **Thailand** again fell dramatically by approximately 38 percent to 835 hectares from the 1,350 hectares observed last year. Thailand had an estimated potential production of six metric tons--62 percent less than the 16 metric tons estimated in 1998. In 1999, the United States Government's fourth survey of **Vietnam** found that the crop had fallen by 30 percent to 2,100 hectares with a potential yield of 11 metric tons from last year's high of 3,000 hectares of opium poppy cultivation yielding a potential 20 metric tons. The United States Government found no significant opium cultivation in **China's** Yunnan Province in 1999.

Opium poppy cultivation in **Southwest Asia** increased by 19 percent in 1999 as a result of greater cultivation in Afghanistan, which has displaced Burma as the leading producer of illicit opium gum. The increase occurred despite a 48 percent drop in **Pakistan's** opium crop. Total hectareage for **Afghanistan and Pakistan** rose from 44,750 hectares in 1998 to 53,070 hectares in 1999. Total potential production for both countries rose from 1,415 metric tons to 1,707 metric tons. Afghan hectareage rose from 41,720 hectares in 1998 to 51,000 hectares in 1999, a 22 percent increase. The estimated yield rose by 23 percent from 1,350 metric tons in 1998 to 1,670 metric tons in 1999. Afghanistan alone now potentially produces 34 percent more opium than Asia's Golden Triangle. Pakistan's hectareage decreased 48 percent from 3,030 hectares in 1998 to 1,570 hectares in 1999. Estimated yield dropped 43 percent from 65 metric tons in 1998 to 37 metric tons in 1999.

The United States Government continues to examine the illicit drug crop situation in **Russia** and the Central Asian. While some of these countries may be able to produce significant opium poppy harvests, the United States Government still lacks sufficient data to identify and measure all suspected areas. Estimates in Uzbekistan and Tajikistan in 1998, however, showed cultivation there to be negligible.

In the **Western Hemisphere**, the opium poppy growing countries have maintained active crop control efforts despite continuing campaigns by criminal organizations to expand the areas under cultivation. In **Colombia**, United States Government estimates showed a 23 percent increase in 1999 to 7,500 hectares, enough to yield an estimated 7.5 metric tons of opium gum, or a little under eight tons of heroin, assuming no losses. In **Mexico**, the 1999 opium poppy crop fell 34 percent. After Mexican government eradication operations took out production 7,900 hectares of poppy, there were 3,600 hectares of opium poppy--a near record low for the decade. Assuming no losses, the estimated potential yield was 43 metric tons of opium gum, or slightly over four metric tons of heroin. Guatemala's poppy cultivation remains at minimal levels after government efforts.

Coca Cultivation. Worldwide coca cultivation dropped four percent from last year's 190,800 hectares to 183,000 hectares in 1999. Despite an active eradication program, **Colombia** experienced an increase in coca cultivation to 122,500 hectares at the end of 1999. In **Bolivia**, government forces reduced cultivation from 38,000 hectares in 1998 to 21,800 hectares in 1999. **Peru's** coca crop dropped 24 percent from 51,000 hectares at the end of 1998 to 38,700 hectares at the end of 1999. Some coca is cultivated in inaccessible areas of **Brazil**, but its extent is unknown. Ecuador has only negligible amounts of coca.

Cocaine Field Estimates

The cocaine yield figure is offered with the same caveat as the crop harvest yield data: it is a figure representing potential production. It does not in every case allow for losses or the many other variables that

Jamaica			317	527	305	308	744	389	950
Total Cannabis	8,700	9,600	10,117	12,027	12,205	15,844	16,964	18,809	20,865

¹ USG surveys in 1998 revealed no cultivation of opium in Iran's traditional growing areas.

**Worldwide Illicit Drug Cultivation
1987–1990 (All Figures in Hectares)**

	1990	1989	1988	1987
Opium				
Afghanistan	12,370	18,650	23,000	18,500
India				
Iran				
Pakistan	8,220	6,050	11,588	9,970
Total SW Asia	20,590	24,700	34,588	28,470
Burma	150,100	143,000	104,200	76,021
China				
Laos	30,580	42,130	40,400	
Thailand	3,435	4,075	2,843	2,934
Total SE Asia	184,185	189,205	147,443	78,955
Colombia				
Lebanon	3,200	4,500	na	na
Guatemala	845	1,220	710	
Mexico	5,450	6,600	5,001	5,160
Vietnam				

<i>Total Other</i>	9,495	12,320	5,711	5,160
<i>Total Opium</i>	214,200	226,225	187,742	112,585
Coca				
Bolivia	50,300	52,900	48,900	41,300
Colombia	40,100	42,400	34,000	25,600
Peru	121,300	120,400	110,400	108,800
Ecuador	120	150	240	300
<i>Total Coca</i>	211,820	215,850	193,540	176,000
Cannabis				
Mexico	35,050	53,900	5,003	5,250
Colombia	1,500	2,270	4,188	5,005
Jamaica	1,220	280	607	680
<i>Total Cannabis</i>	37,770	56,450	9,798	10,935

**Worldwide Potential Illicit Drug Production
1991-1999 (All Figures in Metric Tons)**

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Opium Gum									
Afghanistan	1,670	1,350	1,265	1,230	1,250	950	685	640	570
India			30	47	77	90			
Iran									
Pakistan	37	65	85	75	155	160	140	175	180
	1,707	1,415	1,380	1,352	1,482	1,200	825	815	750

Total SW Asia									
Burma	1,090	1,750	2,365	2,560	2,340	2,030	2,575	2,280	2,350
China					19	25			
Laos	140	140	210	200	180	85	180	230	265
Thailand	6	16	25	30	25	17	42	24	35
Total SE Asia	1,236	1,906	2,600	2,790	2,564	2,157	2,797	2,534	2,650
Colombia	75	61	66	63	65				
Lebanon				1	1		4		34
Guatemala									11
Mexico	43	60	46	54	53	60	49	40	41
Vietnam	11	20	45	25					
Total Other	129	141	157	143	119	60	53	40	86
Total Opium	3,072	3,462	4,137	4,285	4,165	3,417	3,675	3,389	3,486
Coca Leaf									
Bolivia	22,800	52,900	70,100	75,100	85,000	89,800	84,400	80,300	78,000
Colombia ¹	521,400	437,600	347,000	302,900	229,300	35,800	31,700	29,600	30,000
Peru	69,200	95,600	130,200	174,700	183,600	165,300	155,500	223,900	222,700
Ecuador							100	100	40
Total Coca	613,400	586,100	547,300	552,700	497,900	290,900	271,700	333,900	330,740
Cannabis									
Mexico ²	3,700	8,300	8,600	11,700	12,400	5,540	6,280	7,795	7,775

Colombia	4,000	4,000	4,133	4,133	4,133	4,138	4,125	1,650	1,650
Jamaica			214	356	206	208	502	263	641
Belize									49
Others	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Total Cannabis	11,200	15,800	16,447	19,689	20,239	13,386	14,407	13,208	13,615

¹ Colombia's coca leaf production figures for 1995-98 were revised upward in 1999. See "Methodology for Estimating Illegal Production" in this section.

² Mexico's cannabis production figures for 1995-98 were revised upward in 1999.

**Worldwide Potential Illicit Drug Production
1987-1990 (All Figures in Metric Tons)**

	1990	1989	1988	1987
Opium Gum				
Afghanistan	415	585	750	600
India				
Iran				300
Pakistan	165	130	205	205
Total SW Asia	580	715	955	1,105
Burma	2,255	2,430	1,280	835
China				
Laos	275	380	255	225
Thailand	40	50	25	24
Total SE Asia	2,570	2,860	1,560	1,084
Colombia				

Lebanon	32	45		
Guatemala	13	12	8	3
Mexico	62	66	67	50
Vietnam				
Total Other	107	123	75	53
Total Opium	3,257	3,698	2,590	2,242
Coca Leaf				
Bolivia	77,000	78,200	79,500	79,200
Colombia	32,100	33,900	27,200	20,500
Peru	196,900	186,300	187,700	191,000
Ecuador	170	270	400	400
Total Coca	306,170	298,670	294,800	291,100
Cannabis				
Mexico	19,715	30,200	5,655	5,933
Colombia	1,500	2,800	7,775	5,600
Jamaica	825	190	405	460
Belize	60	65	120	200
Others	3,500	3,500	3,500	1,500
Total Cannabis	25,600	36,755	17,455	13,693

Parties to the 1988 UN Convention

Country	Date Signed	Date Became a Party
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1. Afghanistan	20 December 1988	14 February 1992
2. Algeria	20 December 1988	5 May 1995
3. Andorra	Accession	23 July 1999
4. Antigua and Barbuda	Accession	5 April 1993
5. Armenia	20 December 1988	28 June 1993
6. Argentina	Accession	13 September 1993
7. Australia	14 February 1989	16 November 1992
8. Austria	25 September 1989	11 July 1997
9. Azerbaijan	Accession	22 September 1993
10. Bahamas	20 December 1988	30 January 1989
11. Bahrain	28 September 1989	7 February 1990
12. Bangladesh	14 April 1989	11 October 1990
13. Barbados	Accession	15 October 1992
14. Belarus	27 February 1989	15 October 1990
15. Belgium	22 May 1989	25 October 1995
16. Belize	Accession	24 July 1996
17. Benin	Accession	23 May 1997
18. Bhutan	Accession	27 August 1990
19. Bolivia	20 December 1988	20 August 1990
20. Bosnia and Herzegovina	Succession	01 September 1993
21. Botswana	Accession	13 August 1996

22. Brazil	20 December 1988	17 July 1991
23. Brunei Darussalam	26 October 1989	12 November 1993
24. Bulgaria	19 May 1989	24 September 1992
25. Burkina Faso	Accession	02 June 1992
26. Burma	Ratified	11 June 1991
27. Burundi	Accession	18 February 1993
28. Cameroon	27 February 1989	28 October 1991
29. Canada	20 December 1988	05 July 1990
30. Cape Verde	Accession	08 May 1995
31. Chad	Accession	09 June 1995
32. Chile	20 December 1988	13 March 1990
33. China	20 December 1988	25 October 1989
34. Colombia	20 December 1988	10 June 1994
35. Costa Rica	25 April 1989	8 February 1991
36. Cote d'Ivoire	20 December 1988	25 November 1991
37. Croatia	Succession	26 July 1993
38. Cuba	7 April 1989	12 June 1996
39. Cyprus	20 December 1988	25 May 1990
40. Czech Republic	Succession	30 December 1993
41. Denmark	20 December 1988	19 December 1991
42. Dominica	Accession	30 June 1993

43. Dominican Republic	Accession	21 September 1993
44. European Economic Community	8 June 1989	31 December 1990
45. Ecuador	21 June 1988	23 March 1990
46. Egypt	20 December 1988	15 March 1991
47. El Salvador	Accession	21 May 1993
48. Ethiopia	Accession	11 October 1994
49. Fiji	Accession	25 March 1993
50. Finland	8 February 1989	15 February 1994
51. France	13 February 1989	31 December 1990
52. Gambia	Accession	23 April 1996
53. Germany	19 January 1989	30 November 1993
54. Georgia	Accession	8 January 1998
55. Ghana	20 December 1988	10 April 1990
56. Greece	23 February 1989	28 January 1992
57. Grenada	Accession	10 December 1990
58. Guatemala	20 December 1988	28 February 1991
59. Guinea	Accession	27 December 1990
60. Guyana	Accession	19 March 1993
61. Haiti	Accession	18 September 1995
62. Honduras	20 December 1988	11 December 1991
63. Hungary	22 August 1989	15 November 1996

64. Iceland	Accession	2 September 1997
65. India	Accession	27 March 1990
66. Indonesia	27 March 1989	23 February 1999
67. Iran	20 December 1988	7 December 1992
68. Iraq	Accession	22 July 1998
69. Ireland	14 December 1989	3 September 1996
70)Italy	20 December 1988	31 December 1990
71. Jamaica	2 October 1989	29 December 1995
72. Japan	19 December 1989	12 June 1992
73. Jordan	20 December 1988	16 April 1990
74. Kazakhstan	Accession	29 April 1997
75. Kenya	Accession	19 October 1992
76. Korea	Accession	28 December 1998
77. Kyrgyzstan	Accession	7 October 1994
78. Latvia	Accession	24 February 1994
79. Lesotho	Accession	28 March 1995
80. Lebanon	Accession	11 March 1996
81. Libyan Arab Jamahiriya	Accession	22 July 1996
82. Lithuania	Accession	8 June 1998
83. Luxembourg	26 September 1989	29 April 1992
84. Macedonia, Former Yugoslav Rep.	Accession	18 October 1993
85. Madagascar	Accession	12 March 1991

86. Malaysia	20 December 1988	11 May 1993
87. Malawi	Accession	12 October 1995
88. Mali	Accession	31 October 1995
89. Malta	Accession	28 February 1996
90. Mauritania	Accession	1 July 1993
91)91. Mexico	16 February 1989	11 April 1990
92. Moldova	Accession	19 February 1995
93. Monaco	24 February 1989	23 April 1991
94. Morocco	28 December 1988	28 October 1992
95. Mozambique	Accession	8 June 1998
96. Nepal	Accession	24 July 1991
97. Netherlands	18 January 1992	8 September 1993
98. Nicaragua	20 December 1988	4 May 1990
99. Niger	Accession	10 November 1992
100. Nigeria	1 March 1989	1 November 1989
101. Norway	20 December 1988	1 January 1994
102. Oman	Accession	15 March 1991
103. Pakistan	20 December 1988	25 October 1991
104. Panama	20 December 1988	13 January 1994
105. Paraguay	20 December 1988	23 August 1990
106. Peru	20 December 1988	16 January 1992

107. Philippines	20 December 1988	7 June 1996
108. Poland	6 March 1989	26 May 1994
109. Portugal	13 December 1989	3 December 1991
110. Qatar	Accession	4 May 1990
111. Romania	Accession	21 January 1993
112. Russia	19 January 1989	17 December 1990
113. St. Kitts and Nevis	Accession	19 April 1995
114. St. Lucia	Accession	21 August 1995
115. St. Vincent and the Grenadines	Accession	17 May 1994
116. Sao Tome and Principe	Accession	20 June 1996
117. Saudi Arabia	Accession	9 January 1992
118. Senegal	20 December 1988	27 November 1989
119. Seychelles	Accession	27 February 1992
120. Sierra Leone	9 June 1989	6 June 1994
121. Singapore	Accession	23 October 1997
122. Slovakia	Succession	28 May 1993
123. Slovenia	Succession	6 July 1992
124. South Africa	Accession	14 December 1998
125. Spain	20 December 1988	13 August 1990
126. Sri Lanka	Accession	6 June 1991
127. Sudan	30 January 1989	19 November 1993

128. Suriname	20 December 1988	28 October 1992
129. Swaziland	Accession	3 October 95
130. Sweden	20 December 1988	22 July 1991
131. Syria	Accession	3 September 1991
132. Tajikistan	Accession	6 May 1996
133. Tanzania	20 December 1988	17 April 1996
134. Trinidad and Tobago	7 December 1989	17 February 1995
135. Togo	3 August 1989	1 August 1990
136. Tonga	Accession	29 April 1996
137. Tunisia	19 December 1989	20 September 1990
138. Turkey	20 December 1988	2 April 1996
139. Turkmenistan	Accession	21 February 1996
140. UAE	Accession	12 April 1990
141. Uganda	Accession	20 August 1990
142. Ukraine	16 March 1989	28 August 1991
143. United Kingdom	20 December 1988	28 June 1991
144. United States	20 December 1988	20 February 1990
145. Uruguay	19 December 1989	10 March 1995
146. Uzbekistan	Accession	14 August 1995
147. Venezuela	20 December 1988	16 July 1991
148. Vietnam	Accession	4 November 1997

149. Yemen	20 December 1988	25 March 1996
150. Yugoslavia	20 December 1988	3 January 1991
151. Zambia	9 February 1989	28 May 1993
152. Zimbabwe	Accession	30 July 1993
Signed but Pending Ratification		
1. Gabon	20 December 1989	
2. Holy See	20 December 1988	Not UN member
3. Israel	20 December 1988	Awaiting Money Laundering Legislation
4. Kuwait	2 October 1989	
5. Maldives	5 December 1989	
6. Mauritius	20 December 1988	
7. New Zealand	18 December 1989	
8. Philippines	20 December 1988	
9. Switzerland	16 November 1989	Not UN member
10. Zaire	20 December 1988	
Other		
1. Anguilla		Not UN member
2. Aruba		Not UN member
3. Bermuda		
4. BVI		Not UN member

5. Cambodia		
6. Central African Republic		
7. Chad		
8. Comoros		
9. Congo		
10. Djibouti		
11. DPR Korea		
12. Estonia		
13. Hong Kong		Not UN member
14. Laos		
15. Liberia		
16. Liechtenstein		
17. Marshall Islands		
18. Micronesia, Federated States of		
19. Mongolia		
20. Namibia		
21. Papua New Guinea		
22. Samoa		
23. San Marino		
24. Sao Tome and Principe		
25. Taiwan		Not UN member
26. Thailand		
27. Turks & Caicos		Not UN member
28. Vanuatu		

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U.S. Government Assistance

USG ASSISTANCE DoS (INL) Budget by Region

FY 1999 - FY 2001

(\$000)

	FY 1999 Actual	FY 1999 Em. Supp. ¹	FY 2000 Estimate	FY 2001 Request
Narcotics Programs				
Country Programs				
<i>Latin America</i>				
Bahamas	1,000		1,000	1,200
Bolivia	40,000	14,000	48,000	52,000
Brazil	1,200		1,500	2,000
Colombia	32,700	173,160	50,000	35,000
Ecuador	1,200		1,200	2,200
Guatemala	3,000		3,000	3,000
Jamaica	800		800	1,200
Mexico	8,000		10,000	10,000
Peru	42,600	31,940	48,000	48,000
Venezuela	700		700	1,200

Latin America Regional	11,000	13,500	9,000	9,500
Subtotal for Latin America	142,200	232,600	173,200	165,300
<i>Asia/Africa/Middle East</i>				
Laos	3,700		4,000	4,200
Pakistan	2,200		2,500	3,500
Thailand	2,700		3,000	3,000
Turkey	500		500	500
Asia/Africa/ME Regional	2,800		5,341	3,000
Subtotal for Asia/Africa/ME	11,900		15,341	14,200
<i>Interregional Aviation Support</i>	<i>51,000</i>		<i>50,000</i>	<i>50,000</i>
Total Country Programs	205,100	232,600	238,541	229,500
Herbicide Research	-	23,000	-	-
International Organizations	9,200		12,000	12,000
Law Enforcement Training and Demand Reduction	8,000		9,000	10,000
Systems Support/Upgrades	2,500		5,000	4,000
PD&S	8,800		9,300	11,500
Total Narcotics Programs	233,600	255,600	273,841	267,000

¹ The Congress provided \$255.6 million in Emergency Supplemental funding in FY 1999.

DoS (INL) Budget by Function
FY 1999 - FY 2001
(\$000)

	FY 1999 Actual	% of Total	FY 2000 Estimate	% of Total	FY 2001 Request	% of Total

Narcotics Programs						
Law Enforcement Assistance and Institution Development	297,036	60.7	96,031	35.1	93,215	34.9
Alternative Develop/ Eradication	149,815	30.6	126,535	46.2	118,280	44.3
International Organizations	9,200	1.9	12,000	4.4	12,000	4.5
Drug Awareness/Demand Reduction	6,075	1.2	10,105	3.7	9,605	3.6
Law Enforcement Training	6,200	1.3	6,500	2.4	7,850	2.9
Program Development and Support	20,874	4.3	22,670	8.3	26,050	9.8
Total Narcotics Programs¹	489,200		273,841		267,000	

¹ FY 1999 regular INC appropriation was \$233.6 million. Congress added an Emergency Supplemental amount of \$255.6 to make a total of \$489.2.

International Training

International counternarcotics training is managed/funded by INL and carried out by the DEA, U.S. Customs Service, and U.S. Coast Guard. Major objectives are:

- Contributing to the basic infrastructure for carrying out counternarcotics law enforcement activities in countries which cooperate with and are considered significant to U.S. narcotics control efforts;
- Improving technical skills of drug law enforcement personnel in these countries; and
- Increasing cooperation between U.S. and foreign law enforcement officials.

Over 4,341 persons participated in the United States Government's international narcotics control training program in FY 1999.

INL training continues to focus on encouraging foreign law enforcement agency self-sufficiency through infrastructure development. The effectiveness of our counternarcotics efforts overseas should be viewed in terms of what has been done to bring about the establishment of effective host country enforcement institutions, thereby taking drugs out of circulation before they begin their journey toward the United States. U.S. law enforcement personnel stationed overseas are increasingly coming to see their prime responsibility as promoting the creation of host government systems that are compatible with and serve the same broad goals as ours.

During FY 1999, law enforcement training continued to devote increased attention to the development and support of infrastructure building in those countries which posed the greatest threat to the U.S. as a result of their role as source or transit countries for narcotics destined for the United States. INL received positive feedback both from U.S. Embassies and foreign governments on the direct benefits gained from this training, including the discovery of illegal narcotics as a result of techniques learned during a program.

INL funding has also been provided for the establishment and operation of International Law Enforcement Academies (ILEA's) in Budapest and Bangkok. The regional training provided at the ILEA's consists of both general law enforcement training as well as specialized training for mid-level managers in police and other law enforcement agencies. Over 2500 officials from 25 countries have received training in Budapest and over 600 officials from 10 countries have received training in Bangkok. It is anticipated that additional ILEA's will be established in the Western Hemisphere and Africa.

INL-funded training will continue to support the major U.S. and international strategies for combating

narcotics trafficking worldwide. Emphasis will be placed on contributing to the activities of international organizations, such as the UNDCP and the OAS. Through the meetings of major donors, the Dublin Group, UNDCP and other international fora, we will coordinate with other providers of training, and urge them to shoulder greater responsibility in providing training, which serves their particular strategic interests.

INL will maintain its role of coordinating the activities of U.S. law enforcement agencies in response to requests for assistance from U.S. Embassies. This will avoid duplication of effort and ensure that presentations represent the full range of USG policies and procedures.

Training Statistics

	Number of Participants	Number of Programs
Drug Enforcement Administration		
<i>Training in U.S.</i>		
"Vetted" Training	157	5
<i>Training in Host Countries</i>		
In-Country Drug Enforcement Seminar	204	5
Advanced Drug Enforcement Seminar	74	2
Int'l Asset Forfeiture Seminar	126	4
Airport Operations	35	1
Specialized	185	6
Joint Secret Service	72	1
ILEA	365	8
Financial	80	2
Subtotal	1,298	34
U.S. Customs Service		
<i>Training in U.S.</i>		
International Visitors Program	368	101

<i>Training in Host Countries</i>		
Carrier Initiative Program/Business Anti-Smuggling Coalition	630	10
Overseas Enforcement Training	168	6
Train-the-Trainer Workshop	29	2
Regional Overseas Enforcement Training	96	3
Regional Train-the-Trainer	12	1
Short Term Advisories	110	11
Contraband Enforcement Team	78	3
Integrity/Anti-corruption	83	3
Intelligence Training	70	2
Seized Property Handling	24	1
Subtotal	1668	143
U.S. Coast Guard		
<i>Training in Host Countries</i>		
Maritime Law Enforcement	772	45
Port Security and Safety Course	168	12
Search and Rescue	35	2
Long Term Training	400	20
Subtotal	1,375	79
Total INL-Funded Training FY 1999	4,341	256

Drug Enforcement Administration

The preeminent responsibility of the Drug Enforcement Administration (DEA) is to reduce and ultimately

minimize the impact posed to our nation by illicit drugs. All cocaine and heroin, as well as some marijuana and other dangerous drugs, are produced outside the U.S. These illicit drugs are smuggled from countries of their source, usually through other countries, into the U.S. Therefore, the reduction of illicit drug availability in the U.S. requires a strong international counternarcotics strategy. In cooperation and coordination with other nations, as well as with other U.S. agencies, DEA strives to concurrently suppress illicit drug production; disrupt the availability of these drugs in the distribution chain; arrest and prosecute those involved in any aspect of illegal drug trafficking; and seize their profits and assets. The primary contribution of DEA in implementing our international counter narcotics strategy is accomplished through the 77 offices that DEA maintains in 56 countries worldwide. The DEA overseas mission is fivefold:

- (1) Conduct bilateral investigative activities,
- (2) Coordinate intelligence gathering,
- (3) Engage in foreign liaison,
- (4) Coordinate training programs for host country police agencies, and
- (5) Assist in the development of host country counternarcotics law enforcement institutions.

In most countries where DEA maintains offices, DEA carries out all of the above functions. The emphasis on each function is determined by the conditions existing in the host nation. For example, in some countries where the drug enforcement system is advanced, a DEA Country Office may limit its role to selected activities instead of the full range of programs. The following sections provide a few examples of the assistance DEA provided during 1999 to host nation counterparts in support of the five function areas.

(1) Bilateral Investigations

DEA Country Offices work with elements of the host nation law enforcement agencies to investigate activities of drug traffickers that lead to indictments and prosecutions in either the host country, the U.S., or a third country. Whenever appropriate and feasible, DEA shares intelligence information on major traffickers operating in host countries with foreign counterparts to enhance their investigative knowledge. The examples that follow illustrate DEA's role in bilateral investigations.

The Bogota, **Colombia** Country Office, in conjunction with the Colombian National Police (CNP) and the Colombian Office of the Prosecutor General (Fiscalia) cooperated in Operation Millennium, a long term, complex investigation targeting the inner workings of a consortium of several of the largest drug trafficking organizations operating in Colombia today. The combined effort focused on the drug trafficking activities of major Linear Approach target Alejandro Bernal-Madrugal and his closest associates, including such notable traffickers as Fabio Ocho-Vasquez, Diego Montoya-Sanchez (Linear Approach Target), Alfredo Tascon, Bernardo Sanchez, and Orlando Sanchez-Cristancho. Bernal-Madrugal and his drug trafficking associates were identified in the course of this investigation as being responsible for coordinating and transporting between 20 and 30 metric tons of cocaine per month from Colombia to the U.S. via Mexico, primarily in maritime containerized cargo. In exchange, this criminal association generated upwards of \$60-\$100 million dollars in illicit proceeds, frequently bulk shipped via Mexico back to Colombia. This investigation has already resulted in the arrest of 47 suspects, the seizure of 13.7 metric tons of cocaine, over \$500,000 in U.S. currency, and the identification of an additional 40 to 50 suspects operating in Colombia and elsewhere.

In September 1999, the DEA announced the conclusion of "Operation Impunity," which targeted a large scale Reynosa, **Mexico**, based polydrug trafficking/smuggling group with numerous cells throughout the U.S. and associates linked to the Carrillo-Fuentes Organization. This operation resulted in the arrest of Gilberto Salinas-Doria, one of the principal Mexico-based importation command and control targets of this organization. Also arrested was Jaime Aguilar-Gastellum, a principal supervisory member of this organization and a known coordinator of drug shipments for both the Juarez Cartel and the Jorge Caro-Quintero Organization. Both Salinas-Doria and Aguilar-Gastellum remain in the custody of the Government of Mexico, and U.S. officials are awaiting their formal extradition from Mexico.

The Hague, **Netherlands** Country Office, in conjunction with the New York Field Division, assisted Dutch and Israeli authorities in dismantling a major international MDMA trafficking organization with direct links to the U.S. This two-year, worldwide investigation culminated in the arrest of forty-nine individuals in the Netherlands, Israel, and other countries, and the seizure of approximately one million MDMA tablets. An estimated one million dollars in various foreign currencies and approximately five kilograms of semtex (a powerful explosive) were seized, and a clandestine laboratory utilized by this organization was dismantled. Intelligence information indicates that this laboratory, run by Dutch nationals, produced over 5,000,000 tablets of MDMA distributed in Europe and the U.S. This investigation included close coordination of information between DEA foreign and domestic offices and foreign law enforcement agencies in Belgium, Germany, France, Canada, and Australia.

DEA offices in **Thailand** worked closely with the Royal Thai Police, Narcotics Suppression Bureau, and members of Thailand's Sensitive Investigative Units to disrupt and dismantle heroin and methamphetamine trafficking activities orchestrated by a well documented heroin trafficker. The primary source of supply for this

organization is the United Wa State Army (UWSA) in **Burma**. This organization smuggles narcotics shipments from Burma into Thailand, after which they are transported to distributors in Canada and the U.S. Noteworthy investigations mounted by Thai authorities and DEA-trained Sensitive Investigative Units in northern Thailand included seizures of millions of methamphetamine tablets, hundreds of kilograms of heroin and precursor chemicals, various amounts and types of assets, and two surface-to-air missiles.

DEA in Ottawa, **Canada** worked with the Royal Canadian Mounted Police (RCMP) in Vancouver on a joint investigation that involved an organization responsible for the transportation of multi-hundred kilogram units of South East Asian heroin into Canada and, ultimately, into the U.S. Seizures from the investigation included three units of heroin captured on an ocean-going vessel off the coast of Puerto Rico, seven units seized at Toronto Pearson International Airport, 61 units in Vancouver, and five units in New York. The 76 units convert to 53.2 kilograms of heroin.

The Santo Domingo, **Dominican Republic** Country Office assisted host country counterparts in the investigation of Jesus Pascual Cabrera-Ruiz, the head of a Dominican organization responsible for transporting multi-ton quantities of cocaine to Puerto Rico and New York. As a result of this investigation, Cabrera-Ruiz was arrested and approximately 1,000 kilograms of cocaine and 1.4 million dollars were seized.

In March 1999, the Vientiane, **Laos** Country Office shared information with their counterparts about a major increase in the amount of opium being seized in the U.S. from mail parcels originating from Laos. Upon determining the internal procedures used by Lao postal authorities for mailing international parcels, a mail interdiction program was subsequently developed. This is the first active bilateral investigation conducted by the Vientiane Country Office since opening in August 1998.

During 1999, the **Panama** Country Office (PCO) worked closely with the Policia Tecnica (PTJ), leading to seizures of 385 kilograms of cocaine, 600 liters of Acetic Anhydride, and a number of heroin seizures. PCO personnel assigned to the Tocumen Airport successfully seized in excess of 2 million dollars in U.S. currency concealed within airfreight arriving from Mexico and other countries.

Based on information provided by the Madrid, **Spain** Country Office and the Long Island Field Division, the Spanish National Police (SNP) arrested four Peruvian citizens who were part of a drug trafficking organization based in Peru. The four defendants were involved in the delivery of approximately 60 kilograms of cocaine to a SNP undercover agent. This was Spain's first legally authorized undercover investigation. As a result of the investigation, two individuals were also arrested in Long Island.

The Caracas, **Venezuela** Country Office and Venezuelan law enforcement authorities initiated an aggressive program to address the increasing diversion of essential and precursor chemicals transiting Venezuela en-route to cocaine processing laboratories in Colombia. This investigation led to the seizure of over 112 metric tons of Potassium Permanganate and the arrest of four active police/military officials who previously had regulatory and/or enforcement authority of chemicals.

The Istanbul, **Turkey** Resident Office, in coordination with local authorities, ascertained that 1,500 grams of heroin seized in Turkmenistan was destined for Dallas, Texas. A controlled delivery to Dallas was arranged and the subject was arrested and detained without bond in Texas. Although the amount of narcotics seized was not particularly large, this case illustrates the growing role that the Newly Independent States (NIS) play in the global trafficking of drugs and also the cooperation of NIS law enforcement authorities with DEA.

The Curacao, **Netherlands Antilles** Country Office assisted counterparts in Suriname in an investigation that involved the exchange of weapons for drugs between Colombia and Suriname drug traffickers. The investigation resulted in the seizure of 67 kilograms of cocaine and the arrests of two Colombians and three Surinamese.

The Port-Au-Prince, **Haiti** Country Office and the Haitian National Police's Special Narcotics Unit participated in a regional counter drug operation that resulted in the seizure of 275 kilograms of cocaine, a two million dollar house, and \$41,910 in U.S. currency.

DEA in Santiago, **Chile**, in cooperation with Chilean police officials, dismantled a Nigerian trafficking organization operating from a recently established base of operations in Chile. The organization was known to ship cocaine impregnated within clothing through the use of express postal services and maritime shipping containers. Two Nigerian nationals, principal members of the organization, were arrested, and 10 kilograms of cocaine were seized.

A coordinated effort between DEA in Honduras and Nicaragua and host country counterparts resulted in the arrest of Honduran Army Lieutenant Colonel Wilfredo Leyva-Cabrera and four others, as Leyva-Cabrera crossed into Nicaragua from El Salvador. Leyva-Cabrera and the other Honduran defendants were deported to Honduras, where they remain in custody. Leyva-Cabrera had been charged with complicity in kidnapping and murder to retrieve \$240,000 (U.S. currency) in drug proceeds

(2) Coordinate Intelligence Gathering

DEA coordinates intelligence worldwide on the cultivation and manufacture of illicit substances, the sale of precursor chemicals for making illicit drugs, and the transportation routes of these drugs into the U.S. The following activities demonstrate the breadth of DEA involvement worldwide.

The Athens, **Greece** Country Office spearheaded a multi-agency, multi-national investigation of a cocaine transportation organization operating worldwide. Intelligence gathering led to the seizure of approximately 14.2 million dollars, the largest amount of drug money Greek authorities have ever confiscated. It is estimated that this organization delivered at least 50 metric tons of cocaine to ports along the Southern United States, Portugal, Spain, Greece, and Italy. To date there have been five Colombians arrested, with extradition to the U.S. requested. There have also been 36 defendants in Greece, Colombia, Miami, and Galveston arrested. Moreover, in excess of 5.6 million dollars in cash, 13 tons of cocaine, and three cargo vessels have been seized. This was Greek law enforcement's first major asset seizure utilizing their new money laundering statute and was also the first time that Greek authorities were able to obtain a legal Title III intercept. DEA and the Greek police were assisted by numerous U.S. and foreign law enforcement agencies in this investigation, known as Operation Atlantico.

During 1999, the **Guatemala** City Country Office (GCCO) received intelligence that led to a 1,225-kilogram cocaine seizure from a boat on the western Guatemalan coast. In addition, the GCCO received intelligence that three tractor-trailers had recently departed Guatemala for Nicaragua, where they would be loaded with a significant amount of cocaine before returning to Guatemala. Extensive vehicle searches and subsequent surveillance and arrests resulted in a total seizure of 2,556 kilograms of cocaine—the largest cocaine seizure in Guatemalan law enforcement history.

The San Jose, **Costa Rica** Country Office and host country counterparts conducted a joint wiretap investigation targeting Cuban-American cocaine traffickers and money launderers operating in Costa Rica. The intelligence gathering led to the arrest of seven suspects and a Costa Rican seizure of \$1.5 million in U.S. currency and \$1.8 million in assets, as well as a U.S. seizure of \$150,000 in assets. Additionally, the wiretap revealed that the organization had recently sent a cargo container from Costa Rica, to Gulfport, Mississippi. A search of this container in Gulfport resulted in the seizure of 79 kilograms of cocaine.

A joint wire/cellular intercept investigation by DEA **Brazil** and the Brazilian Federal Police (DPF) resulted in the arrest of Leonardo Mendonca, one of Brazil's major narcotics violators, and six of his associates. Intelligence gathered indicated that the organization was responsible for smuggling multi-kilogram quantities of cocaine through Brazil and Suriname to the Continental U.S. and Europe. DEA also provided intelligence to the DPF that led to the seizure of cocaine conversion laboratories, one of which had a production capacity of 15 tons of cocaine per month.

Intelligence information provided to Croatian law enforcement personnel by the DEA Guayaquil Resident Office and the Vienna, **Austria** Country Office resulted in 625 kilograms of cocaine seized in Rijeka, Croatia. A container of supposed tuna was shipped from Guayaquil, then transferred to a different vessel and shipped to Belgium. The container was then loaded on a train destined for Rijeka, Croatia. Croatian police continued monitoring the container until the receiving shipping company received instructions to ship the container to Slovenia. The Croatian police then made a search of the container, discovering approximately 625 kilograms of cocaine.

Intelligence from the San Jose, **Costa Rica** Country Office about a vehicle transporting cocaine across the Costa Rican/ Nicaraguan border was passed to the Managua, Nicaragua Country Office, which in turn notified the Nicaraguan National Police. This intelligence led to the seizure of approximately 300 kilograms of cocaine and the arrest of the driver, a Costa Rican national.

As a result of information obtained by DEA in **El Salvador** and passed to the Anti-Narcotics Division (DAN), a Salvadoran cocaine distribution organization responsible for transporting multi-ton quantities of cocaine from Panama through Central America to the U.S. was disrupted. Several Salvadorans were arrested and 202 kilograms of cocaine were seized.

The Brasilia, **Brazil** Country Office spearheaded Operation Gaining Control, a chemical diversion project aimed at the control and documentation of fluvial traffic transiting the Amazon River destined to Colombia and Peru and the obstruction of entrance of precursor chemicals to those areas that produce cocaine HCL. The operational headquarters for Gaining Control is located in the port city of Manaus, State of Amazonas, and is maintained by a multi-nation task force comprised of law enforcement officials from Brazil, Colombia, Peru, Venezuela, Ecuador, and the DEA. All chemical intelligence collected in Operation Gaining Control is maintained in a database that is shared by all the country representatives participating in the project.

The Manila, **Philippines** Country Office (MCO) has been instrumental in enhancing the intelligence gathering capabilities of Philippine counterparts. To that end, the MCO has provided model legislation and expertise in the areas of technical collection and information management programs. Indicative of success, enhanced

intelligence gathering and the exchange of information by DEA and Philippine counterparts resulted in the seizure of approximately 420 kilograms of crystal methamphetamine along the coast of Northern Luzon, Philippines, in November, 1999.

The Brussels, **Belgium** Country Office received information from a confidential source indicating that a DEA fugitive wanted in Philadelphia was in Quito, Ecuador. This information was passed on to the DEA Quito Country Office, which in turn informed the Ecuador National Police. An International Arrest Warrant Request was submitted to Interpol. The fugitive was arrested, and is awaiting extradition.

(3) Engage in Foreign Liaison

DEA Agents establish close relationships and networks with their counterparts that foster cooperation in international drug law enforcement. The following examples illustrate the impact of DEA's foreign liaison activities.

In April 1999, DEA sponsored the 17th annual International Drug Enforcement Conference (IDEC). At the conference, senior drug law enforcement officials from 29 member countries throughout the Western Hemisphere and observers from Europe, Asia, and Australia met to discuss and exchange insights on counter narcotics enforcement activities. Presenters described their counter narcotics law enforcement strategies and shared lessons learned from multilateral investigations and operations. Members adopted initiatives pertaining to the development of regional multinational enforcement investigations and operations targeting major drug traffickers in the hemisphere. The conference, hosted by the U.S., provided a forum for the delegates to exchange information and build personal relationships that are key to enhancing closer coordination among law enforcement agencies.

On October 18, 1999, Attorney General Janet Reno, on behalf of the DEA, signed a Memorandum of Cooperation between the DEA and the Federal Security Service of the **Russia** Federation to combat illegal activities in drug and psychotropic substances. The signing occurred at the American Ambassador's residence in conjunction with the Attorney General's visit to Moscow for the G-8 Ministerial Conference on Transnational Crime. The Moscow Country Office envisions enhanced cooperation between the two agencies as a result of this signing.

DEA Islamabad, **Pakistan** Country Office coordinated with host counterparts the arrest of seven U.S. fugitives; four have already been extradited to the U.S. This is a significant turnaround in the U.S.-Pakistani law enforcement relationship.

The DEA Bangkok, **Thailand** Country Attaché and the U.S. Ambassador to Cambodia met with the Cambodian Prime Minister and Deputy Prime Minister in Phnom Penh to discuss current and future cooperative counter narcotics efforts. Both the U.S. and Cambodian representatives expressed interest in the future establishment of a DEA office in Phnom Penh. A good example of the current relationship DEA enjoys with Cambodian counterparts is the unprecedented testimony of two Cambodian police officers in a U.S. Federal Court late in 1999.

DEA in **Belize, Costa Rica, El Salvador, Guatemala, and Honduras** have coordinated the involvement of their host country counterparts in sharing tactical intelligence used in interception of drug loads and diversion of essential chemicals. Cross-border cooperation and a regional counter narcotics strategy were discussed at a meeting in Belize of IDEC Central America and Mexico Working Group members.

Annually, the **South Korea** Supreme Prosecutor's Office hosts the Anti-Drug Liaison Officials Meeting of International Cooperation (ADLOMICO) Conference. The 1999 ADLOMICO Conference, which was co-chaired by the DEA Seoul Country Attaché, was attended by 120 representatives from 16 different countries. Representatives from DEA Headquarters gave presentations on international drug trafficking.

In July 1999, after years of diplomatic negotiations between the U.S. and the **People's Republic of China**, DEA officially opened its office in Beijing. Throughout 1999, DEA hosted several Chinese law enforcement delegations sponsored by the People's Republic of China. While visiting DEA, these delegations received briefings at DEA Headquarters, Justice Training Center, and various Field Divisions.

4) Coordinate Training Programs for Host Country Police Agencies

DEA's international training activities are conducted in coordination with DEA's foreign offices, U.S. Missions, and the Department of State, International Narcotics and Law Enforcement Affairs. The full range of the international anti-narcotics training program is addressed in the *International Training Section*.

The following table provides a summary of training courses provided by DEA to foreign law enforcement officials.

DEA Summary of International Asset Forfeiture Sharing

(FY99)

Name of Case or Investigation	Total Amount Forfeited in the U.S.	Recipient Country	Amount of Transfer	Transfer Date
Ives Charest DEA Admin. Forfeiture Case No. C7970084	\$45,250.00	Canada	\$24,887.60	12/03/98
U.S. V. JULIO Nasser Davis, et al. Case No. 94-131-CR (SD Fla)	\$178,032,044.00 \$9,108,712.00	Switzerland	\$89,016,022.00 \$4,554,086.00	12/18/98 12/23/99
Daniel Berger DEA Admin. Forfeiture Case No. GH960118 (CD.Cal)	\$214,322.00	Switzerland	\$107,161.13	02/05/99
Walter Furst Admin. Forfeiture Case No. R1960625 (CD.Cal)	\$22,055.00	Switzerland	\$10,630.43	02/05/99
Farina (D. Col.) U.S v. \$1,814,807.93 Case No. 97-S -1928	\$1,814,807.93	United Kingdom	\$181,466.89	06/03/99
Operation Dinero (N.D. Ga) U.S. v. \$295,375.28 No. 1:94-CV-3340-AC U.S. v. \$3,531,149.00 No. 1:95-CV- 0153-AC	\$3,825,524.28	United Kingdom Anguilla	\$229,517.39 \$328,528.99	06/03/99, 08/24/99
Luz Mary Durango DEA Admin. Forfeiture Case No. C1960051	\$28,665.00	Ecuador	\$14,327.50	05/18/99

United States Coast Guard

Combined Operations

Coast Guard counternarcotics law enforcement in the Caribbean and maritime borders of Latin America is largely dependent on international combined operations. Partnering with law enforcement officials of other nations helps develop indigenous interdiction forces and enhances the cumulative impact of interdiction against drug traffickers in the region. Combined operations with other nations' maritime forces provide practical training for foreign, as well as Coast Guard personnel.

CARIBE VENTURE is a recurrent series of multinational operations in the Eastern Caribbean. Participants extend legal authority to law enforcement officials of other nations that permit entry and pursuit of suspects through sovereign sea and air space. International partners presently include: United Kingdom and dependent territories, the Netherlands and Netherlands Antilles, France and the French West Indies, Dominican Republic, Antigua & Barbuda, St. Kitts & Nevis, Anguilla & Montserrat, Dominica, Grenada, Barbados, St. Vincent & the

Grenadines, St. Lucia, and Trinidad & Tobago. In addition, all RSS member nations participate in ad hoc combined operations conducted in the vicinity of their territorial sea and airspace.

OPERATION GENESIS was a cooperative effort between the Government of Haiti and the Government of the Dominican Republic to improve cross border police relations, cooperative investigations, and to integrate Haitian and Dominican Republic police entities responsible for counter drug operations.

OPERATION CREOLE STORM was an operation conducted with the Dominica Coast Guard and was the first time that the bilateral agreements were exercised with Dominica and the first time the USCG was involved in an operation conducted by an RSS nation.

FRONTIER LANCE was a surge operation south of the island of Hispaniola involving U.S. Coast Guard surface and air assets as well as Haitian and Dominican Republic interdiction assets. This operation used shipriders from both countries and helped foster a better working relationship between Haiti and the Dominican Republic.

OPBAT is an ongoing interdiction program involving forward staged Coast Guard and Army air assets, DEA agents, along with Bahamian Police and Turks & Caicos Islands Police forces. During *FY99OPBAT* forces seized 4,857 pounds of cocaine, 3,564 pounds of marijuana, 8 vessels and made 13 arrests. There are three primary staging sites for Coast Guard and Army helicopters, which may respond to targets throughout the Bahamas and Florida Straits. *OPBAT* style techniques were exported to other regions of the transit zone (*Operation FRONTIER LANCE*).

HALCON is a recurrent series of counternarcotics and alien migrant operations conducted between the Coast Guard and Dominican Republic (DOMREP). Training is conducted and includes Damage Control, Basic Seamanship and Maritime Law Enforcement. Shipriders extend legal authority that permits entry and pursuit of suspects through sovereign sea and air space. One operation in the series was conducted in December 1998. During Underway portion, the Coast Guard Cutter *HARRIET LANE* embarked 2 Dominican shipriders coordinated joint response to an airdrop 80nm South of Puerto Rico, which resulted in the recovery of 1,760 pounds of cocaine.

The Coast Guard also conducted the maritime professional exchange and training components of *TRADEWINDS 99*, a longstanding annual exercise sponsored by the Department of Defense. Crewmembers from a Coast Guard medium endurance cutter and patrol boat accomplished a broad spectrum of maritime training for personnel from CARICOM nations at two different sites in the Dominican Republic and Trinidad and Tobago.

OP CONJUNTOS is a continuing series of counternarcotics operations that exercise the existing bilateral agreement with Panama. Four *OP CONJUNTOS* were conducted in FY99 and plans are to continue the series in FY00.

Conducted four phases of *OP RIP TIDE* in FY99. Both Coast Guard and Jamaican assets were used during the four phases. Cayman Island assets also participated in both past and present operations, and increased participation is expected in the future. These operations were very successful and provided significant training to the JDFCG. During Phase One CGC *RESOLUTE* in conjunction with Jamaican forces interdicted a Jamaican canoe in vicinity of Grand Cayman, 1,600 pounds of marijuana was seized and 2 suspects were arrested.

Operations with Belize, *OP ALLIED STRENGTH* was conducted with Belize in November of FY99. This operation started as a Central Skies operation however, Hurricane Mitch changed it into an operation that exercised the U.S./Belize bilateral agreement. Two tons of hurricane relief supplies and \$4K were delivered for Hurricane relief efforts. *OPERATION IDES OF MARCH* was conducted March 99, a total of 21 boardings were conducted. Belize National Police considered the operation a success with the exception of poor communications with Belize Forces small boats.

The Coast Guard also conducts coincidental operations with the Mexican Navy in the Gulf of Mexico and the Eastern Pacific. During these operations, Coast Guard and Mexican Naval units operate simultaneously, and exchange on-scene information, which may assist in the interdiction of drug traffickers. The Coast Guard assisted the Mexican Navy with the boarding of and subsequent seizure of 15,515 pounds of cocaine on board F/V *MAZATLAN IV* and 21,036 pounds of cocaine on board the F/V *XOLOSCUINTLE* in FY99.

Law Enforcement Detachments (LEDETs) are largely responsible for the success of combined operations with foreign countries. Coast Guard currently deploys LEDETs on British and Dutch warships which extends the Coast Guard's maritime law enforcement authority. LEDETs provide technical support to foreign countries conducting dockside boardings when requested by the foreign government, usually by operating drug detection devices, and providing guidance on detecting hidden compartments.

Beginning in April 1996, the USCG International Training and Technical Assistance Division (ITD), in conjunction with the Canadian Coast Guard, has been conducting a full time training and advisory program in Haiti, under the direction of the Chief, U.S. Military Liaison Officer, a USCG Commander. The team has been

developing the Haitian Coast Guard (HCG), a unit of the Haitian National Police. The HCG now consists of 96 personnel and eight operational boats. They are very enthusiastic in all of their mission areas, especially drug law enforcement. Unfortunately, they are severely restricted in manpower despite a recent doubling of their force. They do not have a reserve force, so every operation impacts their training and qualification program. The HCG is not yet capable of protecting Haiti's 1500kms of coastline and numerous ports from the drug trafficking threat due to a lack of assets, minimal infrastructure, and a shortage of personnel. In addition to the team of trainer/advisors on the ground in Haiti, there has been significant involvement with Haitian students in USCG resident schools. Haitian students attended residential training at Coast Guard training centers in the United States. These students attended a variety of courses, but the majority of courses attended provided the basic skills needed by the growing Coast Guard. Additionally, several HCG members have attended professional officer training including the International Maritime Officers Course and Officer Candidate School. The HCG has also had two graduates of the USCG Chief Petty Officer Academy.

Maritime Counternarcotics Agreements

Coast Guard officers are key members of interagency USG delegations traveling to Caribbean countries to negotiate bilateral maritime counternarcotics agreements. The "Six Part" model agreements include shipboarding, shiprider, pursuit, entry-to-investigate, overflight, and order to land provisions. Coast Guard officials are also assisting the State Department in negotiating agreements to improve maritime migrant interdiction operations.

Coast Guard officers are posted in key embassies of source and transit zone countries. Current billets include Bahamas, Barbados, Colombia, Dominican Republic, Haiti, Mexico, Panama, Peru, Trinidad and Tobago, and Venezuela. These officers coordinate a significant amount of informal training and assistance to host nation forces delivered by visiting Coast Guard cutter and aircraft crewmembers, as well as coordination of counternarcotics operations.

Training

The U.S. Coast Guard provides basic and advanced training in its four core mission areas of Maritime Law Enforcement, Maritime Safety, Marine Environmental Protection and Defense Readiness. Specific skill sets include enforcement of laws and treaties (counternarcotics, fisheries, smuggling, alien interdiction); search and rescue; marine environmental response and protection; safety and security of marine transportation, ports, waterways and shore facilities; contingency and response planning; legal authority and jurisdiction; resource management to include budget formulation and workforce planning, training and retention; and national defense preparedness. The training program development process begins by first assessing the state of the partner nation's maritime program, resources and the organization designated as the lead for this responsibility. A tailored, and possibly joint, training plan is then developed to meet the partner nation's program goals. Ultimately, in-country teams help the partner organization carry out the developed training plan to the point of established self-sufficiency. The team can assist a country in achieving national maritime goals in non-defense areas within the U.S. Coast Guard's area of expertise. Should the partner nation have a mission or issue that is covered by multiple U.S. agencies, which includes the U.S. Coast Guard, the team leader will assist in acquisition of personnel from other U.S. agencies. Mission areas that have been addressed by previous Coast Guard and joint training teams include: evaluation of maritime law enforcement programs, development of model ports relative to narcotics intervention, creation of an implementation plan for a multi-mission, multi-agency maritime service management model, and development of training plans and institutions for multi-agency marine safety and maritime law enforcement programs.

The following charts show actual and projected training and assistance events for FY99 and FY00.

USCG Technical AssistanceFY99 (Completed)

Country	Course Title	Start Date	Finish Date	Funding Source
Albania	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training team	30 Aug 99	10 Sep 99	IMET
Antigua (RSSTU)	Maritime Commerce Control, Infrastructure Development Mobile Training Team	01 Oct 98	30 Sep 99	INL
Aruba	Boarding Officer, Counternarcotics Maritime Law	01 May 99	08 May 99	Direct

	Enforcement Mobile Training Team			
Belize	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team	15 Feb 99	19 Feb 99	INL
Bolivia	Port Security/Administration Legislation	11 Jul 99	15 Jul 99	DOD
Chile	Carrier Initiative Program	16 Nov 98	21 Nov 98	USCS
Colombia	Port Physical Security/Port Vulnerability Assessment Mobile Training Team	26 Jul 99	26 Jul 99	IMET
Colombia	Riverine Operations Seminar Training	20 Oct 98	24 Oct 98	DOD
Colombia	Riverine Operations Seminar Training	01 Feb 99	05 Feb 99	DOD
Colombia	USCS Seaport Security Program	09 Sep 99	23 Sep 99	USCS
Costa Rica	Coast Guard Development/Needs Assessment Team	09 Feb 99	19 Feb 99	INL
Curacao	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team	23 Apr 99	30 Apr 99	Direct
Curacao	Maritime Law Enforcement Pre-Training Survey (E-IMET)	18 Jan 99	24 Jan 99	Direct
Curacao	Search Coordination and Planning	08 Jan 99	15 Jan 99	Direct
Dominican Republic	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team	06 Dec 98	10 Dec 98	INL
Dominican Republic	Curriculum Infusion Program, Counternarcotics Maritime Law Enforcement Mobile Training Team	06 Feb 99	20 Feb 99	
Ecuador	Counter-Drug Training Support	22 Jun 99	06 Jul 99	DOD
Ecuador	Marine Safety and Environmental Security Seminar	23 Aug 99	28 Aug 99	IMET
Ecuador	Miscellaneous Mobile Training Team Out-CONUS	12 Oct 98	16 Oct 98	DOD
Eritrea	Fisheries Maritime Law Enforcement Boarding Officer Mobile Training Team	11 Jan 99	15 Jan 99	IMET

Estonia	Miscellaneous Mobile Training Team Out-CONUS	30 Nov 98	04 Dec 98	DOD
Georgia	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team	14 Jun 99	19 Jun 99	USCS
Georgia	Coast Guard Development/Needs Assessment Team	24 Nov 98	10 Dec 98	USCS
Georgia	Engineering/Logistics Administration Mobile Training Team	09 Aug 99	15 Aug 99	USCS
Georgia	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team	21 Jun 99	26 Jun 99	USCS
Georgia	Maritime Commerce Control, Infrastructure Development Mobile Training Team	16 Aug 99	11 Feb 00	USCS

USCG Technical Assistance (Cont.)

FY99 (Completed)

Country	Course Title	Start Date	Finish Date	Funding Source
Georgia	Outboard Motor Maintenance Mobile Training Team	16 Aug 99	21 Aug 99	USCS
Georgia	Port Physical Security/Port Vulnerability Assessment Mobile Training Team	22 Feb 99	04 Mar 99	USCS
Georgia	Program overview/oversight	07 Dec 98	12 Dec 198	USCS
Greece	Coast Guard Development/Needs Assessment Team	20 Sep 99	25 Sep 99	DOD
Haiti	Maritime Commerce Control, Infrastructure Development Mobile Training Team	01 Oct 98	30 Sep 99	IMET
Indonesia	Port Physical Security/Port Vulnerability Assessment Mobile Training Team	08 Feb 99	12 Feb 99	INL
Jordan	Pre-Training Survey Team (NON-EIMET)	26 Apr 99	30 Apr 99	DOD
Kazakhstan	Small Boat Operations Mobile Training Team	31 May 99	07 Jun 99	INL
Kenya	Coast Guard Development/Needs Assessment Team	09 Nov 98	13 Nov 98	IMET

Kenya	Fisheries Maritime Law Enforcement Boarding Officer Mobile Training Team	03 May 99	14 May 99	IMET
Lithuania	Model Maritime Service Code Phase 2	30 Nov 98	05 Dec 98	INL
Macedonia	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team	23 Aug 99	30 Aug 99	IMET
Malaysia	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team	22 Feb 99	26 Feb 99	INL
Malaysia	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team	01 Mar 99	05 Mar 99	INL
Mexico	Curriculum Infusion Program, Counternarcotics Maritime Law Enforcement Mobile Training Team	01 Mar 99	15 Mar 99	INL
Mexico	Curriculum Infusion Program, Counternarcotics Maritime Law Enforcement Mobile Training Team	05 Jun 99	20 Jun 99	INL
Mexico	Pre-Training Survey Team (NON-EIMET)	24 Jan 99	28 Jan 99	INL
Morocco	Joint Counternarcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	14 Feb 99	20 Feb 99	IMET
Mozambique	Coast Guard Development/Needs Assessment Team	17 May 99	22 May 99	IMET
Nicaragua	Maritime Law Enforcement Pre-Training Survey (E-IMET)	07 Sep 99	11 Sep 99	IMET
Nicaragua	Small Boat Maintenance	15 Mar 99	26 Mar 99	INL
Nicaragua	Small Boat Operations Mobile Training Team	01 Mar 99	12 Mar 99	INL
Panama	Container Inspection Program	06 Sep 99	11 Sep 99	DIRECT
Panama	Fisheries Maritime Law Enforcement Boarding Officer Mobile Training Team	21 Jun 99	26 Jun 99	IMET
Papua-New Guinea	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team	20 Sep 99	24 Sep 99	IMET

USCG Technical Assistance (Cont.) FY99 (Completed)

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Country	Course Title	Start Date	Finish Date	Funding Source
Papua-New Guinea	Maritime Law Enforcement Pre-Training Survey (E-IMET)	22 Mar 99	26 Mar 99	EIMET
Papua-New Guinea	Model Maritime Service Code Phase 1 - Assessment	26 Mar 99	06 Apr 99	IMET
Peru	Maritime Commerce Control, Infrastructure Development Mobile Training Team	01 Oct 98	30 Sep 99	NAS
Philippines	Coast Guard Development/Needs Assessment Team	24 May 99	04 Jun 99	USAID
Philippines	Coast Guard Development/Needs Assessment Team	23 Aug 99	08 Sep 99	USAID
Philippines	Miscellaneous Mobile Training Team Out-CONUS	16 Aug 99	20 Aug 99	USAID
Portugal	Instructor Course, Counternarcotics Maritime Law Enforcement Mobile Training Team	22 Mar 99	28 Mar 99	IMET
Portugal	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team	29 Mar 99	04 Apr 99	IMET
Romania	Model Maritime Service Code Phase 3 - Development	20 Aug 99	24 Aug 99	IMET
Seychelles	Fisheries Maritime Law Enforcement Boarding Officer Mobile Training Team	26 Apr 99	30 Apr 99	IMET
Seychelles	Maritime Commerce Control, Infrastructure Development Mobile Training Team	28 Jan 99	28 Apr 99	DOD
Seychelles	Port Physical Security/Port Vulnerability Assessment Mobile Training Team	14 Jun 99	18 Jun 99	IMET
Solomon Islands	Model Maritime Service Code Phase 1 - Assessment	26 Mar 99	06 Apr 99	IMET
Solomon Islands	Port Physical Security/Port Vulnerability Assessment Mobile Training Team	01 Feb 99	04 Feb 99	IMET

St. Maarten	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team	09 Jul 99	16 Jul 99	Direct
Tanzania	Coast Guard Development/Needs Assessment Team	15 Nov 98	23 Nov 98	FMS
Tonga	Fisheries Maritime Law Enforcement Boarding Officer Mobile Training Team	19 Jul 99	19 Jul 99	IMET
Trinidad & Tobago	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team	25 Jan 99	30 Jan 99	INL
Trinidad & Tobago	Maritime Law Enforcement Pre-Training Survey (E-IMET)	23 Jan 99	30 Jan 99	USCS
Tunisia	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team	13 Sep 99	18 Sep 99	IMET
Tunisia	Fisheries Maritime Law Enforcement Boarding Officer Mobile Training Team	26 Apr 99	02 May 99	IMET
Tunisia	Fisheries Maritime Law Enforcement Boarding Officer Mobile Training Team	06 Sep 99	11 Sep 99	IMET
Turkmenistan	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team	13 Jun 99	18 Jun 99	INL
United Arab Emirates	Incident Command System	25 Aug 99	26 Aug 99	DOD
United Arab Emirates	Pollution Response/Incident Command System	11 Sep 99	17 Sep 99	DOD

USCG Technical Assistance (Cont.)

FY99 (Completed)

Country	Course Title	Start Date	Finish Date	Funding Source
Venezuela	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team	11 Jan 99	15 Jan 99	DOD
Venezuela	Pre-Training Survey Team (NON-EIMET)	18 Jan 99	22 Jan 99	DOD
Venezuela	Riverine Operations Seminar Training	14 Feb 99	20 Feb 99	DOD
Venezuela	Riverine Training Program	25 Jan 99	28 May 99	DOD
Vietnam	Coast Guard Development/Needs Assessment	16 Aug 99	20 Aug 99	INL

	Team			
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**USCG Technical Assistance
FY00 (Proposed)**

Country	Course Title
Albania	Instructor Course, Counternarcotics Maritime Law Enforcement Mobile Training Team
Albania	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team
Antigua (RSSTU)	Maritime Commerce Control, Infrastructure Development Mobile Training Team
Azerbaijan	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team
Azerbaijan	Coast Guard Development/Needs Assessment Team
Azerbaijan	International Partnering For Maritime Excellence
Azerbaijan	Port Physical Security/Port Vulnerability Assessment Mobile Training Team
Bahamas	Boarding Officer, Advanced, Counternarcotics Maritime Law Enforcement Mobile Training Team
Bahamas	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team
Belize	Port Physical Security/Port Vulnerability Assessment Mobile Training Team
Benin	Outboard Motor Maintenance Mobile Training Team
Bolivia	Maritime Commerce Control, Infrastructure Development Mobile Training Team
Colombia	Boarding Officer, Advanced, Counternarcotics Maritime Law Enforcement Mobile Training Team
Colombia	Port Physical Security/Port Vulnerability Assessment Mobile Training Team
Colombia	Riverine Training Program
Costa Rica	Engineering/Logistics Administration Mobile Training Team
Croatia	Model Maritime Service Code Phase 2 - Planning

Croatia	Model Maritime Service Code Phase 3 - Development
Curacao	Search Coordination and Execution Mobile Training Team
Dominican Republic	Marine Safety and Environmental Security Seminar
Ecuador	Marine Inspection Mobile Training Team
Ecuador	Marine Safety Pre-training Survey
Egypt	Coast Guard Development/Needs Assessment Team
Fiji	Maritime Law Enforcement Pre-Training Survey (E-IMET)
Fiji	Model Maritime Service Code Phase 1 - Assessment
Fiji	Model Maritime Service Code Phase 2 - Planning
Georgia	Engineering/Logistics Administration Mobile Training Team
Georgia	Maritime Commerce Control, Infrastructure Development Mobile Training Team
Greece	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team
Greece	Instructor Course, Counternarcotics Maritime Law Enforcement Mobile Training Team
Guyana	Model Maritime Service Code Phase 1 - Assessment

USCG Technical Assistance (Cont.)

FY00 (Proposed)

Country	Course Title
Guyana	Model Maritime Service Code Phase 2 - Planning
Haiti	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team
Haiti	Maritime Commerce Control, Infrastructure Development Mobile Training Team
Haiti	Small Boat Electronics/Electrical Course
Honduras	Marine Safety and Environmental Security - Post Hurricane Mitch

Iceland	Coast Guard Development/Needs Assessment Team
Iceland	Search Coordination and Execution Mobile Training Team
Jamaica	Fisheries Maritime Law Enforcement Boarding Officer Mobile Training Team
Jamaica	Marine Safety and Environmental Security Seminar
Japan	Container Inspection Training Team
Jordan	Marine Safety and Environmental Security Seminar
Kenya	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team
Kenya	Instructor Course, Counternarcotics Maritime Law Enforcement Mobile Training Team
Lebanon	Port Physical Security/Port Vulnerability Assessment Mobile Training Team
Madagascar	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team
Mauritius	Marine Safety and Environmental Security Seminar
Mauritius	Search Coordination and Execution Mobile Training Team
Morocco	Search Coordination and Execution Mobile Training Team
Mozambique	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team
Nicaragua	Boarding Officer, Advanced, Counternarcotics Maritime Law Enforcement Mobile Training Team
Nicaragua	Fisheries Maritime Law Enforcement Boarding Officer Mobile Training Team
Nicaragua	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team
Nicaragua	Marine Safety and Environmental Security - Post Hurricane Mitch
Oman	Coast Guard Development/Needs Assessment Team
Pakistan	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team
Panama	Maritime Commerce Control, Infrastructure Development Mobile Training Team

Papua New Guinea	Outboard Motor Maintenance Mobile Training Team
Papua New Guinea	Model Maritime Service Code Phase 2 - Planning
Peru	Maritime Commerce Control, Infrastructure Development Mobile Training Team
Philippines	Coast Guard Development/Needs Assessment Team
Philippines	Fisheries Maritime Law Enforcement Boarding Officer Mobile Training Team

USCG Technical Assistance (Cont.)

FY00 (Proposed)

Country	Course Title
Philippines	Fisheries Maritime Law Enforcement Boarding Officer Mobile Training Team
Philippines	Fisheries Maritime Law Enforcement Boarding Officer Mobile Training Team
Philippines	Marine Safety and Environmental Security Seminar
Philippines	Port Physical Security/Port Vulnerability Assessment Advanced Mobile Training Team
Poland	Search Coordination and Execution Mobile Training Team
Romania	Model Maritime Service Code Phase 2 - Planning
Russia	Marine Safety and Environmental Security Seminar
Samoa	Outboard Motor Maintenance Mobile Training Team
Seychelles	Engineering/Logistics Administration Mobile Training Team
Seychelles	Marine Safety/Oil Spill Contingency Plan
Seychelles	Outboard Motor Maintenance Mobile Training Team
Solomon Islands	Model Maritime Service Code Phase 2 - Planning
Solomon Islands	Model Maritime Service Code Phase 3 - Development
Solomon Islands	Model Maritime Service Code Phase 4 - Implementation

Solomon Islands	Outboard Motor Maintenance Mobile Training Team
Suriname	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team
Suriname	Fisheries Maritime Law Enforcement Boarding Officer Mobile Training Team
Suriname	Interdiction Planning, Counternarcotics Maritime Law Enforcement Mobile Training Team
Suriname	Model Maritime Service Code Phase 2 - Planning
Suriname	Model Maritime Service Code Phase 3 - Development
Suriname	Outboard Motor Maintenance Mobile Training Team
Thailand	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team
Trinidad & Tobago	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team
Trinidad & Tobago	Port Physical Security/Port Vulnerability Assessment Mobile Training Team
Tunisia	Fisheries Maritime Law Enforcement Boarding Officer Mobile Training Team
Tunisia	Instructor Course, Counternarcotics Maritime Law Enforcement Mobile Training Team
United Arab Emirates	Marine Safety/Oil Spill Contingency Plan
Uzbekistan	Coast Guard Development/Needs Assessment Team
Vanuatu	Model Maritime Service Code Phase 1 - Assessment
Vanuatu	Model Maritime Service Code Phase 2 - Planning
Venezuela	Boarding Officer, Advanced, Counternarcotics Maritime Law Enforcement Mobile Training Team

**USCG Technical Assistance (Cont.)
FY00 (Proposed)**

Country	Course Title
Vietnam	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team
Vietnam	Instructor Course, Counternarcotics Maritime Law Enforcement Mobile Training Team

Yemen	Boarding Officer, Counternarcotics Maritime Law Enforcement Mobile Training Team
Yemen	Maritime Law Enforcement Pre-training Survey (E-IMET)

USCG Vessel Transfer Excess Defense Articles Program

Vessel Description	FY99	FY00 (Planned/Proposed)
82-Foot Patrol Boat	Trinidad & Tobago (2)	Jamaica (1)
	Panama (2)	Costa Rica (1)
	Argentina (1)	Turkmenistan (1)
	Dominican Republic (2)	Georgia (1)
		Colombia (1)
		Romania (2)
180-Foot Buoy Tender		Dominican Republic (1)
		Ghana (2)
157-Foot Buoy Tender	Argentina (2)	
133-Foot Buoy Tender	Dominican Republic (1)	
44-Foot Motor Life Boat		Seychelles (6)
		Chile (6)
		Australia (4)
		Honduras (4)
		Tunisia (8)

**USCG Vessel Transfer
Excess Defense Articles Program**

Vessel Description	FY99	FY00
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		(Planned/Proposed)
82-Foot Patrol Boat	Trinidad & Tobago (2)	Jamaica (1)
	Panama (2)	Costa Rica (1)
	Argentina (1)	Turkmenistan (1)
	Dominican Republic (2)	Georgia (1)
		Colombia (1)
		Romania (2)
180-Foot Buoy Tender		Dominican Republic (1)
		Ghana (2)
157-Foot Buoy Tender	Argentina (2)	
133-Foot Buoy Tender	Dominican Republic (1)	
44-Foot Motor Life Boat		Seychelles (6)
		Chile (6)
		Australia (4)
		Honduras (4)
		Tunisia (8)

United States Customs Service

Since 1973, the U.S. Customs Service has provided a comprehensive program of international counter narcotics training and assistance to foreign customs and other border control agencies. Individual training and assistance programs are tailored to meet the needs of the recipient country but usually focus on one or more of the following subject areas: narcotics interdiction at air/sea/land ports of entry; financial investigations; training development; and management of special enforcement teams.

Counter Narcotics Training and Assistance

In 1999, U.S. Customs conducted a total of 143 international counternarcotics programs involving 1,668 participants from over 40 countries. Programs conducted outside the U.S. included six Overseas Enforcement Training (OET) Programs for individual countries; three Regional Overseas Enforcement Training (ROET) Programs for two or more countries; two Train-the-Trainer Workshops (T3W) for an individual country; one Regional Train-the-Trainer Workshop (RT3W) for two or more countries; 11 Short Term Advisory (STA) programs; three Contraband Enforcement Team (CET) programs; three Integrity/Anti-Corruption Programs; two Intelligence programs; one Seized Property Handling Program; and 10 Industry Partnership Program (IPP)

seminars.

In addition to the normal schedule of international counternarcotics training and assistance conducted under the auspices of INL, U.S. Customs carried out a number of counternarcotics projects in response to high priority concerns during 1999. Among these are the following:

- U.S. Customs provided technical training and assistance in support of the International Law Enforcement Academy (ILEA) programs currently operating in Budapest and Bangkok. U.S. Customs has developed and conducted specialized training at ILEA Bangkok; on topics which include: International Controlled Deliveries and Drug Investigation, conducted jointly with DEA; Complex Financial Investigations, conducted jointly with IRS; and Intellectual Property Rights, conducted with the FBI.
- U.S. Customs developed and implemented a Colombian training and assistance initiative, focusing on narcotics interdiction efforts, combating the Black Market Peso Exchange, gathering of intelligence, and bilateral cooperative efforts between the government of the U.S. and Colombia. Based on the successes of this initiative, an FY 2000 Andean Plan is currently being developed to provide regional training and assistance focusing on integrity, border interdiction, trade fraud, intelligence collection, industry partnership programs, and financial crimes issues throughout the Andean Region.
- U.S. Customs provided expert instructors for two OAS-funded Regional Port Security Seminars conducted in Ecuador and Peru during 1999, and included a total of 80 participants from 8 countries.
- The Nigeria Inter-Agency Working Group was established to provide support and assistance to the democratic process, infrastructure improvements, and economic development in Nigeria. Over the past two years, U.S. Customs has participated in several multi-agency assessments, including an October 1998 airport security assessment at the Murtala Mohammed International Airport (MMIA) in Lagos which identified persistent deficiencies. In September 1999, U.S. Customs conducted an INL-funded Air Carrier Initiative Seminar and Site Survey in Lagos, and found that many of the previous security concerns had been addressed and corrected. In January 2000, U.S. Customs will conduct an INL-funded Special Airport Narcotics Interdiction Course in Lagos, which will focus on the targeting and search of passengers, cargo and aircraft, and smuggling investigations.
- The Administration's Safe Skies for Africa Initiative is intended to promote sustainable improvements in aviation safety and security in Africa and to create the environment necessary to foster the growth of aviation services between Africa and the United States. The initiative recognizes that Safe Skies are a prerequisite for increased trade and investment and long-term economic development in Africa. In support of this initiative, the U.S. Government periodically sends multi-agency teams to conduct surveys of the aviation needs of the selected countries and will assist them in developing work plans to improve and enhance their aviation infrastructure. These countries are then encouraged to work with international organizations and the private sector to implement these plans. U.S. survey teams, which include one U.S. Customs Inspector, visited Kenya in March 1999, Cote d'Ivoire in July 1999, and Tanzania in November 1999.
- A U.S. Customs canine expert traveled to Colombia during January 1999 to conduct a Post-funded canine program assessment and management training at the Port of Cartagena.
- A U.S. Customs training team traveled to Costa Rica during January 1999 to provide DEA-funded on-the-job land border interdiction training for Costa Rican Drug Control Police and customs officers.
- Three Short Term Advisory projects were conducted in Venezuela during 1999: In January, a U.S. Customs officer provided Post-funded training in the use of inspectional equipment recently purchased for the Venezuelan National Guard; During June and September, U.S. Customs teams provided INL-funded assistance to GOV officials on money laundering investigations.
- A U.S. Customs canine team (dog/handler) traveled to the Bahamas during February 1999 on a Post-funded operation to assess and assist the Bahamian canine program at the Freeport International Airport.
- U.S. Customs training teams traveled to Bolivia during April and July 1999 on a DEA-funded operation to provide land border interdiction training to Bolivian narcotics police officers.
- A U.S. Customs canine expert traveled to Brazil during May 1999 on a DEA-funded operation to assist the Sao Paulo Military Police Canine Program in the development of a narcotics detector program.
- Under the FY98 Counternarcotics Drawdown Order, U.S. Customs was directed to provide narcotics detector dogs and training to nine Honduran canine officers. In anticipation of the training, a U.S. Customs canine expert traveled to Honduras during May 1999 to conduct a U.S. Customs-funded assessment of the Honduran canine program and to brief GOH and U.S. Embassy officials on the requirements to support and maintain an effective canine program.

- A U.S. Customs canine team (dog/handler) traveled to Honduras during May 1999 on a DEA-funded operation to assist with special road block searches near the land borders.
- U.S. Customs conducted an INL-funded Integrity Reinforcement/Anti-Corruption Seminar in San Juan, Puerto Rico, for 29 participants from 28 member countries of the Caribbean Customs Law Enforcement Council (CCLEC).
- A U.S. Customs team traveled to Jamaica on a Post-funded operation to assess the effectiveness of the Jamaica Customs Contraband Enforcement Team (CET) at the Port of Kingston. As a follow-up to the assessment, six Jamaican Customs CET officers traveled to Port Everglades, Florida, to observe U.S. Customs CET operations during July 1999.
- Two U.S. Customs officers traveled to South Africa during July 1999 to advise and assist with the first Regional Border Control Course conducted by the South African Regional Police Commissioners Conference (SARPPCO).
- Two U.S. Customs experts traveled to Costa Rica during August 1999 to conduct a Post-funded assessment of the Penas Blancas port of entry along the Costa Rican/Nicaraguan border. Recommendations for infrastructure improvements to the port facilities and enhanced border control were provided to the U.S. Embassy.
- A U.S. Customs training team traveled to the Dominican Republic during September 1999 to provide Post-funded formal classroom training and field practical exercises in land border interdiction to 38 officers of the Dominican Counternarcotics Border Unit.
- U.S. Customs funded a joint USCS/U.S. Internal Revenue Service assessment in Aruba during September 1999 focused on management controls and integrity issues within the Ministry of Finance, Tax and Customs Directorate.
- U.S. Customs provided one expert instructor to assist with the conduct of two one-week DEA Airport Interdiction Courses in Lima, Peru, during October 1999, for a total of 83 participants. Funding for this training was provided by DEA.
- U.S. Customs provided one expert instructor to assist with the conduct of back-to-back U.S. Coast Guard Maritime Security Courses in Trinidad & Tobago and Belize during October 1999, for a total of 48 participants. The U.S. Coast Guard provided funding for this training.
- U.S. Customs conducted a regional Integrity Reinforcement/Anti-Corruption Seminar in Guatemala during December 1999 for 32 participants from six Central American countries. This training is the first of four phases included in this integrity and risk management project which is funded by INL through the Central America and Caribbean Emergency Disaster Recovery (Hurricane Mitch) supplemental appropriation.

Industry Partnership Programs

Carrier Initiative Program (CIP) and Business Anti-Smuggling Coalition (BASC) training are conducted for U.S. Customs' industry partners. The Carrier Initiative Program provides counternarcotics and security training to air, sea and land commercial transport companies (carriers) and emphasizes public-private partnerships in which U.S. Customs and the carrier companies cooperate to prevent commercial conveyances from being utilized to smuggle narcotics.

The Business Anti-Smuggling Coalition (BASC) is a business-led, U.S. Customs-supported alliance created to combat narcotic smuggling via commercial trade. As a voluntary program for businesses, with no Government-imposed mandates, corporate participants are expected to set self-imposed business standards that will significantly deter narcotics traffickers. The BASC program examines the entire process of manufacturing and shipping of merchandise from foreign countries to the United States, emphasizing the creation of a more security-conscious environment at foreign manufacturing plants to eliminate, or at least reduce, product vulnerability to narcotics smuggling. By examining packing and shipping practices and identifying and correcting deficiencies along the spectrum of the import process, businesses can reduce their exposure to the likelihood that their shipments will be used as narcotics smuggling vehicles.

FY 1999 was the ninth year in which INL has funded Customs' international training for the Carrier Initiative Program, and the third in which INL funding was provided for the BASC. INL funds were used to present CIP and BASC training to 630 employees in 10 foreign training seminars. These seminars and site surveys were offered in the following countries: Aruba, Costa Rica, Curacao, Dominican Republic, Guatemala, Jamaica, Mexico, Nigeria, Panama, Peru, and Venezuela. Costs relating to these programs are partially offset by the sponsoring commercial transportation companies.

At present, over 3,900 carriers operating in the maritime, trucking, rail, and air environments participate in the Carrier Initiative Program. Over 200 foreign manufacturers and exporters have begun participation in the BASC

since its inception in 1996. In FY 1999, Customs Industry Partners effected 190 foreign interceptions of illegal drugs, with a total weight of 35,640 pounds. They also provided information and assistance leading to 42 drug seizures at the U.S. border, with a weight of 8,428 pounds. In total, CIP and BASC participants contributed to 232 interceptions and seizures, preventing 44,068 pounds of illegal drugs from entering the United States.

U.S. Customs and the Mattel Corporation, one of private industry's first proponents of the Business Anti-Smuggling Coalition (BASC), addressed the 10th Working Group meeting of the World Customs Organization's (WCO) Alliance of Customs and Trade for the Interdiction of Narcotics (ACTION/DEFIS). Discussed were the development of the BASC program, reasons why industry desired such a program, and the benefits enjoyed by Customs and industry as a result of the program. It was announced that the International Chamber of Commerce has endorsed BASC and hopes to work with the WCO in expanding BASC around the world.

The Americas Counter Smuggling Initiative (ACSI) is a priority undertaking established by U.S. Customs to build upon the success of the CIP and BASC, by strengthening and expanding our anti-narcotics security programs throughout Central and South America. Under the auspices of ACSI, U.S. Customs officials are being detailed to select Central and South American countries to assist businesses and host governments in developing security programs and initiatives to safeguard legitimate shipments from being used to smuggle narcotics. A parallel track of the ACSI includes the training of counterpart customs administrations and other appropriate foreign government anti-drug forces. During 1999, U.S. Customs successfully introduced ACSI to the governments and trade and transportation entities in the seven targeted countries (Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru and Venezuela).

Results

Particularly noteworthy in assessing U.S. Customs international counternarcotics training and assistance during 1999 are the following reports on the results of the training efforts in terms of narcotics seizures, improvement in the organization of counternarcotics law enforcement, and increased public awareness:

- In a cable dated March 15, 1999, the U.S. Embassy in Laos attributes a recent increase in narcotics seizures at the Wattay International Airport in Vientiane to an INL-funded U.S. Customs Airport Narcotics Interdiction Course conducted during September 1998.
- Following the Post-funded observation tour of six Jamaican Customs Contraband Enforcement Team (CET) officers to Port Everglades, Florida, during July 1999, The U.S. Embassy forwarded a reporting cable to INL which stated the following: "The training clearly raised the level of enthusiasm of the Jamaicans for their work, and reinforced their resolve to carry out their work and to uncover contraband in and out of Jamaica." "U.S. Customs went out of its way to demonstrate to the Jamaicans the professionalism for which it is known. Such professionalism is in and of itself a valuable contribution to INL efforts to assist the GOJ in strengthening its law enforcement efforts."
- Six months after the completion of the INL-funded U.S. Customs Seaport Contraband Enforcement Team training program in South Africa during March 1999, the U.S. Embassy sent a follow-up reporting cable dated September 16, 1999, which stated the following: "Graduates of the course have been engaged in in-house training at their duty stations. Moreover, the South Africans attribute an improvement in search techniques and a subsequent increase in contraband seizures directly to the course".
- The following excerpt was taken from a cable sent by the U.S. Embassy in the Dominican Republic on October 08, 1999, following the Post-funded U.S. Customs land border interdiction training provided to the Dominican Counternarcotics Border Unit: "The (Customs) agents were successful in both tailoring their training to the needs of the (Unit) in its current stage of development and in modeling and fostering within the group a sense of teamwork." "INL expects the most results of this effort will come from the (Unit's) improved understanding of the scope of the interdiction mission and the officer's greater professionalism and ability to correctly perform both searches and data collection."
- During September 1999, U.S. Customs conducted an INL-funded Seaport Contraband Enforcement Team training program in Cartagena for Colombian Counternarcotics Police and port security officers. During the vessel search practical exercise at the Port of Cartagena, the search of a coastal freighter revealed a hidden compartment which included traces of cocaine and hashish as determined through the use of an ionscanner. On the day after the conclusion of the training program, the Colombian Counternarcotics Police discovered 22 kilograms of cocaine in a shipment of farm machinery at the Port of Cartagena, and the Colombians attributed this seizure to the detection methods learned in the U.S. Customs course.

Customs Mutual Assistance Agreements

In 1999, the United States Government signed Customs Mutual Assistance Agreements (CMAAs) with the Governments of the Peoples Republic of China, Colombia, Lithuania, and Panama, and pending signatures with Bulgaria, Chile, Malta, and South Africa. CMAA negotiations are currently on-going with the Governments of Brazil and Kuwait. CMAAs provide for mutual assistance in the enforcement of customs-related laws, and U.S.

Customs utilizes these agreements to assist in evidence collection for criminal cases involving narcotics smuggling and money laundering. U.S. courts have ruled that evidenced gathered via these executive agreements is fully admissible in U.S. court cases.

The United States Government signed a CMAA with the Government of Mexico in 1976. However, following a series of informal discussions between the U.S. and Mexican Customs Departments, it was agreed to pursue an updated and amended U.S./Mexico CMAA. The new CMAA will, among other things, improve conformity to current operational practices unique to the countries' shared border status, reflect the recent reorganization of Mexico's Ministry of Finance, and take into account issues of both the U.S. Departments of State and Justice thus providing U.S. Customs with an updated legal framework with which to exchange information. Negotiations have been concluded, and it is expected that the amended CMAA will be formally signed during 2000.

Shared Financial Assets

In FY 1999, U.S. Customs shared financial assets on nine occasions with five countries:

Canada	\$39,875
United Kingdom	\$439,469
Honduras	\$139,720
Portugal	\$85,840
Switzerland	\$17,647
Total	\$722,551

U.S. Customs Counternarcotics Training Statistics

Programs	Number of Programs	Number of Participants
<i>Training in the U.S.</i>		
International Visitors Program	101	368
<i>Training in Host Countries</i>		
Overseas Enforcement Training	6	168
Regional Overseas Enforcement Training	3	96
Train-the-Trainer Workshop	2	29

Regional Train-the-Trainer Workshop	1	12
Short Term Advisory	11	110
Contraband Enforcement Team	3	78
Integrity/Anti-Corruption	3	83
Intelligence Training	2	70
Seized Property Handling	1	24
Carrier Initiative Program Seminars/Business Anti-Smuggling Coalition	10	630
Total	143	1,668

[End.]

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South America

ARGENTINA

I. Summary

Argentina is not a major drug-producing or major drug-transit country, but it remains a conduit for cocaine flowing from neighboring Bolivia, with undetermined quantities of the drug also being moved through Argentina in international transit from Peru and Colombia. Within the last several years, Argentina also has become a transit area for Colombian heroin en route to the U.S. East Coast (primarily New York), although not in quantities determined to have a significant effect on the U.S. According to Argentine government statistics, drug use is growing. The number of people arrested for possession doubled in 1999. The smuggling of coca leaf into Argentina from Bolivia remains a problem, with what is suspected to be a thousand tons of coca leaf transported illegally into Argentina's northern provinces annually for local legal consumption. While aware of its responsibilities in the interdiction area, the Argentine government focuses its counternarcotics efforts on demand reduction.

A new draft law to modify existing money laundering legislation has been approved by the lower house of the Argentine Congress but awaits Senate consent. High-profile money laundering cases, including one involving Colombian drug lord Pablo Escobar's widow, drew public attention to the issue in late 1999. Federal counternarcotics policy is coordinated by the Secretariat for the Prevention of Drug Abuse and Narcotics Trafficking (SEDRONAR). The government has several national security forces involved in counternarcotics efforts, and provincial police forces also play an integral role. Argentina is a party to the 1988 U.N. Drug Convention.

II. Status of Country

Argentina is not a major drug-producing country. Illicit crop production remains negligible. There is very limited refining or manufacturing of illicit drugs. Argentina has a large and well-developed chemical industry, which manufactures almost all the precursors necessary for the processing of cocaine. According to the first national survey on drug use, released in June 1999, 2.9 percent of adults between the ages of 16-65 said they had consumed an illegal drug in the previous 30 days. Marijuana is the most popular illegal drug consumed, with cocaine hydrochloride (HCl) and inhalants ranked second and third.

Most officials agree that the trafficking of narcotics through Argentina is a problem, although it is impossible to quantify the flow with any degree of accuracy. Bolivia is the primary source of cocaine entering Argentina. Some drugs, such as marijuana, enter via Paraguay and Brazil. Within the past several years, the trafficking of Colombian heroin through Argentina to the U.S. East Coast has increased. Seizures of psycho-pharmaceuticals such as "ecstasy" continue to occur. Amphetamine seizures are increasing, as well.

Commercial air, private and commercial vehicles, containerized rail cargo, and foot traffic all serve as means of drug entry into Argentina. The thousands of uncontrolled airfields and small municipal airports, combined with the continuing lack of national radar coverage make Argentina attractive to potential traffickers. Riverine traffic from Paraguay and Brazil is another probable method for moving narcotics into and through Argentina. Drug shipments out of the country are mostly via commercial aircraft or through Argentina's maritime port systems. Couriers of cocaine from Buenos Aires' Ezeiza International Airport are primarily destined for Europe, South Africa, and Australia. Air couriers of heroin are primarily destined for the United States. Maritime transport from Argentina is conducted by both passengers, and possibly, containerized cargo. As a member of MERCOSUR, Argentina cannot open and inspect containers, sealed in another member state, which are transiting through the country. These sealed and uninspected containers are considered to be a high trafficking threat. The Government of Argentina (GOA) has expressed interest in discussing this issue with its MERCOSUR neighbors.

III. Country Actions Against Drugs in 1999

The government actively opposes drug trafficking and the sale and use of illegal narcotics within the country. In 1989, the Argentine Congress passed the laws necessary to bring the 1988 U.N. Convention into effect. Various presidential decrees since then have targeted money laundering and allowed asset seizures. In 1998, a witness protection program for key witnesses in drug-related prosecutions was created.

In 1989, the Menem Administration established the Secretariat for the Prevention of Drug Abuse and Narcotics Trafficking (SEDRONAR) to serve as the central federal anti-drug coordinating organization. In 1996, the government published a federal plan to combat illegal drugs and established a national strategic commission to oversee these efforts. The plan was designed to better coordinate the counternarcotics efforts of the federal and provincial police forces. SEDRONAR was charged with identifying the extent of the narcotics problem in Argentina and drafting a coordinated plan to address the problems on a national basis. The 1999 release of the first national drug survey was a major step forward in developing a scientifically-based national policy.

Argentina remains very active in multilateral counternarcotics organizations such as the Inter-American Drug Abuse Commission (CICAD), the International Drug Enforcement Conference (IDEC), and the U.N. Drug Control Program (UNDCP). In 1999, Argentina hosted several regional meetings on narcotics-related issues and encouraged MERCOSUR to play a larger role in money laundering and chemical precursor diversion investigations. The GOA will host the IDEC in 2000.

Demand Reduction. The GOA has traditionally focused its narcotics efforts on demand reduction. Drug use is treated as a medical problem and addicts are eligible to receive government-subsidized treatment. Buenos Aires Province (the most heavily populated) has its own well-established demand reduction program that targets a large population of drug users.

The USG is working with the Argentine Ad Council to develop the "Partnership for a Drug-Free Argentina." The Argentine Ad Council launched the program in late 1998, and believes that local media have donated over \$12 million in free time and space. The campaign has been very successful, bringing in thousands of calls for information about prevention and rehabilitation programs.

Law Enforcement Efforts. Argentina has many federal and provincial police forces involved in the counternarcotics efforts. The primary federal forces involved are the Federal Police (which also have jurisdiction for crimes committed in or connected to the federal capital), the Gendarmeria Nacional (border police), the National Customs Service, the National Air Police, and the National Coast Guard. The provincial police forces of Buenos Aires, Salta, and Jujuy are also heavily involved in counternarcotics efforts.

The amount of illegal narcotics seized in Argentina in 1999 did not change significantly from 1998 rates. However, arrest statistics rose dramatically in 1999, which is consistent with a pattern of frequent small seizures of drugs and a doubling of the number of arrests for possession. As of late 1999, approximately 6 kilos of heroin were seized in Argentina, with another 22 kilos seized in the United States from people arriving from Argentina.

Corruption. Argentina is a party to the Inter-American Anti-Corruption Convention. The GOA neither encourages nor facilitates the production or distribution of narcotics or other controlled substances, nor the laundering of the proceeds from illegal drug transactions. The USG has no information that any senior member of the government is involved in narcotics corruption. Low-level corruption remains an important issue in Argentina, and the new government of Fernando de la Rúa has promised to make fighting corruption one of its highest priorities.

Agreements and Treaties. In 1989, the U.S. and Argentina signed a cooperation agreement against drug trafficking. These programs continue, with a budget value of approximately \$2.9 million. In 1990, Argentina and the U.S. signed a mutual legal assistance treaty (MLAT), which has been in force since 1993. In 1997, the U.S. and Argentina signed a new extradition treaty, which now has been ratified by both parties, and the exchange of instruments of ratification to bring the treaty into force is expected to occur shortly. A memorandum of understanding between the U.S. Treasury and SEDRONAR dealing with the exchange of financial information relating to money laundering was signed in 1995.

The GOA is a party to the 1988 U.N. Convention, and it has bilateral narcotics cooperation agreements with many countries. Dublin Group assistance, aside from the USG, remains limited. The United Kingdom, Germany, Australia, France, and Italy provide limited training and equipment support.

IV. U.S. Policy Initiatives and Programs

Under the current bilateral agreement, USG funding is used to provide a wide variety of training programs for Argentine law enforcement officials. Examples include providing essential information technology equipment to better coordinate police counternarcotics efforts and supporting the federal/provincial law enforcement "Northern Border Task Force," a major initiative in the frontier region with Bolivia devoted exclusively to counternarcotics work. The unit is showing good results. In early December 1999, the unit was involved in the seizure of 130 kilos of cocaine in four different operations.

The Road Ahead. The USG will continue to support GOA efforts on the critical northern border area where the vast majority of drugs enters Argentina, without neglecting other potentially important areas such as the tri-border area where Argentina, Paraguay, and Brazil meet. Additional efforts are required to support the Argentine Customs Service and Air Police to target heroin trafficking to the U.S. East Coast and cocaine movements by couriers through Argentina's airports. Moreover, the USG will work with the GOA to determine the extent of South Atlantic maritime trafficking. The USG will also continue to support SEDRONAR programs aimed at developing effective chemical controls and to identify the illegal diversion of precursor chemicals.

BOLIVIA

I. Summary

An extremely effective eradication program in the Chapare, Bolivia's principal coca-growing region, surpassed last year's record-setting results, reducing the number of hectares of coca under cultivation by more than half, and by 43 percent overall. Even though Bolivia produced less cocaine hydrochloride (HCl) and cocaine base than in 1998, interdiction forces increased arrests and drug seizures (measured in terms of a percentage of potential production). A highly effective chemical interdiction program has forced Bolivian traffickers to continue to rely on substitutes for scarce and expensive chemicals smuggled in from neighboring countries and an inferior process to streamline base and HCl production. As a consequence, the purity of Bolivian cocaine has been greatly reduced and most foreign traffickers now prefer to purchase base in Bolivia and process it into HCl in Brazil, where essential chemicals are readily available. Alternative development initiatives in the Chapare continue to provide licit alternatives to coca, but demand for alternative development is exceeding the ability of the Government of Bolivia (GOB) to provide it. The (GOB) enacted a new Code of Criminal Procedures and is training judges, prosecutors and police in the new trial procedures. No action was taken against money laundering in 1999. Bolivian media and public opinion continue to be largely supportive of counternarcotics efforts. Bolivia is a party to the 1988 UN Convention against Illicit Trafficking in Drugs and Psychotropic Substances (the 1988 UN Drug Convention).

II. Status of Country

During 1999, Bolivia fell further behind Colombia and Peru in the production of coca leaf and cocaine, but remains the world's third largest supplier of cocaine. During 1999, the GOB eradication program reduced coca cultivation by 43 percent nationwide—and by 68 percent in the Chapare. Potential cocaine production fell from 150 metric tons in 1998 to 70 metric tons—the lowest levels of cultivation and potential cocaine production since the USG began conducting imagery-based crop estimates for Bolivia in 1985. This year, for the first time, field abandonment became an important factor in the decline in coca leaf production, with farmers abandoning approximately 1,650 hectares.

As of the end of 1999, Bolivia has approximately 21,800 hectares of coca under cultivation (down from 38,000 hectares in 1998) with 7,500 hectares in the Chapare; 14,000 in the Yungas; and 300 in Apolo. In 2000, the GOB plans to continue eradicating coca in the Chapare and begin preparations for an eradication program in the Yungas. Article 29 of Law 1008, Bolivia's basic counternarcotics law, presently allows for the cultivation of 12,000 hectares in the Yungas in order to satisfy legal demand, although there is evidence that the needs of the legal coca market can be met with half that amount. The same article permits the government to periodically reevaluate the needs of the legal coca market and revise the limit accordingly, which the government plans to do during 2000. There is evidence that Yungas coca is being diverted to the illicit market for conversion to cocaine products, although there is no reliable seizure data at present. The GOB plans to initiate control operations in 2000. The amount of coca grown in Apolo is not significant, and there is no evidence it is being grown for other than legitimate purposes.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The GOB announced the country's first-ever comprehensive counternarcotics strategy early in 1998, and began implementation shortly thereafter. The four part strategy has been extremely successful in eradication, interdiction and alternative development and somewhat less so in prevention/rehabilitation.

In 1999, the Bolivian Legislature enacted a new Code of Criminal Procedures. The new code establishes an accusatorial, adversarial, oral, and public criminal procedure designed to be more rapid and transparent than the current system. Public proceedings and citizen participation (cases will be heard by two professional judges and three citizen judges, i.e., jurors) should help to diminish the possibility of corruption and improve the credibility of the judicial system. The new code permits the police to use undercover agents and to make controlled deliveries of narcotics and other contraband.

The Judicial Council, created in 1998, was designed to de-politicize the selection of judges and to serve as a mechanism for disciplining members of the judiciary. Although it has not performed to expectations, its members unwilling or unable to work together, the Council did suspend or remove 23 judges in La Paz, Santa Cruz and Cochabamba on charges ranging from the acceptance of bribes to judicial misconduct. However, in reviewing the dismissal of a Cochabamba judge, the Constitutional Tribunal, created at the same time as the

Judicial Council, reinstated the judge, concluding that members of the judiciary can only be removed subsequent to a final judgement by a criminal court, not an administrative body.

Cultivation. Of the total cultivation in Bolivia of 21,800 hectares at the end of 1999, 17,150 hectares were of mature, harvestable coca, a 40 percent reduction from the previous year. Only 800 hectares of new coca were planted.

One hectare of Chapare coca yields an average of 2.7 metric tons of sun-dried coca leaf, which, in turn, produces 7.44 kilos of cocaine. The elimination of 16,999 hectares of Chapare coca during this year, therefore, prevented approximately 113 metric tons of cocaine from being manufactured from harvestable coca and exported to the U.S. and other destinations.

Production. For the fifth year in a row, total potential cocaine production in Bolivia has declined, from 240 metric tons in 1995 to 70 metric tons in 1999. Moreover, the destruction of 9,725 hectares of new coca and 62,865 square meters of seedbeds ensures this trend will continue if the government's aggressive eradication effort is sustained in 2000.

Alternative Development. The U.S. Agency for International Development (USAID) provides support for the GOB's alternative development activities in Bolivia, which provide licit income-generating alternatives to growing coca. Alternative development assistance was given to those communities and farmer organizations that voluntarily eliminated all of their coca plantings or that had all of their coca forcibly eradicated—114 groups since June 1997 (or approximately 14,570 families).

Licit alternative development production totaling 58,388 metric tons left the Chapare during April, May and June of 1999, with a market retail value of \$23.7 million and a farm gate value of \$5.7 million. Volumes of all major Chapare products increased in 1999—nine percent in bananas, 437 percent in tangerines, 117 percent in oranges, 242 percent in papayas, 174 percent in pineapples and five percent in plantains. During July, August and September of 1999, while the Bolivian export sector suffered a 15–20 percent decrease, Chapare banana exports increased by 20 percent over the previous quarter, with USAID-assisted firms shipping 6000–7000 boxes per week to Argentina and Chile. One of the project-assisted palm heart packers began shipping 2,000 cases per week to supermarkets in Argentina.

Because of the GOB's resolve to eliminate illicit coca and because it is the second poorest country in Latin America, demand for alternative development is outpacing the GOB's ability to provide it. Only 25 percent of Chapare farmers have received the assistance, and current funding levels will enable the GOB to reach only 50 percent of the communities that have signed coca eradication agreements.

Money laundering. Bolivia's 1996 law against money laundering is still not being enforced, and the GOB is considering transferring jurisdiction from the Superintendency of Banks to a cabinet ministry.

Asset seizure. The seized asset regime set out in the new Code of Criminal Procedures does little to resolve the ambiguities and conflicts in Law 1008 and the Supreme Decree issued in the last year of the previous administration. The code provision appears to be unconstitutional on its face as it provides for the seizure and sale of the property of the accused before a final determination of guilt or innocence. The USG suspended its assistance to the seized asset directorate in 1998.

Extradition. Bolivia and the U.S. signed a bilateral extradition treaty in 1995. The treaty has been in force since 1996. There were no extraditions of Bolivian citizens to the U.S. in 1999. The U.S. has {six} requests pending with the Bolivian government—five of them related to narcotics violations. Two of these individuals are currently serving sentences in Bolivia.

Demand Reduction Programs. The Vice Ministry for Prevention and Rehabilitation received little funding in the GOB's 1999 budget and has been unable to plan a sustainable, comprehensive program.

Law Enforcement Efforts. As Bolivia produces few of the chemicals utilized in processing coca leaf into coca base and HCl, most are smuggled from neighboring countries. Over the last two years, the GOB has operated the region's most effective chemical interdiction program, making some essential chemicals hard to obtain or difficult to afford. In reaction, Bolivian traffickers have streamlined the cocaine production process to reduce or eliminate the need for some chemicals, and are using inferior substitutes for some chemicals and recycling others. As a consequence, the purity of Bolivian cocaine has been reduced to as low as 47%, and Bolivian traffickers continue to use cutting ingredients to make up the quantities requested by their customers. Understandably, demand for Bolivian HCl has fallen, with most foreign traffickers now preferring to purchase base and refine it into HCl in Brazil, where essential chemicals are readily available. This has also caused Bolivian traffickers to purchase Peruvian coca base and HCl. This is an emerging trend that will be closely monitored in 2000.

Even though Bolivia produced less cocaine in 1999 than the year before, drug seizures, expressed in terms of percentage of potential production, are up from 7.7 percent in 1998 to 9.8 percent in 1999.

In June, the special narcotics task force arrested Marino Diodato and fifteen members of his organization. Diodato and his accomplices are part of the Benedetto Santapaola Organization of the Italian Mafia. The Diodato trial is underway, and more than \$5.7 million in assets held by him and his organization have been seized.

Corruption. Bolivia's small to mid-sized trafficking organizations do not seem to exercise a corruptive influence at the higher levels of the Bolivian government. Although there were no criminal cases of narcotics-related public corruption brought against senior level officials during 1999, several cases of corruption are pending against narcotics judges in Santa Cruz and Cochabamba. In addition, former Minister of Justice and Human Rights, Carlos Subirana, was forced to resign because of his attempted involvement on behalf of a Diodato co-conspirator during a pre-trial hearing. The present government neither condones, encourages nor facilitates any aspect of narcotics trafficking.

An Office of Professional Responsibility has been established within the Special Narcotics Task Force, the national police organization that supervises the activities of most police units involved in counternarcotics activities, to investigate allegations of corruption and human rights violations against judges, prosecutors and police. This unit investigated 60 allegations of improper action by the police. Of the 60 cases, 53 were investigated and closed, 4 are currently under investigation and 3 are awaiting final disposition. Of 13 cases where there were allegations of human rights violations by police, investigations revealed that only one was substantiated, and disciplinary action is pending in that case.

Agreements and Treaties. Bolivia is a party to the 1961 Single Convention on Narcotic Drugs, the 1972 Protocol thereto, and the 1971 Convention on Psychotropic Substances. Bolivia is also a party to the 1988 UN Drug Convention. Bolivia and the U.S. signed an extradition treaty in 1995. The treaty has been in force since 1996.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. To ensure that the human rights of Bolivian citizens are respected by USG-supported counternarcotics forces, the mission made the prompt, thorough and impartial investigation of all credible human rights violations—a conditional precedent for the disbursement of balance of payments funds. The mission is helping prepare Bolivian police and prosecutors for the implementation of the new Code of Criminal Procedure and the changes in their respective roles.

Bilateral Cooperation. Chaired by the U.S. ambassador and the Vice-President of Bolivia, the Bi-National Commission, made up of the Bolivian Ministers of Government, National Defense, and Agriculture, other relevant Bolivian officials and key counternarcotics officers of the U.S. Embassy in La Paz, meets regularly to monitor progress toward the goals set out in the 1998-1999 USG-GOB counternarcotics agreements and to consider new programs and initiatives. Many USG law enforcement agencies, including DEA and U.S. Customs, provided training to the Bolivian National Police and military units dedicated to the counternarcotics program.

Road ahead. During 2000, the GOB will concentrate on eradicating excess coca remaining in the Chapare and on planning and preparing for the implementation of an eradication program in the Yungas. Bolivia faces serious short-term economic difficulties and cannot provide the funds required to eliminate all of Bolivia's illegal coca and prevent its future cultivation absent substantial support from the USG and other concerned international donors.

Bolivia Statistics

(1991-1999)

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Coca									
Net Cultivation(1) (ha)	21,800	38,000	45,800	48,100	48,600	48,100	47,200	45,500	47,900
Eradication (ha)	16,999	11,621	7,026	7,512	5,493	1,058	2,397	3,152	5,488
Cultivation (ha)	38,799	49,621	52,826	55,612	54,093	49,158	49,597	48,652	53,388
Leaf: Potential Harvest(2) (mt)	22,800	52,900	70,100	75,100	85,000	89,800	84,400	80,300	78,000

HCl: Potential (mt)	70	150	200	215	240	255	240	225	220
Seizures									
Coca Leaf (mt)	56.01	93.72	50.60	76.40	110.09	202.13	201.25	188.90	5.45
Coca Paste(3) (mt)	-	-	0.008	-	0.05	0.02	0.01	0.33	0.94
Cocaine Base(4) (mt)	5.48	6.20	6.57	6.78	4.60	6.44	5.30	7.70	3.12
Cocaine HCl (mt)	1.43	3.12	3.82	3.17	3.59	1.02	0.31	0.70	0.32
Combined HCl & Base (mt)	6.91	9.32	10.39	9.95	8.19	7.46	5.61	8.40	3.44
Agua Rica(5) (ltrs)	30,120	44,560	1,149	2,275	16,874	16,874	14,255	50,820	23,230
Arrests/Detentions	2,050	1,926	1,766	955	600	1,469	1,045	1,226	1,003
Labs Destroyed									
Cocaine HCl	1	1	1	7	18	32	10	17	34
Base	893	1,205	1,022	2,033	2,226	1,891	1,300	1,393	1,461
Domestic Consumption									
Coca Leaf (licit)(6) (mt)	-	-	13,300	13,300	13,300	13,300	13,300	10,000	10,000

(1)The reported leaf-to-HCl conversion ratio is estimated to be 370 kg of leaf to one kg of cocaine HCl in the Chapare. In the Yungas, the reported ratio is 315:1.

(2)Most coca processors have eliminated the coca paste step in production.

(3)Includes dry cocaine content of agua rica (see subsequent footnote).

(4)In 1995, an additional 4.1 metric tons of cocaine HCl were seized in Peru based on information provided by DEA in Bolivia.

(5)Agua Rica (AR) is a suspension of cocaine base in a weak acid solution. AR seizures first occurred in late 1991. According to DEA, 37 liters of AR equal one kg of cocaine base.

(6)Licit consumption estimates revised in 1993.

BRAZIL

I. Summary

Although it is not a significant producer of illegal drugs, Brazil is a major transit country for illicit drugs shipped to the United States and a major producer of precursor chemicals and synthetic drugs. In 1999, Brazil strengthened its counternarcotics activities despite the distractions of a major currency devaluation and the lengthy process of choosing a new Federal Police director. The year's most significant counternarcotics event was the formation in April 1999 of the special Congressional Panel of Inquiry (CPI) on narcotics trafficking. Its

hearings highlighted the linkage between narcotics trafficking, money laundering, organized crime and corruption in Brazil. In November, President Cardoso called for a national mobilization against narcotics and formed a special task force against impunity to attack narcotics trafficking and associated crimes. These actions reflect Brazil's heightened concern over the negative role that illegal narcotics play in the country's life, particularly since the country's domestic drug problem is increasing. Brazil cooperated with its neighbors, principally Peru and Colombia, to strengthen interdiction efforts in the remote frontier regions where illicit drugs are transported.

Federal Police reported seizing 5.91 metric tons of cocaine in 1999, 0.11 metric tons more than in 1998. However, since Brazil collects only Federal Police seizure and arrest statistics, not recording those generated by state, local and highway police forces, actual narcotics seizures are higher than reflected in these reports. With scant resources and limited authority, the Presidency's National Anti-Drug Secretariat (SENAD) sought to coordinate all counternarcotics efforts. Its recent inclusion in the special task force on impunity may help the coordination effort.

Brazil ratified the 1988 UN Drug Convention in 1991 and has been making significant efforts to meet the goals and objectives of the convention, but it has not yet adopted legislation necessary to fully implement it. Brazil has a bilateral narcotics agreement and a Memorandum of Understanding (MOU) with the U.S. that provide for bilateral counternarcotics cooperation. Brazil also cooperates bilaterally with several other countries and participates in multilateral counternarcotics initiatives such as the UN Drug Control Program (UNDCP) and the Organization of American States/Drug Abuse Control Commission (OAS/CICAD).

II. Status of Country

Brazil is not a significant drug producing country. Marijuana (cannabis) is grown in the interior of the northeast, but almost entirely for domestic consumption. Furthermore, these production centers are under heavy pressure from Brazilian eradication efforts; three times as much was destroyed and six times as much was seized in 1999 compared to the previous year.

Brazil is primarily a transit country for cocaine base moving from Andean Ridge cultivation areas to processing laboratories in Colombia. It is also a conduit for cocaine hydrochloride (HCl) bound from Colombia and other neighboring countries to North America, Europe and Brazilian cities. Brazilian Federal Police (DPF) statistics show little indication of an increase in the quantities of heroin entering the country from Colombia, although the media continue to make that claim.

Drugs from Bolivia and Peru move by air and land routes to the major cities in Brazil's southern region which, according to surveys, media accounts and other data, have the highest rates of drug use in the country. Major seaports at Santos, Rio de Janeiro and Rio Grande do Sul, as well as international airports at Sao Paulo, Rio de Janeiro and Porto Alegre, serve as transshipment points for these drugs.

Another major transit area in Brazil is the enormous western region, used in recent years by narcotics traffickers to avoid the active air interdiction policies of Peru and Colombia. The extensive Amazon riverine transportation network is used to move drugs to Atlantic ports for transshipment. This network also transports mostly Brazilian manufactured precursor chemicals to narcotics processing laboratories upriver, mainly in Colombia, although two laboratories were found in Brazil in 1999. Relatively few seizures of diverted or illicit chemicals have occurred.

Laws passed in 1998 on money laundering were implemented with limited results. Additional legislation remains pending as part of a larger package of measures to reform the entire financial system. However, a number of administrative regulations were promulgated in 1999 and officials at the Council for the Control of Financial Activities (COAF - which has the lead on money laundering) maintain they have all the legal authority they need to do their job. Similarly, construction continued on the Amazon Surveillance System (SIVAM), which will provide an integrated air- and land-based radar system by 2002 to detect trafficking and other illegal activity in the sparsely populated region.

Drug use continues to increase, especially among young people. Abuse of hard drugs such as the local version of "crack" cocaine is increasing among youths in the country's cities. Reputable news magazines claimed that the problem extended to the capital of Brasilia and even into Congress itself. The year-old Anti-Drug Secretariat (SENAD) also began to develop and oversee drug prevention and treatment programs, though it was hampered by scarce resources and personnel.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Brazil's major counternarcotics initiative was the Chamber of Deputies' Congressional Panel of Inquiry (CPI) on narcotics trafficking. Initiated in April, the CPI held hearings and investigated criminality and narcotics trafficking in a blaze of publicity. As a result, Brazilian society ended the year sensitized to the narcotics problem in the country, particularly the relationship between narcotics trafficking, drug use, corruption and other forms of criminality.

The Brazilian Congress did not pass new counternarcotics legislation in 1999. However, it is actively considering an omnibus bill on national drug policy and another on crimes of special seriousness that would include narcotics trafficking. The Justice Ministry is also studying a proposal from the SENAD Director to revive a 1991 congressional bill that would grant judicial protection to police who act as undercover agents. Congress' most important action was the formation of the CPI, which served to publicize the penetration of government and society by narcotics traffickers and other criminal elements. Among its achievements were the expulsion of a member of Congress who was actively involved in narcotics trafficking and other criminal activities and the arrest of over 115 corrupt judges, gunmen, businessmen and rogue police officials. It also gave courage to previously isolated voices against corruption and impunity, making others willing to come forward to denounce illegal activities. An additional spin-off is that several state legislative assemblies are in the process of organizing their own CPIs. Most importantly, the CPI began changing the apparent tolerance of corruption and impunity.

Accomplishments. The Federal Police continued their efforts in the Amazon region and carried out often lengthy counternarcotics investigations countrywide. Seizures increased slightly in 1999, lifted by a record-breaking one month run of success in October. On October 9, the DPF captured 245 kilograms of crack and 50 kilograms of cocaine in San Pedro in the state of Sao Paulo. This was followed on October 21 when the DPF seized 60 kilograms of ecstasy at the Sao Paulo airport. Soon thereafter, on October 26, the DPF seized 780 kilograms of cocaine in the south of Para state. The latter seizure demonstrates the continuing focus of the DPF on the Amazon basin region, along with close attention to the southern trafficking routes to Sao Paulo.

National interdiction statistics are incomplete due to the exclusion of comprehensive state-level seizure information. However, Federal Police sources estimate they record approximately 75 percent of seizures and detentions, enough to extrapolate national trends. They add that the statistics of all Brazilian police forces will be consolidated in 2000 as the result of an agreement among the police forces.

Illicit Cultivation/Production. There is no significant evidence of illicit drug cultivation in Brazil, with the exception of some cannabis grown primarily for domestic consumption in the interior of the northeast region. SENAD and the DPF devoted considerable resources to inhibiting this local illicit production in 1999. Statistical evidence indicates the success of these efforts; eradication proceeded at over triple the pace of 1998 and marijuana seizures increased by six-fold. In late November, the GOB mounted its largest eradication and crop substitution effort ever in the marijuana-growing center of Pernambuco state. Designed to last four years, the initiative included the use of 1,500 army troops for the first time. As in past years, authorities identified no coca or opium cultivation in 1999. Although only two cocaine-processing laboratories were identified and dismantled, DPF analysts believe that international narcotics trafficking organizations may be sponsoring the construction of additional laboratories in Brazilian territory to exploit the ready availability of precursor chemicals.

Distribution. Extensive domestic distribution networks have developed in major and secondary cities in Brazil, and the DPF and state authorities are investigating. Access to the shantytowns (favelas) surrounding major cities such as Sao Paulo, Rio de Janeiro and Porto Alegre is controlled by local drug lords. This was dramatically demonstrated in early November, when CPI representatives on a fact-finding trip were forced to withdraw from a Rio favela under the threat of violence.

Sale, Transport and Financing. Federal Police focused efforts on the western Amazon region with a half dozen operations, all growing out of "Operation Porras" which originally began in 1997. Another major operation in the region features three-way cooperation among Brazil, Peru and Colombia. Despite ongoing operations, law enforcement efforts were hampered by insufficient resources and the vastness of the Amazon region where narcotics are shipped by air and along the extensive river system. The region remains difficult to police adequately. Some authorities claim that a majority of the cocaine shipped down the Amazon is destined for the United States. Manaus, the largest fresh-water port on the river, and Macapa and Belem on the Atlantic, serve as transshipment points for drugs from Colombia, Peru and Bolivia to be loaded on ships bound for the U.S., Europe and elsewhere.

Money Laundering. The CPI estimated that about \$17 billion is laundered each year in Brazil, while the Central Bank estimated the amount at \$28 billion. The Council on Financial Activities (COAF) complained publicly about a lack of cooperation from banks, including the Central Bank, in identifying laundered money. Banks in turn cited bank secrecy laws as justification for their lack of cooperation. Responding to pressure, however, the central bank has recently created a special internal group to trace money laundering.

Asset Seizure. Items useful to police work, particularly motor vehicles, can be seized during narcotics raids and put into immediate use under a March 1999 executive decree. Other assets are publicly auctioned with proceeds distributed according to court decisions. Federal Police records show that 21 airplanes, 308 automobiles and 180 firearms were seized and assimilated in 1999, compared to 15, 179 and 130 in 1998 and six, 77 and 71 in 1997.

Extradition. Brazil does not extradite its own citizens. It cooperates with other countries in the extradition of

non-Brazilian nationals accused of narcotics-related crimes. Brazil and the U.S. are parties to a bilateral extradition treaty signed in 1961. There were no extraditions to the U.S. of persons accused of narcotics-related crimes in 1999.

Mutual Legal Assistance. The U.S. and Brazil signed a bilateral Mutual Legal Assistance Treaty (MLAT) in October 1997. The U.S. Senate approved the treaty in October 1998, but it still awaits approval by the Brazilian Congress. When it goes into effect, this treaty will support Brazilian efforts to deal with narcotics trafficking and organized crime, as well as other offenses.

Law Enforcement and Transit Cooperation. Top Brazilian counternarcotics officials in the DPF and SENAD continued expressing their strong interest in more active cooperation and coordination with U.S. drug control activities, particularly intelligence sharing.

U.S. Drug Enforcement Administration (DEA) agents were again invited in 1999 to observe Federal Police operations in the Amazon region, and information sharing with Brazilian police authorities has progressed well. Brazilian cooperation with authorities in neighboring countries, particularly in Colombia, Peru and Bolivia, also enhanced regional efforts to block trafficking.

Precursor Chemical Control. Brazil, South America's largest producer of industrial chemicals, requires registration with federal narcotics police for all production, transport and distribution of precursor chemicals. A 1995 law places eleven chemicals under federal control (the Justice Ministry is considering adding 14 more to the control list), sets minimum thresholds for reporting and record keeping on transactions, provides for import and export licensing, and fixes substantial administrative penalties for noncompliance. While compliance with the permit process appears to be widespread, a lack of resources (only three Federal Police agents and eight clerical workers to check on 22,000 chemical handlers) prevents active government follow-up or verification of most shipments and/or their ultimate destinations. As a result, the enforcers are largely dependent upon the integrity of chemical companies to accurately report on the production and handling of shipments. Consequently, some diversion of chemicals such as ether and acetone to neighboring Colombia, Peru and Bolivia still occurs. In September 1998, the United Nations Drug Control Program (UNDCP) initiated a multi-year, \$9 million program to enhance precursor chemical control. Initial reports on the new program have been favorable.

Domestic Programs. Since the successful conclusion of the 1998 National Anti-Drug Conference, SENAD has been working with the Health Ministry to develop an updated list of Brazilian entities involved in drug prevention and rehabilitation programs. There are currently hundreds of such entities in the country and the most recent register available is from 1991. In June 1999 SENAD launched a national Anti-Drug Week to increase awareness among young people of the dangers of drug abuse. The U.S. contribution to the campaign was the provision of equipment and preparation of office space for the coordinating staff at SENAD. U.S. counternarcotics funds from FY 1999 have been earmarked to help support demand reduction and drug education programs in Brazil through a joint program with SENAD. One major focus has been on the PROERD (Educational Program for Resistance to Drugs and Violence) program, based on the U.S. D.A.R.E. model. PROERD provides training to uniformed state military police drug education volunteers in 17 of Brazil's 26 states, as well as in the federal district. In October, 75 professionals from the juvenile institution FEBEM (State Foundation for the Welfare of Minors) in Sao Paulo were trained through direct funding by the Bureau of International Narcotics and Law Enforcement Affairs (INL) in counseling and pedagogical techniques based on the internationally successful Daytop model of community therapy.

Law Enforcement Efforts. Federal Police cocaine seizures increased marginally in 1999 (5.91 metric tons) from 1998 (5.8 metric tons). Marijuana (cannabis) seizures of 54.96 metric tons in 1999 were nearly six times higher than the 9.47 metric tons seized in 1998. In addition, destruction of marijuana plants tripled to 3.08 million, compared to 806,765 in 1998. Two drug laboratories were also dismantled.

Corruption. The Brazilian government does not condone the production, shipment, or distribution of illicit drugs or laundering of drug money; nor do senior government officials engage in, encourage, or facilitate such activities. However, the Congressional Panel of Inquiry into narcotics trafficking repeatedly exposed nests of corruption throughout Brazilian society and government in 1999, particularly at the local and state level. It is hoped that this exposure will lead to stricter legislation and a weakening of the nexus between narcotics, organized crime and politics.

Agreements and Treaties. Brazil became a party to the 1988 UN Drug Convention in 1991, although it still lacks legislation formally implementing all of its provisions. While the pending omnibus narcotics law is needed to bring Brazil into full compliance with the UN Convention, in practice Brazil meets many of the overall objectives. Bilateral agreements based on the 1988 Convention form the basis for counternarcotics cooperation between the U.S. and Brazil. Brazil also has a number of narcotics control agreements with its South American neighbors, several European countries, South Africa and, in 1999, signed agreements with Peru, Spain and Romania. The Federal Police maintain liaison on counternarcotics matters with the U.S., Germany, Great Britain, France, Spain, the Netherlands, Canada and Italy through narcotics officers of those

countries posted to their embassies in Brasilia. Brazil has agreements facilitating extradition and integration of police operations with its Mercosur partners (Argentina, Uruguay and Paraguay) and participates in a wide range of counternarcotics programs sponsored by UNDCP.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. U.S. counternarcotics policy in Brazil focuses on working with Brazilian authorities to identify and dismantle international narcotics trafficking organizations, reduce money laundering and increase awareness of the dangers of drug trafficking and drug abuse. Key goals are to assist Brazil to develop a strong legal structure for narcotics and money laundering control and to enhance cooperation at the policy level. Bilateral agreements provide for cooperation among U.S. agencies, the National Anti-Drug Secretariat and the Federal Police.

Bilateral Cooperation. Bilateral assistance in 1999 included: a DEA regional pipeline training course for two Federal Police officers; a drug interdiction training course for 1 highway patrol officer in Peru; a DEA intelligence analysis seminar for 30 Federal Police agents in Brasilia; an introductory DEA law enforcement seminar for 35 Federal Police agents in Brasilia; a seminar in Miami by the National Association of Drug Court Professionals for two judges and two prosecutors; a DEA training course in airport interdiction for two federal police agents and two customs agents in Buenos Aires; DEA training in asset forfeiture for two Federal Police agents in Bogota; USIS sponsored lectures on money laundering in three Brazilian cities in September; and a judicial seminar by and for Brazilians attended by forty judges, prosecutors and Federal Police agents in Belo Horizonte in October. Assistance was also provided for the renovation of the central kennel facilities in Brasilia (for drug-sniffing dogs), and for audio visual equipment and office supplies for the D.A.R.E. Brasil program in Sao Paulo. In the area of drug education and demand reduction, support was given to the Street Kids initiative for under-served urban youth in Campinas; to the D.A.R.E. International Summit with representatives from 23 countries in Sao Paulo in February; to the D.A.R.E.-PROERD mentor officer training course for 30 state policemen in Brasilia; for a speaker from the ONDCP in August; and for the last two modules of training provided for the 75-member staff of the FEBEM youth center in Sao Paulo. Several Brazilian visitors were also brought to the U.S. for training. These included: a Civil Police officer working with Brazilian schools to increase drug awareness; a member of the Sao Paulo state Drug Council; a leader of the Brazilian Federation of Therapeutic Communities of Campinas; and five Federal Police agents from Brasilia to study courses and methods at the FBI and DEA academies in Quantico. To further improve U.S./Brazilian cooperation in these various counternarcotics endeavors, the U.S. State Department hosted a Brazilian delegation of law-enforcement officials in January 1999 for a first-ever bilateral conference on illegal narcotics and law enforcement issues. Both country teams expressed satisfaction with the tone and substance of these talks, which included discussions on demand reduction, money laundering, legal reform, transshipment, interdiction and intelligence sharing.

The DEA continued to support numerous Federal Police counternarcotics operations in the Amazon region throughout 1999, assisting with information sharing and equipment and facilitating cooperation with police authorities in neighboring Colombia, Peru, Bolivia and Venezuela. DEA began assisting a joint anti-drug task force at the Sao Paulo International Airport in cooperation with Brazilian customs, the Federal Police and the Sao Paulo Civil Police with promising early results.

The DEA provided instruction at the Brazilian jungle school in 1999. Police forces from Colombia, Bolivia and Venezuela also participated in the training.

The Road Ahead. High-level Brazilian officials, including the President, his national drug czar and the new Federal Police director, continue to express strong interest and commitment to enhanced bilateral cooperation with the U.S. in the fight against narcotics trafficking. The government of Brazil also demonstrated a willingness to work closely with its neighbors in fighting the narcotics trade. President Cardoso strongly and publicly supported the work of the CPI on narcotics trafficking throughout the year as part of a national mobilization against narcotics. As a practical part of this mobilization, a special task force to combat impunity was formed in November to act in cases involving narcotics trafficking and associated crimes. In addition, the president promised to hire another 1,000 Federal Police officers (a 15 percent increase) and form 21 new police field offices. Further signs of Brazil's strong commitment to combat drug trafficking would include passage of omnibus counternarcotics legislation and pending legislation on serious crimes, including narcotics trafficking; promulgation of additional money laundering regulations and enhanced enforcement; continued high-level attention to counternarcotics efforts; further funding of counternarcotics programs and law enforcement agencies; and continued interdiction efforts in the regions most exploited by international narcotics traffickers.

Brazil Statistics

(1991-1999)

	1999	1998	1997	1996	1995	1994	1993	1992	1991
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Coca									
Harvestable Cultivation (ha)	-	-	-	-	-	-	-	-	-
Eradication (mt)	-	-	-	-	-	-	20	0	0
Cocaine Seizures (mt)	5.91	4.00	4.00	3.10	5.70	11.80	7.70	2.81	3.70
Crack Cocaine (mt)	1.670	0.135	0.122	-	-	-	-	-	-
Cannabis									
Harvestable Cultivation (ha)	-	-	-	-	-	-	-	-	-
Eradication(1) (mt)				1,001	760	821	884	763	1,643
Seized In-Country (mt)	55.0	9.5	31.7	19.8	11.7	18.4	10.0	19.6	8.5
Arrests	1,644	-	2,307	-	-	-	2,803	2,283	2,759
Labs Destroyed									
Cocaine HCl	2	2	0	0	0	0	5	0	3

(1)In 1999, 3.08 million cannabis plants were destroyed. Conversion to metric tonnage not available.

CHILE

I. Summary

Chile is not a center of illicit narcotics production, but is a transshipment point for cocaine products moving to the U.S. and Europe. Until recently, Chile avoided many of the problems associated with large-scale shipments of narcotics, but consumption of cocaine and cocaine base, and associated low-level criminality are on a slow ascent. Chile continues to be a source of precursor chemicals exported for use in coca processing in Peru and Bolivia. The Chilean financial system, due to its relative sophistication and size, is vulnerable to money laundering. Narcotics corruption is not a serious issue affecting Chile. Chile is a party to the 1988 U.N. Drug Convention. Chile has private drug abuse and prevention programs, many funded by the Chilean government as part of a decentralized narcotics control strategy.

II. Status of the Country

Chile remains a source of precursor chemicals and a transshipment point for refined cocaine bound for Europe, and to a limited extent, the U.S. A 1995 law criminalized illicit association, trade in precursor chemicals

destined for use in narcotics refining and money laundering, and authorized wire-taps. Chile is not a producer country for narcotics, aside from very small quantities of marijuana. Resources for enforcement and demand reduction remain limited. Multilaterally, the Government of Chile (GOC) exercises active leadership in the Inter-American Drug Abuse Control Commission (CICAD), and supports CICAD's effort to promote an effective Multilateral Evaluation Mechanism. In October 1999, the GOC sponsored a major regional academic conference on narcotics abuse, prevention, money laundering, and enforcement strategies.

III. Country Actions Against Drugs:

Policy Initiatives. Partly to counter the perception of rising crime associated with narcotics consumption, the GOC launched several efforts in 1999 to strengthen its hand in confronting the drug problem. The GOC proposed legislation to give trial judges greater discretion for small-scale drug distribution convictions. The GOC also proposed to alter its money laundering law to allow investigations without actual narcotics seizures in Chile, and the creation of a financial crimes investigative unit with the ability to cooperate more fully with the banking community. The national police launched a community-based prevention effort to coordinate government prevention, treatment and law enforcement efforts. However, resources for counternarcotics efforts remain limited; one press report (La Tercera) said that only \$10,000 per month is available for undercover investigations, wire taps, controlled deliveries and similar activities.

The National Drug Control Council (CONACE), the main conduit for demand reduction-activities, has a total annual budget of approximately \$12 million. CONACE's demand-reduction program for 1999 is \$4.8 million with the following breakdown: \$2 million for community-based prevention programs, \$1 million for prevention targeted at schools, \$1 million for drug treatment, and \$800,000 for anti-drug networks at community levels. For 2000, the demand-reduction program will rise to \$8 million.

Accomplishments. In general, seizures of illicit narcotics are up more than 10% this year, compared to 1998. Operation Corona, an international operation conducted in cooperation with Spanish narcotics authorities, netted 250 kg of cocaine in January 1999. The largest seizure of marijuana in Chilean history took place in September 1999 at the southern Chilean border-crossing point of Parajitos near Temuco, where Chilean customs authorities discovered 500 kg hidden in a truck container. A large cocaine seizure in Ecuador during 1999 was due to effective Chilean cooperation.

The GOC is actively engaged in the formulation of a stronger money-laundering statute that would include the formation of a Financial Intelligence Unit. The GOC, in cooperation with the DEA, hosted a precursor chemical conference in December, which attracted senior policymakers from neighboring producer countries as well as from Chile. The conference may act as a catalyst to jump-start more effective regional cooperation in chemical controls. The GOC also launched a community-based drug strategy, in which police directly target "micro-traffickers," community organizations and local governments direct demand-reduction activities, and the health ministry coordinates rehabilitation efforts with police and municipalities.

Corruption. Corruption among officials and senior law enforcement personnel is not a major problem. Where officials have been accused of corruption, GOC institutions have investigated the allegations and imposed appropriate sanctions.

Agreements and Treaties. The U.S. and Chile are parties to a bilateral extradition treaty signed in 1900, and extraditions from Chile under this outdated instrument are extremely arduous and expensive. The Chilean Ministry of Foreign Affairs is, however, interested in updating its extradition treaties with various countries, including the United States. The GOC has also indicated interest in the issue of asset forfeiture and asset sharing subsequent to seizure. Chile is a party to the Egmont Accord, which promotes the sharing of financial crimes data among relevant national agencies. As a party to the 1988 U.N. Drug Convention, Chile continues to work towards compliance with its goals and objectives via its 1995 counternarcotics law. Chile is also a party to the 1971 U.N. Convention on Psychotropic Substances. The GOC and USG are discussing the details of a new agreement for cooperation and mutual assistance in narcotics-related matters. Chile has similar agreements in force with the U.K., Spain, and the E.U. Bilateral agreement negotiations are underway with France, Germany, Poland, and the Czech Republic.

Drug Production, Flow, Transit. Extensive containerized cargo facilities at Chile's 10 ports provide convenient facilities for smugglers operating from source countries. Illegal coca products enter principally from Peruvian and Bolivian land points. Coca-paste destined for domestic consumption flows south along the Pan American Highway to Santiago and points beyond, while refined cocaine is mainly packaged for export via seaports. According to seizure statistics produced by CONACE, cocaine and cocaine base flow were up 44 and 8 percent respectively in 1999. Marijuana production remains scant, while imports of pressed marijuana destined for domestic production come principally from Paraguay directly to Chile's central region.

Demand Statistics and Demand Reduction Efforts. The public in Chile is concerned about rising drug use and distribution and associates these problems with rising street crime. CONACE's 1998 statistics indicate that 70,000 Chileans (5.3% of the population) had used illegal drugs in the past year and that 2.3% had done so in

the pre-survey month. According to CONACE, 15% of current drug users are cocaine base or cocaine hydrochloride users. 17% of the population has tried illicit substances at least once. Non-governmental organizations (NGOs) are active in rehabilitation and education efforts, often under contract with CONACE as part of a decentralized decision-making initiative. Chilean schools incorporate drug education, using a curriculum designed by the NGO community.

IV. U.S. Policy Initiatives and Programs

U.S. initiatives in 1999 have been designed to reinforce joint U.S.-Chilean priorities of precursor chemicals, money laundering and containerized cargo. In December 1999, a major regional course addressing precursor chemicals was held, focusing on interagency cooperation and effective techniques to identify suspicious recipients. Also in December 1999, a combined team from the U.S. Treasury and Federal Bureau of Investigation presented seminars addressing money laundering and effective investigation techniques. In 1999, the USG, through its embassy, has been active in assisting the GOC to effect judicial reform, bringing experts from the U.S., sending judicial reform leaders in the GOC to specialized training schools, and providing training on police survival and undercover operations.

Bilateral Accomplishments. Chilean law enforcement cooperation was instrumental in the August 1999 seizure of 3.7 tons of cocaine in Ecuador, in which leads developed in Chile led directly to enterprises in Ecuador using containerized cargo to transport narcotics. The U.S. and Chile cooperated on a number of fronts related to training and capacity-building for Chilean authorities; 1999 saw experts from the U.S. conduct seminars on evidence collection and precursor chemical control.

The Road Ahead. Statistics show a marked increase in seizures of processed cocaine in Chile in 1999, along with steady seizures of cocaine base. CONACE believes that the increase is due to more effective narcotics-control strategies in neighboring source countries as the primary influence. Narcotics traffickers are using Chile to a greater degree to move refined product to developed-countries' markets as other avenues out of Peru and Bolivia are progressively closed.

In 2000, the USG intends to support GOC efforts to more closely integrate regional law-enforcement and chemical producers in denying source material to traffickers, move against the use of shipping containers to move narcotics, and establish a joint Chilean Customs-DEA-shipping companies task force. The USG will also continue to bring additional experts from law enforcement agencies to aid the Chilean Government to structure a financial crimes investigative unit, focus on judicial and prosecutorial capacity-building, and align USG demand-reduction efforts with GOC initiatives.

COLOMBIA

I. Summary

Colombia produces and distributes more cocaine than any other country in the world and is also an important supplier of heroin. Colombia bolstered its counternarcotics efforts in 1999 by extraditing a Colombian citizen to the United States on narcotics charges for the first time in nine years. The Colombian armed forces activated its elite, U.S.-trained, 931-man strong counternarcotics battalion. Additionally, the Colombian anti-narcotics police (DIRAN) formed an air-mobile interdiction unit, which received United States training, to conduct operations with the Colombian military.

After over a year in office, the Pastrana Administration remains committed to its peace dialogue with the largest insurgent group, the Revolutionary Armed Forces of Colombia (FARC). The government's talks with the FARC, which earns substantial funds from the drug trade, particularly from protection and taxation, have shown few gains thus far. Like the guerrillas, the paramilitaries are involved in the drug trade and are competing for an ever-greater share.

The combined U.S./GOC aerial eradication program had a successful year in 1999. The program sprayed over 42,000 hectares of coca and more than 8,000 hectares of opium poppy in 1999.

The "Antinarcotics Directorate" (DIRAN) of the Colombian National Police has continued its record of investigations and operations against narcotics trafficking. A cooperative effort between the Colombian National Police, the Prosecutor General's office (Fiscalia) and the U.S. Drug Enforcement Administration (DEA) led to the arrest of 30 significant Colombian drug traffickers in "Operation Millennium." The United States requested the extradition of all 30 suspects and awaits the GOC's decision on those requests.

As in 1998, guerrillas protecting the drug trade ratcheted up their attacks on Colombian security forces and hampered counternarcotics operations, particularly in the coca growing regions of southern and southeastern Colombia. As Colombia struggles to climb out of its worst economic crisis since the 1930s, the GOC is hard pressed to commit the resources necessary to combat the powerful combined threat of drug traffickers and guerrilla elements involved in the drug trade.

Colombia is a party to the 1988 UN Drug Convention.

II. Status of Country

Colombia remains the world's largest cocaine producer: up to three-quarters of the world's cocaine hydrochloride (HCl) is processed in Colombia from cocaine base imported from Peru and Bolivia and, increasingly, from locally grown coca. Coca cultivation in Colombia increased by 20 percent in 1999. Most of the increase occurred outside of the eradication areas. Although opinions differ over statistical baselines, it is generally agreed that despite efforts by the Government of Colombia to limit increases, cultivation expanded dramatically over the past three years. Estimated coca cultivation increased 36 percent in 1996, 18 percent in 1997 and 28 percent in 1998. Colombia is also a significant supplier of heroin to the United States, potentially producing, according to U.S. estimates, up to eight metric tons (mt) yearly, virtually all of which is destined for the U.S. market.

III. Country Actions Against Drugs in 1999

Policy Initiatives. In November 1999, Colombia extradited a Colombian citizen to the United States for the first time in nine years, fulfilling one of the USG's most sought-after, but elusive, counternarcotics goals with the GOC. Despite narcotics traffickers' attempts to throw up legal roadblocks, and bombings possibly linked to the extraditions, the Colombian Supreme Court and Pastrana Administration demonstrated their willingness to send narcotics traffickers to justice in the United States regardless of citizenship.

In a cooperative anti-narcotics operation with the USG, the GOC arrested 30 suspected narcotics traffickers in October 1999 as a result of "Operation Millennium." This joint operation, involved the Colombian National Police, the Colombian prosecutor general's office and the DEA. The United States requested the extradition of all 30 suspects.

The GOC succeeded in preserving some, but not all, key elements of its "faceless" justice system when congress approved the new "specialized" justice system in June 1999. The specialized system no longer protects the identity of judges, leading some judges to feel exposed to attempts at intimidation. However, the system still protects the identity of witnesses and prosecutors in a limited set of crimes such as narcotics trafficking, kidnapping and terrorism.

The asset forfeiture process in Colombia remains stalled. Although the GOC has seized millions of dollars worth of narcotics trafficker assets, including land, homes, automobiles and airplanes, the government has been unable to conclude the process and take legal ownership of or auction-off the assets.

The Colombian Air Force (FAC) is improving its monitoring and interdiction abilities. Over the last three years, the percentage of successful FAC interdiction attempts has increased from 25 percent in 1997 to nearly 40 percent in 1999. At the same time, the number of suspicious aircraft which radar has detected flying to or from Colombia has fallen dramatically, from 231 in 1997 to less than 100 in 1999.

The Colombian National Police successfully implemented a civil aviation registration program to curb the use of aircraft for drug trafficking. This program inspected 343 aircraft in 1999, seizing 50 of these for violation of protective seals that prevent tampering with cargoes.

In mid-1999, for the first time, the GOC permitted its eradication campaign to begin edging into coca-rich Putumayo department. The GOC had previously prohibited eradication in Putumayo; the mere threat of spraying there in 1996 ignited vehement public demonstrations against the government by residents of the coca growing areas. The eradication program has been careful to enter Putumayo slowly and without fanfare to avoid causing a backlash by farmers dependent on the coca trade. By November 1999, planes were eradicating fields 20 miles into the department, allowing them to reach approximately 30,000 hectares of coca. This has permitted the eradication program to enter the fastest growing coca cultivation area in the country.

The eradication program was hindered in 1999 by the diversion of escort helicopters for interdiction missions, civic unrest in poppy-growing areas that forced the evacuation of spray teams, and frequent ground-fire attacks on spray planes (resulting, in part, from too few escort aircraft). In 1999 spray planes suffered 67 hits from ground fire. Nonetheless, the program still managed to eradicate more than 50,000 hectares in 1999.

The February 1997 shipboarding agreement between the GOC and USG streamlined the process for approving the boarding of Colombian ships in international waters by U.S. officials and has enhanced cooperation with the Colombian Navy. Following talks between JIATF-East (USG inter-agency counternarcotics task force) and the Colombian Navy, a standing interdiction operations plan was signed in September 1999. This plan augments the maritime agreement and has led to three U.S.-Colombian combined maritime interdiction patrols since May 1999. The Colombian Navy's counternarcotics efforts, however, are limited by a lack of adequate resources for patrolling, including fuel.

The USG and GOC have worked to resolve differences regarding evidence preparation and delivery in cases where the USG is the interdicting authority. In September 1999, U.S. and Colombian authorities reached an accommodation concerning the evidence required by Colombian prosecutors and other evidentiary questions.

Prison security remains a serious problem in Colombia. Overcrowding, lack of administrative acumen and corruption among guards plague the system. Almost two percent of inmates escape each year. There are 50,000 prisoners in a system with capacity for 33,000 and only 1 guard for every 10 prisoners (compared with 1 guard for 4 in the U.S.). Violence among prisoners is rampant. Due to lax security and permissive conditions for prisoners, many convicted traffickers remain directly involved in their operations from within prison.

The Minister of Justice and his director of prisons appear committed to reforms. But thus far, the GOC has been more inclined to build additional prisons rather than to reform prison administration.

The "carrot and stick" approach that couples alternative development with aerial eradication is key to Colombia's national drug control strategy and to "Plan Colombia," unveiled by the GOC in September 1999. The National Alternative Development Plan (PLANTE) is the agency charged with implementing the GOC's alternative development strategy. Targeting approximately 35,000 small farmers nationwide, who each produce less than three hectares of coca or opium poppy, PLANTE focused on linking illicit crop abandonment or substitution to markets for the resulting new products or services. PLANTE organized strategic alliances with the private sector, which provide farmer organizations with risk capital and technical assistance in production, product processing and marketing.

As a matter of policy, the GOC does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. The Pastrana government has made clear, on many occasions, its opposition to official corruption.

Accomplishments. Law enforcement operations by the counternarcotics police and others continue to be the most successful element of the GOC counternarcotics program. According to the CNP, GOC counternarcotics operations in 1999 included the seizure of: almost 30 metric tons (mt) of cocaine HCl and cocaine base; nearly 140 mt of coca leaves; 61 mt of marijuana; and 644 kilos of heroin, morphine and opium; the destruction of 96 cocaine base labs; 53 cocaine HCl labs and 10 heroin labs; the capture of over 760 mt of solid precursor chemicals and over 890,000 gallons of liquid precursors; the seizure of 540 vehicles, 189 boats, 51 aircraft and 422 weapons; the destruction of 44 clandestine airstrips, and the arrest of over 2,200 persons.

Elite investigative units within the CNP are developing long term investigations of trafficker organizations and are moving forward on asset forfeiture. The GOC heroin task force provided intelligence to effect drug seizures in Colombia and assist in U.S.-based investigations. Overall, GOC seizures of cocaine and heroin were higher in 1999 than in 1998.

The level of cooperation between the Colombian military and police, and between the services within the military, continued to improve in 1999. As in 1998, all of the armed forces conducted unilateral and joint counternarcotics operations with the police. Cooperation took the form of deployments in areas where police face a significant guerrilla threat. The air force, army, navy and marines coordinated with the CNP in multi-week, joint counternarcotics operations along the Pacific coast near the port of Buenaventura. These coordinated forces destroyed drug labs, confiscated narcotics and arrested individuals involved.

Furthermore, the Colombian police and army have participated in intensive joint training to prepare the army's new counternarcotics battalion, which is intended to assist the CNP during counternarcotics operations in the coca growing regions. The police and army have also agreed to work together on tactical operations that involve the new battalion. The co-located Joint Intelligence Center (JIC) includes personnel from the CNP.

CNP cooperation, including intelligence sharing, with international law enforcement entities continued this year. The CNP also provided information that led directly to the seizure of 30 mt of cocaine HCl outside of Colombian territory in 1999.

Agreements and Treaties. Colombia ratified the 1988 UN Drug Convention in September 1994 and the GOC's National Anti-Narcotics Plan of 1998 meets the strategic plan requirements of the Convention. Recent reforms have generally brought the government into line with the requirements of the Convention.

In February 1997, the GOC signed a maritime shipboarding agreement with the United States. The agreement, which allows for faster approval for shipboardings in international waters and sets guidelines for improved counternarcotics cooperation with the Colombian navy, has been credited with the seizure of 22 metric tons of cocaine since its signing. In February 1999, the Colombian justice system obtained the first convictions of individuals prosecuted for seizures related to the maritime agreement. However, reduced budgets and demands on resources for riverine programs south of the Andes limited the navy's counternarcotics operations.

1999 saw substantial improvement in the maritime agreement's intelligence and communications exchange process. JIATF-East has established direct communication links with Colombian navy operations centers in Bogota and Cartagena to speed the transfer of tactical interdiction information. The navy has also improved its own ship-to-shore communications. Unfortunately, implementation procedures for article 16 of the agreement

have not been developed. Article 16 permits the prosecution of high-seas seizures by U.S. authorities without referral to Colombia's legal system and extradition process.

In September, U.S. and Colombian customs officials signed a Customs Mutual Assistance Agreement (CMAA). The CMAA will enhance the countries' ability to share information and investigate cases jointly.

Cultivation and Production. Coca and opium poppy remain the principal illicit crops grown in Colombia. In 1998, these crops were estimated to be 101,800 hectares and 6,100 hectares respectively. In 1999 there were estimated to be 122,500 hectares of coca and 7,500 hectares of poppy.

Coca, the predominant illicit crop, is primarily grown in two regions: on the eastern plains in Guaviare and neighboring departments, and along the Ecuadorian and Peruvian borders in the departments of Putumayo and Caqueta. Additionally, increasing amounts of coca are appearing in the northern departments of Bolivar and Norte de Santander. Most opium is grown on the eastern slopes of the Central Cordillera Mountains in Tolima, Huila and Cauca departments. Limited amounts are also found in Norte de Santander, southern Bolivar and Antioquia departments.

Larger and ever more complex cocaine HCl laboratories are replacing the less sophisticated labs previously encountered. HCl laboratories can be found in all regions of the country, but are primarily located in the plains and jungle regions, near the coca-growing zones under de facto guerrilla control. Numerous laboratories have been identified in extremely remote areas that are difficult to reach even by helicopter.

Most opiate laboratories are small, producing small quantities of drugs and using simple equipment and limited quantities of precursor chemicals. Colombia accounts for an estimated two percent of the world's opium poppy. Nearly all of the resulting heroin, however, is destined for the United States.

Marijuana cultivation remained active in 1999, but is not believed to have increased significantly. Colombian marijuana seizures in the United States are believed to be minimal.

Drug Flow/Transit. Colombia is the center of the international cocaine trade, with drugs flowing out of the country at a stable and constant rate. In addition to producing large quantities of cocaine base domestically, Colombian traffickers import cocaine base, by air and by river, from Peru and, to a lesser extent, from Bolivia. The base is converted into cocaine HCl at clandestine laboratories in the Colombian source zone. Cocaine HCl shipments move out of Colombia primarily by commercial maritime vessels (multi-ton loads) and general aviation aircraft (400-800 kgs shipments) to Mexico, Central America and the Caribbean, typically en route to the United States. Cocaine is also concealed in legitimate air and sea cargo destined for European ports.

Recent statistics indicate that approximately 85 percent of the heroin seized by federal authorities in the northeastern United States is of Colombian origin. DEA believes that almost all of the heroin produced in Colombia goes to the United States and is generally smuggled by human couriers on commercial airline flights in quantities of one to five kilograms.

Domestic Programs (Demand Reduction). The National Directorate for Narcotics Control administers cost sharing drug abuse prevention and education projects with the UNDCP. The annual UNDCP budget for Colombia programs is USD five to seven million.

The DNE coordinates GOC demand reduction programs through governmental and non-governmental organizations. Demand reduction efforts in Colombia faced an uphill battle in 1999 as domestic drug consumption continued to rise. Increasing drug abuse by Colombians has spurred greater efforts by the DNE to publicize the dangers of drug abuse and convince the public that local consumption is a problem for Colombia now, not in the future. The U.S. Embassy hopes that one result of this active media campaign will be that counternarcotics programs in general will be more palatable to the Colombian public.

The priority target group for programs to prevent the use of psychoactive substances is male students, ages 12-17, with high school level education. New users are located in the geographic areas with the highest population densities and greater economic development, such as the coffee producing region and cities such as Bogota, Medellin and Cali.

IV. U.S. Policy Initiatives and Programs.

Policy Initiatives. The USG continues to place its focus on institution building, especially within the law enforcement and judicial systems. The counternarcotics legislation passed in 1997 is an indirect result of advice and studies funded by the USG.

Bilateral Cooperation. Judicial reform in Colombia moves forward, albeit at an extremely slow pace. USAID coordinates the USG's justice sector reform program in cooperation with the Department of Justice (OPDAT and ICITAP). This long-term effort is aimed at strengthening the administration of justice in Colombia through support and training for judges, prosecutors, and investigators. Since 1991, several thousand law enforcement officials have received training in basic investigative techniques and planning. Recently, OPDAT and ICITAP

have focused on the development of task force units (teams of prosecutors and police) that are charged with investigating money laundering, corruption, narcotics and human rights violations. Human rights training is an important element of the program and has been provided in the United States to some program participants. USAID and OPDAT continue to support the judicial branch in a challenging effort to establish oral trials in a country that has traditionally relied on written evidence and the inquisitorial system to resolve cases.

To reduce the amount of cocaine HCl reaching the U.S., many USG programs focus on the Colombian source zone to stop air transportation and drug production in this targeted area. This focus aims at improving not only bilateral and joint CNP–military operations, but multilateral cooperation, as well.

USG entities, including DEA, FBI, USAID, and training elements of the Department of Justice (OPDAT and ICITAP), work with GOC law enforcement and judicial entities to increase the effectiveness of the Colombian judicial system, developing and refining law enforcement capabilities, training host nation counterparts, and improving access, fairness and public perceptions of the justice system. Thousands of judges, prosecutors and investigators have been trained since 1991.

The U.S. Embassy in Bogota provided the impetus to establish a port cargo security program that is now in place at all five of Colombia's seaports. The private ports agreed to provide \$ 1.5 million per year for the foreseeable future to fund 100 specially trained narcotics police who carry out inspection and interdiction operations at the ports. This private funding complements nominal USG sponsorship. The USG monitors performance and provides U.S. Customs Service trainers. As a result of this program, the ports have seized more than 16 mt of cocaine and 40 mt of marijuana, all at very little cost to the USG. Additionally, Colombia is one of seven countries participating in the U.S. Customs' Americas Counter Smuggling Initiative (ACSI), a program designed to deter narcotics smuggling in commercial shipments by enhancing private sector security programs at manufacturing and export facilities while also seeking to assist law enforcement agencies to improve their counternarcotics effectiveness and develop private sector partnerships.

In 1999, the total operating budget for the Narcotics Affairs Section (NAS) of the U.S. Embassy in Bogota was \$38 million, with the largest sums going to support CNP air operations (\$15.3 million) and the crop eradication program (\$7.7 million). The CNP air wing consists of 47 helicopters and 20 fixed wing aircraft. The USG–funded private contractor that manages the CNP's eradication program operates an additional 12 helicopters, 9 spray planes, two intelligence–gathering planes and several transport planes. In addition to this assistance, the USG provided \$96 million for the acquisition of six BlackHawk helicopters to enhance the CNP's counternarcotics capacity. The first three were delivered in November 1999 with the remaining three scheduled to arrive in the first quarter of 2000. The crews and technicians for these new helicopters were trained in the United States. The USG is also upgrading the CNP's Huey helicopter fleet. The first ten of 25 upgrades were performed in 1999 at a cost of \$1.4 million each.

The CNP agreed to an audit of the CNP air services program, which receives substantial U.S. assistance. Unfortunately, in December 1999, the accounting firm contracted to perform the audit backed out, citing security concerns. Nonetheless, the CNP's agreement to have the audit performed is a positive step and the USG is working to contract another accounting firm for the project.

The GOC also worked with the U.S. Embassy's consular section to deny U.S. visas to persons involved or suspected of trafficking in drugs or related activities such as money laundering.

In 1999, ICITAP assisted the GOC in developing a unified training curriculum for Colombian investigators. In August 1999 the National Judicial Police Council formally adopted the curriculum and made it mandatory for all Colombian investigators after January 2000. For the first time, all Colombian law enforcement investigators will receive the same training.

The Colombian army's new counternarcotics battalion became operational late in 1999. The United States provided training and equipment to the 931–man battalion and will assist the GOC with the costs of maintaining the elite unit. In 1999, total USG assistance relating to the battalion was approximately \$7.5 million. The battalion is expected to commence field operations in early 2000.

The USG also provided 18 UH–1N helicopters to the Colombian army to support the new counternarcotics battalion. Helicopter operations should begin in early 2000 with full operational capability shortly thereafter.

Using \$6 million in supplemental USG funding, the DIRAN, with U.S. Embassy assistance, embarked on an ambitious program to upgrade security at 16 base sites throughout Colombia. Following recommendations by USG security experts, the DIRAN enhanced security at all 16 bases. As the program continues, the DIRAN will install electronic sensor systems at a number of bases.

In 1999, NAS/INL provided substantial training for CNP personnel, including 12 pilots, 37 technicians, 57 ground troops and 95 agents of the CNP's new air–mobile unit.

The Road Ahead. The GOC's "Plan Colombia" recognizes the interrelated nature of Colombia's counternarcotics

efforts and its peace process. In 2000, the foremost obstacle to curbing narcotics trafficking in Colombia will still be guerrillas who depend heavily on the drug trade for their substantial annual income. These well-armed rebels violently oppose police eradication operations and CNP/military interdiction efforts. Some paramilitaries are also involved in the drug trade and likewise pose a threat to law enforcement efforts.

In the year 2000, PLANTE will fund many of these ongoing projects from the \$ 15 million alternative development agreement signed with the USG in August 1999. Although the number of small farmers who have abandoned their illegal trade thus far is small, it is hoped that, as PLANTE's market-oriented projects take root and spray planes take to the air, an increasing number of farmers will see the benefit of getting out of coca or poppy cultivation.

USG programs will continue working with the GOC to solidify reforms in the DIRAN and support Colombia's efforts to sustain and improve the capability and efficiency of the judicial system, which remains one of the weakest links in the counternarcotics chain. The USG fully expects that the cooperation between U.S. and Colombian law enforcement agencies that produced Operation Millennium will continue to show results in 2000. The U.S. Embassy is confident that after extraditing a Colombian citizen to the United States for the first time in 9 years, the GOC will respond favorably on the merits to U.S. extradition requests for Colombian nationals and others involved in narcotics trafficking. The Colombian military's counternarcotics role may broaden in 2000, as its first counternarcotics battalion comes on line and as the GOC implements plans for additional specialized battalions.

Resources will be devoted to firming up the Colombian armed forces' and police's ability to institutionalize and carry forward the training they have received from the United States. Priorities will include enhancing the armed forces' capacity to conduct field medic training, as well as ground and small units training in counternarcotics operations. As Colombia's first counternarcotics battalion commences operations, plans continue to train and equip additional battalions to strengthen the army's counternarcotics capability and expertise.

Colombia Statistics

(1991-1999)

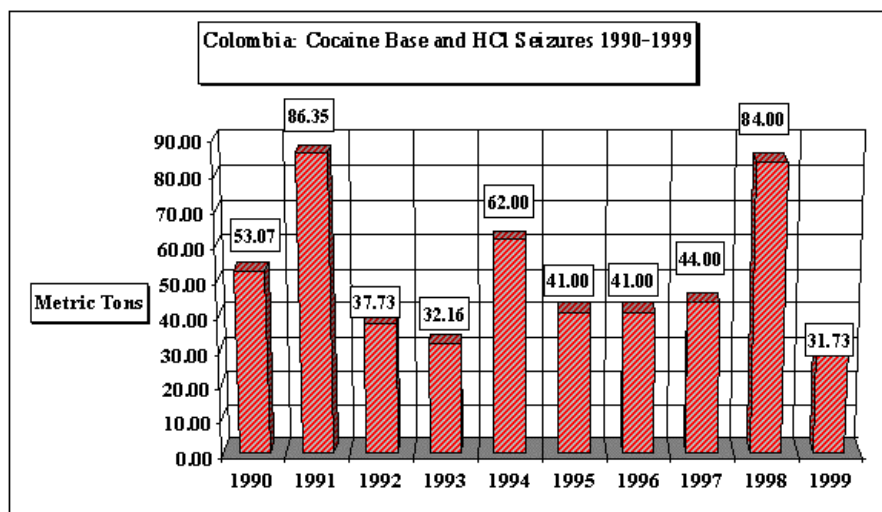
	1999	1998	1997	1996	1995	1994	1993	1992	1991
Coca									
Potential Harvest (ha)	122,500	101,800	79,500	67,200	50,900	44,700	39,700	37,100	37,500
Eradication (ha)	43,246	-	19,000	5,600	8,750	4,910	793	959	972
Estimated Cultivation (ha)	-	-	98,500	72,800	59,650	49,610	40,493	38,059	38,472
HCl: Potential(1) (mt)	520	435	350	300	230	70	65	60	60
Opium									
Potential Harvest (ha)	7,500	6,100	6,600	6,300	6,540	20,000	20,000	20,000	1,344
Eradication (ha)	-	-	6,972	6,028	3,760	3,906	9,821	12,858	1,156
Estimated Cultivation (ha)	-	-	13,572	12,328	10,300	23,906	29,821	32,858	2,500
Potential Opium	75	61	66	63	65	-	-	-	-

Nationals	-	1,879	1,478	1,482	1,646	-	-	-	-
Foreigners	-	82	68	79	99	-	-	-	-
Total Arrests	-	1,961	1,546	1,561	1,745	2,154	2,562	1,700	1,170

(1) Newly acquired data from field surveys has resulted in revised leaf yield and HCl production estimates from 1995 on.

(2) Reported cannabis cultivation has not been confirmed by USG survey.

(3) Seizure data show combined CNP and military figures.



ECUADOR

I. Summary.

Ecuador continues to be a major transit area for drugs destined for the U.S. and elsewhere, and for precursor chemicals destined for drug processing labs in Colombia, Ecuador and Peru. Traffickers exploit Ecuador's porous border with Colombia and Peru to consolidate smuggled cocaine and heroin into larger loads for bulk shipment to the U.S. and Europe hidden in containers of legitimate cargo. Despite the country's severe economic crisis, the Ecuadorian National Police (ENP) had a record year, seizing more than 10 tons of cocaine and coca base and 81 kg of heroin, dismantling cocaine laboratories and intercepting precursor chemicals. The Government of Ecuador (GOE) fully cooperates with the United States Government (USG) in the fight against narcotics trafficking. A solid example of this close cooperation was the completion in November 1999 of a ten-year agreement permitting the U.S. to operate regional counternarcotics detection and monitoring missions from an Ecuadorian air force base in the city of Manta. The Ecuadorian National Drug Council (CONSEP) published a new five-year counternarcotics strategy. The customs service was privatized to maximize efficiency and bolster interdiction efforts. In addition, the ENP established a unified anti-drug division to strengthen the management of counternarcotics law enforcement. However, Ecuador's depressed economy and lack of interagency cooperation continue to hamper counternarcotics efforts. Ecuador is a party to, and has enacted legislation to implement the provisions of, the 1988 United Nations Drug Convention.

II. Status of Country.

Ecuador is one of the primary transit routes for cocaine and heroin from Colombia and Peru. The country serves as a major staging area for smuggled cocaine and heroin, which are then shipped to the U.S. and Europe in bulk quantities. Some small fields of poppies and coca have been found within Ecuador, particularly near the border with Colombia, but have been eradicated by the ENP. A few small cocaine processing laboratories were also discovered and dismantled by the police.

Cocaine is smuggled into Ecuador primarily by truck in shipments of legitimate products via the Pan American Highway, and then loaded onto export shipments in the ports of Guayaquil, Esmeraldas, and Manta. Cocaine shipments are hidden in compartments in ocean-going vessels or concealed within containerized perishable (seafood, bananas, flowers) or bulk cargo. Heroin and cocaine are also smuggled by human couriers boarding

international flights at the Quito and Guayaquil airports. Ecuador's northern border area with Colombia is of concern for movement of both drugs and chemicals, but insurgency and criminal activity in the region hinders effective police control.

Ecuador endured a major financial and economic crisis in 1999, with most of its major banks collapsing and requiring government intervention. By the end of 1999, the Ecuadorian government controlled 75 percent of the country's banking sector. Widespread capital flight and a 180 percent devaluation of the national currency have reduced the attractiveness of Ecuador as a site for money laundering, although some narcotics profits from Colombia may have been invested in Ecuadorian real estate. Drug money laundering is illegal under the 1990 narcotics law. However, the Ecuadorian government presently has no effective means to investigate or prosecute such crimes.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The administration of President Jamil Mahuad, which took office in August 1998, made significant progress in strengthening bilateral counternarcotics cooperation with the U.S. The Ecuadorian National Drug Council published a new national drug strategy in 1999 which clearly identifies the roles and responsibilities of GOE agencies, including the armed forces, in combating drug trafficking and consumption.

The Ecuadorian National Police has primary responsibility for counternarcotics law enforcement in Ecuador. As part of a reorganization intended to strengthen the management of counternarcotics efforts, the National Police established a unified anti-drug division in 1999. This new division will consolidate the various specialized units (such as the mobile road interdiction group, the canine teams at airports and seaports, and various counternarcotics intelligence units) into a coherent organization. The police completed construction of the Joint Information Coordination Center (JICC) in Guayaquil, and plan to integrate this center with the national anti-drug division headquarters.

In an effort to clean up widespread corruption in Ecuador's customs service, the GOE first militarized the institution, then privatized the service in May 1999. The new managers of Ecuadorian customs come from the private sector and hope to streamline clearance procedures while working closely with the police to inspect suspicious cargoes. The U.S. Government, through the Narcotics Affairs Section (NAS), is funding a full time U.S. Customs advisor position to work with both the Ecuadorian police and customs service at the ports.

In November 1999, the Ecuadorian Congress passed a new criminal procedural code, which is intended to fundamentally change the country's criminal justice system from an inquisitorial to an accusatorial system. The new code empowers prosecutors with authority to investigate and prosecute crimes, and alters the role of judges to neutral arbiters presiding over oral trials. Although the bill as drafted contains serious flaws which inhibit the authority of the police and prosecutors during the investigative phase of a case, top GOE officials are attempting to rectify these problems in the new code. President Mahuad partially vetoed the draft code in response to those concerns.

Accomplishments. By signing a ten-year agreement to permit U.S. aircraft to utilize Manta as a forward operating location (FOL) in November 1999, the GOE demonstrated its strong commitment to bilateral counternarcotics cooperation with the United States Government (USG). This agreement will permit Ecuador and the U.S. to work even closer together in the detection and monitoring of clandestine aircraft transporting narcotics to Central America, Mexico and the Caribbean.

The Ecuadorian military also played a major role in tightening up control over Ecuador's border with Colombia. Following the 1998 signing of a peace treaty with Peru, the Ecuadorian armed forces shifted their attention to the northern border. The army placed additional forces in Sucumbios province, bordering Colombia's Putumayo department, which is the site of large-scale coca cultivation.

Despite some improvements, interagency cooperation between the military and police in Ecuador remains a serious problem. The Ecuadorian Navy controls the country's ports, but naval cooperation with the police varies widely from port to port. Additional efforts must be taken in 2000 to increase police presence in all commercial ports of Ecuador, particularly Manta and Machala.

Law Enforcement Efforts. The Ecuadorian National Police had a banner year in drug seizures and arrests in 1999. The police seized about 10 metric tons of cocaine and coca base (compared to only about 4 Mt in 1998) and about 81 kg of heroin (compared to 58 kg during the previous year). The police also seized record amounts of methyl ethyl ketone (MEK) and other precursor chemicals. The reasons for the improved interdiction performance this year were better use of intelligence, more aggressive leadership, and effective use of canine interdiction teams at Ecuador's seaports and airports.

The GOE has adopted a new criminal justice code to convert its judiciary from an inquisitorial to an accusatorial system. In order to facilitate the working relationships of police and prosecutors under the new code, the National Police signed an agreement with the nation's prosecutors in 1999 to permit joint training programs for criminal case investigations. The U.S. Department of Justice has also provided several training

courses to help prepare Ecuadorian police and prosecutors for their new roles in an adversarial system.

With U.S. Southern Command financial support, the ENP has completed construction of a highway inspection checkpoint at a strategic road junction in Baeza, east of Quito. The police plan to deploy the NAS-supported mobile highway inspection unit (GEMA) to this location, assisting police interdiction of precursor chemicals entering the Sucumbios-Putumayo border region with Colombia.

The JICC in Guayaquil is in operation, although additional efforts must be taken by the police to ensure that it provides timely information to interdiction units at airports and seaports. Greater military participation is also needed to increase the effectiveness of the JICC. Intelligence-sharing between the Ecuadorian military and National Police also needs significant improvement.

Due to Ecuador's severe economic crisis, the Superintendency of Banks has focused its attention on the collapsing banking sector. Consequently, almost no investigations of money laundering were conducted in Ecuador during 1999.

Corruption. The 1990 narcotics law contains a provision for prosecuting any government official, including judges, who deliberately impedes the prosecution of anyone charged under that law. As a matter of government policy, the GOE does not encourage or facilitate the illicit production or distribution of drugs, other controlled substances or the laundering of drug money.

In November 1999, the Judicial Council announced that it had fired two judges involved in the premature release from custody of two suspected drug traffickers. In addition, the Council began a criminal investigation of these judges and other court employees involved in the case.

While narcotics-related corruption is a problem in Ecuador, in 1999 no senior Ecuadorian government official was identified as engaged in the production or distribution of drugs or in the laundering of illicit proceeds.

In collaboration with the U.S. Embassy and the Department of Justice, the chief prosecutor's office has agreed to set up a special task force that will work in close coordination with the ENP in pursuit of corruption crimes.

Arrests and/or Prosecutions. The USG and the GOE are working to strengthen law enforcement relationships, develop information sharing conduits, and bolster interdiction cooperation. Cooperation between the USG and GOE has resulted in several successful law enforcement operations as well as the expulsions of third country nationals indicted for drug-crimes in the U.S.

Agreements and Treaties. Although the USG and the GOE have an extradition treaty in force, the treaty is outdated. Ecuador has cooperated with the USG to deport or extradite non-Ecuadorian nationals. Ecuador does not extradite its own nationals, but participated in preliminary talks on revising the extradition treaty. The negotiation of a new treaty depends on whether Ecuador is ready to amend its constitution to permit extradition of Ecuadorian citizens.

Ecuador is a party to the 1988 UN Drug Convention, and has a narcotics law (Law 108) that incorporates the provisions of that treaty.

The GOE is a strong supporter of regional cooperation, and has signed bilateral counternarcotics agreements with Colombia, Cuba and the United States, as well as the Summit of the Americas money laundering initiative and the Organization of American States/Anti-Drug Abuse Council (OAS/CICAD) document on an hemispheric counternarcotics strategy.

In 1991, the GOE and the USG entered into an agreement on measures to prevent the diversion of chemical substances. In 1992, the two governments concluded an agreement to share information on currency transactions over \$10,000.

The GOE has made progress in a number of important areas covered by the 1988 UN Drug Convention and OAS-CICAD model legislation, including upgrading its interdiction efforts, reducing the diversion of essential chemicals and beginning implementation of a program to reduce money laundering.

Cultivation/Production. The GOE continues to be vigilant about preventing illicit drug cultivation and processing activities. There is no evidence of large scale, commercial coca or opium poppy cultivation in Ecuador. However, the police have discovered and dismantled several small cocaine refineries processing coca paste imported from Peru and Colombia.

Drug Flow/Transit. Ecuador remains a major transit route for unrefined cocaine base shipped by air and land from northern Peru to southern Colombia for processing, and for refined cocaine hydrochloride moved from Colombia through Ecuador's seaports to U.S. and European markets. Colombian traffickers also export heroin through Ecuador using body carriers through the country's airports. Ecuador is also a major transit country for precursor and essential chemicals which are smuggled into Colombia and Peru for cocaine processing. A recent change to this pattern has been the discovery of several small cocaine refineries within Ecuador. The GOE is combating the spread of drug production into Ecuador by beefing up highway interdiction efforts and

continuing to monitor the import of chemicals by legitimate companies to prevent their diversion to illicit markets.

Demand Reduction. The most recent national survey by the National Drug Council (CONSEP) showed drug use in Ecuador to be relatively low, with four percent of the respondents admitting to having used illicit drugs once in their lifetime. Ecuador's new national drug strategy made demand reduction a high national priority. CONSEP has a very ambitious drug prevention program, the police have instituted a D.A.R.E.-type program in classrooms, and the Ministry of Education has provided orientation seminars for the country's public school teachers. In addition, all public institutions, including the military, are required to establish drug prevention programs in the workplace.

IV. U.S. Policy Initiatives and Programs

U.S. counternarcotics policy in Ecuador seeks to strengthen the technical capability of Ecuadorian police, military and justice sector agencies to attack the narcotics trafficking problem in Ecuador, including improved border and port control, investigation and prosecution of narcotics trafficking organizations, and reduction of domestic drug consumption. USG-provided training courses were held in the areas of asset forfeiture, communications, intelligence, chemical diversion and seaport control.

All initiatives and strategies were planned and coordinated with the GOE via counternarcotics bilateral agreements with the National Police and the National Drug Council.

The U.S. Embassy has chaired meetings of a Mini-Dublin group for Ecuador, a mechanism for improving the coordination of narcotics and law enforcement assistance programs among donor countries. The U.S., British, French, Spanish and German embassies are active in this group.

The Road Ahead. The establishment of the forward operating location at Manta has significantly increased the potential for counternarcotics cooperation between the U.S. and Ecuador. Information generated from Manta-based monitoring flights should greatly abet the detection and interdiction of illegal drugs. We will continue to seek enhanced cooperation on control of chemical diversion, vigorous interdiction efforts on both sea and land, and improved interagency coordination between the Ecuadorian military and police. The reform of the Ecuadorian criminal justice system offers the prospects for improvements in the investigation and prosecution of drug trafficking cases

Ecuador Statistics

(1991-1999)

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Coca									
Leaf (Potential Harvest) (ha)	0	0	0	0	0	0	0	0	40
Eradication (ha)	0	0	0	0	0	0	0	0	80
Cultivation (ha)	0	0	0	0	0	0	0	0	120
Seizures(1)									
Cocaine (mt)	9.240	10.770	2.160	9.800	4.400	2.186	1.039	3.750	0.858
Base, paste (mt)	0.900	0.690	1.605	0.530	0.250	0.192	0.335	0.505	0.305
Total Cocaine Products (mt)	10.140	11.460	3.765	10.330	4.650	2.378	1.374	4.255	1.190
Cannabis (mt)	3.030	17.730	0.022	0.200	0.200	0.131	0.183	0.631	0.171

Heroin (mt)	0.081	0.053	0.034	0.070	0.053	0.024	0.027	0.003	0.000
Labs Destroyed									
Cocaine	2	2	0	1	0	0	0	0	4
Arrests/Detentions									
Nationals	3,500	3,596	3,346	2,075	1,858	2,872	2,775	1,810	2,794
Foreigners	250	292	346	204	2,214	201	213	165	198
Total Arrests	3,750	3,888	3,692	2,279	4,072	3,073	2,988	1,975	2,992

(1)Data for 1999 is through October.

PARAGUAY

I. Summary

The Government of Paraguay's (GOP) counternarcotics cooperation in 1999 included some notable actions, such as the ratification of a new bilateral extradition treaty with the U.S. which includes the extradition of nationals, the extradition to Brazil of a major cocaine trafficker, the enactment of conspiracy legislation, and the submission to congress of a draft law authorizing controlled deliveries and undercover operations. Following the assassination of Vice President Argana in March, however, political instability that led to the collapse of the Cubas government, judicial and other public corruption, and scarce resources were obstacles to more effective counternarcotics efforts. No action was taken against major trafficking organizations, and there were no seizures of large quantities of cocaine.

Paraguay is a transit country for significant amounts of mostly Bolivian cocaine en route to Argentina, Brazil, the U.S., Europe and Africa. It is also a source country for high-quality marijuana, none of which enters the U.S. Paraguay is a haven for money launderers, but it is unclear what portion is drug-related. Paraguay is a party to the 1988 UN Drug Convention.

II. Status of the Country

Paraguay is a transit country for significant amounts of cocaine from Bolivia en route to Argentina, Brazil, the U.S., Europe and Africa. Reasons the cocaine trade continues include Paraguay's central location in the heart of South America, its extensive river network, its lengthy and uncontrolled land borders, numerous unpoliced airstrips (both registered and unregistered), and persistent official corruption. Already fledgling counternarcotics operations were virtually paralyzed in the wake of the murder of the vice president and the collapse of the Cubas government in March.

Paraguay is also a large money-laundering center. Although promulgation of a strong anti-money laundering law in 1997 provided the GOP with the legal tools necessary to move against this criminal activity, the GOP has not fully implemented the law by funding the offices created by the law to control money laundering or by arresting/prosecuting violators. Banking sources confirm that significant money laundering occurs, but claim it is fueled primarily by the regional contraband trade, tax evasion and capital flight, more so than by narcotics trafficking.

III. Country Action Against Drugs in 1999

Policy Initiatives. Both houses of the GOP congress approved the new bilateral extradition treaty with the U.S., which includes extradition of nationals. The treaty is pending before the U.S. Senate. The GOP also put into effect the new penal code, which includes conspiracy provisions; and submitted to congress draft legislation explicitly authorizing undercover operations and controlled deliveries. A major Brazilian narcotics trafficker, arrested by the GOP in October 1997 for weapons violations, was extradited to Brazil. Although not a USG priority because it is not trafficked to the U.S., the GOP seized record amounts of marijuana in 1999.

Law Enforcement Efforts. The GOP provided counternarcotics cooperation to DEA investigations, but was ineffective in carrying out its own investigations of major traffickers operating out of Paraguay. In 1999 the counternarcotics secretariat (SENAD) seized 95 kilos of cocaine and arrested 211 suspected low level narcotics

traffickers (including 50 for cocaine trafficking). However, most of this activity was accomplished during the Cubas Grau administration. Asset seizures—a new frontier for Paraguayan justice, complicated by prior conviction requirements—were minimal.

Corruption. The GOP recognizes corruption as a public policy challenge, but has not taken sufficient measures to prevent or punish public corruption in general, or specifically with respect to narcotics trafficking. Measures against traffickers often take place only after pressure from the USG. Judicial corruption was suspected in the release of significant cocaine trafficker Nestor Baez in March, 1999. In November, the GOP got the Supreme Court to overturn Baez's release and he was re-arrested. A new penal code, promulgated in 1997, went into effect in July 1999. Law 1340 of 1988 subjects public officials that engage in narcotics-related offenses to the maximum applicable penalties. No public officials were tried under this law in 1999.

As a matter of government policy, Paraguay does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. Reports from a variety of sources indicate that some senior provincial, municipal, military, police and customs officials, as well as some congressmen and judges, are suspected of engaging in, encouraging, or facilitating the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. However, law enforcement officials did not initiate or bring to the courts any cases against such officials in 1999.

Agreements and Treaties. Paraguay ratified the 1988 UN Drug Convention in 1990 and is a party to the 1961 Single Convention and its 1972 protocol. It has ratified the OAS Convention on Corruption, signed the OAS/CICAD hemispheric drug strategy, and agreed to the declaration of principles and plan of action adopted at the Summit of the Americas and at the 1995 money laundering ministerial. It entered into a bilateral assistance agreement with the U.S. in 1987, which was extended in 1999, meeting the requirements of the Chiles and Leahy amendments. Paraguay ratified a new bilateral extradition treaty with the U.S., including the extradition of nationals, in July. The treaty is pending before the U.S. Senate. Paraguay has entered into multipartite law enforcement agreements with Argentina, Brazil, and Bolivia, and has similar bilateral agreements with Chile and Venezuela.

Cultivation and Production. Cannabis is the only illicit crop cultivated in Paraguay, and is harvested throughout the year. The GOP estimates that roughly 2,500 hectares are under cultivation. According to SENAD, marijuana production is up in Paraguay over previous years, and has spread from the traditional growing areas in San Pedro and Amabay provinces to the neighboring provinces of Canindeyu and Caaguazu. During 1999, the GOP eradicated 944 hectares of marijuana fields.

Drug Flow/Transit. Although there are no precise figures for the amount of cocaine, which transits Paraguay, USG experts have estimated in recent studies that between 15 and 30 metric tons may originate in Bolivia each year. Colombian cocaine is also penetrating Paraguay.

Demand Reduction Programs. Paraguay has a relatively small but growing substance abuse problem. SENAD has the chief coordinating role under the national program against drug abuse, and works with the Ministries of Health and Education, as well as with local non-governmental organizations.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives and Bilateral Cooperation. DEA provided aerial survey teams that identified suspicious activity and sites, including new airfields, along Paraguay's riverine system and elsewhere, and sent SENAD special agents to Argentina for training in airport interdiction and to Fort Bragg, N.C. for counternarcotics operations training. DEA also provided training, intelligence and guidance on operations and investigations. The Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) continued supporting the detector dog program, and provided equipment support to SENAD. INL funded, and U.S. Customs provided border interdiction and instructor training for 41 Paraguayan customs and police officials, and sent a Paraguayan participant to advanced canine unit training in Bolivia. INL also provided money laundering investigation training to SEPRELAD through FinCEN, and equipped SEPRELAD with computers. USIS sent three IVP grantees funded by INL to the U.S. to participate in counternarcotics journalism and international narcotics matters training programs.

The Road Ahead. The GOP's task remains that of translating its often stated political will to reduce narcotics trafficking and money laundering into concrete enforcement successes against narcotics traffickers, money launderers, and corrupt public officials. This means investigating major cocaine traffickers, making significant seizures and arrests, carrying out successful prosecutions, preventing the escape of arrested drug traffickers or their release by corrupt judges, and implementing the anti-money laundering law and provisions of the anti-drug law aimed at punishing and preventing official corruption.

During 2000 the USG will seek to continue strengthening SENAD's anti-narcotics, tactical interdiction and financial investigation units, as well as SEPRELAD's financial analysis unit, through training, technical assistance and equipment donations. The USG will also work with the executive and legislative branches on passage of

tougher anti-narcotics law enforcement legislation that explicitly authorizes controlled deliveries and undercover operations. INL will sponsor a training program for prosecutors and judges in the application of new conspiracy statutes.

Paraguay Statistics

(1991-1999)

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Seizures(1)									
Cocaine (mt)	0.095	0.231	0.077	0.056	0.059	0.806	0.043	0.067	0.041
Marijuana (pressed) (mt)	13.98	4.36	2.28	3.24	-	3.08	4.64	20.35	0.97
Marijuana (harvested) (mt)	96.76	75.06	14.94	-	-	-	-	-	-
Arrests/Detentions	211	212	209	220	237	58	333	337	300

(1)Data for 1999 is through October. Marijuana seizure statistics for 1991-93 have been revised.

PERU

I. Summary

Peru is still one of the world's major producers of cocaine, although the Government of Peru (GOP) has made enormous strides toward its goal of eliminating illegal coca cultivation. It remains on the President's list of major drug-producing countries. Despite the rehabilitation of some previously abandoned coca fields, an additional 24 percent of coca cultivation was eliminated in 1999, for an overall reduction of 66 percent over the last four years. Contributing to this reduction was a 1999 manual coca cultivation eradication total of 15,000 hectares. The GOP counternarcotics alternative development program, working through 103 local governments, almost 700 communities, and more than 15,000 farmers, has significantly strengthened social and economic infrastructure in these areas and helped shift the economic balance in favor of licit activities. However, these gains are threatened by rising coca prices, which are a consequence of new trafficking routes and patterns bypassing previous aerial means of transportation.

Because of losses incurred in the mid-1990s through GOP aerial interdiction of narcotics (airbridge denial program), narcotics traffickers are using maritime shipment of cocaine from Callao and other Peruvian ports, riverine transport, and overland transport to move drugs out of Peru. Maritime transport of drugs is believed to have increased in 1999. Nonetheless, 1999 successes have included major precursor chemical seizures, arrests of principals in several drug-trafficking rings, and the destruction of several cocaine hydrochloride laboratories.

II. Status of Country

The price of coca rose sharply in 1999, possibly due to trafficker success in finding alternative means to transport drugs from Peru to external markets. Nonetheless, because of eradication and interdiction pressure by the GOP, coca cultivation decreased once again, from an estimated 51,000 hectares in 1998 to an estimated 38,700 hectares in 1999. Over the last four years, this has resulted in a 66 percent decline in the total amount of coca estimated to be cultivated in Peru. Most coca eradication was in the high cultivation areas near Aguaytia and in the Upper Huallaga Valley. The GOP is prepared to eradicate an additional 15,000 hectares in 2000, targeting the Monzon area of the Huallaga Valley.

During 1999, traffickers continued to improve their communications (using "chat rooms" and other secure devices). There is increasing evidence that traffickers are processing cocaine hydrochloride (HCl) within Peru's borders, setting up laboratories near the borders with Brazil, Colombia, and/or Bolivia, so that they can leave the country quickly without risk of interception. While there were no confiscations or forcedowns of trafficker aircraft by the Peruvian Air Force (FAP) airbridge denial program in 1999, traffickers crashed two airplanes that had to be abandoned. These new patterns have had the effect of increasing coca leaf prices in coca cultivation areas to levels well beyond the break-even price point.

Reports from human sources and eradication campaigns indicate that Peru has an emerging opium poppy cultivation problem. Cultivation of opium poppy is illegal in Peru; whenever such plantings are identified, the GOP takes prompt action to destroy them. Reliable reports indicate that 55 kilos of latex gum were seized in 1999, and 34,000 plants were eradicated.

Peru is not a major money laundering center. However, the current Peruvian banking law does not provide a reliable or adequate mechanism to estimate the amount of "narcodollars" passing through Peru. Money laundering is criminal only when it is related to narcotics trafficking or "narcoterrorism." Only certain financial institutions are regulated under the money laundering law; no control is exercised over casinos or money transfer services. The USG recently provided the GOP with technical assistance to help lay the groundwork for new comprehensive money laundering legislation.

Asset seizure is an additional problem. In two years, the Peruvian National Police Directorate of Counternarcotics (DINANDRO) financial investigative unit (DINFI), which investigates financial transactions associated with illegal drug trafficking, seized at least two hundred properties, but none were turned over to DINANDRO to support counternarcotics efforts.

III. Country Action Against Drugs in 1999

Policy Initiatives. Until 1996, GOP policy permitted eradication of coca seedbeds only. Its main eradication agency is the "Coca Reduction Agency for the Upper Huallaga Valley" (CORAH) an office of the Ministry of the Interior. In 1996, the GOP authorized eradication of (illicit) mature coca on public lands. In 1997-8, the GOP expanded this policy to coca grown on private property, but in remote zones away from populated areas. The late-1999 "Operation Dina CORAH" initiative, supported by the USG with material and financial resources, eradicated about 6,000 hectares of coca (for a 1999 total of 15,000 hectares) without regard to their location.

CONTRADROGAS, Peru's executive branch counternarcotics policy office, plays a major role in policy issues, especially in the areas of alternative development and demand reduction. CONTRADROGAS president and Minister of Health, Dr. Alejandro Aguinaga, is an outspoken advocate on behalf of the GOP's drug control program, and has raised awareness of Peru's successes as well as its needs both domestically and within the donor community.

Accomplishments. The GOP was concerned that rapidly increasing coca leaf prices would lead to planting of new coca fields and rehabilitation of old fields. In fact, experts estimate that 30 percent of previously abandoned coca fields in the Apurimac Valley have been rehabilitated, and some coca cultivation is taking place in non-traditional coca-growing areas such as the Rio Manati/Santa Clotilde, San Pedro and Atun Quebrada areas. To counteract this, the GOP dedicated an additional 250 CORAH eradicators, and 150 DINANDRO and DINOES (special forces) police to its eradication program. Eradication units in Peru are now using a new tool that pulls coca plants out of the ground by the roots, which prevents rehabilitation of the plants.

The "Corps in Support of Alternative Development" (CADA), a division of the GOP's CORAH, measures and monitors coca cultivation to form the baseline for alternative development agreements and eradication campaigns. In 1999, CADA completed its measurements of coca cultivation in the Aguaytia and Alto Huallaga areas; in 2000 it will begin mapping the Monzon area. CADA's professional, computer-generated maps, coordinated with aerial estimates, have become the benchmark for coca cultivation estimates, and are relied upon by the European Union (EU) and other groups providing alternative development assistance to Peru.

Law Enforcement Efforts. In December, following six-months of investigation, DINANDRO arrested Segundo Cachique Rivera, a major drug trafficker and head of a major Peruvian drug-trafficking organization from 1994-98. Cachique was taken into custody at his camp near the jungle town of Ucayali. His brother Abelardo, arrested in 1995, is serving a life sentence.

Despite limitations in the criminal application of chemical control laws, the Peruvian National Police (PNP) chemical control unit, DICIQ, conducted over 1,500 regulatory and criminal investigations of suspect businesses in 1999, effecting 58 arrests and seizing over 112 tons of controlled chemicals and two chemical companies. The GOP has passed new legislation, which will enhance the control of precursor chemicals. One law increased the list of controlled chemicals, to include chemicals utilized in the illicit manufacture of cocaine and heroin. Another mandates that the PNP take a five-gram sample of all cocaine seizures in Peru to submit for signature analysis. Signature analysis of drug samples can be utilized to target specific drug trafficking groups, to identify laboratory sites and assist in overall strategic planning.

The joint riverine training center in Iquitos, which prepares personnel to interdict drug traffickers on Peru's extensive water system, has graduated six classes of DINANDRO and Peruvian Coast Guard officials to date. 1999 marked the delivery of the first riverine boats and floating maintenance facilities donated by the USG to both groups. DINANDRO and the Peruvian Coast Guard are beginning to overcome some of their traditional rivalries, and have improved their operational capabilities, including command and control, and mechanical and logistical problem-solving.

Private shipping companies, encouraged by the GOP, monitored sea cargo container activities during 1999, which led to the seizure by DINANDRO of over five tons of cocaine base and HCl bound for Europe. Following a November Organization of American States drug conference (OAS/CICAD) conference on port security, a public-private coalition is investigating the possibility of emulating Colombia's fee-supported port security program.

Corruption. No aspect of drug trafficking is condoned, encouraged, or facilitated by the GOP. The GOP has denounced all forms of public corruption, with a specific emphasis on drug trafficking. There have been no known cases of systemic institutional, narcotics-related corruption within GOP entities in the last few years, nor are there any senior level GOP officials known to be engaged in drug production, distribution or money laundering. However, the continuing low level of salaries in the public sector, especially for military and police officials, makes it difficult to ensure the integrity of officials. In a recent isolated incident, the chief prosecutor of Trujillo was dismissed because of his involvement with a major drug-trafficking ring.

Agreements and Treaties. The GOP strongly supports the objectives of the 1991 USG-GOP counternarcotics bilateral framework agreement currently in force, and the 1988 U.N. Drug Convention, to which Peru has been a party since 1992. Peru is also a party to the 1961 U.N. Single Convention, the 1972 protocol thereto, and the 1971 Convention on Psychotropic Substances. There is also a cash transaction information exchange agreement between the USG and Peru. A bilateral extradition treaty, signed in 1899, exists between Peru and the USG, and negotiations have been under way since 1998 for a modernized treaty.

Peru is a party with other Andean nations to a 1996 chemical control agreement with the European Union. In addition, Peru has bilateral drug control agreements in force with several other Latin American countries; the most recent GOP agreement, with Brazil, was signed in November, 1999. The GOP also signed an agreement in October with the Government of Finland for alternative development assistance.

Drug Flow/Transit. Drug traffickers continue to move large quantities of coca products out of Peru, particularly through Brazil, and overland through Ecuador, Colombia and Bolivia. HCl labs are situated near Peru's eastern border, allowing planes to exit the country before the FAP has time to respond. Finally, some drugs are moved from east of the Andes, processed near the coast, and shipped from Peru through Callao or other ports.

Alternative Development Progress. In 1999, the GOP's counternarcotics alternative development program operated in six coca cultivation zones, including the Palma Pampa region of the Apurimac River Valley. Over 255 km. of rural roads were rehabilitated during 1999, and five bridges constructed. Nearly 700 communities and farmers' organizations have signed agreements to reduce coca cultivation over a five-year period. Peru's economic recession has encouraged some farmers to rehabilitate coca fields, taking advantage of rising prices. Sustainability of alternative development gains will depend even more than in the past on coordination of alternative development with drug crop eradication and interdiction efforts.

The alternative development program is aimed at providing sustainable, licit economic opportunities for former coca growers, including rehabilitation of coffee and cacao plantations abandoned during the "coca boom," and diversification of agricultural production (including banana, pineapple and palm heart). The program also strengthens local governments, and improves access to basic services and markets for licit crops. Micro- and small credit assistance now provide timely financial support to over 3,500 farm families.

Following the 1998 Brussels Donors Consultative Group meeting arranged for the Peruvian Government by the Inter-American Development Bank and Organization of American States Drug Control Commission (OAS/CICAD), 19 donors pledged a total of U.S. \$ 270.2 million for counternarcotics alternative development in Peru. Donor funding disbursements were slow to arrive in 1999, delaying implementation of many programs.

Domestic Programs (Demand Reduction). A strong cadre of NGOs cooperates with CONTRADROGAS, the Peruvian drug control agency, to address the problem of Peruvian drug consumption. Ironically, the rise in domestic drug consumption is largely the result of successful interdiction programs in the past. Denied the means for exporting drugs, traffickers were forced to develop domestic markets, which, although considerably less lucrative than external markets, generated a positive cash flow with little risk. It is estimated that the number of first time users is rising at the rate of about 50 percent per year. A recent poll by CEDRO, an influential non-governmental organization (NGO) indicates that most Peruvians now consider drugs to be one of the greatest threats facing Peru.

With impetus from a small USG grant, a new private sector demand reduction NGO, "Alianza para un Peru sin Drogas" ("Alliance for a Drug-Free Peru") was launched in November. The coalition of media, business and advertising is modeled on the U.S. "Partnership for a Drug-Free America" and similar Latin American initiatives, and has developed TV spots and other prevention messages aimed particularly at children.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG is supporting GOP efforts to make the airbridge denial program more aggressive and effective by increasing its ability to enhance airborne radar support, stationing FAP aircraft at sites that will allow a more timely response, and working to increase the availability of FAP intercept aircraft. The GOP and USG have also worked closely to implement the successful eradication and alternative development programs. Fifteen USG-owned helicopters are flown and maintained by the GOP to provide transportation for drug cultivation eradicators and police. Helicopter pilots and mechanics receive training in the United States, which benefits Peru's counternarcotics aviation program.

USG law enforcement agencies support the GOP by working to upgrade police investigative capability, improve police capacity to plan operations based on intelligence and form mobile land interdiction units. The USG also supports the activities and equipment of seven narcotics prosecutors with national authority. Because Peruvian law requires that a prosecutor be present at an arrest, the prosecutors travel with police investigative units and on eradication actions.

USG training in detection of contraband for customs officers, as well as for airline and airport employees has resulted in a significant increase in the 1999 number of arrests at Lima's Jorge Chavez international airport of passengers body-carrying cocaine HCl.

The Road Ahead. Peru's significant reduction of coca under cultivation proves that its strategy is working. However, with higher prices being paid for coca, many farmers will be tempted to abandon licit crops. It is essential that manual eradication of illegal coca crops, counternarcotics-related alternative development, rehabilitation of the airbridge denial program, and land and maritime/riverine interdiction all continue as complementary programs. The GOP should also refine relevant laws, especially as they pertain to money laundering, asset seizure, and chemical controls.

Peru Statistics

(1991-1999)

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Coca									
Net Cultivation (ha)	38,700	51,000	68,800	94,400	115,300	108,600	108,800	129,100	120,800
Eradication(1) (ha)	13,800	7,825	3,462	1,259	0	0	0	0	0
Cultivation (ha)	52,500	58,825	72,262	95,659	115,300	108,600	108,800	129,100	120,800
Leaf (Potential Harvest) (ha)	69,200	95,600	130,600	174,700	183,600	165,300	155,500	223,900	222,700
HCl (Potential) (mt)	175	240	325	435	460	435	410	550	525
Seizures									
Coca Leaf (mt)	164.3	132.9	146.8	99.1	33.4	25.2	-	25.0	5.95
Coca Paste(2) (mt)	-	-	-	-	-	-	7.7	0.75	1.07
Cocaine HCl (mt)	3.59	1.70	2.30	1.01	7.65	0.10	0.47	0.23	0.76
Cocaine Base (mt)	6.65	19.70	8.80	18.68	15.00	10.60	5.3	6.7	4.41
<i>Total Cocaine (mt)</i>	<i>10.24</i>	<i>21.40</i>	<i>11.10</i>	<i>19.69</i>	<i>22.65</i>	<i>10.70</i>	<i>5.77</i>	<i>6.93</i>	<i>5.17</i>

Aircraft (items)	-	-	11	7	22	4	13	7	10
Arrests/Detentions									
Labs Destroyed									
Cocaine HCl									
Base									
<i>Total Labs</i>									
Domestic Consumption									
Coca Leaf (licit)									

(1) In 1997, Peruvian authorities also reported destroying 96 square meters of seedbeds, equal to six hectares of mature cultivation.

(2) Since 1994, Peruvian National Police statistics have not distinguished between coca paste and cocaine base.

URUGUAY

I. Summary

Uruguay is not a drug producing country and is not a major transshipment country. Government of Uruguay (GOU) efforts to combat drug trafficking and consumption are well-coordinated under the leadership of a sub-cabinet official. A comprehensive anti-drug law, which criminalizes money laundering, controls and regulates precursor chemicals, and strengthens penalties against drug trafficking, was approved in October 1998. The law conforms to UN and OAS Inter-American Drug Abuse Control Commission (CICAD) standards. Money laundering remains an area of concern, although the GOU is working to improve implementation and enforcement of the October 1998 legislation. Bilateral cooperation between the GOU and USG is very good. Uruguay is a party to the 1988 UN Drug Convention.

II. Status of Country

Limited data suggest low levels of drug consumption in Uruguay with a slight increase in the past year. Uruguay is not a drug producing country and major trafficking routes do not pass through it. To a limited extent, traffickers use Uruguay for transit, as evidenced by seizures of small quantities from persons traveling to Europe. The movement of maritime containers through the port of Montevideo represents a potential opportunity for drug traffickers.

Uruguay's relatively sophisticated banking system and its economic and political stability has historically attracted foreign bank deposits, especially from Argentina and Brazil. As a regional financial center, with liberal currency exchange and bank secrecy laws, Uruguay is vulnerable to narcotics-related money laundering. The October 1998 anti-drug law makes money laundering a crime and requires banks and exchange houses to regularly transmit financial transaction data to the Uruguayan Central Bank for analysis. Although financial institutions were previously required to record all transactions in excess of \$10,000; the Central Bank did not routinely review these records. The Central Bank now has the required computers and will soon implement a database for financial analysis.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Counternarcotics is a GOU priority that receives strong presidential support, although funding levels remain relatively low. An October 28, 1999 presidential decree gave the National Drug Council (JND) permanent status at a sub-ministerial level under the current leadership of Alberto Scavarelli, Deputy Chief of Staff in the Office of the Presidency. The JND coordinates counternarcotics efforts and cooperation among law enforcement agencies. Formerly weak controls on money laundering and precursor chemicals have been improved by JND implementation of recent anti-drug legislation so as to achieve compliance with the 1988 UN Drug Convention.

Accomplishments. Uruguay is not a major transshipment country. However, seizures indicate that some drugs enter Uruguay from Brazil and Argentina. Efforts to interdict drugs entering from Brazil received a major boost from the 1998 opening of a new police anti-drug directorate (DGRTID) office in Rivera and this year DGRTID opened an office in Maldonado with jurisdiction extending to the eastern Brazilian border. DGRTID offices are also planned for Colonia, on the Argentine border, and Ciudad de la Costa. The Coast Guard recently obtained nine 44-foot motor lifeboats, which will greatly increase its ability to monitor riverine and coastal waters. The Coast Guard is also updating its computer system to establish a database of persons and vessels transiting Uruguayan territorial waters.

Uruguay adopted a law in October 1998 making money laundering illegal and bringing Uruguay into compliance with international standards. The Uruguayan banking association issued a code of conduct in 1997 designed to prevent money laundering in member banks. Computers have been acquired (with software and training in the pipeline), following U.S. Treasury Financial Crimes Division recommendations, for Central Bank financial analysis to detect money laundering.

Uruguay plays an active role in international anti-drug efforts. The GOU has cooperated with USG, Argentine, and Brazilian officials on controlling cross border movement of persons and narcotics. Uruguay and its neighbors regularly exchange narcotics-related information through participation in the Southern Cone working group of the annual International Drug Enforcement Conference (IDEC). The USG and GOU have an extradition treaty and a mutual legal assistance treaty (MLAT).

During 1999, implementing guidelines for the regulation of precursor chemicals were established and put into effect, with the Ministry of Industry registering businesses, the Ministry of Public Health issuing permits and DGRTID in charge of enforcement. The Ministry of Public Health also obtained computer equipment for the creation of a database for registration and permits of precursor chemicals. Uruguay is in accordance with model OAS/CICAD regulations on precursor chemical controls.

The low levels of drug consumption in Uruguay have risen slightly in recent years. Uruguay's demand reduction program centers on the inclusion of a strong drug-education curriculum in the national school system. The GOU sponsored a nationwide series of public seminars to heighten drug awareness. It also provided thousands of teachers in schools across the country with anti-drug training. The Alliance for a Drug-Free Uruguay has mounted an extensive publicity campaign to raise levels of public awareness.

Law Enforcement Efforts. Under the GOU's 1995 coordination strategy, enforcement agencies work together to increase the effectiveness of their anti-drug operations. Full support from Uruguayan Customs, however, continues to be lacking and an interagency law enforcement team formed to improve inspections of containerized cargo at the port of Montevideo has not been effective. Morale among law enforcement officers is good, although officers outside of the anti-drug directorate are still generally underpaid and poorly equipped.

The October 1998 anti-drug law increases judicial authority to seize assets. Judges may issue a seizure order at any time, and without prior notice, for possible asset confiscation or forfeiture. Asset seizures have been historically rare, but vehicles and other assets easily linked to narcotics are now being seized more regularly.

Corruption. The "Ley Cristal" (or transparency law), designed to fight government corruption, was approved by the Uruguayan Legislature in December 1998 and entered into force in January 1999. The statute criminalizes a broad range of potential abuses of power by government office holders, including the laundering of funds related to cases of public corruption, and institutes financial disclosure requirements for high government officials. Drug-related corruption is not a major problem and there is no evidence that any senior GOU official has engaged in drug trafficking or money laundering. Under the citizen security law, public officials who know of a drug-related crime or incident and do nothing about it can be charged with a "crime of omission."

Agreements and Treaties. The USG and the GOU have a valid extradition treaty, which entered into force in 1984, and the two governments have cooperated on narcotics-related extraditions. The Mutual Legal Assistance Treaty (MLAT) between the USG and the GOU entered into force in April 1994. The GOU is implementing the OAS/CICAD Mutual Evaluation Mechanism (MEM) adopted by OAS/CICAD members on October 7, 1999. Uruguay is a party to the 1988 UN Drug Convention.

Drug Cultivation/Transit. There is little cultivation or production of drugs in Uruguay. Uruguay is not a major drug-transit country, although its use as a transshipment point may be increasing. Most of the drug shipments seized in 1999 were destined for Europe. The large amount of containerized cargo passing through the port of Montevideo is susceptible to narcotics shipments. The porous border between northern Uruguay and Brazil may be a major entry point for drugs destined for both domestic use and international shipment and is a focus of DGRTID enforcement activity. This border is vulnerable to potential transshipments by air and truck of marijuana originating in Brazil and Paraguay, as well as cocaine from the Andean countries.

Domestic Programs (Demand Reduction). To halt the rise of domestic drug consumption, the GOU is implementing a coordinated and ambitious demand reduction program under the direction of the National

Drug Commission (JND). The primary focus of this program has been to train primary and secondary school teachers to reach children during their formative years and to ensure that drug education is an integral part of the national school curriculum. Approximately 3,000 teachers had been trained through the project by 1999. In addition, in 1999 the GOU sponsored many seminars and public meetings throughout Uruguay relating to drug abuse and treatment.

IV. USG Policy Initiatives and Programs

USG Goals and Objectives. The GOU cooperates with the USG on law enforcement issues. INL funds provided through an annual bilateral cooperation agreement have contributed greatly to the GOU's fight against drug use and trafficking. DEA and Department of Justice training programs have enhanced operational effectiveness and professionalism. The Uruguayan national drug awareness media campaign also benefited from USG assistance.

Road Ahead. Particular emphasis will continue to be placed on money laundering. The USG plans to support the full implementation of the money laundering provisions of the new anti-drug law by supplying software and training to monitor and analyze financial transactions to the central bank. The USG also plans to continue anti-money laundering training for Uruguayan judges, prosecutors, police and bank officials.

The lack of concrete information on the transshipment of drugs is of great concern. If illegal drugs transit Uruguay bound for the U.S., they are most likely to be shipped via containerized cargo. The USG will support the operation of the interagency law enforcement team to inspect targeted containers at the port of Montevideo. Material support will be given to the police anti-drug directorate offices on Uruguay's Brazilian border and to help establish new offices in Colonia, on the Argentine border, and in Ciudad de la Costa.

VENEZUELA

I. Summary.

Venezuela is a significant transit route for illegal drugs destined for the U.S. and Europe. Cocaine from Colombia comprises the vast majority of this traffic (by some USG estimates, over 100 metric tons of cocaine transit Venezuela annually), although increasing amounts of heroin have also been detected. In 1999, despite significant political changes that included the drafting and adoption of a new constitution, Venezuela sustained its efforts to combat narcotics trafficking and consumption. Moreover, the new administration under President Hugo Chavez Frias pledged to attack the widespread corruption that has hampered counternarcotics action in the past. The year also saw a significant reform of the penal code, including transition of the judicial system from a secret, inquisitorial process to an open, accusatorial system similar to the U.S. model. The Chavez administration began the reorganization of law enforcement bodies responsible for drug interdiction. However, the Venezuelan Congress did not adopt a pending piece of vital anti-crime legislation that would provide law enforcement with tools to enhance actions against narcotics-related crime and money laundering. The National Anti-Drug Commission maintained its role as the Government of Venezuela's drug policy coordinating body, and during 1999 worked to combat the diversion of precursor chemicals used in the production of illegal drugs in the source countries, to enhance anti-money laundering actions, and to improve anti-drug police coordination.

In 1999 Venezuelan law enforcement authorities cooperated with U.S. law enforcement agencies in some anti-narcotics operations and Venezuela participated actively in multilateral organizations charged with enhancing anti-drug cooperation. Although the GOV's aerial interdiction policies were ineffective for most of 1999, understandings between the USG and GOV helped to establish a foundation for future cooperation on this issue of bilateral concern.

Venezuela is a party to the 1988 UN Drug Convention.

II. Status of Country

Increased drug production in neighboring Colombia in 1999 elevated Venezuela's importance as a significant transit route for illegal drugs to the U.S. and Europe. The majority of this traffic involves smuggling drugs by land into Venezuela from Colombia and then concealment of drugs in commercial cargo leaving major Venezuelan ports. Illegal drugs are also hidden in air cargo or transported by passengers on the more than twenty-five flights each day to U.S. destinations. Small private aircraft and boats that use Venezuelan airspace or territorial waters on their way to or from Caribbean transshipment points are another means of drug transit.

Essential chemicals used in the production of drugs in Colombia and other source countries either transit Venezuela from chemical exporting countries or are diverted from Venezuela's domestic chemical industry. Venezuelan gasoline and cement are also diverted from Venezuela for use in Colombian cocaine labs near the Venezuelan border.

Venezuela's proximity to the drug source countries and its modern financial, real estate and tourism sectors provide ample opportunity for laundering of drug profits. While the introduction of U.S.-style currency

transaction reporting and suspicious activity reports have limited the more obvious money laundering schemes, evidence shows that Venezuela is still a route for return of drug profits from the U.S. and is a victim of various money laundering schemes.

Although Venezuela is primarily a drug transit country, Colombian cultivators have traditionally used a small, mountainous area along the northern part of Venezuela's border with Colombia to grow opium poppy. Heroin processing is carried out in Colombia and this small-scale problem has been limited to a cultivation area of under 50 hectares by continued aggressive eradication and expulsion activities by the Venezuelan military.

III. Country Actions Against Drugs

Policy Initiatives. The new administration of President Hugo Chavez adopted and reinforced the previous administration's four-year national strategic anti-drug plan. The Chavez administration confirmed the role of the National Anti Drug Commission (CONACUID) as the government's anti-drug coordinating organization. During 1999 the new CONACUID president appointed by the Chavez administration reinforced the commission by increasing the presence of law enforcement representatives, expanding Venezuela's participation in multilateral anti-drug organizations, and organizing activities and drafting legislation to combat the diversion of essential chemicals and counter money laundering.

The Chavez administration was elected on a strong anti-corruption platform. Once in office the administration established task forces to initiate investigations of corrupt officials and began the reorganization of law enforcement agencies. While corruption convictions have only been obtained in a few cases in the military, the Chavez administration states that once the new national legislature is in office, more progress will be made in this area. The National Assembly was established by the new Constitution, adopted by a popular referendum on December 15, 1999.

The Chavez administration also oversaw the implementation of a new Code Of Criminal Procedure (COPP) according to schedule in July 1999. The COPP (adopted under the previous administration) moves Venezuela from a secret, inquisitorial system of justice to an open, accusatorial system with similarities to the U.S. system. The new code requires prosecutors and investigators to work together to present cases orally in open court and has the potential to end corruption and provide a transparent, efficient system of justice.

Although the GOV's aerial interdiction policies were ineffective for much of 1999, steps were taken at year's end that have the potential to restrict the access of drug-trafficking aircraft to Venezuelan airspace.

A standing committee of the Venezuelan Congress assumed a caretaker role during the summer of 1999 when the National Assembly, whose members were elected in July, undertook the task of drafting a new constitution. Although President Chavez lobbied for passage of a draft anti-organized crime bill targeting conspiracy, facilitating asset seizure, expanding money laundering investigations and establishing the legal basis for many police procedures (such as undercover activities), the opposition controlled Congress did not adopt the bill in 1999. President Chavez has stated that this bill is a priority for the new National Assembly to be elected in 2000.

Accomplishments. In 1999 Venezuela improved efforts to prevent the diversion of essential chemicals for use in the production of illegal drugs in the source countries. The GOV implemented its control regime for imports and exports of chemicals and issued a list of 22 chemicals subject to controls pursuant to UN guidelines. Venezuelan law enforcement officials participated actively in DEA's worldwide interdiction campaign "Operation Purple" during 1999 and seized approximately 110 tons of potassium permanganate, a prime chemical used in the production of cocaine in Colombia. During the operation Venezuelan authorities uncovered evidence of involvement in chemical diversion by police and military officials. Military investigators launched a thorough investigation and the GOV stated those involved would receive stiff punishments. CONACUID established contacts with the Colombian government during the chemical control operation and signed an agreement to establish a mechanism to exchange information on chemical movements from Venezuela to Colombia.

The Venezuelan Financial Intelligence Unit and CONACUID strengthened efforts to improve Venezuela's anti-money laundering activities in 1999. Venezuela was accepted into the Egmont group (an international body charged with improving anti-money laundering efforts) and actively participated in the work of the regional anti-money laundering body, the Caribbean Financial Action Task Force (CFATF). In November a CFATF team visited Venezuela to carry out an evaluation of Venezuela's success in implementing the forty internationally accepted anti-money laundering recommendations. CONACUID is awaiting the team's report to assist in formulating new anti-money laundering controls. CONACUID re-established a dormant inter-ministerial anti-money laundering network to coordinate cooperation throughout the government and launched investigations into the casino licensing process and activities of state lotteries. Venezuelan law enforcement maintained pressure on money exchange institutions along the Colombian border.

CONACUID identified assets of narco-traffickers seized by the courts in 1999 and worked to streamline the process by which these assets are passed from the Ministry of Finance to different programs under the national drug control strategy.

Venezuelan law enforcement officials cooperated successfully with U.S. counterparts on several occasions to pursue third-country nationals involved in narcotics trafficking. In one case, following a joint operation, after police located and arrested an indicted trafficker sought by U.S. authorities, a judge released the individual on a technicality. Despite expressions of concern by senior GOV officials over the inadequacies of agreements to pursue international criminals, the Constitution adopted at the end of 1999 specifically barred the extradition of Venezuelan citizens for trial in foreign countries. Furthermore, Venezuela did not enter into negotiations with the U.S. to update the 1922 bilateral extradition treaty in 1999.

In 1999 the Venezuelan armed forces continued operations with Colombia in the Sierra de Perijá region along the Venezuelan border to prevent an increase in the cultivation of opium poppy. Eradication operations and actions to prevent Colombians from entering Venezuela illegally to grow narcotics kept cultivation below 50 hectares for the second consecutive year.

The U.S. Customs Service Business Anti-Smuggling Coalition (BASC) program made significant progress with the Venezuelan private sector in 1999. The program, designed to provide outreach to companies to prevent infiltration of drugs in shipments to the U.S., saw the establishment of two BASC chapters, one in Caracas and the other in the major industrial center of Valencia. U.S. Customs officers were deployed to Venezuela on three separate occasions to assist this extremely popular program. Venezuela is also one of seven countries participating in the U.S. Customs Americas Counter-Smuggling Initiative (ACSI), which seeks to increase the effectiveness of law enforcement officers in their efforts to deter narcotics smuggling in commercial cargo shipments and conveyances. ACSI enhances private sector security programs at manufacturing and export facilities in high threat narcotics source and transit countries.

Law Enforcement Efforts. Venezuelan law enforcement authorities seized 13.1 metric tons of cocaine and cocaine-based products in 1999. This figure demonstrates a significant increase over seizures in 1998, and Venezuelan authorities claim that efforts to reorganize law enforcement and increased attention to interdiction were factors in this increase. Arrests of individuals for drug related offenses, however, fell by 12 percent from 7,531 in 1998 to 6,630 in 1999.

As part of the new administration's focus on corruption, the Technical Judicial Police (PTJ) and the National Guard arm of the Venezuelan armed forces underwent major reorganizations in 1999, including transfer and dismissal of employees. During 1999 both the PTJ and the National Guard cooperated with DEA and the U.S. Customs Service in joint operations against narcotics trafficking. A major heroin smuggling organization was dismantled in the city of San Cristobal near the border with Colombia in early 1999. Key members of the organization were arrested and their case is currently being prosecuted in a Venezuelan court. Other joint operations led to arrests of members of trafficking organizations in Miami and New Orleans. An important money laundering ring was broken up and a key organizer was charged with masterminding the transfer of several million dollars in laundered proceeds from the U.S. through Venezuela. Unfortunately, the case was later dismissed for lack of evidence. This type of cooperation continued throughout the year but reorganizations of Venezuelan law enforcement offices, removal of officials for corruption, and the need to train new counterparts, led to a reduction in joint law enforcement operations in the last three months of 1999.

Actions by the National Guard at border entry points, airports and seaports were key to Venezuela's interdiction efforts. Stepped up activities in the border region contributed to much of the increase in seizures over 1998. The CONACUID president (Venezuela's "drug czar"), coordinated closely with all branches of the GOV and the judicial system including police, investigators, prosecutors and judges to enhance interdiction efforts. Both the PTJ and the National Guard assigned officials to staff offices in CONACUID to work on money laundering, chemical diversion control, and collection and coordination of drug intelligence. This coordination, coupled with CONACUID's work with senior representatives of all branches of government with an anti-drug role, enhanced the effectiveness of Venezuelan counternarcotics programs.

The U.S. Coast Guard attaché assigned to the embassy in Venezuela conducted a series of visits (including several training programs) during 1999 to units of the Venezuelan navy and coast guard to assist these organizations to improve anti-drug patrols and operations. Partly as a result of this cooperation, Venezuela increased maritime interdiction activity in 1999.

Under section 506(a)(2) of the Foreign Assistance Act, the Venezuelan military received two C-26 aircraft in 1999 to support counternarcotics programs. The Venezuelan air force intends to use the aircraft to support operations along the border with Colombia and is considering using the aircraft to assist in tracking and monitoring of suspect narcotics trafficking aircraft using Venezuelan airspace.

Law enforcement agencies and the Ministry of Defense received adequate resources to carry out counter-narcotics activities in 1999, although the PTJ stated that across-the-board GOV austerity measures introduced by President Chavez limited that organization's ability to increase its operations throughout Venezuela.

Corruption. The GOV does not as a matter of policy or practice encourage or facilitate drug trafficking or

money laundering, nor do its senior officials engage in, encourage, or facilitate such activities. In 1999, the Chavez administration initiated a series of investigations of mid-level public officials for involvement in corruption, including drug-related cases. Convictions were obtained for several senior military officials for corruption in cases not linked to drugs. Members of the police and military were arrested for involvement in schemes to substitute talcum powder for cocaine and to divert essential chemicals to Colombia. Over 200 judges were investigated for corruption and misuse of office. Forty-three of the 200 were removed under expedited procedures initiated by the Chavez administration. For the first time judges were subject to extensive scrutiny by a specially established commission.

The Chavez administration also targeted the customs and tax organization in order to improve anti-smuggling actions and increase tax revenues by reducing corruption among customs and tax officials. Building on a 1998 law, the Chavez administration introduced a major restructuring of the customs administration during 1999.

Agreements and Treaties. Venezuela is a party to the 1988 UN Convention. Key bilateral agreements with the U.S. include: a ship-boarding agreement from 1991, updated with a new protocol in 1997; a customs mutual legal assistance agreement; an agreement on chemical precursor control in 1992; an aerial hot pursuit arrangement in 1994 (non-operative at the end of 1999). In 1999 the USG and GOV began initial negotiations on a maritime interdiction treaty to bolster the 1991 ship-boarding agreement, but these discussions stalled.

In March 1999, Venezuela became a member of the Egmont anti-money laundering group. Venezuela enhanced cooperation with Colombia on chemical precursor control in 1999 and signed anti-narcotics cooperation agreements with Guyana and other regional countries. Venezuela has also signed drug control agreements with European countries focusing on the area of domestic drug demand reduction.

Venezuela is a partner in the OAS/CICAD (Inter-American Drug Abuse Control Commission) telecommunications system designed to control traffic in drugs and precursors on the Orinoco River in the Tri-Border (Brazil, Colombia, and Venezuela) region. The three countries are working together to establish secure exchange of information on narcotics related traffic in this favorite area for narcotics traffickers.

In 1997, the U.S. and Venezuela signed a bilateral mutual legal assistance treaty (MLAT). Although ratified by the U.S., the MLAT has not been approved by the Venezuelan Congress and accordingly has not yet entered into force. The U.S. and Venezuela are also parties to an outdated 1922 bilateral extradition treaty; unfortunately, Venezuela's new 1999 constitution expressly prohibits the extradition of Venezuelan nationals. This provision severely hampers Venezuela's ability to develop effective extradition relationships with the U.S. and other countries in the hemisphere, many of which are eliminating, rather than erecting, barriers to extradition.

Drug Flow/Transit. The vast majority of drugs transiting Venezuela are concealed in commercial air and sea cargo. The GOV took steps to improve interdiction measures at major ports and airports in 1999. At the large, privatized port of Puerto Cabello, new facilities were constructed to provide better conditions for checking truck traffic entering the port with goods for export. The National Guard increased its operations at the port and worked with port staff and customs to increase the effectiveness of searches. U.S. Customs sent a team to build on previous training programs that have focussed on container search techniques and conducted a longer duration assistance program during the summer that included customs and PTJ officials. The new government's plans for modernization at Venezuela's principal international airport included measures aimed at improving security. Initial measures improved security and are the first steps to addressing drug flow in air cargo and carried by passengers.

Despite these efforts, drugs continued to pass through Venezuela's ports and airports. Drug seizures were up during the year and Venezuelan authorities worked with U.S. law enforcement agencies to target drug smuggling organizations working in Venezuela. One notable operation disrupted a drug "mule" operation that was sending heroin to the U.S. and cocaine to Europe. Twenty-eight "mules" were arrested over a fifteen day period in 1999 and the organization coordinating the operation was dismantled.

Demand reduction programs. CONACUID unveiled several plans to work more closely with the schools and the private sector. Building on a previous program with the states, CONACUID established new programs with the states to increase the effectiveness of regional demand reduction programs. Programs included a nationwide school awareness program, TV advertisements promoting anti-drug themes, and various youth oriented events. CONACUID updated links with key non-governmental organizations (NGOs), and streamlined procedures to register these organizations to participate in anti-drug efforts.

Several influential NGOs function in Venezuela including the highly successful, private sector initiative "Alliance For a Drug-Free Venezuela." These organizations work both independently and in conjunction with CONACUID to raise public awareness on the dangers of drug consumption.

IV. U.S. Policy Initiatives and Programs

The USG seeks to assist the GOV to improve its ability to prevent the use of its territory as a route for illegal

drugs destined for the U.S. and to prevent the diversion of essential and precursor chemicals used in the production of illegal drugs. The U.S. will also support measures to strengthen the judicial system, to ensure the prosecution and punishment of those involved in drug trafficking, and to combat international money-laundering activities. Specific objectives to accomplish these goals include: providing equipment and training to law enforcement agencies working against drug-trafficking and related crime; assisting the Venezuelan armed forces to carry out effective counternarcotics operations; aiding implementation of control regimes related to money laundering and chemical controls; and providing assistance to Venezuela's reform of the judicial system.

Bilateral Cooperation. The USG has extensive cooperative programs with the GOV, including those conducted by the Narcotics Affairs Section, the U.S. Customs Service, DEA, the Department of Justice, FBI, and the Department of Defense. The USG has signed agreements with the Venezuelan Ministry of Defense, CONACUID, the PTJ, the Ministries of Interior and Justice, the Attorney General's Office, the Superintendency of Banks and the Ministry of Production and Commerce to support counternarcotics programs focusing on interdiction, money laundering, chemical control, and reinforcement of the judicial system. These agreements provide for provision of equipment, training and other assistance to implement shared counter-narcotics goals.

The GOV has been receptive to expansion of cooperation in accordance with the 1988 UN Drug Convention. In July 1999 the Chavez administration hosted a senior interagency USG counternarcotics briefing team led by the U.S. Office of National Drug Control Policy (ONDCP) to discuss expanded counternarcotics cooperation. As a follow up to this visit, a Department of Justice team visited Venezuela to review techniques used to address public corruption in the U.S. Both visits provided extensive exchanges of information on means to address aspects of counternarcotics cooperation. However, the GOV's decision in June 1999 to implement a unilateral aerial interdiction policy did not produce positive results. Late in 1999, initial steps were taken to amend the policies' shortcomings, and the USG will continue to work with the GOV to seek a mutually favorable resolution on this issue.

Road Ahead. The Chavez administration has acted vigorously to counter corruption. Despite considerable political change and the implementation of a new penal code, this theme provides a major opportunity to address one of the major obstacles to progress on our shared counternarcotics objectives. Venezuela's participation in multilateral anti-drug cooperation, including the new multilateral evaluation mechanism, shows a continuing commitment to combating narcotics trafficking and related crime. The GOV needs to complement this commitment with a more effective aerial interdiction policy to defend the integrity of its airspace against the incursions of narco-trafficking aircraft. The GOV can also strengthen international efforts targeting narco-criminals by revising its recent constitutional ban on extraditing Venezuelan nationals. The USG will continue to work with the GOV to expand law enforcement cooperation aimed at targeting major narco-trafficking organizations and to develop the Venezuelan judicial system that will permit more effective government action.

Venezuela Statistics

(1991-1999)

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Coca									
Cultivation (ha)	unk	unk	unk	unk	unk	unk	unk	101	101
Eradication (ha)	-	-	-	10	20	70	-	-	-
Opium									
Harvestable Cultivation (ha)	0	0	0	0	1,000	unk	-	-	-
Eradication (ha)	50	50	100	467	1,640	920	-	-	-
Cultivation (ha)	50	50	100	200	2,640	unk	-	-	-

Cannabis									
Harvestable Cultivation (ha)									
Eradication (ha)	-	-	-	-	40	107	-	-	21
Cultivation (ha)	unk	unk	unk	unk	unk	unk	-	-	-
Seizures									
Cocaine HCl (mt)	12.48	7.30	14.58	5.60	6.17	5.10	2.00	4.19	8.7
Other Cocaine (Basuco) (mt)	0.62	1.30	1.60	1.60	1.60	1.60	1.30	1.61	1.10
Total Cocaine Products (mt)	13.10	8.60	16.18	7.20	7.77	6.70	3.30	5.80	9.80
Cannabis (mt)	19.69	4.50	5.52	5.30	13.70	10.00	1.00	2.61	3.67
Heroin (mt)	0.04	0.04	0.11	0.07	0.10	0.02	0.02	0.01	
Arrests									
Nationals	6,414	7,242	4,880	-	3,000	-	-	812	2,383
Foreigners	216	289	499	-	600	-	-	210	525
<i>Total Arrests</i>	6,630	7,531	5,379	-	3,600	-	-	1,022	2,908

[End.]

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U.S. DEPARTMENT OF STATE

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Canada, Mexico, and Central America

BELIZE

I. Summary

Belize was removed from the list of major drug transit countries in 1999 because of declining estimates of the amounts of drugs transiting there in route to the U.S. and Mexico and little in the way of drug seizures in the past two years. There is no evidence establishing that drugs coming to the U.S. from Belize are coming in significant enough quantities to have a significant effect on the U.S. However, the geography and proximity of Belize to Mexico and western Caribbean drug transit routes make it a logical transshipment point for drugs destined for the United States. Therefore, it remains a country of concern. The Government of Belize (GOB) recognizes this problem and works closely with the United States on narcotics control and other international crime issues primarily through the efforts of the Belize Police Force (BPF) and the Belize Defense Force (BDF). Over the past year, the GOB has made strides to build up the police infrastructure by increasing personnel, renovating police stations, and enhancing police equipment and training. Belize is a party to the 1988 UN Drug convention.

II. Status of Country

Contiguous borders with Guatemala and Mexico, large tracts of unpopulated jungle and forested, a long unprotected coastline, hundreds of small cays offshore, many inland waterways and a rudimentary infrastructure for combating drug trafficking and drug abuse make Belize a potentially significant transshipment point for illicit drugs.

III. Country Actions Against Drugs

Policy Initiatives. The new police commissioner, named in September 1999, is working to create a counternarcotics task force. The initiative marks the first time a law enforcement unit will be dedicated solely to counternarcotics. The GOB has authorized on-site collaboration of a U.S. law enforcement officer with the new counternarcotics task force. U.S. law enforcement training and technical assistance will be provided to assist in establishing the unit.

The GOB also created a national drug council, which developed the nation's first comprehensive drug control strategy with the assistance of the Organization of American States. The Ministry of National Security and Immigration intends to finalize the strategy in early 2000.

The GOB hosted the regional International Drug Enforcement Conference, (IDEC) Group D conference in June 1999 and continues to support regional counternarcotics efforts. The GOB fully participated in joint counternarcotics operations with the USG, such as Central Skies and Regional Aerial Reconnaissance and Eradication (RARE) missions. Throughout the year the GOB also carries out its own counternarcotics operations.

Accomplishments. According to GOB statistics, in the last year the GOB increased the size of the police department by 10 percent, renovated dozens of police stations countrywide, trained approximately 25 percent of the police force, and acquired equipment and uniforms for law enforcement personnel. U.S. counternarcotics and law enforcement assistance has focused on renovating the Belize City police station, constructing the Joint Information Coordination Center (JICC) and establishing the new anti-money laundering unit. Ongoing support of equipment and training was provided to the police canine unit and rapid response force (Dragon Unit), and the Joint Intelligence Coordinating Center (JICC).

Illicit Cultivation/Production. In the first ten months of 1999, just over 300,000 marijuana plants were eradicated in Belize. Illicit cultivation of marijuana continues to occur in Belize, but at reduced levels from the widespread cultivation of a decade ago, when Belize ranked fourth in worldwide marijuana production. The BPD and BDF routinely conduct manual marijuana eradication missions involving, at times, modest-size fields,

ranging from 500 to several thousand plants.

Because of environmental concerns, the GOB does not allow spray missions for the eradication of marijuana. However, it actively continues to cooperate and encourage RARE operations. Such missions are followed by police and Belize defense Force (BDF) manual eradication of marijuana fields and seedlings, which the GOB views as effective and more environmentally sound. There are indications that marijuana cultivation is slightly up from last year. Although thousands of plants were destroyed in various operations, few arrests were made. Because marijuana fields are usually found in fairly remote regions, far from the homes of those who cultivate the crops, few arrests result from these operations.

Precursor Chemical Control. There is no evidence of traffic in precursor chemicals in Belize. Almost no industry in Belize requires the use of precursor chemicals. However, the GOB, in support of the 1988 U. N. Drug Convention, developed a precursor chemical program. There is no evidence of production of drugs other than cultivation of marijuana in Belize.

Money Laundering. There is little evidence at this point that Belize is an active money laundering center. However, money laundering remains a major potential threat in Belize. The Government of Belize's banking control legislation, the Offshore Banking Act and the Money Laundering Prevention Act have been in force since August 1, 1996. The latter criminalizes money laundering, while also allowing for international cooperation. However, Belizean law enforcement authorities have yet to seize any assets or try a single case under its money laundering law. The GOB expects to gain a better assessment of money laundering activity and potential when the new Belizean financial investigations unit starts its fieldwork in 2000. Belize participates in the Caribbean Financial Action Task Force (CFATF). A CFATF assessment team is scheduled to visit Belize early in 2000.

Asset Seizure. The GOB is becoming more aggressive in its seizure of assets taken in connection with drug trafficking. However, negotiations to implement an International Asset Sharing program in Belize have been stalled for the last year. Joint investigations between the Belize Police force and U.S. law enforcement agencies targeting assets are currently being planned for 2000.

Extradition. The GOB continues to extradite Belizean Nationals indicted under U.S. Law under the 1972 U.S.–U.K. Extradition Treaty. Three such extraditions have taken place over the last several years. The GOB, however, has inserted serious obstacles to the conclusion of a new, modern extradition treaty.

Law Enforcement and Transit Cooperation. Belize cooperates with nations in the region to combat drug trafficking or other serious crime. In June 1999, Belize hosted the Regional IDEC, Group D meeting. The GOB has also hosted operational meetings and has shared case-specific information of ongoing investigations with Mexico, Colombia, and Guatemala. The GOB was a partner with the USG in two Central Skies operations during the year. The GOB consistently gives the U.S. Coast Guard permission to board Belize-registered ships suspected of illegal activity on the high seas.

Belizean officials routinely participate in a variety of international training seminars. Belize sent two high level officials to the Western Hemisphere Drug Policy leadership conference and participated in the Central America Regional Demand Reduction Conference. GOB law enforcement personnel participate in regional training seminars both in Central America and in the Caribbean. Over the past year, Belize hosted a number of U.S. law enforcement training teams (FBI, U.S. Coast Guard, U.S. Customs, EPIC) which trained approximately 100 Belizeans in counternarcotics and investigative techniques.

Demand Reduction. GOB demand reduction efforts are coordinated by the National Drug Abuse Control Council (NDACC) which provides drug abuse education, information, counseling, rehabilitation and outreach. NDACC is taking a leadership role in developing Belize's national drug strategy. NDACC received a three-year \$6500 grant from the European Union to strengthen demand reduction efforts throughout the country.

Law Enforcement Efforts. At 37 kilograms, seizures of cocaine in 1999 were approximately equal the amount seized in 1998. While Belize is a potential transit zone for cocaine, little evidence is available to confirm the passage of large shipments of cocaine through Belizean waters, except for the occasional single kilo cocaine packages that regularly wash ashore. The GOB does not have resources to pursue major maritime interdiction efforts. However, GOB efforts to eradicate marijuana have been very successful. 1999 figures for marijuana eradication surpassed last year's totals by about 50 percent. Likewise, arrests for drug-related offenses are up from last year. The biggest internal drug problem faced by Belize is primarily from drug-associated criminality. The newly appointed Commissioner of Police is in the process of creating a new drug task force dedicated to handling counternarcotics cases. Counternarcotics operations are consistently conducted throughout the year. Obtaining convictions remains a problem as the Belizean prosecutor's office is understaffed, poorly equipped and trained, and has historically been ineffective.

Corruption. There have been no test cases since the new Commissioner of Police was appointed. However, in 1999 the GOB created an Ombudsman office which can independently investigate allegations of government wrongdoing. The police also have an internal affairs investigator charged with handling complaints against

police officers.

Agreements and Treaties. Belize has been a party to the 1988 UN Convention since 1996. In March 1997, Belize ratified a stolen car treaty with the USG. In September 1997, the GOB signed the National Crime Information Center Pilot project assessment agreement which allows for the sharing of information and data between the U.S. and Belize. In 1992, Belize set the standard for maritime counter-drug cooperation by signing a shiprider agreement with the USG. An overflight/order-to-land amendment to the agreement is under negotiation. Negotiation of new extradition treaty and an MLAT have been stalled by the GOB for several years.

Drug Flow/Transit. Maritime routes along Belize's long coastline, remote border crossings, and inland waterways are the suspected means for trafficking narcotics through Belize to Mexico, Guatemala and the U.S. With limited seizures of cocaine during the past two years, transit patterns have been difficult to verify.

IV. U.S. Policy Initiatives and Programs

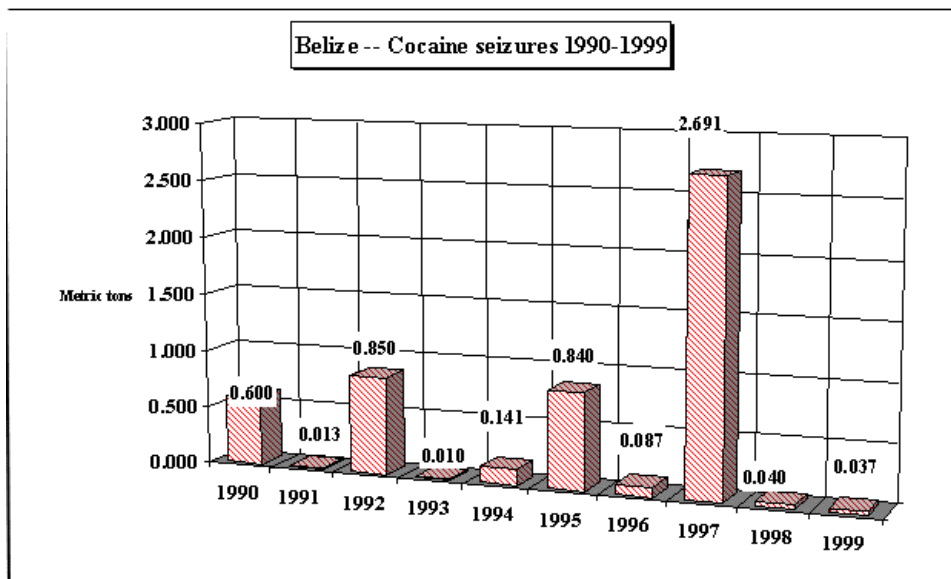
The U.S. strategy in Belize continues to focus on assisting the GOB to developing a sustainable infrastructure which will allow it to combat its drug problems effectively. In 1999, USG support included equipment and training for several units of the police department, including the canine unit, the dragon unit, the violent crimes and intelligence unit and the JICC. USG assistance has also provided partial funding to renovate the district police headquarters in Belize City and construction of the larger JICC headquarters in Belmopan. The GOB has also requested and received the support of elements of the U.S. Coast Guard and the U.S. military for counternarcotics activities and training.

The Road Ahead. As pressure on other avenues of transport increases, the potential remains for Belize to be a significant transshipment point for cocaine and marijuana. Marijuana cultivation continues to require monitoring and periodic eradication. After a year in power the People's United Party government continues to rank combating drug trafficking and associated crime as a top priority. To further our partnership with the GOB the USG will vigorously pursue completion of overflight, extradition and MLAT agreements. In addition, USG support will focus on building maritime capabilities, supporting police counternarcotics units and improving the administration of justice.

Belize Statistics

(1991-1999)

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Cannabis									
Net Cultivation (ha)	unk	unk	unk	unk	unk	unk	unk	unk	54
Eradication (plants)	270,136	202,803	294,712	129,771	135,216	10,751	89	51	266
Cultivation (ha)	unk	unk	unk	unk	unk	unk	49	unk	320
Seizures									
Cocaine HCl (mt)	0.037	0.040	2.691	0.087	0.840	0.141	0.010	0.850	0.013
Cannabis (mt)	0.4	1.6	0.3	0.2	2.8	4.8	93.0	52.0	0.8
Arrests/Detentions	2,369	1,743	1,701	1,766	1,227	1,227	1,287	1,529	658



CANADA

I. Summary

Canada, like the United States, is primarily a drug-consuming country and also produces large amounts of marijuana. Much of the Canadian-produced marijuana is shipped to the U.S. International drug traffickers frequently attempt to route drug shipments, primarily heroin, through Canada to the U.S., taking advantage of the long and open Canada-U.S. border, the massive flow of legitimate commerce, and the lower risk of long prison terms or forfeiture of assets if caught in Canada compared with the U.S. Money laundering and chemical diversion are also problems. Legislation is being drafted to strengthen Canada's ability to control money laundering.

With approximately 1,000,000 drug users in Canada, including some 250,000 cocaine addicts and 40,000 heroin addicts, The Government of Canada's (GOC) drug control strategy emphasizes drug abuse prevention and treatment. The law enforcement component emphasizes action against organized crime. Canadian law enforcement officials cooperate closely with their U.S. counterparts on narcotics investigations and interdiction efforts. Canada is a party to the 1988 UN Drug Convention and participates actively in international drug control efforts.

II. Status of Country

Narcotics production, distribution, and use are illegal in Canada. Drugs are smuggled into Canada for domestic use and for transshipment to the U.S. While the level of illicit drug transshipment through Canada to the U.S. is not known, Canadian and U.S. law enforcement agencies are taking the problem very seriously, particularly with respect to Asian-sourced heroin.

Southeast Asian heroin continues to enter North America predominantly by sea containers, but also by air and overland. Major ports of entry include Vancouver, Montreal, and Halifax. Given the long and open U.S.-Canada border, Canada will continue to be targeted by smugglers for potential transit points to and from the U.S. market. U.S. and Canadian law enforcement coordinate closely at all levels to curb trafficking, but recognize that constant vigilance is required. Money laundering and chemical diversion are also problems in Canada.

Canada has a relatively low crime rate compared with most countries in the Western Hemisphere, but organized crime and drug trafficking are becoming more serious problems. Toronto, Canada's largest city, has experienced growing problems with organized criminals from Asia and Russia. Asian ethnic groups, particularly gangs from China, dominate the heroin trade, alien smuggling, and credit card fraud, much of which is aimed at the United States. Vancouver, which also has significant Asian gang activity, now suffers from epidemic drug abuse with nearly one death per day from heroin overdoses. There have also been reports that outlaw motorcycle gang activities are on the rise nationwide, including methamphetamine trafficking.

Arrests in Europe have also indicated that Romanian and other criminal groups have smuggled Turkish-origin heroin to Vancouver as well. Canadian-based cocaine traffickers once relied primarily on U.S.-based suppliers, but are increasingly going directly to Colombia, according to the RCMP. Shipments arrive via mothership, marine containers, and occasionally by clandestine flights. Colombian organizations dominate the cocaine trade in eastern and central Canada. Italian organized crime is also involved in drug trafficking. The RCMP

estimates that between 50–100 tons of foreign marijuana, 100 tons of hashish (plus 6 tons of liquid hashish), 15 tons of cocaine and at least one ton of heroin are imported into Canada each year, producing up to CAN\$4 billion in wholesale profits and CAN\$18 billion in street-level profits.

Canada's drug strategy, the third in a series of five-year plans, was issued in 1998. While the strategy is comprehensive, addressing all of the foregoing problems, it focuses most of its counternarcotics efforts, and resources (approximately 70%), on domestic demand reduction. Building on stronger anti-drug legislation passed in 1997, the Canadian drug strategy calls for a new targeting imperative on organized crime by the Solicitor General's Office.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Canada's large and diverse financial sector, and lack of mandatory reporting requirements for suspicious transactions, has become an attractive venue for international money launderers. Recognizing this increasing threat, and responding to recommendations made to Canada by the Financial Action Task Force (FATF), the GOC promulgated control legislation in 1999. It has also taken steps to increase the capabilities of Canadian law enforcement authorities to detect suspicious transactions and to conduct money laundering investigations. Canada also added ten new integrated proceeds-of-crime law enforcement units, based on pilot projects in three cities.

Accomplishments. In 1999 (as of September), Canadian authorities made 12,541 drug-related arrests (compared with 7,531 in 1998). As of September 1999, GOC authorities had seized 500 kilograms of cocaine (down from 1.22 metric tons during the same period in 1998), 51 kilograms of heroin (down from 121 kilograms for this period in 1998), 4.289 metric tons of marijuana (down from 5.955 metric tons for this period in 1998), and 3.35 metric tons of hashish (down from 819 kilograms as of September 1998).

Canadian law enforcement operations, often in cooperation with U.S. agencies, resulted in the interdiction of numerous large-scale narcotics shipments and disruption of trafficking organizations. After a two-year investigation, Royal Canadian Mounted Police (RCMP) arrested Alfonso Caruana, reputed leader of the Caruana/Contreara organized crime family. This organization was responsible for the acquisition of cocaine in Mexico, which was ultimately shipped to the U.S., Canada and Italy. As part of this investigation, 200 kilograms of cocaine were seized in Houston, Texas.

The RCMP cooperated with the Hong Kong Narcotics Bureau in January to arrest members of a heroin ring operating between China and Canada. There were simultaneous arrests in Hong Kong, Vancouver and Toronto, along with seizures of large amounts of heroin and drug proceeds. Canadian customs inspectors arrested two Hong Kong traffickers who arrived in Toronto from Vancouver in possession of 43 kilograms of heroin; they were en route to London.

In June, after a three-year investigation, the RCMP launched a full-scale operation against a major international heroin ring that had been smuggling large amounts of Burmese-origin heroin into Vancouver for distribution in Canada and the U.S. Over 30 suspects were arrested and 56 kilograms (120 pounds) of heroin seized. According to the RCMP, the group moved enough heroin that it could occasionally stockpile supplies in Canada and drive up prices in North American markets. Parallel raids and arrests were conducted by the FBI in New York and Puerto Rico, and by Thai and Hong Kong authorities. This exceptional investigative work and international coordination dismantled the organization.

Law Enforcement Efforts. During 1999, Canadian authorities continued to implement the five-year anti-drug strategy issued in 1998. The strategy recognizes the growing threat from transnational organized crime, particularly narcotics traffickers, and directs a concerted effort against it. In addition to creating proceeds of crime units, the offensive focuses law enforcement resources on criminal organizations and money laundering operations. These efforts will be enhanced once expected suspicious transaction reporting requirements legislation is passed next year and a new financial investigation unit is created. After five years of consecutive budget cuts to law enforcement, the improving national budget situation permitted an increase in funding in 1999.

While the RCMP has mounted effective operations against narcotics and other criminal organizations, the impact of these efforts have been undermined in numerous cases by court decisions. Canadian courts have been reluctant to impose tough prison sentences, often opting for fines, reflecting a widespread view that drugs are a "victimless" crime or simply a health issue, not a criminal or public safety concern. For example, one court dismissed charges against an individual arrested for snorting crack in a public restroom, calling it an invasion of his privacy. The Supreme Court has questioned the legality of police involvement in "sting"-type operations, undercover "buys" and other techniques now commonly used around the world in drug investigations, largely on privacy grounds, as a potential violation of the 1982 Canadian Charter of Rights and Freedoms. Canadian press reports indicate that only about 20% of those convicted of growing marijuana in Vancouver receive jail terms, and that British Columbia has the highest rate of acquittal rates in the nation. In January, a judge ruled that a convicted criminal, who had already been deported by the GOC, must be returned

to Canada at GOC expense to pursue his request for refugee status, despite having aided two Colombian drug traffickers to escape from jail.

Corruption. Canada holds its officials and law enforcement personnel to very high standards of conduct and has strong anti-corruption controls in place. Government personnel found to be engaged in malfeasance of any kind are removed and subject to prosecution.

Agreements and Treaties. Canada is a party to the 1988 UN Drug Convention. The U.S. and Canada have long-standing agreements on law enforcement cooperation, including extradition and mutual legal assistance treaties and an asset sharing agreement. In 1998, the RCMP became the first foreign law enforcement organization to be afforded access to the El Paso Intelligence Center (EPIC), the USG's tactical drug intelligence center.

The USG has concluded a Customs Mutual Assistance Agreement (CMAA) with the Government of Canada. Canada is also a party to the World Customs Organization's International Convention on Mutual Administrative Assistance for the Prevention, Investigation, and Repression of Customs Offenses (Nairobi Convention), Annex X on Assistance in Narcotics Cases.

Canada actively participates in international anti-drug fora including: the United Nations International Drug Control Program (UNDCP), the Inter-American Drug Abuse Control Commission of the Organization of American States (CICAD), the Dublin Group, the Financial Action Task Force, and other groups. Canada is an active participant in the UN negotiations on a global crime convention.

During 1998-9, Deputy Solicitor General Jean Fournier chaired the inter-governmental working group that negotiated the Multilateral Evaluation Mechanism (MEM), a hemispheric peer review system to evaluate each OAS Member State's anti-drug strategies and efforts. The MEM, which was mandated by the 1998 Summit of the Americas, was completed in Ottawa, Canada in August after 18 months of negotiations. It was approved by the OAS in October. The first MEM evaluations will be completed during 2000.

Minister of Foreign Affairs Axworthy organized a Foreign Ministers' Dialogue Group at the June OAS General Assembly to explore the drug issue from the perspective of "Human Security," including the impact of law enforcement or drug control activities on individuals and communities. Canada provided CAN\$650,000 to UNDCP for 1998. It also contributed CAN\$246,900 cash and CAN\$132,000 in kind directly to CICAD.

Cultivation and Production. Cannabis is grown throughout the country and is particularly abundant in the Provinces of Quebec and British Columbia. While the GOC does not produce a formal production estimate, Canadian law enforcement authorities estimate it at around 800 metric tons per year, with up to 60 percent of that smuggled into the United States. According to Canadian intelligence, marijuana cultivation in British Columbia is a sophisticated, one billion dollar-a-year growth industry. RCMP investigations suggest that high-THC content, hydroponically-grown marijuana is exchanged pound-for-pound with cocaine from the U.S. U.S.-produced marijuana is also imported into Canada, although the level of this activity is not known.

Domestic Programs. The GOC emphasizes demand reduction in its drug control strategy and, along with non-governmental organizations, offers extensive drug abuse prevention programs. The focus on prevention is considered a more cost-effective intervention. There are substantial regional differences in the patterns of drug abuse. For example, Vancouver suffered a wave of heroin overdose deaths while native American communities in the prairie provinces were plagued with propane and glue-sniffing and an injected combination of two legal drugs (over-the-counter Talwin and prescription Ritalin) known as "poor-man's heroin."

IV. U.S. Policy Initiatives and Programs

U.S. law enforcement agencies maintain broad, deep, and highly productive cooperation with their Canadian counterparts. In this context, the USG continues to press the following goals:

Work to strengthen legislation and regulatory practice in an effort to bring them more in line with international standards and practices;

Maintain and expand two-way intelligence sharing;

Maintain and expand professional exchanges and cooperative training activities between our law enforcement agencies; and,

Maintain joint cross-border investigations and operations.

Bilateral Cooperation. In addition to the extensive cooperation described elsewhere in this report, the U.S. and Canada established the Cross-Border Crime Forum in 1997 to regularize and institutionalize, at a high level, coordination on policy matters, projects and operations and to resolve any problems or impediments that arise in the relationship. The Forum met in June in Canada. It is actively working on establishing a mechanism to enhance intelligence sharing and develop priorities for joint targeting of criminal groups involved in drug

trafficking.

Other U.S.–Canada cooperative mechanisms include often-used extradition and mutual legal assistance (MLAT) treaties, and an information sharing agreement between the U.S. Drug Enforcement Administration (DEA) and the RCMP.

The Road Ahead. The United States looks forward to continuing its already excellent law enforcement cooperation with Canada at both the bilateral and international level. The GOC has taken important steps to enhance the capabilities of Canadian law enforcement to confront the growing threat of international organized crime, drug trafficking and money laundering in Canada: the organized crime focus of its new anti-drug strategy, strengthened laws and regulations, improved organization of police and security entities, and increased funding for law enforcement. However, greater support from other sectors, notably the judicial and financial sectors, would increase the impact of the GOC's law enforcement efforts significantly and create a stronger deterrent to crime.

COSTA RICA

I. Summary

Costa Rica is a transshipment country for the smuggling of cocaine from South America to the United States. The first six-part, comprehensive bilateral Maritime Counterdrug Cooperation Agreement in the region entered into force in November 1999. The legal reforms enacted in May 1998 continue to augment law enforcement's ability to address narcotics trafficking activity as well as strengthen controls within the banking sector against narcotics-related money laundering. Costa Rica is a party to the 1988 United Nations Drug Convention.

II. Status of Country

Costa Rica's location on the Central American isthmus makes it a transshipment country and a temporary storage area for cocaine being smuggled to the United States and Europe, although we do not have evidence of sufficient quantities to have a significant effect on the United States. This year has seen a marked decrease in cocaine seizures as compared to the previous two years (approximately 1.9 tons thus far in 1999 versus roughly seven tons in 1997 and eight tons in 1998). Faced with enhanced land interdiction capabilities by Costa Rican officials, drug trafficking organizations adapted, in part, by bypassing traditional overland routes. Some traffickers may be transporting drug shipments to points north via go-fast boats and aircraft. Costa Ricans are increasingly concerned over local consumption of illicit narcotics, particularly crack cocaine, and violent crimes associated with drug use and trafficking. The Government of Costa Rica's (GOCR) adoption of anti-drug measures, such as wiretap laws and the maritime accord, are an attempt to meet the serious threats posed by narcotics trafficking. However, resource limitations continue to constrain enforcement.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The U.S.–Costa Rica six-part bilateral Maritime Counterdrug Cooperation Agreement, signed on December 1, 1998, entered into force on November 19, 1999. The Administration of President Rodriguez also continued efforts to implement reforms that established within the banking sector, deposit reporting requirements and laws against laundering the proceeds of narcotics activities. The professionalization of executive branch police forces continued under the National Police Code enacted in 1994. All new enlisted recruits must undergo training at the Public Security Ministry's National Police School. Additionally, the GOCR enacted legislation in November to transform the Maritime Surveillance Service into a professional Coast Guard organization. The Criminal Procedure Code, enacted in January 1998, which strengthens prosecutorial responsibilities in investigations, saw its second year of implementation. The Judicial Investigative Police and the Public Prosecutor's Office are attempting to work more closely, as mandated in the new Code.

Accomplishments. Relations between USG law enforcement agencies and GOCR counternarcotics officials remain close and productive resulting in routine sharing of information and joint operations. The Judicial Investigative Police initiated an investigation of a group of Cuban–American traffickers using information provided from U.S. law enforcement agencies. The operation netted over one million U.S. dollars in currency in Costa Rica and led to additional seizures of cash and properties in the United States, bringing the total seizure value to more than two million dollars. The suspects in this case were arrested by GOCR authorities and are currently in custody awaiting trial.

Costa Rica hosted three successful joint operations under the auspices of USG regional engagement, known as "Central Skies." Personnel from the Public Security Ministry destroyed over 1.6 million marijuana plants in the mountainous regions of southern Costa Rica during the Central Skies deployment in June 1999. The Drug Department of the Public Health Ministry operates an effective program to license the import and distribution of precursor chemicals and prescription medicines.

Law Enforcement Efforts. The Judicial Investigative Police operate a small, but highly professional Narcotics Section that specializes in investigating international narcotics trafficking. The Narcotics Section uses the full

range of investigative techniques permitted under the country's progressive anti-drug statutes, including use of wiretaps, controlled deliveries, and undercover agents. Costa Rica's wiretap law has disrupted criminal organizations, making those organizations increasingly more guarded in their communications and more likely to use pay telephones and/or pre-paid cards and to switch cellular phones on a more frequent basis. The Drug Control Police of the Public Security Ministry investigate both domestic and international drug smuggling and distribution.

Costa Rica does not have an expeditious asset forfeiture procedure. Current law does not put the burden of proof on the defendant to prove the legitimate purchase of assets. The development of a comprehensive asset forfeiture legal procedure would facilitate law enforcement efforts and provide the GOCR with a much needed resource base.

Corruption. President Rodriguez has worked to deter corruption among public officials. USG law enforcement agencies consider most units within the public security forces to be full partners in counternarcotics investigations and operations with little or no fear of compromise to on-going cases.

Agreements and Treaties. The six-part bilateral Maritime Agreement is the most comprehensive agreement of its kind in the region. The agreement is designed to promote closer cooperation in the interdiction of maritime drug smuggling. The U.S. and Costa Rica signed at the same time a bilateral Memorandum of Understanding on maritime cooperation and assistance, under which the U.S. agreed to take steps toward securing equipment and technical and training assistance for the Costa Rican Coast Guard. The GOCR ratified a bilateral Stolen Vehicles Treaty with the United States in June 1999. The U.S. and Costa Rica extradition treaty has been in force since October 11, 1991. Although Costa Rican law does not permit the extradition of nationals, the treaty is actively used for the extradition of U.S. citizens. Costa Rica is a party to the 1988 UN Drug Convention and all other UN narcotics agreements. Costa Rica and the U.S. are also parties to bilateral drug information and intelligence sharing agreements dating from 1975 and 1976. Costa Rica is a member of the Caribbean Financial Action Task Force.

Cultivation and Production. Marijuana cultivation is relatively small-scale and sometimes intermixed with legitimate crops. There is no evidence of marijuana exportation from Costa Rica. Costa Rica does not produce other illicit drug crops.

Drug Flow and Transit. Overland shipments transiting Costa Rica are more likely to be transported in smaller vehicles as opposed to the more traditional tractor-trailers. Historically, overland shipments would proceed to San Jose for temporary storage prior to consolidation or re-packing for transit northward. Current information indicates that such shipments are being moved directly from the southern to the northern border as quickly as possible, from where they pass into Nicaragua. The Judicial Investigative Police have reported a dramatic shortage of cocaine in Costa Rica at the street level, as evidenced by a recent rise in prices. The price of crack cocaine has almost doubled and cocaine HCl has increased by 50 percent compared to 1998.

Domestic Programs (Demand Reduction). Costa Ricans are increasingly concerned over local consumption, especially of crack cocaine. Abuse appears highest in the Central Valley (including the major cities of San Jose, Alajuela, Cartago, and Heredia), the port cities of Limon and Puntarenas, the north near Barro del Colorado, and along the southern border. The National Drug Prevention Council (CENADRO) supervises demand reduction efforts throughout the country, primarily through well-developed educational programs for use in schools and community centers. CENADRO also serves as the custodian for assets seized from narcotics traffickers. The Costa Rican Drug Abuse Resistance Education (DARE) Foundation, modeled after its U.S. counterpart, conducts drug awareness programs at public and private schools, and is considered one of the top international DARE programs. President Rodriguez has called for greater international cooperation in the fight against illicit narcotics, including during the June 1998 United Nations General Assembly Special Session on Drugs. However, resource constraints continue to limit enforcement actions, as drug trafficking outstrips the GOCR's improved efforts.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. U.S. counternarcotics efforts in Costa Rica center on the goal of reducing significantly the transit of drugs through Costa Rica aimed for U.S. markets. Objectives include reducing the flow of illicit narcotics through Costa Rica, enhancing the effectiveness of the criminal justice system, reducing the use of Costa Rica as a money laundering center; and supporting efforts to locate and destroy marijuana fields. Specific objectives include implementation of the bilateral Maritime Agreement; enhancing interdiction of drug shipments in tractor-trailers through supporting facilities upgrades and training personnel at the northern border crossing of Penas Blancas; enhancing the ability of the Air Section of the Public Security Ministry to respond to illicit drug activities by providing equipment and technical training; improving law enforcement capacity through providing specialized training and equipment to the Judicial Investigation Police Narcotics Section, the Drug Control Police, Joint Counternarcotics Intelligence Center (CICAD), and the Customs Control Police; and increasing public awareness of dangers posed by drug use through assistance to Costa Rican demand reduction programs and initiatives.

A U.S. Customs (USCS) training team traveled to Costa Rica during January 1999 to provide on-the-job land border interdiction training for the Costa Rican drug control police and Customs officers. In addition, two USCS experts conducted an assessment of the Penas Blancas port of entry along the Costa Rica/Nicaragua border. The experts provided the U.S. Embassy with a model and recommendations for infrastructure improvements to the port facilities and enhanced border control.

Costa Rica is one of seven countries participating in the U.S. Customs Americas Counter Smuggling Initiative (ACSI). This initiative seeks to assist GOCR law enforcement agencies to improve their counternarcotics effectiveness and develop industry partnerships with the private sector. U.S. Customs ACSI teams were deployed to Costa Rica on several occasions during 1999 for periods of 2-4 weeks.

Bilateral Cooperation. The USG sponsored numerous technical assistance and training projects in which Costa Rican officials participated during 1999, including GOCR participation in regional toxicology and demand reduction seminars; a regional auto theft seminar; and a training seminar on precursor chemicals. An 82-foot U.S. Coast Guard cutter was transferred to Costa Rica in December. The USCG completed a needs assessment and site survey of the Costa Rican Coast Guard and provided formal recommendations to the GOCR on actions required to bring its fleet to a sustainable, fully operational status. The site survey was followed by deployment of USCG Mobile Training Teams to train Costa Rican Coast Guard personnel in maintenance, logistics, repairs and other essentials as part of the cutter transfer package. A USCG liaison position was established to provide training and support. In addition to the Central Skies joint operations previously mentioned, DOD funded a two-week deployment of the 9th Special Operations squadron for joint exercises with the Air Service and a seven week counternarcotics training support deployment with members of Costa Rica's Interagency Counterdrug Task Force.

The Road Ahead. USG-GOCR cooperation will intensify as we move to implement the Maritime Counterdrug Agreement and increase Costa Rica's ability to engage in the contemplated joint operations. The United States seeks to improve GOCR capabilities to curtail the use of Costa Rica as a narcotics transshipment and temporary storage area, discourage drug consumption, and fight money laundering. The GOCR needs to develop an effective asset forfeiture procedure to facilitate **Law Enforcement Efforts**. The USG will cooperate with the GOCR in its efforts to professionalize its public security forces and implement the strict controls enacted against money laundering in 1998.

EL SALVADOR

I. Summary

El Salvador is a transit country for narcotics, mainly cocaine, moving to the U.S. However, there is no evidence that the drugs coming into the U.S. from El Salvador are of sufficient quantity to have a significant effect on the U.S. Local consumption is on the rise, and law enforcement agencies have noted a significant increase in the production and sale of low-cost crack cocaine. Since its inauguration in June, the administration of President Francisco Flores has taken significant steps toward coordinating counternarcotics policy, with the creation of ministerial-level working groups directed against drug trafficking and drug consumption and the designation of a central counternarcotics coordinator. The professionalism of the Anti-Narcotics Division (DAN) of the National Civilian Police (PNC) continues. The new PNC director has named a new DAN chief, and has committed himself to increasing the DAN's budget and staffing. El Salvador produces limited amounts of cannabis for domestic consumption. In response to the devastation of Hurricane Mitch and the resultant challenges to the institutional capabilities of the Salvadoran law enforcement system, the United States has designed a far-reaching assistance program directed, both nationally and regionally, at the fight against corruption, the control of the transit of illegal contraband, and the erection of barriers to alien smuggling. El Salvador's 1998 money laundering law went into effect in June 1999, and the Financial Investigation Unit (FIU) was created on schedule in November. The U.S. will continue to assist in the development of the FIU. El Salvador is a party to the 1988 UN Drug Convention.

II. Status of Country

Cocaine seizures in El Salvador are far short of those in neighboring countries. The quantity of illegal narcotics seized in El Salvador likely does not reflect the true level of trafficking. The fact that El Salvador does not have a Caribbean coast, and evidence that some drug trafficking routes in the Eastern Pacific by-pass El Salvador indicated that there may be a lower level of overall trafficking through the country. On the other hand, multi-ton cocaine seizures from container freight crossing the Salvadoran border into Guatemala indicate that drugs are transiting Salvadoran territory along the Pan American highway. It is also likely that illegal narcotics transit the seaport of Acajutla in route to ports in Guatemala and Mexico, where they are staged for further transport to the United States. The installation of a new air traffic control radar at the Comalapa International Airport provides a powerful new tool for monitoring unregistered air traffic through Salvadoran air space. This, combined with increased attention to the region's air interdiction needs should have an effect on illegal air shipments through the Salvadoran air space. The implementation, with U.S. assistance, of El Salvador's 1998 money laundering law should deal a sharp blow to the nascent problem of money laundering. An interagency

group has been formed to address the problem of precursor chemicals and Salvadoran law enforcement agents have received U.S. training on the control of these materials.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The new administration has created two ministerial-level commissions to coordinate El Salvador's counternarcotics activities. The Anti-Narcotics Trafficking Commission will focus on the problem of drug trafficking, and the Anti-Drug Commission will focus on demand reduction within the country. The creation of the new position of executive director of the Narcotics Trafficking Commission will provide a single point of contact on issues relating to the transit of illicit drugs through the country. The new director of the National Civilian Police (PNC) has committed El Salvador to significantly increase drug seizures over the coming year. In order to meet this objective, he has stated his intention to increase both the budget and the staffing of the DAN. The Administration has approved the use of data from the air traffic control radar at Comalapa International Airport for law enforcement purposes.

Accomplishments. The implementation of the 1998 law against money laundering is underway, and a Financial Investigation Unit has been established. The U.S. will continue to assist the Government of El Salvador (GOES) in the development and training of the FIU. The creation of new counternarcotics policy bodies (the President's anti-narcotics trafficking and anti-drug commissions) promises a new focus in the fight against illegal drugs.

Law Enforcement Efforts. Seizures of 23.8 kilograms of cocaine during the first ten months of 1999 represent a continuing drop in the amount of cocaine seized, compared to the 1998 figure of 42 kilograms. Cannabis seizures in 1999 amounted to 280.8 kilograms, a slight increase from the 1998 figures when 262.4 kilograms of Cannabis were seized. This situation is likely the continuing result of the GOES's interpretation of the new criminal codes to prohibit undercover police operations. The police have only limited resources to engage in maritime interdiction operations, and have only a few aircraft which can engage in the eradication of local cannabis fields. The GOES is investigating the use of military air and naval assets to support law enforcement efforts to interdict illicit air and maritime drug traffic.

Corruption. Cases of corruption have arisen in the criminal justice system. However, there is no evidence that official corruption is deep or widespread. Under the U.S. assistance program provided in the aftermath of Hurricane Mitch, funds will go toward the development of the internal affairs unit of the PNC Inspector General's Office; an Office of Crimes Against the State in the Attorney General's Office; and an independent Office of Government Ethics.

Agreements and Treaties. The implementation of the 1998 money laundering law follows up on El Salvador's ratification of the Central American Convention against Money Laundering. Law enforcement officials from the GOES and the U.S. have discussed the need to develop a financial information exchange agreement and other bilateral instruments used in the fight against narcotics trafficking and organized crime. The GOES and the various political parties have taken steps toward developing a new constitutional amendment permitting the extradition of Salvadoran nationals. If passed with broad support, this amendment could be ratified as early as the summer of 2000. Once this step is taken, the GOES has expressed a willingness to negotiate a modern extradition treaty to replace a bilateral agreement dating from 1911. A bilateral treaty on stolen vehicles is nearing approval. The GOES is a party to the 1988 UN Drug Convention.

Drug Flow/Transit. While, local consumption continues to grow in El Salvador, and crack is increasingly in evidence on the streets of San Salvador, U.S. law enforcement authorities believe most of the illegal narcotics which enter El Salvador are destined for the U.S. However, there is no evidence that the amount entering the U.S. from El Salvador is sufficient to have a significant effect on the U.S. The bulk of the narcotics traffic appears to move by land, along the Pan American highway. Small boats may be in use for regional trafficking and large shipments likely transit the seaport of Acajutla on the way to ports in Guatemala and Mexico. Preliminary data indicates that small planes are conducting unregistered flights through Salvadoran airspace to the Salvadoran Pacific coast and onward to the Guatemalan/Mexican border area. Some of this clandestine air traffic may be related to narcotics trafficking.

Domestic Programs/Demand Reduction: The President's Anti-Drug Commission is dedicated to demand reduction in El Salvador. The executive director of El Salvador's premier substance abuse institution, "FUNDASALVA", is a member both of the anti-drug commission and the National Public Security Council, a high-level body charged with overseeing the public security function as a whole.

The Drug Abuse Resistance Education (DARE) program is now in its fourth year and has been given new emphasis by the new director of the PNC.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The goals of U.S. counternarcotics assistance efforts are an effective and self-sufficient DAN and a criminal justice apparatus capable of deterring the flow of illegal narcotics through the country.

Bilateral Cooperation. FY 1999 State Department funding provided under the terms of the bilateral Letter of Agreement (LOA) included \$123,000 for general counternarcotics assistance. These funds provided equipment for counternarcotics operations, training in El Salvador and elsewhere, maintenance and replacement of DAN equipment, and support for the Joint Information Coordinating Center (JICC). Another component of FY 1999 funding provided \$234,000 for support of El Salvador's money laundering law by providing expert assistance in the design and establishment of the Financial Investigations Unit, training for those implementing the law and purchase of equipment. Funds provided to El Salvador under the Hurricane Mitch supplemental include \$950,000 for support of anti-corruption institutions. These are the PNC Inspector General's Internal Affairs Unit, the Attorney General's Office of Crimes Against the State (directed against official corruption), and the independent Office of Government Ethics. Portions of regional projects funded under the Hurricane Mitch supplemental will go toward El Salvador's participation in a regional commercial freight tracking system and toward efforts against alien smuggling.

Road Ahead. El Salvador's new administration has committed itself to making important strides in the war against drugs. The U.S. assistance program is dedicated to the development of a self-sufficient and effective PNC. The new institutional mechanisms which are being put into place will help to focus El Salvador's counternarcotics efforts, aiding considerably our efforts to interdict illegal drugs enroute to the U.S. Assistance in the establishment of El Salvador's Financial Investigations Unit, programmed for the coming year, is designed to have a major impact on criminals attempting to launder the proceeds of their illegal activities in El Salvador. Hurricane Mitch supplemental funding will help significantly in restoring El Salvador's institutional capacity to combat corruption and transnational crime. The anti-corruption elements of this assistance have been welcomed in El Salvador as an important contribution to the continued development and strengthening of democratic institutions. In keeping with the U.S. goals to combat transnational crime, the USG has worked to develop a consensus across El Salvador's political spectrum in favor of the principle of extradition of Salvadoran criminals. As a result, there is a growing support for a new constitutional amendment on **Extradition.** On this basis, the USG and GOES would be in a position to negotiate a new, modern extradition treaty to replace the existing 1911 instrument.

GUATEMALA

I. Summary

Guatemala is a major drug transit country for South American cocaine en route to Mexico, the United States and Europe. Cocaine is transshipped through Guatemala by air, road, and in seagoing containers. U.S. Government (USG) law enforcement agencies worked with the Government of Guatemala (GOG) to increase law enforcement capabilities to counter the growing volume of drugs transiting the country, and in 1999, cooperated in the seizure of more than 10 metric tons of cocaine. While minimal amounts of opium poppy continue to be grown in Guatemala, air and ground eradication programs reduced gross poppy cultivation to less than 5 hectares in 1999. Professionalization of the National Civilian Police Department Anti-Narcotics Operations section (DOAN), the main Guatemalan counternarcotics force, is prime objective of the Government of Guatemala. The GOG is working, with USG assistance, to develop effective, integrated law enforcement and counternarcotics training programs to improve the quality of this small elite force and to enhance interdiction and eradication operations. The GOG supports an active demand reduction program for Guatemala. The GOG has been a leader in the region supporting regional cooperation, hosting the first regional demand reduction conference in October and a Ministerial-level, counternarcotics meeting in March 1999. The GOG also leads the region with its anti-alien smuggling legislation, precursor chemicals program and bilateral stolen vehicle treaty.

Guatemala is a party to the 1988 UN Drug Convention, but has not yet passed the necessary legislation to implement all of its provisions. The GOG has yet to seriously consider enacting money-laundering legislation and has not responded to USG overtures for a full six-part maritime counternarcotics agreement.

II. Status of Country

Guatemala is the preferred Central American location for storage and consolidation for onward shipment of cocaine to the United States and Europe. Current USG interagency flow estimates indicate that 300 to 400 metric tons of cocaine are shipped through the Central American corridor to Mexico and the United States annually. Guatemalan law enforcement agencies interdicted over 10 metric tons of cocaine in 1999.

The GOG increased the Department of Anti-Narcotics Operations (DOAN) of the National Civilian Police (PNC) staffing to 600 personnel and has various specialized counternarcotics units that cooperate with USG law enforcement agencies.

The Public Ministry's special narcotics prosecutor's office has increased its number of cases tried and convicted. Unfortunately, a mixture of corruption and ineptness has limited its effectiveness. An intimidated and corrupt judiciary adds significantly to the GOG's lack of success in prosecuting and convicting major drug traffickers. The Attorney General has begun reorganizing the narcotics prosecutors unit, eliminating ineffective

or suspected corrupt prosecutors.

The GOG enthusiastically participates in USG Central Skies and Regional Aerial Reconnaissance and Eradication (RARE) deployments, which have resulted in several major seizures.

Guatemala produces minimal quantities of opium poppy, and some marijuana, for local consumption. A recently completed aerial reconnaissance confirmed that the opium crop declined in former growing areas. Diversion of precursor chemicals is also a problem in Guatemala. Though the GOG recently passed legislation regulating 46 chemicals, it still has not passed implementing regulations nor fully staffed the newly formed chemical control unit.

The GOG has an aggressive demand reduction program aimed at a growing substance abuse problem. As part of its master plan, Guatemala 's National Drug Coordinator, SECCATID, held several seminars, and conducted several surveys of estimated drug abuse. Drug traffickers often pay for transportation and protection services with cocaine, some of which is sold on the local market. This, coupled with the growing crack cocaine problem, portends a potentially devastating Guatemalan consumption problem. This year, the GOG co-hosted the first ever Central American demand reduction conference to discuss regional strategies and strengthen coordination of national and regional demand reduction programs.

III. Country Actions Against Drugs in 1999

Policy Initiatives. In July 1999, Guatemala signed Letters of Agreement on counternarcotics cooperation with the USG, in which the GOG committed to increase funding and staffing for public security functions, and to continue with critical institutional reforms including narcotics control. While the GOG met its commitment to increase DOAN staffing to 600, the original timetable was delayed by almost a year to accommodate staffing requirements in rural areas as mandated by the peace accords. The MOG has committed to continue to increase DOAN staffing, and will participate in special USG training programs to integrate new recruits.

The United States and Guatemala initiated discussions on a maritime counter-drug agreement in 1997, but the draft agreement met with resistance from various sectors based on traditional sovereignty grounds.

The GOG worked, with USG assistance, to equip and staff a new DOAN headquarters facility, including a new planning, command and control center. With the planned addition of a direct communications link to USG counternarcotics information tracking services in early 2000 and a scheduled operations and planning course, the DOAN staff should be able to plan and execute more effective counternarcotics operations. The GOG also inaugurated new offices in the Public Ministry dedicated to pursuing stolen vehicles and organized crime cases. These units are now fully functional and receive logistical and training assistance from the USG.

A full-time U.S. Advisor works closely with the Guatemalan authorities, including officers of the DOAN, to improve enforcement training and technical assistance in support of the Port Security Programs. A U.S. Customs training team traveled to Guatemala during January 1999 to conduct a post-funded "Seized Property " course for DOAN officials.

Accomplishments. In 1999, PNC and DOAN agents seized over 10.0 metric tons of cocaine. The 1999 seizures included the interception of major shipments delivered via land, sea, and air, including the largest seizure ever made by Guatemalan authorities (2.556 metric tons). Agents also seized over 51 kilos of heroin and three kilos of crack cocaine. The DOAN discovered and dismantled two repackaging factories and seven crack laboratories in 1999. The GOG also took major steps in passing a new asset seizure law and implementing recently passed legislation dealing with precursor chemicals. The Port Security Program was expanded to Puerto Quetzal and La Aurora International airport in Guatemala City and has succeeded in uncovering at least one major smuggling ring and interdicting over 4.9 metric tons of cocaine in the past 18 months. The GOG has committed resources to prepare the DOAN to receive direct, real-time information on narcotics traffickers movements from USG sources. In CY 2000, GOG increases in DOAN staffing will establish new units in the critical land border ports of entry.

Illicit Cultivation. Though Guatemala was a significant producer of opium poppy in the late 80's and early 90's, aerial eradication operations effectively reduced the crop to a few isolated patches of less than 5 hectares in 1999. Marijuana cultivation for local consumption, however, is still a problem in northern jungle areas of the country. Although the GOG has aggressively pursued its eradication program, widespread deforestation in the Peten department of northern Guatemala has left cleared areas of the former jungle available for illicit cultivation. In 1999 over 46 hectares were located and destroyed. USG RARE deployments have been instrumental in reducing total production in traditional and new growing areas.

Production. Narcotics are not normally produced in Guatemala, apart from marijuana, grown for local consumption. The GOG does not encourage or facilitate illicit production or distribution of narcotics or psychotropic substances. The GOG has been fully cooperative in seeking out and eliminating illicit narcotics production whenever and wherever possible. However, its strategic location, has made Guatemala a major redistributing and temporary storage center for South American drugs bound for Mexico and the U.S.

Distribution. The GOG fully cooperates with all USG law enforcement agencies in interdiction operations. On March 16, 1999, during the "Mayan Jaguar" joint U.S./Guatemalan law enforcement operation, the DOAN used USG-provided information to seize 2.556 metric tons of cocaine hidden in a false bottom floor of one 45' and two 40' containers en route from El Salvador along the Pan American highway. This was the largest single land seizure of cocaine ever in Central America. Guatemalan law enforcement agencies also seized several large loads of cocaine with the assistance of USG-provided aircraft track information. In a single operation, the DOAN intercepted boats carrying more than 42 kilograms of heroin. This year GOG law enforcement operations interdicted over 10 metric tons of cocaine and 51.7 kilograms of heroin.

Sale, Transport and Financing. The Pan-American Highway is the major conduit of illegal drugs traveling north to Mexico and the U.S. In an effort to disrupt and interdict shipments, there has been increased emphasis on port, border crossing and mobile checkpoint operations. On March 17, 1999, one day after finishing a USG sponsored training program, a DOAN K9 team at Puente Melendrez, on the Mexico/Guatemala border, found .214 metric tons of cocaine hidden behind a false wall of a 45' cargo container. An additional 3.527 metric tons of cocaine were seized during inspections of vehicles and containers during routine border checkpoint operations along highway crossing points and in the ports. Drugs are also being transported to Europe through Guatemalan commercial sea-freight connections. Earlier this year Italian police seized 1.202 metric tons of cocaine in a shipment of frozen fruit from Guatemala, one of the largest European seizures of cocaine tied to Guatemala.

Asset Seizures. The GOG passed reforms to drug enforcement legislation in November 1998 to allow the use of seized assets by the PNC. The DOAN is now using seized vehicles to support their own operational requirements. In May 1999, the Guatemalan congress rejected GOG efforts to reform the constitution to permit the police to use monies seized in narcotics cases. The use of seized assets is conditioned on factors of the case and ruling by a judge pending trial.

Extradition. The GOG extradited a Guatemalan fugitive to the U.S. in February 1999, the first extradition of a Guatemalan national since 1995. Over the years, the U.S. has requested the extradition of a number of other fugitives, but in most cases, arrest warrants have not been executed and the fugitives remain at large. Despite the lack of success with formal extraditions, the GOG will [does?] expel/deport U. S. fugitives on the basis of violations of Guatemalan immigration laws. One such deportation involved a U.S. citizen who was returned to the U.S. in September 1999 to stand trial on federal drug trafficking charges after the decision to extradite him was overturned by a Guatemalan court on a technicality.

Mutual Legal Assistance. The USG does not have a mutual legal assistance treaty with Guatemala.

Law Enforcement and Transit Cooperation. GOG representatives work enthusiastically with USG personnel and organizations to curtail the flow of drugs through Guatemala. Several USG law enforcement agencies have active collaborative relationships with Guatemalan law enforcement authorities. Guatemala has been in the forefront exchanging information and maintaining links with Joint Intelligence Coordination Centers (JICC) throughout Central America and with the El Paso Intelligence Center (EPIC).

Especially noteworthy is the Port Security Program (PSP), a self-financed program that fosters cooperation between the GOG, the USG and the private shipping companies that operate in Guatemala. The program is funded by a \$.09 fee per exported/imported ton levied on shipping companies and used to finance the program's day-to-day operations. In 1999, the PSP manager position became fully funded by the inspection fees paid by importer/exporters. The USG provides technical, logistical and training assistance. Guatemalan national and private ports provide buildings for container inspection and heavy machinery to move containers. In 1999, the PSP was expanded to cover La Aurora International Airport as well as Puerto Quetzal, a major port on the Pacific coast of Guatemala. The PSP now covers all major sea and airports in Guatemala. In the past 18 months PSP DOAN and Customs agents have seized over 4.9 metric tons of cocaine, a half million dollars in U.S. currency and 4 vehicles that were stolen in the U.S.

Demand Reduction. The GOG is firmly opposed to illicit drugs and continues to increase support for drug education and rehabilitation programs. In 1999, SECCATID implemented a variety of projects as part of their comprehensive demand reduction strategy. Through the National Program of Preventive Education (PRONEPI), SECCATID trained 337 instructors, using six training locations. One of the most significant projects was the drug education training-seminar provided to parents. During this project, SECCATID was able to train 276 parents in four separate seminars throughout the country. SECCATID also held prevention programs in the border areas where drug traffickers are most active and abuse is growing at alarming rates. This year, SECCATID developed and distributed drug educational materials, including pamphlets, and bookmarks with anti-drug messages for distribution in schools and fairs. SECCATID also began an aggressive public relations campaign, including radio announcements advertising a national hot line and a countrywide drug awareness campaign.

The GOG has also played a leading role in regional demand reduction efforts. In October, the GOG co-sponsored the first-ever Central American demand reduction conference. The three-day conference brought

together leading anti-narcotics officials from El Salvador, Honduras, Nicaragua, Belize, Panama, Costa Rica, Guatemala and the United States to discuss regional strategies, exchange experiences and develop an awareness of the importance of research and epidemiological studies. Most importantly, the conference strengthened coordination of national and regional narcotics demand reduction programs and highlighted the need to exchange information, share strategies and develop a regional approach to narcotics demand reduction.

Law Enforcement Efforts. The GOG continues to modernize the PNC. This year efforts centered on developing and installing new software to modernize case tracking and police reporting, updating the DOAN intelligence functions and establishing a counternarcotics command and control center. The GOG has also expanded the port security program to cover La Aurora International airport in Guatemala City and Puerto Quetzal. In addition, the GOG has worked to establish new units to fight organized crime and corruption, and reorganize and purge the narcotics prosecutors unit of inept and suspected corrupt prosecutors. The GOG is placing special emphasis on developing evidence control procedures for the PNC, including the DOAN, and forming a task force to address sophisticated criminal enterprises dedicated to drug-trafficking and related crimes.

Corruption. Ineffectiveness, intimidation and corruption in the Guatemalan justice system continue to be serious concerns. GOG efforts to fight corruption have been generally ineffective and have led to disillusionment with the current government's commitment to solving this problem. Prosecutors continued to mishandle cases, seeing many cases summarily dismissed by the courts. Some judges appear to be colluding with the traffickers. The recent release by the courts of two Colombian nationals who were caught with an aircraft loaded with cocaine at the Guatemala City International Airport has led the Supreme Court of Justice to initiate an investigation on alleged collusion by the judges that approved the release.

The Public Ministry (MP) is in the final stages of developing an anti-corruption unit with government-wide purview. Once established, the unit will become an integral element of the Public Ministry's mandate to seek out and prosecute official corruption in all elements of the Guatemalan government. Although the initial focus of the unit may be the judiciary and the public prosecutors, the unit is expected to be very active investigating Customs and government port operations.

Agreements and Treaties. Guatemala is a party to the 1961 UN Single Convention and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, the 1988 UN Drug Convention, the Central American Commission for the Eradication of Production, Traffic, Consumption and Illicit Use of Psychotropic Drugs and Substances, and the Central American Treaty on Joint Legal Assistance for Penal Issues. Guatemala has also signed bilateral counternarcotics agreements, including information exchanges with Venezuela (1991), Mexico (1991), and Ecuador (1992). While most GOG law enforcement efforts have been fully consistent with the goals and objectives of the 1988 UN Drug Convention, some aspects of the Convention, such as the provisions on extradition and money laundering, have not been codified into law and regulations. U.S.-Guatemalan extraditions continue under the 1903 extradition treaty and 1940 supplementary extradition convention.

IV. The Road Ahead

Cocaine transshipment through Guatemala is expected to continue to increase, with no letup projected in the foreseeable future. Air transshipment of cocaine increased in 1999. Although the Port Security Program has had some success, the use of commercial containers, both on land and through seaports, continues to offer the best opportunity for smuggling drugs through Guatemala. One container is suspected of having made a round trip to and from the U.S. before being intercepted with drugs in Guatemala. A USG regional project, to begin in 2000, will begin tracking commercial freight to counter this threat, providing training and facilities enhancement assistance to participating Central American governments. USG efforts will continue to focus on developing an effective interdiction program, a more professional DOAN with effective intelligence capabilities, and continued training and support for the narcotics prosecutors and members of the judicial system. The GOG anti-narcotics forces will continue to develop qualitatively and quantitatively, with more effective investigative and law enforcement units to control transshipment, expanded case management and tracking, increased data collection and analysis capability, and greater regional cooperation. The USG will continue to press the GOG to pass specific legislation to control money laundering before it becomes a threat to the stability of Guatemala's fragile financial sector. While little progress has been made to date with SECCATID-drafted money laundering legislation, this is expected to be a priority for the new government in 2000.

Some opium poppy cultivation continues in the remote highlands and may increase due to the GOG's lack of aerial reconnaissance and eradication capabilities. Marijuana cultivation is also expected to continue at low levels. USG Regional Aerial Reconnaissance and Eradication deployments will continue to provide support for GOG efforts to eradicate this threat.

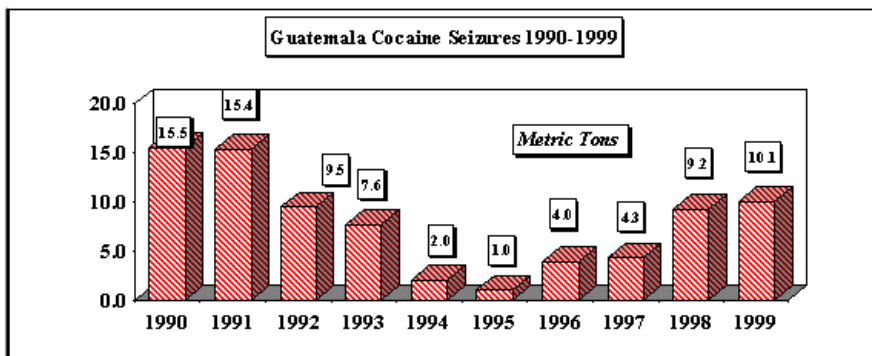
The GOG plans to increase public education and demand reduction efforts, bringing in more private and public funding and expanding regional cooperation. Cocaine abuse is expected to grow as traffickers continue to trade a percentage of cocaine shipments for transportation and security services. This same bartered cocaine is increasingly sold on the local market in the form of crack cocaine. This domestic cocaine trafficking and use

will increase drug-related domestic crime, further straining the fledgling, resource-poor PNC.

Guatemala Statistics

(1991-1999)

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Opium									
Potential Harvest (ha)	0	10	7	0	39	50	438	730	1,145
Eradication (ha)	1	5	3	12	86	150	426	470	576
Cultivation (ha)	1	15	10	12	125	200	864	1,200	1,721
Potential Yield (mt)	0.00	0.20	0.10	0.00	0.40	0.50	4	7.0	11.5
Cannabis									
Potential Harvest (ha)	0	82	100	41	50	100	unk	80	55
Eradication (ha)	52	58	50	213	250	100	200	40	66
Cultivation (ha)	52	140	150	254	300	200	unk	120	121
Potential Yield (mt)	0	10	12	5	6	12		20	55
Seizures									
Cocaine (mt)	10.1	9.2	4.3	4.0	1.0	2.0	7.6	9.5	15.4
Cannabis (mt)	0.65	0.42	0.34	16.40	0.50	1.76	2.1	0.7	1.3
Heroin (kg)	52.00	3.65	16.20	7.80	0.00	0.00	0.00	0.001	
Opium (kg)	0.0	0.0	0.0	0.0	0.0	0.0	2.0		
Arrests	472	928	188	189					



HONDURAS

I. Summary

Honduras is a transit country for drugs, primarily cocaine, moving toward Mexico and the U.S. from South America. We do not have evidence that drugs coming to the U.S. from Honduras are coming in sufficient quantities to have a significant effect on the U.S. The Government of Honduras (GOH) concluded a bilateral counternarcotics accord with Spain in 1999 to help address drug-related problems and is negotiating a maritime counternarcotics agreement with the U.S. The National Counternarcotics Council drafted a national drug control plan that is pending approval. The Honduran military was given a counternarcotics role under a constitutional amendment that went into effect in January, 1999 and military forces participated in several counternarcotics exercises. Honduran counternarcotics capabilities, however, remain weak, particularly as the government and economy struggle to recuperate from the devastating effects of Hurricane Mitch in late 1998. The judicial system is under severe strain due to corrupt, inefficient and overworked judges and lack of training and equipment. The government approved a new criminal procedures code in December, 1999 and has taken steps to root out corrupt judges, prosecutors and law enforcement agents, but much more remains to be accomplished. Honduras is a party to the 1988 UN Drug Convention.

II. Status of Country

Honduras is not a significant drug-producing country, but illicit drugs are trafficked through it via air, maritime and land routes. Honduran ports serve numerous U.S. cities. There are direct air connections to the U.S., and the Pan American Highway, the major land route from Panama to Mexico and the U.S., passes through Honduras. Drug smuggling rings frequently use light aircraft and "go-fast" vessels to traffic drugs through Honduran airspace and waters. The Honduran police and Navy have limited maritime assets to counteract narcotics trafficking. Money laundering in Honduras is believed to be increasing.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The National Congress passed a constitutional amendment establishing a counternarcotics mission for the military that took effect in January. The government gave high priority to the conclusion of a maritime counternarcotics agreement with the U.S., which was in the final stages of negotiation at the end of 1999, and approved, for the first time, a U.S. Coast Guard counternarcotics patrol within Honduran waters. The government's National Counternarcotics Council oversaw the drafting of a counternarcotics master plan, now awaiting final approval. The government's new ministry of security coordinated national preventive and investigative police activities. An effort is underway to draft legislation that would broaden the definition of money laundering to include proceeds from non-drug related criminal activity.

Under the 1998 Counternarcotics Drawdown Order, U.S. Customs was directed to provide narcotics detector dogs and training to nine Honduran canine officers. In anticipation of the training, a U.S. Customs training officer traveled to Honduras in May 1999 to conduct an assessment of the Honduran canine training program and to brief U.S. embassy officials on the requirements to support and maintain an effective program. Also in May 1999, a U.S. Customs canine team (dog/handler) traveled to Honduras on a DEA-funded operation to assist with special road block searches near land border crossings. In September 1999, a U.S. Customs training team traveled to Honduras to conduct land border narcotics interdiction training for 35 Honduran Customs officers.

Accomplishments. Cocaine seizures stood at .714 metric tons as of December 1, 1999, compared with 1.875 metric tons seized in 1998. The Honduran merchant marine is preparing a 24-hour operations center that can respond rapidly to requests for boarding authority and other counternarcotics coordination needs. The National Police-run Joint Information Coordination Center (JICC) continued to provide useful data on narcotics trafficking activities. The Public (Justice) Ministry's counternarcotics directorate took delivery of two U.S.-

provided 36-foot boats to improve its maritime capabilities on the north coast.

Law Enforcement Efforts. Counternarcotics operations are an increasingly high priority for the government, but law enforcement agencies continue to suffer from lack of resources and training. Recent arrests of Honduran Police officers for narcotics-related crime suggest some penetration by narcotics traffickers. This corruption within the ranks of the Honduran police is evidenced by the arrest on February 4, 1999, of Honduran Army Lieutenant Colonel Wilfredo Layva-Cabrera and four other Hondurans who were associates of a recently deceased major Honduran drug trafficker. The GOH arrested 1,210 suspects for narcotics offenses in 1999, compared with 922 detained in 1998. In January, law enforcement personnel arrested 17 Mexican nationals found to be carrying 241 kilos of cocaine concealed in 3 vehicles that they attempted to bring into Honduras from Nicaragua. In September, GOH authorities seized a helicopter, which landed in Honduras en route from Nicaragua to Guatemala, with 425 kilos of cocaine and arrested two persons. They also destroyed a large marijuana plantation near the border with Nicaragua in November. U.S. law enforcement agencies are preparing to augment the Honduran Canine Program.

Corruption. Corruption is a major problem in all aspects of national life. In 1999 the government removed or suspended, as in previous years, dozens of judges, police officials and other public employees suspected of corrupt practices, including participation in the illicit narcotics trade.

Agreements and Treaties. The GOH is an active member of the Inter-American Drug Abuse Control Commission (CICAD). Honduras hosts the office of the newly created Regional Center for (counternarcotics) Development and Judicial Cooperation in Central America, which is also headed by a Honduran. The Center, which aims to harmonize counternarcotics legislation, is funded by the UN Development Program, CICAD, the Central American governments and Mexico. Honduras has counternarcotics agreements with the U.S., Belize, Columbia, Jamaica, Mexico, and Venezuela, and signed a new agreement with Spain in November 1999. A 1909 extradition treaty between the U.S. and Honduras is in force, however, the 1982 Honduran Constitution prohibits extradition of Honduran nationals. The U.S. reached agreement with the government in January 1999 to share the proceeds from the sale of a Honduran-flagged narcotics trafficker vessel seized after the discovery of more than 2.25 metric tons of cocaine aboard. The U.S. continues to discuss a stolen vehicle treaty with the GOH. A U.S. Coast Guard cutter conducted the first joint maritime patrol within Honduran waters in September 1999 under an interim agreement. In late 1999, considerable progress was made on the negotiation of a comprehensive U.S.-Honduras maritime counternarcotics agreement.

Cultivation/Production. Marijuana is the only illegal drug known to be cultivated in Honduras. Although the GOH employs aerial photography, it has no sophisticated technology for determining crop size. Aerial herbicides are not used, as illegal crops are cultivated alongside food sources.

Drug Flow/Transit. Most drugs entering Honduras merely transit the country or its territorial waters and airspace. U.S. law enforcement authorities believe that the volume of illegal transits rose during 1999, as traffickers took advantage of the GOH's preoccupation with reconstruction efforts following the devastation of Hurricane Mitch. We do not have evidence, however, that the volume of drugs transiting Honduras to the U.S. is sufficient in quantity to have a significant effect on the U.S. Non-commercial maritime flows via "go fast" boats off the north coast are of particular concern, as well as overland routes through established border crossings with Nicaragua, El Salvador and Guatemala. It is also believed that narcotics smuggling continues via non-commercial aircraft over-flights and airdrops.

Domestic Programs/Demand Reduction. The abuse of alcohol and inhalants remain the most serious substance abuse problems in the country, followed by marijuana and cocaine. Crack cocaine use is increasing, particularly on the northern coast and in urban centers. As the Honduran Government's demand reduction entity, the Institute for the Prevention of Alcoholism and Drug Addiction conducts prevention programs throughout the country. As chair of the Honduran Interinstitutional Coordination Body for Addiction, it also oversees programs operated by the ministries of Public Health and Education, as well as non-governmental organizations. Some of these programs include workshops and training seminars for parents, teachers and community leaders, and the development of alternative activities for at-risk populations. In 1999, the Honduran National Preventive Police expanded the coverage of its DARE program to five departments outside of Tegucigalpa, reaching a total of 5480 secondary school children. The October 1999 Central American Demand Reduction Conference in Guatemala City was attended by Honduran officials. The UN Drug Control Program (UNDCP) has established a three-year project, started in January 1999, to train Honduran demand reduction personnel.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. U.S. counternarcotics and anti-corruption efforts increased sharply in Central America in 1999, in anticipation of increased vulnerability due to the devastation caused in October 1998 by Hurricane Mitch. State Department funds for counternarcotics projects more than doubled, to \$565,000 and the USG donated equipment including ten vehicles and three boats valued at about \$2 million to law enforcement agencies at mid-year. A Congressional emergency supplemental appropriation funded several anti-corruption

projects that are being carried out with such key Honduran agencies as the Office of Administrative Probity, the Criminal Investigation Directorate, and the Public Ministry. U.S. Southern Command sponsored two conferences to establish a regional approach to countering illicit drug trafficking flights throughout Central America and the U.S. Customs service assumed a higher profile by providing counternarcotics and anti-corruption seminars. The USG is also pursuing a bilateral maritime counternarcotics accord and continues to press for the conclusion of a stolen vehicle treaty.

Bilateral Cooperation. Honduran police and military took part in two Central Skies counternarcotics joint exercises with U.S. forces in May and September. The U.S. Embassy and Honduran government officials formed a bilateral counternarcotics working group which met quarterly in 1999. The USG provided new software for the Joint Information Coordination Center (JICC), and training and logistical help to numerous law enforcement agencies, under a letter of agreement in place since 1994. The Department of Justice's International Criminal Investigative and Training Assistance Program (ICITAP) brought an expert to Honduras to help the government draft money-laundering legislation. The USG is coordinating the development of a new border inspection station at a major port of entry along the Honduran/Nicaraguan border.

The Road Ahead. The GOH is firmly committed to the battle against the use or transport of illegal drugs. Top Honduran military officials appear committed to working with the USG to fulfill their new counternarcotics mission. The USG is encouraging Honduras to revise its money-laundering legislation and adopt a counternarcotics master plan. Corruption and intimidation of public servants remain a major obstacle to successful interdiction, detention and prosecution of narcotics traffickers. The Government of Honduras is increasingly aware of the threat posed by drug trafficking and determined to attack the problem on a variety of fronts.

Money Laundering. Honduras is not a major money-laundering center and is not considered an offshore financial center. The exact extent of local money laundering is difficult to determine. What money laundering does occur in Honduras is likely to be related to a variety of criminal activities including narcotics trafficking, auto theft, kidnappings, bank fraud, prostitution, and **Corruption**. Money laundering is not limited to the banking sector, but includes currency exchange firms, casinos, and front companies.

Drug-related money laundering is a crime in Honduras, but prosecution is difficult. There has not been one successful prosecution under the money laundering law to date. An effort is underway to draft legislation, which would broaden the application of the law to include proceeds from any criminal activity. This new legislation would have to be approved by the national congress.

The law against money laundering requires that bank and financial institutions maintain a registry of suspicious transactions and report them to the National Banking Commission. The Commission and the reporting banks are required to keep this registry for five years. It is possible that some transactions are not reported at all.

Honduras is a party to the 1988 UN Drug Convention and cooperates with the U.S. investigations, and requests for information. The GOH adheres to the core principles for effective banking supervision that the Basel Committee adopted in 1997. At the regional level, Honduras is a member of the Central American Council of Bank Superintendents, which meets periodically to exchange information.

Asset Seizure and Forfeiture. The National Congress enacted an asset seizure law in 1993 that subsequent Honduran Supreme Court rulings substantially weakened. The draft legislation mentioned above would, however, strengthen the asset seizure provisions of Honduran Law.

Chemical Control. The GOH continues to try to limit the illicit introduction of precursor chemicals into the country. However, comprehensive regulations to control the sale of chemicals necessary for the processing of illegal narcotics have never been developed. There is no evidence to suggest the presence of large-scale narcotics labs in Honduras.

MEXICO

I. Summary

Mexico faces a broad array of drug-related problems, from production and transshipment of illicit drugs to growing consumption. The drug issue remains at the top of the Zedillo Administration's priorities and has been designated as Mexico's principal national security threat. While the Government of Mexico's (GOM) counternarcotics (CN) effort made progress in 1999 against the production, traffic and abuse of illicit drugs, it still faces daunting challenges. The cartels which control the production and shipment of drugs, and related money laundering and organized crime activities, are powerful and well-organized and have made a concerted effort to corrupt and intimidate public officials responsible for combating them.

Mexico's national drug strategy stresses the need for a comprehensive, multi-faceted approach, including the importance of cooperation with other nations, particularly the United States. The results of Mexico's anti-drug

effort in 1999 largely paralleled its 1998 performance. There was, however, a significant increase in cocaine seizures, largely as a result of improved maritime cooperation with the U.S. Aggressive eradication has reduced net cultivation of marijuana to a record low, and reduced the opium poppy crop to the second lowest level this decade. The GOM extradited two Mexican national drug fugitives to the U.S., including one who killed a U.S. Border Patrol agent in 1998. Although there were some successes in drug law enforcement cooperation with the U.S., the year saw limited developments in building corruption-resistant law enforcement institutions, including specialized "vetted units."

II. Status of Country

Mexico continued to be the principal transit route to the U.S. for up to 60 percent of the South American cocaine sold in the U.S. During 1999, there was a detected shift in smuggling activity from the Yucatan peninsula to the Pacific coast of Mexico. The eastern Pacific is ideal for air and maritime trafficking because of vast ocean areas and a lack of natural choke points. Multiple maritime events are estimated to occur there monthly using go-fast boats, fishing vessels and commercial carriers.

Drugs are smuggled into Mexico via every kind of commercial and non-commercial transportation means available, including smuggling across the land border with Guatemala; concealed shipments in air or containerized maritime cargo; smuggling by fishing vessels; flights to clandestine landing points; and air drops to go-fast boats off Mexican coasts. Once inside Mexico, illegal drugs are moved to northern border areas for stockpiling and entry into the U.S. They are then smuggled across the U.S. border in everything from containerized cargo, commercial trucks, rail cars, airplanes, automobiles and off-road vehicles to human "mules," including undocumented migrants and children, who backpack or strap the drugs to their bodies.

Mexico-based transnational criminal organizations have become the most significant distributors in the U.S. of methamphetamine and its precursor chemicals. Several bulk ephedrine seizures destined for Mexico have focused attention on the magnitude of ephedrine acquisition by Mexican organized crime groups. Mexico is also a transit point for the movement of potassium permanganate, used in the purification process for cocaine.

In addition, Mexico is a significant producer of some "designer" drugs, illicit steroids, and diverted pharmaceuticals, such as Valium and Rohypnol.

Although Mexico produces only about two percent of the world's opium, nearly all of its harvested illicit crop is converted into heroin and shipped to the western United States. USG estimates of opium drug crop production during the past three years show yields of some 4 to 6 metric tons of heroin annually.

During the past three years, marijuana cultivation has yielded an estimated annual average of some 2,300 to 2,500 metric tons. In crop field surveys during the past two years, a more robust plant has been observed throughout Mexico. The plant grows to a height of two meters and has more flowering area. Mexican agronomists assess the plant as having more THC and, because of resin-coated foliage, is more resistant to herbicides. Most illicit drug crop cultivation occurs in small fields located on remote lands to evade detection and eradication. Since lands used for illicit cultivation are subject to seizure, many growers use public or communal lands to thwart tracing ownership.

Mexico's eradication program is one of the largest, most experienced and sophisticated in the world. The Army's considerable field presence in manual eradication operations relies on some 20,000 troops daily and more during peak seasons. These operations, combined with the Mexican Navy's eradication efforts in coastal areas, are responsible for about 75 percent of all eradication performed. The Office of the Attorney General (PGR) accomplishes the remainder by aerial spraying.

The GOM is fully aware of the threat posed to Mexico's security and democratic institutions by drug trafficking. President Ernesto Zedillo Ponce de Leon has identified narcotics trafficking as Mexico's primary national security threat and called on Mexican federal and state prosecutors to attack official and police corruption aggressively. Drug trafficking organizations generate violence, corruption and other forms of crime. The GOM has responded by increasing its law enforcement budget, creating a new Federal Preventative Police (FPP), strengthening its laws and enhancing its cooperation with the U.S. and other countries. However, the GOM still lacks broad institutional capability to implement fully its anti-drug legislation and national drug strategy. While the GOM has intensified law enforcement actions against drug trafficking, it has not disrupted the activities of the major drug cartels. Chronic problems of corruption, weak police and criminal justice institutions, budget constraints, and severe poverty in rural areas where drug crops are cultivated hamper Mexico's ability to combat drug trafficking effectively.

In recent years, international money launderers have turned increasingly to Mexico for initial placement of drug proceeds into the global financial system. Measures enacted by Mexico in 1996 and 1997 have provided the legal framework for more effective control of money laundering. Initial court decisions, however, made convictions difficult as judges have ruled that a prior conviction on illegal enrichment or other underlying offenses is necessary to convict on money laundering. There has been only one conviction under the 1996 law. Recent legislation, which does not require prior conviction but rather the identification of a likely source of

illegal proceeds that can be associated with a specified criminal act, may improve the GOM's ability to prosecute such cases. In August, legislation went into effect to strengthen asset forfeiture regulations and to allow Mexico to cooperate with other countries in international asset sharing.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Mexico's national anti-drug strategy encompasses the full range of actions called for in the 1988 UN Drug Convention and highlights the importance of international cooperation, particularly with neighboring states. In February 1999, President Clinton and President Zedillo announced an agreement on measures to gauge bilateral progress toward the goals of the Binational Drug Strategy.

Also in February, President Zedillo announced a new national public security plan, with a budget of \$500 million over the next four to five years. This plan included the establishment of a new Federal Preventative Police (FPP) to integrate the law enforcement responsibilities of several existing federal agencies and to focus on crime prevention and public security.

During Mexico's annual conference for its 32 state Attorneys General, 28 states agreed to form joint federal-state task forces to combat drug use and urban drug trafficking. These task forces will monitor the arrests made by state judicial police of persons carrying drugs for sale or consumption.

Amendments to the Mexican Constitution aimed at streamlining requirements for obtaining an arrest warrant and dismissing corrupt law enforcement agents went into effect in March 1999. In December 1999, President Zedillo proposed new legal reforms to create specialized courts with "faceless judges." This was in response to requests by the judiciary for protection when the courts are deciding cases of dangerous crimes such as narcotics trafficking. This proposal is part of an overall initiative to reform and accelerate the resolution of cases.

To strengthen its ability to detect financial crimes, the Secretariat of the Treasury (Hacienda) took steps to initiate automated filing of currency transaction reports by the banking community to Hacienda's Financial Intelligence Unit. The USG provided technical support for that initiative. The Mexican Congress passed legislation in April enabling Hacienda to take possession of and to distribute goods seized from organized crime and ordered forfeited by the courts. The GOM must still work out rules for distribution of these assets to entities within Mexico. The U.S. and Mexico are in the process of negotiating a reciprocal asset sharing agreement between the two governments.

Mexico became a Cooperating and Supporting Nation (COSUN) of the Caribbean Financial Action Task Force (CFATF) and was admitted as an observer to the Financial Action Task Force (FATF) in 1999. It is scheduled to undergo a mutual evaluation of its money laundering control regime by FATF in early 2000 as a step toward full membership.

Institutional Development. The PGR expanded and improved the capability of its law enforcement entities during 1999. To combat cross-border drug smuggling, the PGR purchased ten mobile x-ray machines for use in inspecting vehicles and cargo. Additionally, the PGR installed an x-ray machine at the Tijuana international airport and plans to purchase three more for installation in places with the heaviest traffic. The PGR initiated a major aviation upgrade program with the purchase of 27 helicopters, three for interdiction purposes and 24 for eradication.

The Mexican Secretariat of National Defense (SEDENA), which comprises the Army and the Air Force, and the Secretariat of the Navy rank counternarcotics operations as priority missions. In December 1998, SEDENA created a separate unit, the S-7, with its own budget, to be responsible for the military's direct support to Mexican law enforcement counter-drug elements. The Army created a special amphibious force (GANFES) in May to operate in remote and isolated coastal areas.

The Navy continued its fleet modernization program to enhance its ability to confront maritime drug trafficking. This upgrade included: production of medium-sized patrol boats with state-of-the-art electronics and intercept capability, conversion of two Knox class frigates for CN operations, and purchase of 20 speedboats for coastal and riverine patrolling.

Law Enforcement Efforts. Mexico's anti-drug enforcement actions included organized crime investigations, a pronounced increase in the amount of seized cocaine, an increase in marijuana eradication results, money laundering investigations (see money laundering annex), chemical diversion control (see chemical control annex), and air, land and maritime drug interdiction.

The PGR and military mounted an intensive operation against officials in the state of Quintana Roo, including the governor, Mario Villanueva, who was believed to be cooperating with the Carrillo Fuentes cartel. One of the major figures of the cartel was captured by Venezuelan authorities in February after escaping PGR custody, allegedly due to a bribe paid to prosecutors. Governor Villanueva disappeared in March, 10 days before the end of his term of office and immunity from prosecution, and is still at large.

The Mexican military continued its own counter-drug activities in 1999 with operations in the Yucatan, interdiction, and drug crop eradication. The Army and Navy engaged in cooperative efforts to seal off Mexico's large, isolated coastal areas from use by narcotics traffickers. The armed forces also play an important role in supporting PGR internal highway checkpoints.

Narcotics investigations were carried out by the PGR's Office of the Special Prosecutor for Crimes Against Health (FEADS), the Organized Crime Unit (OCU), the Sensitive Investigations Unit (SIU), and the Bilateral Task Forces (BTF). In December, Mexico invited the U.S. to participate in a technical review of the operations of the OCU, SIU, and BTFs to identify ways to improve their operational effectiveness.

Arrests. In 1999, the GOM arrested some 10,464 individuals, including 203 foreigners and 10,261 Mexicans on drug-related charges. While the GOM arrested a number of mid-level traffickers in 1999, no principal member of a major drug trafficking organization was arrested. Notable arrests included:

Carlos Colin Padilla, mid-level money launderer for the Carillo Fuentes cartel;

Oscar Benjamin Garcia Davila, ex-federal judicial police agent who, in Quintana Roo, served as the liaison between former governor Villanueva and major drug transportation broker Alcides Ramon Magana;

Jaime Aguilar Gastelum, associated with elements of the Carillo Fuentes cartel and remnants of the Gulf cartel;

Guillermo Moreno Rios, Colombian associated with major Colombian trafficker Alejandro Bernal Madrigal;

Juan Jose Quintero Payan, one of the founders and former leaders of the Carillo Fuentes cartel;

Eduardo Salazar Carillo, ex Comandante of PJF, charged with drug trafficking and possession of arms;

Benjamin Garcia Gaxiola, low-level trafficker in Sonora, ex-PGR commandante, associate of Ramon Alcides Magana;

Antonio Mendoza Cruz, former aide to Joaquin "El Chapo" Guzman (former head of Sinaloa cartel);

Alvaro Munoz Carrasco, brother in law Albino Quintero Meraz, major drug transportation broker for the Carillo Fuentes cartel.

Seizures. According to GOM statistics, Mexican law enforcement and military entities reported seized or destroyed:

33.5 metric tons of cocaine (48% increase over last year)

1459 metric tons of marijuana (37% increase)

258 kilograms of heroin (114% increase)

800 kilograms of opium gum (435% increase)

358 kilograms of methamphetamine (273% increase)

14 clandestine laboratories (100% increase).

During 1999, there were three multi-ton maritime seizures of cocaine due to successful joint efforts of the Mexican Navy, the PGR, the U.S. Department of Defense, and the U.S. Coast Guard. These efforts required close coordination and the use of sophisticated maritime navigation and communications techniques. Maritime seizures alone totaled over 24 metric tons.

Illicit Cultivation and Production. As a result of the GOM's aggressive eradication campaign, illicit cultivation in Mexico is characterized by small fields which are widely dispersed across a very large potential growing area. Mexican eradication, and to a lesser degree drought in early 1999, has reduced net cultivation of marijuana to a record low and reduced the opium poppy crop to a near-record low.

The GOM does not produce estimates of illegal drug crop cultivation. However U.S. experts estimate that Mexico's net opium drug crop production in 1999 was 43 metric tons (mt) of opium gum (compared to 60 mt in 1998 and 46 mt in 1997) and net marijuana cultivation was 6,700 metric tons of cannabis, (compared with 8,300 mt in 1998 and 8,600 mt in 1997). Marijuana production has declined steadily throughout the 1990s while opium poppy production, which had fluctuated roughly between 4,000 and 5,000 hectares of net cultivation, dropped to its second lowest level in the 1990s.

During 1999, the GOM eradicated some 15,470 hectares of opium poppy (down from 17,449 in 1998) and 33,583 hectares of cannabis (up from 23,928 in 1998). Extrapolating from those figures, U.S. experts estimate that the impact of these efforts resulted in the elimination of the potential production of 7,900 hectares of opium poppy and 19,400 hectares of marijuana. In 1998, eradication resulted in the elimination of 9,500 hectares each of both opium poppy and marijuana.

Extradition. The GOM extradited 14 fugitives to the U.S. in 1999, nine sought for narcotics-related offenses. Of those extradited, two were Mexican citizens: one, Tirzo Angel Robles, on drug charges and the other, Luis Arena Hernandez, on murder and drug charges. Robles had escaped from a U.S. prison in 1995 while serving a sentence for drug-related crimes and Arena Hernandez was being sought for the June 1998 killing of a U.S. Border Patrol agent while attempting to smuggle marijuana into the U.S.

Several important drug traffickers, including methamphetamine traffickers Jesus and Luis Amezcua, have been approved for extradition to the U.S. by the Secretariat of Foreign Relations (SRE), but are contesting the extraditions through the judicial appeals process on a variety of grounds, including the constitutional implications of a possible life sentence. Based on conflicting appeals court decisions in other extradition cases involving drug traffickers, the Mexican Supreme Court has agreed to rule on a perceived contradiction between the Mexican Penal Code and the U.S.-Mexico extradition treaty over whether Mexican citizens may be extradited "in exceptional cases" or must be tried in Mexico for crimes committed abroad. The Supreme Court decision, which is expected in early 2000, will profoundly affect Mexico's ability to effect extraditions abroad. An adverse decision would effectively prohibit the extradition of any Mexican citizen. Likewise, the life imprisonment issue, which is raised with greater frequency by fugitives, is troubling since most major fugitives whose extradition the U.S. seeks face criminal charges that carry possible life sentences.

At the end of 1999, there were approximately 40 persons in Mexican custody and subject to extradition proceedings based on U.S. provisional arrest warrants and extradition requests.

During 1999, the U.S. extradited 16 fugitives to Mexico, none sought for narcotics-related offenses and one of whom was a U.S. citizen.

Precursor Chemical Control. In September, Mexico published regulations that defined reporting and notification requirements for the import and export of precursor chemicals and authorized Mexican government entities to share information with other governments. Cooperative efforts to combat the diversion of chemicals occurred regularly in 1999 through working groups and training programs. In late 1999, Mexico joined "Operation Purple," a global DEA initiative to target the movement of potassium permanganate.

Demand Reduction. The GOM published the results of a national drug abuse survey in May 1999 which indicated that drug abuse in Mexico, particularly in communities along the U.S.-Mexican border, has increased. Survey data showed the following increases in 1998 as compared to 1993: individuals admitting to using drugs at least once, 3.9 percent to 5.27 percent; marijuana use, 3.32 percent to 4.7 percent; cocaine use, .22 percent to .36 percent; and heroin use, .07 percent to .09 percent. The study also concluded that most illegal drug users are young males although females are increasingly using drugs and age of initiation is earlier, now about 10 years old. The northwestern region of the country is experiencing a widespread increase in the use of heroin and methamphetamine.

Corruption. Corruption continues to be a very serious problem in Mexican law enforcement institutions and Attorney General Madrazo has taken aggressive measures at the federal level. In December 1999, he stated that since April 1997, more than 1400 of 3500 federal police officers had been fired for corruption and that 357 federal officers had been prosecuted. In announcing the establishment of the Federal Preventative Police (FPP), public officials acknowledged that corruption in existing police ranks was a major factor in the decision to create the new force.

The National Public Safety System has established a national police registry to prevent corrupt police officials from being hired by another law enforcement entity. Additionally, the organic law of the PGR was amended in July to formalize and expand the functions of its employee suitability review unit, the Confidence Control Center. Prior to this amendment, only employees of the federal counternarcotics agency (FEADS) and the PGR's Organized Crime Unit (OCU) were required to undergo background checks and polygraphs. The amendment extended this evaluation process to all federal prosecutors, police agents, experts and pilots assigned to narcotic eradication duties. Moreover, employees who are removed through due process after failing the screening, or who are found to be corrupt or incompetent, have no right to reinstatement, although under certain circumstances they may be compensated for their dismissal.

The Mexican military has also suffered from "narco-Corruption." In October, four Army personnel in Chihuahua were placed under arrest after the discovery that nearly seven kilos of cocaine - supposedly burned along with other seizures of marijuana and opium gum - turned out to be baking flour instead of cocaine. In August, two military officers of the Air Mobile Special Forces (GAFE) were arrested for allegedly offering protection to the late Amado Carrillo Fuentes.

A joint U.S.-Mexico initiative to create specially-vetted counternarcotics units insulated from corruption has not yet lived up to its potential. While the units are responsible for several of the accomplishments listed elsewhere in this report, failure to adhere to internal security principles has resulted in compromises or instances of corruption during 1999:

In February, a Special Investigative Unit officer was arrested in Coahuila for possession of 198 kg of marijuana,

but became a fugitive after he walked out of a local police station.

In March, three BTF agents from Monterrey were arrested for alleged extortion. One was released for lack of evidence; the other two remain incarcerated.

In September 1999, a Mexico City judge found sufficient evidence to issue arrest warrants for eight FEADS agents on kidnapping charges, abuse of power, and violations of the organized crime law. Four had been vetted under U.S. standards and three had been trained by the U.S. but had never been assigned to a vetted unit.

In November 1999, a former member of the OCU, Mario Silva Calderon, was arrested for alleged links to the Carrillo Fuentes Cartel, specifically to Alcides Ramon Magana.

The continuing revelations of corruption even within vetted units poses a serious challenge to Mexican law enforcement institutions and, derivatively, to bilateral counternarcotics cooperation.

Combating corruption is a long-term challenge that will require sustained effort at all levels of Mexican government and society. The GOM has recognized the problem and set into motion programs to deal with it. Cases have been identified, however, that indicate these programs have not been adequately implemented. For example, a senior law enforcement official removed from the OCU for allegations of corruption was recently reassigned to another high-level position. Mexico must continue to investigate all allegations of corruption and take strong action against personnel who have been compromised, both for the integrity of its institutions and the confidence of its international partners.

Agreements and Treaties. Mexico is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs as amended by the 1972 Protocol, and the 1971 UN Convention On Psychotropic Substances. It also subscribes to regional drug commitments, including the 1996 Anti-Drug Strategy in the Hemisphere and 1990 Declaration of Ixtapa, which commits signatories to take strong action against drug trafficking, including controlling money laundering and chemical diversion. Mexico has bilateral narcotics accords with 32 countries.

Mexico and the U.S. are parties to numerous treaties and agreements relating to law enforcement cooperation, including a mutual legal assistance treaty (MLAT), signed in 1987 and entered into force in 1991; a 1995 executive agreement on asset sharing; and the Financial Information Exchange Agreement (FIEA). The 1998 Bi-National Drug Strategy and its accompanying Performance Measures of Effectiveness (PMEs) have provided guidelines for accomplishing the two nations' mutual goals of combating drug trafficking and organized crime. On February 15, 1999, President Clinton and President Zedillo signed in Merida a memorandum of understanding for procedures for cooperation between law enforcement agencies of the United States and Mexico. The Merida agreement was a follow-on to the "Brownsville Letter" of July 25, 1998 between Mexican Attorney General Madrazo and U.S. Attorney General Reno.

The U.S./Mexico extradition treaty has been in force since 1980. A U.S.-Mexico protocol to the extradition treaty permitting the temporary surrender for trial of fugitives who are serving a sentence in one country but also are wanted on criminal charges in the other was approved by the U.S. Senate in October 1998 and ratified by President Clinton in January 1999. The GOM has not yet submitted the protocol to the Mexican Congress for ratification.

Bilateral Cooperation. The U.S. and Mexico participate in a range of bilateral counternarcotics and law enforcement fora, including:

HLCG. The High-Level Contact Group on Drug Control (HLCG), led by Office of National Drug Control Policy (ONDCP) Director Barry McCaffrey, U.S. Attorney General Janet Reno, Mexican Foreign Secretary Rosario Green, and Mexican Attorney General Jorge Madrazo met in June and November to report on progress made by the four HLCG working groups, to review action plans and goals, and to develop priorities for future cooperative action.

Senior Law Enforcement Plenary: The Senior Law Enforcement Plenary, a forum that facilitates communication and cooperation on a broad array of anti-drug and law enforcement issues, met in May in Mexico and again in October in Washington, D.C. The Plenary group established a new working group to advance mutual goals on the safety of foreign law enforcement agents serving in the other country.

Military to Military Cooperation. Under Secretary of Defense for Policy James Bodner visited Mexico in February to discuss cooperation on counternarcotics and other areas of mutual interest. General Juan Heriberto Salinas Altes, SEDENA Chief of Staff, reciprocated with a visit to Washington to continue the dialogue, and to prepare for a visit by Secretary of Defense Cervantes to the U.S. in January 2000.

Seventy-two UH-1H helicopters provided to SEDENA by the U.S. remained grounded, largely relating to worldwide safety-of-flight messages. After exploring possible repair options, SEDENA decided that it was not cost-effective to continue the UH-1H program and returned the aircraft to the U.S. SEDENA will, instead,

purchase new aircraft for its fleet.

Money Laundering. The U.S. carries out more money laundering investigations with Mexico than with any other country and bilateral cooperation continued in 1999. Hacienda and the PGR processed 16 major simultaneous and four coordinated bilateral money laundering investigations in cooperation with USG agencies. A financial crimes working group, comprising Hacienda's Financial Intelligence Unit, the PGR's anti-money laundering unit, the U.S. Customs Service, and the Internal Revenue Service, was established in July to discuss cases of concern to both countries.

Maritime Interdiction. Cooperation between the Mexican Navy, the PGR, the U.S. Coast Guard, and the Department of Defense resulted in three multi-ton maritime drug seizures. In June, the seizure of the Mexican flag vessel "Mazatlan IV" netted seven metric tons of cocaine. In August, the Mexican flag vessel "Xoloescuintle" was pursued by the U.S. Coast Guard and seized by the Mexican Navy in international waters; 9.5 metric tons of cocaine were found aboard, the second largest maritime cocaine seizure on record. In December, the Mexican fishing vessel, "Alfonso M.D. II" was seized by the Mexican Navy, with active participation by the U.S. Coast Guard; 8.1 metric tons of cocaine were found aboard.

Maritime interdiction is a new and significant area of cooperation between the U.S. and Mexico. In addition to the operations mentioned above, the U.S. contributed ion scan technical assistance for three dockside boardings of suspect vessels, and conducted a four-week counternarcotics boarding team training class for the Mexican Navy and Marine Corps. The PGR has also assigned a liaison officer to the U.S. Domestic Air Interdiction Center in Riverside, California, and is in the process of assigning a liaison officer to the U.S. Coast Guard's Joint Interagency Task Force-West in Alameda, California.

Demand Reduction. Mexico and the U.S. have made considerable progress in enhancing cooperation and communication in demand reduction. The bilateral working group on demand reduction met several times in 1999, and coordinated a bi-national drug conference in Tijuana in June, presided over by ONDCP Director McCaffrey and Mexican Health Secretary de la Fuente. The USG and the Mexican National Council Against Addictions (CONADIC) cooperated in disseminating the results of this conference.

Two USG-funded NGO projects in Mexico City helped university-aged youth and street children avoid drug addiction through education and job training. A Chihuahua-based, USG-funded NGO worked with indigenous communities to discourage drug cultivation and promote sustainable development in the Sierra Madre mountains.

Prosecutor Exchanges. The GOM and USG continued close cooperation on training for federal law enforcement personnel as well as on professional exchanges between prosecutors. As a follow-on to the U.S. Department of Justice's 1998 prosecutors' conference in South Carolina, the PGR hosted a similar conference in Mexico City in June 1999. Federal prosecutors from both countries exchanged information on organized crime, extradition and other subjects of mutual interest.

Judicial Exchanges. The U.S.-Mexico Judicial Exchange Program, coordinated by a binational committee of judges, has helped to increase communication and mutual understanding among the judiciaries of the two nations. Over 500 Mexican judges have participated in USG-sponsored conferences, seminars, training courses and graduate programs in the past two years. The president of the Mexican Supreme Court and representatives of Mexico's National University's Institute for Juridical Research visited Washington in November to discuss ways to strengthen the program and better respond to the interests and concerns of the participating Mexican and U.S. judges. The National Center for State Courts (NCSC), the Federal Judicial Center and the World Bank have all been invited to offer technical advice on justice reform priorities for federal and state courts.

Law Enforcement Cooperation. In late November, the U.S. and Mexico began an unprecedented bilateral effort to locate the bodies of Mexican and U.S. victims of drug-related killings believed to be buried near Ciudad Juarez, Mexico. The effort involved excavations at four locations; nine bodies had been recovered by the end of 1999. In the face of criticism concerning infringement of sovereignty, Attorney General Madrazo showed strong support for the operation.

With the Mexican Vetted Unit Program entering its third year, it was mutually recognized that the program had not achieved the level of effectiveness originally envisioned. As a result, a comprehensive bilateral survey of the program was conducted to identify its needs, strengths, and weaknesses.

Eradication and Production. Cooperation between GOM and U.S. entities involved in eradication and assessment of drug crop production has been excellent. The two governments held frequent exchanges of information regarding new types of drug crops resistant to herbicides and eradication operations. In December 1999, five PGR officials visited the U.S. Department of Agriculture to study opium yield analysis methods. This was the first phase of a bilateral effort by a team of agronomists, biologists, and crop production experts to undertake a complete analysis of the poppy currently under cultivation in Mexico and to analyze its opium gum yield.

IV. U.S. Policy Initiatives and Programs

As neighboring states facing a common criminal threat, each country's anti-drug efforts are directly affected by the policies and efforts of the other. Therefore, both countries have sought, through bilateral fora such as the HLCC and Senior Law Enforcement Plenary, and through the Bi-National Drug Strategy, to construct complementary programs and policies. U.S. narcotics control policy for Mexico is aimed at supporting the political commitment and strengthening institutional capability of the GOM to take effective measures against the production and trafficking of illicit drugs and related crimes. The USG seeks to work collaboratively with Mexico to apprehend and prosecute the leaders of the transnational criminal organizations, to disrupt or dismantle cartel operations, to combat money laundering and precursor chemicals diversion, and to reduce the demand for drugs.

Cooperative initiatives along our common border are a priority for both nations. In addition, the U.S. seeks to support the GOM's efforts to strengthen institutions, to improve training for its personnel, to modernize the justice sector, and to promote anti-corruption reforms. Critical to this success is the identification and prosecution of corrupt law enforcement, military, political, and business leaders who protect traffickers.

The Road Ahead. Mexico and the U.S. will continue to cooperate against narcotics activities in all its forms, including drug abuse, trafficking and production. The effectiveness of national and bilateral efforts against drug crimes will depend largely on demonstrable progress in disrupting and dismantling transnational narcotics trafficking organizations. This includes apprehending, prosecuting and convicting major drug traffickers, and exposing and prosecuting individuals and businesses involved in providing critical support networks such as money laundering and front companies, security, transportation, and warehousing.

Continued measurable progress in reducing the production of illicit drugs and the flow of such drugs through Mexico into the U.S. has long been a shared USG-GOM objective. Programs to exchange information or experiences in specialized areas as well as to find ways to improve both countries' eradication programs will contribute to such progress.

New asset seizure and forfeiture legislation has provided an important potential source of funding for law enforcement, courtroom modernization, drug treatment and education, and alternative development. Increased cooperation on post-seizure and post-arrest analysis would enhance investigations against major trafficking organizations. The president of the Mexican Supreme Court and President Zedillo have agreed that reforms to the cumbersome appeals process should be a key priority in the 2000 legislative session. If passed, such reforms could shorten the appeals process and speed the extradition of criminals.

An agreement to revive the bilateral polygraph process to permit screening of officials to serve in specialized units would enhance information sharing and **Bilateral Cooperation**. Practical issues need to be addressed such as ensuring the specialized units are fully staffed, funded, equipped and maintain the highest levels of professionalism.

Security for both Mexican and U.S. personnel is of paramount importance. The significance of this issue was illustrated in recent events in which drug traffickers assaulted U.S. government agents in Mexico. Continued efforts on both sides of the border should be made to ensure the safety of USG agents in Mexico.

Mexico is still relatively open to money laundering and chemical diversion, and corruption of public officials remains a serious problem. The USG will continue to offer technical support to Mexico in developing and strengthening its counternarcotics institutions. Despite increased GOM support to law enforcement, better equipment, more and better trained personnel, and improved salaries and benefits are still needed to bring law enforcement units to full operating efficiency.

Extradition is one of the most powerful tools that can be used against international organized crime, and the U.S. looks to the GOM for expanded use of the "exceptional circumstances" provision of its extradition law to ensure that drug fugitives facing charges in the U.S. can be brought to justice. We are encouraged by the GOM's efforts to appeal judicial decisions which undermine its ability to follow through on extradition orders and the delivery of fugitives for prosecution in the U.S. Nevertheless, a negative Supreme Court decision could nullify the positive advances made during the Zedillo Administration. Legislative or other remedies would then be required to preserve Mexico's ability to effect extraditions.

The two countries have made progress in initiating or implementing the following elements of the common strategy for cooperative action against illicit drugs. Mexico and the U.S. in 2000 will seek to:

Reduce the demand for illicit drugs in both countries through intensification of anti-drug information and education;

Improve our respective capacities to disrupt drug shipments by land, air and sea;

Focus law enforcement efforts against criminal organizations and those who facilitate their operations;

Potential Yield(2) (mt)	6,700	8,300	8,600	11,700	12,400	5,908	6,283	7,795	7,775
Seizures									
Opium (mt)	0.80	0.15	0.34	0.22	0.22	0.15	0.13	0.17	0.10
Heroin (mt)	0.258	0.120	0.115	0.363	0.203	0.297	0.062	0.097	0.15
Cocaine (mt)	33.5	22.6	34.9	23.6	22.2	22.1	46.2	38.8	50.3
Cannabis (mt)	1,459	1,062	1,038	1,015	780	528	495	405	254.9
Methamphetamine (mt)	0.358	0.096	0.039	0.172	0.496	0.265	-	-	-
Arrests									
Nationals(3)	10,261	10,034	10,572	11,038	9,728	6,860	17,551	27,369	8,621
Foreigners	203	255	170	207	173	146	75	208	141
<i>Total Arrests</i>	<i>10,464</i>	<i>10,289</i>	<i>10,742</i>	<i>11,245</i>	<i>9,901</i>	<i>7,006</i>	<i>17,626</i>	<i>27,577</i>	<i>8,762</i>
Labs Destroyed		7	8	19	19	9	5	4	9

(1)The eradication figures shown are derived from data supplied by Mexican authorities. The effective eradication figure is an estimate of the actual amount of a crop destroyed—factoring in replanting, repeated spraying of one area, and other factors.

(2)Cannabis potential yield figures for previous years have been revised based upon refinements in cannabis yield methodology.

(3)In 1995, the PGR revised downward the 1994 national detainees figure from 14,968 to 6,860

NICARAGUA

I. Summary

Nicaragua is a transshipment country for drugs from South America to the U.S. For this reason, Nicaragua remains a country of concern to the U.S. The country continues to have a consumption problem, especially in the Atlantic Coast region. President Arnoldo Aleman is committed to confronting the international narcotics trade. The Nicaraguan National Police's efforts to combat trafficking have generally been effective, although these efforts are constrained by resource shortfalls. Important legal reforms were implemented in 1999, and the judicial system demonstrated more willingness to convict traffickers. During 1999, the USG provided significant assistance to the Police's counternarcotics efforts. Nicaragua is party to the 1988 UN Drug Convention.

II. Status of Country

The Nicaraguan National Police continues to be a highly capable law enforcement organization, but its effectiveness is limited by severe resource constraints. Consumption of illegal drugs (especially crack cocaine) is a serious and growing problem, especially on the Atlantic Coast. Although the police are principally responsible for law enforcement, the army, which includes a naval unit, also supports **Law Enforcement Efforts.**

Policy Initiatives. In 1998, the National Assembly approved legislation to strengthen Nicaragua's counternarcotics efforts. That law went into effect in April 1999. The law increased penalties for drug trafficking, eliminated bail for trafficking offenses, and criminalized drug-related money laundering. Although the number of convictions increased in 1999, corruption and an antiquated legal system makes it difficult to keep prisoners incarcerated.

The GON, with USG assistance, continued efforts to reform the judicial system. The organic law of the judiciary, which established the foundation for a reformed court system, went into effect in January. The new criminal code was drafted and approved by the National Assembly's Justice Commission. It was presented to the Assembly for approval in mid- December. The criminal procedures code, dating from the 1800's and in clear need of replacement, was drafted and is under review by the Justice Commission. Building a more effective criminal justice system is the best way to increase the prospects that traffickers arrested in Nicaragua will receive appropriate punishment for their crimes.

Law Enforcement Efforts. Nicaraguan authorities seized 1,100 kilos of cocaine, two kilograms of heroin, 317,639 marijuana plants, and 10,568 crack stones during 1999. They also eradicated 308,200 marijuana plants and arrested 459 persons on drug-related charges. The biggest obstacle to police interdiction efforts is a severe lack of resources. The Narcotics Unit has only 96 officers, including administrative support. Despite this impediment, the GON added an additional 20 people to the anti-drug unit.

Corruption. The GON is working toward establishing an anti-corruption task force, to be composed of representatives from key agencies. The GON is also in the process of developing a national integrity plan geared toward greater transparency and governability. The plan will call for a civil service law to professionalize government employees. Police efforts to resist corruption are complicated by the fact that the police have the lowest salaries in Central America—an entry-level police officer makes less than \$80 a month. A growing phenomenon in Nicaragua is the increasing misuse of medical parole, where convicted individuals with significant resources are buying their freedom under the guise of medical ailments.

Agreements and Treaties. Nicaragua is a party to the 1961 UN Single Convention, the 1971 UN Convention on Psychotropic Substances and the 1988 UN Drug Convention. A U.S./Nicaragua extradition treaty has been in effect since 1907; however, the Nicaraguan constitution prohibits extradition of Nicaraguan nationals. The GON reiterated its desire to re-open negotiations on a bilateral counternarcotics maritime agreement. Nicaragua is a member of CFATF.

Cultivation/Production. Marijuana is the only illegal drug known to be cultivated in Nicaragua. Police believe it is grown principally for local consumption. During 1999, eradication continued, but limited police resources were more focused on halting cocaine transshipment than on eliminating the local marijuana industry.

Drug Flow/Transit. Nicaragua remains a country of concern because of its potential, due to its location, to become a major drug-transit country. Traffickers use several routes through Nicaraguan territory. The area of the country most vulnerable to drug trafficking is the sparsely populated, isolated Atlantic Coast. Packets of cocaine frequently wash ashore, suggesting the cocaine was not destined for Nicaragua. Some Atlantic Coast residents support the traffickers by refueling trafficker vessels and by storing drugs. Drug trafficking appears to be the principal economic activity in several coastal communities. Seizures and other information indicate that drugs move north through Nicaragua along the Pan American highway. Maritime trafficking also occurs on the Pacific Coast.

Domestic Programs. Drug consumption in Nicaragua appears to be growing, especially crack cocaine usage on the Atlantic Coast. The Ministries of Education and Health, the police, and the Nicaraguan Fund for Children and Family (FONIF) undertake demand reduction campaigns within the parameters of their limited budgets. International donors, including the U.S., have also supported demand reduction efforts. The principal barriers to reducing narcotics demand on the Atlantic Coast is the lack of economic alternatives for those who would distribute the drugs, the endemic 60-70 percent unemployment, and a woefully insufficient number of law enforcement personnel.

III. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. and Nicaragua have a good bilateral counternarcotics relationship. Relations between the U.S. and the Nicaraguan police, an entity established by the Sandinistas, had long been complicated by the politicization of Nicaraguan law enforcement. Over the past few years, however, the police have made great strides toward the professionalization of their institution as an effective and clearly apolitical entity. Relations between the police and the Managua DEA country office, established in 1997 at Nicaragua's request, are excellent. During 1999, the USG continued to provide significant anti-narcotics and law enforcement assistance to the National Police. The Department of Justice's International Criminal Investigative Training Assistance Program (ICITAP) provided assistance aimed at strengthening and restructuring the overall investigative division. The USG provided additional assistance to Nicaragua in the wake of Hurricane Mitch, which devastated law enforcement resources as well as elements of civil society. The emergency supplemental

funding was directed toward strengthening anti-corruption, anti-alien smuggling and land freight drug trafficking interdiction capabilities.

The Road Ahead. The United States seeks to improve GON law enforcement capabilities to deter drug traffickers and other transnational criminals from using its territory as a transit route to the U.S. The U.S. concentrates its efforts on strengthening accountable democratic institutions. The U.S. encourages reform of the justice system that will lead to a more transparent and effective system. The USG will cooperate with the GON to re-open negotiations on a bilateral maritime agreement in order to facilitate joint operations and interdiction efforts in the region. The U.S. endorses the GON's efforts to criminalize drug-related money laundering and encourages further developments to deter the use of Nicaragua's financial institutions for illicit purposes. The U.S. strongly supports and will encourage the Nicaraguans to support the expansion of regional counternarcotics cooperation.

PANAMA

I. Summary

The government of Panama (GOP) continues to demonstrate its willingness to combat transnational drug trafficking. The GOP seized significant amounts of illicit drugs in 1999, despite apparent changes in trafficking routes. The new Mireya Moscoso Administration has demonstrated its commitment to combat money laundering, corruption, drug trafficking, and other transnational crimes. Immediately after taking office, the new Administration set up an anti-corruption unit in the Ministry of Economy and Finance. Talks on a full maritime agreement moved forward. A draft agreement is under review by the Ministry of Foreign Affairs. Panama's law enforcement agencies continue to maintain excellent relations with their U.S. counterparts. Panama is a party to the 1988 UN Drug Convention.

Panama is a major transshipment point for illicit drugs smuggled from Colombia. Cocaine is stockpiled in Panama prior to being repackaged for passage to the U.S. and Europe. Panama's location, largely unpatrolled coastlines, advanced infrastructure, underdeveloped judicial system, and well-developed financial services sector make it a crossroads for transnational crime, such as drug trafficking, money laundering, illicit arms sales and alien smuggling. Panama's Canal, containerized seaports, the Pan-American Highway, an active international airport, and numerous uncontrolled airfields provide organized crime groups almost unlimited transportation options through the country.

Panama's international banking center, a long established tax haven, combined with the Colon Free Zone (CFZ) and a U.S. dollar-based economy render Panama vulnerable to money laundering. Panama hosted the "Third Hemispheric Congress on the Prevention of Money Laundering" in August 1999. The new Administration has expressed its interest in improving money-laundering controls and cooperating in these efforts with the U.S. and other countries in the region.

II. Status of Country

Panama continued to be a major drug transit country because of its proximity to the world's largest cocaine producer and because of its inadequate border, airport, and maritime controls. Domestic drug abuse continues to increase. Panama is not a significant producer of drugs or precursor chemicals. Panama's large and sophisticated banking and trading center, its dollar-based economy, and proximity to Colombia, make it an attractive site for money laundering, especially through the Colombian Black Market Peso Exchange (BMPE). The BMPE is a complex network dedicated to changing U.S. dollars into Colombian pesos and is used by drug traffickers and smugglers, as well as by legitimate industry attempting to avoid trade tariffs. The new Moscoso Administration has expressed interest in bolstering Panama's anti-money laundering measures (See Money Laundering Section). Panama is a member of the Caribbean Financial Action Task Force (CFATF).

III. Country Actions Against Drugs in 1999

Policy Initiatives. CONAPRED, Panama's national drug policy office, took a major step forward in 1999 through active efforts to establish a national chemical control policy. The initiative seeks to integrate government entities regulating chemical control with private sector businesses involved in the chemical industry and transportation of precursor chemicals.

Accomplishments. Panama continued to implement its own national counternarcotics plan, the "National Drug Strategy -1996-2001," through CONAPRED. This program, under the authority of the Attorney General, coordinates GOP and non-governmental organization (NGO) work and stresses prevention, treatment, rehabilitation, control of supply, and interdiction. Panama also made significant progress in implementing its comprehensive chemical control program. In August, Panama hosted the "Third Hemispheric Congress on the Prevention of Money Laundering," organized by the GOP's Financial Analysis Unit (UAF) and the Panama Banking Association. Officials and experts from Latin America, the U.S. and Europe gathered to focus on money laundering issues.

Law Enforcement Efforts. GOP agencies seized 2,576 kilograms (kgs) of cocaine, 1,558 kilos of marijuana, 46 kilos of heroin, 600 liters of acetic anhydride, and made 131 arrests for international drug-related offenses in 1999. Although 1999 cocaine seizures declined from record 1997-98 seizures, decreased seizures were due to changes in drug trafficking patterns rather than change in flow. Heroin seizures continued to increase, further establishing Panama as a principal link in the chain that funnels Colombian heroin to the U.S.

In January 1999, the National Assembly passed a law changing authority to designate and dismiss Technical Judicial Police (PTJ) executives from the Attorney General to the Supreme Court. The transfer led to confrontation between the two organizations that resulted in a serious deterioration in law enforcement cooperation to the extent that meaningful investigations, police work, and ultimately, successful prosecutions have been negatively affected. Nevertheless, U.S.-Panama bilateral cooperation with the PTJ's counternarcotics squad, which is co-housed with the Public Ministry's drug prosecutor, continues to be excellent.

The National Maritime Service (SMN) has been Panama's interdiction success story. In 1999, the SMN conducted operations resulting in seizures of 453 kilos of cocaine and over 600 liters of acetic anhydride. The SMN seized several go-fast boats that were subsequently provided by the Attorney General to be utilized as SMN patrol craft. The SMN has a strong working relationship with the National Air Service (SAN), the Panamanian National Police (PNP), the PTJ, and the drug prosecutor's office and with their USG counterparts. The key to the SMN's strength is its leadership, both within the institution and as a lead agency in counternarcotics operations and seizures. SMN participation in high seas operations led to the seizure of 27 Mt. of cocaine from Panamanian flagged vessels outside of Panamanian territorial waters. The presence of U.S. Coast Guard (USCG) personnel to train and assist in joint mission planning and professional exchanges that are conducted during joint operations has been invaluable.

Despite limited air assets and internal structural problems, the SAN conducted two cannabis eradication operations in coordination with the Attorney General's drug prosecutor's office and provided excellent logistical support for USCG air assets.

The Direccion de Fiscalia Aduanal (DFA), the Customs branch responsible for interdiction efforts at seaports and international airports, seized multi-kilo shipments along the Costa Rican border and at Tocumen international airport. During 1999, DFA personnel assigned to Tocumen successfully seized in excess of two million dollars in U.S. currency concealed within airfreight. DFA was also responsible for a number of heroin seizures and for increasing coordination and cooperation with the PTJ, leading to all-around better drug enforcement.

Precursor Chemicals. Panama is not a major producer or significant consumer of chemicals used in processing illegal drugs. However, a large volume of chemicals transits the CFZ for other countries. This year, with the assistance of the Inter-American Drug Abuse Control Commission (CICAD), Panama took significant steps toward developing a regulatory/enforcement infrastructure to control the use and shipment of precursor chemicals.

Asset Forfeiture. The Panamanian legal system provides for asset forfeiture, including a system for identifying and forfeiting narcotics-related assets. Forfeiture actions have supplemented the PTJ, the PNP and other GOP law enforcement agencies with numerous vehicles. Although Panama has not enacted a specific law that provides for sharing seized narcotics assets with other governments, the GOP shares assets with other countries on a case-by-case basis. Current negotiations between the United States Attorney's office and the office of Panama's Attorney General to permit asset sharing in the multi-million dollar Gonzalo Rodriguez Gacha case exemplify this cooperation.

Money Laundering. Although cooperation between the U.S. and Panama on money laundering improved with the new Administration, the pursuit of money laundering cases remains constrained by laws requiring prosecutors to present an unusually high burden of proof and to meet extremely difficult evidentiary standards. (See money laundering section).

Corruption. The Moscoso Administration took office in September 1999 with a publicly-stated commitment to integrity and transparency. A presidential decree established a National Anti-Corruption Office in the Ministry of Economy and Finance. In 2000, the anti-corruption office is expected to propose legislation to define ethical conduct by government employees and specific sanctions for those breaking the law.

The GOP pursues those who produce, distribute, or traffic in narcotics and/or other controlled substances. However, outdated procedures and corruption undermine Panama's judicial system. Lack of prosecutions coupled with relatively low pay for law enforcement officers and insufficient resources negatively affects police morale. These factors inherently foster individual corruption and make it challenging to develop long-term, criminal investigations against top-echelon drug and money laundering violators. The new president of the Supreme Court is committed to making the judicial system more effective and transparent.

Agreements and Treaties. Panama is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. A mutual legal

assistance treaty and an extradition treaty are in force between the U.S. and Panama. The Panamanian constitution, does not permit the extradition of Panamanian nationals. In 1991, the USG and the GOP signed a maritime operations agreement, which included provisions for shipriders and USCG support and assistance to the SMN. The USG concluded a Customs Mutual Assistance Agreement (CMAA) with the GOP in 1999. The GOP participates in CICAD, the Caribbean Financial Action Task Force (CFATF), and the Basle Committees' Offshore Group of Bank Supervisors (OGBS). In addition, Panama has bilateral agreements on drug trafficking with the United Kingdom, Colombia, Mexico, Cuba, and Peru and MLATs with the UK, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. In 1997, Panama became the first Latin American country to join the Egmont group, an alliance of some 30 nations with centralized financial analysis units to combat money laundering.

The GOP has not signed a US–Panama bilateral comprehensive maritime counternarcotics treaty, although a draft agreement is currently under review by the Ministry of Foreign Affairs. Discussions with the new Administration on the text will continue in 2000.

Cultivation and Production. In 1996, the entire coca cultivation in the traditional growing areas of the eastern Darien region along the Colombian border was eradicated. Aerial reconnaissance confirms that the cultivators have not replanted any fields. The limited amounts of marijuana being cultivated supply the local market and are insufficient for export. The presence of significant quantities of Colombian heroin transiting Panama during 1999 indicates that South American drug organizations remain committed to increasing their share of the highly profitable heroin market.

Drug Flow and Transit. Panama is a key hub for the transit and distribution of South American cocaine and increasingly, precursor chemicals and heroin. Fishing vessels, cargo ships and "go-fast" boats transit Panamanian waters and either continue on to other Central American countries or drop off their cargo in Panama. Shipments dropped off in Panama are repackaged and moved northward on the Pan–American Highway or depart in sea freight containers. There were reports of small, low-flying planes entering Panamanian airspace and dropping drug loads in remote, sparsely populated areas. Cocaine and heroin are also moved to the U.S. and Europe by couriers transiting Panama by commercial air flights.

Domestic Programs (Demand Reduction). Drug abuse continues to plague Panama, with use of cocaine and its derivatives reaching ever-higher levels. About 20 percent of seizures in 1999 consisted of drugs destined for Panamanian consumption. Several years ago, Colombian trafficking organizations began giving their Panamanian associates cocaine as payment rather than cash. In order for the Panamanian middlemen to convert the cocaine to cash, it had to be distributed locally. This change was the genesis of Panama's current cocaine/crack epidemic. Crack or "bazuco" is sold to urban youth and Kuna Indians, whose home, the San Blas autonomous region, has emerged as a major drug airdrop center. Kuna leaders have expressed concern over the impact of the drug trade on their society. GOP officials fear that the increase of heroin trafficking will give rise to a serious heroin abuse problem.

Panama continued to vigorously implement CONAPRED's counternarcotics plan developed under the auspices of the Attorney General's National Drug Strategy. The demand reduction portion of the strategy stresses prevention, as well as treatment, rehabilitation and reinsertion of drug users into the labor force. The Ministry of Education and CONAPRED promote demand reduction through training for teachers, information programs, anti-drug abuse training for youth, school curriculum programs and support for the National Drug Information Center (CENAID). These efforts are integrated with the Ministry of Health's treatment and rehabilitation programs and those of the Catholic church, Panamanian NGO "Cruz Blanca (White Cross)," the University of Panama, the "Panama Coalition For A Drug-Free Community," and the "Pride Foundation." One weakness in GOP drug treatment programs is that there are no long-term rehabilitation programs outside of the major urban centers.

IV. U.S. Policy Initiatives and Programs

Program agreements between the U.S. and Panama provide crucial equipment, training, and information to enhance the performance of GOP counternarcotics institutions. The key objectives of these programs are to improve Panama's prosecutorial and investigative capabilities, strengthen Panama's judicial system, encourage the enactment of more effective laws and regulations covering counternarcotics, money laundering and corruption, and ensure strict enforcement of existing Panamanian laws. The U.S., through USAID and ICITAP, is assisting the GOP to develop a comprehensive Administration of Justice (AOJ) program to strengthen law enforcement and judicial institutions and procedures.

During 1999, the U.S. Coast Guard continued to work closely with the SMN, enhancing its effectiveness as a maritime interdiction force. In 1999, the U.S. provided the SMN with two 82-foot Point class Coast Guard patrol boats and helped the GOP to establish an SMN station on the Caribbean mouth of the Panama Canal. The U.S. has traditionally had an excellent relationship with Panamanian Customs and U.S. programs have provided Panamanian Customs with training and operational tools.

Other U.S. projects in 1999 supported the Ministry of Education's teacher training for demand reduction programs and joint counternarcotics operations between DEA, Customs and the Coast Guard and their Panamanian counterparts in PTJ, Customs, and the SMN. The USG provided training, equipment, and operational support to the PTJ, the PNP, CONAPRED, the Joint Intelligence Coordination Center (JICC), the office of the drug prosecutor, Customs and Immigration. The Embassy has also purchased an ion scanner machine for the use of Panama's law enforcement community and is working with the PTJ forensics laboratory to examine upgrading its equipment. The U.S. continued to fund and develop Panama's JICC, including upgrading software and training for the JICCs employees and providing precursor chemical control training.

Bilateral Cooperation. The new Administration has demonstrated its political will to increase joint counternarcotics efforts and strengthen national law enforcement institutions. The GOP cooperates with U.S. requests to board and search Panamanian-flagged vessels suspected of drug smuggling in international waters. In 1999, U.S. and Panama carried out four joint operations. The PTJ and the PNP, with support from the U.S. Immigration Service, U.S. Customs and DEA, executed three major joint interdiction operations along the Costa Rican border against alien smuggling and drug trafficking.

The Moscoso Administration requested U.S. assistance in developing Panama's law enforcement/national security strategy. The U.S. and Panama held the first bilateral meeting of the new Administration in November 1999 to address U.S. support for strategy development. The U.S. and Panama discussed an array of issues in the context of four working groups: society and the environment, law enforcement, trade, and security. The Law Enforcement Working Group exchanged information and presented recommendations on counternarcotics, extradition, asset forfeiture, justice reform, alien smuggling, and money laundering. These meetings demonstrated the new Administration's determination to build successful law enforcement and justice institutions and enhance Bilateral Cooperation.

The GOP pursued major drug kingpins. Pierre Janeiro Barbe was implicated as the principal transporter/owner of over 5 mt of cocaine seized from two ships. Concluding a thirteen-month investigation in October 1999 by the Panama drug prosecutor's office, PTJ and DEA, the GOP executed arrest, search, and seizure warrants. While Barbe remains at large, he has been declared a fugitive from Panamanian justice and his assets have been seized.

The Panamanian drug prosecutor's office participated in a bilateral investigation to target a Panamanian export company involved in the seizure of 432 kgs of cocaine in June 1999 in New York and obtained evidence in the U.S. case for prosecution in Panama. The drug prosecutor authorized the initial arrest of individuals in Panama believed to be integral members of the cocaine distribution network.

Road Ahead. The Moscoso Administration has demonstrated willingness to build strong law enforcement institutions, combat money laundering, and ensure security of the canal. The GOP has repeatedly noted its interest in maintaining the security of the Darien region from infiltration by Colombian "narco-guerillas." The U.S. and Panama will continue to cooperate in these areas and strengthen joint counternarcotics efforts. Conclusion of a bilateral maritime agreement will greatly facilitate joint cooperation.

Panama's law enforcement efforts would be enhanced through closer coordination between its law enforcement agencies and with U.S. counterparts. The U.S. will work with the GOP to help strengthen Panama's law enforcement institutional capacity, particularly in training, interdiction, investigation and prosecution. The U.S. will support anti-corruption efforts and criminal justice reform. Panama's anti-money laundering efforts would be strengthened through implementation of banking reforms. A major goal will be to seek enactment of legislation to widen the existing law against drug money laundering to include the proceeds from all serious crimes, and to permit the UAF to share information with domestic and international counterparts.

The USG will continue to work with the Ministries of Health and Education and NGOs to expand Panama's demand reduction program. While realizing that the GOP has budgetary limits, the USG will encourage the GOP to seek new sources of funds, such as those available through effective money laundering prosecutions and asset forfeiture, to provide sufficient resources to law enforcement agencies.

Panama Statistics

(1991-1999)

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Coca									
Net Cultivation		-	0	0	0	10	10	-	-

(ha)									
Eradication (ha)	-	-	0	125	110	90	60	-	-
Cultivation (ha)			0	125	110	100	70	-	-
Seizures									
Cocaine (mt)	2.58	1.00	9.96	8.60	5.89	8.60	5.68	9.80	9.30
Cannabis (mt)	1.56	10.47	13.82	18.12	0.06	0.01	32.5	7.33	9.88
Heroin (mt)	0.046	0.022	0.033	0.010	0.030	0.007	0.013	0.001	
Arrests/Detentions									
Nationals	-	1,393	1,143	1,113	737	879	696	412	610
Foreigners	131	139	217	139	137	284	104	105	149
<i>Total Arrests</i>	<i>131</i>	<i>1,532</i>	<i>1,360</i>	<i>1,252</i>	<i>874</i>	<i>1,163</i>	<i>800</i>	<i>517</i>	<i>759</i>

[End.]

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U.S. DEPARTMENT OF STATE

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The Caribbean

THE BAHAMAS

I. Summary

The Bahamas is a major transit country for drugs en route to the U.S. from South America and the Caribbean. The Government of the Commonwealth of The Bahamas (GCOB) and the USG continue to enjoy a productive working counternarcotics relationship. The GCOB works to accomplish the goals and objectives of U.S.–Bahamas bilateral narcotics control agreements. The GCOB places a high priority on combating drug transshipments through its archipelago and works closely with the USG on Operation Bahamas and Turks and Caicos (OPBAT). The U.S. looks forward to assisting The Bahamas to develop its maritime end-game capability, without which sustained drug interdiction, arrest and conviction of traffickers and the forfeiting of their assets is improbable. Given the volume of commercial shipping through The Bahamas, the GCOB needs to rigorously implement its chemical control laws to prevent illegal diversion of precursor and essential chemicals.

Bahamian authorities continue monitoring bank compliance and investigating suspicious financial transactions under the 1996 money laundering law. Increased supervision of the offshore banking sector and training of all financial sector employees, however, will be necessary in order to increase the number of suspicious activity reports, which is still very small given the size of The Bahamas financial services sector. Despite several public statements of commitment, the GCOB has yet to establish a financial intelligence unit (FIU) or to seek membership in the Egmont Group. In 1999, the GCOB passed legislation which allows designation of the U.S. under Bahamian asset forfeiture laws, based on reciprocity. This will allow Bahamian courts to enforce U.S. forfeiture orders in many cases.

The GCOB took further steps in 1999 to strengthen its judicial system, with USG assistance. Despite these efforts, no major Bahamian drug trafficker has been convicted in The Bahamas and sent to prison, due largely to continuing, unnecessary delays in the courts. In addition, weak bail laws allow arrested drug traffickers to obtain bail and continue transshipping drugs while awaiting trial. Notwithstanding committed and talented judicial leadership, The Bahamas needs to improve the effectiveness of its court system and Attorney General's office in gaining convictions against major drug traffickers. The Bahamas also needs to improve its responsiveness to U.S. requests under the mutual legal assistance treaty (MLAT) and speed the processing of extradition cases.

In October, 1999, for the first time in recent history, a Bahamian law enforcement official was assassinated, allegedly by Bahamian drug dealers in retaliation for his standing up against a corrupt official or to prevent his testimony. The GCOB should ratify the Inter-American Convention against Corruption and assure that corrupt public officials are effectively prosecuted. Finally, the GCOB needs to move quickly to complete and adopt a comprehensive national drug strategy containing goals and objectives and measures of effectiveness. The Bahamas is a party to the 1988 UN Drug Convention and works to meet its goals and objectives.

II. Status of Country

The Bahamas will remain a target of drug traffickers well into the future due to its geographic location. The Bahamas is a country of approximately 275,000 people located on the air and sea routes between South America and the U.S. The Bahamas has a strong anti-money laundering regime. Nonetheless, the country's bank secrecy laws, its role as a regional financial center, and the existence of a largely unregulated international business corporation (IBC) sector continue to make The Bahamas an attractive target for money laundering and other financial crimes.

III. Country Actions Against Drugs in 1999

Policy Initiatives. In 1999, the GCOB continued its efforts to fulfill the objectives of the 1988 UN convention by: (1) passing a law which allows designation of the U.S. under its asset forfeiture laws, based on reciprocity;

(2) announcing its decision to create a financial intelligence unit (FIU) to process suspicious financial sector transaction reports; (3) passing several judicial directives aimed at reducing court delays; and (4) making progress in drafting the country's first national drug strategy report. The Office of Public Prosecutions continues to work closely with the U.S. Department of Justice to seize Bahamian bank accounts identified in the large USG-led "Operation Casablanca" international money laundering case. The Central Bank of The Bahamas continues to closely scrutinize banks' compliance with suspicious transaction reporting requirements.

Accomplishments. The GCOB, working closely with the USG, is in the final stages of a court automation project. The project's purpose is to reduce delays in criminal, especially drug, cases pending in the courts. The last step in the project, to be completed by the end of 2000, will be to install a court case management software system which will make The Bahamas judiciary virtually "paperless." Once this project is completed, the Bahamian judicial system will become the most technologically advanced in the region. Parallel to the computerization project, the Chief Justice of the Supreme Court has announced plans to implement case flow management practices in all Bahamian courts by Spring 2000. In June 1999, the Chief Justice passed a directive giving judges full authority to set court calendars and ordered that the practice of granting unnecessary adjournments be terminated. These decisions should have a major impact in reducing the length of court cases.

The Royal Bahamas Police Force (RBPF) Drug Enforcement Unit (DEU) works very closely with U.S. law enforcement agencies through OPBAT in interdicting drug transshipments. The DEU continues to maintain a separate money laundering and asset forfeiture investigative unit. In 1999, this unit prepared a strong asset forfeiture case against a major drug trafficker and asked the Attorney General's office to prosecute the case. Unfortunately, for nearly one year the Attorney General's office has not proceeded with this case, claiming that they have too few prosecutors to handle their caseload. The money laundering unit continues to pursue several local asset forfeiture investigations and is cooperating with U.S. and third country law enforcement agencies on several major transnational money laundering cases.

The Attorney General's Office of Public Prosecutions has successfully gained restraining orders in Bahamian courts over several million dollars in international money laundering cases involving Bahamian banks. The Office of Public Prosecutions is very committed to prosecuting local drug dealers and trafficking organizations. Their efforts at conviction are often thwarted by suspected jury corruption and weak drug and bail laws. In 1999, the GCOB amended its asset forfeiture legislation, allowing designation of the U.S. under its asset forfeiture laws upon assurances of reciprocity, thus resolving a longstanding bilateral irritant. This will allow Bahamian courts to enforce U.S. forfeiture orders in many cases.

Law Enforcement. The RBPF continued its active participation with USG agencies and Turks and Caicos police in OPBAT, a joint program designed to intercept drug shipments and arrest traffickers in the Turks and Caicos Islands and in The Bahamas. USG helicopters operating from three bases in The Bahamas facilitate these operations. The GCOB continued to demonstrate its strong commitment to OPBAT by funding its large police counternarcotics unit.

Cocaine seizures for 1999 were considerably lower than the 1997 and 1998 levels. Marijuana seizures in 1999, however, rose significantly over 1998.

The DEU, a special force within the RBPF composed of 80 officers, works closely with DEA on drug investigations. As of November 1999, the GCOB had arrested 1,785 persons on drug charges and seized 1.86 metric tons of cocaine and 3.5 metric tons of marijuana. The DEU is presently conducting several money laundering and asset forfeiture investigations.

Under Bahamian law, the assets of a convicted drug offender are subject to forfeiture. Unfortunately, defense attorneys for drug traffickers are often able to delay their cases many years. As a result, by the time the drug cases are adjudicated, the assets have lost much of their value. Funds from the sale of forfeited assets are deposited in the government's general fund. The Attorney General's office continues to experience little success in forfeiting the proceeds of crime.

Corruption. As a matter of policy, the GCOB does not encourage or facilitate illicit production or distribution of drugs, or the laundering of illicit proceeds therefrom. The USG is not aware of senior officials of the GCOB engaging in, encouraging, or facilitating the illicit production or distribution of drugs, or the laundering of proceeds from illegal drug transactions. Over the past several years, however, a growing number of mid- and low-level law enforcement and Defence Force officials have been arrested for narcotics-related corruption. Several of these cases have been unduly delayed in the court system. Despite GCOB willingness to prosecute, the judicial system's weaknesses reduce the possibility that narcotics traffickers and corrupt officials who assist them will serve appropriately lengthy prison sentences. The GCOB has signed but not yet ratified the Inter-American Convention against Corruption.

Agreements and Treaties. The Bahamas is a party to the 1988 UN Drug Convention. The GCOB works to accomplish the goals and objectives of U.S.- Bahamas bilateral narcotics control agreements, which facilitate

cooperative action on a wide range of narcotics-control measures, such as improving the efficiency and effectiveness of the judicial system, impeding money laundering, reducing local demand for drugs, and preventing the transshipment of drugs through Bahamian waters via OPBAT and other bilateral law enforcement efforts.

The U.S.-Bahamas mutual legal assistance treaty (MLAT) is intended to facilitate the bilateral exchange of information and evidence for use in criminal proceedings. The MLAT can be used to pierce Bahamian bank secrecy laws where credible evidence exists of narcotics crimes, money laundering, or other serious offenses. The GCOB Office of Legal Affairs, however, is too slow in responding to MLAT requests. In addition, the burden of proof placed by Bahamian courts on MLAT requests exceeds the treaty standard of "reasonable grounds for believing." The GCOB has been receptive to U.S. extradition requests, based on the 1994 U.S.-Bahamas extradition treaty. Actual extraditions, however, continue to be slowed by procedural delays in the Bahamian courts. One important drug-related extradition request has been held up in the Bahamian court system for several years. A U.S. Department of Justice delegation traveled to The Bahamas in November 1999 to encourage better GCOB cooperation on extradition and MLAT requests.

The U.S. and The Bahamas entered into a maritime counternarcotics cooperation agreement in May 1996. The agreement permits The Bahamas to embark Defence Force or Police officers to act as shipriders on U.S. vessels operating in Bahamian waters. The agreement permits the U.S. vessels to support these shipriders in Bahamian territorial seas to board, search, and, if evidence warrants, seize U.S., stateless, or third nation vessels; to enter Bahamian territorial seas to assist Bahamian law enforcement personnel in the enforcement of Bahamian laws; and to board, search, and seize Bahamian vessels on the high seas suspected of involvement in criminal activity. This agreement also authorizes USG law enforcement aircraft to overfly Bahamian territory.

Drug Flow and Transit. Detected air activity involving air drops of cocaine to The Bahamas dropped to less than half the 1998 level and all but ceased during the second half of 1999. This decline was probably due to several law enforcement operations that resulted in numerous arrests and the seizure of large quantities of drugs as well as smugglers' vessels and aircraft. Maritime activity involving go-fast boats, pleasure craft, and fishing vessels has remained somewhat stable compared to 1998. Coastal freighters with drugs concealed in hidden compartments or mixed with legitimate cargo remain a major smuggling threat. Currently there are more coastal freighter vessels on lookout than at any time in the past. U.S. counternarcotics agencies concur that drug traffickers continue to use Bahamian territory for cocaine and marijuana transshipments into the southeastern United States. While cocaine has traditionally been transported directly from Colombia to The Bahamas, it now appears to be moving through Jamaica and Haiti en route to and through The Bahamas.

Demand Reduction Programs. The GCOB makes modest budgetary contributions to demand reduction programs, especially in education and prevention. In 1999, the USG funded the second annual Certificate in Addiction Studies program in the history of The Bahamas. As a result of this program, fifty Bahamians working on drug demand reduction and abuse are now professionally trained. The USG provides modest assistance to the government's National Drug Council. The number of new drug users has declined in the past ten years. Drug usage among young Bahamians is restricted largely to marijuana, but there is a rising trend towards cocaine and crack abuse.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The goals of USG assistance to The Bahamas are to dismantle trafficking organizations, stem the flow of drugs through The Bahamas to the U.S., and strengthen Bahamian law enforcement and judicial institutions to make them more effective and self-sufficient in combating drug trafficking and money laundering.

Bilateral Cooperation. The GCOB continues to allocate significant budgetary resources to its counternarcotics efforts—approximately 14 percent of its annual budget—and to bilateral cooperation with the U.S. The GCOB commitment to OPBAT, through its funding of the RBPF strike force unit, has led to close bilateral cooperation resulting in numerous drug arrests and seizures. A U.S. Customs Service canine team traveled to The Bahamas during February 1999 to assess and assist the Bahamian canine program at the Freeport international airport. Despite a high rate of arrest by the police, however, convictions of drug dealers remain very low due to weaknesses in local drug and bail laws and suspect juries. The Royal Bahamas Defence Force (RBDF)—a potentially important player in drug interdiction—has yet to clearly define its counternarcotics role, and its response on bilateral counternarcotics operations has, with rare exceptions, been inadequate.

The Road Ahead. The Bahamas' proximity to the U.S. and expansive archipelagic geography guarantees it will be a target for drug transshipment and other criminal activity for the foreseeable future. Its niche as a financial center, its bank secrecy laws, and its liberal international business corporation (IBC) regime make it vulnerable to drug money laundering and other financial crimes. The Bahamians maintain a strong commitment to bilateral counternarcotics efforts. Because of the country's relatively small budget and growing drug transshipment problem, the GCOB will continue to depend upon significant USG assistance to fight international drug trafficking and crime. The principal short- and medium-term objective of U.S.

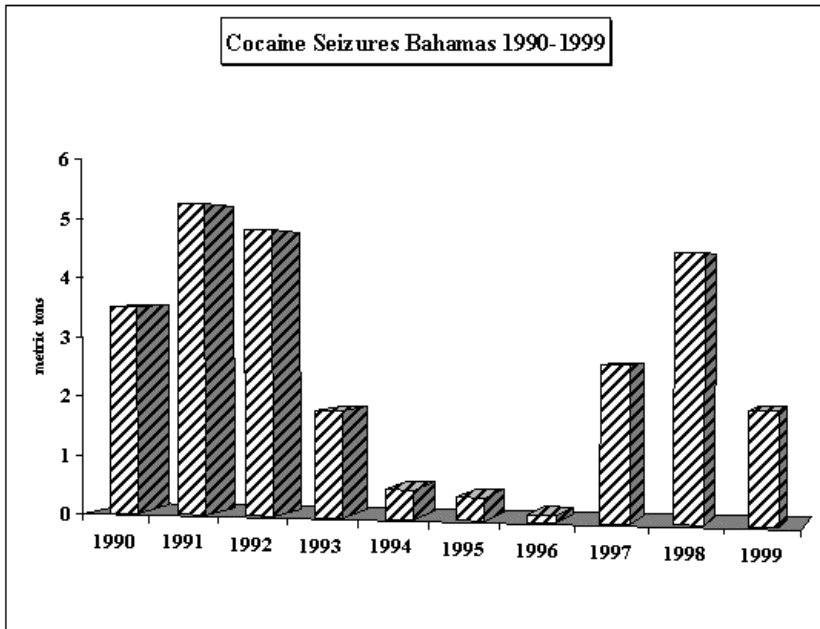
counternarcotics assistance in The Bahamas is the strengthening of the country's institutions to allow the GCOB to assume a greater share of the burden of combating drug trafficking, money laundering, and other criminal activity.

The Bahamas Statistics

(1991-1999)

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Seizures (1)									
Cocaine (mt)	1.86	4.39	2.58	0.12	0.39	0.49	1.80	4.80	5.26
Heroin (mt)	-	-	-	-	-	0.001	-	-	-
Marijuana (harvested) (mt)	3.50	2.30	3.76	2.61	3.53	1.42	0.65	1.00	1.18
Arrests	1,785	1,650	1,894	1,576	1,565	1,025	1,023	1,135	1,085

(1) Data for 1999 is through October. Marijuana seizure statistics for 1991-93 have been revised.



CUBA

I. Summary

Cuba's location between the United States and the Western Hemisphere's drug-exporting countries makes Cuba a logical transshipment point for traffickers. Although Cuba is not a major transit country for drugs coming to the United States, it remains a country of concern to USG counternarcotics agencies.

The lack of authoritative information from the Government of Cuba (GOC) about the illegal narcotics situation makes it difficult to assess the severity of Cuba's drug use and smuggling problems. Cuban officials cited Cuba's proximity to the U.S. and the growing number of tourists coming to the island as the cause of its growing, but still relatively low-level, drug use and trafficking problems. Resource constraints have led Cuban authorities to focus their law enforcement efforts on interdiction at Cuba's airports rather than at drop sites at

sea.

During 1999, Cuba and the United States continued to exchange drug-related law enforcement information on a case-by-case basis. USG and GOC officials also discussed the possibility of more systematic cooperation. The U.S. Coast Guard and Cuba's Border Guard cooperated several times to apprehend boats and crews involved in drug trafficking. Cuba adopted new laws to stiffen penalties for those found guilty of producing, transporting, trafficking, or smuggling narcotics, but not consuming them. The GOC also enacted anti-money laundering laws as part of an effort to prevent money laundering from taking root in Cuba. Cuba is a party to the 1988 UN Drug Convention.

II. Status of Country

Cuba does not appear to be a significant site for cultivation or production. There were no reports of money laundering in Cuba in 1999. The GOC continued to attribute drug use in Cuba to the significant tourist population and to drugs that wash ashore from apparently failed rendezvous between smugglers or when rattled traffickers decide to jettison drugs at sea rather than risk being caught with them. Cuban officials blame their lack of resources for the GOC's inability to patrol adequately its territorial waters.

The lead law enforcement agency on drugs in Cuba is the Ministry of the Interior's National Anti-Drug Department. The National Drug Commission is an interagency coordinating body headed by the Minister of Justice. The Ministries of the Interior, Foreign Relations, Public Health, and Customs, and the Border Guard are also represented on the Commission.

III. Country Actions Against Drugs in 1999

Policy Initiatives. In 1999, Cuba adopted new legislation to stem narcotics trafficking and money laundering. Cuba enhanced anti-narcotics cooperation with several countries including Colombia, Spain, France, the UK, and Canada. Spain, the UK, and France worked with Cuban authorities on interdiction; Canada focused on case development and investigations.

Law Enforcement Efforts. In February 1999, the National Assembly adopted legislation to stiffen penalties for those found guilty of producing, transporting, trafficking, or smuggling narcotics. Possible sentences include the death penalty and life without parole. The new laws did not deal specifically with consumption. The GOC did not publish statistics for 1999 for arrests or prosecutions of Cuban or foreign citizens on drug charges. The GOC continued to maintain that it had no serious domestic consumption or trafficking problem, but it indicated that domestic trafficking rose due to the increased number of tourists who visited Cuba in 1999 and from missed airdrops that wash up on Cuban shores. Domestic demand for drugs such as cocaine is believed to be low.

Cuban Customs and the Anti-Drug Police in the Ministry of Interior continued their cooperation and training with Canada and European governments. Training took place at numerous venues, including the international airports in Havana and the tourist haven of Varadero.

GOC officials admit that the country has inadequate naval resources to compete with the "go-fast" boats used by traffickers throughout the country's extensive territorial waters. 1999 saw an increase in the amount of information supplied by Cuban authorities to the U.S. Coast Guard for use in maritime interdictions. Some information was also exchanged for use in aerial interdictions.

Cuba exchanged prisoners with several countries in 1999, including Italy and Spain. Nevertheless, several countries reported some difficulty implementing these agreements fully. The exchanges include offenders found guilty of drug charges.

Drug Seizures/Arrests. The GOC made no information available on the total amount and type of drugs seized in 1999. In a speech on July 26, President Fidel Castro stated that 4,539 kilograms of drugs washed up on Cuba's northern coast during the first half of 1999, compared to 4,484 kilograms of drugs during the whole of 1998. He observed that this evidence of increased trafficking activity indicated that drug smugglers had chosen the waters between Cuba and the Bahamas as one of their favorite areas of operation in the Caribbean.

Corruption. Cuban authorities maintain that there is no narcotics-related corruption by government officials. While it is probable that some degree of corruption, at least at the lower levels of the Cuban police, is present, there is no evidence of high level involvement.

Agreements and Treaties. During 1999, the GOC signed anti-narcotics agreements with Spain, Colombia, and Guatemala. The GOC states that it maintains bilateral agreements on narcotics with 25 countries and less formal working arrangements with 25 others. Spain and France have posted counternarcotics police personnel to Havana to lead cooperative efforts with the GOC. A team of French customs officials conducted a canine technique training course for their Cuban counterparts at Havana's Jose Marti International Airport in August. British customs officers trained Cuban counterparts at the Jose Marti airport in January-February and at Varadero International Airport in October-November. Cuba and the United States do not have a bilateral anti-

narcotics treaty or agreements, but continued to work together on a case-by-case basis. In June, USG and GOC officials discussed making bilateral cooperation more systematic, but there was no agreement by year-end.

Cuba is a party to the World Customs Organization's International Convention on Mutual Administrative Assistance for the Prevention, Investigation, and Repression of Customs Offenses (Nairobi Convention), Annex X on Assistance in Narcotics Cases.

Cultivation/Production. There is no evidence that Cuba is a significant drug-producing country. Small quantities of marijuana are reportedly grown around Havana and in eastern Cuba. The GOC published no reports regarding crop size estimates, crop yields, or eradication efforts.

Drug Flow/Transit. Transshipment of illegal narcotics took place in Cuba's jurisdictional waters and airspace and through Cuban international airports in 1999. In the cases at sea, narcotics were either transported by boat through Cuban waters or dropped by aircraft and picked up by "go-fast" boats waiting nearby. On numerous occasions, the U.S. Coast Guard reported in real-time to the Cuban Border Guard incidents of suspicious aircraft over-flying Cuban airspace, dropping something, and returning south. None of the planes involved was apprehended. Detected overflights of Cuba in 1999 were down substantially from 1998. The U.S. Coast Guard and its counterpart, Cuba's Border Guard, collaborated on several occasions to locate and apprehend boats and crew suspected of narcotics trafficking.

In December 1998, Colombian authorities seized a shipment of 7.254 metric tons of cocaine hidden in compartments within maritime shipping containers at the Port of Cartagena. These drugs were apparently destined to transit Cuba. During 1999, the DEA aggressively investigated this shipment in cooperation with authorities in Colombia and Spain and found no information to indicate that this shipment was ultimately destined for the United States. Information-as yet uncorroborated by the DEA-provided by the Cuban Police to the Colombian National Police suggests that the shipment was bound for Spain.

Domestic Programs. Senior Cuban officials, most conspicuously President Fidel Castro, regularly warn the public of the peril of narcotics. However, their remarks almost always blame foreigners for the introduction of narcotics into Cuba. GOC officials say that drugs are being brought to Cuba by tourists, traffickers, or by missed airdrops washing up on the nation's shores. In December 1999, the official press reported that the National Assembly was drafting a new narcotics law that is expected to consolidate and strengthen existing laws to "prevent the island from being turned into a drug market."

IV. U.S. Policy initiatives

Bilateral Cooperation. The U.S. and Cuba do not share a bilateral narcotics agreement and there is no INL program in Cuba. The U.S. and Cuba continued, on a case-by-case basis, to share information, including non-sensitive real-time data regarding aircraft and vessels suspected of trafficking. Various high-level Cuban officials, including Fidel Castro, have repeated Cuba's willingness to sign a bilateral narcotics agreement with the United States. Discussions aimed at expanding bilateral cooperation on counternarcotics matters were held in 1999. By year-end, consideration was still being given to how this cooperation might proceed.

The Road Ahead. The U.S. and Cuba will continue to cooperate in anti-narcotics efforts on a case-by-case basis. These efforts are carried out by U.S. diplomats in Havana, as well as the relevant U.S.-based aviation and Coast Guard authorities, and consist of exchanges of information with Cuban officials about persons, aircraft, and vessels suspected of drug trafficking. Cooperation between the U.S. Coast Guard and the Cuban Border Guard is expected to continue.

DOMINICAN REPUBLIC

I. Summary

The Dominican Republic (DR) is a major transit country for South American drugs, mostly cocaine, moving to the United States. Drugs are transported by air, sea, and across the land border with Haiti. Opportunities abound for the smuggling of drugs and laundering of money. The Dominican Republic has governmental anti-drug and financial regulatory institutions in place, but lacks a coordinated national strategy to combat these enemies of its society. However, in 1999 the National Drug Council (CND) drafted a National Drug Strategy, which will be submitted to the Dominican congress in 2000. The Dominican Republic is a party to the 1988 UN Drug Convention.

The CND holds seized assets worth over 40 million dollars, but has no mechanism in place to manage the divestment of assets. The National Drug Control Directorate (DNCD) works closely with DEA on fugitive and special investigations, drug operations, and border interdiction, but could benefit from greater inter-agency cooperation, especially with the Dominican military. In cooperation with the U.S. military liaison, the Dominican navy and army engaged in joint counternarcotics exercises and received USG resources and training.

The GODR extradited 9 Dominicans to the United States in 1999, and the DNCD had several other fugitives in custody awaiting decisions on extradition requests. However, the extradition process has not been regularized,

and extradition decisions remain subject to political influence. Dominican institutions remain weak and vulnerable to interest groups or individuals with money to spend, including narcotics traffickers. The Government of the Dominican Republic (GODR) is in the process of developing an anti-corruption bill, which is expected to be submitted to congress in 2000.

Bilateral counternarcotics cooperation is good and improving. The DNCD cooperates closely with USG authorities on drug investigations and participates in regional counternarcotics operations. Dominican forces have continued their practice of frequent participation in combined operations under the Dominican/USG Maritime Counternarcotics Interdiction Agreement. A group of private attorneys has been energetically promoting the passage of a newly drafted money laundering bill. The USG has played a decisive role in shaping this bill, modeling it on CICAD standards. The bill is scheduled for congressional debate in 2000.

A ministerial-level bilateral meeting with Haiti achieved historic accords in counternarcotics objectives. The GODR approved the accords at the highest levels and stands ready to carry them out, but precipitous personnel changes in the Haitian Government have stalled further progress.

II. Status of Country

Despite an increased number of interdiction operations, the GODR seized less cocaine in 1999 than in 1998. International drug trafficking organizations are increasingly more sophisticated and have acquired state of the art communications equipment to avoid detection. Law enforcement agencies in the DR have yet to match this sophistication. Commercial and non-commercial maritime vessels are the preferred mode of transport for drug smuggling. Dominican and Colombian drug trafficking organizations also smuggle cocaine and marijuana into the DR over the porous border with Haiti. During 1999, the GODR opened its fourth border control unit on the DR-Haitian border, and laid the groundwork to double the canine unit from five to ten dogs and handlers by April 2000.

III. Country Actions Against Drugs

Policy Initiatives. During 1999, the GODR committed approximately \$3,500,000 in support of counternarcotics efforts, including \$2.6 million to combat drug trafficking, \$780,000 for demand reduction activities, and approximately \$360,000 for rehabilitation and support projects. An additional \$646,000 in FY 1999 funds was committed by the USG to train, equip, and develop GODR institutional and counternarcotics capability.

DNCD programs include a Joint Intelligence Coordinating Center (JICC), Financial Investigative Unit (FIU), a Special Investigative Team for Fugitive Investigations, (SITFI), a canine interdiction and narcotic detection program, and four border control units. In 1999 the GODR created two units for sensitive investigations of prominent international narcotics organizations operating in the DR and submitted their personnel to vetting by the USG.

The DNCD now requires pre-employment drug testing for new employees. All DNCD employees participate in random drug testing every six months. The Attorney General and the Secretary of Finance have agreed to create two Offices of Professional Responsibility, one within the Superintendency of Banking and another within the DNCD. Their primary mission will be to create standard procedures and internal control mechanisms to reduce or eliminate waste, fraud, and mismanagement.

Accomplishments. In November the GODR authorized a one-year extension of the Overflight Agreement, which allows counternarcotics air-tracking missions. Dominican authorities authorized, for the first time, wiretaps that can be used as evidence in U.S. courts for cases under investigation and cooperated with the Department of Justice in training prosecutors and judges in administration of justice and evidence handling.

During September, INL facilitated a high-level exchange between representatives from Haiti and the Dominican Republic that resulted in a recommendation by President Fernandez to implement thirteen (13) specific bilateral counternarcotics measures.

Illicit Cultivation, Production, Distribution. The DR is not a drug cultivating or producing country.

Drug Flow/Transit. The DR has a coastline of more than 1,000 miles and a 193 mile-long border with Haiti. It is a convenient staging area for the outward movement of drug shipments from South America. Small high-speed marine vessels, also known as go-fast boats, transit the DR freely. Inconsistent police controls at some international ports and airports contribute enormously to the narcotics trafficking problem. Heightened enforcement activity has substantially reduced, but not eliminated, offshore airdrops along the southern coast and in the Mona channel between Puerto Rico and the DR. Traffickers smuggle thousands of kilograms of cocaine over the border from Haiti. The Border Control Units confiscated approximately \$750,000 at the border. Heroin seizures at the DR's international airports were in small quantities usually transported by "mules" swallowing several ounces in small, airtight containers.

Sale, Transport and Financing. The DNCD aggressively pursues and arrests individuals involved in the

financing of illegal activities and the sale and transport of illegal substances. Nevertheless, corruption and the inefficient administration of justice caused the pretrial dismissal of a significant number of drug offenders during 1999.

Law Enforcement Efforts. In 1999, with USG cooperation and assistance, DNCD enforcement efforts within the DR led to the seizure of 1,011.9 kilos of cocaine, 142 kilos of marijuana, 11.9 kilos of heroin, 4.02 kilos of crack cocaine, and 4,029 drug-related arrests. The cocaine seized in 1999 was only 43 percent of the amount seized in 1998.

The DNCD consistently cooperates with USG agencies, including the Department of State, the DEA, the U.S. Coast Guard (USCG), and the Department of Defense (DOD). GODR/USG cooperation in 1999 included information sharing, special operations targeting major international traffickers, highly successful joint anti-narcotics and anti-alien smuggling military exercises, and joint Haitian/Dominican counternarcotics operations on the border with Haiti. The DNCD's JICC maintains a close relationship with the U.S. Embassy's Tactical Analysis Team.

The DNCD's two Special Investigative Teams (SIT) continue to conduct in-depth investigations of major international narcotics operations, with training and equipment provided by the USG. In addition to working independently, the SITs provide valuable intelligence to all the DNCD's enforcement arms on a case-by-case basis. The JICC has been instrumental in developing information leading to numerous arrests of drug traffickers in the DR and elsewhere. The Special Investigative Fugitive Unit located a dozen felons who are living in the DR seeking refuge from American justice.

The DNCD has signed a Memorandum of Understanding (MOU) with the USG agreeing to double the canine narcotics detection program to ten dogs and ten trainers. The initial program began in April 1999, and the dogs are consistently deployed to the border, the main international airport, and the main port.

USG agencies, the DNCD, and the Dominican Armed Forces enjoy excellent cooperation. U.S. military support to the Dominican Armed Forces and the DNCD included \$130,000 for the purchase of six vehicles through Foreign Military Sales to support border operations. Additionally, \$500,000 from the U.S. Southern Command Counter Drug Construction Program has been committed for the construction of offices and barracks at remote locations along the border as well as DNCD office facilities at ports. In 1999 the U.S. military committed an additional \$330,000 for two 80-foot patrol boats and a 133-foot buoy tender, and training to operate and maintain these vessels. These boats have been delivered to the Dominican Navy and will be utilized in maritime interdiction operations.

In April 1999, the Dominican Republic hosted Exercise Tradewinds 99, a counternarcotics exercise that included maritime forces from the Bahamas, Belize, Haiti, Jamaica, and the United States. During 1999 the Dominican Navy and the USCG successfully concluded Operation Frontier Lance II to counter the increased threat of drug flow through the region.

Demand Reduction. The DR's demand reduction programs enjoy strong support from senior Dominican officials. The majority of Dominicans condemn drug use and support the GODR's efforts to combat drug trafficking. The National Drug Council (CND) has a demand reduction arm, PROPUID, which continues to operate under a joint grant from the Government of Spain, the European Union (EU), and UNDCP. The EU has provided approximately one quarter of a million dollars toward the demand reduction effort. The GODR, through programs administered through the Secretariat of Health and the Secretariat of Education, continues to focus attention on the treatment and rehabilitation of addicts. PROPUID estimates that approximately 50,000 Dominicans used cocaine or marijuana in 1999. The DNCD produced 20,000 booklets aimed at drug awareness and prevention and coordinated distribution by the postal service to all households in specially targeted areas.

The United Nations Drug Control Program (UNDCP) is active and continues to fund Non-Governmental Organizations (NGOs) engaged in demand reduction programs.

Money Laundering/Asset Seizure. The Dominican Republic is not considered a major international financial center, but it continues to face a growing and systemic problem of narcotics-related money laundering.

In 1999 Dominican authorities confiscated \$94,687 in U.S. currency, Dominican currency worth \$1,926,862, non-currency assets consisting of 353 vehicles valued at over \$4.5 million, and 33 residential and business properties linked to narcotics-related crimes.

CICAD-based asset forfeiture legislation, adopted in 1995, provides for seizure of all "goods, products and instruments" of crime (pertaining only to narcotics-related criminal activity). The kinds of goods, products and instruments that the GODR seizes under the legislation include money, real and personal property, bank accounts, vehicles, and aircraft. Although the GODR cannot legally forfeit seized assets until the courts render a definitive judgment, authorities often use such assets prior to the completion of the lengthy judicial process. New legislation incorporating CICAD international standards on money laundering will be introduced in

Congress for adoption early in 2000.

Extradition. The bilateral U.S./Dominican Extradition Treaty dates from 1910. Under the Treaty, extradition of nationals is not mandatory, and for many years Dominican legislation barred the extradition of Dominican citizens. In 1998, President Fernandez signed legislation explicitly allowing for the extradition of Dominican nationals. During 1999, the GODR extradited 9 Dominicans to the U.S. The GODR has yet to act on a number of other U.S. extradition requests for Dominican nationals, fugitives of the U.S. justice system, who remain in the DR, hoping to take refuge in their native country.

Mutual Legal Assistance. The GODR does not participate in any mutual legal assistance programs.

Corruption. The GODR does not, as a matter of government policy, encourage or facilitate illicit production or distribution of narcotics, psychotropic drugs, and other controlled substances, nor does it contribute to drug money laundering. The GODR has not prosecuted any senior government official for engaging in, encouraging, or in any way facilitating the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. Dominican institutions are essentially weak and vulnerable to influence by interest groups or individuals with money to spend, including narcotics traffickers. The GODR is in the process of developing an anti-corruption bill that will require financial disclosures from senior civil servants and elected officials. This bill will be ready for submission to the Congress by August 2000.

There are occasional reports of collusion by narcotics smugglers, airline personnel and Dominican immigration officials. Corruption has allegedly prevented the successful prosecution of a number of drug trafficking cases and has caused the premature release of convicted traffickers. Long delays in the judicial process continue to undermine convictions and asset seizures.

Agreements and Treaties. The DR's counternarcotics efforts are consistent with the goals and objectives of the 1988 UN Drug Convention to which the GODR is a party. The GODR has participated in the Caribbean Financial Action Task Force (CFATF) since 1994. The USG and the GODR signed a Maritime Counternarcotics Interdiction Agreement on March 23, 1995. In 1999 the GODR extended temporary overflight authority to the USG for rapid response in counternarcotics and alien smuggling operations. An amendment to the existing bilateral Maritime Counternarcotics Interdiction Agreement to include overflight/order-to-land provisions is still pending.

On September 28, 1999, the two governments signed a Letter of Agreement whereby the USG will provide \$646,000 in FY 1999 funds for counternarcotics and law enforcement-related training and equipment. The GODR participates in regional law enforcement meetings and other conferences organized by the USG and international agencies.

IV. U.S. Policy Initiatives and Programs

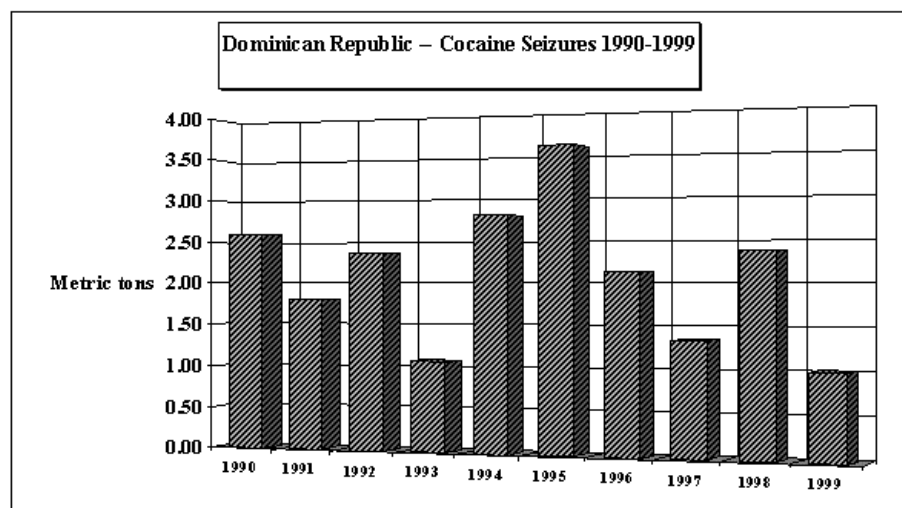
Policy Initiatives. Cocaine trafficking, money laundering, institutional corruption, and reform of the prosecutorial and judicial systems continue to be the major USG counternarcotics concerns in the DR. The USG and the GODR continue to cooperate to develop Dominican institutions that can interdict and seize narcotics shipments and conduct effective investigations leading to arrests, prosecutions, and convictions. The USG will continue to urge the GODR to improve its asset forfeiture procedures and its capacity to regulate financial institutions. It will continue to urge the Dominicans to maintain their strict controls on precursor chemicals and continue their demand reduction programs. In 1999 USG assistance provided essential equipment and training, supported the expansion of the Border Control Units, deployed and expanded the Canine Unit, and assisted the DNCD with the vetting of its sensitive investigative units. The USG directed its military assistance in the DR towards training and maintaining military assets critical for narcotics interdiction activities and for training border patrol troops.

The USG has provided funding to assist in the location, apprehension, and extradition of individuals wanted on criminal charges in the United States, and has been influential in proposing new legislation to strengthen the extradition treaty. A machine-readable passport system and an upgrade of the computer capability at international airports are in process. Initiatives in rule of law, respect for human rights, good governance, and accountability in governmental institutions are also in final strategy development stages. A pilot project for reform and modernization of courts is under way in Santo Domingo, along with the introduction of an automated criminal case tracking system for the Public Ministry and the Judiciary. Efforts are under way to assist the Public Ministry with the creation of an anti-corruption unit and with training to develop investigative capability for the investigation and prosecution of high profile public officials.

A U.S. Customs training team traveled to the Dominican Republic during September 1999 to provide Embassy-funded training to the Dominican counternarcotics Border Control Units. U.S. Customs also conducted an INL-funded Sea Carrier Initiative in Santo Domingo and five site surveys at ports throughout the country during July 1999.

U.S. military, DEA, and U.S. Customs training continue to produce more effective and more efficient law

Total Arrests	4,029	1,676	1,481	3,166	3,399	2,968	5,635	4,748	3,495
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EASTERN CARIBBEAN

I. Summary

The seven eastern Caribbean countries—**Antigua and Barbuda, Barbados, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines**—make up the eastern edge of the Caribbean transit zone for drugs, mostly cocaine, traveling from South America to the U.S. and other global markets. Cocaine transits the eastern Caribbean mostly by sea, as it is moved to continental North America or Europe. Within the region, maritime cocaine shipments are destined for Puerto Rico and other U.S. island territories, as well as the French Caribbean Departments and Dutch territories. There were confirmed reports of numerous airdrops of cocaine in the eastern Caribbean in 1999.

The level of cocaine and marijuana trafficked through individual countries to the U.S. does not reach the threshold to designate any of them a major transshipment country as defined by the U.S. Foreign Assistance Act. President Clinton's November 1999 notification to the U.S. Congress of the list of major drug source and transit countries stated, however, that the entire eastern and southern Caribbean is an area of concern to be kept under observation. If conditions warrant, the President will add relevant countries to the majors list. Marijuana is grown in St. Vincent, St. Lucia and Dominica, mostly for local use or for export to other islands in the region. Although the overall level of production is below the major drug producer threshold limits, the extent of marijuana production within St. Vincent and the Grenadines is considerable in relation to its gross domestic product.

Drug trafficking, and the crimes which derive from it—money laundering, drug use, political influence—buying, violent crime, and intimidation—threaten the stability of the small independent countries of the eastern Caribbean. Civil society in all of these countries has been damaged to varying degrees by the destructive nature of the drug trade and drug-related corruption. Representatives from each of the seven eastern Caribbean states attended the USG-funded U.S. Customs Integrity Reinforcement/Anti-Corruption Seminar for member nations of the Caribbean Customs Law Enforcement Council (CCLC) held in Puerto Rico in May 1999.

Colombian drug traffickers have infiltrated many of the eastern Caribbean nations, establishing their own infrastructure and contracting the services of local criminal organizations. To move the drugs within the region, the Colombian traffickers usually utilize a barter system for services, paying for services with drugs and/or weapons to limit costs but more importantly to increase demand and markets in the region. This results in increased amounts of cocaine and crack remaining in the eastern Caribbean.

All seven eastern Caribbean states are party to the 1961 UN Single Convention and the 1988 UN Drug Convention; all but St. Lucia and St. Vincent and the Grenadines are party to the 1971 UN Convention on Psychotropic Substances. None of the seven states have signed the Inter-American Convention against Corruption.

All seven governments signed mutual legal assistance and extradition treaties with the U.S. in 1996 and 1997. The treaties with Antigua and Barbuda, Grenada, St. Lucia, and St. Vincent and the Grenadines are in force. An exchange of instruments of ratification, the final step necessary to bring these treaties into force, is scheduled with St. Kitts and Nevis for late February 2000. Barbados has signaled its readiness to exchange instruments of ratification. The new government of Dominica, which came into power following an election on January 31, 2000, has indicated its interest in expeditiously bringing its treaties into force.

Marijuana production and trafficking are serious concerns for eastern Caribbean officials. Dominica, St. Lucia and St. Kitts have active ground-based eradication programs. In 1999, the St. Vincent government again requested and received USG helicopter support to carry its police and RSS forces to remote areas of the country to conduct eradication operations. Most of the marijuana produced in the eastern Caribbean is consumed within the region or transported to Europe. Nevertheless, the U.S. supports and encourages these eradication campaigns as a means to combat high levels of eastern Caribbean marijuana use and the corrupting and corrosive effect of economic dependency on this illegal trade.

In general, eastern Caribbean law enforcement agencies are committed to controlling drug trafficking and working with their U.S. counterparts. Unfortunately, significant personnel resources are spent on arrests of relatively small-time traffickers and drug users as a means to control ever-increasing street crime. Meanwhile, conspiracy cases against ringleaders, complex financial investigations, money laundering and asset forfeiture cases are almost non-existent.

Although some of the necessary criminal statutes exist in all eastern Caribbean countries, such as asset forfeiture and money laundering laws, most jurisdictions lack the kinds of laws that allow law enforcement penetration into organized criminal groups. Such laws covering wiretap, controlled deliveries, conspiracy, authorization of undercover investigations, the use of paid informants, and plea bargaining are called for in the UNDCP and U.S.-Caribbean justice and security action plans, as well as by Caribbean police authorities on a regular basis, but to no avail. Constitutional impediments and limited real political commitment have effectively thwarted such legal initiatives in the eastern Caribbean jurisdictions. Without such tools, it is unlikely the region will develop significant defenses against drug traffickers.

Most of the countries devote significant resources and effort to maritime drug interdiction operations. Without investigative leads, however, these efforts are costly and of limited effectiveness. Law enforcement authorities in the region recognize the need for increased information collection and sharing, and efforts are underway in several of the countries to create inter-agency drug intelligence centers. But progress on these initiatives in most countries has been uneven, given traditional rivalries between law enforcement bodies and an apparent lack of political commitment to such centers.

Countries that have sought to expand their offshore financial sectors without ensuring effective regulation have been especially vulnerable to money laundering and to other financial crimes. As a result of legislation changes that weakened regulatory structures, in early 1999 the U.S. and the UK issued financial advisories concerning transactions to and from Antigua and Barbuda.

Dominica, Grenada, St. Kitts and Nevis, and St. Vincent and the Grenadines have economic citizenship programs. Unscrupulous individuals take advantage of these weakly-regulated programs to modify and/or create multiple identities. These identities are then used to aid in the creation of the offshore entities used in money-laundering, financial fraud, and other illicit activities, as well as to facilitate the travel of the perpetrators.

In 1999, the eastern Caribbean countries continued efforts to carry out the 1997 Caribbean-U.S. Summit justice and security plan of action. The plan consists of a comprehensive set of measures to combat transnational crime, particularly drug trafficking and money-laundering. It also calls for collaboration in strengthening criminal justice systems and interdiction efforts, combating small-arms smuggling and corruption, developing a criminal justice protection program, and reducing drug demand through education, rehabilitation, and eradication. Some progress in implementing the plan of action continues, although eastern Caribbean governments still need to take significant internal steps to fulfill some basic commitments.

In addition, the eastern Caribbean states continued to carry out the Barbados plan of action developed in 1996 at a UNDCP-organized Caribbean regional drug conference. While considerable progress has been made on many elements of the plan, the USG shares the UNDCP's concerns about the need to better integrate demand reduction and interdiction activities under the auspices of national drug councils. Such a move would increase information sharing and improve bilateral and multi-lateral cooperation on the counternarcotics front.

The seven eastern Caribbean countries continued to support the Regional Security System (RSS), which coordinates some counternarcotics operations among member states. The RSS operates a maritime training facility in Antigua for member-nation forces. Local instructors, complemented by U.S. and British trainers, provided a variety of law enforcement and seamanship courses. In 1999, the RSS received the first of two C-26 surveillance aircraft from the U.S. to provide a tactical maritime surveillance capability. This capacity should be significantly improved in 2000 when the second aircraft, outfitted with a customized surveillance package, is expected to be delivered to the RSS. Support for these aircraft will require a greater financial commitment on the part of each eastern Caribbean nation when the \$11.5 million USG commitment concludes at the end of December 2000.

II. Status of Countries and Actions Against Drugs

The islands of Antigua and Barbuda are drug transit sites for cocaine moving from South America to the U.S.

and global markets. Mothership operations use go-fast boats as pickup vessels. Secluded beaches and uncontrolled marinas provide excellent areas to conduct the drug-transfer operations. Cannabis cultivation on the islands is not significant and is for local consumption.

Until early 1997, Antigua and Barbuda had a virtually unregulated offshore banking sector. The country took steps in 1997 and 1998 to address problems and assert control by passing sound anti-money laundering legislation. In 1998, individuals with a vested interest in lax regulation of the offshore sector used their considerable financial influence to weaken Antigua's anti-money laundering legislation. Certain amendments to the Money Laundering (Prevention) Act and the 1982 International Business Corporations Act (IBCA), passed in November 1998, undermined the ability of law enforcement to investigate and prosecute illegal financial dealings.

This development resulted in the imposition of a financial advisory by the U.S. in April 1999. Shortly thereafter the UK issued a similar advisory, and France publicly expressed its concerns. Since the issuance of the advisories, the GOAB has endeavored to rescind most of the objectionable legislation, increased its bilateral and multilateral cooperation on various law enforcement initiatives, and seems to be headed towards compliance with international norms governing offshore banking sectors. To address international concerns, the GOAB is taking other steps to strengthen its laws governing the financial services sector. Currently there are about 18 offshore banks operating in Antigua and Barbuda, down from about 57 in 1998. Internet gambling is largely unregulated in Antigua, although the GOAB has indicated it is developing regulations to control this burgeoning industry.

The GOAB is party to the 1961 UN Single Convention and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. The USG and the GOAB signed a maritime drug law enforcement cooperation agreement in April 1995, and an overflight agreement in June 1996. A new extradition treaty and mutual legal assistance treaty (MLAT) came into force in July 1999, the GOAB being the first government in the region to move to bring these treaties into force.

One extradition and several legal assistance requests were submitted to the GOAB since the treaties entered into force. The GOAB has been largely responsive to these USG-initiated requests. In 1999, GOAB forces seized 21.5 kilograms of cocaine, 75 kilograms of marijuana, one metric ton of cannabis resin, and one metric ton of hash oil, arrested 147 persons and eradicated 23,384 cannabis plants. A USG-provided 82-foot patrol boat, delivered in mid-1998, has been used extensively for coastal patrolling. Unfortunately, it sustained significant damage when it ran aground off Dominica during a hurricane in November 1999. The GOAB received over \$400,000 in 1999 via its asset seizure/sharing agreement with Canada.

Crossroads, a 36-bed private drug treatment facility, offers treatment to international and local clients. It is the only rehabilitation center in the country. The center offers its services to a limited number of local clients, who can take advantage of special payment and after-treatment work-programs to pay for the course of treatment. Crossroads and the GOAB are working to establish a halfway house in the capital, St. John's.

Barbados is a transit country for cocaine entering by sea and by air from Colombia, Venezuela, and Guyana, often in container vessels. Smaller vessels also bring in marijuana from St. Vincent and the Grenadines. Almost all cocaine shipments entering Barbados and its territorial waters are destined for North America and Europe. Domestic cocaine and crack consumption has been on the rise in recent years. Barbados is a hub for commercial air passenger couriers moving cocaine to Europe. Container freight-forwarders and cruise lines are also reported as means of cocaine transport via Barbados. Barbados is party to the 1961 UN Convention and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances and the 1988 UN Drug Convention.

Government of Barbados (GOB) agencies reported seizing 133 kg of cocaine, 3.2 kg of heroin, and 334 kg of marijuana in 1999. They arrested 592 persons on drug charges and eradicated 1,181 cannabis plants.

The GOB and the U.S. have signed three important elements of counternarcotics cooperation: a maritime agreement with overflight authority, and extradition and mutual legal assistance treaties. As noted above, the latter two are not yet in force. However, the GOB has signaled that it is prepared to exchange instruments of ratification, the final step required to bring the treaties into force, and the Attorney General said that the GOB has already begun preparing domestic legislation to facilitate the implementation of the treaties.

Overall, manpower shortages and coordination difficulties hampered Barbados' cooperation with U.S. law enforcement to arrest and prosecute major traffickers. The GOB terminated a longstanding USG counternarcotics assistance program in 1999 because of human rights provisions connected to the program. Nonetheless, the Attorney General has pledged that the GOB would fund programs heretofore paid for by the USG.

Strong offshore bank laws and existing currency controls provide a defense against money laundering. Money-laundering legislation, based on the UK Commonwealth Secretariat model, was enacted in December 1998. In late 1999, the GOB proposed legislation that should allow greater access by regulators to offshore bank records. It should also allow the central bank to share information on licensees with regulators in jurisdictions

where the licensees have a holding company, subsidiary or affiliate. The GOB's financial intelligence unit has been legislated, but is not yet in place. As a matter of policy, the GOB does not issue offshore business licenses to operate Internet casino gambling sites.

In 1999 the GOB began implementation of a penal system reform bill to provide alternative sentencing options beyond prison and fines. This includes community service orders, curfew orders, and other alternatives. The law is designed to reduce prison overcrowding and provide options for dealing with drug-addicted criminals.

The Proceeds of Crime Act of 1990 provides for the confiscation of property shown to have been derived or obtained by a person, directly or indirectly, from the commission of certain offenses, including drug trafficking and money laundering, and to enable law enforcement authorities to trace such proceeds, benefits, or property. There were no significant asset seizures in 1999.

The National Council on Substance Abuse continues to be active. It works closely with non-governmental organizations in prevention and education efforts and skills-training centers. The Drug Abuse Resistance Education (D.A.R.E.) program remains active in the school system in spite of the end of the USG's three-year financial commitment to the organization. Barbados' excellent D.A.R.E. program has successfully engaged public and private sector sponsors to help continue the project. Drug detoxification is available at the mental health hospital. The government lacks a residential drug rehabilitation center.

Dominica serves as a transshipment and temporary storage area for drugs, mostly cocaine products, headed to the U. S. and to Europe via the French Departments of Martinique and Guadeloupe. Go-fast boats bring shipments from St. Vincent and the Grenadines. Cannabis also is cultivated in Dominica.

The Dominica police conducted ground-based cannabis eradication missions in rugged, mountainous areas. In 1999, Dominican law enforcement agencies reported seizing 83 kg of cocaine and 190 kg of marijuana. They eradicated 55,210 mature cannabis plants and 8,405 seedlings. Dominica police arrested 178 persons on drug charges.

As in the rest of the region, efforts by the Dominica police to arrest drug traffickers have been undermined by a judicial process that emphasizes fines in lieu of jail sentences, especially for foreigners. Asset forfeiture is directed under Act 20 of 1988, titled "Drugs (Prevention of Misuse)." Dominica seized nine vessels and \$6,294 under the Act during 1999.

Dominica criminalized money laundering, and banks are required to report unusual foreign exchange transactions. The Government passed regulations controlling offshore banks. The economic citizenship program, offshore banking, international business corporations, and Internet gaming are lucrative sources of income for the government. However, the government's limited regulatory and investigative capabilities are not adequate to prevent abuse of these industries. Dominican citizenship can be acquired easily, with little-to-no background investigation and no residency requirement.

The Ministry of Health oversees drug demand reduction efforts. Underfunded and understaffed, the Ministry and its National Drug Prevention Unit have nevertheless been highly successful in establishing a series of community-based drug use prevention programs. Starting at age three and proceeding through age 15, school children receive drug use prevention education. The D.A.R.E. program, a cooperative effort of the police force and the Ministry of Education, complements this effort in schools. There are no drug rehabilitation facilities in Dominica; the psychiatric hospital provides detoxification services.

Dominica is a party to the 1961 UN Single Convention and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Dominica signed a maritime agreement with the U.S. in 1995 and an MLAT and an extradition treaty in 1996. Dominica has not yet agreed to expand the maritime agreement to include overflight authority. The MLAT and extradition treaties are not yet in force. However, the new Government of Dominica, which came into power after an election on January 31, 2000, has indicated its interest in bringing the treaties into force expeditiously.

The Government of Grenada remains concerned and vigilant in drug control. Domestic marijuana cultivation is down, but marijuana from St. Vincent enters Grenada. Cocaine is trafficked through Grenada's international airport. Private vessels passing through and stopping in Grenada's coastal waters on their way to U.S. and other markets transport larger quantities.

Grenada is a party to the 1961 UN Single Convention and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. The GOG and the USG signed a maritime law enforcement cooperation agreement in 1995 and an overflight amendment to the maritime agreement in 1996. The GOG and the USG exchanged instruments of ratification on the extradition and MLAT treaties in September 1999, bringing these treaties into force.

Grenada has an active and quickly growing offshore sector with offshore banks, international business corporations, and an economic citizenship program, but with only a minimal two-person regulatory staff.

Serious questions developed as to Grenada's ability to perform due diligence on applicants and otherwise properly regulate this sector.

The Proceeds of Crime Act requires a conviction before assets can be forfeited, although they can be seized and held prior to conviction. Notable 1999 seizures include \$65,000 taken from a Barbadian trafficker and a high-value sailing yacht seized from local smugglers in November. No large-scale traffickers were arrested in 1999.

Cabinet approved Grenada's updated master plan for drug control in December 1997. Grenada has an active drug prevention unit within the Ministry of Education. Under dynamic leadership, and with the active involvement of many government agencies, the National Drug Avoidance Committee keeps drug prevention themes before the public. The police and the GOG at the highest levels actively support the committee. Drug use prevention education is incorporated into all levels of the educational curriculum of 32 primary schools. The D.A.R.E. program continues to function well.

Grenada has one 16-bed drug and alcohol treatment center, receiving about 50 patients per year. Most patients are admitted for alcohol abuse; all treatment costs are borne by the government. Drug detoxification is also done at the psychiatric hospital.

Law enforcement agencies in Grenada cooperate well on drug control. They meet regularly to plan joint operations, thereby maximizing available assets. Grenadian authorities reported seizing approximately 37 kg of cocaine, 772 blocks of crack-cocaine and 203 kg of marijuana in 1999. They arrested 216 people on drug charges and eradicated 9,464 cannabis plants.

St. Kitts and Nevis is a regular transshipment center for cocaine from South America to the U.S. Drugs are transferred out of St. Kitts and Nevis primarily via small sailboats, fishing boats, and go-fast boats bound for Puerto Rico and the U.S. Virgin Islands. Trafficking organizations operating in St. Kitts have direct ties to South American traffickers and appear highly organized. Local drug use, crack cocaine in particular, is on the rise as local traffickers are paid in product, which they then sell locally.

Since May 1996, the USG has sought the extradition of three prominent drug traffickers who are wanted in the U.S. on drug trafficking charges. A magistrate initially ruled against the extradition in October 1996. In April 1998 an appeals judge ordered the magistrate to reconsider his decision to deny the extraditions, pointing out that there was sufficient evidence to send the defendants for trial. Despite the order of the appellate court, the magistrate refused to reverse his initial decision, claiming that since the higher court judge did not quash his original order, the original order stood. The USG again appealed the magistrate's decision, and in January 2000 a high court judge announced his decision to quash the lower court's October 1996 and January 1999 denials of the USG extradition requests. Although the magistrate has not yet responded to the high court's January 2000 decision, the defendants filed notice of their intent to appeal the high court's decision to the Privy Council, the last court of appeal for the English-speaking Caribbean. In late February, however, the GOSKN arrested Charles Miller, one of the defendants, for the second time in the past month, on firearms charges and following Miller's recent intimidation of several individuals in St. Kitts. Miller appeared before a magistrate and waived his rights and stated his willingness to surrender to U.S. authorities. In the meantime, steps had been taken by the GOSKN to expel him from the country, using powers under the constitution that, in such instances of conduct detrimental to national security and the social and economic well-being of the federation, supersede the authority of the courts. The USG extradition request for the other two defendants is pending.

Since 1997, the GOSKN has made no further effort to seek the conviction of the assassin of Superintendent of Police Jude Matthew. A suspect in this drug-related case has been tried three times since the 1994 killing, all trials resulting in hung juries. During the third trial, which ended in June 1997, six people, including one of the three men under the U.S. extradition request, were arrested and charged with jury tampering, but cases against them were ordered dropped for procedural reasons. These cases reflect erosion in the proper functioning of civil society, brought about by influence and intimidation. The GOSKN reports that they have since changed their criminal law to allow judges to decide a case should there be a hung jury at a second trial.

St. Kitts and Nevis is party to the 1961 UN Single Convention and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. The GOSKN signed a maritime law enforcement cooperation agreement with the U.S. in 1995, and an overflight amendment to the maritime agreement in 1996. The USG and the GOSKN signed a new extradition treaty in 1996 and an MLAT in 1997. An exchange of instruments of ratification, the final step to bring the treaties into force, is scheduled for late February 2000.

St. Kitts and Nevis developed a master plan for drug control in 1996. However, coordinating the interdiction and demand reduction components of the plan has been problematic. The GOSKN is currently drafting alternative sentencing legislation for first-time drug offenders.

The GOSKN Defence Force, reestablished in 1997 after a 16-year hiatus, is augmenting the anti-narcotics efforts of the police, particularly in cannabis eradication operations. GOSKN officials reported seizing 0.95 kg

of cocaine and nearly 16 kg of marijuana in 1999. They arrested 25 people on drug charges and eradicated 63,911 cannabis plants. However, the Kittitian drug squad has been effectively eviscerated, with the number of officers reduced from over 20 members in 1998 to eight by the end of 1999.

The high degree of drug trafficking activity through and around St. Kitts and Nevis and the presence of known traffickers in St. Kitts place this small country at great risk for money-laundering activity. In this climate, authorities in Nevis have actively sought to attract offshore banks and businesses, even though they lack the measures to vet and regulate this fast-growing sector. The GOSKN operates a poorly regulated economic citizenship scheme that can facilitate criminal activities.

St. Lucia has experienced a rapid increase in cocaine trafficking over the past four years. Colombian and Venezuelan traffickers are active in St. Lucia, working with local transshippers to stockpile cocaine awaiting onward shipment. Much of this cocaine comes from Colombia through Venezuela, either directly or through Trinidad and Tobago, or to a lesser extent St. Vincent and the Grenadines. The cocaine is then moved to Martinique or Dominica and on to Europe and the U.S. Much of the cocaine enters St. Lucia at or near its southern-most port of Vieux Fort. Offshore airdrops followed by small boat transport to seaside caches is a common smuggling method along St. Lucia's rugged coastline. Some marijuana is cultivated, mostly for local consumption. Overall, the GOSL has an excellent record on counternarcotics cooperation and is generally deemed the USG's most effective law enforcement partner in the Lesser Antilles.

The GOSL reported seizing 122 kg of cocaine and 349 kg of marijuana in 1999. They arrested 641 persons on drug charges and eradicated 29,850 cannabis plants. A joint USG/GOSL operation netted 26 kilos of cocaine and led to the arrests of smugglers, including two U.S. citizens in Puerto Rico. The USG and the GOSL cooperate extensively on law enforcement matters.

St. Lucian legislation, Number 22 of 1988, entitled "Drugs Prevention of Misuse Act," allows for asset forfeiture after conviction. The law directs the forfeited proceeds to be applied to treatment, rehabilitation, education and preventative measures related to drug abuse. However, there were no significant asset forfeitures in 1999. No major drug traffickers were arrested in 1999.

St. Lucia is a party to the 1961 UN Single Convention and its 1972 Protocol and the 1988 UN Drug Convention. St. Lucia has not acceded to the 1971 UN Convention on Psychotropic Substances. The GOSL signed a maritime agreement with the USG in 1995 and an overflight amendment to the maritime agreement. In February 2000, the U.S. and St. Lucia exchanged instruments of ratification which brought the MLAT and extradition treaties into force.

In late 1998 the GOSL appointed a new head of the National Drug Control and Prevention Secretariat. The Secretariat, with OAS/CICAD assistance, is currently finalizing a drug control master plan. Various community groups, particularly the police public relations office, continue to be active in drug use prevention efforts, with a particular focus on youth. St. Lucia offers drug treatment and rehabilitation at an in-patient facility known as Turning Point, run by the Ministry of Health. The St. Lucian police report that the D.A.R.E. program has been extremely successful.

St. Vincent and the Grenadines is the largest producer of marijuana in the eastern Caribbean and the source for much of the marijuana used in the region. Extensive tracts in the inaccessible northern half of St. Vincent are under intensive marijuana cultivation. However, because of the small size of the country, cultivation does not reach the major-producer threshold limit of 5000 hectares, nor does it significantly affect the U.S. As such, St. Vincent is not designated a major drug source country despite the pervasive influence of the drug trade in the country. Compressed marijuana is sent from St. Vincent to neighboring islands via private vessels. St. Vincent and the Grenadines has become a storage point for cocaine coming from Trinidad and Tobago and South America via inter-island cargo boats.

The illegal drug trade has infiltrated the economy of St. Vincent and the Grenadines and created dependence among some segments on marijuana production and trafficking. Vincentians acknowledge the dependence, but many have been reluctant to acknowledge the associated negative aspects occurring in the country: a decline in civil society, drug addiction, violent behavior, murders related to drug trafficking, disappearances, and increased general criminal activity.

To enhance its counternarcotics activities, the GOSVG requested and received U.S. Marine Corps helicopter airlift support for a marijuana eradication mission in December 1999. One hundred and twenty Vincentian and RSS forces destroyed approximately 700,000 mature cannabis plants and 4 million cannabis seedlings, and destroyed 14,000 lbs. of marijuana during the joint operation. The eradication effort, while substantial, must be viewed as only a beginning to a necessary on-going commitment to year-round ground-based eradication efforts by the GOSVG, if it is to make inroads in the pervasive cannabis production. Such continuous cannabis eradication efforts, together with the prosecution of known traffickers using conspiracy laws, seizure and forfeiture of trafficker assets, and vigilant port security need to be stepped up to have an impact. No major traffickers were arrested and no significant assets seized in 1999.

In 1999, GOSVG officials reported seizing over 15 kg of cocaine and 7.12 metric tons of marijuana. They arrested 501 persons on drug-related charges and eradicated 4.76 million cannabis plants. With insufficient resources, the police, customs, and coast guard try to control the rugged terrain and adjacent sea of St. Vincent and the chain of islands making up the Grenadines. Their reaction capability is limited.

St. Vincent and the Grenadines has a small, but growing, offshore financial services sector. Parliament passed a series of laws in 1996 to regulate the offshore sector, including an International Banks Act, an International Trust Act, and an International Business Companies Act. It is also currently putting into place the structure for an economic citizenship program. There is an offshore finance authority to regulate offshore activities. Money laundering per se has not been criminalized, although laundering of money received through certain crimes, including drug trafficking, is punishable under the 1997 Proceeds of Crime Act. Asset forfeiture is permitted under St. Vincent and the Grenadines' Drug Trafficking Offences Act of 1993, although no significant asset forfeitures have been made.

St. Vincent and the Grenadines is a party to the 1988 UN Drug Convention and the 1961 UN Single Convention as amended by the 1972 Protocol. The GOSVG signed a maritime agreement with the USG in 1995, but has not yet signed an overflight amendment to the maritime agreement. The GOSVG signed an extradition treaty in 1996, and an MLAT in January 1998, both of which were brought into force in September 1999.

An Advisory Council on Drug Abuse and Prevention, mandated by statute, has been inactive for several years. Drug detoxification is available at the government mental hospital, but no in-patient drug rehabilitation services exist. Drug prevention education is part of the family life curriculum in the schools, and the police-run D.A.R.E. program continues to be warmly received in selected schools, helping to overcome a general lack of public trust in the police. One NGO, Marion House, provides drug counseling in St. Vincent and has developed worthwhile initiatives in prisoner rehabilitation and prison officer training.

FRENCH CARIBBEAN DÉPARTEMENTS

Martinique, Guadeloupe, the French side of St. Martin, St. Barthelemy, and French Guiana are subject to French law and all international conventions signed by France. The Government of France (GOF) is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention, its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The Police Judiciaire, Gendarmerie, and French Customs Service together play a major role in narcotics law enforcement in these overseas departments of France, just as they do in the rest of France. South American cocaine moves through the French Caribbean and from French Guiana to Europe and, to a lesser extent, the U.S. There is not enough evidence to establish that the quantities destined for the U.S. are sufficient to have a significant effect on the U.S. However, the U.S. considers the broad geographical area of the eastern and southern Caribbean, of which the French Caribbean is a part, as an area of concern regarding the transit of drugs to the U.S. A small amount of cannabis is cultivated in French Guiana.

In addition to the agreements and treaties discussed in the report on France, USG and GOF counternarcotics cooperation in the Caribbean is enhanced by a multilateral Caribbean customs mutual assistance agreement which provides for information sharing to enforce customs laws, including those related to drug trafficking. Law enforcement cooperation in the Caribbean has also been greatly enhanced by the assignment of a French Gendarmerie liaison officer to the U.S. Joint Interagency Task Force-East (JIATF-E) at Key West, Florida. The USG and the GOF have been discussing a bilateral counternarcotics maritime agreement for the Caribbean for several years, and the USG still awaits a response from the GOF on agreement language proposed by the USG in 1998. During 1999, France stepped up its participation in joint interdiction operations in the Caribbean, which should pave the way to formalize these cooperative arrangements with an agreement. The USG believes such an agreement would further enhance the increasingly good operational relations in the Caribbean and hopes to resume negotiations in 2000.

The French Inter-Ministerial Drug Control Training Center (CIFAD) in Martinique offers training in French, Spanish and English to the Caribbean and Central and South America, covering such subject areas as control of money laundering and precursor chemicals, mutual legal assistance and international legal cooperation, coast guard training, customs valuation, and drug control in airports. CIFAD coordinates its training activities with those of UNDCP, OAS/CICAD and individual donor nations. U.S. Customs officers periodically teach at CIFAD. France supports European Union initiatives to increase counternarcotics assistance to the Caribbean. The EU and its member states, and the U.S. and other individual and multinational donors, are coordinating their programs of assistance closely through established mini-Dublin groups in the region and through bilateral and multilateral discussions. France is an active Cooperating and Supporting Nation (COSUN) to the Caribbean Financial Action Task Force (CFATF). In addition, the GOF is providing an experienced anti-money laundering officer to serve as Deputy Director of CFATF, headquartered in Port of Spain, Trinidad.

GUYANA

I. Summary

Guyana is increasingly being used for transshipment of South American cocaine en route to the U.S. and Europe, although there is not evidence that the cocaine entering the U.S. from Guyana is in an amount sufficient to have a significant effect on the U.S. Cocaine enters Guyana by sea, river, land or airdrop. Traffickers then take advantage of dense jungles, low population and weak law enforcement and judicial infrastructure to avoid more efficiently policed routes. While Guyana is not a major producer of illicit narcotics, drug traffickers have reportedly begun producing small quantities of cocaine in a very remote area and growing small amounts of marijuana. Despite limited resources, the Government of Guyana (GOG) had some success in interdicting drugs in 1999. Both the Guyana Police Force (GPF) and the Customs Anti-Narcotics Unit (CANU) cooperated with DEA, which resumed regular coverage in 1998. At President Jagdeo's direction, the GOG created a joint GPF/CANU task force to apprehend drug dealers, which conducted several successful operations in late 1999. Guyana is a party to the 1971 UN Convention on Psychotropic Substances and the 1988 UN Drug Convention. However, the GOG needs to pass and implement a wide range of additional legislation before it will be in compliance with the 1988 UN Drug Convention's goals and objectives.

II. Status of Country

With neighboring countries strengthening their interdiction efforts, traffickers are turning to Guyana as a safer transshipment route for South American cocaine. Guyana's borders are porous and largely unpatrolled, allowing narcotics to enter the country by road or river. Airdrops also occur at several remote and unmonitored airstrips. The narcotics are then transported to Georgetown, where they are illegally exported by commercial ship or air via intermediate stops in the Caribbean or, increasingly, directly to the United States and Europe. The growing presence of narcotics in Guyana has led to increased domestic use of illegal narcotics. Small amounts of marijuana are grown locally. In 1999, processing of Peruvian coca base reportedly began in the extremely remote New River triangle area near the Brazilian and Suriname tri-border. The lack of resources severely limits the GOG's ability to interdict and prosecute drug traffickers.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The GOG continued to support regional and local counternarcotics initiatives. In order to improve CANU's authority, the GOG in 1999 passed legislation granting CANU status as a bona fide law enforcement agency with full arrest, seizure, and prosecutorial powers. Additionally, the legislation provides magistrates with greater flexibility in sentencing drug users. In November 1999, President Jagdeo created a special anti-narcotics task force comprising CANU and GPF personnel. The task force coordinated raids on drug dealers in several coastal villages to reduce the availability of narcotics for local consumption.

In early February 2000, Parliament passed the Money Laundering (Prevention) Bill which criminalizes drug-related money laundering and allows for the expansion to other predicate offenses, and requires suspicious transaction reporting. The USG has not yet determined whether it meets international standards. The GOG has not enacted legislation specifically covering asset seizure, asset forfeiture or asset and intelligence sharing. However, the new money laundering law contains limited clauses addressing asset forfeiture. While senior government officials consistently express commitment to fighting narcotics and cooperating with the U.S. and other Caribbean countries, the lack of resources severely inhibits the GOG's capacity to carry out successful interdiction operations.

Accomplishments. Due to a lack of resources, coast guard operations in 1999 were limited, and the Guyanese were unable to replicate the 1998 high-profile seizure of the motor vessel *Danielsen* carrying over three metric tons of cocaine. While the GOG said that some of the proceeds from the sale of the *Danielsen* would go toward supporting counternarcotics efforts, the GOG has not yet found a buyer for the vessel. Nevertheless, the CANU and GPF continued to seize drugs and arrest persons involved in the narcotics trade. Resource limitations caused an actual decline in the amount of narcotics seized in 1999 as compared to 1998, while narcotics trafficking through Guyana has increased substantially.

Law Enforcement Efforts. The GOG remains committed to combating narcotics trafficking with interdiction efforts, and CANU has had some success arresting drug smugglers at the Cheddi Jagan International Airport. As discussed above, several successful operations were conducted by the newly created CANU/GPF task force. In August 1999, a delegation from the CANU, the Guyanese Defense Force (GDF) and the GPF visited the El Paso Intelligence Center (EPIC) as part of an effort to prepare for the implementation of the Joint Information Coordination Center (JICC).

Corruption. There were reports that individual GPF and Customs officials were assisting narcotics traffickers; however, few cases have been fully investigated or prosecuted. One GPF officer faces charges for assisting a cocaine smuggler in 1999 at Cheddi Jagan International Airport. In December 1999, counternarcotics efforts were set back when the Director of Public Prosecutions failed to bring charges against five drug traffickers arrested in 1995 and 1996, leading a judge to dismiss the charges. Guyana signed the Inter-American Convention Against Corruption in March 1996, but has yet to ratify the Convention.

Agreements and Treaties. Guyana is a party to the 1988 UN Drug Convention and the 1971 UN Convention

on Psychotropic Substances. The 1931 U.S.–UK extradition treaty is still in force between Guyana and the U.S. Guyana has an agreement to share narcotics intelligence with the UK. Guyana has not yet signed a maritime counternarcotics cooperation agreement with the U.S., which would enhance GOG effectiveness in combating narcotics trafficking.

Cultivation/Production. A small amount of cannabis cultivation takes place in Guyana's interior, and the police carried out several small eradication campaigns. There are reports of small cocaine processing operations in a remote area near the Suriname/Brazil tri-border.

Drug Flow/Transit. The flow of drugs, primarily cocaine or coca paste of Colombian or Peruvian origin, through Guyana is believed to have increased substantially in 1999. Because of Guyanese authorities' limited resources, a very large percentage of narcotics transiting Guyana probably is undetected.

Domestic Programs/Demand Reduction. There is some domestic consumption of marijuana. Domestic consumption of cocaine, crack cocaine and heroin is increasing. There are reports that international traffickers have given narcotics as payments to their Guyanese associates, which has increased the amount of narcotics available for local use. The GPF and the Ministry of Health conduct youth outreach through several local and international programs including D.A.R.E.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In 1999, the U.S. continued to broaden its counternarcotics efforts in Guyana through discussions by senior Embassy and State Department officials with Guyanese counterparts and regular visits by DEA personnel. In addition, the USG continues to provide training and equipment to enhance the GOG's counternarcotics efforts.

Bilateral Cooperation. Guyanese leaders continue to be receptive to U.S. counternarcotics efforts and assistance as the narcotics problem grows in Guyana. In September 1999, the GOG signed a Letter of Agreement with the USG accepting \$50,000 for use in counternarcotics training and equipment. In December 1999, the GOG agreed to provide crew for the Caribbean Support Tender, a U.S. Coast Guard vessel with a multinational crew that will provide training, ship maintenance and repairs, and logistics support to Caribbean nation coast guards. During 1999, the USG provided DEA training in basic narcotics investigations for the CANU and GPF and, through military training programs, counternarcotics training for the GDF. One Guyanese Customs official participated in the INL-funded U.S. Customs Integrity Reinforcement/Anti-Corruption Seminar for member states of the Caribbean Customs Law Enforcement Council (CCLEC) conducted in San Juan, Puerto Rico, in May 1999. The USG provided funding for a visit by senior CANU, GPF and GDF personnel to the El Paso Intelligence Center (EPIC) in an effort to improve coordination among Guyanese government entities involved in counternarcotics activities.

The Road Ahead. With narcotics trafficking through Guyana continuing to increase, the USG will redouble its efforts to assist the GOG in combating narcotics trafficking and abuse. We will continue to provide training, technical assistance and equipment to improve the counternarcotics capacity of the GPF, CANU, and GDF. We also plan to assist the GOG to update and modernize its criminal and legal statutes. The USG will encourage the GOG to take advantage of regional initiatives and fulfill its commitments under the 1996 UNDCP Barbados plan of action and the 1997 Bridgetown Summit action plan.

HAITI

I. Summary

Haiti is a major transshipment point for drugs, primarily cocaine, moving from South America to the United States. Haiti's weak democratic institutions, fledgling police force, and eroding infrastructure provide South America-based narcotics traffickers with a path of very little resistance. Haiti is a party to the 1988 UN Drug Convention.

Haiti achieved some anti-drug progress in 1999. The Government of Haiti (GOH) and the USG collaborated in targeting the principal Colombian drug trafficking organization operating in Haiti—the Coneo family—and arrested two of its key members. The GOH deployed its Joint Information Coordination Center (JICC). The GOH continued to implement the proposed GOH/USG Maritime Counternarcotics Interdiction Agreement. It officially agreed to expel non-Haitians fugitives wanted by the U.S. Justice Department. The GOH cooperated with the Dominican Republic in planning for a Haitian border control unit and police exchange program.

Prime Minister Alexis approved the concept of the 1997 draft CN master plan as well as the creation of a National Drug Council that the draft plan called for. He assigned a special judiciary team to update counternarcotics draft legislation for parliament's earliest approval. The Prime Minister also called for formation of a special anti-corruption commission.

Several important counternarcotics goals, however, remained unfulfilled. While the estimated flow of cocaine to Haiti increased slightly during 1999, the GOH seized less than a third of the amount of cocaine it did in 1998.

The HNP deployed none of the twenty-five new officers it had pledged for its counternarcotics unit (the BLTS) for 1999. The GOH failed to draft a much-needed Memorandum of Understanding on Interagency Cooperation. It allowed Haitian Customs and Immigration to spurn CN cooperation with the HNP at ports and airports and to withdraw from participation with the HNP in the JICC. With only two exceptions, mere dismissal—rather than arrest and prosecution—continued to be the standard punishment for narcotics corruption among police. The GOH failed to produce a promised report on 1998's notorious "450 kilo affair." The judicial system continued to move slowly, and while numerous drug cases were handed to the system for investigation, there were no drug convictions in 1999. The GOH also took no steps to join the Caribbean Financial Action Task Force.

In September, a ministerial-level bilateral meeting with the Dominican Republic resulted in the creation of a thirteen-part agreement to increase counternarcotics cooperation between the two nations. The GODR approved the accords at the highest levels and stands ready to carry them out, but precipitous personnel changes in the Haitian Government have put at risk further progress.

II. Status of Country

Because parliament has not functioned since 1997, the GOH has been unable to pass key counternarcotics bills. Thus Haitian authorities continued to be deprived of long-needed criminal laws and law enforcement tools. Those authorities continue to suffer from inexperience, lack of resources, a crumbling infrastructure, and an antiquated legal system. The police to population ratio is one of the lowest in the world, and the nation's counternarcotics police unit (BLTS), which serves a population of eight million, numbers only twenty-four. Haiti's poverty, the worst in the hemisphere, makes it exceptionally vulnerable to official narcotics corruption. As a result, Haiti increasingly serves as an important transit point and repository for large cocaine shipments en route from South America to the United States. Both USG and GOH authorities recognize the unmistakable signs of money laundering activities, which Haitian law has not yet criminalized.

III. Country Action Against Drugs in 1999

Policy Initiatives. Because of the continuing political impasse, the critical anti-drug policy initiatives begun in 1997 by the GOH continued to be on hold throughout 1999. These included adoption of an anti-drug National Master Plan and enactment of money laundering/asset forfeiture/chemical control laws. Some policy initiatives were undertaken, however. The Prime Minister approved the concept of a National Drug Council (NDC), and a decree by the Inter-Ministerial Council establishing the NDC is expected in early 2000. The NDC will likely modify an existing CICAD-approved CN master plan written in 1997 by Groupe Magloire (a panel headed by Special Judicial Advisor Rene Magloire). The Prime Minister ordered a special judicial review committee to ready new legislation, including anti-drug and anti-corruption bills, for presentation to the new parliament once it is seated, in early summer of 2000 at the earliest.

With backing from UNDCP, Rene Magloire organized a two-day seminar for discussion and clarification of the drug problem in Haiti in May of 1999. Members of both the private and public sectors met to debate the problem and seek solutions. The discussions resulted in the formulation of several recommendations in the areas of demand reduction, law enforcement, and national coordination. Groupe Magloire published a review of the seminar and its recommendations in December of 1999 for the review of both the GOH and UNDCP.

In its strategic plan to secure free and fair elections, the HNP leadership recognized the importance of urgent measures to fortify against the likely increase in drug trafficking during the pre-election period. Indeed the HNP made counternarcotics one of its five election related priorities. Under the plan, the HNP requested international donor assistance in the areas of equipment, training, and infrastructure, particularly for police stations along the south coast. By the end of 1999, three stations had been rehabilitated and two had been newly constructed.

In September of 1999, the Minister of Justice and the HNP leadership initiated a regional meeting with their Dominican counterparts. The meeting resulted in the creation of a thirteen-point agreement to increase counternarcotics coordination between the two neighboring nations. The GOH plans to implement several of the points, such as counternarcotics personnel exchange and increased communication between border control units, in the year 2000. However, implementation may be hampered by the October 1999 resignation of the GOH Public Security Secretary, a prime mover in GOH/GODR anti-drug collaboration.

Illicit Cultivation and Production. Haiti is not a major drug cultivating or drug producing country. The cultivation, production, distribution, sale and possession of narcotics are illegal in Haiti.

Drug Flow and Transit. USG estimates indicated that some 67 metric tons of cocaine moved through Haiti during 1999, a 24 percent increase over the 1998 USG estimate of 54 metric tons. USG estimates also indicated that nearly 14 percent of the cocaine moving from South America toward the United States passed through Haiti in 1999, compared to 10 percent in 1998.

During 1999, Colombian traffickers shifted somewhat from their 1998 pattern, which directed "go-fast" boats to the unprotected south coast of Haiti. Maritime movement relied increasingly on nondescript fishing vessels

and targeted nearly every port of entry, principally Port au Prince, Cap Haitien and Jacmel.

In 1999, airdrops constituted over a third of the estimated flow into Haiti, whose highway system is in shambles and whose mountainous terrain provides nearly undetectable drop and landing sites. While the USG was able to track suspicious aircraft bound for Haiti, GOH law enforcement teams were usually unable to respond.

When cocaine enters Haiti it is often transferred overland to the Dominican Republic from whence it either goes directly to the U.S. mainland or Europe, or via small vessels to Puerto Rico. Once there, the cocaine is shipped via container cargo vessels or commercial airliners to the U.S. or Europe. Cocaine is also smuggled out of Haiti directly to the Continental United States in containerized cargo or on bulk cargo freighters.

Money Laundering/Asset Seizure. Because the GOH has no laws against money laundering nor any cross-border currency transfer declaration requirements, Colombian traffickers have moved cash freely through Haiti without threat of loss. In prior years and in the first half of 1999, the GOH almost invariably returned seized cash to its bearer. During the second half of 1999, however, the GOH manipulated existing laws to retain a substantial percentage of its cash seizures. The BLTS dramatically increased cash seizures in 1999 to approximately USD 3,600,000 from just under USD 1,000,000 in 1998. The BLTS also seized one house worth approximately USD 2,000,000 as well as several vehicles valued at \$160,000 during 1999 cocaine seizures and investigations.

Domestic Programs/Demand Reduction. The GOH does not operate a demand reduction or public awareness program. The Association for Alcohol Prevention and Chemical Dependency (APAAC), a private non-governmental organization, remains the only establishment with treatment programs for substance abuse. All anecdotal reports indicate that local consumption continues to increase as traffickers increasingly pay off their personnel in kind.

The UNDCP plans to carry out a survey in 2000 in conjunction with APAAC and, based on its results, the National Drug Council will contact educators to press for demand reduction programs in the schools.

Law Enforcement Efforts. The focus of the GOH anti-drug law enforcement efforts is on the prevention of transport and distribution of illegal drugs. GOH and occasional private sector concern over the destructive potential of trafficking through Haiti is on the rise. Counternarcotics efforts are less a priority than the more pressing matters of social order and personal protection.

During 1999, the HNP seized 430 kilos of cocaine, less than one-third the amount of 1998. This decline in seizures may be due in part to a shift by Colombian traffickers from maritime drug shipments to airdrops. The latter are effectively beyond the reach of Haitian law enforcement units.

The HNP made 72 drug-related arrests in 1999. Four of those arrested were Colombian members of the Coneo drug trafficking organization—two considered major traffickers and two minor members of that organization. Two arrestees were HNP officers. Of the 72, 61 were Haitian, four Colombian, two Dominican Republicans, two Syrian, one American, one Guatemalan, and one Guyanese. Of the 72 arrested in 1999, 62 are in prison at various stages of prosecution, none near actual trial, and six were released. The GOH expelled the four Colombians, who could not be prosecuted under existing Haitian law: one key Coneo member (the wife of the organization's kingpin) was expelled to the Dominican Republic where she faces passport fraud charges, and the other key member (a brother of the kingpin) was expelled to Colombia; one minor Coneo member (another brother of the Coneo kingpin) was expelled to the Dominican Republic (and subsequently to Colombia by the GODR) and the other Coneo henchman to Colombia.

During 1999, the Haitian Coast Guard (HCG), maritime arm of the HNP, seized 43 kilos of cocaine. During 1999 the HCG achieved its first seizure ever made without USCG assistance. The HCG recovered two "go-fast" boats on the south coast. HCG and USCG personnel joined in four dockside boardings that yielded positive evidence of smuggling. 1999 saw a significant increase in HCG boardings of local traffic inside the claw of Haiti. HCG personnel continue to participate in the shiprider program that allows for numerous USCG boardings within Haitian waters. The HCG also participated in a Caribbean-wide training operation.

HNP leadership repeatedly exhibited cooperation with U.S. authorities in counternarcotics efforts in 1999. In February, the HNP worked closely with DEA to successfully disrupt the Coneo organization's trafficking operation in Haiti. It also collaborated with U.S. authorities in two 1999 operations that combined assets from the USCG, DEA, and U.S. Customs and the GOH. The noticeable temporary decrease in airdrop and "go-fast" activity together with reports from in-country informants proved both operations to be major deterrents to smugglers. The GOH also collaborated with the USG in the federal prosecution of a U.S. airline flight attendant accused of transporting 10 kilos of cocaine from Port au Prince to Miami.

GOH law enforcement officials supported 1999 U.S. efforts to establish a Joint Information Coordination Center (JICC) in the Port au Prince International Airport. The HNP provided three well-trained intelligence analysts to the JICC staff, although Haitian Customs and Immigration did not carry out their commitments participate in

the JICC. Following INL-sponsored training, the JICC began operations in October. It directly contributed to at least one late 1999 arrest and cash seizure in the Dominican Republic.

The HNP did not carry out its pledge to deploy twenty-five additional BLTS officers in 1999. However, it did identify ten officers to be assigned and deployed in 2000. The HNP leadership and the Prime Minister agreed to provide an additional forty officers following parliamentary elections set for March 2000. They also sanctioned bi-weekly coordination meetings of the HCG and BLTS with their U.S. Embassy counterparts to combat airdrops and maritime smuggling.

Despite some signs of progress, GOH law enforcement entities continue to suffer from inexperience, an outdated legal system, and lack of interagency coordination. The Haitian Customs force, while responsible for several airport drug seizures in 1999, continues to deny the BLTS complete access to the Port Au Prince airport. In November, the Prime Minister ordered the heads of HNP, Customs, Immigration, and the Foreign Ministry to meet to discuss increased cooperation among GOH law enforcement agencies in both the airport and other interagency endeavors throughout Haiti, but there have been no concrete results.

Corruption. Corruption continues to spread throughout the GOH, despite continuing official iterations that it must not be tolerated. The Prime Minister, in his May 1999 list of aspirations for the GOH, called for a special anti-corruption commission which will address, among other matters, money laundering. The Commission will reportedly be officially announced in January of 2000. Also, in late 1999 the Prime Minister issued a directive that all bank directors must inform both the Central Bank and the Ministry of Justice of any large financial transactions.

The HNP Inspector General's office issued no statistics in 1999 on police implication in the drug trade. With two exceptions in 1999, police arrested for drug trafficking were only dismissed from the force without being prosecuted. The GOH did not resolve the "450 kilo affair," the alleged 1998 theft by policemen of a large cocaine shipment (in which high-level HNP involvement had been publicly rumored), and it failed to publish a promised public report on the case. Despite release orders by the investigating judge who cleared them of involvement in the affair, two low-level members of the BLTS arrested in 1998 remained in prison without due process. The GOH also failed to renew the appointment of the investigating judge.

In the Justice, Customs and Port Authority sectors, corruption remains a driving force. Although the rate of pay for judges was raised by 150% in 1999, bringing it to a level slightly higher than that of a policeman, judges' salaries remain sufficiently meager to make them vulnerable to bribes. Similarly, poorly paid Customs agents profit from widespread contraband activities in Haiti's ports. An estimated two-thirds of Haiti's imports arrive without the knowledge of or with the collusion of Haitian Customs.

Agreements and Treaties. Haiti is a party to the 1961 UN Single Convention, its 1972 protocol, and the 1988 UN Drug Convention. During 1999, as a result of government deadlock, the parliament failed to ratify the 1971 UN Drug Convention. In late 1999 in Paraguay, Haiti signed an affirmation of the 1998 Santiago Declaration in support of a CICAD-designed mechanism for multilateral evaluation of participating countries' counternarcotics efforts.

The GOH and the USG signed a six-part comprehensive maritime counternarcotics interdiction agreement in October of 1997. Although Haiti has still not taken the necessary parliamentary action to put the agreement in force due to its political stalemate, the GOH is implementing the provisions of this proposed agreement.

A 1904 bilateral extradition treaty between the USG and the GOH remains in force, but is not being utilized at this point because of the chaotic situation in Haiti. The 1987 Haitian constitution prohibits the extradition of Haitian nationals. In its FY 1999 Letter of Agreement with the United States, the GOH committed to act with diligence on all U.S. requests for deportation or expulsion to the U.S. of non-Haitian nationals wanted by the U.S. justice system. Further, the HNP permitted DEA to fingerprint all Colombians in Haitian prisons in an effort to check for those possibly wanted in the U.S. The USG did not request the expulsion to the U.S. of any non-Haitian nationals in 1999.

In 1997 the Haitian Foreign Ministry began review of an OAS Mutual Legal Assistance Treaty (MLAT) which, if ratified by the USG and GOH, would facilitate greater bilateral law enforcement cooperation. However, the GOH took no action on the proposed MLAT in 1998 or 1999.

IV. U.S Policy Initiatives and Programs

The plan of the U.S. Mission in Haiti for combating illegal drugs continues to be to reduce the amount of narcotics transiting Haiti while strengthening the capacity and operational effectiveness of the GOH institutions that oppose narcotics trafficking. This approach addresses both law enforcement entities and the justice sector, providing not only training, equipment, and infrastructure, but also operational support and mentoring. In addition, the strategy calls for U.S. efforts to foster interagency and international cooperation among GOH officials and to fight official corruption wherever possible.

In September of 1999, the USG and the GOH signed a Letter of Agreement under which the USG will provide USD 620,000 in FY 1999 counternarcotics assistance funds. The agreement covers projects to be mutually undertaken in the areas of law enforcement training, a Haitian-Dominican border counternarcotics initiative, the formation of a special investigative team to target major international traffickers, and anti-money laundering efforts.

USD 250,000 was obligated through INL in 1999 to assist Haiti in the aftermath of Hurricane Georges. The funds will be used to conduct an anti-corruption seminar in CY 2000.

The staff of the DEA's Port Au Prince Country Office, whose 1998 complement consisted of varying numbers of both permanent and temporary duty members, solidified in 1999 at eight permanent members. DEA divided the HNP's BLTS team into three distinct groups to address street, maritime, and airport endeavors and took leadership roles in both Operations Frontier Lance II and Columbus.

In 1999 U.S. Southern Command earmarked approximately USD 300,000 for infrastructure and training support to the HCG and was key in the execution of Operations Frontier Lance II and Columbus.

A U.S. Customs training and assistance project valued at \$182,000, (from USAID FY 1998 funds), carried out five training missions for Haitian Customs and HNP during 1999, focusing on search procedures for seagoing vessels and aircraft. They also provided inspection tools and additional training equipment to Haitian Customs agents.

The Road Ahead. One of the United States' key national interests is stanching the flow of illegal narcotics transiting Haiti. The overall objectives of the U.S. Mission in Haiti in support of that interest are (1) improving the operational effectiveness of the GOH institutions that address illegal drugs; and (2) pursuing narcotics traffickers operating in Haiti in order to arrest, try and convict them either here or in the US. These objectives involve assisting the HNP to develop an effective narcotics interdiction capability while simultaneously working with it operationally to interdict narcotics traffickers. They also entail working to forge an effective counternarcotics team that will include Haitian Customs, Immigration, and Judiciary. To this end the USG will provide substantial training both inside and outside Haiti to the BLTS, the HCG, the JICC, and allied elements in the Judiciary, Customs, and Immigration.

Conceptually, the U.S. Mission intends to employ the "total package approach" which has been so successful with the

development of the HCG. This approach will involve coordinated interagency participation across a broad spectrum of areas including the development of infrastructure, the provision of equipment and training, and operational mentoring.

The U.S. Mission envisions Haiti as a square with one land and three maritime frontiers. Its efforts at interdiction on the western face of the square include creation of counternarcotics task forces lead by the BLTS at both the airport and seaport in Port au Prince, and development of the ship-boarding/search capability of the HCG operating from their Killick base near Port-au-Prince. In FY-2000 the U.S. Mission plans to repair the pier facility at Killick to facilitate further growth of the HCG. It intends to utilize a surplus U.S. military trailer to create an office for the BLTS at the seaport. It intends to use ICITAP and DEA assistance to fully integrate the JICC, which became active in 1999, into counternarcotics operations.

During FY 2000, the U.S. Mission in Haiti will construct a new HCG base at Cap Haitian on Haiti's northern coast. This base will include an operations center for the BLTS to facilitate its operations. The Prime Minister has given priority to enhancing the Haitian presence on Haiti's land border with the Dominican Republic by increasing the number of HNP officers there and deploying customs, immigration, and tax collection officers to the principal border crossing point at Malpasse. The U.S. Mission will support this initiative by assisting with the construction of an inspection point and a small-boat launching facility. U.S. Southern Command engineers already have done a preliminary site survey.

On the critical south coast, construction of a much-needed HCG facility in Jacmel has been unavoidably delayed by a major, ongoing reconstruction of the civilian port. Construction of the HCG base in Jacmel will not begin until FY01. As a substitute for the postponed Jacmel base, the U.S. Mission is pressing forward with the rehabilitation of an old Haitian naval base in Les Cayes. While not sealing Haiti's land and sea borders, these bases will establish an HCG presence on the south coast for the first time.

There is reason for guarded optimism that the GOH and USG can make progress during 2000. In 1999, for the first time, Haiti's Prime Minister took personal interest in the provisions of the Letter of Agreement governing counternarcotics funding by INL. He has directed that the HNP and Customs work together to counter narcotics trafficking, hopefully ending Custom's withdrawal, beginning in April 1999, from DEA's counternarcotics task forces at both the port and airport. Even with the support of the Prime Minister, however, counternarcotics efforts in Haiti will remain precarious. With both parliamentary and local elections set for March and presidential elections scheduled for November, there is considerable concern that the HNP will become

politicized or corrupted to the point that counternarcotics operations may be compromised. Under those circumstances it could become impossible for the USG to continue working with the HNP. At present, Haiti's counternarcotics capability is rudimentary at best, but it is improving in response to USG assistance. Unfortunately, at the same time narcotics-related corruption within the GOH and civil society is growing. There are indications that narcotics use is spreading within Haitian society as a consequence of increased trafficking activity. Haiti is therefore engaged in a race against time to see whether the ability of the GOH to combat narcotics trafficking can outstrip its corrosive effects on Haitian society.

Haiti Statistics

(1991-1999)

	1999	1998	1997
Seizures			
Cocaine (mt)	0.43	1.35	1.25
Heroin (mt)	0.00	0.81	0.00
Marijuana (mt)	0.07	0.81	8.40
Arrests/Detentions			
Nationals	63	45	40
Foreigners	9	40	0
<i>Total Arrests</i>	<i>72</i>	<i>85</i>	<i>40</i>

JAMAICA

I. Summary

Jamaica is a major transit point for South American cocaine en route to the U.S. as well as the largest Caribbean producer and exporter of marijuana. During 1999, the Government of Jamaica (GOJ) made progress towards meeting the goals and objectives of the 1988 UN Drug Convention. At regional meetings, GOJ officials actively supported counternarcotics initiatives. Bilateral counternarcotics cooperation is good and improving. In the area of maritime law enforcement, Jamaican forces continued to participate in combined operations under the Jamaica-U.S. bilateral maritime agreement.

In March 1999, Jamaica took an important step in its effort to create an anti-money laundering regime which meets international standards by amending the 1996 Money Laundering Act to require the reporting of suspicious transactions. However, further amendment to the law is required to address the critical issue of money laundering in relation to the proceeds of other serious crime. The GOJ has stated that, as a first step, it has drafted amendments to the money laundering act that will add fraud and firearms offenses as predicate offenses. The GOJ is in the process of establishing a financial analysis unit to identify money-laundering activities, but has not yet provided staff for the unit. Jamaica's current asset forfeiture regime does not permit the GOJ to take full advantage of the forfeiture mechanism to augment the resources of its anti-drug agencies and deprive criminals of the proceeds of their crime. Current Jamaican law requires the conviction of a criminal drug defendant prior to commencing a forfeiture action. In 1999, Parliament passed legislation permitting the GOJ to enter into agreements with other governments to share assets confiscated from drug traffickers and other criminals. The GOJ enacted a Precursor Chemicals Act and has budgeted for implementation of chemical controls. The USG has already provided training to Jamaican precursor chemical control personnel. In late

1999, the GOJ introduced a bill in Parliament establishing drug courts, which passed both houses and now awaits the signature of the Governor General.

Transparency International and other organizations have reported that corruption is viewed as a grave problem in Jamaica; drug trafficking adds to the problem. The GOJ's anti-corruption legislation, introduced in Parliament in 1998, passed the House and Senate in different versions; a compromise bill is currently being crafted by a joint select committee of Parliament. The GOJ's position is that passage of the Anti-Corruption Act must occur before it can ratify the Inter-American Convention Against Corruption, which Jamaica signed in March 1996. The GOJ has a policy of investigating credible reports of police corruption, including those related to drugs, but more needs to be done to root out corruption in the public sector.

The GOJ extradited four people to the U.S. in 1999; there are sixteen active pending extradition requests. In 1999, the GOJ developed, with USG assistance, a special fugitive apprehension team to target and apprehend fugitives from justice. The team has thus far located three fugitives and provided information for several U.S.-based investigations. The GOJ arrested 6,718 drug offenders in 1999. Nevertheless, no major drug traffickers were arrested or convicted during 1999 and continue to operate with apparent impunity. The GOJ agreed in 1998 to develop a vetted special investigative unit to target drug kingpins, but the unit is not yet in existence. While the GOJ has stated its intention to enact wiretap legislation, the proposal for such legislation is still under discussion in the Cabinet.

The GOJ met the marijuana eradication goal of 800 hectares set out in the FY 98 Letter of Agreement (LOA) with the USG. In addition, the GOJ agreed in the LOA to pay a share of the marijuana eradication teams' salaries, currently funded by the USG, beginning in June 2000. While the GOJ made some progress in implementing the recommendations contained in a 1997 port security assessment, security at Jamaica's ports remains a concern. The GOJ needs to take steps to improve security at its ports, including implementation of the remaining recommendations from the 1997 assessment. Additionally, the GOJ should consider providing the means to admit evidence obtained by ionscan technology in Jamaican courts. The GOJ has in place a national drug control strategy that covers both supply and demand reduction; the GOJ should add to its strategy specific goals and objectives and measures of effectiveness. Jamaica is a party to the 1988 UN Drug Convention.

II. Status of Country

Jamaica, the foremost producer and exporter of marijuana in the Caribbean, is also a major transit country for cocaine destined for the U.S. and other international markets. Jamaica-based traffickers use couriers who board commercial airlines attempting to smuggle cocaine that they have ingested or concealed in their clothing or luggage. U.S. Customs reports that more than 63% of all arrests at U.S. airports for cocaine possession involved flights originating in Jamaica. Multi-ton shipments of marijuana leave Jamaican ports for the U.S. in commercial cargo. Jamaica is not an offshore banking center, and local criminals distrust Jamaican financial institutions. Locally laundered money is used to acquire real assets, such as houses or cars, rather than financial instruments. The USG and OAS/CICAD share a growing concern over the vulnerability of Caribbean ports, including those in Jamaica, to illegal diversion of precursor and essential chemicals. In Jamaica, illicitly obtained isopropyl alcohol is used to distill hash oil.

III. Country Actions Against Drugs in 1999

Jamaica's counternarcotics efforts have taken place against a backdrop of severe resource constraints caused by a continuing recession; 1999 could be Jamaica's fourth straight year of negative economic growth.

Policy Initiatives. Parliament passed legislation in 1999 enabling the GOJ to enter into agreements with other governments to share assets confiscated from drug traffickers and other criminals, the proceeds from which can be shared by the Ministries of National Security and Justice, Health, and Education and Culture. In late 1999, the GOJ presented in Parliament legislation to create drug courts, which passed both houses in December and now awaits signature by the Governor General.

Accomplishments. In September 1999, Jamaica signed a Letter of Agreement (LOA) with the U.S. that supports projects designed to preclude the exploitation of Jamaican territory by drug producers and traffickers and other international criminals. In March 1999, the Jamaican Parliament passed amendments to the 1996 Money Laundering Act which raised the threshold for mandatory transaction reporting from \$10,000 (equiv.) to \$50,000 (equiv.) and added mandatory reporting of suspicious transactions of any amount. Further GOJ action is required, however, to bring its anti-money laundering law in line with international standards, especially extending the law to cover laundering of the proceeds of all serious crime. The GOJ has stated that, as a first step, it has drafted amendments to its money laundering law to add fraud and firearms offenses as predicate offenses. Although the GOJ has taken steps to establish a financial analysis unit, it has not yet provided staff for the unit. Jamaica's air and seaports continue to be utilized by traffickers of illegal drugs. The Jamaica Customs Service took some measures to improve security at Kingston's seaport and international airport, including participating in USG-supported training and acquiring some x-ray machines, which unfortunately

cannot scan the larger 500-pound barrels commonly used to import goods into the country. In addition, the GOJ took action on some of the recommendations contained in the 1997 port security assessment conducted by the USG at Jamaican request. The Jamaican Coast Guard continued to participate regularly in combined maritime interdiction operations with the U.S. and, to augment its maritime resources, the GOJ purchased a former U.S. Navy tugboat.

Asset Seizure. Jamaica's current asset forfeiture regime does not permit the GOJ to take full advantage of the forfeiture mechanism to augment the resources of its anti-drug agencies and deprive criminals of the proceeds of their crime. The 1994 Drug Offenses (Forfeiture of Proceeds) Act requires a criminal drug-trafficking conviction as a prerequisite to the forfeiture of assets associated with drug trafficking. Jamaica does not have a civil forfeiture statute. During 1999, Jamaican authorities detained 20 vessels suspected of involvement in drug smuggling, two of which were auctioned with the proceeds going to the Treasury.

Precursor Chemical Control. Jamaica is not a source of precursor or essential chemicals used in the production of illicit narcotics. A Precursor Chemicals Act was enacted in December 1999. The GOJ has budgeted for implementation of chemical controls, and the USG has already provided training to Jamaican precursor chemical control personnel. (See also Chemical Chapter.)

Law Enforcement. DEA reports that counternarcotics cooperation with the Jamaican Constabulary Force (JCF) is very good and improving. During FY 99, joint DEA/JCF investigations resulted in 194 arrests compared with 73 in FY 98. Drug-related arrests in 1999 numbered 6,718; however, none of those was a major drug trafficker. DEA has been working closely with the JCF to improve targeting of Jamaican drug kingpins and their organizations. The GOJ agreed in 1998 to develop a vetted special investigative unit to target drug kingpins, but the unit is not yet in existence. While the GOJ has stated its intention to enact wiretap legislation, the proposal for such legislation is still under discussion in the Cabinet. Both the Jamaican Defense Force (JDF) and the JCF assign a high priority to counternarcotics missions. This has resulted, with U.S. funding support, in a continuous marijuana eradication effort and the elimination of a number of hash oil processing labs. In addition to the cannabis manually eradicated by JDF and JCF personnel, GOJ authorities in 1999 seized and destroyed 56.2 metric tons of marijuana compared with (revised) 35.9 metric tons in 1998. In 1999, hash oil seizures totaled 371.5 kilograms; hashish seizures totaled 61 kilograms; and cocaine seizures totaled 2,455.3 kilograms, 1,066 kilograms of which were seized as the result of an interdiction in international waters by the U.S. Coast Guard of a Jamaican-registered go-fast boat.

Corruption. The GOJ does not encourage or facilitate the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. The GOJ has not prosecuted any senior Jamaican government official for facilitating the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. As a matter of policy, the GOJ prosecutes individuals who by reliable evidence are linked to drug-related activity. The GOJ presented an anti-corruption bill in Parliament in 1998 that requires financial disclosures from senior civil servants and elected officials. In 1999, the House and Senate passed different versions of the legislation; a joint selected committee of Parliament is currently crafting a compromise bill. Upon enactment of its anti-corruption bill, the GOJ has said it will ratify the Inter-American Convention Against Corruption.

The GOJ likewise has a policy of investigating credible reports of police corruption, including those related to drugs, but more needs to be done to root out corruption in the public sector. During 1999, 32 police officers were arrested for criminal violations, seven of whom were charged with drug-related offenses. In 1998, 63 police officers were arrested for criminal offenses. In September 1999, the police commissioner transferred the entire 91-member special anti-crime task force because of allegations that some members were involved in unprofessional and possibly criminal conduct. With respect to drug use policies, the JCF instituted a program of random drug testing for police officers in 1998, and the Jamaica Defense Force (JDF) has a "zero tolerance" policy on drug involvement by its members.

Agreements and Treaties. Jamaica has a mutual legal assistance treaty (MLAT) and an extradition treaty with the U.S. Both countries utilize the MLAT in combating illegal narcotics trafficking and other crimes. Jamaica is also a party to the MLAT among the Commonwealth states. During 1999, four persons were extradited to the U.S., compared to three by extradition and one under a waiver of extradition in 1998. The GOJ and USG consulted on the list of pending extradition requests and removed from it all non-active cases, leaving 16 active pending requests; three of these criminals are currently in custody. Jamaican authorities are generally receptive to and cooperative with U.S. requests for extradition. Extended delays result from the numerous appeals available to Jamaican criminal defendants. Combined with an overburdened court system, this means that contested extradition requests can take from four to five years (and possibly longer) to fully litigate. With the creation of the GOJ's fugitive apprehension team, the number of fugitive apprehensions should increase. The team has been successful in locating three fugitives in addition to providing information for several U.S.-based investigations. The USG is supporting the team with operational assistance and training. A U.S.-Jamaica maritime counternarcotics cooperation agreement came into force in February 1998.

Illicit Cultivation/Production. Jamaica is the largest Caribbean producer and exporter of marijuana. The consumption of marijuana is illegal in Jamaica, and the GOJ has consistently rejected calls for its legalization. In 1999, however, the upper house of Parliament established a commission to review the "decriminalization" of personal usage of marijuana, and the ruling People's National Party, despite the plea of the Minister of National Security and Justice, adopted a resolution unanimously calling for a commission to investigate the legalization of personal usage of small amounts of marijuana.

There is no accurate estimate of the amount of marijuana under cultivation or on the number of harvests per year. Crops are usually concealed in swamps and other remote areas that have limited road access. At Jamaica's request, the USG continues to provide assistance in conducting an aerial survey to target more precisely areas under cannabis cultivation. To date, the USG has been unable to complete its analysis of the survey results. The JDF and JCF continued to cooperate on U.S.-funded marijuana eradication operations utilizing their limited resources. In November 1999, the marijuana eradication program was placed under JDF management and, in the FY 99 Letter of Agreement (LOA) with the USG, the GOJ agreed to begin paying half of the marijuana cutter teams' salaries, which the USG currently funds, beginning June 2000 and their full salaries beginning June 2001. The FY 98 LOA set a tentative cannabis eradication goal of 800 hectares (2000 acres), which the GOJ met in 1999. Eradication data are analyzed and compiled in each parish (district) by the JDF and JCF field officers into a monthly report. As a matter of policy, Jamaica does not use herbicide to eradicate cannabis. Manual cutting is the method utilized.

Demand Reduction. Jamaica has several active demand reduction projects in place. The UNDCP is active in Jamaica and works directly with the GOJ and non-governmental organizations (NGOs) to improve demand reduction efforts. The European Union has agreed to fund a large three-year demand reduction project beginning in December 1999. Two of the most highly visible projects are those of the National Council on Drug Abuse (NCDA) and the NGO Addiction Alert. The UNDCP has funded an integrated demand reduction program managed by the NCDA. In 1999, Addiction Alert received U.S. funding for its adolescent drug prevention program. The GOJ makes extensive use of the audiovisual, print media and other materials produced by U.S. Military Information Support Teams (MIST) deployed in country. The MIST teams have worked closely with national demand reduction agencies to develop and distribute materials reinforcing an anti-drug message.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The GOJ publicly states its commitment to combating illegal drugs. Jamaica, however, operates under severe resource constraints, with half of its national budget going for debt servicing alone. The USG has provided funding for GOJ counternarcotics efforts continuously since 1987 and has provided more counternarcotics assistance to Jamaica than to any other Caribbean country. Despite limited resources, 1999 saw some improvement in GOJ counternarcotics activity, including Jamaican Coast Guard participation in U.S./Jamaican maritime interdiction operations under the bilateral maritime counternarcotics agreement, and commitments made by the GOJ in the LOAs with the USG. In addition, the GOJ spends substantial amounts to maintain an interdiction capability consisting of helicopters and patrol vessels. In 1999, the USG refurbished several boats for the JDF Coast Guard and is providing in FY 2000 two 82' cutters to augment the GOJ's maritime resources. The USG also provided the JCF narcotics division with three mobile homes to be used as temporary office space at strategic points around the island. The JCF in 1999 formed a fugitive apprehension team that will, inter alia, locate fugitives wanted for extradition to the U.S. The GOJ continued to fund the operating expenses for the Caribbean Regional Drug Law Enforcement Training Center following the expiration of UNDCP funding in 1998. The training center, built with U.S. funds under a UNDCP project, has provided specialized training for hundreds of regional law enforcement officers since its inception in 1996. At the police operational level, Jamaican cooperation with DEA and FBI remained positive. Nevertheless, the GOJ has experienced difficulties in making cases against major drug traffickers, and Jamaican borders continue to be vulnerable to traffickers moving contraband, especially drugs and firearms.

In June 1999, a U.S. Customs team conducted an assessment of the effectiveness of the Jamaica Customs Contraband Enforcement Team (CET) at the Port of Kingston, following which six Jamaican Customs CET officers traveled in July to Port Everglades, Florida, to observe U.S. Customs CET operations. In October, U.S. Customs conducted an INL-funded Airport Narcotics Interdiction Course and Train-the-Trainer Workshop in Jamaica for 45 customs, police, immigration, and port security officials, presented an INL-funded Air Carrier Initiative Seminar to 70 airline security officers, and conducted eight site surveys of airline facilities at the Kingston and Montego Bay airports.

Road Ahead. The general challenge for any Caribbean state is to avoid becoming a "weak link" in the fight against transnational organized crime. Jamaica has taken some steps to protect itself against drug trafficking and other types of organized crime, but the GOJ needs to act aggressively if it is to achieve the goal of a fully integrated and coordinated institutional structure capable of investigating and prosecuting cases against major drug and crime figures. While the GOJ has a national drug strategy covering both supply and demand reduction, the GOJ should add specific goals and measures of effectiveness to its plan. The GOJ also needs to

Nationals	6,385	7,093	3,143	2,996	3,325	788	899	785	4,353
Foreigners	333	259	221	267	380	98	517	364	674
<i>Total Arrests</i>	<i>6,718</i>	<i>7,352</i>	<i>3,364</i>	<i>3,263</i>	<i>3,705</i>	<i>886</i>	<i>1,416</i>	<i>1,149</i>	<i>5,027</i>

(1)Figures revised according to information received from Jamaican authorities.

(2)Yield is based on an estimate of 675 kilograms per hectare.

(3)A seizure of 1,066 kilograms of HCl in 1999 was a result of USCG interdiction of a Jamaican-registered vessel.

NETHERLANDS ANTILLES

Aruba, the Netherlands Antilles, and the Netherlands (Holland) comprise the three parts of the Kingdom of the Netherlands. The two Caribbean parts of the Kingdom have autonomy over their internal affairs, with the right to exercise independent decision making in a number of counternarcotics areas. The Government of the Netherlands (GON) is responsible for the defense and foreign affairs of all three parts of the Kingdom and assists the Government of Aruba (GOA) and the Government of the Netherlands Antilles (GONA) in their efforts to combat narcotics trafficking. The Kingdom of the Netherlands is a party to the 1988 UN Drug Convention, and all three parts are subject to the Convention.

Netherlands Antilles

The islands of the Netherlands Antilles (Curacao and Bonaire off Venezuela, and Saba, Sint Eustatius and Sint Maarten east of the U.S. Virgin Islands) continue to serve as transshipment points for cocaine and, in lesser quantities, heroin coming from South America, mainly Colombia, Venezuela, and Suriname, to international markets. Observers agree that most cocaine transiting the Netherlands Antilles is destined for the European market. The vast majority of arrests were of "mules" (drug couriers) boarding flights destined for the Netherlands. Some of those arrested were "swallowers," smugglers who ingest drug-filled balloons. A variety of sources report that, in addition to the small quantities intercepted by customs officers at the airport, large quantities move through in containers, but there is scant hard evidence in the form of seizures to back up these claims.

Drug abuse and associated crime is a key concern for the GONA. Local politicians lament the degradation of quality of life drug trafficking has brought and give high priority to restoring citizens' sense of security. The rise in drug abuse is widely attributed to payment for drug trafficking services being made in cocaine rather than in cash.

Elected officials and all elements of the law enforcement and judicial community know that the Netherlands Antilles, largely by reason of its geography, faces a very serious threat from drug trafficking. The police, who are understaffed and not adequately trained, feel they do not have the necessary resources to mount an adequate fight. The police are further, and perhaps most significantly, constrained in their effectiveness by the high legal standards they must meet to prosecute a case in court. Faced with the many legal obstacles needed to get approval from a prosecutor to aggressively investigate a case, most police prefer to focus on straightforward cases (such as mules intercepted at the airport) rather than attempting to pursue complex, long-term investigations that would be necessary to arrest a major drug trafficker. Local police receive support from specialized Dutch units (RST), but these units face the same hurdles. The attorney general and the minister of justice have undertaken a serious effort to address both the perception of public corruption and the structural problems that keep the police force from being as effective as it could be.

While the legal framework and police organizational issues continued to hamper effective counternarcotics law enforcement, the GONA took important steps in the right direction. In May, the GONA welcomed the establishment at Curacao's Hato international airport of a Forward Operating Location (FOL), from which U.S. military aircraft operate counternarcotics surveillance and detection flights over both the source and transit zones.

GONA cooperation with U.S. law enforcement officials increased dramatically over the past year. Particularly in Sint Maarten, joint efforts have been significantly stepped up to counter international organized crime, including drug trafficking and money laundering.

Aruba

Aruba was removed from the Majors List in 1999. Like nearby Curacao and Bonaire, Aruba is a staging area for international narcotics trafficking organizations that transship cocaine and, to a lesser extent, heroin, from

Colombia, Venezuela, and Suriname. Most of the drug trade appears directed toward Europe, with drugs moving via cruise ships, containers, and commercial flights. Public concern about drug abuse in Aruba has grown over the past year, with newspapers carrying photos of and stories about homeless drug addicts.

While Aruba's economy is much healthier than Curacao's, Aruba still shows the ill signs of a drug abuse problem. With the same legal standards as Curacao and essentially the same police personnel system, counternarcotics law enforcement in Aruba is also not up to the task of mounting a complex investigation against a major drug trafficker. Moreover, Aruba has a significant public corruption problem, which is a serious impediment to effective enforcement in fighting drug trafficking and related money laundering.

The GOA took the positive step of welcoming significant numbers of U.S. law enforcement personnel to Aruba to work jointly against narcotics trafficking and other crimes. In May, Aruba accepted an FOL at its busy Reina Beatrix airport, turning over some commercial ramp-space free of charge to U.S. Customs aircraft to fly CN operations over the source and transit zones. Aruba also pushed hard to bring a U.S. Customs pre-clearance program to Aruba, partly as a convenience to American tourists but also because, in the prime minister's vision, the more U.S. law enforcement personnel on Aruba, the better.

Kingdom Coast Guard. All three parts of the Kingdom of the Netherlands participate in a Joint Kingdom Coast Guard.

In a key, positive development, the Joint Kingdom Coast Guard took delivery of three cutters custom made for counternarcotics work in the Caribbean. Now that the cutters, equipped with rigid-hull inflatable boats that deploy instantly, are in operation, the Joint Kingdom Coast Guard is enjoying increased effectiveness in its counternarcotics role.

1988 UN Drug Convention. Following passage in October 1998 of asset seizure legislation, the 1988 UN Drug Convention was extended to Aruba and the Netherlands Antilles on June 8, 1999. The Netherlands Antilles and Aruba passed all relevant implementing legislation before requesting that the treaty be extended to them.

Treaties and Extradition. Both Aruba and the Netherlands Antilles honor requests made under the U.S.-Netherlands Mutual Legal Assistance Treaty, and considerable law enforcement cooperation takes place at less formal levels as well. However, in 1998 the Governor of the Netherlands Antilles declined the U.S. request to extradite an Aruban national, accused money launderer Alberto Arends, on the grounds that he was dangerously depressed at the prospect of prison sentence in the U.S.; during 1999 Arends was often seen moving freely about Aruba, displaying no obvious signs of depression. Moreover, in 1998 an Aruban judge, citing age-related ill health, overturned the decision of the Governor of Aruba to extradite accused money launderer David Cybulkiewicz; the elderly fugitive has also now apparently recovered.

U.S. Policy Initiatives

As a matter of policy, the Department of State has no INL counternarcotics assistance programs with the governments in the Dutch Caribbean. However, Aruban and Netherlands Antilles law enforcement officials are frequently allowed to participate in INL-funded regional training courses, with the GOA and GONA paying the travel and lodging expenses of their officials. USG law enforcement officers work with local police to encourage a serious investigation of upper echelon traffickers operating in the islands.

In March, 1999, U.S. Customs presented an INL-funded Air Carrier Initiative in Curacao to 71 airline security officers and conducted two site surveys of airline facilities at the Curacao and Aruba airports. One Aruba Customs official participated in the INL-funded U.S. Customs Integrity Reinforcement/Anti-Corruption Seminar for member states of the Caribbean Customs Law Enforcement Council (CCLEC) conducted in San Juan, Puerto Rico, during May, 1999. In addition, a joint U.S. Customs Internal Revenue Service assessment focusing on management controls and integrity issues within the Aruba Ministry of Finance, Tax and Customs Directorate took place during September 1999.

As an appreciation grows in the Dutch Caribbean of the importance of intelligence to effective law enforcement, the USG will expand intelligence sharing with GOA and GONA officials. Because U.S.-provided intelligence must meet the strict requirements of local law, this effort will require continued extensive liaison work to bridge the differences between U.S. and Dutch-based law. The USG will also advocate the use of existing laws (e.g., tax laws) as an effective tool against money laundering. A U.S.-Kingdom of the Netherlands maritime counternarcotics agreement pertaining to the Caribbean has been under negotiation for several years.

CARIBBEAN OVERSEAS TERRITORIES OF THE UNITED KINGDOM AND BERMUDA

I. Summary

ANGUILLA, THE BRITISH VIRGIN ISLANDS (BVI), THE CAYMAN ISLANDS, MONTserrat, and THE TURKS

AND CAICOS ISLANDS (TCI) comprise the United Kingdom's (UK) Caribbean Overseas Territories (COTs). These territories are not significant drug-producing locations but are drug-transshipment points. There is no evidence, however, that drugs are coming through the COTs to the U.S. in quantities sufficient to have a significant effect on the U.S. **BERMUDA** is a self-governing overseas territory of the UK. It is not a drug-producing location. Among populated islands, Bermuda is one of the most remote in the world with its mid-ocean location 600 miles off the east coast of the U.S. Because all air links to the island are "out and back" from the U.S., Canada and the UK, Bermuda is not a transshipment point for drugs coming to the U.S. Some illegal substances consumed in Bermuda are transshipped to Bermuda by way of the U.S.

The 1988 UN Drug Convention is applicable to the COTs and Bermuda. The UK also has extended coverage of the 1971 UN Convention on Psychotropic Substances to the COTs and Bermuda. The COTs and Bermuda take steps to fulfill the goals and objectives of the 1988 UN Drug Convention.

II. Status of Caribbean Overseas Territories

The UK COTs, with the Cayman Islands leading the way, have established numerous offshore financial institutions. Drug traffickers attempt to abuse some of these to launder their money. The COTs, with strong encouragement from the British government, have increased regulation over their financial services sectors. Guidelines for the issuance of new bank licenses have been introduced, restricting licenses to subsidiaries of established banks with effective parent-bank supervision.

Bermuda is one of the world's premier offshore international financial and business centers, with a large number of international business corporations (IBCs). The Government of Bermuda (GOB) has always been aware of the potential of money laundering and other financial crime and has scrutinized closely all applications for incorporation of new IBCs. In 1997, a Proceeds of Crime Act was passed, entering into force in 1998. The Act imposed strict requirements on financial institutions in the areas of customer identification, currency transaction record-keeping, and internal reporting procedures. Bermuda is a very active member of the Caribbean Financial Action Task Force (CFATF).

The UK, the COTs and Bermuda recently commissioned an independent, in-depth review of financial regulation in the COTs and Bermuda. The review will examine existing anti-money-laundering systems and practices, and assess them against international standards.

Treaties and Agreements. The UK, a party to the 1988 UN Drug Convention and the 1971 UN Convention on Psychotropic Substances, has extended coverage of those Conventions to the COTs and Bermuda. The 1972 U.S.-UK extradition treaty and its 1985 supplement are applicable to the COTs and Bermuda. The 1986 U.S.-UK mutual legal assistance treaty (MLAT) concerning the Cayman Islands has been extended to the COTs but not to Bermuda.

U.S.-UK maritime cooperation in the Caribbean is covered by several agreements. A 1981 exchange of diplomatic notes grants permission by the UK—specifically covering the Caribbean, the Gulf of Mexico, and part of the western Atlantic—for the U.S. Coast Guard (USCG) to board privately-owned vessels with UK registry that are suspected of drug trafficking. This agreement further allows such vessels to be searched and, if drugs are found, seized and taken to a U.S. port. Additionally, the U.S. Customs Service (USCS) and USCG have a reciprocal shiprider agreement with the BVI. The USCG, pursuant to this agreement, deploys shipriders on the Royal Navy's West Indies Guard ships. A more comprehensive U.S.-UK-COTs-Bermuda maritime cooperation agreement was signed in 1998, but it is not yet in force as implementing legislation has not yet been enacted in all the jurisdictions.

III. Actions Against Drugs in 1999

The COTs are benefiting from programs developed in 1998 under the European Union (EU) Caribbean Drugs Initiative (CDI), notably in the fields of maritime cooperation, law enforcement training, counter-money-laundering and judicial training. The CDI, the funding for which expires in 2001, will be reviewed by the EU to determine its effectiveness and to assist in planning any follow-on. The CDI contributes to implementation of the Barbados Plan of Action, which arose from a UNDCP-organized meeting of representatives of Caribbean countries and donors in May 1996. The UK is determined to be at the forefront of the fight against drugs as part of the ECU's CDI. In February 1998, the UK donated a training vessel for Caribbean coast guards engaged in drug interdiction. The vessel will be used for training students from other countries and territories, as well as training members of COT coast guard units. A conference of maritime law enforcement operational commanders is planned, under the auspices of a Project Management Office (PMO), established in January 1998, in Bridgetown.

Operational contact between the Governments of the COTs and their sister Caribbean islands is close and effective. Anguilla's geographical position makes it a prime drug transshipment route, particularly vulnerable to airdrops of cocaine in the surrounding seas and offshore islands. The drops generally are destined for the nearby islands of St. Martin/St. Maarten and Puerto Rico as well as the BVI and the U.S. Virgin islands. Cooperation among Anguillan and French and Dutch officials in St. Martin is good. Senior police officers

routinely hold joint meetings to address issues and exchange drug-related information. The French in St. Martin have become more active in taking measures to reduce the transfer of small quantities of drugs to Anguilla via passenger ferry.

In 1999, close anti-drug cooperation continued between law enforcement authorities of the COTs and the U.S. The USCG is also permitted to use the Cayman Islands as a base for counternarcotics operations in the south and west Caribbean. Maritime forces of the Cayman Islands, Jamaica and the U.S. work closely together on maritime drug interdiction under Operation Riptide. This cooperation has resulted in numerous arrests and seizures of drugs and vessels, including one five and a half ton seizure of cocaine in January 1999.

Cooperation between the BVI and U.S. authorities has worked well under the shiprider agreement and the MLAT treaty. The BVI has also been actively involved, when its small forces have permitted, in the combined annual operations of Caribe Venture and Frontier Shield, two successful USG counternarcotics initiatives in the Caribbean.

The Royal Navy also participates in Caribe Venture and Frontier Shield. These operations have had increasing success in drug interdiction and, as such, are becoming part of the U.S.-UK maritime anti-drug portfolio in the Caribbean. The UK Overseas Territories Regional Criminal Intelligence System (OTRCIS), with its hub in Miami, increasing and facilitating liaison with the U.S., has been operational since April 1, 1997. This builds on the successful operation of the combined U.S.-UK White Collar Crime Investigation Team (WCCIT) established in 1993 in Miami with FBI and British law-enforcement officers.

In 1999, close anti-drug cooperation also continued between Bermuda and U.S. law enforcement authorities. The Bermuda Police Service has had an active liaison relationship with the Drug Enforcement Administration (DEA) since 1968, and cooperated with the New Jersey office of DEA in a number of controlled deliveries that resulted in arrests, both in Bermuda and the U.S. Additionally, DEA conducted a two-week training course in Bermuda for 30 detectives. As an adjunct to current interdiction efforts, the GOB is moving forward with a number of demand reduction initiatives. One high priority project is the establishment of a "drug court" as a venue for adjudication of lesser offenses. This is modeled on a similar program in Pensacola, Florida, and will emphasize treatment and community service for first-time offenders in lieu of traditional incarceration.

Law Enforcement Efforts. The UK has projected allocating \$1,168,000 (BPS 730,000) towards a Caribbean-wide, drug-law enforcement training program. The British Government has also recently appointed a COTs drugs law enforcement advisor who will be based in Miami for a two-year period starting in January 2000. The Bermuda government formed a Combined Enforcement Intelligence Team to foster improved intelligence sharing between customs and the police. A Crimestoppers Hotline was established to tap into the Bermudian outrage over drug trafficking on the island. The 800 number is answered in Miami, Florida, and the tips are then passed back to the Bermuda Police Service. This mechanism has overcome the reluctance of many to provide information to the police for fear of having their voices recognized. Using the information thus gathered, as well as information from DEA, and operating in concert with British Customs, the police seized over \$14,000,000 in cocaine, marijuana and heroin in 1999.

Corruption. In the COTs there were no arrests or prosecutions of senior government or law enforcement officials for narcotics-related corruption in 1999. In Bermuda there was one arrest of a customs inspector attempting to smuggle drugs from New York in December 1999. The GOB cooperated with U.S. law enforcement authorities in the arrest. British authorities act expeditiously and effectively against any indication of corruption in the COTs and Bermuda, as they do in the UK itself.

IV. U.S. Policy Initiatives and Programs

The USG enjoys good maritime cooperation with the UK COTs and with the UK in the Caribbean region under the shiprider agreement and the MLAT, which has resulted in drug interdiction successes in the Caribbean region at large. The U.S.-UK-COT-Bermuda maritime cooperation agreement, which will further strengthen this cooperation, is currently before parliament. As resources and class size permit, the U.S. periodically includes COT and Bermuda personnel in regional training courses.

The Road Ahead. The U.S. looks forward to continued close cooperation with the British COTs and Bermuda on all counternarcotics fronts.

SURINAME

I. Summary

Suriname is a transshipment point for South American cocaine destined for Europe and, to a lesser extent, the United States. Cocaine enters Suriname via sea, river and air routes. Transshipping activity occurs at Paramaribo's harbor and airports. The lack of infrastructure in the largely unpatrolled interior, which comprises ninety percent of the country, and inadequate border controls are the major obstacles in the detection of drug

shipments in and out of the country. The country's domestic drug problem also continues to grow.

A bilateral maritime counternarcotics cooperation agreement with the U.S. went into effect in August 1999. The Government of Suriname (GOS) conducts limited maritime operations using recently purchased Spanish surveillance aircraft and patrol boats. Suriname experienced a minor decline in the number of detected arms-for-drugs exchanges in 1999. Suriname is a party to the 1988 UN Drug Convention, but has yet to implement legislation bringing the country into complete conformity with the Convention.

The United States provided training and material support to elements of the police, military and judicial branch to promote greater bilateral cooperation. DEA provided technical equipment and stationed long-term temporary duty personnel in the country with positive results.

II. Status of Country

Suriname is a conduit for cocaine transshipment from South America to Europe and the United States. Law enforcement authorities face difficulties combating drug transshipment via Suriname's dense jungles where a lack of infrastructure, personnel and equipment make detection and interdiction nearly impossible. Traffickers continue to exploit these vulnerabilities to enter the country via air and sea, and overland from neighboring countries. Drugs are transported out of Suriname by couriers on international flights, in commercial air and maritime shipments and in concealed storage areas on cargo ships. Police continue to receive reports that precursor chemicals are stored in Suriname and may have been used in clandestine laboratories in the past.

There are strong indications that money laundering occurs in Suriname, reportedly through over-valuation of purchase prices, the sale of gold purchased with illicit funds and sold in Suriname, and manipulation of accounts in commercial and state-controlled banks, which the present legal regime is not focused effectively to prevent. Drug abuse—including the use of marijuana, crack and powdered cocaine, and ecstasy—continues to rise.

Suriname ratified the 1988 UN Convention but has not yet implemented legislation bringing it into conformity with the Convention. Suriname currently has legislation that conforms to the drug interdiction portion of the Convention.

While precise figures for the amount of arms-for-drugs swaps that took place in 1999 are unavailable, Surinamese police officials believe there was a slight decrease from 1998's estimates. During 1999, Brazilian authorities seized several aircraft that originated in Suriname carrying automatic weapons. The pilots said the weapons were destined for the FARC in Colombia. Suriname sentenced three FARC representatives, arrested in 1998, to eight years on charges of exchanging arms for drugs.

The principal obstacles to effective counternarcotics law enforcement are inadequate legislation, the lack of law enforcement resources and drug-related corruption.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The Wijdenbosch administration and key officials in the GOS continue to denounce drug trafficking, identifying it as a threat to national security and public health. Suriname enacted new narcotics legislation in January 1999 that provides for greater police investigative powers, property seizure, and longer prison sentences. In 1999, the GOS implemented a joint maritime counternarcotics cooperation agreement with the United States and participated in Operation Columbus, a national and regional anti-drug operation. Representatives of Suriname's police force and prosecutor's office continued to participate in regional anti-drug and money laundering conferences.

Law Enforcement Efforts. The Surinamese police, with DEA assistance, made a series of arrests following the seizure by Dutch authorities in May 1999 of 700 kilos of cocaine concealed in an air shipment of vegetables from Suriname. Four people are currently on trial for narcotics trafficking in connection with the case. The number of arrested drug carriers, predominantly Dutch passport holders of Surinamese descent, attempting to board Europe-bound flights almost doubled in late 1999 to an average of 5-6 per flight. In August, with DEA assistance, the GOS arrested on conspiracy charges four people allegedly involved in smuggling firearms to Colombia in exchange for cocaine. Suriname's police force seized 150 kilograms of cocaine and 10,000 ecstasy tablets, and destroyed 200,000 marijuana plants. Most of these seizures were made during the successful Operation Columbus, a regional anti-drugs operation supported by DEA. Based on this positive experience, the GOS hopes to conduct similar operations next year.

Cultivation and Production. Cannabis is cultivated and used in Suriname's tribal-influenced interior, but there is neither specific data on the number of hectares involved nor evidence that cannabis is exported in significant quantities.

Domestic Programs/Demand Reduction. The National Anti-Drug Council, the police and non-governmental organizations (NGOs) emphasize drug education and rehabilitation in response to growing domestic drug consumption. The GOS is working to expand both its addict treatment capabilities and its anti-drug education

programs in response to steady increases in domestic consumption of marijuana, crack and powdered cocaine, and ecstasy. Police reported cheaper crack prices in 1999 and a simultaneous increase in the number of crack addicts seeking treatment. The police and NGOs initiated demand reduction and drug treatment programs that received considerable attention and praise from community leaders. Drug treatment clinics, however, have no detailed treatment plans for addicts and often rely on untrained volunteers for staffing.

Corruption. Suriname has not come to terms with the question of public corruption in an effective, legal manner. Reports of money laundering, drug trafficking and associated criminal activity involving current and former government and military officials continue unabated, if generally unproven through legal processes. Although President Wijdenbosch has condemned drug trafficking, a convicted drug trafficker serves as the chief of staff to the Defense Minister, and former First State Advisor Desi Bouterse was convicted by a Dutch court for narcotics trafficking. The case is currently under appeal. Bouterse's son, Dino, is routinely mentioned as being involved in narcotics transshipping and drugs-for-guns deals; he was recalled from his diplomatic posting in Brazil following media stories of his involvement in these activities. Suriname has signed but not ratified the Inter-American Convention Against Corruption.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Bilateral efforts between the United States and Suriname have focused on strengthening cooperation and especially on implementing the maritime counternarcotics cooperation agreement that entered into force in August 1999. USG law enforcement agencies maintain a strong and positive working relationship with their local police force counterparts. DEA strengthened its cooperation with the cadre of dedicated police officers by placing several long-term temporary duty advisers in Suriname. A new narcotics investigative unit receives advice, logistical support and funding from DEA and the Department of State. Several members of the National Anti-Drug Council participated in USIA international exchange visitor programs and modeled many of Suriname's demand reduction programs on information gained during those exchanges. The Embassy and DEA continue to support the establishment of a permanent presence in Suriname.

The Road Ahead. The USG will continue to encourage the GOS to enact laws to implement fully all aspects of the 1988 UN Drug Convention, including asset forfeiture and money laundering laws, and to apply forcefully the provisions already in effect. The USG will work with the GOS to utilize effectively the recently implemented maritime counternarcotics cooperation agreement. We also will continue to promote close cooperation between DEA, other USG agencies and their Surinamese counterparts.

TRINIDAD AND TOBAGO

I. Summary

Trinidad and Tobago is a transit country for cocaine from South America to the U.S. However, evidence is insufficient to establish that the quantity of drugs coming into the United States from Trinidad and Tobago has a significant effect on the U.S. The country produces and exports marijuana to other countries in the region. Higher quality marijuana is also imported into Trinidad and Tobago from St. Vincent and Venezuela for domestic consumption. Narcotics-related violence, money laundering, and drug abuse remain concerns. The Government of Trinidad and Tobago (GOTT) continued to improve its counternarcotics capabilities and cooperated fully with USG law enforcement agencies. The GOTT's Joint Operations Coordination Center coordinated maritime interdiction operations that resulted in increased cocaine seizures. In 1999, the two-island country received USG-donated planes and patrol boats to improve surveillance of its sea and air lanes. The GOTT has charged six people, including a lawyer, with money laundering, the first such prosecutions under the 1991 Dangerous Drugs Act. The GOTT extradited a suspected marijuana trafficker to the U.S. The GOTT became a party to the 1988 UN Drug Convention in 1995 and continues to work vigorously toward meeting the Convention's objectives.

II. Status of Country

Trinidad and Tobago's location makes it an attractive transshipment point for South American cocaine destined for the United States and other international markets. Small, but relatively fast, fishing boats are the primary conveyance for cocaine brought to Trinidad and Tobago, but it also arrives in cargo vessels and pleasure craft. Illicit cargo can be easily shipped in and out by air and sea because of the country's numerous airports and harbors, high volume of cargo traffic, large number of tourists, and highly mobile population. In addition, cargo from Trinidad and Tobago is less vigorously scrutinized at North American and European ports than cargo originating from cocaine-producing countries. The country's maritime and air surveillance is limited, though improving with the arrival of USG-donated patrol boats and aircraft.

Although Trinidad and Tobago is not a major drug-producing country, marijuana is grown year-round and exported to other countries in the region. Discoveries of marijuana arriving by air and sea indicate that the drug is also being imported. Eradication efforts destroyed more than 3.1 million marijuana plants and seedlings in the first three quarters of 1999. Trinidad and Tobago is not a producer of coca or opium poppy.

Trinidad and Tobago is not an important regional financial center and has historically taken a strong regulatory approach to its banking sector, but opportunities for money laundering exist. The nation's oil-based and growing economy, with well-developed communications and transportation systems, produces a large number of sizeable transactions that could obscure laundering of illicitly obtained monies.

Intimidation of witnesses in narcotics cases is still a serious problem. Charges were dismissed in at least one case when a witness refused to testify, and at least 15 witnesses have been killed over the last five years.

III. Country Actions Against Drugs

Policy Initiatives. The GOTT in October 1997 approved and began implementing the first half of a counternarcotics master plan, which, among other goals, aims to cut the supply of illicit drugs by prosecuting traffickers, strengthening the criminal justice system, and reducing opportunities for money laundering. The plan's second half aims to cut narcotics demand by establishing anti-drug coalitions in every political constituency. A proposed addition to the master plan would set up job-training programs as alternatives to the cultivation of marijuana. The entire master plan was submitted to the Cabinet but as of the end of 1999 had not been approved.

The GOTT reintroduced legislation making drug trafficking an offense for which bail would not be allowed, increasing penalties for conviction, and extending the government's power to confiscate the proceeds of drug deals by shifting the burden of proof to the defendant. The GOTT is also preparing legislation to expand the list of predicate offenses beyond drug-related money laundering and to require suspicious activity reporting.

Accomplishments. Cocaine seizures for the first three quarters of 1999 have already surpassed the total for 1998, suggesting an improved law enforcement effort. Long-term marijuana eradication efforts may have forced an increase in imported marijuana. (See Law Enforcement section.) The GOTT in 1999 executed the head of one of the largest cocaine trafficking rings in the Caribbean, following his conviction for a drug-related murder. With USG assistance, the GOTT is converting the trafficker's estate into a drug rehabilitation center. Six people, including a lawyer, are being tried for money laundering as the result of an investigation by the inter-ministerial Counternarcotics and Money Laundering Task Force. In 1999, the GOTT extradited to the U.S. a suspected narcotics trafficker, bringing to five the number of narcotics-related extraditions since 1995.

Law Enforcement Efforts. In the first three quarters of 1999, the GOTT seized 93 kilograms of cocaine and arrested 829 people on cocaine-trafficking or possession charges. There were several notable seizures in Canada and the U.K. as a result of joint operations conducted with these countries. Security forces regularly conduct marijuana eradication efforts. The police reported the destruction of 3.1 million fully-grown marijuana plants and seedlings during the first three quarters of 1999. The GOTT estimates that 60 percent of the country's crime is related to narcotics.

Corruption. There were no cases of drug-related corruption filed against high-level or senior officials during 1999. As a matter of policy, the GOTT does not encourage or facilitate the illicit production or distribution of narcotics or the laundering of drug money. Following the 1998 escape and recapture (with USG assistance) of a major drug trafficker, a high-ranking commission of inquiry was formed by the GOTT to examine the circumstances of the incident. As a result of the commission's findings, charges have been filed against three police officers. An anti-corruption bill is pending government approval. Trinidad and Tobago ratified the Inter-American Convention Against Corruption in 1998.

Agreements and Treaties. Trinidad and Tobago is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Trinidad and Tobago signed mutual legal assistance and extradition treaties with the U.S., which entered into force in November 1999. Trinidad and Tobago also has mutual legal assistance treaties with the U.K. and Canada.

Cultivation and Production. Marijuana is cultivated year-round in the forest and jungle areas of northern, eastern, and southern Trinidad and, to a minor extent, in Tobago. Due to the way marijuana is cultivated in small quarter-acre lots situated in remote, difficult-to-access areas, the total amount cultivated cannot be accurately determined. Thus, we do not have evidence establishing that Trinidad and Tobago is a major drug-producing country. Marijuana is eradicated by manually cutting and burning plants. Aerially-applied herbicides are not used, although aircraft assist in crop detection.

Drug Flow/Transit. A short distance from the South American mainland, Trinidad and Tobago is a transshipment point for cocaine bound for North America and Europe. Cocaine arrives on airplanes, small fishing boats, and pleasure craft. It is then smuggled out in yachts, air cargo and by couriers. Cocaine has been found on commercial airline flights that stopped in Trinidad en route to North America from Guyana. Shipments of marijuana from St. Vincent and Venezuela indicate that demand may be exceeding supply, possibly as a result of the GOTT's eradication efforts.

Domestic Programs/Demand Reduction. The Ministries of Social Development and Education and non-

governmental organizations (NGOs) handle most programs to reduce the demand for illicit drugs. The GOTT funds the National Alcohol and Drug Abuse Prevention Program (NADAPP), which coordinates the activities of NGOs to reduce demand. The UNDCP also participates in this program. Several NGOs, one of which receives USG funding, run rehabilitation centers for addicts. The USG and a local NGO sponsor Project Excel (XL), which is designed to increase among teens and children the awareness of the negative effects of drug use while promoting healthy lifestyles. The USG provided funding for D.A.R.E. program materials and training for teachers, NGO representatives and police officers in 1999. In January 2000, the GOTT will launch the Drug Abuse Resistance Education (D.A.R.E.) demand-reduction program for 12-13 year-olds.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG's key policy objective is to help the government staunch the flow of narcotics through Trinidad and Tobago to the U.S. by enhancing the GOTT's capability to interdict cocaine shipments, strengthen its anti-drug trafficking laws, bring traffickers to trial, seize the proceeds of drug trafficking, attack money laundering, and protect witnesses from intimidation and murder.

Bilateral Cooperation. USG law enforcement agencies have a productive relationship with their GOTT counterparts. The success of the DEA office, which opened in 1998, has led to the designation of an additional officer to arrive early in 2000. The strong bilateral cooperation was recognized when Trinidad and Tobago was chosen as the southern command center for a sixteen-country anti-drug campaign in October 1999, which resulted in the seizure of more than 9,100 kg of cocaine. The GOTT and USG participated in six maritime exercises under the bilateral maritime counternarcotics cooperation agreement. During the operations, personnel from the Trinidad and Tobago Defense Force, the U.S. Coast Guard and the U.S. Navy participated as observers on each other's vessels.

The USG formally transferred to the GOTT a six-installation radar system to detect aircraft and boats engaged in trafficking. The USG also delivered two C-26 aircraft and two Piper Navajo aircraft for counternarcotics surveillance and two 82-foot patrol boats for maritime interdiction. Trinidad and Tobago provided the first crewmembers for the newly commissioned Caribbean Support Tender (CST), a former U.S. Coast Guard vessel with a multinational crew that is providing training, ship maintenance and repairs, and logistics support to Caribbean maritime agencies. During its first stop in Trinidad and Tobago, the CST provided training in boarding procedures and vessel maintenance to GOTT coast guard and customs officers.

The GOTT funds a permanent three-person U.S. Customs advisory team, which works closely with the customs and excise division to improve its passenger and cargo processing effectiveness and enforcement posture. In addition, the USG provided training in port security, cargo selectivity, maritime interdiction and anti-corruption measures during 1999. U.S. Customs and the GOTT are in the process of setting up a computer system, with USG-funded equipment, to track small pleasure craft and cargo vessels. U.S. Customs also helped Trinidad and Tobago's customs department establish a narcotics-detection canine program in 1998; the dogs discovered more than 28 kg of cocaine and 24 kg of marijuana this year. A GOTT-funded permanent three-person U.S. Internal Revenue Service office was opened in November to assist the GOTT's Bureau of Inland Revenue to improve compliance with tax legislation. Stricter tax controls will make it more difficult for potential money-launderers to operate in Trinidad and Tobago.

The Road Ahead. The USG will continue to provide support to enhance Trinidad and Tobago's maritime interdiction capabilities. The USG will provide training and technical assistance for the GOTT to transform a confiscated drug lord's estate into a drug rehabilitation center. The USG continues to support the GOTT's efforts to implement a regional witness security program and is providing assistance to update the Trinidad and Tobago legal system. Relevant U.S. agency representatives stationed in Port of Spain will continue to participate actively in the Eastern Caribbean working group, which addresses counternarcotics issues from a subregional viewpoint. The USG will continue to work closely with the GOTT's counternarcotics task force on implementation of asset forfeiture and money laundering laws.

[End.]

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Southwest Asia

AFGHANISTAN

I. Summary

According to USG estimates, Afghanistan became the world's largest producer of opium poppy in 1999. Traffickers of Afghan heroin route most of their production to Europe but also target North America. There is no single central government in Afghanistan where the Taliban and Northern Alliance factions (there are others) vie for national control. Despite UNDCP and NGO assistance, efforts at crop eradication, drug supply reduction, counter narcotics law enforcement, and demand reduction have completely failed. In fact, these factions, especially the Taliban, who control 97% of the territory where poppy is grown, promote poppy cultivation to finance their war machines. Those in positions of authority have made proclamations against poppy production but otherwise evinced no political will to fight narcotics. Rather, they are in active collusion with smugglers and criminal elements to manufacture and export heroin.

Cultivators have lived through twenty-two years of civil war and generally view opium as their only means for survival in a hostile and uncertain environment. Institutional framework, or capacity, and resources to deal with problems at national, provincial and local levels as well as across different sectors simply do not exist in Afghanistan.

The Taliban destroyed a handful of drug laboratories and eradicated 20 to 100 hectares of poppy fields, but otherwise took no significant action to discourage poppy cultivation, seize precursor chemicals or arrest and prosecute narcotics traffickers. Numerous reports indicated that all warring factions continued to profit from all facets of the drug trade at all levels. In spite of its own 1997 ban on the cultivation of opium poppy, the Taliban tax the opium poppy crop at about 10 percent, allow it to be sold in open bazaars, traded and transported, and receive payments from traffickers. Crop taxation imparts legitimacy to opium cultivation and distribution, and means that the Taliban benefit directly from the whole opium business.

Afghanistan is party to the 1988 UN Drug Convention, but, as indicated, none of the political factions took meaningful steps to meet Afghanistan's obligations under the Convention.

II. Status Of Country -

In 1999, Afghanistan became the largest producer of opium poppy in the world, despite an on-going civil war and political instability. The Taliban and Northern Alliance continued to preoccupy themselves with the internal struggle for the control of Afghanistan. By year's end, the Taliban controlled 85 percent - 90 percent of the country's territory, including over 97 percent of the area where opium poppy is cultivated. The Northern Alliance generally controls the balance of the opium growing areas, mostly in the provinces of Badakhshan and Takhar.

According to USG data, as a conservative estimate 1670 metric tons (MT) of opium were produced from approximately 51,500 hectares (ha) of poppy. In 1999 poppy cultivation on an additional 10,000 hectares (ha) led to a 23 percent increase in opium. New areas of poppy cultivation, high opium prices at planting and favorable weather during the growing season spurred the record crop.

Heroin and morphine production at laboratories in Afghanistan requires large quantities of acetic anhydride, produced in Europe, Russia and Asia, China and India. Morphine and heroin pour across Afghanistan's difficult-to-police borders with Pakistan, Iran, and the Central Asian Republics of Tajikistan, Turkmenistan, and Uzbekistan. In addition to the corrupting influence on Afghan officials, drug production in and trafficking from Afghanistan has funded terrorist groups, increased regional heroin addiction in refugee and indigenous populations, undermined rule of law, led to frequent incidents of armed conflict between traffickers and law enforcement forces in neighboring countries, destabilizing the entire region.

Afghanistan is not a center for money laundering; financial institutions barely exist. Private investment of drug trafficking profits reportedly accounted in some measure for a surge in building construction and other licit, commercial activity in Kandahar city during 1998. Afghanistan has not criminalized money laundering.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Afghanistan's lack of a national government precluded formulation and implementation of a countrywide, counter narcotics policy in 1999. In addition, the political will of Afghan military factions and the capacity of their "governmental" structures to effectively carry out drug control efforts are weak at best. Poppy cultivation increased and spread to new areas in 1999. The explosion in Afghan opium production is exacerbating regional tensions and doubling heroin flows to Europe.

In the past, the Taliban admitted that consumption of "intoxicants," including opiates, is contrary to Islam and that, by extension, cultivation of opium poppy, the manufacture of morphine and heroin and trafficking in these drugs was in violation of Sharia (Islamic) law. Nonetheless, almost all poppy is cultivated in Taliban-held areas. The Taliban enjoys significant financial benefits from a reported ten percent tax on opium transactions.

After the much-publicized release of the UNDCP's estimate that opium production had increased by seventy percent in one year, the Taliban made a political decision to unilaterally reduce poppy cultivation in Taliban-controlled territory. Mullah Omar, the supreme leader of the Taliban, issued a decree on September 30 to reduce poppy cultivation nation-wide by one-third in the 1999/2000 growing season. It remains to be seen if the Taliban will enforce this decree. Given current trends, even an unlikely 1/3 decrease in opium production would leave Afghanistan producing more opium than just two years ago.

The governor of Nangarhar province (Taliban chief of the eastern zone of Afghanistan) and the governor of Kandahar (Taliban chief of the southwestern zone) issued two executive orders. The first imposed a total ban on poppy cultivation on government land and halved poppy cultivation in four districts. In addition, the governor of Kandahar issued a November 1 executive order implementing Mullah Omar's decree to reduce poppy cultivation in Kandahar, Zabol, Nimroz, Oruzgan and Farah provinces. The governors of Nimroz, Herat, Farah, Oruzgan, Zabol provinces followed suit with similar executive orders implementing Mullah Omar's decree in poppy growing areas. Again, there is no evidence these bans are anything but postures.

Local authorities continued to maintain a 1998 ban on opium production imposed in the Xebec district of Badakhshan province. Badakhshan authorities subsequently extended it to the districts of Eshkashem and parts of Baharak in 1999.

Accomplishments. None of the Afghan factions took any significant steps to achieve the goals and objectives of the 1988 UN Drug Convention. On the contrary, evidence indicates that the Taliban used alternative development in Afghanistan to boost opium production and fuel their war effort in 1999.

The state high commission for drug control (SHCDC) is a partner with UNDCP in Taliban-controlled areas on drug control projects. While the U.S. continues to support UNDCP programs to monitor cultivation and production of opium poppy, UNDCP-managed small-scale development assistance projects have been swamped by the vast increase in opium cultivation. UNDCP's pilot alternative development/poppy reduction projects in Nangarhar and Kandahar provinces have also had mixed results in achieving poppy reduction targets.

Security concerns also hampered USG on-site monitoring of the alternative development efforts of the USG-funded NGO, Mercy Corps International (MCI), in Helmand province. Local authorities did not meet commitments to significantly reduce poppy cultivation. The USG ended support in 1999 for the MCI project, because the Taliban failed to cooperate to reduce poppy planting in the project areas, in spite of extensive rehabilitation of the agricultural infrastructure. In fact poppy cultivation expanded significantly in the project areas.

The USG strongly supports the UN Special Mission to Afghanistan and its efforts to break the apparent impasse in the peace process and to facilitate development of a broad-based government that respects international norms of behavior on narcotics, human rights, and terrorism. The Afghan Support Group (ASG) of major donors met twice during the year. At the meeting in Ottawa in December, the U.S. delegation strongly urged the ASG to include a cross-cutting narcotics theme as part of its action plan. The ASG agreed that the narcotics issues should be included as an important factor in all assistance planning for Afghanistan. The USG expressed its strong reservations about the efficacy of alternative development programs in Afghanistan, given current Taliban practices.

Law Enforcement Efforts. In the absence of an effective central government and an operational drug policy in Afghanistan, enforcement of drug-related laws has been largely neglected. There are no effective national institutional arrangements for the planning and coordination of drug control efforts in Afghanistan.

There were no independently verifiable instances in which narcotics or precursor chemicals were seized or

destroyed as a result of law enforcement activities. According to the UNDCP, the Taliban destroyed 34 heroin narcotics laboratories in Nangarhar province in a series of well-publicized raids February 1999. The Taliban authorities claimed to have seized in the same raids 500 kilograms of opium, 70 kilograms of mixed heroin, 1200 liters of acetic anhydride, 500 liters of hydrochloric acid (HCl), 800 kilograms of ammonium chloride, 900 kilograms of charcoal, 1200 liters of sulfuric acid, 700 liters of ammonium hydroxide, and 380 liters of ethyl alcohol, but there was no independent verification. There are reports that laboratory owners subsequently relocated their operations to more concealed sites in the province. In March 1999, the Taliban head of the State High Commission for Drug Control (SHCDC) made a commitment to locate and dismantle similar heroin laboratories in Kandahar and Helmand provinces. Nonetheless, those laboratories continued to operate with impunity throughout the year.

There were no independently verifiable reports of arrest or prosecution of drug traffickers or local drug dealers. The February Nangarhar raids netted 25 laboratory workers. The Taliban claim to have arrested traffickers and seized drugs coming through international airports under their control.

In Kandahar, local authorities reportedly eradicated 400 hectares of poppy in May 1999; however, independent observers were unable to verify the full extent of the operation. The Secretary General of the Taliban's Anti-Narcotics Commission confirmed destruction of 200 hectares of opium poppy in Ghorak, 175 hectares in Khakhez, and 25 hectares in Maiwand districts, where UNDCP-funded pilot crop substitution projects started in November 1997.

Agreements and Treaties. Successive Afghan governments have signed a wide array of international conventions and made specific commitments with regards to the cultivation, trafficking and abuse of illicit drugs in Afghanistan, but independent evidence that any of their commitments were actually carried out is absent. Afghanistan is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 Single Convention.

Cultivation and Production. Afghanistan is the world's largest producer of opium and a major producer of cannabis. By USG estimates, an estimated 1670 metric tons (MT) of opium gum (compared to 1350 MT in 1998) was produced from approximately 51,500 hectares (ha) of poppy in 1999. Poppy cultivation and opium production increased by 23 and 24 percent respectively, spurred by Taliban policy to tax cultivation (which unofficially legitimized it), high opium prices at planting, favorable weather conditions during the growing season, and the non-opposition of authorities in developing new areas for poppy cultivation.

Opium poppy cultivation was found in 18 out of 29 provinces. Helmand and Nangarhar provinces accounted for three-fourths of the total opium poppy cultivation in Afghanistan according to the UNDCP. By USG estimates, Helmand province dominated cultivation with 25,500 ha, compared to Nangarhar province with 12,500 ha in 1999.

Poppy cultivation is spreading in Afghanistan. In some provinces like Kunar, Lagman, and Takhar farmers have recently taken up opium poppy cultivation. The UNDCP poppy survey found cultivation in 27 districts in which opium cultivation had not been reported prior to 1999.

The poppy growing season for most of Afghanistan begins in October/November and ends by May/June. For alternative development/poppy reduction projects to work, both local authorities and national level Taliban officials must be unambiguously committed to achieving reductions—something not yet in evidence. In addition, project implementers must make available sufficient resources by the beginning of the sowing season to induce farmers to substitute a licit crop. The SHCDC's work plan for achieving one-third reduction in poppy cultivation for the 1999 sowing season does not include a crop substitution component, but depends primarily on local authorities, public awareness of target sowing levels, and the threat of crop eradication for excessive cultivation to attain the planned goal. While local Shuras (Elders) are frequently of the opinion that reduction should match UNDCP assistance, future reductions, except those due to economic reasons and/or inclement growing conditions, will not occur without an unambiguous Taliban commitment, and are unlikely as long as hostilities, now financed largely by drug money, continue.

Most laboratories refining opium into heroin operate in Nangarhar and Helmand provinces. There is evidence that heroin labs are being located close to the borders of some Central Asian countries.

Drug Flow and Transit. Opium trading in Afghanistan and Southwest Asia is well-organized and well developed. Traders offer growers advances to finance inputs, and tide growers over while the crop is in the ground. They visit households to buy opium. This credit, or advance payment on future opium production is an integral part of livelihood strategies in poppy producing areas of Afghanistan. The relatively stable value of opium and its non-perishability mean that it also serves as an important source of savings and investment among traders and cultivators.

The UNDCP estimates that about half the quantity of illicit drug produced in Afghanistan is consumed by Afghanistan and its neighbors Iran, Pakistan, Tajikistan, Uzbekistan, and Turkmenistan. The smuggling routes selected depend on the destination and on the commodity being smuggled. Historically heroin has been

trafficked to Europe and, to a lesser extent, the United States through Iran and Pakistan, but increasingly now through the Central Asian Republics. Opium for the Pakistan market enters through Baluchistan and the Northwest Frontier Province. Raw opium remains primarily for local consumption in Pakistan and Iran. Trafficking organizations also have strong links to Gulf countries, and Dubai seems to be emerging as an important center for money laundering.

Cannabis is usually transported from Afghanistan through Baluchistan to the Makran coast of Pakistan and from there by ship to the Gulf States and Europe. Cannabis is also increasingly transported through the Central Asian Republics by rail.

UNDCP is the sole mandated UN organization in Afghanistan to make efforts to address drug trafficking. UNDCP has recommended organizing in Afghanistan competition against opium trading via a well-organized, and well funded, marketing program for legal, exportable crops. On a regional basis, UNDCP operates a number of programs to reduce Afghan drug trafficking in Southwest Asia, including specific law enforcement programs with Turkmenistan, Uzbekistan, Tajikistan, Pakistan, and Iran. Iranian and Pakistani law enforcement forces are more frequently engaging in armed confrontations with well-equipped narcotics traffickers moving large convoys across the Afghanistan border.

Domestic Programs/Demand Reduction. Drug abuse is on the rise in Afghanistan. According to the UNDCP, heroin, opium and hashish are the most commonly abused drugs, along with a wide variety of easily available pharmaceutical drugs such as analgesics, hypno-sedatives and tranquilizers. Heroin, opium and other narcotics are used nearly exclusively by mouth or by inhalation, very rarely by injection. Of particular concern is opium abuse among women and passive opium exposure of very young children.

Heroin addiction is a rapidly growing problem especially in Jalabad, Kabul, Kandahar, Herat and expatriate Afghan communities in refugee camps. The Taliban Supreme Court in October 1997 issued a decision that "addicts of illicit drugs should be referred to a hospital/treatment center to receive proper treatment." Effective institutional arrangements for the planning and coordination of demand reduction programs, in particular, are not in place in Afghanistan. Kabul's only remaining mental hospital is reportedly the only place in Afghanistan providing limited treatment for drug addicts. A specialist drug treatment NGO for Afghan refugees operates in Peshawar, Pakistan.

In Badakhshan province between 10 to 25 percent of the local population are believed to use opium. At least one NGO in Badakhshan has set up drug treatment facilities. The UNDCP distributed anti-drug materials among Afghan communities in Peshawar and Badakhshan. In June 1999, the Taliban launched an anti-narcotics campaign by dropping thousands of pamphlets on the capital of Kabul. Throughout the summer, the Kabul DCCU carried out a drug awareness campaign in city mosques and educational institutions. The Taliban have broadcast anti-drug radio programs during the year and local Kabul newspapers published anti-drug articles.

In 1999, UNDCP redesigned its drug demand reduction sub-program to address the need for providing community based drug treatment and prevention programs. The programs are located in primary drug abuse areas in Afghanistan (Kabul, Jalabad, Herat, Maser and Kandahar) and around Afghan refugee camps (Peshawar and Quetta) in Pakistan where there is an identifiable drug abuse problem. Security problems and the changing geo-political situation in Afghanistan resulted in closing the UNDCP Badakhshan demand reduction program.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The USG continues to urge the Afghan factions to demonstrate that they take international drug control obligations seriously. USG officials have repeatedly urged Taliban officials to respect and implement Afghanistan's international obligations on terrorism, narcotics, and human rights.

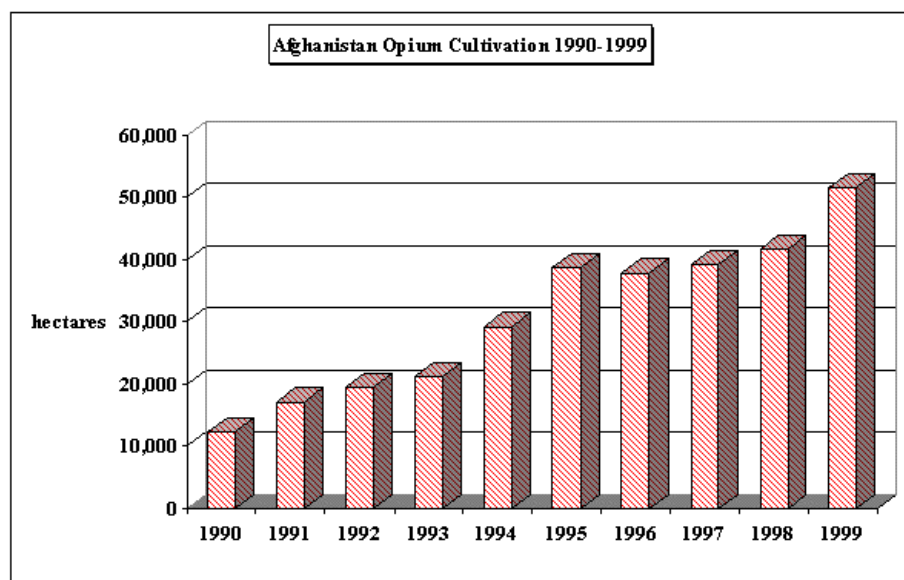
Road Ahead. As long as war continues, prospects for meaningful progress on drug control efforts throughout Afghanistan remain dim. There is no indication that the Taliban intend to take serious action to reduce opium poppy cultivation, destroy heroin or morphine base laboratories or stop drug trafficking. To the extent that poppy continues to displace wheat production in Helmand and in the country as a whole, Afghanistan will face increasingly severe food shortages. The USG seeks to contain the flow of opium and heroin from Afghanistan through a stronger focus on regional counter narcotics cooperation. The USG will continue to impress upon the Afghan factions the importance that the USG attaches to unconditional counter narcotics measures by them. Unfulfilled commitments by the Taliban to reduce poppy cultivation have led the USG to halt funding for alternative development projects in Afghanistan.

The Afghan Support Group (ASG) process continues to introduce anti-narcotics requirements in all appropriate development aid projects in Afghanistan. The USG supports UNDCP efforts in Afghanistan to institute such drug control conditionality in all assistance programs, but the significant rise in poppy cultivation in 1999 has drawn into question the future viability of alternative development/poppy reduction projects in Afghanistan. In the absence of action by the Taliban and the Northern Alliance to curb narcotics cultivation and trafficking, the USG will concentrate its efforts on law enforcement assistance to neighboring transit countries.

**Afghanistan Statistics
(1991-1999)**

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Opium									
Potential Harvest (ha)	51,500	41,720	39,150	37,950	38,740	29,180	21,080	19,470	17,190
Eradication (ha)	-	-	-	-	-	-	-	-	-
Cultivation (ha)	51,500	41,720	39,150	37,950	38,740	29,180	21,080	19,470	19,470
Potential Yield (mt) ¹	1,670	1,350	1,265	1,230	1,250	950	685	640	570

¹ DEA believes, based upon foreign reporting and human sources, that opium production in Afghanistan may have exceeded 900 metric tons in both 1992 and 1993.



BANGLADESH

I. Summary

Bangladesh is surrounded by major drug producing and exporting countries, and it lies in the middle of one of the largest drug producing regions in the world. Still, there is no evidence that Bangladesh is a significant producer of narcotics, or used as a major transit route for narcotics shipment, possibly due to the country's poor transportation infrastructure. Law enforcement in Bangladesh is a feeble and ineffective institution, due in part to widespread corruption in police and government offices, coupled with limited resources and an absence of coordination at the national level. Bangladesh is a party to the 1988 UN Drug Convention.

II. Status of the Country

Although it is surrounded geographically by two major drug producing and exporting countries (Burma and India), there is no evidence that Bangladesh is a significant producer of narcotics. The transit of drugs through Bangladesh is also insignificant, perhaps because of poor transportation infrastructure. Precursor chemicals are not produced in Bangladesh in any significant amount, and narcotics-related money laundering is likewise insignificant. In September 1999, law enforcement officials seized 24 kilograms of heroin in Dhaka. Bangladesh and India are currently discussing a transshipment agreement to allow Indian goods to travel across Bangladesh between India's northeastern states and West Bengal. If an agreement is reached and implemented, it is possible that new routes will be created for the flow of illegal drugs and precursor chemicals.

III. Country Actions Against Drugs In 1999

Policy Initiatives. With the assistance of the United Nations Drug Control Program (UNDCP), Bangladesh adopted a five year master plan against drug abuse in April 1994, which extended to the end of 1999. UNDCP and the Bangladesh government have agreed to extend the plan through June 2000. UNDCP is working with the Bangladesh government to secure donor support for an ongoing drug control project to begin in late 2000. Parliament is expected to pass a new anti-narcotics bill in 2000, revising and updating the Narcotics Control Act of 1990.

Accomplishments. Bangladesh is trying to strengthen its efforts against the cultivation, production, distribution and sale of narcotics. In 1999, Bangladesh continued construction of its central chemical laboratory, which is to be used by the Bangladesh Department of Narcotics Control (DNC) in identifying and evaluating seized drugs. The project will likely be finished in mid-2000. The National Narcotics Control Board (NNCB), dormant since January 1998, met in November of 1999 and vowed to oversee and coordinate national efforts against drug abuse and drug trafficking. DNC is making the first parliamentary funding request for support of NNCB. Agents of the DNC and Bangladeshi police attended a DEA basic training seminar in Nepal, sponsored by the USG.

Law Enforcement Efforts. Seizures of narcotics were much higher than in 1998. In September, the DNC seized over 20 kilograms of heroin in a single raid. Less than 10 kilograms of heroin were seized in all of 1998. Seizures of phensidyl, a codeine based cough syrup widely abused in Bangladesh, also increased in 1999. Rampant corruption and generally haphazard law enforcement make it difficult to determine whether the increase in seizures is due to increased drug traffic, better police work, or accident. The Bangladesh government formed a drug control strategy group to assess the effectiveness of five law enforcement agencies in dealing with drug abuse and drug trafficking. DNC recruited 100 new employees in 1999, a 10% increase in personnel.

Corruption. Corruption of government officials and law enforcement personnel is widespread in Bangladesh. Anecdotal evidence and press accounts suggest local police officers and government officials assist in smuggling all kinds of goods, including narcotics. Corruption cases are rarely prosecuted, and corrupt officials are usually not punished beyond suspension or termination of government employment.

Agreements and Treaties. Bangladesh is a party to all three UN Drug Conventions. Bangladesh also exchanges narcotics-related information with Burma, and it has previously entered into a memorandum of understanding on narcotics cooperation with Iran.

Domestic Programs (Demand Reduction). The number of illegal drug users in Bangladesh is unknown. Figures vary from 100,000 to one million, but reliable confirmation of any number is unavailable. The DNC sponsors programs to reduce demand and increase public awareness using seminars, school visits, leaflets, and television and radio advertisements. Nearly all of the funding for such programs comes from the UNDCP. There are a few drug rehabilitation programs in Bangladesh run by NGOs and charities. Drug abuse in Bangladesh appears to be growing, although hard evidence to support that assertion is unavailable. UNDCP plans to conduct, in March 2000, a rapid assessment survey of drug abuse in Bangladesh. The survey should yield a more accurate snapshot of the extent of drug abuse in Bangladesh.

IV. U.S. Policy Initiatives and Programs.

Bilateral Cooperation. The USG donated several pieces of technical equipment to the Bangladeshi central chemical laboratory for analysis of illicit drugs. The USG also sponsored a DEA training seminar in Nepal, funding the attendance of Bangladesh law enforcement personnel. Bangladesh cooperates well with member nations of the South Asia Association For Regional Cooperation (SAARC), and provides reports on narcotics trafficking to the SAARC drug offenses monitoring desk in Colombo, Sri Lanka.

The Road Ahead. The FBI will send a training team to Bangladesh to provide basic law enforcement training to members of the Bangladesh police sometime during 2000. The USG will continue to promote professionalism and competence among law enforcement officers through training and technical assistance.

INDIA

I. Summary

India is the world's largest producer of licit opium and the only producer of licit gum opium. Located between Afghanistan and Burma, the two main world sources of illicitly-grown opium, India is a transit point for heroin, generally destined for Europe. Heroin is produced in and trafficked through India, but evidence to indicate that significant quantities of heroin from India reach the United States is scant. The government of India (GOI) has a cooperative relationship with the U.S. Drug Enforcement Administration (DEA) and is a party to the 1988 United Nations UN Drug Convention.

Licitly produced Indian opium is diverted to the illicit market. The exact extent of this diversion is unclear. India has had an elaborate and expensive-to-maintain system in place to counter this threat of diversion for years, and India took additional steps to avert diversion this year. Still, credible reports suggest that diversion may have increased during the 1998-1999 growing season, but if there was such an increase, and knowledgeable observers debate this, the increase took place despite intensified Indian government actions. India is certainly meeting its responsibilities to take adequate steps to prevent significant diversion. There are a few steps the USG would recommend to improve India's control regime. The GOI has not yet agreed to USG suggestions to undertake a comprehensive joint licit opium yield survey, which would provide a firmer scientific basis for the GOI to set Minimum Qualifying Yields (MQY's) for farmers. Setting these yields correctly,

by region, helps limit diversion. The GOI appears to have had genuine success in reducing illicit poppy cultivation, which in 1999 was just a fraction of what it was five years ago. India met formally with Pakistan in 1999 to discuss narcotics matters and is committed to continuing the process and to developing practical results, which have been limited to date. In 1999 India also met with Burmese officials to discuss cross-border counternarcotics issues.

Indian controls restrict access to Acetic Anhydride (AA), a chemical used to process opium into heroin, and the GOI has made significant progress in controlling the production and export of all the narcotics chemical precursors produced by India's large chemical industry. Nevertheless, there remain unauthorized exports of essential chemicals and of methaqualone (Mandrax), a popular drug in Africa. Authorities have had limited success in prosecuting major narcotics offenders because of the lack of enforcement funding and weaknesses in the intelligence and judicial infrastructure.

On December 2, 1999, lower house of the Indian parliament passed legislation on money laundering; it still has to pass the upper house where further amendments are possible before a text of the new law is publicly available. India is not an international or regional finance center, has no known drugs money laundering, and is unlikely to be the destination or transit point for any significant proceeds from international narcotics trafficking, and does not appear to be a major international money laundering country. However, years of currency controls have driven many transactions into an unofficial, hand-to-hand underground money transfer sector. There is a potential for money laundering in this sector's activities.

II. Status Of The Country

India is the world's largest producer of legal opiates for pharmaceutical purposes and the only country that still produces gum opium rather than concentrate of poppy straw (CPS). It is the only licit opium producing country with a significant diversion problem. Opium is produced legally in the states of Madhya Pradesh, Rajasthan, and Uttar Pradesh. Under the terms of internationally agreed covenants, and to meet U.S. certification requirements, India is required to maintain licit production of opium and carry over stocks at levels no higher than those consistent with licit market demand, i.e., to avoid excessive production and stockpiling which could "leak" into illicit markets. India has certainly complied with this requirement. Indeed, the problem its licit opium industry has faced recently is inadequate harvests and carry-over stocks. In 1994, the GOI was unable to fill pharmaceutical companies' demands for opium because of an inaccurate inventory of opium stocks, and at the end of 1995, the chief controller of the factories estimated only 5-10 mts remained in stock until the next harvest. This inadequate stocking continued in 1996, but in 1997 sufficient rains combined with improved police enforcement and crop management techniques produced a sharp rise in the realized harvest to a record 1341 MT (at 70 percent solid).

Unfortunately, disastrous weather during the 1997-98 poppy growing season combined with a cultivator's "strike" which delayed planting led to a 1998 harvest that is one of the smallest on record. About 260 MT (at 90 percent solid), well under even GOI estimates made immediately after the harvest. To meet domestic and international demand the Indian government was forced to "completely exhaust" its licit opium stockpile leaving no carryover stock from 1998 whatsoever. This precarious situation made an adequate 1999 harvest extremely important.

To meet India's share of anticipated world demand for licit opium in 1999, and to begin rebuilding domestic stockpiles toward an International Narcotics Control Board (INCB) recommended level of about 750 MT (90 percent solid), the Indian government set a licit opium harvest target of 1300 MT (90 percent solid) in 1999 (870 MT for export, 130 MT for domestic use, and 300 MT to begin rebuilding the buffer stock). To meet this goal, the GOI reversed years of reductions in the area permitted to be sown to poppies (a step taken to improve control of diversion) and increased both the area under cultivation to 33,459 hectares for the 1998-1999 poppy growing season (a 10 percent rise from 30,714 hectares in 1997-1998), and the number of licit cultivators to 156,071, well above the 92,292 licensed in 1997-1998. (In fact, about 3200 hectares was either not sown or subsequently uprooted, so the 1999 harvest actually came from about 30,000 hectares.) The minimum qualifying yield (MQY) for opium cultivators was initially set at 52 kg/ha in most growing areas. Despite good weather and the large increase in the number of cultivators and the area under cultivation, the realized 1998-1999 harvest reached only 971 MT (at 90 percent solid), and about 64 percent of the licensed cultivators did not reach their MQY's. Many experts believe that a portion of the actual 1998-1999 harvest was diverted to the illicit market and thus did not reach government warehouses. However, the Indian government believes that diversion was limited, and that many cultivators simply failed to meet the very high Minimum Qualifying Yields set at the beginning of the crop year. The USG believes that India has taken exceptional steps to control diversion, and that these steps have held diversion down to levels which are not excessive.

While criminal elements produce heroin from both diverted legal opium and illegally-grown opium, no reliable data are available on the extent of this production. Poppies are grown illicitly in the Himalayan foothills of Kashmir and Uttar Pradesh, and in northeast India near the Bangladesh and Burmese borders in the states of Manipur, Mizoram, Nagaland, and Arunachal Pradesh. The quantities of illicit production appear relatively

small, and there is little current indication that such opiates find their way into the export market to the United States. Heroin base ("brown sugar" heroin) is the domestic drug of choice in India, except in the northeast state of Manipur where injectable heroin is the most common. Needle sharing from the intravenous use of Southeast Asian heroin has spread the AIDS virus. "Brown sugar" heroin, originating in India, is often available in Nepal, Bangladesh, Sri Lanka, and the Maldives. During 1999, Indian authorities made two seizures totaling more than 100 kg of refined heroin, at least part of which was produced in India, destined for Sri Lanka.

India produces acetic anhydride (AA) largely for the tanning industry. A quantity is still believed to be diverted to heroin laboratories throughout Southern Asia, but considerably less than pre-1993 levels. In 1993 the government of India imposed controls on the production, sale, transportation, import, and export of AA, especially near the Indo-Pak and Indo-Burma borders. These controls have reduced the availability of the chemical to the illicit market. Nevertheless, illicit diversion of precursor chemicals from India continues to occur. In February 1999 authorities discovered nine MT of Indian AA in the United Arab Emirates bound for Afghanistan.

India is also a transit route for illicit heroin, hashish, and morphine base from Afghanistan, Pakistan, Burma, and to a lesser extent, Nepal. Herbal cannabis smuggled from Nepal is mainly consumed within India, but most of the drug is intended for Western destinations. There are few statistics available for the amount of Indian-origin heroin or other drugs that enter the United States, but it is not believed to be significant. Some trafficking in Indian-produced methaqualone (Mandrax) to Southern and Eastern Africa continues, but this trade seems to have decreased as more methaqualone is produced in Africa.

III. Country Action Against Drugs in 1999

Policy Initiatives. Money laundering legislation passed the lower house of Parliament on December 2. It still has to pass the upper house where further amendments are possible. The text of the new legislation has not yet been made public. The provisions relating to drugs were not controversial since, as far as can be determined, there is little drug money laundering in India at present. But other provisions of the bill focusing on money laundering relating to white collar crime, bank fraud, corruption, and tax evasion were hotly contested among regulatory agencies and within the Indian business community.

In August 1997, the government introduced in Parliament proposed amendments to the Narcotic Drugs And Psychotropic Substances Act (NDPS) of 1985 designed to modify the law in several useful ways: (1) streamline provisions relating to search and seizure by enforcement officials, (2) codify provisions for the civil forfeiture of the assets of drug traffickers, (3) simplify the procedures for controlled delivery enforcement operations, (4) reform sentencing guidelines to allow greater differentiation between minor and serious crimes to facilitate convictions of offenders, (5) clarify the application of bail for serious offenders more likely to disappear before trial, and (6) close various technical loopholes that hinder the prosecution and conviction of drug traffickers. These amendments are pending in the Parliament.

To align Indian law more closely with recommendations of ECOSOC and the UN Commission On Narcotic Drugs, the GOI has brought all substances included in schedules III and IV of the 1971 UN Drug Convention under Indian import/export controls. In addition, the following new substances have been brought under controls: Etryptamine, Methcathinone, Zipeprol, Aminorex, Brotizolam, and Mesocarb. Regulations covering the precursor chemicals n-Acetyl-Anthranillic acid and AA have been amended to require sellers to establish the identity of buyers before sales can be completed.

Accomplishments. The Central Bureau Of Narcotics (CBN) and the Narcotics Control Bureau (NCB), responsible respectively for coordinating licit and illicit drug control policies, have sought to reduce trafficking. In 1999, the Indian government took further steps to meet world licit opium demand and control narcotics trafficking.

India reacted rapidly to the disastrous 1998 licit opium harvest and the threat to its ability to meet its share of world licit demand by sharply raising the area to be licensed for cultivation and the number of licensed.

To increase incentives to licit cultivators for declaring and selling to the government all licitly-grown opium, the GOI has periodically raised the official prices paid to farmers. The more productive the cultivator, the higher the price he receives per unit of output.

Licit opium diversion controls expanded in 1998-1999 have been continued in 1999-2000 to include re-surveys of plots after the planted crop reaches a particular stage of growth to insure that the area under cultivation matches that licensed. Cultivation more than five percent above the licensed amount is destroyed, and the cultivator is liable to prosecution. Controls during the poppy lancing period at harvest have also been strengthened.

To increase control over licit opium production, offenses relating to cultivation and diversion of opium by licensed cultivators are punished with similar severity to other trafficking offenses. Convictions can result in ten to twenty years imprisonment and fines up to \$6,000.

The government has continued a systematic program to combat illicit opium cultivation, especially in the north of India, by combining remote sensing information with raids and the destruction of illicit crops. Crop substitution programs are also part of the GOI's program. Indian authorities are also studying the feasibility of establishing a continuous aerial/satellite-based system for monitoring of licit and illicit opium cultivation nationwide.

The NCB reports that cooperation from industry in controlling the availability of precursor chemicals continues to be strong. A series of meetings by NCB with the industry in 1996 produced a voluntary code of conduct among firms that is aiding the enforcement effort. NCB says that seizures of illegal precursor chemicals shipments remained low in 1999 apparently because of the reduced illegal supplies available. Prices of precursor chemicals have risen.

Indian authorities continued to work closely with the drug enforcement agencies of other countries. In May 1999, DRI cooperated with the Royal Canadian Mounted Police to seize 384 KGS of hashish in Bombay bound for Canada. Again in May 1999, DRI and South African authorities intercepted a consignment of methaqualone bound for South Africa. In July 1999, Indian authorities provided information to the United Kingdom Customs Service that led to the arrest of three persons and the seizure of 7 KGS of heroin in the United Kingdom.

To decrease the backlog of cases, the GOI continues to work with special state courts for narcotics matters. Federal narcotics enforcement officials continue to meet quarterly with their state government counterparts to share information and provide training, and federal efforts have spurred the formation of specialized narcotics units in state and metropolitan police agencies.

To learn more about India's own drug problem, the Ministry of Social Justice and Empowerment is working with the UNDCP to carry out a comprehensive survey of narcotics addiction nationwide. First results of the survey are expected in 2000. Under the "Scheme For Prohibition And Drug Abuse Prevention" begun in 1985, the government continues to fund 90 percent of the costs of 340 NGOs in maintaining 425 drug treatment centers nationwide. The government is also working with the ILO and the UNDCP to implement the "Community-Based Rehabilitation Program" and the "Workplace Prevention Program."

Realizing the need for adequate numbers of professionally-trained rehabilitation professionals, the Ministry of Social Justice and Empowerment has established The Center For Drug Abuse Prevention as part of the government's National Institute Of Social Defense in New Delhi.

With USG encouragement, counter narcotics officials of India and Pakistan have continued the cooperation begun in 1994. India and Pakistan counternarcotics officials met most recently at the working level in November 1999. Some tangible results, mostly shared operational information, have come out of these meetings, but more cooperative enforcement actions are needed.

Periodic meetings also take place with Burmese officials along the border, most recently in June 1999. As with the bilateral contacts with Pakistan, their greatest significance is to pave the way for more substantive future joint efforts.

Law Enforcement Efforts. In 1998 GOI authorities seized 2031 KGS of opium as compared to 3221 KGS in 1997, a decrease of 37 percent in 1998 over the amount seized the previous year. Opium seizures have generally been in the vicinity of licit poppy cultivating areas of Uttar Pradesh, Madhya Pradesh, and Rajasthan. In 1999, through October, 1251 KGS of opium was seized. During the same period, a further 18 MT of opium was seized by the CBN in the growing areas from cultivators who did not fully declare their licit opium harvests. Heroin seizures in 1998 continued to be concentrated near the Indo-Pak border. Of the total of 459 KGS of heroin seized nationwide in 1999 through October, about one third (156 KGS) is believed to be of Southwest Asian origin (and mostly seized in the Indo-Pak border areas of Jammu and Kashmir, Rajasthan, Gujarat, and the Punjab). In 1999 through October, 459 KGS of heroin were seized nationwide.

Enforcement officials seized 19 KGS of morphine in 1998 and 26 KGS in 1999 through October. Most of these seizures were in the states of Uttar Pradesh and Madhya Pradesh. Authorities seized 10,106 KGS of hashish nationwide in 1998, and an additional 2666 KGS in 1999 through October. The bulk of these seizures were made in Gujarat of southwest Asian hashish.

Seizures of precursor chemicals have decreased sharply in recent years. In 1998, 6145 liters of acetic anhydride (AA) were seized nationwide. In 1999 through October, 2757 liters of AA were seized in 3 cases. Under the new controls, exports of precursor chemicals are allowed only on receipt of the original copy of the import certificate showing a legitimate end use issued by the competent government authority of the importing country. In the 1993 law, AA is considered a "controlled substance," and its production, sale, transportation, import, and export are regulated.

Among the psychotropic substances, methaqualone is the most likely to be found smuggled in India, often in transit to Africa, especially to South Africa. Bombay has been the preferred point of origin for shipments to Africa by both air and sea. Since 1992 Indian enforcement officials have enjoyed notable successes against

methaqualone smugglers to Africa. Nevertheless, Indian authorities believe that significant illegal methaqualone exports to Africa continue, but the trend may be declining as more methaqualone is manufactured directly in Africa. During 1998, 2257 KGS of methaqualone were seized in India nationwide, as compared to 20,485 KGS as recently as 1995. The decline in the amount seized recently is believed by the GOI to reflect successful seizures (over 60 MT) of methaqualone and the accompanying destruction of clandestine laboratories and arrests of major smugglers in the mid 1990's. In 1999 through October, only 363 KGS of methaqualone were seized in 6 cases.

While the regular employees of NCB are small in number (about 400 nationwide) as compared to the size of the country and the level of trafficking, there are several other enforcement agencies that contribute to the narcotics effort in India including the Central Bureau of Investigation (CBI--the federal police force), the Directorate of Revenue Intelligence (DRI--tax and customs revenue investigators), the BSF, the Customs and Central Excise Service, state excise tax authorities, and state police agencies. In fact, state agencies usually are responsible for about 90 percent of all drugs seizures in India.

Corruption. Media reports allege corruption among police, government officials, and local politicians in a wide range of governmental activities in India, but successful prosecutions are rare. Criminal courts release some drug defendants without explanation or on weak legal grounds. The USG receives reports of narcotics-related corruption, but cannot independently verify the extent. The CBN has taken a number of steps to curb corruption, including transferring officers regularly, not allowing officers to verify the areas under cultivation in their home districts, making the most productive farmers in the village responsible for checking the production of all farmers in the village (with violations resulting in the loss of license for both the offending farmer and the supervisor), and cross checking assays and weights of opium as it is delivered to government processing facilities.

Agreement and Treaties. India is a party to all three UN Drug Conventions. These conventions were implemented in India through the Narcotic Drug and Psychotropic Substances Act (NDPS) of 1985, as amended in 1989. A new extradition treaty between the U.S. and India entered into force July 21, 1999, replacing the 1931 US-UK Extradition Treaty.

Cultivation and Production. India is the world's largest source of opium for legitimate pharmaceutical use, producing 833 MT in 1995, 849 MT in 1996, and 1341 MT in 1997 (at 70 percent solid). Production grew sharply in 1995 (from 426 MT in 1994) because of the much larger area under cultivation that year, as well as slightly higher average yields. Unfortunately, bad weather and a cultivator's "strike" that delayed planting resulted in a 1998 harvest of only 260 MT, the smallest harvest on record. With good weather and a sharp increase in the number of licensed cultivators and area under cultivation resulted in the realized 1999 harvest returning to more normal levels, but many experts believe that this realized harvest was reduced by a marked increase in opium diversion to the illicit market.

Unlike other opiate raw material suppliers, only India produces opium gum, with a high content of thebaine and other alkaloids essential to certain pharmaceuticals. The GOI has completed a preliminary feasibility study on converting some production to the concentrate of poppy straw (CPS) method to reduce diversion opportunities and has concluded that conversion is not economically feasible without financial support.

Opium in India is cultivated and harvested under strict licensing and control, and the government tries to extract every gram from the cultivators. The area under licit poppy cultivation was substantially reduced over the years through 1997 (from 66,000 hectares in 1978 to 29,777 hectares for the 1996-97 crop year). Because of this reduction and a severe drought, there was a decline in availability of opium to meet India's domestic and export requirements for several years in the early 1990's. After 1998's disastrous harvest, both the area under cultivation and the number of licensed cultivators were increased in the 1998-1999 growing season to about 30,000 hectares and 156,071 cultivators respectively in an attempt to increase the 1999 harvest.

In 1999, fully 100,000 cultivators, 64 percent of the total licensed for the 1998-1999 growing season, failed to meet the MQY and thus by law were subject to de-licensing. But ex post facto, the government arbitrarily decided to de-license only those cultivators failing to produce at least 42 kg/ha, about 40,000 cultivators, in order to maintain sufficient numbers of potential cultivators in the next season. For the 1999-2000 growing season, the government plans to license 140,000 cultivators to plant 32,000 hectares.

Some diversion into illicit channels from licensed poppy fields has been taking place over the years. Potentially large profits (illicit prices per kilo are perhaps 20-25 times the official price) means that such opium finds a ready market, especially in the states of Punjab, Orissa, west Bengal, Rajasthan, Kerala, Tamil Nadu, and Maharashtra.

A well-designed crop study could provide accurate data on crop yields and would be an important step in establishing reasonable levels for the minimum qualifying yield, and thus in obtaining reliable measures of diversion. The USG has offered to fund and participate with the GOI in a joint licit opium poppy yield survey and a smaller survey centered in Rajasthan, but to date the GOI has not accepted the offer.

In addition to the diversion of licit opium, there is a problem of illicit cultivation. (Illicit opium is usually rapidly converted into morphine or heroin base, which is easier to sell and to smuggle, and which brings much higher profits.) Efforts to locate and destroy illicit cultivation has continued with vigor. The USG has supplied satellite data along with coordinates of suspected areas of illicit poppy cultivation, and the GOI has carried out extensive field surveys and some random aerial surveys. Some of the surveys were carried out with the assistance of DEA representatives in India. To date, however, little evidence of extensive illegal poppy cultivation has been found. In all, about 350 hectares were found and destroyed in 1999.

The problem of illicit opium cultivation is centered in areas such as Jammu and Kashmir where GOI control is challenged by insurgent groups and in some remote areas of Uttar Pradesh and the northeast of India. In 1999 the government pursued a vigorous program of detection and destruction of illicit crops and prosecutions of the illicit cultivators, including through joint operations of the NCB, the CBI, the Customs and Excise Service, and state police agencies. The GOI is now considering the feasibility of using Indian aerial and satellite remote sensing resources to maintain a more systematic monitoring of both illicit and licit opium cultivation in India. In cooperation with the UNDCP, the government is also exploring alternative development measures to curtail illicit poppy cultivation by giving remote and poor rural areas a chance to produce alternative cash crops.

Drug flow and Transit. India is a transshipment point for heroin from Southwest Asia (Afghanistan and Pakistan), and from Southeast Asia (Burma, Laos, and Thailand). Heroin is smuggled from Pakistan and Burma, with some quantities transshipped through Nepal. In 1999, there were continued high seizures by the border security forces of heroin of Pakistani origin and two major seizures totaling 100 KGS of possible Indian-origin heroin bound for Sri Lanka. Most heroin shipped from India apparently is destined for Europe, and most seizures of heroin at the New Delhi airport are from flights bound for Europe. From those statistics that are available, the amount of Indian-origin and transit heroin bound for the United States is not significant.

Demand reduction. At present, no accurate data on the extent of opium and heroin addiction exist. Government estimates of from one to five million opium users, and about one million heroin addicts throughout India, remain unchanged, but some NGOs estimates of the number of addicts are much higher. The Ministry of Social Justice and Empowerment and the UNDCP are now jointly carrying out a comprehensive survey of narcotics addiction in India, and first results are expected to be available in 2000.

The health and welfare ministries, UNDCP, and police groups support treatment and rehabilitation centers. Voluntary agencies conduct demand reduction and public awareness programs under grants from the Indian government, but lack both adequate funding and staff, despite an increase in GOI budget support for drug abuse prevention and rehabilitation programs. GOI expenditure rose from about \$1.5 million in 1991-92 to \$4.9 million in 1997-98. The GOI is cooperating with the UNDCP/ILO in the development of a drug rehabilitation and prevention program in several major cities. Plans have been drawn up to expand this program nationwide and seek support from the corporate sector. In addition, the GOI and the UNDCP together are developing a comprehensive program for the northeastern states including detoxification centers, training courses, and an awareness program. The GOI is also considering new initiatives to reduce illicit demand and reduce HIV/AIDS transmission through new community-based facilities.

The NIDA(U.S.National Institute of Drug Abuse)-US-India fund (USIF) research project on IV drug users and HIV prevention in New Delhi, scheduled to end in 1999, received a six-month no-cost extension through March 2000. In addition, NIDA will sponsor a workshop on training and epidemiology for HIV and IV drug users which is scheduled to be held in the northeast of India in march or April 2000.

IV. U.S.Policy Initiatives and Programs

Policy Initiatives. During 1999, the USG worked with the GOI to focus more high-level attention on and allocate more resources to narcotics control programs and insuring an adequate supply of licit opium to the world market. The U.S.also urged the GOI to update its domestic laws to comply with the obligations of the 1988 UN convention, particularly those related to asset forfeiture and money laundering.

Bilateral Cooperation. The USG funds training for enforcement personnel including the Indian Coast Guard. In January 1999, the U.S.Customs service presented a counternarcotics training program for 54 Indian customs personnel. The USG also signed a Memorandum of Understanding (MOU) with the GOI to fund \$15,000 in counter narcotics equipment acquisitions for Indian drug enforcement authorities. Relations between the DEA and NCB are good, with emphasis on exchange of narcotics enforcement and intelligence information.

The Road Ahead. The GOI has taken a number of steps in the past several years to address what it conceded are serious shortcomings in its licit opium cultivation program. It first concentrated on improving factory and inventory security. In 1997, it turned its attention to collecting the harvested opium gum into government warehouses, with a sharp increase in the realized 1997 harvest. But more resources are needed for counter narcotics forces, particularly to combat licit opium diversion, corruption, and to close legislative loopholes. In the coming years, the United States plans to encourage the GOI to insure an adequate supply of licit opium, control licit opium diversion, intensify its efforts to combat illicit cultivation and trafficking, improve its

extradition practices under the Indo-U.S. Extradition Treaty that has now entered into force, identify, prosecute and convict corrupt officials, and pass enabling legislation in support of the 1988 UN Drug Convention.

IRAN

I. Summary

The Islamic Republic of Iran is a major transit route for opiates smuggled from Afghanistan and Pakistan to Russia and Europe. Iran is no longer a major drug-producing country. An extensive 1998 USG survey concluded that the amount of opium poppy cultivation in Iran is negligible, down from an estimated 3500 hectares in 1993. A follow-up survey in 1999 reached the same conclusion. As with all former producing countries, the USG continues to watch closely for evidence of renewed poppy cultivation or evidence that transiting drugs are significantly affecting the U.S. Iran has a widespread drug addiction problem that attracts significant Government of Iran (GOI) attention and resources.

Iran's drug interdiction programs are large and aggressive, even if only partially successful at stemming the flow of illicit drugs. UNDCP opened a country office in Tehran in June, and inaugurated a \$12.7 million drug control project with Iran.

Iran has shown a new willingness to cooperate with the international community on counternarcotics matters. It has received assistance from the UK and Germany and has signed new counternarcotics cooperation agreements with Russia, Italy, Georgia, and Armenia.

Iran has ratified the 1988 UN Drug Convention, but its laws do not bring it completely into conformity with the Convention. UNDCP is working with Iran to modify Iran's laws, train the judiciary, and improve the court system.

II. Status of Country

Land routes across Iran constitute the single largest conduit for Southwest Asian opiates en route to European markets. Entering from Afghanistan and Pakistan into eastern Iran, heroin, opium, and morphine are smuggled overland, usually to Turkey but also to Turkmenistan, Armenia and Azerbaijan. They are also smuggled by sea across the Persian Gulf.

Iran is no longer a major drug-producing country. An extensive 1998 USG survey and a 1999 follow-up survey both concluded that the amount of opium poppy cultivation is negligible, down from an estimated 3500 hectares in 1993.

Drug addiction in Iran is a growing problem. In 1999, Iran estimated that the number of drug addicts was over 1,000,000, with an additional 600,000 drug abusers. Observers ascribe the GOI's more aggressive anti-drug policies, at least in part, to concern over the burgeoning drug addiction and related crime problems in major Iranian urban centers.

III. Country Action Against Drugs in 1999

Policy Initiatives. UNDCP opened a country office in Tehran in June. UNDCP and Iran signed an agreement for a four-year project called "NOROUZ", which means "New Year" in Farsi. The project is budgeted at \$12,701,200 by UNDCP, and supported by Iran at the level of \$120 million per year. The project has four parts: interdiction, demand reduction, legal assistance and reform, and community awareness. Since 1995, the Iranian government seems to have better recognized the magnitude of its domestic drug abuse problem and to have given counternarcotics efforts more resources and higher-level attention.

In January 2000, Iran hosted the first International Conference of Drug Liaison Officers, which was attended by representatives of regional and European countries, as well as Canada and Australia. The conference agreed to establish a regional drug control information center in Tehran.

Iran has asked UNDCP and its member nations to support Iran's counternarcotics efforts, because Iran's efforts reduce the flow of drugs to Europe. In response, the UK has provided nearly \$2 million for counternarcotics assistance.

Law Enforcement Efforts. The Anti-Narcotics Headquarters coordinates the drug-related activities of the police, the Islamic Revolutionary Guard Corps, and the Ministries of Intelligence and Security, Health, and Islamic Guidance and Education. Iran claims to spend up to \$400 million annually against drugs.

Iran pursues an aggressive border interdiction effort. A senior Iranian official told UNDCP that Iran has invested as much as \$800 million in a system of beams, channels, concrete dam constructions, sentry points, and observation towers, as well as a road alongside the entire eastern border. There are also on-going costs associated with personnel expenses to man these extensive works. Thirty thousand law enforcement personnel are regularly deployed along the border, and Iran claims more than 2700 deaths in clashes with heavily-armed smugglers during the last two decades. Interdiction efforts by the police and the Revolutionary Guards resulted

in numerous drug seizures. According to press reports, Iranian officials said they seized more than 235 tons of illicit drugs in 1999 in 975 operations. They further reported that in 1999, 183 policemen and 740 drug traffickers were killed in armed clashes. In the single worst incident of the year, drug gangs from Pakistan apparently ambushed an Iranian police unit, killing 38. An unknown number of traffickers were also killed and three tons of morphine were destroyed. Partly due to the Afghan Taliban's unwillingness to fully cooperate on border control and narcotics issues, Iran's border interdiction efforts have been only partially effective, and large amounts of opiates continue to transit Iran.

Drug offenses are under the jurisdiction of the Revolutionary Courts. Punishment for narcotics offenses is severe, with death sentences possible for possession of more than 30 grams of heroin or 5 kilograms of opium. Those convicted of lesser offenses may be punished with imprisonment, fines, or lashes, although lashing is said to have been used less in the last year or two. Offenders between the ages of sixteen and eighteen are afforded some leniency. Iran has executed more than 10,000 narcotics traffickers in the last decade. In February, Iran reported to UNDCP that it had arrested nearly 65,000 drug traffickers in 1997. About 80,000 persons are imprisoned for narcotics offenses, accounting for more than half of Iran's prison population. Some human rights groups allege that the government has been known to charge its political opponents with drug offenses falsely as a means of neutralizing their political activities.

Corruption: Although there is no indication that high government officials aid or abet narcotics traffickers, there are periodic reports of corruption among lower-level law enforcers, which is consistent with the transit of multiple-ton opiates shipments across Iran. Punishment of corruption appears to be harsh.

Agreements and Treaties: Iran is a party to the 1988 UN Drug Convention. Its legislation does not bring it completely into conformity with the Convention, particularly in the areas of money laundering and controlled deliveries. UNDCP is working with Iran through the NOROUZ Program to modify its laws, train the judiciary, and improve the court system. Iran is a party to the 1961 UN Single Convention, and has signed counternarcotics agreements with a number of nations. In 1999, Iran signed agreements with Russia, Italy, Georgia, and Armenia. Iran has shown an increasing desire to cooperate with the international community on counternarcotics matters. In January 2000, according to press reports, Iranian airport officials visited Cyprus to look into ways to control drug trafficking from Iran to Cyprus. Iran participates with UNDCP and Pakistan on a reasonably successful project to bolster drug interdiction efforts on the Iran-Pakistan border. Iran is a member of the Economic Cooperation Organization (ECO), which established a counternarcotics center as part of its secretariat. In March, the Iranian permanent envoy to the UN Commission on Narcotic Drugs (UNCND) was elected by a large majority to chair the Commission for a one-year term. Under his able chairmanship, the Commission developed a reporting and evaluation program to follow up on commitments made at the 1998 UNGA Special Session on Drugs. Iran also works through the UN's "Six plus Two" process on Afghanistan.

Cultivation and Production: A 1998 USG survey of opium poppy cultivation in Iran and a detailed multi-agency assessment concluded that the amount of poppy being grown in Iran is negligible. The survey looked at more than 1.25 million acres in Iran's traditional poppy-growing areas, and found no poppy crops growing there, although the survey could not rule out the possibility of some cultivation in remote areas. A follow-up survey in 1999 reached the same conclusion. This evidence of no poppies being grown is in accord with Iranian claims and evidence from other concerned countries and the UNDCP.

USG opium crop estimates were a major factor in placing Iran on the majors list in previous years. In 1993, a previous survey showed 3500 hectares under cultivation. Iran was removed from the Majors list in 1998, following the survey.

Drug Flow and Transit: Multi-ton shipments of opiates enter Iran overland from Pakistan and Afghanistan in truck caravans, often organized and protected by heavily-armed ethnic Baluch tribesmen from either side of the frontier. Once inside Iran, such large shipments are either concealed within ordinary commercial truck cargoes or broken down into smaller sub-shipments. Foreign embassy observers report that Iranian interdiction efforts have disrupted smuggling convoys sufficiently to cause a change in smuggler tactics emphasizing concealment.

Most of the opiates smuggled into Iran are smuggled to neighboring countries for further processing and transportation to Europe. Turkey is the main processing destination for these opiates, most of which are bound for consumption in Russia and Europe. Established trade and smuggling routes from Iran through Turkmenistan, Azerbaijan and Armenia provide alternative routes to Russia and Europe that bypass Turkish interdiction efforts. Additionally, despite the risk of severe punishment, marine transport persists through the Persian Gulf to the nations of the Arabian Peninsula, in order to use the modern transportation and communication facilities in that area. A significant, but unknown, quantity of opiates smuggled into Iran remain there for domestic consumption by an estimated 1,600,000 users.

Demand Reduction: The Government of Iran estimates the number of drug addicts at over 1,000,000, with an additional 600,000 drug abusers. However, a physician and member of the national committee against AIDS estimated that there are 3.3 million addicts. UNDCP estimates that 1.5-2% (about 1.3 million) of the population

has a serious drug problem. 93% of these are male, with a mean age of 33.4 years (plus or minus 10.5 years), and 1.4% are HIV positive. In the past, the Islamic Republic attacked illegal alcohol use with more fervor than drug abuse, and was reluctant to discuss drug problems openly. Since 1995, public awareness campaigns and attention by two successive Iranian Presidents as well as cabinet ministers and the parliament have given demand reduction a significant boost. Under the NOROUZ plan, the Government of Iran will spend more than \$68 million dollars in the first year for demand reduction and community awareness. The Prevention Department of Iran's Social Welfare Association runs twelve treatment and rehabilitation centers, as well as 39 out-patient treatment programs in all major cities. Some 30,000 people are treated per year, and some programs have three-month waiting lists. Narcotics Anonymous and other self-help programs can be found in almost all districts as well. There are no methadone treatment or HIV prevention programs, although HIV infection in the prison population is a serious concern.

IV. U.S. Policy Initiatives and Programs

In the absence of diplomatic relations with Iran, the United States of America has no narcotics initiatives in Iran. The United States Government continues to encourage regional cooperation against narcotics trafficking.

THE MALDIVES

The Republic of Maldives is an archipelago of 1100 islands in the Indian Ocean with a comparatively small drug problem now. Still, police and United Nations Drug Control Program (UNDCP) officials fear drug abuse is growing and cite the fact that 50 percent of the population is below the age of sixteen as an example of the high growth potential for drug abuse. Nonetheless, the police feel they are able to control the sale of drugs on the streets in the capital, Male. Police officials believe much of the trafficking is linked to 25,000 foreign workers, mainly Indians and Sri Lankans, who work in the country's many resorts.

Maldivian officials fear the Maldives might increasingly become a transshipment point for drug smugglers. What drug transshipment there is now, is largely by vessel. It is impossible for the customs service and police to search all the ships adequately. Although there is cultural resistance to dogs in this Muslim country, the government has plans to introduce the use of drug-sniffing dogs to facilitate vessel searches. The program has met with some resistance, however, and has not yet been implemented.

The government of the Maldives, assisted by \$25,000 in USG funding, began to computerize its immigration record-keeping system in 1993. U.S. assistance continued in 1996 and 1997 at the \$20,000 level, and in 1998 an additional \$13,000 was provided to network the immigration system computers.

In November 1997 the Maldivian government established a Narcotics Control Board under the Executive Office of the President. The Board's first commissioner is a lieutenant colonel with concurrent duties as Deputy Commissioner of the Maldivian National Security Service. The Narcotics Control Board has responsibility for coordinating drug interdiction activities, overseeing the rehabilitation of addicts, and coordinating actions of non-governmental organizations and individuals engaged in counternarcotics activities. The U.S. Government is considering funding a small project to facilitate the outreach and primary prevention activities of the Board. In 1997 the Maldivian government also established the country's first drug rehabilitation center. The Italian government donated funds in 1998 for drug rehabilitation training. The government also launched a national anti-drug program in 1998, sending teams to increase drug awareness and assist with drug detection to 11 of the country's 19 atolls.

The Republic of Maldives has no extradition treaty with the United States. In 1994, however, the Maldives cooperated with the U.S. in rendering a Nigerian national to the United States to face narcotics trafficking charges. The government of the Maldives is a signatory to the 1988 UN Drug Convention. The Convention, however, has not yet been ratified by the country's legislature. The Maldives is also a party to the South Asian Association for Regional Cooperation (SAARC) convention on narcotic drugs, which came into force in the Maldives in 1993. The drug action program of the Colombo Plan conducted a training for Maldives prison authorities and other interested officials in controlling abuse of narcotics among prison inmates. There have been no publicized cases of narcotics-related corruption in the Maldives.

In 1998, the UNDCP donated computers to the NCB to assist with its narcotics precursor chemical controls. Although some in the Maldives hope to establish the country as an offshore financial center, its banking laws and regulations are antiquated and currency controls remain in force. There are no laws specifically addressing money laundering and seizure of assets.

Although narcotics transiting the Maldives likely have only a small effect on the U.S., in 1998 the PNB assisted the royal Canadian mounted police (RCMP) in monitoring and detecting a yacht containing 11 tons of hashish which was captured by the RCMP off the coast of Vancouver. Seven persons were arrested.

NEPAL

I. Summary

Nepal is neither a significant producer nor a major transit route for narcotic drugs. Although customs and border controls remain weak, international cooperation has resulted in increased narcotics-related indictments in Nepal. Nepal's Narcotics Drug Control Law Enforcement Unit (NDCLEU) has enhanced both the country's enforcement capacity and expertise. Nepal has drafted bills on money-laundering and mutual legal assistance, but they have not yet become law. Nepal is party to the 1988 UN Drug Convention.

II. Status of Country

Heroin from Southwest and Southeast Asia is smuggled into Nepal across the open border with India and through Katmandu's International Airport. While local use of refined "Brown" No. 3 heroin is rising, abuse of locally grown and wild cannabis and hashish, marketed in freelance operations, is more widespread. There is also domestic abuse of licit codeine-based medicines. Nepal is not a significant money-laundering country. It is not a producer of chemical precursors.

III. Country Actions Against Drugs In 1999

Policy Initiatives. Nepal's basic drug law is the Narcotic Drugs (Control) Act, 2033 (1976). Under this law, the cultivation, production, preparation, manufacture, export, import, purchase, possession, sale or consumption of most commonly abused drugs is illegal. The Narcotic Drug Control Act, amended last in 1993, implements most of the UN Single Convention and the 1972 Protocol by addressing narcotics production, manufacture, sales, import, and exports for Nepal. Nepal has developed, in association with the United Nations Drug Control Program (UNDCP) a master plan for drug abuse control.

Legislative actions on draft bills on money-laundering, mutual legal assistance, and witness protection stalled in 1999 as the country underwent national elections and a new government came into office. The government has not submitted scheduled amendments to its customs law to control precursor chemicals. Legislation on asset seizures or criminal conspiracy has not yet been drafted. Laws required by the 1988 UN Drug Convention to prevent and punish public corruption in narcotics issues, especially by senior government officials, are lacking. However, there is no record that senior government officials facilitate the production, processing, or shipment of narcotic and psychotropic drugs and other controlled substances or discourage or otherwise hamper the investigation or prosecution of such acts.

Accomplishments. During 1998-1999, the government of Nepal continued operations to reduce cultivation of cannabis and the distribution, trafficking, and demand for narcotics. Cannabis seizures doubled in 1998, and seizures of hashish increased substantially. The government was active in regional coordination of anti-narcotics efforts and actively cooperated in international efforts to identify and arrest traffickers. Cooperation between the U.S. Drug Enforcement Agency (DEA) and Nepal's NDCLEU, has been excellent and has resulted in indictments both in Nepal and abroad. Nepal actively participates in the South Asia Association of Regional Cooperation (SAARC) efforts for regional coordination to combat drug trafficking and abuse. In January 1999, Nepal participated in the SAARC technical committee meetings on drug trafficking. In October 1999, the Ministry of Home Affairs hosted a three-day South Asia Regional Workshop on Networking Arrangements for Drug Control with the goals of effecting regional cooperation in investigation and prosecution through a regular information exchange network; promoting the exchange of expertise, technology, and experience; establishing a regional data base; and controlling transborder trafficking.

Customs and border control are weak along Nepal's land borders with India and China. The Indian border is open to narcotics and other contraband. Security at Nepal's regional airports with direct flights to India, and Katmandu's Tribhuvan International Airport remain inadequate. The Government of Nepal (GON), along with other governments, is working to increase the level of security at the international airport. The NDCLEU is planning to open an office at the airport. In 1999, the U.S. Immigration and Naturalization Service provided training to Nepal's Immigration Service, targeting false documentation, alien smuggling, and trafficking in women and children. The U.S. Customs Service also held discussions with Nepali officials to expand customs and immigration training to Nepal's land border areas.

Law Enforcement Efforts. Final statistical data for 1998 and data for the first three quarters of 1999 indicate that both seizures of cannabis and hashish (1998) and destruction of cannabis in cultivation (1999) have increased significantly over previous years. Arrests and seizures of heroin and opium violators are not significantly different from patterns set in previous years. Nepali authorities seize most heroin, hashish, and opium at the Tribhuvan International Airport in Katmandu. The NDCLEU has developed an intelligence wing, but its effectiveness is constrained by a lack of transport, communications and surveillance equipment. Coordination and cooperation between NDCLEU and Nepal's Customs and Immigration Services, while still problematic, is improving. The U.S. Government will finance a joint NDCLEU, police, customs and immigration training session in Spring 2000 which should improve coordination.

Agreements and Treaties. Nepal is party to the 1993 SAARC Convention on Narcotics Drugs and Psychotropic Substances. It signed its third narcotics control agreement with the United States in 1998. Nepal has no narcotics, extradition, mutual legal assistance, precursor chemical, or money-laundering agreements with the

United States. Nepal is a party to the 1988 UN Drug Convention.

Cultivation/Production. Cannabis is an indigenous plant in Nepal; cultivation of developed varieties is rising, particularly in lowland areas, but there is no evidence that this cultivation is for international markets. There appears to be small-scale cultivation of opiates, but detection is complicated by small fields and inter-cropping with licit crops. Nepali drug enforcement officials believe that all heroin seized in Nepal originates elsewhere.

Drug Flow/Transit. Narcotics seizures suggest that narcotics transit Nepal both from the east and west. Arrests of Nepalese couriers in other countries suggest that Nepalese are becoming more involved in trafficking and that Nepal may be increasingly used as a transit point for destinations in South and East Asia. The United States does not appear to be a final destination for drugs transiting Nepal. The GON in 1999 developed a program to track changes in patterns so that it could channel resources to areas that see increasing traffic.

Domestic Programs (Demand Reduction). The GON continued to implement its national drug demand reduction strategy in association with the USG, the UNDCP, the Colombo plan, donor agencies and NGOs.

IV. U.S. Policy Initiatives And Programs

U.S. Policy Initiatives. USG policy is to strengthen Nepal's law enforcement capability to combat narcotics trafficking and related crimes, and encourage Nepal to enact and implement appropriate laws and regulations to meet all objectives of the 1988 UN Drug Convention. The USG, the NDCLEU, and other donor nations work together through regional drug liaison offices and through the Katmandu Embassies Mini-Dublin Group on Narcotics Policy Coordination.

Bilateral Cooperation. The USG works with GON agencies to implement Nepal's master plan for drug abuse control and to provide expertise and training in enforcement. In 1999, the USG transferred equipment for a new mini-forensic laboratory for narcotics analysis to the GON for use by the NDCLEU; held a regional drug enforcement seminar in Katmandu taught by the U.S. Drug Enforcement Administration; made plans for a Spring 2000 seminar for the police, NDCLEU, customs, and immigration officials taught by U.S. Customs; continued funding for teacher training on drug abuse, demand reduction and drug awareness programs; and continued funding for a drug rehabilitation program at Katmandu's Nakkhu Prison.

The Road Ahead. The USG will continue ongoing information exchanges, training, and enforcement cooperation, work with the UNDCP to enhance the NDCLEU, support the Colombo Plan's drug rehabilitation programs in Nepal, and work with the Ministry of Home Affairs on demand reduction. The USG will encourage the GON to advance important anti-drug legislation stalled in 1999.

PAKISTAN

I. Summary

While indigenous Pakistani narcotics production has shown a drastic decline, Pakistan remains an important transit country for Afghan opiates and cannabis. In 1999, Pakistan made progress towards eliminating opium production by the year 2000 by reducing poppy cultivation by 48 percent. Cooperation on drug control with the U.S. is excellent and the formation of a Special Investigative Cell (SIC) within the Anti-Narcotics Force (ANF) with DEA assistance was a major achievement. The overall record on narcotics interdiction was encouraging, with heroin seizures up 57 percent and the arrest of high-profile traffickers. The government's resolve to prevent the re-emergence of heroin/morphine laboratories in Pakistan remained firm. Pakistan extradited four narcotics fugitives to the U.S. and arrested six others, a significant improvement on previous years. Efforts to extend application of the Control Of Narcotic Substances Act (CNSA) and the Anti-Narcotics Force Act (ANFA) to tribal areas in North West Frontier Province (NWFP) are continuing. The cabinet approved the drug control master plan in early 1999, but implementation has been slowed by a lack of funds. The GOP's counternarcotics policies were unaffected by an October 1999 change in government. Pakistan is a party to the 1988 UN Drug Convention.

II. Status Of Country

According to USG figures, in 1999 Pakistan registered significant progress towards achieving its goal of eliminating opium production by the year 2000. The opium poppy crop fell to a record-low of 1570 hectares. While Pakistani opium production has plummeted, neighboring Afghanistan has become the world's largest opium producer by increasing poppy cultivation at least 23 percent in 1999. As a result, Pakistan faces major challenges caused by the flow of opiates from Afghanistan. Pakistan must also cope with its own growing addiction problems. Pakistan is also an important transit country for the precursor chemical acetic anhydride (AA) destined for Afghanistan's heroin laboratories. Chemical controls are adequate, but there is still diversion of AA from licit imports. Pakistan is not a major money laundering country, but, given the level of drug trafficking, smuggling, and official corruption, money laundering almost certainly occurs, mostly by means of

unofficial, traditional money transfer facilities, known as "hawala."

III. Country Actions Against Drugs In 1999

Policy Initiatives. GOP officials remain committed to the goal of a poppy-free Pakistan by the year 2000. Implementation of the Drug Abuse Control Master Plan approved by then-Prime Minister Nawaz Sharif in 1998 has been slowed by a lack of funds. Only \$180 thousand of an estimated five-year cost of \$60.9 million was allocated in the 1999-2000 budget. In 1998, the GOP extended the ANF Act to Pakistan's tribal areas, allowing for the first time application of Pakistan's anti-narcotics laws in these areas. The ANF is pursuing a strategy to establish its control incrementally within tribal areas never before subject to Federal control. To achieve this goal within a short span of time, adequate resources and closer cooperation with other law enforcement agencies will be necessary.

Accomplishments. In 1999, opium poppy cultivation was reduced by 48 percent. GOP officials remained vigilant to the possible re-establishment of heroin or morphine base laboratories, and two labs located in Quetta and Rawalpindi were destroyed. Undoubtedly some persons have simply moved their labs across the border to Afghanistan, where they continue to operate with impunity. Four indicted narcotics offenders were extradited to the U.S. during 1999, double the number of 1998. Six fugitives subject to U.S. extradition requests were arrested in 1999 and are in various stages of extradition hearings.

Law Enforcement Efforts. The Anti-Narcotics Force (ANF) is Pakistan's principal narcotics law enforcement agency. In 1998 the GOP began to examine ways to strengthen the institutional capacity and performance of the ANF. Although the ANF has an authorized personnel strength of 1932 it is currently operating with 1270. The problem of unfilled slots in the ANF was partially overcome when the GOP decided to lift the ban on new hiring which had been imposed earlier as an austerity measure. The ANF has initiated steps to recruit 292 personnel. But performance incentives also need to be improved, and with this in mind, the incentive structure for ANF personnel is being revised. Personnel in the higher echelons of the ANF are temporarily assigned from the army or the police. New recruits arrive without counternarcotics training and remain with the ANF for only three years. This limits the effectiveness of specialized training. A major accomplishment was the establishment of a so-called "Vetted Unit", the Special Investigative Cell (SIC), accomplished with DEA assistance. The purpose of this move was to improve intelligence collection and investigative capacity and improve esprit and reduce corruption and intelligence leaks. With donor assistance, the ANF was also able to improve ground mobility and communications capability.

Pakistan's illicit drug seizures were up significantly compared to the same period in 1998. These figures show 3.9 MT of heroin, 11.5 MT of opium and 70.0 MT of hashish seized during 1999 whereas 2.36 MT of heroin, 3.65 MT of opium and 44.80 MT of hashish were seized for the same period in 1998. Acetic Anhydride seizures consisted of small consignments originating in India. 1999 was a record setting year for ANF seizures of heroin and opium recovered in individual raids (a 213% increase in heroin seizures), with ANF Baluchistan making major contributions. Particularly noteworthy were a 760 kg heroin seizure in Kharan District of Baluchistan and a seizure in Turbat District of Baluchistan of 2951 kg of opium, 2580 kg of hashish and 111 kg heroin. Apart from the ANF, law enforcement agencies most actively engaged in drug seizures include the police, Pakistani Customs and the Frontier Corps.

Pakistan's Coast Guard (cg) achieved a major breakthrough with a November 1999 seizure of 248 kg heroin, 22 kg opium, and 600 kg of hashish in the coastal town of Hub in Baluchistan. Customs seizures were down 12 percent, and Frontier Corps Baluchistan's seizures decreased by 22 percent as compared to the previous year. Despite decreased heroin seizures by Customs, it continued to play an important role at international airports in the interception of heroin couriers belonging to foreign trafficking organizations particularly those run by Nigerians.

During 1999, the total worth of frozen drug traffickers' assets stood at around the previous year's level of \$5.8 million. 1998 marked the first year that a court ruled in favor of forfeiture of assets to the government. In Tasnim Jalal Goraya's precedent setting case, assets worth approximately \$434,783 were forfeited based on Goraya's conviction in the U.S. on a narcotics offense. Goraya filed a petition in the Supreme Court requesting a stay of the order of the court, which is still pending.

The early 1999 arrest of Rahmat Shah Afridi, owner of an English language daily and an influential politician from Lahore, was a significant test of the ANF's ability to target politically powerful traffickers. The accused is in jail pending trial. Similarly, an influential politician belonging to the then-ruling party, Siddique Gujjar, was arrested with 5 kg of heroin. This arrest led to the detention of officials of other law enforcement agencies posted at the Islamabad Airport connected with the gang. These officials are awaiting trial on corruption charges.

There were no convictions of major drug traffickers in 1999. The prosecution of prominent drug offenders Sakhi Dost, Jan Notezai, and Munawar Hussain Manj continued to drag out in the courts. Manj is an ex-member of Pakistan's National Assembly. He was arrested on drug charges in April 1995. His case is being

tried in the court of the additional session judge in Lahore. The accused applied for bail, which was rejected by the Supreme Court. Defense attorneys were successful in delaying court proceedings. Notezai is a member of a politically and economically prominent family in Baluchistan. His case has been pending in the courts since 1993. In 1998, Notezai's appeal to the Supreme Court for a new trial was rejected, which cleared the way for a lower court in Quetta to conclude the trial. Earlier the Baluchistan high court rejected the same appeal. The decision by the Supreme Court prompted Notezai to appeal to the Federal Shariat (Moslem Law) Court for a "de novo" trial, a request that was denied on July 2, 1999. Meanwhile, on establishment of a district court at Nushki the case has been transferred to a sessions judge there and further delayed.

The prosecutions of most criminal and narcotics cases in Pakistan are delayed because of the willingness of judges to grant continuances, the ability of the defendants to file interlocutory appeals, the difficulty of compelling witnesses to testify, and the appearance that bribery in the lower courts can influence the outcome of cases. The ANF is seeking to strengthen its law directorate to help expedite the disposition of cases in the courts.

The GOP recognizes that this cumbersome judicial process poses a serious handicap to attacking the narcotics problem effectively. In 1997 the government established, but not adequately funded, special narcotics courts. Ten special courts are to be created. In 1999 the GOP finally allocated a sum of \$200 thousand for the creation of five courts in major cities, expected to become operational in early 2000.

Corruption. Low salaries threaten the integrity of law enforcement and judicial institutions. However, to our knowledge, neither the GOP (as a matter of policy) nor any senior government official encourages or facilitates the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. In 1998, a Swiss judge indicted Asif Ali Zardari, former investment minister and husband of former Prime Minister Benazir Bhutto, on a charge of money laundering. Zardari's case is still pending in the Superior Court and he remains detained. Former Prime Ministers Benazir Bhutto and Nawaz Sharif, along with many other politicians and former civil servants, are being investigated on charges of corruption. To check official corruption more effectively, the President of Pakistan promulgated the National Accountability Bureau (amendment) ordinance 1999, which seeks swift justice and carries harsh penalties.

The 1997 CNS act included a provision to punish narcotics-related corruption. In an important case in 1998, that law was invoked for the first time against a Magistrate. The Magistrate was arrested for releasing an individual who was indicted for smuggling heroin to UK. The Magistrate failed to consult the arresting authority (the ANF) before granting bail to the individual, who remains at large. Another Magistrate involved in this case was also arrested. Both Magistrates, whose services were suspended, have since been granted bail by the Supreme Court. Two assistant superintendents of jail were dismissed from service for assisting narcotics smugglers escape from jail in Mardan.

Agreements and Treaties. Pakistan does not have specific agreements with the U.S. dealing with mutual legal assistance, precursor chemicals or money laundering. However, it does have a general counternarcotics agreement with the U.S. (a Letter of Agreement), which provides for cooperation in the areas of opium poppy eradication, narcotics law enforcement and demand reduction. Extraditions are carried out under a 1931 US-UK treaty, affirmed to be valid by the GOP. There are several pending U.S. extradition requests awaiting court action. However, Pakistan extradited two fugitives to the U.S. in October 1999, and two others in December. These extraditions represent a very positive development in the law enforcement relationship of the U.S. and Pakistan.

Pakistan is a party to the 1988 UN Drug Convention. It also has bilateral narcotics agreements with the United Arab Emirates, Kyrgyzstan, Uzbekistan, China and India. Pakistan is a party to the World Customs Organization's International Convention On Mutual Administrative Assistance for the Prevention, Investigation And Repression Of Customs Offenses (Nairobi Convention), Annex x on Assistance in Narcotics Cases.

In May 1994, a Memorandum of Understanding (MOU) on narcotics cooperation was signed between the governments of Pakistan and Iran and the UNDCP. The MOU enabled UNDCP to execute a law enforcement project with both governments, which was designed to encourage cooperation on interdiction, as well as improve narcotics law enforcement. Principal beneficiaries of UNDCP assistance were the Frontier Corps Baluchistan and the Disciplinary Forces of Iran. UNDCP plans to extend the project through December 2001. Pakistani and Iranian counternarcotics officials meet regularly to exchange information on narcotics trafficking.

Despite constant friction in relations between India and Pakistan, counternarcotics officials of both countries have met regularly since 1994 on such issues as operational cooperation in interdiction of illicit drugs and precursor chemicals that flow across the border. The GOP's ANF also provided training to 21 Afghan officials in basic counternarcotics duties.

Cultivation/Production. 1570 ha. of opium poppy were cultivated in Pakistan's North-West Frontier Province in 1999, compared to 3030 ha. in 1998. Poppy cultivation took a new turn during 1999 with the sudden

explosion of high density cultivation (an estimated 900 hectares) in Bara River Valley of Khyber Agency, on the border of Afghanistan's Nangarhar province. Following Khyber were Dir district, the Mohmand and Bajaur agencies. Potential opium production for 1999 was estimated by the USG to be 37 MT, compared to 65 MT in 1998. sharp increase in opium poppy production as well in 1999.

UNDCP provides alternative development assistance in Dir. The UK and U.S. have been the principal donors for the UNDCP project. The USG directly funds alternative development projects in Mohmand and Bajaur agencies and contributes to poppy enforcement operations in those agencies and Dir district. A significant quantity of poppy was forcibly eradicated in 1999 in Mohmand and Dir. While enforcement operations have been routinely conducted in Bajaur and Mohmand, they were not vigorously conducted in Dir until 1998. The 1999 enforcement campaign in Dir was a major undertaking to establish the government's credibility with farmers and donors with respect to enforcement.

Drug Flow/Transit. Both cannabis and opiates transit through Pakistan. Afghanistan is the primary source of opiates passing through Pakistan. Afghanistan produced an estimated 1670 MT of opium in 1999. Afghan opiates trafficked to Europe and North America enter Pakistan's Baluchistan and NWFP provinces and exit either through Iran's or Pakistan's Makran Coast, or through international airports located in Pakistan's major cities. They also transit land routes from Baluchistan to Iran and from the tribal agencies of NWFP to Chitral area where they re-enter Afghanistan at Badakhshan province for transit through Central Asia.

It is estimated that Pakistan uses 98 MT of opium a year to meet the needs of Pakistani addicts; however, decreasing production of opium in Pakistan means that more Afghan opium is destined for the Pakistani market. Some opiates cross Pakistan en-route to India. An estimated 80 percent of heroin smuggled out of Southwest Asia is destined for the European Market. The balance goes to the western hemisphere or elsewhere in Asia. Couriers who were intercepted this year were attempting to travel to Africa, Nepal, Europe, Thailand and the Middle East. Due to drug production increases and border tensions between Afghanistan and Iran, the volume of opiates entering Pakistan from Afghanistan in 1999 increased.

Domestic Programs. The GOP estimates a total addict population close to 4 million (of whom half are heroin addicts), growing at the rate of 7 percent a year. No reliable survey has been conducted since 1993 to back up these figures. The GOP attached great importance to attacking its drug abuse problem in 1999 but there are no funds to expand the country's inadequate drug treatment facilities. ANF organized a four-day workshop on the role of media in drug abuse prevention under the forum of SAARC; the event was sponsored by the government of Japan. Other drug demand reduction activities organized by ANF included a radio awareness program, press publicity, sports tournament, a painting competition, and printing and distribution of posters and stickers. The 5-year Drug Abuse Control Master Plan calls for expenditure of \$21.4 million on demand reduction. Of that amount, \$12.5 million was to go to prevention. The GOP hopes that foreign donors will assist with funding for the master plan.

IV. U.S. Policy Initiatives and Programs

The 2000 USG counternarcotics policy objectives are to encourage the GOP to reduce opium poppy cultivation; to increase interdiction of opiates from Afghanistan; to dismantle major heroin trafficking organizations; to extend full cooperation with regard to extradition of narcotics fugitives to the US; and, to encourage the GOP to draft comprehensive money laundering legislation.

Bilateral Cooperation. The USG provided \$2.311 million in narcotics control assistance to Pakistan in 1999. This amount included \$720,000 from DEA for the establishment of a vetted unit (SIC) within ANF. In addition to narcotics law enforcement, the USG continues to fund alternative development/poppy reduction projects in Mohmand and Bajaur and public awareness projects in support of Pakistan's demand reduction efforts.

The ANF provided full cooperation to DEA to establish the SIC, trained and equipped by the USG to target major heroin trafficking organizations. The results produced by the SIC since its inception in August 1999 have been encouraging.

Formation of Interdiction Committees in Baluchistan and NWFP and extension of the CNS and ANF acts to NWFP's tribal areas last year were welcome moves. The progress of these initiatives has been slower than desired. However, strengthening inter-agency cooperation remains a priority, particularly in Baluchistan and the NWFP. Alternative development/poppy reduction projects in NWFP's Mohmand and Bajaur agencies contributed toward major reductions in poppy cultivation in 1999. In Mohmand, cultivation declined from 570 ha in 1998 to 200 in 1999, and in Bajaur, from 430 ha to 150 ha.

Pakistan also received counternarcotics assistance from other sources in 1999. Principal among these were UNDCP and the UK. UNDCP began a \$5.2 million three-year narcotics law enforcement program in 1999. This will complement U.S. bilateral assistance and UNDCP's on-going enforcement project bringing Iran and Pakistan together. UNDCP also expects to begin a demand reduction program in the near future.

The Road Ahead. The USG will work closely with the GOP to target major heroin trafficking organizations and

increase seizures of large shipments of opiates and precursor chemicals. The SIC will play an important role in this strategy. The USG will continue to encourage GOP efforts to eliminate opium poppy production before the end of 2000. The U.S. will work with the GOP to expedite extradition requests and to strengthen Pakistan's ability to attack money laundering. The U.S. is developing a maritime enforcement program with the Maritime Security Agency, Coast Guard, Customs, ANF, and other littoral states.

**Pakistan Statistics
(1991-1999)**

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Opium									
Potential Harvest (ha)	1,570	3,030	4,100	3,400	6,950	7,270	6,280	8,170	8,205
Eradication (ha)	1,197	2,194	654	867	0	463	856	977	440
Cultivation (ha)	2,767	5,224	4,754	4,267	6,950	7,733	7,136	9,147	8,645
Potential Yield (mt)	37	65	85	75	155	160	140	175	180
Seizures									
Opium (mt)	11.50	5.02	8.54	8.08	215.52	14.36	4.40	3.4	5.9
Heroin (mt)	3.90	3.33	5.07	4.05	18.04	6.20	3.9	2.9	5.7
Hashish/Marijuana (mt)	70.00	65.33	108.50	201.55	543.58	178.29	189.00	188.12	236.87
Labs Destroyed	2	0	4	10	15	18	13	11	18
Acetic Anhydride (ltr)	369	10,000	5,383						
Arrests	36,665	37,745	50,565	51,119	59,081	48,296	39,763	45,984	46,041
Users (thousands)									
Opium/Heroin					196	1,080	1,080	1,080	1,080
Opium (since 1995)	118	110	103	96					
Heroin (since 1995)	2,131	1,992	1,862	1,740					
Cannabis	1,222	1,142	1,068	998	1,745	1,000	1,000	1,000	1,000
Other Drugs	473	442	413	386	485	50	50	50	50

SRI LANKA

I. Summary

Sri Lanka continued its nation-wide demand reduction campaign in 1999. Efforts at public education on drug abuse also continued during the year, assisted by the U.S. Embassy in Colombo. The country remained a strong regional player in counter narcotics cooperation during the year. The government continued to make available to other countries in the South Asian Association for Regional Cooperation (SAARC) a U.S. Government-funded database on narcotics arrests and related information. Implementation of the counter narcotics master plan, begun in 1994, also continued. Cannabis eradication and seizures increased sharply from 1998, and there was also an increase in the number of drug-related arrests, perhaps as a result of increased awareness, and because the Police Narcotics Bureau (PNB), the government's primary enforcement organization, hired additional staff. Sri Lanka is a party to the 1988 UN Drug Convention, although enabling legislation for the Convention had still not been presented to parliament by the end of 1999. The government also had not submitted legislation to parliament on the control of precursor chemicals by the end of the year, although precursor chemicals are mentioned specifically in draft legislation to update the existing anti-narcotics law.

II. Status of Country

Sri Lanka has a comparatively modest drug problem. A slight but steady increase in narcotics consumption, particularly heroin, has continued in recent years. The Ministry of Defense (MOD), under whose jurisdiction the police serve, has overall responsibility for all counter narcotics and demand reduction activities, but the ongoing conflict with Liberation Tigers of Tamil Eelam (LTTE) separatists drains much of the Ministry's resources, leaving it limited personnel, time and funding to address the drug problem. Sri Lanka's 1,100 miles of coastline cannot adequately be patrolled, especially since Sri Lanka's naval forces are heavily engaged in the ongoing conflict. Sri Lanka's popularity as a transshipment point for narcotics from South and Southeast Asia has consequently grown, although there is little evidence these drugs are coming to the U.S. in significant quantities. Police officials in the southern Indian state of Tamil Nadu continue to report drug smuggling activities among Sri Lankan Tamil refugees living there. It is widely believed, moreover, the LTTE helps finance its insurgency through drug trafficking, although neither the USG nor the Police Narcotics Bureau (PNB) have any firm evidence to support this suspicion.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The government of Sri Lanka continued to implement a counter narcotics master plan developed in 1994 in consultation with the UNDCP. Although parliamentary enactment had been anticipated during the year, a comprehensive counter narcotics legislative package drafted by The National Dangerous Drugs Control Board (NDDCB), the government agency responsible for coordinating national drug policies, was still under review by the government. It had not been presented to parliament by the end of the year. The package focuses on three counter narcotics issues: 1) reforming The Poisons, Opium, And Dangerous Drugs Ordinance to include a ban on precursor chemicals and to prohibit narcotics-related money laundering; 2) enacting new legislation to implement the 1988 UN Drug Convention and the 1990 SAARC Convention on Narcotic Drugs and Psychotropic substances, including provisions for extradition and mutual legal assistance; and 3) initiating new legislation providing for the treatment and rehabilitation of drug addicts. The portion of the draft legislation referring to precursors was prepared in consultation with a UN drug expert in 1998.

Illicit Cultivation and Production. Cannabis is the only illicit narcotic cultivated and produced in Sri Lanka; however, cannabis grown in Sri Lanka has no effect on the United States. Many of the areas where cannabis is grown are located in heavy jungle in the southeastern part of the island, near the areas of conflict. Due to staffing limitations brought on by the conflict and the location of the possible cannabis fields near the fighting, the police were able to locate and destroy only one major crop of cannabis during 1999. In March, twenty officers from the PNB destroyed more than 22 acres of cannabis under cultivation in several growing areas. Police continued to rely primarily on informants to find the location of cannabis plants.

Regional Cooperation. Sri Lanka plays a leading role in regional anti-narcotics cooperation. A computer program developed by the police narcotics bureau and funded by the USG, hosts a regional database of narcotics arrests, monitoring and other information. The database is available to law enforcement agencies throughout SAARC. In June, The NDDCB hosted a training workshop for field personnel from India, Bangladesh, and Sri Lanka on precursor control. In August 1999, the NDDCB hosted heads of national drug and precursor testing laboratories, as well as law enforcement officials from SAARC countries at a meeting to promote cooperation and collaboration on the national level. The Drug Advisory Program (DAP) of the Colombo plan (an international organization headquartered in Colombo, Sri Lanka) conducted a series of successful counter narcotics-related training programs in the region, some of which were funded by the US. In November, the DAP organized in Bangkok, with funds provided by the USG, the second global conference on drug abuse primary prevention. More than 400 participants from 43 countries attended.

Demand Reduction. The NDDCB continued its aggressive, nation-wide public education campaign which included a weekly radio program that reached audiences throughout the island; seminars for judicial officers; training courses for police officers; hundreds of drug awareness seminars for students, teachers and parents; training programs on drug abuse prevention; youth camps for youth leaders; counseling programs at the state detention home; and treatment programs at residential treatment centers. A family-based prevention/treatment program begun in 1994 continued in 1999, and the number of people utilizing rehabilitation centers continued to increase. The Colombo plan supported several local organizations which train volunteer drugs counselors. A U.S.embassy officer spoke at one of these programs in 1999. The PNB worked with Lions International and with the Customs Service to provide drug awareness outreach to schools and churches.

Law Enforcement Efforts. The Police Narcotics Bureau, the Customs Service, and the Department of Excise are collectively tasked with eradicating cannabis production. In addition to the eradication of 22 acres of cannabis carried out in March 1999, seizures of cannabis were sharply up through November 1999 at 75.5 metric tons, compared with full-year figures of 24.7 metric tons in 1998 and 113.2 metric tons in 1997. An estimated 13,000 people were arrested on drug-related charges through November 1999. This compares with full-year figures of 13,867 arrested in 1998 and 13,546 arrested in 1997. The police narcotics bureau hired twenty new officers to help expand its efforts to combat an increase in narcotics abuse and trafficking. Through November 1999, most of those arrested for narcotics-related offenses have had their cases referred to the attorney general's office for prosecution.

Corruption. There was no evidence public officials were involved in narcotics trafficking in 1999 although the PNB Director thought there was a growing increase in corruption due to narcotics. The government set up in 1994 a permanent commission to investigate charges of bribery and corruption against public officials. No cases of drug-related corruption were reported by the commission. In 1998, however, the commission effectively stopped functioning due to political in-fighting.

Agreements and Treaties. Sri Lanka is a party to the 1988 UN Drug Convention, as well as to the 1990 SAARC Convention on Narcotic Drugs and Psychotropic Substances. Enabling legislation for both conventions was drafted in 1997, but still had not been presented to parliament in 1999. The legislation as drafted will include specific provisions for extradition for narcotics-related offenses. Presently, extradition between the U.S. and Sri Lanka is governed by the 1931 US-UK Extradition Treaty. However, a new extradition treaty between Sri Lanka and the U.S. was signed in September. Sri Lanka is a party to the World Customs Organization's International Convention on Mutual Administrative Assistance for the Prevention, Investigation, and Repression of Customs

Offenses (Nairobi Convention), Annex X on Assistance in Narcotics Cases.

Drug Flow/Transit. Heroin and hashish are the only narcotics that have been detected transiting Sri Lanka in significant quantities. Most drugs seized were headed for Europe. Most seizures take place at Katunayake International Airport near Colombo. In 1999, the Police Narcotics Bureau detected and seized a number of shipments of heroin from India at the airport, including one cache in November 1999 which contained over 12 kilograms. Nonetheless, the PNB believes an even greater number of transshipments, mostly heroin from India, take place along the Sri Lankan coast, as Sri Lanka has no coast guard, and its naval vessels are principally engaged in operations against the LTTE. In October and again in November, the Indian Narcotics Control Bureau (NCB) arrested Sri Lankans operating a heroin trafficking operation in at least four cities in India and took possession of almost 100 kg of heroin marked for shipment to Sri Lanka by sea. NCB officials are concerned that other large quantities of heroin seized in southern India during the year may also have been destined for Sri Lanka. Considering the relatively modest number of heroin users in Sri Lanka, this may suggest that Sri Lanka may be emerging as an important transshipment center. However, at present, there is insufficient evidence that the heroin transiting Sri Lanka is bound for the U.S. in quantities large enough to have a significant effect on the U.S.

Sri Lanka is not a major money laundering center, nor is it considered a tax haven, offshore banking center or an important financial center in the region. There is no information financial institutions in Sri Lanka engage in currency transactions involving international narcotics trafficking or money laundering activity.

Under Sri Lanka's Bank Secrecy Act, financial transactions relating to narcotics trafficking are illegal. The bill also contains specific provisions relating to forfeiture of assets from narcotics trafficking.

The Road Ahead. U.S. Government officials will continue to work with Sri Lankan counter narcotics organizations whenever possible, particularly by speaking or otherwise participating in seminars addressing the drug problem.

[End.]

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Southeast Asia and the Pacific

AUSTRALIA

I. Summary

Australia is a committed partner in international efforts to combat illicit drugs. Australia is a consumer, rather than a producer, nation. There is no evidence of narcotics destined for the U.S. transiting Australia. U.S. and Australian law enforcement agencies have excellent cooperation on narcotics matters. Drug policy is an issue of increasing importance in domestic affairs in Australia, with the passage of state legislation allowing for safe heroin injecting rooms (clean needles provided, no prosecution for drug offenses) in two Australian cities. Australia is a party to the 1988 UN Drug Convention.

II. Status Of Country

Cannabis is the most widely used illicit drug in Australia. According to a 1998 survey for Australian Institute of Health and Welfare (AIHW), nearly 40 percent of Australians over the age of 14 have used the drug at least once, with 17 percent having used it in the last 12 months. The survey revealed that 46 percent of all Australians report having used at least one illicit drug in their lives, with 22 percent having done so in the previous year.

Heroin use is on the rise in Australia. 2.2 percent of all Australians reported using heroin in the 1998 AIHW survey, up from 1.4 percent in 1995. Among men aged 20–29, 6.2 percent reported heroin use in 1998, up from 3.6 percent three years earlier. The state of New South Wales (NSW) and the Australian Capital Territory (ACT) have passed legislation allowing for the creation of "safe heroin injecting rooms," and the state of Victoria is considering similar legislation. The federal government, after receiving a letter from the UN Narcotics Control Board, has asked the NSW and ACT governments to delay implementation while it reviews whether the establishment of such rooms violates Australia's obligations under the 1988 UN Drug Convention.

Australia's large banking sector and a freely exchangeable currency have allowed money launderers to take advantage of Australia. The government is committed to prevention and enforcement actions against money laundering and measures such as know-your-customer rules and a U.S. \$6500 cash transaction reporting requirement make laundering difficult. Nevertheless, wire transfers and travelers checks have been used to launder drug proceeds through the Australian financial system.

III. Country Action Against Drugs

Policy Initiatives. The government's comprehensive drug strategy remains the "Tough on Drugs" program first announced by Prime Minister John Howard in 1997. During the year, two new components of the plan were announced. The first provided U.S. \$13 million in government grants for community organizations to provide treatment, rehabilitation, and support to those affected by drugs. The second was an agreement between the federal government and the governments of the states and territories to divert many first time drug offenders into treatment and education programs, giving an early intervention focus to the strategy. Since its inception, nearly U.S. \$190 million has been spent on implementation of the Tough on Drugs strategy, according to the Prime Minister's office. Drug policy remains an issue in which both the federal and state governments have a role. This leads to variations in laws and punishments across Australia.

Law Enforcement Efforts Australia continued aggressive anti-narcotics law enforcement activities in 1999. Responsibility for these efforts is divided between the federal and state governments, with the various law enforcement agencies generally working well together. There were two significant heroin seizures during the year. In July, the Australian Federal Police (AFP) seized 80 kilos of heroin. In October, the Australian customs service found over 219 kg of heroin in an ocean container in Sydney harbor on a boat arrived from Indonesia.

In a report issued in March 1999, the Australian Bureau of Criminal Intelligence (ABCI) reported that between

July 1, 1997 and June 30, 1998, federal and state/territory enforcement authorities seized 320.9 kg of heroin and other opiates, 103.1 kg of cocaine, and 182.2 kg of methamphetamine and other amphetamines.

The AFP has established a number of overseas liaison posts to assist in narcotics-related investigations. These liaison officers, particularly those in the Pacific Island nations, also assist local law enforcement agencies in training and institution building. The AFP, both in country and overseas, has a close working relationship with U.S. Agencies such as DEA and FBI.

Corruption. The Australian government is vigilant in its efforts to prevent narcotics related corruption. There is no information of any senior official of the government facilitating the production or distribution of illicit drugs or aiding in the laundering of proceeds from such activities.

Agreements And Treaties. A mutual legal assistance treaty between the U.S. and Australia entered into force on September 30, 1999. There is also a bilateral extradition treaty, under which the U.S. requested the extradition of two persons for narcotics offenses during 1999. Both cases are proceeding through the courts. The Australian government is working through the court system to extradite a prominent Mexican money launderer back to Mexico pursuant to that country's request.

Cultivation/Production. The only significant illicit cultivation in Australia is cannabis, which remains at less than 5000 hectares throughout Australia. Australia has a significant licit opium crop, primarily on the island of Tasmania. Controls against diversion of that crop are excellent.

Drug flow/Transit. Australia has been and continues to be a target for Southeast Asian heroin trafficking organizations and South American cocaine traffickers. The U.S. embassy continues to monitor the possibility of these drugs transiting Australia to the U.S., but to date there has been no information that this is occurring.

IV. U.S. Policy Initiatives And Programs

U.S. Policy Initiatives. The primary USG counternarcotics goals in Australia remain looking for signs of traffic from Australia to the U.S. and providing mutual assistance and sharing intelligence in an effort to disrupt and dismantle international trafficking organizations. The cooperation between U.S. and Australian authorities in achieving these goals is excellent.

The Road Ahead. Australia shows no sign of lessening its commitment to the international fight against drug trafficking, particularly in Southeast Asia. The U.S. can expect to enjoy excellent bilateral relations with Australia on the counternarcotics front and the two countries should work well together in UNDCP and other multilateral fora.

BRUNEI

I. Summary

Brunei Darussalam does not produce narcotic drugs, and does not consume them in significant quantities. Drug-related problems are relatively minor. There are no indications that Brunei is being used for major transshipment of illegal drugs or for money laundering. The Brunei government has a vital, proactive anti-drug program led by the Narcotics Control Bureau (NCB). The Brunei government actively participates in regional activities and multilateral anti-drug fora and has made substantial progress in strengthening laws pertaining to narcotics-related crime. Brunei is a party to the 1988 UN Drug Convention. Contact and cooperation with regional U.S. Drug Enforcement Agency (DEA) officials has been positive.

II. Status Of Country

The quantity of illegal drugs coming to or transiting Brunei is relatively small. Brunei authorities report there is no evidence of drug syndicates operating in the country. Drugs that enter Brunei are smuggled in by air, at its single international airport; in vehicles, crossing Brunei's several border checkpoints; by water, from the nearby Malaysian states of Sabah and Sarawak; or through illegal jungle entry points. Most illegal narcotics shipments move through Brunei between the Malaysian states of Sabah and Sarawak, but some of them inevitably stay and are consumed locally.

Crystal methamphetamine, marijuana (cannabis), and heroin are the drugs of abuse of choice in Brunei. In 1999 Brunei authorities noted an increasing presence of methamphetamine, a slight reduction in cannabis, and a drop in the use of heroin to almost zero. There is no evidence of cocaine traffic or use in Brunei.

III. Country Actions Against Drugs in 1999

Law Enforcement. Brunei's Narcotics Control Bureau (NCB), which leads the country's counternarcotics efforts, is well-funded. Its staff is trained and dedicated, professional and, although small, they efficiently perform investigative and enforcement activities. Cooperation between the NCB, police, customs, and other agencies involved in counternarcotics is excellent.

Brunei vigorously prosecutes those arrested for narcotics offenses. Like its neighbors, Malaysia and Singapore, Brunei has a well-publicized death penalty for possession of heroin for the purpose of trafficking (more than 30 grams), for marijuana (more than 600 grams), for cocaine (more than 40 grams), and most recently for possession and trafficking in methamphetamine (more than 250 grams). One drug dealer was convicted and put to death in 1996, and in November 1999 another was sentenced to death. As in Malaysia and Singapore, this tough policy on drugs appears to have a significant deterrent effect.

Policy Initiatives. Asset forfeiture laws are used in Brunei's drug-related cases. Money laundering legislation was still undergoing legal review in late 1999, but the Brunei government announced that a law would be put into place soon. Anticipating such a law, in 1999 Brunei authorities initiated a cooperative effort with regional money laundering experts.

Brunei participates in ASEAN and other regional anti-drug fora, and regularly cooperates with the Malaysian government in counternarcotics operations along common borders. Brunei drug officials also maintain regular contact with counterparts in Singapore, Thailand, and Australia.

Agreements and Treaties. There are no bilateral law enforcement treaties between the U.S. and Brunei. The government of Brunei has no narcotics agreements with the U.S., but there is excellent ad hoc cooperation with the regional DEA presence in Singapore. Brunei is a party to the 1988 UN Drug Convention.

Drug Flow/Transit. The Brunei government appears concerned about Brunei becoming a transit point for precursor chemicals, but has not developed a preventive strategy yet. However, to combat drug smuggling, the Brunei government sponsored a DEA training course for NCB, customs, postal and local business representatives that focused on smuggling through courier and postal services.

Demand Reduction. The Brunei government operates one drug rehabilitation facility, which accommodates approximately 250 (voluntary and involuntary) residents. Recent government focus has been on demand reduction activities, especially targeting the use of crystal methamphetamine. In 1999 the Brunei government funded school and village programs with anti-drug messages geared to 6 to 17-year-old students and their parents.

Corruption. There is no indication of drug-related corruption in Brunei.

IV. U.S. Policy Initiatives And Programs.

Bilateral Cooperation. During 1999 the Narcotics Control Bureau and police have been attending training courses at the newly created International Law Enforcement Academy (ILEA) in Bangkok. In September 1999, the DEA Singapore country office conducted the first ever narcotics training conference in Brunei. Training focused on mail and parcel interdiction techniques and was presented to representatives from the NCB, Brunei customs, the Brunei post office, and various private courier service companies, including Federal Express, DHL, UPS, and TNT. This training was extremely well received.

Road Ahead. The NCB continues to request further training, including technical training in a wide range of anti-narcotics law enforcement techniques. Brunei needs to remain vigilant against the amphetamine-type stimulant epidemic which has beset the rest of Asia.

BURMA

I. Summary

Burma is the world's second largest source of illicit opium and heroin, with Burmese production exceeded only by that of Afghanistan. Due in large part to severe drought conditions in poppy growing areas, production and cultivation continued to decline significantly in 1999 for the third year in a row. In 1999 there were an estimated 89,500 hectares under opium poppy cultivation, down 31 percent from 1998. This cultivated area could yield up to a maximum of 1,090 metric tons of opium gum. The opium production figure is 38 percent lower than in 1998 and is less than half of the average amount of production during the last decade. The government maintained most of its opium crop-eradication efforts, expanding some of these only slightly. During 1999, seizures of methamphetamine continued to exceed last year's record seizures, although opium and heroin seizures were well below 1998 figures. Burma made its first airport seizures of narcotics in 1999. The Government of Burma (GOB) made little, if any, effort against money laundering during the year. While there were cases of interdiction and arrests of members of some cease-fire groups for narcotics trafficking, the GOB has been unwilling or unable to take on the most powerful groups directly. Cease-fire agreements with insurgent ethnic groups dependent on the narcotics trade involve an implicit tolerance of continued involvement in narcotics for varying periods of time. Burma is a party to the 1961 UN Single Convention, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention.

II. Status of Country

Burma has been, and continues to be, one of the world's largest producers of illicit opium. Burmese opium

production doubled in 1989, the year after the State Law and Order Restoration Council (SLORC—the military junta that now rules Burma under the Name State Peace and Development Council, or SPDC) took power. Production levels remained high and stable for several years, but production began to decline in 1997 and dropped significantly in 1998 and 1999. The decline in potential production in 1999 over 1998 is largely due to drought, although the drop also reflects the GOB's effort to keep areas out of opium cultivation as part of its eradication efforts. The U.S. Government (USG) discontinued most U.S. direct assistance to Burma in 1988 in response to massive human rights abuses.

Burma currently accounts for approximately 80 percent of the total production of Southeast Asian opium. Most of this supply of illicit opiates is produced in ethnic minority areas of Burma's Shan State. Over the past few years, the GOB has increased its presence in this region, particularly the southern portion of it, an area formerly under the control of Chang Qifu (Khun Sa). Since 1989, Rangoon has negotiated cease-fire agreements with most of the drug-trafficking groups that control these areas, offering them limited autonomy and development assistance in exchange for ending their insurgencies. The regime's highest priority is to end insurrection and achieve some measure of national integration; counternarcotics interests in these areas are a lesser priority, reflected in the fact that many of the cease-fire agreements effectively permit the minorities to continue their narcotics cultivation and trafficking activities. Moreover, the cease-fire agreements have had the practical effect of condoning money laundering, as the government encouraged these groups to invest in "legitimate" businesses as an alternative to trafficking and some chose this opportunity to sanitize past illicit proceeds with investments in hotels and construction companies, for example.

The ethnic drug-trafficking armies with whom the government has negotiated cease-fires (but not permanent peace accords), such as the United Wa State Army (UWSA) and the Myanmar National Democratic Alliance Army (MNDAA—Kokang Chinese), remain armed and heavily involved in the heroin trade. Through cease-fire agreements, the GOB appears to have given the trafficking armies varying degrees of autonomy; for example, Burmese troops cannot even enter Wa territory without explicit permission. Among the top leaders of those ethnic groups believed by the USG to be involved in the heroin and/or amphetamine trade are, Peng Jiasheng, and Liu Goushi of the MNDAA; Pao Yuqiang, Li Zuru, and Wei Xuekang of the UWSA; Mahtu Naw of the Kachin Defense Army (KDA); Mong Sa La and Yang Maoliang of the Mongko Defense Army (MDA); and Yawd Serk of the Shan United Revolutionary Army (SURA), which was formerly part of drug lord Chang Qifu's Mong Tai Army. Chang Qifu disbanded his army in January 1996 in return for generous terms of surrender, which allowed him to avoid criminal prosecution. U Sai Lin (Lin Mingxian) of the Eastern Shan State Army (ESSA) has been listed in previous years as a major narcotics insurgent leader, but he has successfully rid his area of opium cultivation. There are no current, confirmed reports of Sai Lin or the ESSA still being involved in narcotics trafficking, although it is likely that ESSA territory is a trafficking route because of its location along the border with China.

There is reason to believe that money laundering in Burma and the return of narcotics profits laundered elsewhere are significant factors in the overall Burmese economy, although the extent is impossible to measure accurately. Political and economic constraints on legal capital inflows magnify the importance of narcotics-derived funds in the economy. An underdeveloped banking system and lack of enforcement against money laundering have created a business and investment environment conducive to the use of drug-related proceeds in legitimate commerce.

Drug abuse—in particular intravenous drug use—is on the rise in Burma and is accompanied by an alarming spread of the HIV/AIDS virus, especially in the ethnic minority areas that are the source of the drugs. HIV/AIDS infection rates in gem and jade mining areas are particularly high.

In the past four years, as overt military challenges to Rangoon's authority from the ethnic groups have eased somewhat, the government, while maintaining its primary focus on state security, has stepped up its counternarcotics enforcement efforts. The GOB garrisoned troops on a year-round basis for the first time in the Kokang region during 1997, but it still does not have troops in Wa territory. The MNDAA, the KDA, and the MDA in Shan State have declared their intention to establish opium-free zones in territory under their control by the year 2000; the ESSA has already declared its territory an opium-free zone. The Wa have announced their territory will be an opium-free zone by the year 2005.

Ethnic groups have made "opium-free" pledges since 1989, but, with the exception of the Kachin State and ESSA territory, results have been limited. In view of the extensive opium cultivation in northern Shan State, the area of greatest opium density, expanded reduction in cultivation will require considerable eradication, much greater law-enforcement, and alternative-development efforts by the authorities. Such efforts necessitate vastly greater financial resources than the government has, however. Implementation of such a program would also require increased cooperation between the government and the ethnic groups involved in production and trafficking.

The GOB, for its part, stated that it would support its eradication efforts with development assistance in the form of infrastructure improvements and advice on crop substitution. The GOB also requested USG assistance in verifying whether these groups fulfill their commitments. The USG has requested additional information to

pinpoint the areas in question. The GOB has promised to provide this information. Exchange of information on the status of opium cultivation could then occur during the opium poppy survey carried out jointly with the GOB on a year-by-year basis. In view of China's long border with the Wa area, the GOB asked China for assistance in curbing Wa trafficking. Both countries have established a regular forum for discussing counternarcotics cooperation.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Burmese counternarcotics efforts in 1999 made progress with regard to increased methamphetamine and ephedrine seizures and Burma's first seizures of drugs transiting the airport in Rangoon. An improved security situation in parts of northern Shan State permitted the Burmese anti-drug forces to conduct more vigorous law-enforcement efforts, especially in the Kachin and Kokang regions. The GOB has continued its cooperation with Japan to plant opium substitute crops on 14,565 acres. Such efforts must be stepped up, if they are to have a significant impact on the overall trafficking problem.

With encouragement from the Drug Enforcement Administration (DEA) and U.S. Embassies in Rangoon and Bangkok, the Burmese and Thai governments agreed to undertake joint operations against drug trafficking along Thailand's northern border with Burma. Operation of a joint anti-drug task force in Tachilek, Burma and Mae Sai, Thailand, however, has been hampered by political disharmony between the two countries.

The Burmese continued to refuse to render drug lord Chang Qifu on grounds that he had not violated his 1996 surrender agreement. This agreement reportedly stipulated that if Chang Qifu ended his insurgency and retired from the drug trade, the GOB would provide him with security in Rangoon and allow him to conduct legitimate business. Burmese authorities assert that he will continue to enjoy immunity from prosecution in Burma or rendition to another country as long as he does not violate his surrender agreement. This issue remains a source of friction between Burma and the U.S. The 1988 UN Drug convention obligates parties, including Burma, to prosecute such traffickers. GOB officials have stated they would be willing to prosecute Chang Qifu or his subordinates, if it can be proven that they have engaged in narcotics trafficking after the surrender agreement was signed.

The SPDC affirmed its intention to increase its efforts to implement the ongoing "Master Plan for the Development of Border Areas and National Races." The plan calls for a program of integrated development combined with law enforcement aimed at improving living standards in the ethnic areas and providing viable economic alternatives to opium cultivation. Few GOB resources have been devoted to such development projects, however; health, education, and infrastructure in border areas remain poor. GOB policy is to force the leaders in the ethnic areas to spend their own revenues, including from the drug trade, on social and physical infrastructure. The GOB's ability to continue or expand its opium eradication efforts is likely to be adversely affected by the lack of such economic alternatives.

The UNDCP has begun an integrated rural development project in the southern portion of the Wa region in furtherance of the United Wa State Army's unilateral decision announced in 1995 to establish five "opium-free zones" in its area of control to reduce opium cultivation gradually. The project is part of a planned five-year, \$15 million rural development project aimed at crop substitution and alternative development. The project area has expanded to include 2 more townships for a total of five, with over 200 villages participating. UNDCP has begun projects in agriculture, road building, water and sanitation, and community development. The Wa project will incorporate a monitoring and evaluation component designed to measure progress in eliminating opium cultivation. As an integrated development scheme, it will also focus on developing the infrastructure as well as providing educational and health facilities in the Ho Tao and Mong Pawk districts of the Wa region.

Accomplishments. While the extent of the drug threat from Burma remained high, law-enforcement efforts, particularly seizures of amphetamine, showed some improvement. Opium production during 1999 showed a significant decline; much of the decline, however, was the result of a region-wide drought. Seizures of 28.8 million amphetamine tablets in 1999 represented a notable increase over the previous year's record seizures of 15 million tablets. Opium and heroin seizures as of October 1999 declined from the 1998 seizure rate. The decline largely resulted from changes in trafficking patterns and refining methods adopted by traffickers in response to GOB enforcement efforts in prior years. The combined police and military narcotics task forces seized 273.2 kilograms of heroin in 1999 compared to 490 kilograms seized in 1998. By October, officials seized 1.44 metric tons of opium, compared with 5.2 metric tons for all of 1998. As indicated above, opium cultivation dropped by 31 percent and potential opium production by 38 percent to the lowest level in ten years. GOB law enforcement also made its first arrests of traffickers at Mingaladon Airport in Rangoon in October and November, seizing a total of 10.7 kilograms of heroin. To date, the GOB has also seized 6.43 metric tons of ephedrine in 1999, most of it coming from India. The GOB destroyed 23 heroin refineries and six methamphetamine refineries during 1999. The GOB also eradicated 9,800 additional acres of poppy fields, according to Burmese figures. The USG is unable to verify the accuracy of the eradication figures.

Law Enforcement Measures. The 1993 Narcotic Drugs And Psychotropic Substances Law brought the Burmese

legal code into conformity with the 1988 UN Drug Convention. As such, the 1993 law contains useful legal tools for addressing money laundering, the seizure of drug-related assets, and the prosecution of drug conspiracy cases. However, Burmese policy and judicial officials have been slow to implement the law, targeting few, if any, major traffickers and their drug-related assets. Burmese drug officials claim they lack sufficient expertise to deal with money laundering and financial crimes, but money laundering is believed to be carried out on a massive scale.

Formally, the Burmese government's drug-enforcement efforts were led by the Central Committee for Drug Abuse Control (CCDAC), which is comprised of personnel from various security services, including the police, customs, military intelligence, and the army. CCDAC now has 18 drug-enforcement task forces around the country, most located in major cities and along key transit routes near Burma's borders with China, India, and Thailand. The CCDAC, which is under the effective control of the Directorate of Defense Services Intelligence (DDSI) and relies, in part, on military personnel to execute law-enforcement duties, continues to suffer from a lack of adequate resources to support its law-enforcement mission.

Corruption. There is no evidence that the government, on an institutional level, is involved in the drug trade. However, there are persistent and reliable reports that officials, particularly corrupt army personnel posted in outlying areas, are either involved in the drug business or are paid to allow the drug business to be conducted by others. Army personnel wield considerable political clout locally, and their involvement in trafficking is a significant problem. The Burmese have said that they would welcome information from others on corruption within their ranks, and a few military personnel are known to have been arrested for narcotics-related offenses in 1999.

The lack of an enforcement effort against money laundering encourages the use of drug proceeds in legitimate business ventures by traffickers or former traffickers. Businesses owned by family members of former or present traffickers have invested heavily in infrastructure projects, such as roads and port facilities, as well as in hotels and other real-estate development projects during the year. Some of these investments are intended to supplement government expenditures on rural development projects in areas under control of the ethnic insurgent and trafficking groups. There is solid evidence indicating that drug profits formed the seed capital for many otherwise legitimate enterprises in the commercial services, and manufacturing sectors.

Agreements and Treaties. Burma is a party to the 1961 UN Single Convention, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. The Rangoon regime, however, has always refused to extradite Burmese citizens to other countries. The United States does not have a mutual legal assistance treaty (MLAT) with Burma. The USG believes that a U.S.-U.K. Extradition Treaty, which was accepted by the post-independence Burmese government in 1948, remains in force and is applicable to U.S. requests for extradition of drug fugitives from Burma. The GOB continues to refuse to recognize the applicability of this treaty.

The GOB is one of six nations (Burma, Cambodia, China, Laos, Thailand, Vietnam) that, along with the UNDCP, signed a Memorandum of Understanding (MOU) covering a sub-regional action plan aimed at controlling precursor chemicals and reducing illicit drug use in the highlands of Southeast Asia. In addition to periodic meetings with counterparts from the other signatories to the MOU, Burma has held counternarcotics discussions with Russia and India in 1999. The GOB signed bilateral drug control agreements with India in 1993, with Bangladesh in 1994, with Vietnam in 1995, and with the Russian Federation, Laos, and The Philippines in 1997.

Cultivation and Production. Burma is the world's second largest producer of opium. Potential production decreased sharply from 1998 levels, however, marking the third straight year of decline after a decade of steady production at a high level. Opium cultivation declined an estimated 31 percent and production declined an estimated 38 percent to 1,090 metric tons. Since the early 1990s the areas of most intense cultivation have gradually shifted from southern to northern Shan State. The bulk of the opium crop has been in areas controlled by ethnic minority groups. The GOB has signed or tried to sign cease-fire agreements with many of these groups since 1989. In the last few years, however, the GOB has begun to increase its presence in areas previously under ethnic control, with the notable exception of the Wa region. The government continued its eradication efforts during 1999 in areas previously subject to eradication, but did not expand the program significantly. A drought that affected both northern and southern areas of Shan State, was largely responsible for the sharp decline in potential opium production in 1999.

The GOB conducted a baseline survey of opium cultivation for the second year aimed at determining actual opium production (as opposed to potential production that the USG measures) throughout the country. According to Burmese figures, there were 102,066 acres cultivated in 1999, producing a total of 449 tons. The methodology used to arrive at these figures is unknown, and the U.S. must rely on the higher figures resulting from the joint U.S.-Burma opium yield survey.

Drug Flow/Transit. Most heroin in Burma is produced in small, mobile labs located near the borders with Thailand and China in Shan State in areas controlled by ethnic narcotics insurgencies. A growing amount of

methamphetamine is reportedly produced in labs co-located with heroin refineries in the Wa region and the former Shan United Army territory in southern Shan State. Seizures of amphetamine tabs as of November had outpaced the record 15 million seized in 1998, reflecting the growing popularity of methamphetamine production among traffickers. Heroin and methamphetamine produced by Burma's ethnic groups are trafficked largely through transit routes crossing the porous Chinese and Thai borders; to a lesser extent over the Indian, Bangladeshi, and Lao borders; and through Rangoon onward by ship to other countries in the region. Although Thailand remains an important route for Burmese heroin to exit Southeast Asia, trafficking through China is on the increase.

Acetic anhydride, an essential chemical in the production of heroin, and ephedrine, the principal chemical ingredient of methamphetamine, are imported primarily from China and India. Traffickers continued moving heroin through central Burma, often from Lashio through Mandalay to Rangoon or other seaports, such as Moulmein, for shipment to Singapore or Malaysia. Trafficking routes leading through Kachin and Chin States and Sagaing Division in northern Burma to India continued to operate as secondary routes.

Demand Reduction. Drug abuse is a growing problem in Burma. Official estimates put the drug-addicted population at approximately 86,537, up from last year's estimate of 66,463. According to UNDCP and non-governmental organizations working in the health sector, the actual number is significantly higher, totaling about 400-500,000. Heroin is cheap in Burma, and intravenous use of heroin contributed to the rapid spread of HIV/AIDS, particularly in the Kachin and Shan States. According to the GOB's "Rapid Assessment Study Of Drug Abuse In Myanmar" sponsored by the Ministry of Health and UNDCP in 1995, drug treatment services are not reaching most drug users because of a lack of facilities, lack of properly trained personnel, and inadequate treatment methods. The Non-Governmental Organization (NGO) "World Concern" is implementing a demand-reduction project in Kachin State.

IV. U.S. Policy Initiatives

Direct material USG counternarcotics aid to Burma has remained suspended since 1988, when the Burmese military brutally repressed the pro-democracy movement. In 1998, the GOB refused to renew a crop substitution project, Project Old Soldier, by the U.S. NGO 101 Veterans, Inc., in 25 villages in the Kutkai area of northern Shan State. Currently, the USG engages the Burmese government on counternarcotics on a very limited level. DEA, through the U.S. Embassy in Rangoon, shares drug-related intelligence with the GOB and conducts joint drug-enforcement investigations with Burmese counternarcotics authorities. Various U.S. agencies have conducted opium yield surveys in the mountainous regions of the Shan State in 1993, 1995, 1997, 1998, and 1999, with essential assistance provided by Burmese counterparts. In cooperation with Burmese counternarcotics personnel, the USG plans to conduct another survey in early 2000. Results from the surveys give both governments a much more accurate understanding of the scope, magnitude, and changing geographic distribution of Burma's opium crop.

The U.S. Government continues frequently to urge the Burmese government to take serious steps to curb Burma's large-scale opium production and heroin trafficking. Specifically, the Rangoon regime has been encouraged to:

Prosecute drug-trafficking organizations and their leaders, and deprive them of assets derived from the drug trade;

Take action against drug-related corruption, including prosecution and appropriate punishment of corrupt officials and money launderers;

Take action against fugitive drug-traffickers and turn them over to third countries;

Undertake opium poppy eradication on a wide scale in areas under its direct control or immediate influence;

Press ethnic groups, such as the Wa, the Kokang, and the Kachin, who have pledged to create opium-free zones in their regions, to make good on their commitments;

Enforce existing anti-drug, conspiracy, and anti-money-laundering legislation;

Provide strong support to multilateral drug-control projects in Shan State.

Bilateral Cooperation. USG counternarcotics cooperation with the Burmese regime is restricted to basic law-enforcement operations. The U.S. provides no bilateral material or training assistance due to U.S. concerns over Burma's commitment to effective counternarcotics measures, human rights, and political reform. DEA's liaison with Burmese policymakers and military officials--conducted mainly through DEA's office in Rangoon--will continue and will focus on providing intelligence on enforcement targets and coordinating investigations of international drug-trafficking groups.

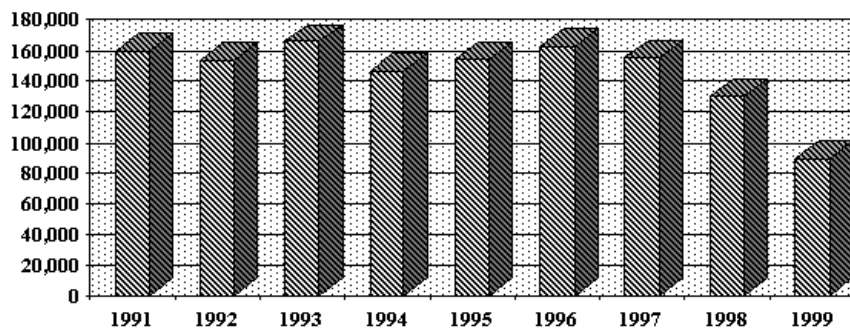
The Road Ahead. Based on experience in dealing with significant narcotics-trafficking problems elsewhere around the world, the USG recognizes that ultimately large-scale and long-term international aid, including

development assistance and law-enforcement aid, will be needed to curb fundamentally and irreversibly drug production and trafficking. The USG strongly urges the GOB to commit itself fully and unambiguously to implementing effective counternarcotics measures, respecting the rule of law, punishing drug traffickers and major trafficking organizations (including asset forfeiture and seizure), combating corruption, enforcing anti-money-laundering legislation, continuing eradication of opium cultivation, destroying drug-processing laboratories, and respecting human rights.

**Burma Statistics
(1991-1999)**

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Opium									
Potential Harvest (ha)	89,500	130,300	155,150	163,100	154,070	146,600	165,800	153,700	160,000
Eradication (ha)	9,800	16,194	10,501	0	0	3,345	604	1,215	1,012
Cultivation (ha)	99,300	146,494	165,651	163,100	154,070	149,945	166,404	154,915	161,012
Potential Yield (mt)	1,090	1,750	2,365	2,560	2,340	2,030	2,575	2,280	2,350
Seizures									
Opium (mt)	1.440	5.200	7.884	1.300	1.060	2.265	2.265	2.193	1.512
Heroin (mt)	0.273	0.386	1.401	0.505	0.070	0.347	0.300	0.266	0.183
Marijuana (mt)	0.274	0.160	0.288	0.259	0.239	0.290	0.600	0.292	0.724
Acetic Anhydride (gal)	-	-	2,137	5,082	1,159	1,191	1,016	1,136	-
Other Data									
Heroin Labs Destroyed	23	32	33	11	3	4	0	2	6
Meth Labs Destroyed	6	-	-	-	-	-	-	-	-
Narcotics Arrests	6,413	4,456	4,522	4,522	5,541	7,134	7,520	6,109	7,357
Heroin Users (thousands)	300	300	300	150	100	30	30	30	30
Opium Users (thousands)	120	120	120	120	120	120	120	120	120

Burma Opium Poppy Cultivation 1991-1999



CAMBODIA

I. Summary

The year 1999 saw the establishment of peace and political stability throughout all regions of Cambodia after more than 30 years of warfare. The coalition government established in November 1998 has emphasized law and order and economic development. The National Drug Policy Board was reorganized to provide more effective operational leadership and anti-narcotics enforcement was somewhat energized. Cambodian anti-narcotics officials have begun to establish working contacts with their counterparts in the region. UNDCP has provided welcome technical assistance in the areas of precursor chemical control, demand reduction, drug

control and cross border cooperation, and has sponsored several well attended, well received training sessions.

Cooperation with U.S. law enforcement has continued to be excellent. Officials at the highest levels of the government have made public statements on the importance of combating illegal narcotics. However, there is substantial cannabis (marijuana) cultivation for export almost exclusively to non-U.S. destinations. Cambodia remains a major transit route for Southeast Asian heroin to overseas markets, including the U.S.

Lack of financial resources, shortage of trained personnel, and high levels of judicial corruption continue to hinder sustained advances in anti-narcotics enforcement. Officials at all levels continue to plead for U.S. assistance in training anti-narcotics police. Cambodia did not participate in the International Law Enforcement Academy in Bangkok.

II. Status of Country

Cambodia is not a major producer of opiates or cocoa-based drugs, although cannabis production is significant. Cambodia is not a center for narcotics derived money laundering. It is the only country in Southeast Asia that does not have a significant domestic drug abuse problem, having been saved from drug abuse by poverty, political turmoil, and isolation.

Marijuana is cultivated in significant quantities for export, as well as for domestic consumption. Although reliable figures about areas under cultivation are not available, estimates are that production could be quite high. Marijuana production in Cambodia is concentrated in four provinces, Koh Kong, Kampong Cham, Stung Treng, and Banteay Meanchey, and is reported to be in the control of ethnic Sino-Thai criminal organizations. Europe is the major destination for Cambodian cannabis. Of the approximately 70 tons of Cambodian cannabis that has been seized outside Cambodia since 1996, the majority of seizures have been made in European countries. Australia and the U.S. have also been destinations for shipments of Cambodian marijuana. The Prime Minister has announced the provincial officials who have knowledge of cannabis production and fail to take action will be removed from their posts.

Cambodia shares borders with Thailand, Laos, and Vietnam, and lies near the major trafficking routes for Southeast Asian heroin. Its principal involvement in the international narcotics trade is as a significant transit route for Southeast Asian heroin to overseas markets, including China, Europe, Australia, and the United States. There is little hard information available on the scale of heroin trafficking through Cambodia, but law enforcement in Cambodia is lax, and corruption endemic. There are clear indications of alien smuggling and counterfeiting, and there have been reliable reports that narcotics traffickers and other organized criminal elements use Cambodia as a kind of refuge for their activities.

There have also been reports in the past of methamphetamine laboratories operating in Cambodia at some points along the western border with Thailand, and some have been raided in previous years. In 1999, the Interior Minister condemned the presence of some new methamphetamine labs in Koh Kong province along the Thai border, which he claimed had been established by Thai criminals to supply the Thai market. While use of methamphetamine is still limited, Cambodian officials have become very concerned over the past year about the potential for rapid increase in methamphetamine abuse and are anxious to avoid an epidemic of the proportions experienced in neighboring countries.

Cambodia's law enforcement agencies have very few resources and generally lack even basic training in law enforcement techniques and drug enforcement measures. Three decades of civil warfare and factional fighting further hampered a sustained and organized effort against illegal drugs. In 1998, the cessation of factional fighting and the final demise of the Khmer Rouge along with the formation of a new coalition government have provided a measure of stability and allowed the government to devote more attention to combating crime in general, and illegal narcotics in particular. The new government has given priority to the reestablishment of law and order throughout the country and combating corruption. Both law enforcement agencies and the judicial system remain very weak. Defendants in important narcotics cases have had charges dropped inexplicably and been set free after paying very small fines.

III. Country Actions Against Drugs In 1999

Law Enforcement. Law enforcement in general has been energized, relative to 1998, and anti-narcotics efforts were noticeably more effective than in previous year. Measures to confiscate illegal weapons were taken throughout the year, contributing to generally greater security. The Prime Minister announced that the cultivation of cannabis would not be tolerated and that provincial officials who were aware of such activities and failed to take steps to combat it would be removed from office.

Cambodian law enforcement officials have also provided excellent cooperation in counterfeiting cases. The U.S. dollar is widely accepted in Cambodia and the police actively pursue counterfeiters of it. The U.S. embassy is routinely notified when counterfeit or suspected counterfeit currency is seized. Secret Service officers, stationed in Bangkok, have visited regularly to work with Cambodian authorities on counterfeit cases and to

provide training to law enforcement and bank officials in counterfeit identification.

Corruption. Corruption is an endemic problem in Cambodia, and has adversely affected drug law enforcement. Poorly paid and ill-trained police and judicial officials frequently look the other way in narcotics and other criminal cases. There has been a real danger of Cambodia becoming a refuge for criminal elements, convinced that enforcement would either be totally ineffective, or in the unlikely event they were apprehended, that they could buy their way out. The combination of incompetence and venality, even at high levels in government and the police, pose an on-going challenge to improved narcotics law enforcement.

Policy Initiatives. The government reorganized its counternarcotics policy body, the National Authority for Combating Drugs (NACD), in response to complaints from a variety of sources that the existing group was ineffective. The new members come from law enforcement and operational backgrounds. Although the NACD secretariat members do not have law enforcement units under their direct control, they claim to have the ability to call on resources from all law enforcement agencies as necessary to conduct anti-narcotics operations. The UNDCP believes that this body has the potential to become an effective policy and coordination unit and is proposing a four year U.S. \$ 2.3 million "NACD Support Project" which would strengthen the NACD Secretariat. This program includes supplying one senior drug control advisor on a full time basis and other short term technical advisors. The Cambodian authorities have enthusiastically accepted this proposal, which unfortunately has not yet been funded.

Accomplishments. In the past year, UNDCP has sponsored a number of seminars and training courses which were enthusiastically received and well attended, but the desperate need for training far exceeds what is currently available. Cambodia has also begun to cooperate with neighboring countries in narcotics law enforcement, most notably with Thailand and Laos. Exchanges of visits with regional narcotics enforcement authorities, also sponsored by UNDCP, have provided Cambodian officials with new insight into the regional nature of the narcotics problem, opportunities for information sharing, and the beginnings of regional cooperation to combat trafficking. Several highly publicized methamphetamine seizures were made at Pochentong Airport, including one involving an American citizen with 4,000 tablets heading to Japan, and several others at or near the Thai border. [this sentence does not describe drug flow/transit. You may as well just include it in accomplishments, above.

Cultivation/Production. Cambodian authorities had some success in combating illicit cultivation during 1999. The provincial governors were instructed to make sure that farmers understood that cannabis cultivation would not be tolerated and that they would be held accountable. A number of small scale plantations and fields were destroyed during the year, with one 160 hectare plantation discovered and raided in December.

Agreements and Treaties. Although Cambodia is listed as a signatory to the 1961 UN Single Convention and its 1972 Protocol, it has not yet ratified the convention. Cambodia has no extradition agreement with the U.S., but the Cambodian government has cooperated with U.S. law enforcement in the past in rendering or deporting persons wanted in the U.S. for crimes, including narcotics, upon request and presentation of an appropriate warrant. The U.S. embassy has been assured that such cooperation will continue. The Cambodian government concluded an extradition treaty with Thailand in 1998 and is in the process of negotiating an agreement with Laos. These are both important steps in Cambodia's fight against illegal drugs.

Demand Reduction. A three day workshop on drug abuse prevention and drug demand reduction in September attracted an overflow audience of 120 government health, education, and law enforcement officials, NGO representatives, children advocacy groups, and Embassy representatives.

IV. U.S. Policy Initiatives

Bilateral Cooperation. DEA law enforcement agents from Bangkok visited Cambodia regularly in 1999 and received excellent cooperation from their Cambodian counterparts. U.S. officials at many levels, including the U.S. ambassador, raised the narcotics issue with Cambodian officials at all levels, up to and including the Prime Minister, regularly throughout the year. The Cambodians freely admitted their shortcomings in the area of enforcement due to lack of resources, and regularly appealed for USG assistance, especially training. The Cambodian government accepted a U.S. proposal to conduct quarterly high level consultations on anti-narcotics objectives. The first such consultation was held in July 1999.

The DEA country attache stationed in Bangkok and the U.S. ambassador presented a USG-funded drug testing laboratory (funded from prior years' assistance). A series of meetings were held with the Prime Minister, deputy Prime Minister and Interior Minister, and top law enforcement officials, during which ways to continue and expand U.S. Cambodian cooperation were discussed. The Deputy Prime Minister specifically requested U.S. assistance in providing training and equipment for anti-narcotics police, for help in expanding their "connections" to international law enforcement, and for assistance in drug prevention and education; especially American experts to help with drug abuse curriculum and grass roots prevention programs.

Cambodian law enforcement authorities continued their tradition of cooperation with U.S. law enforcement authorities, including making arrested drug suspects available for interview by DEA. In October, at the request

of the Assistant U.S. Attorney in Seattle Washington, the Cambodian authorities permitted two Cambodian police officers to travel to the U.S. to testify for the prosecution in a major narcotics case. The successful prosecution of this case was the result of more than two years of effective cooperation between DEA and the Cambodian government.

The Road Ahead. The U.S. will suggest continued efforts against corruption in Cambodia, and continued vigorous enforcement of Cambodia's anti-narcotics laws. Cambodia needs to be particularly sensitive to the threat that a lax enforcement atmosphere encourage criminal elements to "set-up shop" in Phnom Penh. There is also increasing danger to Cambodia's own people from the beginnings of methamphetamine trafficking to Cambodia. To some extent, Cambodia's poverty protected the Kingdom's subjects from more expensive illegal drugs.

CHINA

I. Summary

China continued to take strong, effective steps to combat the use and trafficking of narcotic drugs in 1999. Although preliminary figures indicate that seizures of heroin declined significantly from 1998's record level, possibly because of a decline in production in Burma, China's total heroin seizures still surpassed the amount of heroin seized in all other Asian countries. Seizures of methamphetamine and other amphetamine-type stimulants soared, while those of precursor chemicals and opium remained at previous years' levels. Government officials estimate that more than 10 percent of China's 1.3 billion citizens viewed a nationwide anti-narcotics exhibition. The U.S. Drug Enforcement Administration (DEA) opened an office in Beijing. China continues to cooperate actively on operational issues with U.S. drug-enforcement officials. Although the overall relationship remained intact, some elements of the law-enforcement relationship were affected by NATO's accidental bombing of the Chinese Embassy in Belgrade. A meeting of the Joint Liaison Group, Subgroup on Law Enforcement, postponed after the bombing, is expected to convene in the spring of 2000. The U.S. and China expect to finalize a framework for mutual legal assistance in 2000 as well. China often did not respond to U.S. requests for information on law-enforcement issues, and, when it did reply, the information requested often arrived too late to be of operational value. China is a party to the 1988 UN Drug Convention as well as to the 1961 UN Single Convention and its 1972 Protocol, and the 1971 Convention on Psychotropic Substances.

II. Status of Country

China is now the principal route for heroin smuggled out of Burma, with roughly 90 percent of seizures of Southeast Asian heroin occurring within Chinese borders. There is evidence that some heroin also enters China from Laos and Vietnam and that smaller amounts enter from Southwest Asia. Preliminary figures suggest that heroin seizures in China declined significantly in 1999 from 1998's record level. Since narcotics interdiction remains one of China's primary law-enforcement priorities, it is likely that this decline was due, at least in part, to a decline in production in Burma. There are 596,000 registered heroin addicts in China, but the government recognizes that the actual number of users is far higher. Chinese officials are increasingly concerned about the abuse of methamphetamine and other amphetamine-type stimulants (ATS). Seizures of ATS more than doubled in 1999, with the largest seizure in excess of one metric ton.

China is a major producer of precursor chemicals. The ephedra plant, from which the precursor of methamphetamine is made, grows wild in northern China. China monitors all 22 of the chemicals on the 1988 UN Drug Convention watch list. Yunnan, the province most directly affected by China's drug problem, goes further by monitoring exports of 28 chemicals. China cooperates with the United States and others in providing pre-export notification of dual-use precursor chemicals.

Under Chinese law, laundering the proceeds from narcotics trafficking is a crime, but the legal system and the banking system have not kept pace with China's rapid internationalization. Consequently, China is vulnerable to financial exploitation by drug traffickers. China participated in early meetings of the Asia-Pacific Group on Money Laundering, but, for a number of reasons, has not attended recent meetings of that body and did not pursue membership in the Financial Action Task Force.

III. Country Action Against Drugs in 1999

The Chinese government has pledged to put more manpower, more material, and more financial resources into the fight against illicit narcotics. China's counternarcotics strategy includes prevention, education, interdiction, and rehabilitation. In 1999, the government produced more than 6000 sets of a traveling anti-drug educational exhibition, which counternarcotics officials estimate was viewed by more than 160 million people. Chinese educational efforts are targeted primarily at youth, the segment of society most likely to use illegal drugs.

Policy Initiatives. China is committed to achieving the goals of the 1988 UN Drug Convention. China cooperates with the UNDCP and regional states on a number of projects. One such project, scheduled to begin

in 2000, aims to reduce demand in the regions bordering Yunnan province, where heroin enters China from Burma. China also supports crop-substitution efforts in Burma and Laos.

Law Enforcement Efforts. Preliminary figures suggest that, while significantly lower than last year's record level, Chinese seizures of Burmese heroin will continue to account for the great majority of all such seizures in Asia. On July 4, after a lengthy investigation, Guangdong provincial authorities broke a case that resulted in twelve arrests and the seizure of 1584 kilograms of methamphetamine, an amount nearly equal to last year's total seizures. DEA sent a letter of congratulation to the Minister of Public Security in recognition of this accomplishment.

Corruption. Despite on-going efforts to combat official corruption, the phenomenon remained widespread. The media regularly reported cases of high-level government officials implicated in corruption. Most of the reports involved smuggling of consumer goods, misappropriation of funds, embezzlement, or abuse of power. There were no reports in the state-controlled media of senior government officials engaging in narcotics-related corruption.

Agreements and Treaties. In April, China and the United States signed a Customs Mutual Assistance Agreement, which will speed communications and enhance the flow of counternarcotics-related intelligence. Problems in overall U.S.-China relations affected implementation of several aspects of a May 1998 Memorandum of Understanding (MOU) on Law Enforcement Cooperation. A meeting of the Joint Liaison Group was held in Washington in March 1999, but, in the wake of the accidental bombing of their Embassy in Belgrade, the Chinese postponed a follow-up meeting in Beijing in the fall. The follow-up meeting is expected to be held in spring 2000. The U.S. and China also expect to complete a framework for mutual legal assistance in 2000. In July 1999 the DEA opened an office in Beijing, as agreed in a Memorandum of Understanding signed in May 1998.

China is a member of the Memorandum of Understanding States (MOU States) with the UN Drug Control Program (UNDCP) and five Southeast Asian nations. In the MOU the members agreed to collaborate on drug-control projects and programs. China has signed more than 30 mutual legal assistance and extradition treaties with 24 countries.

Cultivation/Production. China produces limited quantities of opium, mostly for domestic consumption. Production of synthetic drugs is a growing problem, particularly in Fujian and Guangdong provinces. China is a major producer of precursor chemicals used in the manufacture of illegal drugs, and China continued to strengthen its efforts to control these chemicals. Chinese police monitor closely all precursor chemicals listed in the 1988 UN Drug Convention, particularly ephedrine and potassium permanganate. U.S.-China cooperation on monitoring the movement of precursor chemicals into and out of China is, in general, excellent. However, the Ministry of Public Security rarely provides responses to routine requests from the United States for verification of the bona fides of importers, exporters, and agents.

Drug Flow/Transit. China shares a 2000-kilometer border with Burma. The majority of heroin produced in Burma now travels through China en route to the international market. Smaller quantities of heroin enter China from Southwest Asia. China supports crop-substitution programs in Burma, as well as in Laos, which have resulted in significant decreases of poppy-crop production in the project areas.

Domestic Programs. There are 596,000 registered heroin addicts in China, but government officials admit that the actual number of users is far higher. More than 80 percent of drug abusers are under 35 years of age, and government anti-drug education campaigns are centered on this group. Drug treatment is compulsory for known users. Most of the more than 600 government-run drug treatment and rehabilitation centers rely on a "cold turkey" approach to break the drug habit. Some centers also use traditional Chinese medicines to help users overcome their addiction.

The government has also placed increasing importance on the establishment of "drug free communities." The goal of these communities is to eliminate narcotics trafficking and drug-related crime, but also to provide an environment free of the pressures that lead many former abusers to relapse into drug use.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. Despite setbacks in other areas of the bilateral relationship in 1999, operational-level cooperation between Chinese and U.S. law-enforcement officials continued. U.S. policy objectives are to expand bilateral dialogue at both the operational and policy level, to foster more cooperation between American and Chinese enforcement officials, to increase Chinese counternarcotics capability, and to encourage regional counternarcotics cooperation.

Bilateral Cooperation. In 1999 the United States worked to improve counternarcotics cooperation at the operational level. A significant step in that direction was the establishment of a DEA office in Beijing. The United States regularly provided operational intelligence to Chinese narcotics enforcement officials, but the Chinese response to U.S. requests for similar information was uneven. In 1999 the Department of State, DEA,

and the U.S. Customs Service continued to provide training designed to improve the enforcement ability of Chinese counternarcotics officials. In May Chinese law-enforcement officials participated in a two-week DEA-sponsored training course on jetway narcotics inspections. The U.S. Customs service held a contraband enforcement team training session in Yunnan province in March. In August U.S. Customs conducted a "risk management" course designed to help Chinese Customs officials identify high-risk cargoes. The Chinese postponed or cancelled a number of other training courses following NATO's accidental bombing of the Chinese Embassy in Belgrade.

Throughout 1999, however, Chinese officers attended counternarcotics and general law-enforcement training courses at the joint U.S.-Thai International Law Enforcement Academy in Bangkok. This important regional forum brought together police and other law-enforcement officials from throughout the region to improve regional technical abilities and establish ties among regional counternarcotics and law-enforcement officials.

The Road Ahead. Improved and expanded cooperation on narcotics enforcement is in the interest of both the United States and China. The United States will seek to expand our fruitful operational-level relationship with China and to encourage a resumption of our mutually beneficial high-level dialogue on counternarcotics issues. Although the transshipment of Burmese heroin remains the problem of most immediate concern to the United States, we will monitor closely, and assess the potential impact on the United States of, the alarming rise in methamphetamine seizures in China.

HONG KONG

I. Summary

Hong Kong's close geographical proximity to areas where drugs are cultivated, as well as its well-developed commercial transport infrastructure, have historically made it a natural transit point for drugs moving from Southeast Asia to the U.S. Although the U.S. continues to view Hong Kong as a major drug transit/staging area, it appears that Hong Kong's role as a transit/staging area for the shipment of heroin and methamphetamine into the U.S. has diminished over the last three years. This change could be attributed to the rapid development of economic and transportation infrastructure in southern China over the past five years. Development in mainland China includes the construction of new deep-water ports and road systems that dramatically reduced shipment costs and risks to movers of contraband who elect to ship from southern China rather than through Hong Kong. In addition, the counternarcotics efforts of Hong Kong's law-enforcement agencies have proven to be a strong deterrent to drug trafficking through Hong Kong. In the last three years counternarcotics officers made no seizures in Hong Kong of heroin en route to the U.S. Hong Kong residents were deeply involved in a significant heroin case in Australia, however, and counternarcotics officials in neighboring countries continue to report that Hong Kong criminal elements are involved in narcotics trafficking in the region.

Hong Kong adopted a multi-pronged strategy to combat drug trafficking and abuse consisting of effective law enforcement, anti-drug education and publicity programs, treatment and rehabilitation programs, research efforts, and international cooperation. Hong Kong's role as one of the world's major financial centers makes it an attractive venue for laundering money. Although Hong Kong is a source/transshipment point for precursor chemicals such as potassium permanganate, its role has begun to diminish. The 1988 UN Drug Convention, to which China is a party, applies to Hong Kong.

II. Status Of Country

Hong Kong is not a producer of illegal narcotics. Hong Kong's close geographical proximity to the Golden Triangle and mainland China, as well as its well-developed commercial transport infrastructure, have historically made it a natural transit point for drugs moving from Southeast Asia to the United States. Because of Hong Kong's geographical, commercial, and economic profile, coupled with Hong Kong's highly developed port facilities that historically have been used by narcotics traffickers to transport illicit drugs from Asia to the U.S., Hong Kong continues to be designated as a major drug-transit point. Hong Kong's strong law-enforcement efforts over the past several years on the one hand and the rapid development of an economic and transportation infrastructure with rapid growth in direct trade in southern China on the other indicate that Hong Kong's role as a major drug-transit center has been diminishing. The lack of recent seizures of drugs destined for the U.S., despite Hong Kong's stringent enforcement regime, suggests a reduced role for Hong Kong as a transit point for drugs. Nevertheless, drugs secreted in any of the millions of containers transiting Hong Kong each year may escape detection, despite Hong Kong's vigorous enforcement efforts. Moreover, organized criminal gangs and syndicates, many involved in narcotics trafficking, continue to operate from Hong Kong. A recent large heroin seizure in Thailand, for example, yielded investigative leads indicating involvement of Hong Kong criminal elements in managing and financing the trafficking of a series of large heroin shipments to the U.S. During 1999, Hong Kong law-enforcement officials continued to cooperate fully with their U.S. counterparts on all investigations related to illicit drugs and money laundering.

In the first half of 1999, a total of 9,928 drug abusers were reported to the central registry of drug abuse,

representing a decrease of 7 percent compared to the first part of last year. Authorities believe most narcotics entering Hong Kong are destined for domestic consumption. In the first half of 1999, the most commonly abused drugs were heroin (87.5 percent), cannabis (7.8 percent), amphetamines (6.3 percent), and triazolam (4.4 percent). There was an increase of 1.8 percent in the abuse of crystal methamphetamine in the first half of 1999.

Hong Kong's role as a major financial center continues to make it vulnerable to the illicit use of its financial institutions for laundering drug-related proceeds. Money laundering in Hong Kong involves not only drug proceeds, but also funds stemming from other criminal activities, such as tax evasion. The level of money laundering from tax evasion and other criminal financial activity is believed to be significant (albeit not quantifiable). Hong Kong continues to tighten controls to prevent money laundering.

Although Hong Kong is a source/transshipment point for precursor chemicals, such as potassium permanganate, ephedrine and pseudoephedrine, its role has diminished because of the recent reclassification of potassium permanganate from Schedule 3 to Schedule 2 on the "Control of Chemicals Ordinance."

III. Actions Against Drugs in 1999

Policy Initiatives. In accordance with the resolution passed at the Special Session of the UN General Assembly held in June 1998, Hong Kong amended its legislation to tighten control of potassium permanganate by upgrading it from Schedule 3 to Schedule 2 on the "Control Of Chemicals Ordinance." The new legislation requires a license from the Commissioner of Customs and Excise to import, export and manufacture potassium permanganate. In addition, the transshipment, removal, and storage of potassium permanganate are strictly controlled.

In response to another resolution passed by the UN Commission on Narcotic Drugs, Hong Kong plans to amend its legislation to tighten the control of norephedrine and expects to have amended legislation completed by mid-2000.

As of April 1, 1999, Hong Kong significantly tightened control of the following additional substances by moving them from Schedule 4 to Schedule 2 of the "Dangerous Drugs Ordinance": morphine, acetyldihydrocodeine, codeine, dihydrocodeine, ethylmorphine, nicocodine, norcodeine, pholcodine. In addition, amfepramone, cathine, erythramine, mesocarb, and zipeprol were added to Schedule 1 of the Ordinance. Also in response to a recent decision passed by the UN Commission on Narcotic Drugs, in 2000 Hong Kong will tighten control of remifentanyl and dihydroetorphine by including them in Schedule 1 of the "Dangerous Drugs Ordinance."

In April 1999 the government began to strengthen its anti-money-laundering regime by introducing legislation to impose a recording requirement for large cash transactions completed at remittance centers and through exchange agents. Remittance centers and exchange agents must record information on customers making transactions of HK\$20,000 (U.S. \$2740) or more. The records must be retained for six years. The amendment is expected to go into effect in early 2000. The government has also introduced an amendment to strengthen the "Drug Trafficking (Recovery Of Proceeds) Ordinance" and "the Serious Crimes Ordinance." The amendment will improve the reporting requirement for suspected money-laundering transactions by reducing the threshold from reasonable grounds to "believe" to reasonable grounds to "suspect" money-laundering activities. The proposed amendment will also increase the penalties for money-laundering offences from a maximum of 14-years to 20-years imprisonment and for the failure to report suspicious transactions from 3-months to 12-months imprisonment.

During the second half of 1999, the government completed a six-month policy review of the "Drug Addicts Treatment and Rehabilitation Ordinance." As a result of the review, the government is drafting new legislation to bring drug treatment and rehabilitation centers under uniform control and to improve the quality of services.

Accomplishments. As noted above, Hong Kong tightened control over several precursor chemicals, including the cocaine precursor potassium permanganate, by moving them from Schedule 3 to Schedule 2 on the "Control Of Chemicals Ordinance" and introduced legislation to strengthen its anti-money-laundering laws. Hong Kong signed a Mutual Legal Assistance Agreement with Switzerland, and in May 1999 Hong Kong Customs and Excise entered into a cooperative agreement with the European Union.

Law Enforcement Efforts. During 1999, Hong Kong's law-enforcement community continued a focused, intelligence-based, operational approach. Resources were allocated in accordance with trends in drug manufacture, smuggling, trafficking, and consumption. Conforming to the government's "Enhanced Productivity Program," the Narcotics Bureau of the Hong Kong police force will be restructured in early 2000. The new structure will reflect the bureau's move towards intelligence-led investigations and will result in a greater allocation of resources to intelligence gathering and analysis. Liaison officers will be placed into one division, which will enhance communication with international law enforcement agencies, and will emphasize regional drug enforcement.

In the past two years, the Hong Kong police force has added 955 new officers and has spent over U.S. \$3.7 million on adding to and upgrading its computer systems to improve the collation and dissemination of criminal intelligence. At the border and airport, additional police dogs have been deployed to assist in the detection of smuggled drugs. The number of police dogs increased from 124 to 133. Customs procured high-tech equipment, including ion scanners, x-ray checkers, mobile x-ray vans, and scanners, to detect microscopic traces of drugs on packages and to facilitate the efficient and effective inspection of baggage and cargo. High-tech equipment was also used in the air cargo clearance system for airport inspection, in the customs' control system for sea cargo inspection, and in the land boundary system for border checkpoints. A total of U.S. \$64.1 million was budgeted for the procurement of high-tech equipment.

Heroin remains the drug of choice in Hong Kong. Heroin seizures through the end of October 1999 nearly equaled the total seized in calendar year 1998. As of October 31, a total of 205 kgs of heroin were seized. As of January 1999, the price of street-level heroin had risen dramatically, while the purity level had fallen, suggesting reduced supply. From January through October, Hong Kong narcotics officers seized 35.8 kilograms of cannabis, 16.7 kilograms of cocaine, and 98.1 kilograms of methamphetamine and arrested a total of 7,620 individuals for drug-related offenses.

Corruption. There is no known narcotics-related corruption among senior government or law-enforcement officials. Hong Kong has a comprehensive anti-corruption ordinance that is effectively enforced by an independent commission against corruption. The commission's record of enforcement efficiency is recognized worldwide.

Agreements And Treaties. In 1999 Hong Kong signed a Mutual Legal Assistance Agreement with Switzerland, and mutual legal assistance agreements with New Zealand, France, and Australia also came into force in 1999. Arrangements were completed to allow the U.S.-Hong Kong Mutual Legal Assistance Agreement to enter into force on January 20, 2000. Hong Kong also signed a "Surrender of Fugitive Offenders Agreement" with Sri Lanka, and transfer of sentenced persons agreements with the U.S. and another with Sri Lanka came into force in 1999. In May 1999, the Customs and Excise Department entered into a cooperative agreement with the European Union. The 1988 UN Drug Convention is applicable to Hong Kong.

Cultivation/Production. Hong Kong is not a producer of illicit drugs.

Drug Flow/Transit. Hong Kong officials believe that Hong Kong's role as a major drug flow/transit center continued to diminish in 1999. Seizures indicate that shipments of heroin and methamphetamine directly from Hong Kong to the international market seem to be few in number and of relatively small quantities, usually fewer than 10 kilograms. Although illicit narcotics transit through Hong Kong, the known volume of traffic has decreased significantly over the past few years. In addition, no coordinated effort or systematic approach to the shipment of drugs through Hong Kong's territory appears to be used; many seizures involved small quantities of narcotics carried by individual couriers. In 1999, there were no seizures in Hong Kong that appeared destined for the U.S. Hong Kong traffickers continue to control large portions of Southeast Asian narcotics traffic, however, arranging both the financing and shipment of narcotics and using various routes and methods throughout the region.

Domestic Programs. During 1999, Hong Kong's drug education and public awareness programs continued to focus on Hong Kong's youth and their parents. In March Hong Kong initiated a pilot program with several non-government organizations to conduct education talks at the primary school level. In addition, the government started the "Outstanding Anti-Drug Workers' Award."

In March Hong Kong initiated a review of its methadone treatment program to evaluate the program's effectiveness and to identify areas for improvement. In August the narcotics division began preparing the second three-year plan on drug treatment and rehabilitation services. The review will examine major developments in drug treatment and rehabilitation centers and will develop recommendations on improving the quality of the programs.

In 1999 Hong Kong announced that the U.S. \$40 million "Beat Drugs Fund" set up in March 1996 awarded U.S. \$2.4 million to 49 projects. Of that total, U.S. \$1.8 million was awarded to preventive education and publicity projects and the balance was granted for treatment and rehabilitation services.

IV. U.S. Policy Initiatives And Programs.

Policy Initiatives. U.S. law-enforcement officials continue to conduct joint investigations with their Hong Kong counterparts to develop cases that can be prosecuted either in Hong Kong or in the U.S.

In October 1999 Hong Kong hosted the Second International Operational Meeting on potassium permanganate, which was co-sponsored by the U.S. Drug Enforcement Administration (DEA) and the Hong Kong Customs and Excise Department. Hong Kong sent a total of 12 law enforcement officials to the International Law Enforcement Academy (ILEA) in Bangkok to participate in two courses, one on clandestine laboratories and the

other on precursor chemicals and methamphetamine investigations. In addition, 5 customs and excise officers attended a six-week ILEA supervisory criminal investigator course, which included instruction on regional drug enforcement. In December, local U.S. drug-enforcement officials and a criminal investigator from the U.S. Internal Revenue Service provided training to Hong Kong law-enforcement officials on money laundering investigative techniques. In September, one officer from the Hong Kong Customs and Excise Department attended the DEA-sponsored "operation jetway" training course.

Road Ahead. The U.S. Government encourages Hong Kong to continue playing an active role consistent with its international stature in combating narcotics and money laundering. The U.S. also encourages Hong Kong to strengthen the enforcement and implementation of existing laws and guidelines, especially regarding financial crimes and money laundering; to tighten business registration procedures to discourage "shell" companies, especially off-shore corporations; to introduce lower threshold reporting requirements for transactions at financial and banking institutions; to institute "structuring" provisions to counter

INDONESIA

I. Summary

Indonesia is not a major drug-producing or drug-transit country. A willing partner in counter narcotic initiatives, however, Indonesia is becoming increasingly vulnerable to sophisticated trafficking groups. The Indonesian National Police (INP) drug unit (Narkoba) relies heavily on DEA expertise and training to address both purely domestic and U.S.-related drug investigations. In 1997 the Indonesian Parliament ratified the 1988 UN Drug Convention, and also passed new anti-narcotics laws that conform to international norms established by the Convention. The regional DEA office has been working in close coordination with the INP to update their anti-drug enforcement endeavors using the new legislation.

II. Status of Country

Ecstasy abuse is a major problem, especially in urban areas. Methamphetamine was introduced in Jakarta in 1998. Many of the pills are sold as ecstasy in Jakarta nightclubs, but are actually methamphetamine. Marijuana is produced in remote areas of northern Sumatra, primarily for domestic consumption. There has been an increase in clandestine methamphetamine and ecstasy laboratories. DEA has noted a drastic increase in methamphetamine use in Indonesia among teenagers, young professionals, and prostitutes. Indonesia has proven to be vulnerable to mail and courier shipments of drug trafficking organizations. In recent years official anti-narcotics concern over designer drugs, first, ecstasy, and now methamphetamine, has eclipsed government concern with more traditional narcotics (marijuana).

Indonesia is a transshipment for heroin and cocaine, but there is no evidence this has a significant effect on the U.S. Drug-trafficking networks continue to exist throughout Indonesia with involvement of Southeast Asian, South Asian and Nigerian criminals. These groups obtain heroin in Bangkok and engage couriers to carry it via commercial air into Soekarno Hatta Airport in Jakarta. From Jakarta, the heroin is distributed to the United States, Australia and Western Europe, with a smaller amount sold on the local market. Structured drug organizations, such as the West African heroin number 4 trafficking group, are operating in Indonesia. The DEA is working with INP Narkoba officials on enforcement efforts to counter this threat.

Cocaine has also become a problem. Drug traffickers use Indonesia as a transit point for shipping cocaine to Europe, Asia and the U.S. Recently, one and one half kilograms of cocaine that had transited Indonesia was seized in Miami in a joint operation between the DEA office Singapore, INP, and DEA office in Miami. Two West Africans were arrested. There is also a growing domestic market in Indonesia for heroin, cocaine, methamphetamine, cannabis, and ecstasy. Many of the drug traffickers establish themselves in Indonesia by speaking the local language and marrying Indonesian women.

III. Country Actions Against Drugs

Policy Initiatives. In 1997, the Indonesian Parliament approved legislation outlawing psychotropic drugs including ecstasy, and providing for penalties of up to seven years imprisonment for marijuana possession and a maximum of 20 years in jail for marijuana trafficking. An asset forfeiture law was also passed in the 1997 legislation.

Accomplishments/Law Enforcement Efforts. DEA continued its close relationship with the INP Narkoba unit through training and by providing operational expertise. DEA works very closely with the INP Narkoba unit to identify drug labs and cultivation areas. This proved very successful in 1998; INP and DEA dismantled the first known clandestine methamphetamine and ecstasy laboratory in Jakarta. Arrests of narcotics traffickers were reported frequently in Jakarta and in the Kuta Beach area of Bali. Arrests of foreigners, particularly Nigerians, in connection with narcotics use, possession and trafficking are frequently noted in the Indonesian media.

Corruption. Corruption among police and customs personnel persists in Indonesia, with continuing reports from street sources that police personnel often assist drug traffickers or are themselves involved in selling

narcotics, and that persons arrested for narcotics trafficking can easily bribe police to free them. It should be noted, however, that none of DEA's investigations have ever been compromised by Indonesian narcotics officers. Furthermore, convicted heroin traffickers are receiving 8 to 17 year prison sentences from Indonesian judges. Given the low salaries of these officers (U.S. \$40 to \$60 per month), they face great temptation to accept bribes from West African heroin and Indonesian drug traffickers.

Agreements and Treaties. Indonesia is a party to the 1961 UN Single Convention and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. While there is no formal extradition relationship between the United States and Indonesia, in practice U.S. and Indonesian authorities cooperate effectively in cases involving fugitives from U.S. justice. Indonesia is a party to the World Customs Organization's International Convention on Mutual Administrative Assistance for the Prevention, Investigation, and Repression of Customs Offenses (Nairobi Convention), Annex X on Assistance in Narcotics Cases.

Cultivation and Production. As their limited resources permit, the INP, in particular the narcotics unit, and Indonesian customs continue their efforts to combat narcotics smuggling. As in previous years, the illicit cultivation of marijuana in Aceh province was the target of periodic eradication campaigns. The INP are strongest in enforcing and eradicating drug usage in Jakarta and other urban areas, but have more difficulties in more rural areas.

Drug Flow/Transit. Indonesia continues to be used as a transit point for Southeast Asian heroin and other drugs, including transshipment to Australia, Europe and, in small quantities, to the U.S. Because of Indonesia's porous borders, drug traffickers find Indonesia an attractive area for their operations. Customs and immigration officials working outside of the capitol are easier to bribe and less motivated in their work. Drug traffickers can thus move their products into and out of Indonesia relatively easily.

Money Laundering and Assets Seizure. Indonesia's criminal code does not cover money laundering. This absence of a key statute, and corruption and lack of training among police and customs officials, continues to impede anti-narcotics law enforcement. The DEA is working closely with the INP Narkoba unit to push laws that effectively address money laundering issues, but rapid political change has radically increased the work load of Indonesia's Parliament. DEA and the U.S. Embassy in Jakarta are encouraging the passage of specific drug money laundering legislation.

IV. Policy Initiatives

Policy Initiatives. DEA will continue to work on increasing the ability of the INP to handle bilateral investigations against major trafficking groups. GOI resources will have a direct impact in this area. The INP Narkoba unit will be trained in how to effectively exploit their new drug laws. This will enhance their counter drug efforts and provide a more viable platform to work cases with DEA and other U.S. law enforcement agencies. Over the last year, 67 INP Narkoba officers have attended training at the International Law Enforcement Academy (ILEA) in Bangkok.

Bilateral Cooperation. Training at the regional narcotics academy (ILEA-Bangkok) will continue. U.S. Customs continues to work with Indonesian customs to enhance and upgrade the narcotics detection/canine interdiction program at Soekarno Hatta International Airport. Police narcotics officers and customs officials greatly improved their operating procedures, i.e., surveillance and contraband search techniques, intelligence gathering, interview techniques, report writing, arrest procedures, and execution of controlled deliveries

The Road Ahead. Indonesia has weak chemical control laws and the government bureaucracy prevents any major advance in this area. The DEA will continue to provide the INP with information on precursor and essential chemical shipments that American companies in Singapore ship to Indonesia. The DEA will keep pressing the GOI and INP Narkoba authorities to make chemical control issues as a priority.

JAPAN

I. Summary

Japanese law enforcement authorities made record seizures of methamphetamine and cannabis in 1999. Through November 1999, authorities seized almost 1,900 kilograms of methamphetamine, surpassing the total seizure of methamphetamine for the previous five years. The total seizure of cannabis for 1999 was more than double the amount seized during any of the last five years. Record seizures reflect increased cooperation among relevant Japanese law enforcement agencies and greater exchange of information between Japanese and foreign law enforcement entities. Japan has also become the target of increased drug smuggling operations, including methamphetamine reportedly coming from North Korea.

Methamphetamine remains by a wide margin the drug of choice in Japan. Japan is not a major producer of drugs. Methamphetamine smuggled into Japan is believed to have been refined largely in China, although there have been also been large seizures linked to North Korea.

In August, the Japanese Diet enacted legislation expanding the scope of Japan's money laundering law.

Japanese law enforcement agencies believe the new legislation will strengthen their ability to fight money laundering. Reporting of suspicious transactions increased from 11 in 1998 to over 900 during 1999.

II. Status Of Country

Japan is not, and is unlikely to become, a significant producer of narcotics. However, Japan is believed to have one of the largest methamphetamine markets in Asia. A survey in 1999 indicated that there are over 2 million methamphetamine users in Japan, consuming an estimated 10–14 tons per year. Japan also is believed to be a transshipment point for Southeast Asian heroin destined for the United States. However, there is no reliable information suggesting that this transit has a significant effect on the U.S.

There is a growing drug market in Japan and increased trafficking activity within the illegal immigrant population. Narcotics trafficking in Japan continues to be a source of income for Japanese organized crime.

Japan is suspected of being a major money laundering center. Law enforcement authorities believe organized crime is responsible for much of the drug trafficking and money laundering in Japan. Law enforcement agencies have welcomed the passage this year of legislation expanding the scope of money laundering law.

III. Country Action Against Drugs

Policy Initiatives. On September 24, 1999, The National Police Agency (NPA) issued a white paper emphasizing the need for the Japanese police to enhance cooperation with law enforcement authorities in other countries and with international organizations to combat transnational crimes including narcotics trafficking. The white paper also highlights the need for officers with better language skills to deal with the rising number of criminal cases involving foreigners in Japan. This directive is expected to strengthen Japanese law enforcement efforts to combat trafficking and use.

In August 1999, the Japanese Diet passed legislation expanding the scope of Japan's money laundering law. The new legislation identified additional predicate offenses other than drug trafficking. These include murder, assault causing bodily injury, theft, extortion, fraud, and kidnapping. Previously, money laundering prosecution was limited to drug trafficking. The Diet also approved in 1999 legislation which allows law enforcement authorities to wiretap communications of members of the organized crime.

Accomplishments. The U.S. and Japan held two rounds of negotiation on a mutual legal assistance treaty during 1999. The two sides hope to conclude the treaty in 2000. The next round of talks will take place in Washington early spring of 2000. The MLAT is expected to expedite and strengthen law enforcement cooperation.

Overall law enforcement cooperation with other countries is expected to improve with the publication of NPA's white paper which emphasizes the importance of international cooperation.

Japan continued its sponsorship of many annual international drug enforcement and prevention programs. Japan is also an active participant in all major conferences conducted throughout the world each year which concern narcotics trafficking and relate to crime.

Japan is an active member of the UNDCP major donors group, and finances and participates in many UNDCP programs.

Law Enforcement Efforts. Police anti-narcotics efforts tend to focus on Japanese organized crime groups, the main smugglers and distributors of drugs. However, police and prosecutors have been hesitant to pursue cases in which a conviction is uncertain. In addition to smuggling and distribution activities, law enforcement officials are paying increased attention to drug-related financial crimes.

There were record seizures of methamphetamine and cannabis in 1999. The volume of methamphetamine seized by Japanese authorities in the first eleven months of 1999 totaled 1900 kilograms, almost triple the previous full calendar year record of 650.8 kilograms in 1996. Authorities also seized 669 kilograms of cannabis, more than double the amount seized in any of the last five years.

Through 1998, NPA has seized a total of about U.S. \$7.23 million (yen 723 million) in drug proceeds in 82 investigations since 1992, when the asset seizure law took effect. The largest of the cases originated in September 1997, when police in Osaka arrested an organized crime gang leader who had allegedly received U.S. \$1.48 million (yen 148 million) from junior gang members in exchange for offering them a place to sell drugs. The Osaka district court imposed a penalty of yen 148 million on the gang leader in February 1998 in the first use of Article 10 of the money laundering law which makes it unlawful to receive money that has been illegally earned.

Following a 1998 Financial Action Task Force evaluation report which concluded that Japan's anti-money laundering system was ineffective, Japan has moved to improve suspicious transaction reporting by financial institutions. The Ministry Of Finance received over 900 reports of suspicious transactions in 1999.

Corruption. Japan has no known drug-related corruption.

Agreements and Treaties. The U.S. and Japan conducted two rounds of negotiation on a mutual legal assistance treaty during 1999. The two sides hope to conclude the treaty in 2000. A U.S.-Japan Extradition Treaty is currently in force. Japan is a party to the 1988 UN Drug Convention.

Cultivation/Production. Although not a significant cultivator or producer of controlled substances, Japan is a major producer of 60 types of precursor chemicals, which have legitimate industrial uses as well. Japan is one of only a handful of countries that produce ephedrine, which is used to create antihistamines, but is also an essential ingredient in methamphetamine. Japan is a member of the chemical action task force, and the DEA country attache in Japan is conscientious about monitoring end users of precursors.

Drug Flow/Transit. Almost all drugs illicitly trafficked in Japan are smuggled from overseas. According to the NPA, China and Thailand are the principal overseas sources. Japan is also a transshipment point for some Southeast Asian heroin bound for the U.S. and other destinations, but it is not believed to have a significant effect on the U.S.

Demand Reduction/Domestic Programs. Domestic programs focus primarily on interdiction. Drug treatment programs are small and are generally run by private organizations.

IV. U.S. Policy initiatives and programs

Policy Initiatives. U.S. goals and objectives include.

- conclude a mutual legal assistance treaty;
- strengthen enforcement cooperation, including participation in controlled deliveries;
- encourage more demand reduction programs;
- encourage effective use of new anti-crime legislation.

Bilateral Cooperation. The U.S.-Japan Common Agenda For Global Cooperation, established in 1993, includes a narcotics working group. Under the common agenda counternarcotics initiative, the U.S. and Japan work together to reduce the supply of and demand for narcotics. Bilateral efforts include law enforcement cooperation, anti-money laundering, and control of precursor chemicals. Under the common agenda, both countries have contributed to UNDCP counternarcotics programs, including the 1997 UNDCP Asia-Pacific Training Seminar On Maritime Drug Enforcement in Japan. In Peru, both countries have supported cultivation of the tropical fruit "camu camu" as a cash crop substitute for coca.

The Road Ahead. The passage of the anti-crime bill was a welcome development. U.S. law enforcement agencies will encourage Japanese counterparts to make full use of the new legislation, especially against money laundering activities.

The U.S. and Japan will work toward concluding a mutual legal assistance treaty in 2000. The two countries also will continue to explore cooperative counternarcotics initiatives under the common agenda.

LAOS

I. Summary

Laos is a major drug-producing country; it remains the world's third largest producer of illicit opium, behind Afghanistan and Burma. Although opium cultivation fell 16 percent in 1999, the U.S. estimates Laos' opium production for that year at 140 metric tons, identical to the 1998 estimate. Somewhat improved weather conditions increased estimated average yields, allowing total production to remain unchanged. Crop substitution project areas funded by the USG continued to show only low levels of opium cultivation, with production sufficient only for some local addict consumption. In May 1999, the government of Laos (GOL) agreed to a joint goal with the UNDCP to eliminate opium cultivation in Laos within six years; the estimated U.S. \$80 million plan to achieve this goal is in preparation. In September, a new USG-funded crop control and development project began in Phongsali province, which ranks first among opium producing provinces. Counternarcotics Law Enforcement Offices (CNO's) were opened in two more provinces. Drug seizures fell, however, from previous year's record totals. The (GOL) is not yet a party to the 1988 UN Drug Convention; its stated goal is ratification of the Convention in the near future, as agreed by all participants in the 1998 UN General Assembly Special Session (UNGASS) on Drugs.

II. Status of Country

Laos remains the third largest producer of illicit opium in the world, trailing only Afghanistan and Burma. Because Lao opium is grown by small-scale subsistence farmers, without fertilizer, irrigation, or other agricultural improvements, average yields are generally less than half those found in neighboring Burma. The USG continues to support crop control and development programs in Laos in order to help the GOL change farmer practices before organization of opium cultivation by criminal syndicates boosts yields and overall production.

Location next to one of the world's largest producers of opium and heroin (Burma), and land borders with countries that combine important opium markets and ports on trade routes to Europe and America (China, Thailand, Vietnam, and Cambodia), make Laos an important route for drug trafficking. This importance is increasing as Laos' physical and communications infrastructures gradually improve, and is the basis for continued USG assistance to upgrade judicial and law enforcement institutions before Laos is overwhelmed by regional trafficking syndicates.

III. Country Actions Against Drugs in 1999

Policy Initiatives. In 1999, the GOL agreed to a new goal of eliminating opium cultivation in Laos by 2006. The GOL will fund 25 percent of the U.S. \$80 million estimated cost of the six-year plan now being developed with UNDCP assistance. This ambitious plan includes alternative development, law enforcement, and demand reduction elements. It will largely replace, and update the previous GOL counternarcotics master plan, which dated from 1993 and was also developed with UNDCP assistance. The GOL and UNDCP are seeking donor support for this new initiative. In March, the Ministry of Interior (MOI) established a new counternarcotics department under the general police department. The new department oversees Provincial Counternarcotics Offices (CNO's), and has developed standards for CNO staffing and reporting. The provincial CNO's are still weak, but projected to eventually constitute a national network of counternarcotics law enforcement bodies.

Accomplishments. In June, senior Lao police officials from provinces bordering Vietnam met with their Vietnamese counterparts to discuss measures for increasing drug interdiction cooperation. This was the first ever meeting of its kind, and is scheduled to repeat annually. In August, an equivalent meeting was held with Thai police counterparts; this was the second such meeting, following an inaugural gathering in 1998. In November 1999, the fifth and sixth U.S. State department-supported CNO's were officially opened, in Luang Prabang and Phongsali provinces. Opening ceremonies for CNO's in Houaphanh and Champasak provinces are planned for early 2000. In April and November, the first two semi-annual national conferences of provincial CNO chiefs were held in Vientiane. UNDCP signed an agreement with the GOL to join a multi-million dollar highland stabilization project in Houaphanh province; principal financing for the project comes from the Asian Development Bank. This is the first UNDCP-ADB collaboration in Laos; such collaborations are expected to be an important part of the six-year opium elimination strategy. The German embassy began a counternarcotics assistance program including supply and demand reduction activities, and stationed a full-time advisor to the Lao National Commission for Drug Control and Supervision (LCDC) in Vientiane. Staffing for the LCDC permanent secretariat was also increased.

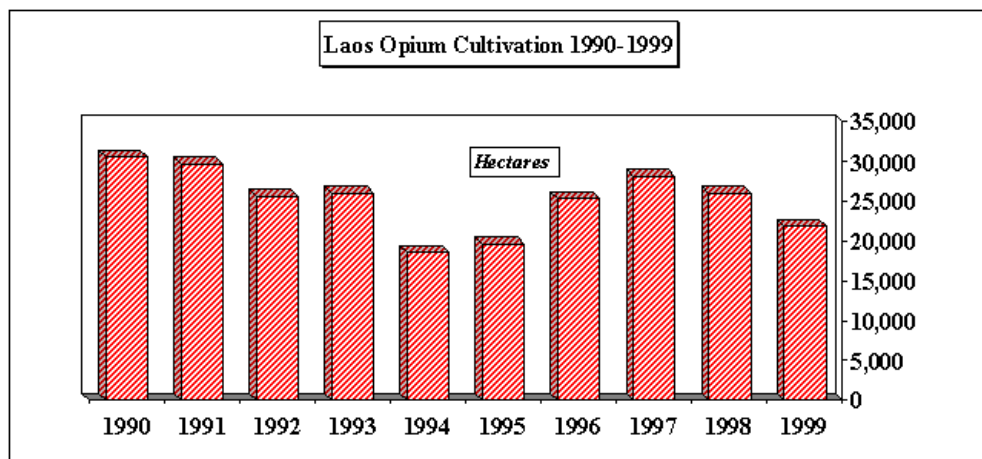
Law Enforcement Efforts. USG-funded counternarcotics units in six provinces, along with other provincial police offices, reported 143 drug-related criminal cases in 1999, resulting in the arrests of 348 suspects, including 10 foreign nationals. Most arrests were of small-scale traffickers. These cases involved the seizure of 14.7 kilograms of heroin, 225.8 kgs of opium, 806,700 methamphetamine tablets, and 2.2 metric tons of marijuana. Opium and heroin seizures fell significantly from record 1998 levels, as there was no case to match the 1998 destruction of a heroin laboratory. Methamphetamine seizures rose by 30 percent. Trafficker vehicles, weapons, and cash were confiscated in a large number of cases.

Corruption. The Lao government does not encourage or facilitate the production or distribution of illicit drugs; indeed, they try to enforce their laws against abuse of narcotic drugs. Given Laos' poverty and the very low salaries of Lao government employees, however, it is assumed that there are officials and military personnel who receive rewards from illicit drug trafficking. Past corruption cases have included officials at relatively senior levels. The GOL has stated that it will not tolerate narcotics-related corruption. Lao district and provincial officials were arrested, prosecuted, and sentenced in 1999 for involvement in drug trafficking.

Agreements and Treaties. The U.S. and Lao governments signed a Memorandum of Understanding (MOU) on Counternarcotics Cooperation in 1989. Bilateral crop control agreements have been signed annually since 1989, as have bilateral law enforcement project agreements since 1992. Both countries have expressed their intention to continue to expand this cooperation. Although the GOL does not have a mutual legal assistance or extradition treaty with the United States, it has cooperated in deporting drug traffickers to the U.S. The GOL completed negotiating extradition treaties with Vietnam and Thailand this year; ratification is expected in 2000. In 1998, Laos and Germany signed an agreement to begin a three-year project focusing on drug supply and demand reduction. Laos is also a signatory to an MOU on regional counternarcotics cooperation with UNDCP and the other Mekong basin countries (China, Burma, Thailand, Cambodia, and Vietnam). Laos has bilateral counternarcotics treaties with Vietnam, Burma, and the Philippines, and is an active participant in regional counternarcotics initiatives. Laos is a party to the 1971 UN Convention on Psychotropic Substances and the 1961 UN Single Convention. Although Laos is not yet a party to the 1988 UN Drug Convention, the GOL strives to meet the goals and objectives of that Convention. The GOL plans to ratify the Convention in the near future, and is working with UNDCP to pass legislation, such as chemical control and money laundering regulations, necessary to bring it into compliance with the Convention.

Cultivation and Production. Opium is produced in the ten northern provinces of Laos as a cash or barter crop

Potential Harvest (ha)	21,800	26,100	28,150	25,250	19,650	18,520	26,040	25,610	29,625
Eradication (ha)	-	-	0	0	0	0	0	0	0
Cultivation (ha)	-	-	28,150	25,250	19,650	18,520	26,040	25,610	29,625
Potential Yield (mt)	140	140	210	200	180	85	180	230	265
Seizures									
Opium (mt)	0.226	0.442	0.200	0.216	0.194	0.054	0.054	0.281	0.165
Cannabis (mt)	2.19	0.41	4.16	1.18	0.64	6.14	0.26	0.295	0.222
Heroin (mt)	0.015	0.080	0.072	0.016	0.043	0.062	0.001	0.002	0.015



MALAYSIA

I. Summary

Malaysia is not a major drug producing country. Heroin transits Malaysia, as do some other drugs, but no significant quantity reaches the U.S. market through Malaysia. Domestic drug abuse is a problem. Malaysia's competent counternarcotics officials and police officers have the full support of senior government officials. Narcotics-related arrests and seizures fell in 1999, partly because of deep government budget cuts in the wake of the Asian financial crisis. Cooperation with the U.S. on combating drug trafficking is excellent. Malaysia is a party to the 1988 UN Drug Convention.

II. Status of Country

Malaysia does not produce a significant amount of illicit drugs. Some heroin from drug producing countries in Southeast Asia transits Malaysia, but there is no evidence that a significant amount of this heroin reaches the U.S. market. Some other drugs, primarily psychotropic pills, also transit Malaysia. Reliable statistics on domestic drug abuse are sparse. Anecdotal reports indicate that domestic drug abuse, primarily of heroin and amphetamine-type stimulants (ATS), may be growing. Because Malaysia has not enacted a comprehensive anti-money laundering statute, money laundering is a potential concern, but the true extent of the problem is not known. Precursor chemicals are a small-scale problem. Additional legislative controls on precursor chemicals would strengthen Malaysia's performance in this area.

III. Country Action Against Drugs in 1997

Policy Initiatives. Malaysia's overall counternarcotics framework did not change in 1999. A senior-level national drug council coordinates Malaysia's overall drug policy. Senior leaders often state that counternarcotics efforts are one of Malaysia's top national priorities. In 1999, Malaysia announced some further steps to promote treatment and prevention of drug addiction. The government expanded a school prevention program and announced a drug-free workplace initiative. The government also announced plans to build another drug treatment facility to alleviate overcrowding at existing facilities. Law enforcement efforts, perhaps reflecting previous budget cuts undertaken in the wake of the Asian financial crisis, resulted in fewer arrests and seizures in 1999. Malaysia law enforcement authorities still vigorously pursued traffickers and users of illicit drugs, however. Malaysian law provides for mandatory death sentences for some traffickers and detention without trial for some drug-related offences.

Accomplishments. Malaysia has a good institutional and policy foundation for its counternarcotics work. Law enforcement, demand reduction, and treatment activities continued in 1999. Police continued to disrupt distribution, sale, and financing of illicit drugs. Cooperation with U.S. law enforcement agencies on counternarcotics remained excellent. The lack of a comprehensive anti-money laundering statute makes money-laundering an area of concern.

Law Enforcement Efforts. Malaysian police continued to investigate and prosecute narcotics crimes vigorously. Arrests and seizures were generally below the levels of 1998. Budget cuts undertaken in the wake of the Asian financial crisis may have partly been responsible for this trend. In 1998 (Latest complete year data available), the government arrested 14,970 persons on narcotics-related violations, an increase of roughly 2% from 1997. Notably, methamphetamine seizures increased by almost 22%. Law enforcement officers seized 290 kilograms of heroin, an increase of 5% over seizures recorded in 1997. In 1999, Malaysia's largest heroin seizure took place in January, when police seized roughly 53 kilograms. With Malaysia's economy recovering, operating funds for law enforcement, previously cut, may be restored. As in previous years, cooperation with U.S. law enforcement agencies was excellent.

Corruption. Malaysia has an anti-corruption agency with no power to prosecute, but with the power to investigate independently. A few police officers and officials were arrested and prosecuted for drugs-related corruption. No senior police were prosecuted for drugs-related corruption.

Agreements and Treaties. The U.S.-Malaysian Extradition Treaty came into force in 1997, but there has yet to be a case to test its effectiveness. The U.S. and Malaysia have made no recent progress in concluding a mutual legal assistance treaty. Malaysia is a party to the 1988 UN Drug Convention. Malaysia is a party to the World Customs Organization's International Convention on Mutual Administrative Assistance for the Prevention, Investigation, and Repression of Customs Offenses (Nairobi Convention), Annex X on Assistance in narcotics Cases.

Drug Flow/Transit. Malaysia's geographic position makes it a natural nexus of smuggling routes from the heroin producing Golden Triangle area. There was no evidence that in 1999 heroin transiting Malaysia made a major impact on the U.S. market.

Domestic Programs (Demand Reduction). Malaysia, with the help of the United States, finished expanding a pilot school demand reduction program into a nationwide program. Malaysia also announced a drug-free workplace prevention program. In 1999, Malaysia announced that it would construct a new treatment center to alleviate overcrowding. There were many incidents throughout the year of violence, disturbances, and mass escapes at treatment centers. These incidents resulted largely from overcrowding.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation: The U.S. has greatly expanded counternarcotics training via the new International Law Enforcement Academy (ILEA) in Bangkok. ILEA Bangkok trained scores of Malaysians on chemical precursors, financial investigations (money laundering), controlled deliveries, and other topics. In addition, the United States has a successful bilateral Memorandum Of Understanding On Counternarcotics Cooperation with Malaysia. In 1999, the U.S. provided money for demand reduction programs in Malaysia.

Road Ahead. U.S. Goals and objectives in the coming year are to:

- continue to encourage the enactment of stronger anti-crime legislation, including a conspiracy law and a comprehensive anti-money laundering;
- continue and expand successful cooperation in law enforcement;
- encourage the government to improve controls of precursor chemicals and to stiffen penalties for violators.

U.S. Law enforcement agencies will continue to cooperate with Malaysian authorities to monitor and interdict drugs transiting Malaysia. The U.S. will continue its modest assistance to Malaysia's efforts to stem domestic consumption. Inadequate infrastructure and overcrowding will complicate treatment of drug addicts. Effective money-laundering legislation is needed to enhance counternarcotics work.

MONGOLIA

Drug trafficking and abuse are not widespread in Mongolia, but are on the rise. Since Mongolia opened its border to China, however, it has become vulnerable to illegal trade of all sorts, including drug trafficking. Reports indicate that an increasing number of illegal migrants who transit Mongolia, usually going from China to Russia or Europe, transport or traffic in narcotics. Police and government observers suspect that the increase in prostitution and trafficking in women in Mongolia means drug-related activities also will increase.

Wedged between China and Russia with borders that are loosely protected, Mongolia could become an alternate transit route for drug traffickers stymied by more stringent border controls and counternarcotics efforts elsewhere. Although Mongolia is a party to the 1961 Single Convention and its 1972 Protocol, Mongolia is not a party to the 1988 UN Drug Convention, since many of its provisions are not applicable to circumstances in Mongolia. The U.S. government has concluded a Customs Mutual Legal Assistance Agreement (CMAA) with the government of Mongolia.

In 1999 Mongolia prosecuted high-level officials, including three Members of Parliament, involved in bribery in

the tendering of a casino operation. This case prompted legislation rescinding the Law on Casinos, thus making them illegal. While these actions may have merely scratched the surface, they demonstrate government concern and public awareness about money laundering and official corruption.

Poor and underdeveloped, Mongolia is ill equipped to address the reported increased availability and use, domestically, of marijuana, heroin, amphetamines, and over-the-counter drugs by all generations. Mongolia is increasing its scrutiny of chemical plants that produce precursor chemicals, particularly those with foreign investment or those seeking to export precursor chemicals. Mongolian internal corruption and financial crimes appear unrelated to narcotics activities. The weakness of the legal system and financial structure leave Mongolia vulnerable to exploitation by drug traffickers and international criminal organizations, particularly those operating in China and Russia.

NORTH KOREA

There have been regular reports from many official and unofficial sources for at least the last 20 to 30 years that the Democratic People's Republic of Korea (DPRK-North Korea) encourages illicit opium cultivation and engages in trafficking of opiates and other narcotic drugs as a criminal state enterprise. Those reports continued in 1999, with several seizures of drugs alleged to be North Korean in origin and several arrests of North Korean officials.

Uncertainty and speculation characterize all attempts to analyze the significance of the reported incidents. We have not been able to confirm the extent of North Korea's opium production, though we did receive one eye-witness report of "large fields" of opium growing in North Korea. Even the North Koreans admit that opium is grown there, while maintaining that it is used for medicines and painkillers. There continues to be no evidence that any North Korean trafficking of illicit drugs has a significant impact on the United States.

This past year's drug seizure reports seem to point to more trafficking in amphetamine-type stimulants (ATS), and less in heroin and opium. There were also two recent large seizures of a controlled, but not illicit drug, rohypnol, the so called "date rape" drug. One of these seizures occurred in Egypt in January 1998. It involved a North Korean diplomat assigned to Syria. Another incident occurred in April 1999 in the Czech Republic. 55Kg of rohypnol was seized in this latter incident; the drugs had been posted to the Czech Republic by a North Korean Embassy officer in Sophia, Bulgaria. It is unclear whether the rohypnol in both of these seizures was manufactured in North Korea. There were other incidents reported, one in Taiwan in May of 1999 and another in Japan in October of 1999, involving transfers of North Korean drugs at sea, possibly from North Korean trawlers. In April of 1997, Japanese Customs officials at a small port in southern Japan seized 130 pounds of methamphetamine, offloaded from a North Korean freighter, and marked as honey. Defector reports also continued to point to state complicity in drug manufacturing and trafficking.

The extent of opium cultivation in North Korea is not clear. Estimates of the area under cultivation range from 4200 hectares (10,378 acres) to 7000 hectares (17,300 acres) and estimates of opium production range from 30 Metric Tons (MT) to 44 MT annually. This would yield from about 3 to 4.5 metric tons of heroin. None of these estimates have been confirmed, however, and the amount of opium necessary for medicines is simply unknowable. Agricultural problems in North Korea, including flooding and shortages of fertilizer and insecticides, suggest that current opium production might be well below these estimates. There has also been a very clear shift in Asian drug abuse away from opium towards methamphetamine-type drugs. This change in the reported illicit market for North Korean drugs would also suggest that cultivation of opium has declined.

There have been numerous reports this year and in previous years that opium is refined into heroin in North Korea. More recently, North Korea is reportedly stepping up its manufacturing capacity for methamphetamine production. The proximity of the fast-growing Japanese market for illicit methamphetamine (more than 2 million casual users consuming an estimated 10-14 tons per year) and large seizures in 1998 and 1999 in Japan of methamphetamine traceable to North Korea also suggest an increase in methamphetamine production. Large scale imports of ephedrine (a chemical precursor of methamphetamine), such as 2.5 MT, temporarily held by Thai authorities in January 1998 as it transited from India on its way to North Korea, well beyond what many observers believe would be adequate for North Korea's own needs, also suggest increased methamphetamine production in North Korea.

The U.S. does not appear to be a market for North Korean traffickers. Russia and China are the key markets and transit routes for North Korean drugs. From Russia and China, opiates and increasingly methamphetamine are trafficked to Asia and on to Europe. North Korean methamphetamine is reported to have gained a large market share of the sharply expanding illicit market in Japan. One of the largest methamphetamine seizures in Japanese enforcement history, some 600Kg in October of 1999 in Fukuoka, has a North Korean connection. Suspects being held in Japan in connection with the case told investigators that their vessel met a North Korean vessel, offshore, where the drugs were transferred. An additional 100 Kg of reported North Korean methamphetamine was seized in April 1999 by prefectural authorities near Kobe, secreted among clams used for traditional Japanese soup. There have also been press reports of North Korean logging firms operating in Russia's Far Eastern provinces receiving suspicious shipments of opium from North Korea, and there are

instances in which North Korean employees of these firms have fallen victim to sting-type "buy/bust" operations in Russia. Two individuals prosecuted after one of these buy/bust operations in Russia's Far Eastern provinces were reported in July 1999 by the Russian press to have been sentenced to eight and five years, respectively.

North Korean individuals employed as diplomats and in quasi-official capacities at North Korean state trading companies have been regularly apprehended by the customs and police officials of many countries trying to smuggle narcotics produced elsewhere. For example:

In August of 1995, Ethiopian law enforcement officials arrested a North Korean for smuggling cocaine;

In 1998, Russian officials arrested two North Korean diplomats for smuggling from Mexico to Moscow 77 pounds of cocaine with a street value of \$4 million;

In January 1998, Egyptian police arrested a North Korean diplomat who was serving in Syria as he attempted to smuggle 500,000 tablets of rohypnol, the so-called "date-rape drug," into Egypt. This is believed to be the largest seizure ever of the controlled substance rohypnol.

When asked to comment on instances of North Korean citizens, even diplomats, being apprehended with narcotics, the North Korean government attributes these criminal actions to the individuals or to their organizations, and claims that they will be punished if returned to North Korea. However, given North Korea's economic difficulties, many argue that the state has become involved in criminal activity to earn foreign exchange. This view finds support from allegations by North Korean defectors who describe official jobs involving the transport and trafficking of narcotics.

It remains unclear whether alleged North Korean involvement in illicit activities results from state policy, or is simply the actions of criminal individuals or entities. However, as the reports multiply, it seems more likely that the state itself is involved in drug manufacture and trafficking. For example, repeated arrests of official North Koreans while trafficking narcotics—diplomats, employees of state enterprises, etc.—suggest, at the least, official tolerance of criminal activity, at the worst direct state involvement in drug trafficking and manufacture.

As in the case of narcotics, there have been many other incidents and arrests which suggest North Korean state involvement in other criminal enterprises. Among the crimes most frequently mentioned are counterfeiting, illicit trade in endangered species, fraudulent antiques, counterfeit CDs, tapes, and cigarettes. In April 1998, Russian police arrested a North Korean who was caught passing \$30,000 in counterfeit \$100 bills. There are reports in the press and from trade sources that North Korea has a high quality press which produces excellent, hard-to-detect counterfeit notes.

The growing evidence of state complicity by North Korea remains of profound concern, as the U.S. seeks to determine whether the North Korean state has chosen to sponsor illegal activities as a matter of state policy.

Despite close and careful monitoring of North Korea by many law enforcement and foreign affairs agencies, it has been difficult to resolve the dilemma of the extent to which North Korea is involved in drug manufacture and trafficking. It has also been difficult to determine whether North Korea directs criminal activities, including illicit drug manufacture and trafficking. There is considerable evidence suggesting North Korean complicity in illicit activities, indeed direction of illicit activities, but almost all of that evidence is subject to alternative explanations, which put the blame on the individual or on the entity where the individual works.

Over the coming year, the United States will continue to monitor North Korean cultivation and trafficking to determine the extent of any opium poppy cultivation, and the effect that North Korean drug trafficking has on the United States. If we can confirm that there is illicit opium poppy cultivation of 1000 hectares or more, or that North Korean heroin or methamphetamine transiting North Korea significantly affects the United States, we will add North Korea to the list of major drug producing and drug transit countries.

THE PHILIPPINES

I. Summary.

In 1999, combating narcotics trafficking has continued to be a priority for President Estrada's administration. The Government of the Philippines is reviewing options for restructuring its law enforcement agencies to bolster effectiveness in combating drug trafficking. Legislation is in the works to create a single drug enforcement agency (loosely modeled on the U.S. Drug Enforcement Administration) and GOP officials hope it will be enacted early in 2000. Legislation on money laundering and asset forfeiture is still pending. The Philippines continues to serve as a transit point and producer of crystal methamphetamine, an exporter of marijuana and hashish, and as a transit country for Southeast and Southwest Asian heroin. The Philippines is a party to the 1988 UN Drug Convention.

II. Status of Country.

The Philippines is a significant producer and exporter of marijuana, but the U.S. is not a major destination.

Stemming production is difficult owing to topography, corruption, and the lack of effective or well-funded countermeasures. Marijuana growers generally cultivate in areas which are inaccessible by vehicles, and controlled by rebel groups. The Philippines is not a significant producer of other drugs, although production of crystal methamphetamine is a growing problem.

Although law enforcement efforts continue to limit the use of Philippine airports as transshipment points for narcotics, an increase in seizures locally, as well as in the U.S. and Guam underscore the ongoing problem. In 1999, a trend of heroin and cocaine trafficking by West African nationals continued. However these groups were observed to target primarily Japanese and European cocaine markets using Brazil as the source country and transporting the drugs via commercial air couriers.

Precursor chemicals for producing crystal methamphetamine are smuggled into the Philippines with relative ease. In 1999, several clandestine methamphetamine manufacturing or recrystallization laboratories were seized by the Philippine authorities. The Philippine National Police (PNP) – working with the National Bureau of Investigation (NBI), the National Drug Law Enforcement And Prevention Coordinating Center (NDLEPC) and The Presidential Anti- Organized Crime Task Force (PAOCTF) – have organized specialized units to work against clandestine laboratories. Crystal methamphetamine is the favored drug in the Philippines. Some of it is produced domestically and some is smuggled in from surrounding countries, primarily the People's Republic of China. In late 1999, a significant trend emerged in which containers are used to smuggle methamphetamine into the Philippines. This trend appears to be an active supplement to the use of ordinary cargo vessels to bring crystal methamphetamine and precursors to the Philippines. The Philippines exports crystal methamphetamine to Japan, Australia, and the U.S. including Guam and Saipan. The Philippines is not a major money-laundering center, although stringent bank secrecy laws make this a potential problem.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The Estrada administration is seeking appropriate legislation to meet 1988 UN Drug Convention objectives and to give a proposed new drug enforcement agency the necessary tools to carry out its mandate. A bill patterned after the U.S. RICO (Racketeering Influenced and Corrupt Organizations) statute is pending in congress. This statute would include money laundering, asset seizure, and conspiracy provisions. Unfortunately, the anti-graft provisions of the proposed RICO statute make its passage politically difficult. The Philippine bankers' association's adamant opposition to any change in current bank secrecy laws is also an impediment to enactment of asset seizure laws. The administration is also determined to seek passage of legislation authorizing consensual eavesdropping and non-consensual wire-tapping. The Philippine congress passed legislation reorganizing the PNP which will authorize increased pay and training for officers and enable greater focus on counternarcotics efforts.

Other legislation proposed or pending in 1998 was resubmitted to the congress in 1999 and the president has ordered the congress to "fast-track" this legislation. Presently, there are 14 bills pending in congress relating to drug law enforcement. In addition to the lack of necessary legislative tools, Philippine anti-drug efforts are hampered by weaknesses in tracking, intelligence collection, and law enforcement techniques and standards. All of these problems are exacerbated by the lack of resources.

The GOP has strongly advocated the establishment of an ASEAN transnational crime center, and has offered the Philippines as the site for the proposed center.

Accomplishments. The Dangerous Drugs Board (DDB) has plans for an integrated rural development program to eliminate marijuana cultivation through crop substitution. Although these crop substitution efforts have not yet been funded, other marijuana eradication efforts are continuing.

In October 1998, the DDB established a precursors and essential chemicals unit to implement the provisions of Article 12 of the 1988 UN Drug Convention. Among other things, the unit is responsible for monitoring chemical establishments (including importers, manufacturers, and distributors), narcotics intelligence coordination with domestic and foreign counterparts, and information dissemination. To date, the unit has licensed approximately 130 chemical precursor establishments in the Philippines, conducted compliance inspections/investigations of 26 establishments and imposed administrative sanctions on one establishment for failing to comply with importation requirements.

Law Enforcement Efforts. President Estrada has placed a number of well-qualified officials in key judicial and law enforcement positions and has given them a clear mandate to act. In January 1999, President Estrada established by executive order the National Drug Law Enforcement And Prevention Coordinating Center (NDLEPCC) to act as the centerpiece of the republic's counternarcotics effort for supply side and demand reduction programs. Philippines officials requested and received DEA and INL assistance and advice in the organization and management of the Center and demand reduction programs. Additionally, the President established the Philippine Center For Transnational Crime (PCTC) to focus the country's enforcement efforts against international and domestic crime. The Presidential Anti-Organized Crime Task Force (PAOCTF) has also been extremely active in combating drug trafficking. The PAOCTF recently seized 420 kilos of crystal

methamphetamine, the largest seizure in the history of the Philippines.

The DDB, Philippine National Police (PNP) and customs narcotics groups together organized a specialized chemical control unit in 1998. The goals of the unit are to track precursor chemical end-users, investigate the diversion of chemicals from the end-users, investigate smuggling of precursor chemicals, and target clandestine laboratory production.

Corruption. Philippine law enforcement efforts suffer from corruption among police, customs, and military officials. Judicial corruption is also acknowledged to be an impediment to drug prosecutions. There were some arrests and prosecutions of law enforcement and military officials for narcotics-related corruption in 1999, and early in 1999 the chief of the Philippine national police was suspended for allegedly coddling drug lords. Efforts are underway to strengthen internal controls within the PNP, and GOP officials are studying U.S. DEA vetting procedures as a possible model for the proposed drug enforcement agency. In November 1999, President Estrada installed a new chief of the PNP who has set aggressive new standards for the conduct of the police in an effort to rid the PNP of corrupt practices.

Agreements and Treaties. Judicial assistance and extradition requests are being processed through the U.S.-GOP extradition and mutual legal assistance treaties. The Philippines is a party to the 1988 UN Drug Convention.

Cultivation/Production. Marijuana is grown throughout the Philippines. The largest areas of cultivation in the mountainous areas of northern Luzon, central Visayas, and central, southern and western Mindano. Eradication efforts lost ground in 1999 due to financial constraints.

Reporting indicates that crystal methamphetamine production in the Philippines is on the rise. The lack of an effective GOP tracking system, however, makes it hard to quantify this increased production.

Drug Flow/Transit. The use of the Philippines as a transit point for commercial air couriers of heroin has continued at levels roughly equivalent to 1998. There were no arrests of airport couriers. Most of this heroin reaches the Philippines from Thailand and Pakistan and is destined for the Canada, Europe, Africa, and other countries in Southeast Asia. Some drugs transiting the Philippines are headed for the U.S., but not to a major extent. In response to successful law enforcement efforts to stem courier activities, traffickers are also using express mail services. West African criminal gangs appear to be the masterminds of this heroin transshipment.

In 1999, Philippine law enforcement officials continued to seize express mail parcels containing cocaine. This cocaine originated in Brazil and was apparently destined for the Philippines and Southeast Asia.

Crystal methamphetamine continues to be smuggled by ship from the People's Republic of China. In addition, criminals transship crystal methamphetamine by Federal Express to the United States and by commercial air couriers to Guam and the mainland United States.

Domestic Programs (Demand Reduction). In 1999, at the urging of the DEA, the Philippine drug law enforcement community revisited the issue of the number of drug addicts and determined that the number is probably close to one million nationwide. However, the GOP law enforcement agencies are still studying the issue to determine the number of addicts or abusers involved in each drug category.

President Estrada's executive order creating the NDLEPCC gave the new agency the lead in demand reduction. The NDLEPCC, in concert with the Philippine information agency and the DDB, developed a new initiative called "MAD" (which translates into "Citizens Against Drugs"). This program, which focuses on demand reduction through community based activism, has been extremely successful. A "MAD" rally in Manila drew approximately 500,000 people for the day-long festivities.

IV. U.S. Policy Initiatives and Programs.

U.S. Policy Initiatives. As in 1998, the primary goals of the U.S. counter-drug policy in the Philippines are to: 1) work with local authorities to prevent the Philippines from being used as a transit point by trafficking organizations; 2) assist Philippine authorities to improve the capabilities of Philippine law enforcement entities to act against drug trafficking organizations; 3) support legislative processes to pass pending laws against money laundering, asset forfeiture laws and other related anti-drug legislation to strengthen GOP counternarcotic institutions; 4) prevent the shipment of crystal methamphetamine to the U.S. and its territories of Guam and Saipan; and 5) prevent the transshipment of heroin to the United States.

Bilateral Cooperation. DEA continues to work with Philippine government agencies, especially: NDLEPCC, PNP, NBI, and Customs, among others to reduce the flow of drugs to the U.S. from the Philippines. Planned USG-funded training of Philippine officials will increase both cooperative efforts and local law enforcement capabilities. USG-funded demand reduction training aimed at preventing recidivism by drug users who have undergone drug rehabilitation programs was completed in September 1999. There has been no USG-funded in-country counter-drug law enforcement training provided to the Philippines since 1995. However, the U.S.-funded International Law Enforcement Academy in Bangkok, Thailand, has provided training to approximately

60 law enforcement personnel since the academy opened in 1999.

The Road Ahead. In 2000, the USG hopes to enhance the training available to GOP counterparts through U.S.-funded programs. Prospective 1999 in-country and regional training (at ILEA in Bangkok) will focus on enhancing host country abilities to dismantle criminal organizations affecting the Philippines and the U.S. The USG will also continue to promote law enforcement institution-building, encourage improved internal controls (to stem corruption), and encourage passage of needed laws (e.g. through providing model legislation). The USG also has plans to continue to participate in intelligence exchanges with the Philippine law enforcement community. The goal of these efforts is to help the Philippines combat its internal drug problem and to facilitate cooperation to curb the drug flow to the U.S.

SINGAPORE

I. Summary.

Singapore does not produce precursor chemicals or narcotics. However, as a major regional financial and transportation center, it is an attractive venue for money laundering and drug transshipment. The government of Singapore (GOS) effectively enforces its stringent anti-drug policies through strict laws (including the death penalty), vigorous law enforcement and active prevention programs. The Central Narcotics Bureau (CNB) of Singapore cooperates effectively with law enforcement agencies from the U.S. and other countries. Singapore anti-narcotics law enforcement agencies are virtually free of drug-related corruption and regularly attend U.S.-sponsored training programs. Though no formal agreement exists between the U.S. and Singapore, the GOS has cooperated extensively with U.S. law enforcement agencies in drug money laundering and interdiction cases. For the fifth straight year, the total number of people arrested on charges of possession, use, or trafficking in drugs in Singapore has dropped. Singapore is a party to the 1988 UN Drug Convention and earlier international drug conventions.

II. Status Of Country.

Singapore does not produce narcotics or precursor chemicals. The Central Narcotics Bureau (CNB) works with the United States Drug Enforcement Administration (DEA) to closely track the import of small amounts of precursor chemicals for legitimate processing and use. CNB's precursor unit monitors and investigates any diversion of precursors for illicit use.

As a regional financial center, Singapore attracts investors from around the world, including money launderers. Bank secrecy laws and the lack of routine currency reporting requirements make Singapore attractive to drug traffickers to launder and move their money. The 1999 amendment to the Drug (Confiscation Of Benefits) Trafficking Act (DTA) extended the application of money laundering laws to non-drug-related serious crimes.

Singapore has the busiest (in tonnage) sea port in the world. Due to the sheer volume of cargo that transits the port, some of that cargo contains illicit materials. The GOS is aware of the problem and has taken action to stop the transshipment of illicit drugs, though there is room for improvement. GOS officials act effectively when they obtain information on possible transshipment of narcotics through Singapore and share information with DEA officers on a case-by-case basis. Absent specific information about a drug shipment, GOS officials have been reluctant to impose tighter interdiction requirements at the port, out of concern that this would interfere with the free flow of goods and thus jeopardize Singapore's position as the region's primary shipping entrepot.

III. Country Action Against Drugs in 1999.

As a party to the 1988 UN Drug Convention, Singapore treats narcotics-associated money laundering as a criminal offense. Under the DTA, financial institutions must report suspicious transactions and positively identify customers engaging in large currency transactions. Banks maintain adequate records to respond quickly to GOS inquiries in narcotics-related cases. However, there are no routine reporting requirements on amounts of currency that can be brought into or out of Singapore.

In July 1998, Singapore amended the Misuse Of Drugs Act (MDA) to crack down harder on illicit drug use. Third-time offenders are subject to a minimum of 5 years imprisonment and 3 strokes of the cane. Law enforcement officers may now require urinalysis tests for every Singapore citizen and permanent resident returning from outside the country. Those who test positive are treated as if they consumed the illegal drug in Singapore. About 500 arrests have been made since the amendment took effect. Because of the increase in methamphetamine abuse, anyone caught with more than 250 grams of crystal methamphetamine "ice" is subject to the death penalty. Those convicted of having more than 25 grams of methamphetamine or 10 grams of Ecstasy will face charges of drug trafficking, which carries a minimum of five years imprisonment and five strokes of the cane.

Law Enforcement. For the fifth straight year, the total number of people arrested on charges of possession, use, and drug trafficking has dropped, even though there was a rise in the number of arrests for ecstasy and

methamphetamine. The prosecution rate for 1998 was 34.5 percent, a slight rise from the year before, despite the drop in the actual number of people arrested on drug charges. The final 1999 arrest figures for ecstasy possession are expected to rise by 10–20 percent, but the overall number of such arrests remains low (approximately 200). Methamphetamine arrests are expected to increase by approximately 10 percent. On the other hand, arrests for cannabis and heroin are expected to decline. CNB efforts targeting heroin abusers and long term imprisonment for hard core opiate addicts are at least partially responsible for the decline in those arrests. The CNB reports that of the 44 major operations it mounted in 1998, 29 of them were against drug syndicates. In 1998, authorities seized nearly 142 kg of heroin, as well as 22.8 kg of opium, 21.8 kg of cannabis, more than 35,000 psychotropic pills and over U.S. \$340,000 worth of assets, including several motor vehicles.

Domestic Programs/Demand Reduction. Singapore uses a combination of punishment and rehabilitation against first time offenders. Many first time offenders are given rehabilitation instead of jail time. Adopting the theme "Prevention: The Best Remedy" Singapore authorities organize sporting events, concerts, plays and other activities to reach out to all segments of Singapore society on drug prevention. Drug treatment centers, halfway houses and job placement programs exist to help addicts successfully readjust to society. At the same time, the GOS has toughened anti-recidivist laws. Three-time offenders face long mandatory sentences and caning. Convicted drug traffickers are subject to the death penalty.

Bilateral Cooperation. Singapore and the U.S. continue to enjoy good cooperation on a number of levels. The GOS has never refused a U.S. Government request for extradition. In 1999, approximately two dozen GOS law enforcement officials attended training courses at the International Law Enforcement Academy in Bangkok on a variety of transnational crime topics. The DEA provided training to CNB officers on investigative techniques and technical equipment, international controlled deliveries, mail and parcel interdiction, precursor chemical training and airport interdiction. DEA officers can access Singapore port-net, a computer tracking system run by the port, which can track all ships and containers passing through the port of Singapore.

Agreements and Treaties. Singapore is a party to the 1961 UN Single Convention and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Extradition is conducted through the 1931 U.S.–UK Extradition Treaty, which remains in force between the U.S. and Singapore. In the absence of a formal mutual legal assistance treaty between the U.S. and Singapore, assistance is provided only through the use of Letters Rogatory. Due to strict bank secrecy laws, bank records cannot be obtained through Letters Rogatory. The U.S. and Singapore are in the process of negotiating a drug-designation agreement, which will allow for provision of a broad range of assistance in drug-related cases.

Corruption. Singapore's Central Narcotics Bureau (CNB) is charged with the enforcement of Singapore's anti-drug laws. The CNB, and other elements of the government, are effective and virtually free of drug-related corruption.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. The U.S. Government would like to complete a drug-related financial and money laundering agreement with the government of Singapore and would welcome new currency reporting requirement laws and increased transshipment monitoring efforts.

SOUTH KOREA

I. Summary

The Republic of Korea (ROK or South Korea) was a strong regional player in counternarcotics efforts in 1999. In June, the ROK hosted the Anti-Drug Liaison Officials' Meeting For International Cooperation (ADLOMICO) conference, attended by 120 representatives from 16 different countries. Regarding enforcement, there were no methamphetamine laboratories discovered in 1999, and availability of illicit drugs for domestic use, primarily methamphetamine, increased only slightly. The ROK supreme prosecutors office continued its nationwide drug education/demand reduction program during 1999.

South Korea is not a major drug-producing or drug-transiting country, although cocaine and heroin transiting activity increased during 1999. Additionally, the transiting of cocaine precursor chemicals increased significantly during the same period. For example, in May 1999, 12 tons of potassium permanganate (PP), a cocaine precursor seized in Santa Marta, Colombia, had been sent via Korea from China. This seizure followed an additional 10-ton load, which was also sent to Colombia in March 1999.

II. Status of Country

The ROK has a comparatively modest drug problem. A slight increase in methamphetamine use surfaced in 1999. Importation of heroin and cocaine for local consumption remained relatively stable. Overall, the drug user population in Korea remains small. Korea reported only 8,000–9,000 drug arrests for the year for a population of approximately 46 million. Additionally, the most dramatic development noted during 1999 was

the increasing use of the ROK as a transit country for chemical precursors. As mentioned earlier, two sizable shipments of potassium permanganate were sent from Korea to Colombia. Delivery of the shipments, which were received from China, was brokered in Hong Kong.

III. Country Actions Against Drugs in 1999

Policy Initiatives. An extradition treaty between the U.S. and Korea entered into force December 20, 1999. This treaty has all the attributes of modern extradition treaty. The treaty should facilitate apprehension and extradition of fugitives, including those charged with drug offenses.

Agreements and Treaties. A U.S.–Korea MLAT has been in force since 1997, and an extradition treaty entered into force on December 20, 1999. Korea is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 protocol, and the 1971 UN Convention on Psychotropic Substances. The USG has concluded a Customs Mutual Assistance Agreement (CMAA) with the Government of South Korea.

Illicit Cultivation and Production. Although methamphetamine had previously been produced in the ROK, evidence in 1999 suggests that this is no longer a problem. This is most likely due, to legislation passed in 1989 that treats illicit traffic in ephedrine (methamphetamine precursor) as a criminal offense. Laws prior to that were administrative in nature and viewed such importations as pharmaceutical violations. Since 1989, methamphetamine laboratory discoveries have continually declined to none this year. The only other drug produced in Korea is marijuana. The marijuana, which is cultivated legally for hemp and is used for fabrics and fertilizer, is grown in the northeast and southwest areas of the ROK. A portion of the licit marijuana crop is believed to be diverted for illegal use. A derivative of marijuana, hashish, is found only in small amounts in the ROK, and is believed to be imported by West Africans and Middle Eastern smugglers.

Regional Cooperation. The ROK plays a leading role in regional anti-narcotics cooperation. Law enforcement personnel share and develop information with the U.S. and other countries. The ROK hosts, at ROK expense, the Anti-Drug Liaison Officials Meeting Of International Cooperation (ADLOMICO). During the last three-day conference, which was held in Seoul, the U.S. Ambassador to Korea made opening remarks. One hundred twenty representatives from 16 different countries attended the conference. ADLOMICO was co-chaired by DEA representatives in Korea who, along with representatives from DEA headquarters, gave presentations on international drug trafficking. An open forum allowed each country the opportunity to make a presentation and answer questions.

Demand Reduction. Demand reduction through drug awareness and train-the-trainers is carried out under the auspices of the Supreme Prosecutor's Office. Every summer, representatives from the office travel throughout Korea and instruct teachers regarding the perils of drug usage, drug identification, and how to recognize and counsel students suspected of using drugs. The teachers then pass along this information to their students. Additionally, the Pusan district prosecutor's office is in the process of initiating a drug awareness program. The program uses a variety of approaches to curb drug use, including education and treatment.

Law Enforcement Efforts. Cooperative law enforcement efforts with the USG by ROK authorities increased in 1998/9. DEA and the U.S. Customs (USCS) have increasingly worked with the ROK supreme prosecutor's office, district prosecutor's offices in various cities, and Korean Customs, giving rise to the successful resolution of several drug cases. More recently, U.S. and ROK authorities have jointly investigated shipments of precursor chemicals used in cocaine production in Colombia that transited the ROK. The investigation so far has resulted in two arrests. In October 1998, Korean Customs, the lead counternarcotics enforcement agency in the ROK, established an airport unit in concert with DEA designed to interdict drug traffickers and identify suspicious luggage or parcels. This initiative proved successful in 1999, but to build on this success, further training is needed.

Corruption. Although media reports of corruption among public officials in the ROK surface periodically, there is no evidence public officials were involved in narcotics trafficking in 1999, or that corruption adversely influenced narcotics law enforcement in Korea.

Drug Flow/Transit. Methamphetamine, cocaine, and heroin transit Korea bound for other locations. Methamphetamine is often destined for the U.S. via Guam. In 1999, a kilogram shipment from Manila, organized by Korean traffickers in Seoul, was seized by DEA. DEA Seoul worked closely with Korean officials during 1999 to expand this investigation.

Heroin for local use enters the ROK sporadically from China while heroin, coming from Thailand, transits Korea on its way to markets elsewhere. Additionally, West African traffickers continue to be a heroin trafficking threat in Korea.

Money–Laundering. At this time, South Korea appears to have little to no significant narcotics money–laundering activity. The Korean government's financial investigations generally focus on preventing the transfer of funds out of the country. Laws do not presently exist which would make the transfer of funds in

furtherance of other illegal activities a crime. There is currently legislation being proposed in the national assembly that will, if enacted, provide for criminal prosecution of money laundering activities. This proposed legislation is similar to U.S. law as it relates to narcotics offenses.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Both DEA and USCS work closely with Korean enforcement authorities. They have supported Korean investigations through exchange of information. In an effort to target trafficking through Korea, DEA encouraged the establishment of "Operation Airbust," an airport interdiction, drug detection program. The program, which established a 25-person unit, has already met with major success, and more are sure to follow.

Road Ahead. Law enforcement officials from the ROK have proven to be strong allies in the anti-drug effort, and would greatly benefit from additional training; such training is under consideration. Fine-tuning their skills, would of course, also benefit the U.S. and surrounding countries due to the volume of drugs that transit the ROK.

TAIWAN

I. Summary

The United States considers Taiwan a major drug-transit point for drugs affecting the U.S. due to its geographic location and its role as a regional transportation/shipping hub. The UN removed Taiwan in 1996 from its list of major drug transit centers. Despite the lack of recent seizures in the U.S. of heroin that has transited Taiwan, Taiwan individuals with connections to organized-crime groups are known to be involved in drug trafficking in the Southeast Asian region. In view of Taiwan's geographic location, its role as a regional shipping hub, and activities of organized-crime groups, it is likely that drugs transit Taiwan to the West, including the U.S.

In 1999 Taiwan continued its aggressive domestic counternarcotics program and its excellent effective cooperation with the U.S. The authorities investigated 68,612 new narcotics cases through October 1999, an increase of 48.9 percent compared to the same time period in 1998. The authorities seized more narcotics, primarily of methamphetamine-type stimulants, in the first ten months of 1999 than all of 1998. Indictments and convictions for drug-related offenses on Taiwan continued to fall in 1999. The decline reflects the first full year in which a law has been in effect allowing first-time addicts to participate in drug treatment programs in lieu of imprisonment. Taiwan cannot be a party to the 1988 Drug Convention because it is not a UN member. Taiwan authorities, nonetheless, have passed and implemented laws in compliance with the goals and objectives of the Convention. Taiwan also continued to expand counternarcotics cooperation with U.S. law-enforcement agencies through the American Institute in Taiwan (AIT); in some cases, however, authorities in Taiwan are not responsive to U.S. requests for assistance in criminal investigations.

II. Status of Taiwan

Taiwan does not cultivate or produce illegal narcotics, but the illegal consumption of both heroin and methamphetamine remains a serious social problem.

Mainland China continues to be the primary source of drugs entering Taiwan. Some 78 percent of methamphetamine and 17 percent of the heroin, whose origin could be identified, came into Taiwan from mainland China.

Despite the lack of heroin seizures in the U.S. that can be directly linked to Taiwan, USG analysts continue to view Taiwan as a major transit point for heroin significantly affecting the U.S. The conclusion is based on analyses of regional trafficking patterns and Taiwan's role as a regional transportation/shipping hub. Taiwan's Kaohsiung harbor is the world's third busiest container port and is a major center for shipping to and from Southeast Asian ports. Of the nearly 6.27 million TEU (twenty-foot-equivalent unit) shipping containers handled at Kaohsiung port last year, a significant percentage was "in transit" and, according to standard international practice, not subject to inspection by Taiwan Customs. Taiwan Customs examined 3.41 percent of inbound containers and 0.73 percent of outbound containers.

Money laundering of drug proceeds is a problem in Taiwan, but money laundering also occurs for non-narcotics-related activities, such as insider trading and smuggling. Through October 1999, 1,003 cases of suspicious financial transactions were investigated, of which charges were filed in seven cases and 116 cases were referred for further investigation.

III. Taiwan Actions Against Drugs in 1999

Policy Initiatives. Taiwan has continued an aggressive island-wide counternarcotics campaign that includes both harsh sentences for narcotics trafficking and social rehabilitation programs. This year was the first full year that Taiwan's tough Omnibus Hazardous Narcotics Prevention Act was in force.

On May 11, 1999, the Legislative Yuan passed two key narcotics laws: The "Law for Management of Controlled Drugs" and the "Organizational Law for the Bureau of Controlled Substances". These laws, which AIT and the U.S. Drug Enforcement Administration (DEA) encouraged the Taiwan authorities to adopt, provide the legal basis to control the manufacture and sale of phenylpropanolamine (PPA). They also allow pre-export notification on shipments of PPA to other countries, as well as establish a new agency to monitor the production, use, and sale of narcotics in Taiwan. In addition, these laws authorize the use of small amounts of seized drugs for research purposes.

The Taiwan authorities want greater cooperation with the People's Republic of China (PRC) to combat drug trafficking, since many of the narcotics—particularly methamphetamine—entering Taiwan come from the PRC. Taiwan's ability to block drug smuggling has been hampered by cross-strait tensions and the concomitant lack of cooperation from PRC law-enforcement agencies. The Taiwan authorities have indicated that they would like to include law-enforcement issues in the cross-strait dialogue, when it resumes.

In order to improve Taiwan's ability to interdict cross-strait smuggling, the Legislative Yuan in 1998 created the Maritime Police Bureau. Approximately 20,000 officers staff this bureau, and it has a total of 87 boats—four more boats will be added in the year 2000. Organized into 16 squadrons, the bureau has stationed 13 boats on Taiwan's west coast to operate in the Taiwan Straits. The Maritime Police Bureau operates within 200 nautical miles off Taiwan's coast. Its predecessor organization had a jurisdictional limit of only 12 miles. Under AIT auspices, DEA has met with bureau officials to discuss intelligence sharing and pending operational matters.

The Money Laundering Prevention Center (MLPC) serves as the enforcement and intelligence backbone of Taiwan's interagency anti-money-laundering efforts. It continues to expand its contacts and exchanges with the U.S. and other foreign law-enforcement officials. The MLPC is a founding member of the Asia-Pacific Group on Money Laundering and, in 1998, became a participant in the Egmont Group, an informal international anti-money-laundering collective.

Through AIT, Taiwan has cooperated closely with U.S. law-enforcement agencies in conducting investigations and joint operations involving illegal narcotics trafficking and related crimes. Taiwan authorities have responded positively and constructively to U.S. requests and initiatives related to counternarcotics issues. Over the past year, Taiwan law-enforcement officials continued to expand their exchanges through AIT with U.S. and regional law-enforcement agencies to share information collected in Taiwan on cases extending beyond the island itself.

Accomplishments. The Taiwan authorities continued to investigate vigorously all potential narcotics leads. By the end of October 1999, Taiwan officers seized 70.62 kilograms of heroin and 1139.34 kilograms of methamphetamine. Those seizures represent a decrease of 44 percent for heroin and a 50 percent increase for methamphetamine compared to the same period in 1998. The number of individuals charged with narcotics crimes in the first ten months of 1999 decreased 37.4 percent to 8,044. The decline is due, in part, to provisions in the Hazardous Narcotics Prevention Act, in force for its first full year in 1999. The Act provides that first-time users who successfully undergo treatment no longer face criminal charges. Likewise, the number of narcotics-related convictions through October 1999 (6,511) also decreased by 63.7 percent from the 1998 ten-month conviction rate.

Law Enforcement Efforts/Corruption. The Ministry of Justice plays a major role in formulating counternarcotics policies and legislation. The Ministry of Justice Investigation Bureau (MJIB) and the National Police Administration's Criminal Investigation Bureau (CIB) are Taiwan's lead counternarcotics law-enforcement agencies.

Taiwan's law-enforcement personnel are fully committed to the fight against narcotics trafficking. Through October 1999, they investigated more than 68,612 new cases. Taiwan has continued a crackdown on organized crime and is aggressively pursuing cases of public corruption. To date, there have been no reported cases of official involvement in narcotics trafficking on Taiwan. Taiwan authorities do not tolerate the production or distribution of illegal drugs. Taiwan law-enforcement officers have both the will and ability to target major syndicates and individuals trafficking in drugs and have worked with DEA on narcotics investigations. Counternarcotics authorities are often hampered in their ability to conduct long-term investigations, however, because of a legal requirement that investigations be completed within a specified period of time. Laws against entrapment are also strict, and undercover activity by law-enforcement officials remains a legal gray area.

Agreements and Treaties. Taiwan authorities have long indicated an interest in negotiating a mutual legal assistance agreement with the U.S. AIT and its Taiwan counterpart, the Taipei Economic and Cultural Representative Office in the United States (TECRO), are discussing the possibility of negotiating a mutual legal assistance agreement and are currently negotiating a customs mutual assistance agreement. In 1992, AIT and TECRO signed a memorandum of understanding on counternarcotics cooperation in criminal prosecutions. Taiwan is not now party to any other formal bilateral counternarcotics agreements and cannot be a party to the

1988 UN Drug Convention because it is not a UN member. Nevertheless, the Taiwan authorities state they are committed to the goals and objectives of the Convention and have enacted legislation to bring Taiwan's counternarcotics laws into close conformity with its provisions.

Despite the lack of formal agreements, Taiwan law-enforcement officials work closely with their counterparts in the region. For example, they have shared intelligence information with Japan, Hong Kong, and The Philippines. This coordinated effort resulted in a number of significant investigations, which led to the seizure of large quantities of methamphetamine and numerous arrests. In addition, through AIT, DEA and MJIB conducted a joint investigation over several years that has led to the disruption of a major methamphetamine trafficking organization. In a joint DEA-MJIB investigation, the MJIB seized 76 kilograms of methamphetamine and 22 kilograms of heroin and arrested four people in February 1998. MJIB developed more information, which it shared with its Japanese counterparts. This effort led to the October 1999 seizure of 616 kilograms of methamphetamine in Japan and the arrest of 15 people. As a result of another joint DEA-MJIB investigation, Japanese authorities were provided with intelligence that resulted in the seizure of 101 kilograms of methamphetamine and the arrest of 17 people.

Cultivation/Production. Taiwan is not a producer of illicit drugs.

Drug Flow/Transit. From January to October 1999, Taiwan authorities seized 70.62 kilograms of heroin, of which 35.6 percent arrived from Thailand, 14.2 percent from Hong Kong, and 10.2 percent from mainland China. Of the 1139.34 kilograms of methamphetamine seized, 68.5 percent came from mainland China and 5.2 percent came from Thailand. Some heroin is smuggled into Taiwan on container ships. Both heroin and methamphetamine are smuggled into Taiwan through a variety of methods and routes. Drugs traffickers send couriers and trawlers carrying narcotics from numerous Asian locations to Taiwan's ports and airport. Fishing boats continue to be the principal means of smuggling heroin and methamphetamine from mainland China to Taiwan.

Domestic Programs. The Hazardous Narcotics Prevention Act, implemented in 1998, recognized the importance of rehabilitation in addition to more traditional methods of dealing with drug use. The Act requires users to undergo observation and treatment at narcotics rehabilitation centers. Users who succeed in kicking their habits do not face criminal charges. If they fail to pursue treatment seriously, they may be charged. While still in the early stages, this approach has had some success. During the first ten months of 1999, 33,634 individuals (including 31,396 adults and 2,238 juveniles) entered treatment programs. Of the 32,968 individuals who completed treatment, the authorities believe that 22,406 (68 percent) have not resumed drug use.

Taiwan continues to employ an aggressive media campaign to educate the public on the negative consequences of narcotics use and has expanded school programs designed to discourage juveniles from trying drugs. In addition, Taiwan is also encouraging private organizations to participate in school programs and the management of rehabilitation centers.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG, through AIT, has vigorously pursued closer working-level cooperation on counternarcotics matters, including increased intelligence exchanges and joint operations. During the past year, DEA has expanded its working-level contacts with Taiwan law-enforcement agencies.

In March 1999, AIT and DEA met with various executive Yuan agencies and Legislative Yuan members to encourage Taiwan to adopt a comprehensive control system for the export of narcotic precursor chemicals, including pre-export end-user checks. In May, the Legislative Yuan approved two laws to control these items.

In April, a chemist from the DEA's special testing lab visited Taiwan to exchange information with his counterparts at MJIB. Subsequently, MJIB sent one of its chemists to the U.S. In June, DEA conducted training for MJIB on undercover operations, informant handling, and drug trafficking trends in Southeast Asia. Also in June, the Deputy Director of DEA's Office of Diversion Control and the Chief of Chemical Controls visited Taiwan to discuss controls on precursor chemicals and pre-export checks.

Through AIT's voluntary and international visitor programs, the U.S. has exposed key Taiwan prosecutors and legislators to U.S. law-enforcement policymakers and programs.

Road Ahead. In the coming year, AIT and U.S. law-enforcement agencies will continue to work closely with Taiwan to further promote joint counternarcotics operations, money-laundering investigations, and two-way exchanges of information.

THAILAND

I. Summary

At the time that the List of Major Drug Producing and Transiting Countries was prepared at the end of last

year, information available indicated that in excess of 1000 hectares of opium was cultivated in Thailand. However, success with eradication programs during the current crop year seems to have reduced cultivation to well under that figure. Thailand, nevertheless, is a major drug transit country as a significant amount of heroin transits Thailand on its way to the U.S. Indeed, Thai authorities recently made a number of large seizures of heroin headed for the U.S.

Throughout 1999, Thailand continued its long tradition of cooperation with the United States and the international community in anti-drug programs. Thailand added to its leadership role in transnational crime issues by co-managing the International Law Enforcement Academy (ILEA) with the U.S. in Bangkok. The U.S.-Thailand extradition relationship continues to be highly successful, and Thailand continues to extradite its nationals under the treaty. Indeed, Thailand is one of the top three countries in the world in cooperating with the U.S. on extradition requests. Extensive cooperative law enforcement programs continued to bear fruit. According to RTG figures, 314.8 kilograms of heroin were seized and 14 methamphetamine labs destroyed during the first ten months of 1999.

Thailand has one of the most effective illicit narcotic crop control programs in the world. USG analysts estimate that Thailand's opium production in the 1999 growing season declined 62 percent from sixteen to six metric tons. Poppy cultivation decreased by 38 percent to 835 hectares. Continuing trends established in previous years, opium farmers continue to cultivate smaller, more isolated fields and engage in multiple cropping to avoid eradication. In addition, activities related to heroin production, such as the refining of raw opium into morphine base, continued in northern border areas where drug producers often combined heroin operations with the manufacture of methamphetamine. Seizures and court actions under the asset seizure law continued. With U.S. Drug Enforcement Administration (DEA) support, the Royal Thai police (RTP) established the second in a series of specially trained narcotics law enforcement units to target major trafficking groups. Thailand's programs aimed at treatment, epidemiology of substance abuse, and demand reduction continued; nevertheless, the epidemic of methamphetamine abuse rapidly accelerated, especially among the young, underscoring the need for cost effective community based models of addiction treatment and additional abuse-prevention training for both public and private sector health professionals.

Money laundering legislation covering seven predicate offenses including narcotics violations was passed in March 1999, and took effect in August. A senior police official has been named to head the 64 person money laundering control office. The decision to become a party to the 1988 UN Drug Convention is currently being cleared through all relevant Thai Government agencies. Approval is expected during the March 2000 parliamentary session with accession to follow soon after.

II. Status of Country

Thailand is no longer a major source of opiates for the international market. Its opium poppy crop accounts for less than one percent of the regional production of opiates. Supplies from Burma are necessary to satisfy Thailand's own domestic demand for illicit opiates. The growing abuse in Thailand of methamphetamine is a serious concern, as traditional opiate traffickers in Thailand, Laos, and Burma are now either producing and/or moving both opiates and amphetamine type stimulants (ATS).

Traffickers have diversified drug smuggling operations to include direct maritime transshipment from Burma to major regional container ports. The UN Drug Control Program (UNDCP) estimates that 60 percent of Burma's opiate production enters China. Nevertheless, good roads in northern Thailand join refineries in Burma with the remainder of Thailand's transport system. Thailand's advanced road network continues to be a vital link in the supply line for commodities and materials needed by trafficking groups in neighboring areas. Thailand's position as a regional airline hub remains a factor in narcotics trafficking. Thailand still produces marijuana in its northeast region, although quantities have been reduced due to law enforcement suppression activity in recent years, as well as by competition from growers in Cambodia who benefit from lower production costs and a less challenging law enforcement environment. There continue to be reports of marijuana cultivation in Thailand's northern and southern regions. The Office of the Narcotics Control Board (ONCB) estimates that Thailand produced 48 MT of marijuana in 1998. Methamphetamine is mostly produced in Burma. Some limited production of methamphetamine does occur in Thailand. However, most of this is by smaller scale producers using more simple production techniques that turn out perhaps only one thousand tablets per day. These traffickers purchase methamphetamine tablets from the larger Burmese-based suppliers, crush the tablets, use additives (Caffeine and the like), and re-tablet the material with new markings. The quality of these tablets is obviously lower, so the market for these tablets are poorer abusers who cannot afford higher quality drugs. By the end of October 1999, the RTG (Royal Thai Government) had destroyed fourteen methamphetamine labs in Thailand. These included five labs with modern tablet-making machinery, seven "kitchen" labs, and two labs producing methamphetamine hydrochloride in bulk.

An extremely large and growing number of Thai youth graduated from occasional methamphetamine use to dependency. From January through October 1999, the RTG seized 3,248 kilos of methamphetamine and arrested 146,317 persons involved in 135,358 ATS-related cases. The number of drug-related indictments

went from 56,954 in 1988 to 186,232 in 1998, and the percentage of methamphetamine indictments rose from 1.8 to 67.3 percent during this same period.

As a result of the increase of methamphetamine in the country, Thailand has experienced a surge in poly-drug use among traditional heroin users such as the hill tribes in the north and fishermen in the south. The Thai ONCB has reported that methamphetamine generates more profit for the traffickers than all the heroin consumed both regionally and sent out of Southeast Asia to world markets. Money and time are not tied up in agricultural production of poppy plants, and nearby markets minimize the costs and "taxes" required to ensure delivery to distant lands. A study of the drug abuse situation in Thailand published in 1995 by the Thai Development and Research Institute (TDRI) contributed the baseline estimate for drug abuse in Thailand of 1.27 million persons, which includes those abusing ATS, inhalants, heroin, opium, and marijuana.

III. Country Actions Against Drugs in 1999

Policy Initiatives: Money laundering legislation covering seven predicate offenses, including narcotics violations, was passed in March 1999. With this legislation, Thailand is now in compliance with the 1988 UN Drug Convention and expects to accede to that international instrument during the March 2000 parliamentary session. A senior police officer has been named to head the 64 person Money Laundering Control Office (MLCO). ONCB and the RTP have sponsored several training sessions on money laundering for concerned Thai government agencies and private financial institutions. The USG also sponsored training to improve enforcement against financial crimes.

Thailand controls precursor chemicals as required by the 1988 UN Drug Convention. In addition, Thailand and its neighbor Laos have agreed to cooperate in controlling precursor chemicals. The 1991 asset seizure and conspiracy law is limited to narcotics cases. As of October 31, 1999, 910 cases opened under the statute yielded forfeitures over U.S. \$984.4 million. 786 cases were suspected of major narcotics trafficking involvement amounting to over U.S. \$756.5 million in assets.

In late 1998, the RTG co-founded the International Law Enforcement Academy (ILEA) in Bangkok with the U.S. In 1999, ILEA trained over 600 law enforcement and judicial officials from nine regional countries and the Hong Kong special administrative region. While the U.S. provides most of the funding and training expertise, the spirit of openness and hospitality, which has much to do with establishing a regional cooperative anti-crime network, is uniquely Thai. In addition, Thai unique regional expertise has enriched many of the training programs. The joint Thai/U.S. staff has created a quality educational institution with which all participating countries genuinely identify.

The six UN MOU on Sub-regional Narcotics Cooperation countries are Burma, Cambodia, China, Laos, Thailand, and Vietnam. Thailand actively participates in activities under the UNDCP-sponsored MOU. Thailand is also a member of the UN Commission on Narcotic Drugs (CND) and is the designated law enforcement coordinator for ASEAN's Senior Officials on Drugs (ASOD) group.

Thailand has been extremely cooperative with the U.S. under the bilateral extradition treaty and is one of the top three countries in the world, along with U.S. neighbors Canada and Mexico, in cooperating with the U.S. on extradition requests. The Foreign Ministry, the Judiciary, the Royal Thai Police, and the Office of the Attorney General have developed expedited extradition mechanisms and have worked closely with U.S. Justice Department officials and courts to facilitate extraditions. Since 1991, the Thai government has extradited forty-four fugitives to the United States, 35 of whom were wanted for narcotics-related offenses.

Despite the requirement for budgetary austerity in the aftermath of the regional economic crisis, Thailand maintains support for programs to combat the production and trafficking of illicit drugs and other transnational crimes. National and local level action against drugs has been improved by Prime Ministerial Order 141 issued on August 19, 1998. The order provided a needed coordination framework and facilitated collaboration among all government agencies as well as interested parts of civil society, such as NGOs, professional organizations, and religious groups. It made clear that Thailand's drug problem was the responsibility of all concerned government agencies (36 agencies of 11 ministries) and not just the Office of Narcotics Control Board (ONCB) and the Police Narcotics Suppression Bureau (PNSB).

A Thai drug epidemiology working group reports on emerging drug abuse trends and participates in regional demand reduction fora. Thai officials also provide a supportive environment for coordination and cooperation among the foreign anti-narcotics community (FANC) which is composed of fifty one foreign law enforcement members of twenty-one agencies attached to nineteen Bangkok embassies. The current FANC chairman is U.S. DEA group supervisor.

Law Enforcement Efforts: The Office of the Narcotics Control Board (ONCB), the Police Narcotics Suppression Bureau (PNSB) and the Royal Thai Army Third Region Command (RTA III) covering North Thailand, are primarily responsible for the implementation of national level drug enforcement programs. These agencies coordinate with local police and enforcement bodies such as the Border Patrol Police (BPP), Provincial Police and the Royal Thai Customs on narcotics cases.

Extensive law enforcement cooperation with U.S. authorities continues. With DEA support, the Thai police established two special enforcement units which target major trafficking groups. In addition, the Northern Drug Task Force targets major violators in that region. A second task force in the Bangkok area became operational in 1996 and, after inclusion in the DEA/Thai police special program in 1999, developed several significant cases against major traffickers moving heroin to the U.S. The third center in southern Thailand became operational in 1999 and is assisting with several important investigations. A DEA/DOD/USG program to enhance maritime interdiction capabilities of the Royal Thai Navy in the Gulf of Thailand is nearly operational. The U.S. has continued to support these RTG initiatives through provision of operational assistance, commodities, and training provided jointly by DEA, the Department of Defense (DOD), and the USG. Enforcement actions by the BPP have produced seizures of both opiates and methamphetamine. The BPP continued to receive training from DEA and DOD elements in 1999. It must be noted that the BPP undertakes especially dangerous counter-drug operations which have resulted in two dead and four wounded officers so far in 1999.

According to ONCB figures, 0.314 mt of heroin was seized during the first ten months of 1999. Drug related arrests totaled over 205,276 individuals during the first ten months of the year, reflecting both the growth of drug abuse and RTG efforts to counteract it.

Corruption. The Royal Thai government does not condone the cultivation, production, trafficking, or financing of illicit narcotics.

The Police Narcotics Suppression Bureau and the Office of the Narcotics Control Board continue to exhibit a high degree of professionalism and honesty derived in part from long standing relationships and institution-building programs with international drug control organizations, including those from the United States. Some representatives of civil society, such as academics, the media and various non-governmental organizations, roundly criticize examples of corrupt practices, and involvement in gambling and smuggling by some members of Thai law enforcement. Some Thai law enforcement officials themselves express frustration with corruption and its variant, political or family influence at high levels, which negatively impact their ability to prosecute those caught in criminal acts. For example, in discussing trafficking trends in central Thailand, the 1998-99 ONCB narcotics annual report notes that, ".the sophisticated and expanding trafficking network in this region consisted of the conspiracy of power groups and some governmental authorities." Interference of this nature often becomes known throughout law enforcement, raising the level of cynicism and providing excuses for weaker elements to abuse their office and accept money or other favors.

Narcotics trafficking poses special problems in countering corruption because of the fantastic profits generated and the resultant availability of cash for either facilitating payoffs or completely co-opting law enforcement personnel. The surge in methamphetamine abuse and trafficking adds greatly to the potential for corruption. Although the law applies to all, RTG efforts to counternarcotics corruption have so far focused on junior level officials. In July, a significant number of such officials, including military and police, were either sacked, transferred, or asked to resign. On the other hand, American law enforcement officials have noted that security of complex operations against major traffickers intended for extradition has been maintained. This indicates an internal sensitivity to the issue as well as knowledge of those police officers and other governmental officials who can or cannot be trusted with sensitive information.

Declarations of assets, already compulsory for cabinet ministers, are now required for over 900 senior state officials. They must also report the assets and liabilities of their spouses and underage children. Hopefully, as the political system matures, common corrupt practices, especially related to voter fraud and vote buying, will be reduced, eliminating some of the more notorious politicians from public life.

Cultivation/Production. The northern border areas of Thailand are the principal location for poppy cultivation in the country. Opium has a long history in the region, and the use of the crop as a medicine and source of cash for certain hill tribe communities has been a fact of social and economic life. The government's control efforts have combined eradication of the crop with development, improved infrastructure, and economic support designed to offer growers alternatives to narcotics production. The crop substitution/development program began in 1969 and from the very beginning concentrated on providing alternative medical care and cash crops to substitute for the medicinal and economic benefits of opium. Only after 15 years of development assistance, when the hill tribe communities could actually support themselves without opium, did the RTG begin to forcefully eradicate the farmers' opium crops.

Thailand has one of the most effective narcotics crop control program in the world. The eradication campaign is one of the main reasons heroin refineries no longer operate in Thailand, and has reduced opium cultivation in Thailand to a point where opium must now be imported to meet the requirements of domestic addiction. Last year, counter drug programs and less than ideal growing conditions led to the lowest cultivation and production estimate for Thailand since the U.S. Government began its crop estimates in the mid-1980's. Thai eradication forces successfully destroyed 808 hectares of the gross 1,643 hectares cultivated in 1999 which, together with the debilitating effects of the drought on opium yields, resulted in opium production of six

metric tons. Average opium yield was estimated in 1999 at 7.18 kilograms per hectare.

The Thai government estimates that ten percent of Thai poppy growers use opium, and many of these sell their higher quality product for cash and consume cheaper drugs from Burma. Since brokers and middlemen play a strong role in the production equation and influence hill tribe growers, the propensity to plant a crop exists, even with the risk of having it destroyed by the government. Out-of-season poppy plantations and multiple cropping require exceedingly more effort and capital to cultivate; and reflect the significant adjustments traditional growers have had to make in the face of eradication efforts. A mark of the growers' sophistication is the practice of interspersing the poppy plants with legitimate vegetable production. The stubbornness and greed of Thailand's residual growers and their ability to increase cultivation in some geographically difficult to control areas argues for continued active efforts by Thailand in its opium control program.

An important initiative in crop control supported by the U.S. and other donors has been the establishment of Chiang Mai University's highland agricultural training center. Opened in 1994, this center provides hands-on training and experience to farmers in alternative crop techniques and provides a site for training farmers from neighboring countries.

ONCB coordinates the annual opium crop survey with the assistance of RTA III and the police. The RTG survey and analysis methodology is unmatched in the region. Both ground and aerial surveys are used. Information from a computerized geographic information system is combined with other survey and statistical data to measure opium cultivation trends. Survey data is shared with eradication campaign operating units. ONCB executes its survey before, during and after the traditional opium cultivation cycle to cover early and late season crops.

Drug Flow/Transit. Methamphetamine and opiates move into Thailand for consumption and also for onward shipment to world markets, making Thailand both a consuming and a transit country. Over the past several years, and especially since notorious drug trafficker, Khun Sa's, "retirement" and the occupation of his former territory by the Burmese Army, there has been a steady increase in the use of alternate routes through China, but also through Laos, Cambodia and Vietnam. Since drug trafficking is an intrinsically illegal activity, neither Thailand nor its regional law enforcement colleagues have a clear and complete idea of trafficking patterns, but it is clear from recent heroin seizures that a significant amount of heroin transits Thailand on its way to the U.S.

Demand Reduction and Treatment Programs. Prevention and demand reduction programs are coordinated through ONCB and managed by various government agencies such as The Anti-Narcotics Coordinating Committee (ANCC). The ministries of health and education have programs in place to expand treatment and implement demand reduction in schools and in provincial areas as well as to target specific high-risk groups including students, fishermen, laborers, and long-haul truck drivers. School programs have received the greatest emphasis. This emphasis is justified, as 1997 abuse data shows more than 50 percent of the total 110,000 drug users in Thailand were youth. In late 1998, ONCB and other agencies organized a training course on drug counseling techniques for school teachers in 34 provinces. ONCB also organized a "Friends For Friends Group" training program to prepare student leaders to conduct school-based drug prevention activities. The project will expand to cover 379 Bangkok area schools. Youth groups also participated in the "Life Skills Education For Prevention Of Drugs Project" designed to foster communication, and coping and problem solving skills in school drug prevention.

The Bangkok DEA office worked with the Royal Thai Police in bringing the "Drug Abuse Resistance Education" (DARE) program to Thailand. In November, thirty-three police officers graduated from an intensive two-week course conducted by DARE International. The RTG expects to make the program available to schools nationwide within two years.

The Ministry Of Public Health (MPH) Department Of Medical Services currently has registered 421 drug treatment centers in both government and private hospitals. Most are attached to MPH-run provincial and community hospitals. A longer term program within the health ministry aims to increase the number of treatment facilities and spaces in therapeutic communities. Thailand is in the forefront in the utilization of the therapeutic community and Narcotics Anonymous (NA) models in relapse prevention, although NA is still in its infancy.

Thailand's current drug treatment systems were originally developed in response to opium and heroin addiction and are not appropriate nor effective for ATS treatment. Few health care providers have had any training in addiction, and there are no community based models of addiction treatment that can address the problem. There is an urgent need to develop addiction training and cost effective treatment services to deal with the current methamphetamine epidemic. Fortunately, effective treatment models exist and the Ministry Of Public Health already has detailed plans for community prevention and outreach through its facilities located throughout the country. Alcoholism remains a hidden problem and thus goes largely untreated. The potential benefits from developing a nationwide capacity to provide effective chemical dependency treatment would go

far beyond dealing with the current ATS epidemic. The potential savings from effectively reducing the costs of untreated alcoholism would be great enough to justify investment in addiction training and treatment programs.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. Based on guidelines in the national strategy, U.S. goals and objectives in Thailand are:

to reduce the amount of illicit drugs (principally heroin) available in the United States by assisting Thailand to counter the threat of drug trafficking. Support actions targeting drug traffickers and their organizations.

Assist with programs to implement the newly enacted money laundering legislation, and with developing other legal and enforcement tools, such as a strengthened conspiracy law, and witness protection and plea bargaining programs.

Through continued cooperative investigations, indict traffickers and cooperate in extraditions to the United States. Work toward broadening allowable evidence rules in the Thai legal system to enable more prosecutions and convictions of high-level traffickers in Thailand.

Continue initiatives to reduce and eliminate opium poppy cultivation through eradication and development of viable economic alternatives for farmers.

Assist Thailand in its efforts to maintain and expand its drug abuse awareness, demand reduction, and treatment activities.

Continue to develop the International Law Enforcement Academy (ILEA) to improve regional law enforcement skills and coordination on transnational crime issues.

Bilateral Cooperation. Thailand and the United States have long been partners in counternarcotics criminal investigations. In addition to the mutual legal assistance treaty (MLAT) and the extradition treaty referred to elsewhere in this report, four State Department funded bilateral narcotics assistance project agreements continue in force:

Narcotics Law Enforcement—project is designed to enhance the ability of narcotics law enforcement agencies to meet the threat posed by sophisticated trafficking organizations. This agreement provides commodity and training support for ONCB, PNSB and other Thai law enforcement organizations, and supports efforts aimed at strengthening criminal-justice system institutions and fostering judicial cooperation.

Narcotics Crop Control—USG funding is provided to RTA III, ONCB, BPP, and provincial police (PP) to assist the Royal Thai government in surveying, locating, and eradicating the illicit opium poppy crop in northern Thailand. In addition, U.S. funding supports outreach and development initiatives through the Royal project, RTA III, and Chiang Mai University.

Demand Reduction—the USG assists Thai authorities to improve and expand demand reduction programs and to support increased private sector and NGO involvement in national drug abuse awareness efforts.

Regional Initiatives—the USG supports the RTG leadership role in working with regional states on narcotics control issues. This project includes The International Law Enforcement Academy Bangkok (ILEA).

Cooperation between the U.S. and Thailand in a number of areas not specifically covered by formal agreements also has a long history. DEA works closely with Thai drug agencies in investigating major heroin trafficking organizations and with training to develop Thai drug enforcement capabilities. The U.S. Customs Service and Department of Defense have cooperated with various agencies on anti-smuggling projects. DOD also provides training for selected border patrol and narcotics police units, and has supported the establishment of the regional drug task force centers.

The embassy Public Affairs Section (PAS), formerly the United States Information Service (USIS), arranges visitor programs for consultations on drug control issues and is currently managing the Professionals In Residence Program on Judicial affairs in Bangkok. PAS also organizes video conferences allowing experts in the U.S. and Thailand to consult on narcotics, judicial, and law enforcement issues.

The Road Ahead. Thailand will strengthen its role as a regional leader in drug control and in combating transnational crime. The Kingdom will also cooperate fully with the international community in this regard. In addition to Thailand's new money laundering laws, other useful legislation addressing the issues of plea bargaining, co-conspirator testimony, a witness protection program, and the broadening of evidence rules, could strengthen law enforcement efforts. These types of legislation could either deprive traffickers of the profits of trafficking or facilitate the criminal justice system's prosecution of major traffickers.

Newer areas of concern needing attention are northeastern Thailand, the east, the south, and all maritime areas. Northeast and east Thailand border Laos and/or Cambodia. Thailand must suppress trafficking in these

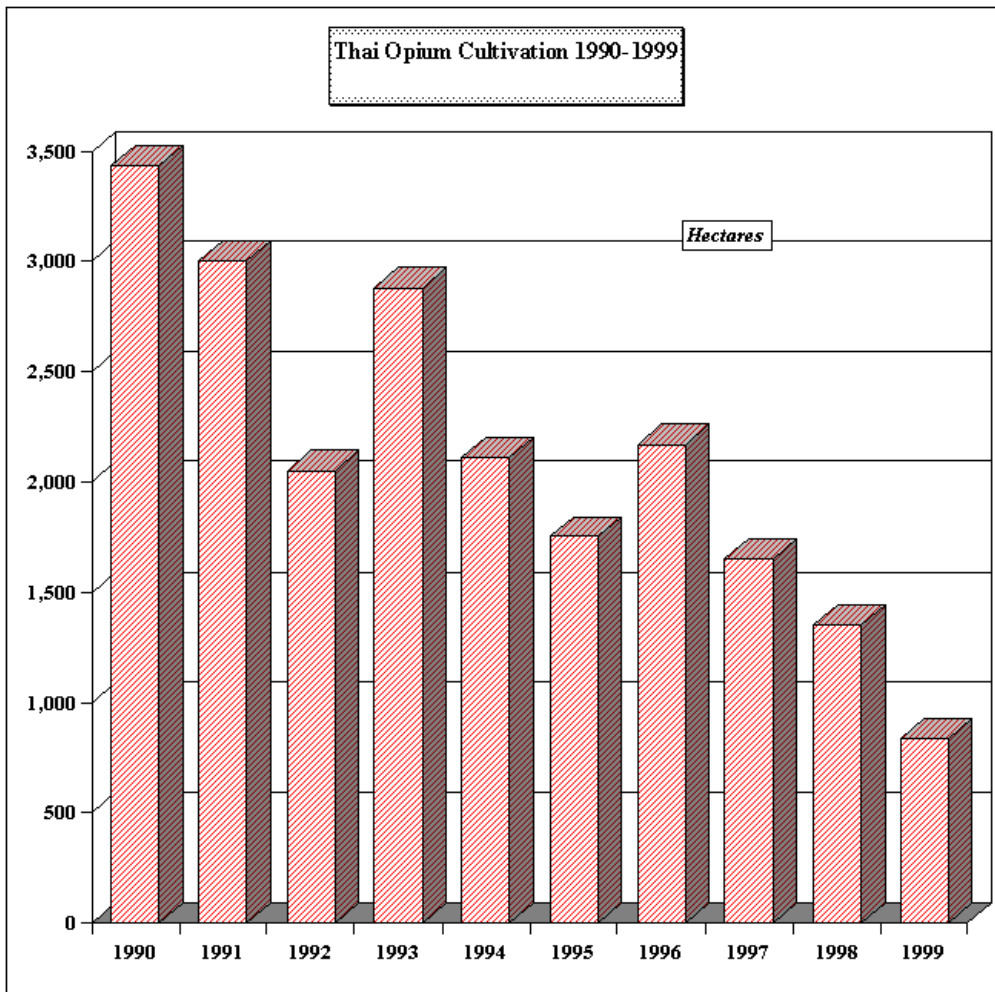
areas if it and its two neighbors are to avoid a southern version of the Golden Triangle, not marked by opiate production but by narcotics trafficking and other lawlessness. The Gulf of Thailand and the Andaman Sea are currently weak in law enforcement. Criminal activity includes narcotics trafficking, general smuggling to avoid taxes, smuggling of illegal aliens, and illegal trade in natural resources. USG funding alone cannot eliminate these problems but the relatively modest USG contribution permits the RTG to quickly address problem areas.

The U.S. and Thailand will continue to cooperate on extradition of fugitives. The office of the Thai attorney general is drafting a new extradition law to update the current 1929 statute. Judicial processes will strengthen as the political system develops. The narcotic crop control program will be maintained. Regional cooperation on crime will greatly expand through networking facilitated by the International Law Enforcement Academy in Bangkok. Thailand will develop systems of internal control and legal and administrative tools to counter the destabilizing impact of corruption and the influence of organized crime. Current drug prevention and treatment activities will develop into comprehensive nationwide programs. Thailand maintains its solid reputation in anti-narcotics efforts, and neighboring countries have been encouraged to follow aspects of the Thai model.

**Thailand Statistics
(1991-1999)**

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Opium									
Potential Harvest (ha)	835	1,350	1,650	2,170	1,750	2,110	2,880	2,050	3,000
Eradication (ha)	808	715	1,050	880	580	0	0	1,580	1,200
Cultivation (ha)	1,643	2,065	2,700	3,050	2,330	2,110	2,880	3,630	4,200
Potential Yield (mt) ¹	6	16	25	30	25	17	42	24	35
Cannabis									
Potential Harvest (ha)	-	-	-	-	-	-	-	-	-
Eradication (ha)	0	0	0	85	80	85	80	85	59
Seizures									
Opium (mt)	0.440	1.500	0.720	0.620	0.920	0.600	2.200	0.600	1.500
Heroin (mt)	0.310	0.530	0.320	0.390	0.690	1.100	2.100	0.992	1.500
Cannabis (mt)	45.25	6.00	9.00	44.00	46.00	71.00	98.00	87.00	54.00
Other Data									
Heroin Labs Destroyed	0	1	3	2	1	0	2	0	5
Meth Labs Destroyed	14	13	19	1	-	-	-	-	-
Narcotics Arrests (thousands)	205	186	158	125	120	102	85	73	75
Opium Consumed (mt)	60.0	60.0	60.0	60.0	60.0	53.0	53.0	53.0	53.0
Heroin Consumed (mt)	4.0	4.0	4.0	4.0	4.0	4.5	4.5	4.5	4.5
Opium Users (thousands)	111	111	111	111	111	35	35	35	35
Heroin Users (thousands)	220	220	220	220	220	220	220	220	220

¹ Figure based on December 1991-February 1992 Opium Yield Study. Average yield / hectare is 11.5 kg. Opium in Thailand is "generally cultivated, harvested and eradicated from October to February each year. To make the data consistent with seizure and "processing data, opium seasons are identified by the calendar year in which they end. For example, the October 1996 to "February 1997 opium season is referred to as the 1997 calendar year season. Data on opium cultivation, eradication, and" production are based on USG estimates. RTG estimates are often lower on cultivation and higher on eradication. Data on opium "cultivation, eradication, and production are based on RTG and USG estimates. RTG estimates are lower on cultivation. In 1995," opium yield was increased from the figure reported in 1994.



VIETNAM

I. Summary.

Growing concern over domestic addiction rates led Prime Minister Phan Van Khai to elevate counternarcotics to Vietnam's second highest domestic priority, after poverty reduction. Among specific actions taken in 1999 were the establishment of special task-force units to combat drug trafficking along the borders, the unveiling of plans to build two large regional treatment centers in Hanoi and Ho Chi Minh city, and creation of a marine patrol force. Along with the stepped-up counternarcotics effort, Vietnam pursued high-profile corruption cases against high-ranking government and party figures to highlight an effort to eliminate official corruption. One focus was the Customs Service, clearly related to the counternarcotics campaign. An intensified effort at poppy eradication, stiffened law-enforcement campaigns against drug traffickers, and tougher prosecution led to a record number of arrests and convictions. Still, despite the enhanced effort, which appears to have reduced consumption somewhat among students, drug use overall continues to rise, especially heroin and methamphetamine abuse. Vietnam continued negotiations with the U.S. on a bilateral counternarcotics agreement, while pursuing mutual legal assistance and other legal agreements with other countries. In December Vietnam's National Assembly approved legislation criminalizing money laundering. In November 1997 Vietnam became a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances.

II. Status Of Country

Vietnam is a major drug-producing country. Opium is grown in some of Vietnam's northern provinces. In 1999, despite an intensified crop-eradication effort, more than 2,100 hectares of land were devoted to opium-poppy cultivation. Vietnam also produces cannabis. Law-enforcement officials reported eradicating 860 of the estimated 1,000 hectares devoted to cannabis cultivation in 1999.

Vietnam is a significant drug transit country. The government of Vietnam is also increasingly concerned about a recent rise in domestic drug consumption, especially among urban youth. Heroin from the "Golden Triangle" transits Vietnam on its way to industrialized countries. Cannabis, along with some heroin and synthetic drugs, passes into Vietnam from Cambodia. Increasing quantities of synthetic drugs (amphetamine-type stimulants) and psychotropic drugs manufactured in China and Burma have been entering Vietnam through its borders

with China and Laos.

The structure of Vietnamese counternarcotics efforts in 1999 continued to be built around the Vietnam National Drug Control Committee (VNDCC). The VNDCC was established by Prime Minister Phan Van Khai on August 25, 1997, and in 1999 was headed by Deputy Prime Minister Pham Gia Khiem. Its mandate is to carry out propaganda programs, to resolve the issue of opium cultivation, to oversee treatment programs, to fight against drug trafficking and crimes, to develop drug laws, and to carry out cooperation with other countries. The organization includes representatives from all major ministries and agencies involved in counternarcotics matters and has a counterpart organization in each province, city, district, and commune of Vietnam.

In September, Vietnamese counternarcotics police raided a heroin refinery lab in the province of Nghe An. Despite a vigorous effort to eradicate poppy cultivation in mountainous border regions through joint crop-substitution and law-enforcement initiatives, some poppy cultivation continues to occur, particularly in the provinces of Yen Bai, Nghe An, Lai Chau and Son La. The Vietnam National Drug Control Committee believes that rural poverty has led peasants in ten mountainous provinces (especially Lai Chau, Yen Bai, and Son La) to revert to opium cultivation. They also believe that Vietnamese opium is exclusively for domestic consumption, primarily among minority group members in the mountainous areas.

The growing availability of drugs passing through Vietnam has led to serious growth in domestic consumption. Alarmed, the government has responded with an augmented prevention campaign in schools, workplaces, and the media warning of the dangers of drug abuse.

Vietnam tightened its control over precursor chemicals by assigning responsibility for monitoring them to the Ministry of Public Security, Ministry of Public Health, and General Department of Customs. No precursor chemicals were detected being smuggled into Vietnam in 1999.

On December 1, 1999, Vietnam's National Assembly approved penal code revisions that criminalize money laundering. The provisions will take effect on July 1, 2000. The new provisions call for penalties of up to ten years imprisonment, multiple fines, and property seizure, among others. The World Bank is working with the government to develop a money-laundering chapter for draft banking legislation.

III. Country Action Against Drugs in 1999

Policy Initiatives. In December of 1998, Prime Minister Phan Van Khai instructed all elements of the government dealing with the drug problem to start an intensified counternarcotics campaign. To bring this about, Khai called on relevant government ministries and agencies to "strengthen their guidance" on drug prevention and control and to step up interagency coordination. These national measures were to be simultaneously adopted by provincial and municipal governments, as well. Mass organizations were to work more closely with authorities on drug questions. Propaganda and education campaigns were launched against drugs, particularly to raise awareness among youth.

During a conference held in August to review the intensive counternarcotics campaign launched in 1998, Prime Minister Phan Van Khai set four immediate tasks to stop abuse and trafficking of illicit drugs: (1) further enhance a sense of responsibility among the people; (2) thorough and comprehensive assessment of what has been done so far to stop the abuse and trafficking of illicit drugs; (3) more efficient methods of detoxification to stop recidivism; (4) more efficient anti-drug forces, including the expansion of international cooperation, especially with border countries. Other targets included stopping drug use among children and students, elimination of poppy crops, tightening control of "pro-drug elements," and heavy penalties for drug crimes. The Ministry of Labor, Invalids, and Social Affairs also announced plans to build two large drug rehabilitation centers in Hanoi and Ho Chi Minh City.

Law Enforcement Efforts. Vietnam strengthened coordination among the police, customs, and border-guard forces. Vietnamese police and security agencies hold regular meetings with their Lao counterparts, including meetings between provincial authorities of border provinces. The UNDCP, foreign governments, and non-governmental organizations maintain four national projects and six subregional projects on drug control cooperation.

From November 1998 to October 1999, law-enforcement forces took 19,010 drug criminals into custody, an increase of 31 percent over the same periods in 1997/98. They seized 51.8 kilograms of heroin, 314 kilograms of opium, and 369 kilograms of cannabis. In August, the VNDCC asked the government to set up special task-force units to combat drug trafficking along Vietnam's borders. September marked the anniversary of the first full year of operations of the Marine Police Force. Since beginning operations in September 1998, the force has conducted dozens of patrols along Vietnam's 3,200-kilometer coastline and over one million square kilometers of claimed continental shelf.

Among the trends in drug crime of primary concern to Vietnam's police are the increasing use of heroin, methamphetamine, and other synthetic drugs by the young. Police first encountered the drug "ecstasy" this year. Also for the first time this year, Vietnamese drug abusers began to drink dangerous substances,

including methamphetamine, amphetamine, ecstasy, and methadone, in addition to smoking, inhaling and injecting them, according to the police.

Another trend in drug crime that deeply disturbs Vietnamese law-enforcement authorities is the increasing possession and use of weapons by drug traffickers to resist arrest. Drug traffickers in Vietnam have seldom before used weapons. Police report encountering weapons in Hanoi, Haiphong, Ho Chi Minh City, Nghe An, and Lang Son during 1999. Police say that in Nghe An, Ha Tinh, Lai Chau, and Thai Nguyen provinces, traffickers in 1999 used their weapons against law-enforcement agents while being chased. When captured, some now resist, threatening suicide or retaliation, or refuse to cooperate upon arrest, all of which are unusual reactions for Vietnamese criminals.

The police began to exercise their authority to seize assets in narcotics cases: in one narcotics case, police seized \$400,000, 78.5 kilograms of gold, 80 million dong (USD \$5,700), and 11 houses.

Accomplishments. Vietnam in 1999 took significant steps towards achieving full compliance with the 1988 UN Drug Convention. The government continued its efforts to reduce opium poppy cultivation. It has intensified cross-border collaboration with neighbors on law-enforcement issues. It is working on counternarcotics legislation to be introduced into the national assembly next year, which will implement all of the remaining provisions of the Convention.

Officials have brought 3,310 drug-related cases with a total of 4,952 defendants to trial. Of these cases, 35 were sentenced to death, 21 to life imprisonment, and many more to lesser sentences. In Vietnam, possession of 100 grams of heroin or 5 kilograms of opium warrants the death sentence.

Corruption. 1999 saw the implementation of a high-profile anti-corruption campaign through public trials of high-ranking government and party figures in narcotics and smuggling cases. Vietnamese Customs was particularly targeted. Along with the show trials, Vietnam's print and broadcast media have focused on official corruption. While the two most prominent trials did not deal directly with the narcotics crimes, they dealt with the integrity of government institutions, such as Customs and the banking system, which are central to the counternarcotics and anti-money-laundering efforts.

In June 1999, Vietnam uncovered the Tay Trang drug trafficking case, which could become the most important in Vietnamese history in terms of the number of arrests. The police are still searching for the alleged kingpin, a senior Customs official at the Tay Trang Customs entry point. The ring he led is believed to be linked to the Vu Xuan Truong syndicate. A prior case of syndicate members involved two Ministry of Public Security officers, among others, both of whom received death sentences. That case was Vietnam's biggest drug trafficking case to date. The case involved significant heroin trafficking from Laos, and clearly required complicity at fairly high levels within Vietnam's Customs Service.

The Tay Trang case is not an anomaly. Corruption remains a problem among some Vietnamese counternarcotics officials, especially within the Department of Customs. Recently, the government replaced the director general of the Customs Department. Although no official reason was given, it was widely believed the change took place to remove the vestiges of corruption at Customs. The appointment of a new Customs director general and the government's recent aggressive efforts against corruption show a high-level will to take action. The record shows that officials committing drug offenses are dealt with severely in Vietnam.

Agreements and Treaties. Vietnam has no extradition, mutual legal assistance, precursor chemical, money laundering, or counternarcotics agreements with the U.S. While most provisions of a bilateral counternarcotics agreement have been agreed upon in negotiations, a few outstanding matters remain to be decided.

Vietnam is a party to the 1988 UN Drug Convention (with reservations to Article 6 on extradition and Article 32, paragraph 2 and 3 on dispute settlement). Work is proceeding rapidly on the draft of a new counternarcotics law, slated to be introduced at the April 2000 session of the National Assembly. The government intends to use the bill as implementing legislation for the terms of the UN Drug Convention.

In 1999, Vietnam intensified its effort to bring about greater international cooperation through bilateral and regional counternarcotics agreements. At present, Vietnam has counternarcotics agreements with five countries: Burma (1995), Thailand, Russia, Cambodia, and Laos (1999). In 1993, with UNDCP support, Vietnam signed a regional counternarcotics Memorandum of Understanding (MOU) with China, Laos, Myanmar, Thailand, and Cambodia. The so-called "MOU States" agreed to cooperate on counternarcotics activities and to work with UNDCP help at coordinating their law-enforcement efforts. Vietnam is currently precluded by statute from extraditing Vietnamese nationals, but it is contemplating legislative changes.

Cultivation/Production. Opium is grown in the uplands and mountainous regions of some northern provinces of Vietnam, notably Yen Bai, Son La, Lai Chau, and Nghe An. Despite a vigorous GVN effort to eradicate poppy cultivation in mountainous border regions through joint crop-substitution and law-enforcement efforts, some poppy cultivation continues. According to government reports, 98 percent of Vietnam's opium crop has been eliminated. Rural poverty has led those peasants who still cultivate in the mountainous provinces to revert to

opium cultivation. The government claims that Vietnamese opium is exclusively for domestic consumption, primarily among minority group members in the mountainous areas. Some opium is sold to drug organizations, which are believed to sell it within Vietnam. It is also possible that the drug organizations transport the illicit narcotics across Vietnam's borders.

Despite intensified eradication efforts, the prospects of good weather led to opium poppies being cultivated over a much larger area. The total area under cultivation in 1999 exceeded the total land used in 1998. In 1999 the total increased by 645 hectares and totaled more than 2,100 hectares devoted to poppy crops.

Some cannabis is grown in Vietnam's southwestern provinces, notably An Giang, Tra Vinh, Long An, and Binh Phuoc. None is believed to grow in central and northern Vietnam. The VNDCC report that Vietnamese police eradicated 860 of Vietnam's estimated 1,000 hectares of cannabis cultivation in 1999. Eradication is primarily done by hand, normally by the peasant farmers themselves, when told by police and military to destroy their illicit crops. Estimates of all drug production in Vietnam are only approximate, since Vietnam lacks the means to perform a scientific survey of its illicit crops.

Drug Flow/Transit. Due, in part, to its proximity to the "Golden Triangle," Vietnam is a major transit point for opium and heroin. Vietnamese narcotics authorities have identified three main trafficking routes through Vietnam. First, heroin and other drugs from the Golden Triangle enter via mountainous border points in Lai Chau province, from which they are transported to Hanoi. Methamphetamine, synthetic drugs, and other illicit substances also arrive in Vietnam at various points along the border with China, destination Hanoi. From Hanoi, drugs are transported to the port of Haiphong for transshipment to The Philippines, Hong Kong and Taiwan, then on to Japan or, in some relatively few cases, the United States.

Second, drugs (especially heroin) from the Golden Triangle pass over the border from Laos into Nghe An province and on to the port of Vinh. Vietnam has designated Vinh as Laos's "port city," so illicit drugs are easily hidden in legitimate merchandise being exported. From Vinh, heroin follows similar routes through The Philippines, Hong Kong and Taiwan, and on to the West from there. Heroin arriving from Thailand passes through various points on the Lao-Vietnamese border, from which it is transported to Ho Chi Minh City. At the port of Ho Chi Minh City, these drugs are transported to Singapore and Malaysia. Vietnam government officials believe some drugs from Ho Chi Minh City are sent to the U.S.

Vietnam's law-enforcement authorities are increasingly concerned about the use of commercial airplanes to transport heroin. They believe increasing quantities of heroin arriving in Hanoi and Ho Chi Minh City by land are then sent overseas by air, including some sent via express mail services.

Domestic Programs (Demand Reduction). Vietnam began a major, new, yearlong, nationwide demand-reduction campaign in November 1998. The campaign has been carried out in 61 provinces and cities. In addition to enhanced law-enforcement efforts, the campaign features propaganda, education, and treatment.

Vietnam has 52 drug treatment centers nationwide, offering patients in many cases a choice of institution-based or community-based treatment. The rate of recidivism is high, however, considered to be 90 percent nationwide. In 1999, Vietnam began to emphasize the importance of family-and community-based in-treatment efforts. In 1999 Vietnam also began to build two major treatment centers, one in the north, one in the south. When completed, they will become the regional drug-treatment centers for their respective regions.

There are about 97,000 registered drug addicts nationwide. While the number of addicts is rising, addiction among students decreased somewhat this year due to close cooperation among local police, schools and parents. Among the registered addicts are 8,000 prisoners. Police attribute the rise in the number of registered addicts in part to improved detection techniques. It is estimated that only about 10 percent of registered addicts have received treatment.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The key U.S. policy objective for Vietnam is the negotiation of a bilateral counternarcotics agreement. Most of the draft agreement's provisions have been finalized, and the government frequently expresses its desire to conclude the agreement. Both sides hope for final agreement in 2000. A permanent DEA office will open in Hanoi in February 2000. The U.S. currently funds training for Vietnamese law-enforcement officers to participate in courses at the International Law Enforcement Academy (ILEA) in Bangkok as well as bilateral training programs. The U.S. also contributes indirectly to assistance to Vietnam through its contributions to the UNDCP. Following signature of a bilateral counternarcotics agreement, the U.S. hopes to provide enhanced training, some equipment, and other forms of assistance to Vietnam. The U.S. also hopes to offer assistance to Vietnam on drafting a new counternarcotics law and to begin the process of negotiating a bilateral mutual legal assistance agreement.

Bilateral Cooperation. Despite the absence of a formal counternarcotics agreement, Vietnamese authorities cooperated fully with U.S. Embassy and U.S. law-enforcement agencies and courts. There is a regular exchange of criminal information. Vietnamese law-enforcement agencies eagerly participate in U.S. training programs,

particularly in courses at ILEA. National and provincial law-enforcement agents are relatively accessible and cooperative with embassy officers in meetings.

The Road Ahead. With Vietnam being acutely aware of rising domestic drug consumption and seeking higher levels of international cooperation, Vietnam will likely significantly extend its law-enforcement and legal cooperation with the U.S. Both the U.S. and Vietnam look forward to completing the bilateral counternarcotics assistance agreement, which provides the cornerstone for cooperation on narcotics matters. The U.S. has a good deal of experience in narcotics legislation, crop substitution, demand reduction, education, eradication, and law-enforcement techniques, and is ready to share its experience with Vietnam through training and other forms of assistance.

Vietnam Statistics (1991-1999)

	1999	1998	1997	1996	1995
Opium¹					
Potential Harvest (ha)	2,100	3,000	6,150	3,150	-
Eradication (ha)	-	-	-	-	-
Cultivation (ha)	2,100	3,000	6,150	3,150	-
Potential Yield (mt)	11	24	45	25	-
Seizures²					
Opium (mt)	-	-	0.039	0.831	1.418
Heroin (mt)	-	-	0.011	0.054	0.031
Cannabis (mt)	-	-	7.074	0.548	0.574
Arrests	18,000	18,000	14,000	6,615	3,649
Consumption³					
Opium (mt)	18	18	18	18	18
Opium Users	185,000	185,000	185,000	185,000	185,000

¹ Cultivation data from USG estimates based on aerial imagery.

² Data is from UNDCP, based upon statistics from the Vietnamese government.

³ Based upon estimates by Vietnam drug control authorities.

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Europe and Central Asia

Albania

I. Summary

Albania continues to be used as a transit point for heroin, cocaine and marijuana due to its strategic location, weak police and judicial systems, and lax border controls. Heroin is typically routed through the "Balkan Route" of Turkey–Bulgaria–Macedonia–Albania and on to Italy and Greece. Drug abuse is not a major problem but is increasing. Largely in response to international pressure and assistance, the government has begun confronting criminal elements more aggressively, but lack of resources and corruption make it an uphill battle. The government has drafted some narcotics legislation in an effort to strengthen the anti-drug unit established in 1998 under the Ministry of Public Order. Albania is not a party to the 1988 UN Drug Convention.

II. Status of Country

The government continues its efforts to build security and stability throughout Albania. One of its major accomplishments this year was the establishment of law and order in areas that had been almost totally out of central government control since 1997. The judiciary is engaged in improving the legal system and developing law enforcement skills, though it remains weak and subject to corruption.

The current government of Prime Minister Ilir Meta, in power since October 1999, has begun to implement commitments to crack down on organized crime. The Albanian military and police work closely with the Italian police and coastal patrol organizations to shut down smuggling runs of illegal immigrants, drugs and other contraband across the Adriatic to Italy.

Plagued by severe unemployment, crime, and lack of infrastructure, the Albanian public has little interest in the problem of drug abuse. There are no independent organizations that compile data on drug use in Albania, nor are significant government assets dedicated to tracking the problem. The limited press and media coverage on the subject speculates that drug use, especially among adolescents in cities, is on the rise. There are no special treatment centers for drug addicts.

III. Country Action Against Drugs in 1999

Policy Initiatives. The government recently drafted two laws, inspired in part by the 1998 UN Drug Convention, that call for national coordination of policies regarding use and trafficking of narcotics as well as establishing a framework to improve criminal investigations in drug-related cases, but no date was set for parliament to consider these drafts. The government is also taking an active role with its Balkan neighbors bilaterally and in regional initiatives to combat organized crime. Albania is an active participant in the Stability Pact and the Southeastern European Cooperative Initiative (SECI), and plans to participate in SECI's regional anti-crime center in Bucharest.

Accomplishments. Albanian police provided evidence to U.S. authorities in Albania in 1999 on a U.S. narcotics case in which the drugs were sent through Albania to the U.S. In 1999, the government cracked down on cannabis production in 44 villages across 11 districts, mostly in southern Albania. Anti-drug authorities do not have the capacity to determine crop size and yields, but estimate that police destroyed 91 thousand plants, or more than 70 percent of the local cannabis crop. Police report they destroyed 5 marijuana processing labs.

Law Enforcement Efforts. Authorities report that in 1999, police arrested 417 persons accused of drug trafficking and seized more than 7 kilograms of heroin, 2 kilograms of cocaine, 4500 kilograms of marijuana, and 13 liters of hashish oil. Police efforts to combat distribution of illicit narcotics may be increasingly effective since the government now has greater authority over areas previously out of their control. In cooperation with Italian authorities, Albanian authorities have made some progress in interdicting narcotics smugglers at sea.

Corruption. Corruption remains a deeply-entrenched problem. Low salaries and social acceptance of graft

make it difficult to combat corruption among police, magistrates, and border officials.

Agreements and Treaties. Albania has an extradition treaty with the U.S. dating from November 14, 1935. Although it is not a party to any of the UN narcotics conventions, Albania is attempting to pass legislation consistent with the goals and objectives of the 1988 UN Drug Convention, as stated above. Albania does not have any counternarcotics agreements with other countries.

Cultivation and Production. According to authorities in the anti-drug unit, cannabis is the only drug grown and processed in Albania, and is typically for consumption or sale in Turkey and Greece. They also report that cannabis production diminished in 1999 because last year's huge supply exceeded demand.

Demand Reduction. Drug abuse is a comparatively new problem in Albania and the government and Albanian society have been slow to address it. Local and national authorities do not believe the problem is particularly widespread, owing both to traditional cultural norms and low levels of discretionary income.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Albanian authorities cooperated fully with U.S. authorities in 1999 on law enforcement and transit issues, although few of these cases involved drug issues. Only one course was provided by the U.S. in 1999 and that was an 8-week counternarcotics course at the International Law Enforcement Academy in Budapest, Hungary. Additional courses for law enforcement and judicial infrastructure development were provided.

The Road Ahead. The U.S. will continue to encourage Albania to crack down on illegal drug trafficking and use, offer law enforcement assistance, and support legal reform. While no specific counternarcotics training has been programmed for FY2000, U.S. assistance will increase to provide additional guidance and training to law enforcement and judiciary bodies, including the assignment of a legal advisor.

Armenia

I. Summary

Armenia is not a major drug-producing country, and domestic consumption is relatively small. The Government of Armenia (GOAM), recognizing its potential as a transit route for international narcotics shipments, is meanwhile attempting to improve its interdiction ability. The Armenian parliament is presently considering legislation which would strengthen the Interior Ministry's mandate to combat drug trafficking. Because of limited government resources, however, counternarcotics programs emphasize prevention with little funding for treatment. In 1993, Armenia ratified the 1988 UN Drug Convention.

II. Status of Country

Due to its geographical position at the Caucasus crossroads between Europe and Asia, Armenia has the potential to become an emerging transit point for international drug trafficking. Armenia is presently a secondary trafficking route for drugs because of limited transport between it and neighboring countries. Armenia's borders with Azerbaijan and Turkey remain closed due to the Nagorno-Karabakh conflict, but when these borders open, drug transiting could increase significantly. GOAM's immediate concern is to begin to prepare its law enforcement capabilities for this situation.

Drug abuse does not constitute a serious problem in Armenia. The local market for narcotics, according to the Interior Ministry, is not large and the main drugs of choice are opium and cannabis. The Interior Ministry reported that 40.6 kilograms of cannabis and 1.99 kilograms of opium were confiscated in 1999. "Hard" drugs, like heroin and morphine, are the drugs of choice for an estimated 10 percent of drug addicts in Armenia. Heroin first appeared in the Armenian drug market in 1996, and since then there has been a small upward trend in heroin sales. The Interior Ministry confiscated 180 grams of heroin during the first nine months of 1999, as compared to 63 grams during the same period in 1998. The average price for one gram of heroin in the Armenian market is \$100-200.

III. Country Actions Against Drugs in 1999

Policy Initiatives. A draft law on narcotic drugs, psychotropic substances and components has been prepared by the Interior Ministry, which would allow it to regulate traffic in narcotic drugs and precursor substances and would give the Ministry a clear lead-agency mandate for combating drug trafficking. The draft is currently undergoing legal clearance. Once approved, it will be sent to the parliament. The new Armenian draft criminal code includes a statute that for the first time makes money laundering a criminal offense. The draft criminal law is anticipated to pass its third and final reading in parliament in 2000. The Interior Ministry has also drafted a decree for the establishment of a joint committee to update the classification of drugs and to introduce stricter control over licit production, sale, and distribution of pharmaceutical drugs of a psychotropic nature. The decree is currently undergoing interagency clearance.

Accomplishments. According to the Interior Ministry, several tons of wild cannabis hemp and small amounts

of poppy were eradicated by the police in 1999.

The Interior Ministry reports that 1105 drug-related crimes and offenses were committed in 1999. Ministry statistics for the first nine months of 1999 further reflect that there were 401 arrests for trafficking of drugs and psychotropic substances.

Law Enforcement Efforts. In 1999, the Interior Ministry began to deploy joint teams of Armenian police and customs representatives at each customs post and checkpoint. The Ministry obtained fifteen drug-sniffer dogs from Western Europe for this purpose.

Corruption. Although corruption is rampant in Armenia, there were no cases reported of government officials being involved in drug-related corruption in 1999.

Agreements and Treaties. Armenia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 Convention on Psychotropic Substances. Armenia is a signatory to the 1992 Kiev and 1996 Dushanbe narcotics control assistance agreements of the NIS countries. In 1999, Armenia, Georgia and Iran signed a trilateral agreement on cooperation to combat drug trafficking. Armenia has also signed bilateral agreements on cooperation against illicit traffic in narcotics and psychotropic substances with the Customs Service of Turkmenistan, Customs Committee of Georgia, and the Customs Committee of Tajikistan.

Cultivation and Production. Cannabis (hemp) and opium poppy grow wild in northern areas of Armenia, particularly in the Lake Sevan basin and in some mountainous areas. No illicit laboratories producing synthetic drugs were discovered in Armenia in 1999.

Drug Flow/Transit. Transit of illegal drugs is recognized as the most serious concern for the GOAM, however, no estimates of the total amount of drugs transported through Armenia are available. The main drug routes run between Iran, Russia, and Ukraine and almost all heroin brought to Armenia originates from those countries. The Interior Ministry estimates that 55 percent of drugs are smuggled into Armenia by trucks and other motor vehicles and 43 percent by air.

Demand Reduction. There are no reliable statistics on the number of drug addicts in Armenia. However, the Interior Ministry estimates the number of drug addicts in Armenia at about 20,000. Slightly over half of these are believed to be unemployed, 20 percent are students, and 7 percent serve in the military. The only health agency responsible for treatment of drug addicts is the state-funded narcotics dispensary. Established in 1976, this agency has barely kept its doors open in the last few years due to an almost complete lack of funding. According to narcotics dispensary officials, fewer than 25 drug addicts were treated in the hospital during 1999.

In 1999, the Interior Ministry also registered an increase of drug abuse among women, although statistics were not released. A recent opinion poll carried out by an Armenian newspaper revealed that one out of every eight teenage boys and one out of 42 teenage girls had used a narcotic drug at least once.

The Armenian Emergency Management Administration, together with the Interior Ministry, produced four documentaries on drug abuse as part of an "early intervention" campaign. Presentations of the documentaries were held in all higher educational institutions, including the medical university.

Nevertheless, demand reduction is one of the most serious concerns of health authorities, due to poor financing, a lack of communication with remote rural areas, and a lack of interest in "preventative actions" on the part of local NGOs.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. New venues of cooperation were established between the U.S. and Armenian law enforcement agencies through the U.S. Legal Attaché in Kiev and the DEA Attaché from Ankara. At the request of the Counternarcotics Department of the Ministry of Interior, in April 1999, a U.S. Defense Department narcotics detection dog-training team came to Armenia to work with Armenian narcotics dog-handlers to improve the GOAM's narcotic interdiction capability. An Armenian representative also participated in a U.S. counternarcotics dog-training seminar in August 1999. In addition, Armenian officials have participated in U.S.-funded training sessions at the International Law Enforcement Academy (ILEA) in Budapest, Hungary.

In 1998, a Department of State funded U.S. Treasury advisory team launched a program on combating money laundering and economic crimes for Armenian law enforcement officers and judges. Drug enforcement was one of the aspects of the program. In 1999, this program was expanded to address corruption and legislative issues.

In April 1999, a team of experts from the Bureau of Alcohol, Tobacco and Firearms (ATF) conducted a needs assessment of Armenia's forensic laboratories, with the goal of providing equipment and training for Armenian

forensic practitioners.

The Road Ahead. The USG will initiate discussions with the Armenian government regarding training and equipment to improve its efforts on interdiction of contraband smuggling including narcotics. Also, the Armenian government will be encourage increase its cooperation with neighboring countries in a regional effort to control drug trafficking through the Caucasus.

Austria

I. Summary

Austria is primarily a transit country for drug trafficking from the Balkans to western European markets. Illegal drug consumption is not a severe problem in Austria, and there is no significant production or cultivation of illegal substances. Organized drug trafficking is performed largely by non-Austrian criminal groups. New investigative tools implemented in 1998 have helped contain the growth of this crime. While not considered an important regional financial center, offshore tax haven or banking center, Austria remains an attractive site for drug-related money laundering. The government continues to implement measures to narrow avenues for money launderers and facilitate asset seizure and forfeiture. Cooperation with U.S. authorities is excellent; however, Austrian counternarcotics law-enforcement authorities acknowledge considerable underfunding and lack of personnel to do their job. Austria ratified the 1971 and 1988 UN drug conventions in 1997.

II. Status of Country

There has been no change in overall trends regarding organized drug crimes in Austria since 1998. Although not a significant producer of illicit drugs, Austria remains a transit country for drug-related organized crime along the major European drug routes. Foreign-based drug crimes by organized groups continued to grow in Austria in 1999. A November 1999 government report maintains that up to 30 percent of serious crimes in Austria in 1999 can be traced to organized crime groups, most of which originate in the NIS. Despite limited appeal of anonymous passbook savings accounts for criminal purposes, possibilities for money laundering through other, unmonitored transactions remain.

III. Country Action Against Drugs in 1999

Policy Initiatives. There were no fundamental changes in the legal, political and organizational framework to fight drug use and drug-related crime in 1999. Key legislation that became effective in 1998 (Narcotic Substances Act) focuses on therapy for drug users but maintains severe penalties for drug dealers. While drug dealers may face up to 20 years in prison, first-time users of cannabis may avoid criminal proceedings if they agree to therapy.

A 1998 law allows for technical law enforcement surveillance of persons strongly suspected of having committed crimes that are punishable by terms of imprisonment of up to 10 years. These regulations have facilitated the surveillance of persons for whom police have evidence leading to "substantial suspicion" that they belong to a criminal organization. The Ministry of the Interior plans to increase the use of surveillance techniques in the future.

A "police powers law," effective in 1999, authorizes investigators to obtain personal data from private telephone companies in clearly defined situations, including suspicion of organized crimes. A proposal to allow police to collect and analyze information about likely extremist/terrorist groups without judicial approval and prior to the establishment of "substantiated suspicion" has been repeatedly postponed, but will be reintroduced in the 1999-2000 legislative session.

Accomplishments. With the help of new legal tools (see policy initiatives section) and the support of the DEA Country Office, police arrested over 100, mostly African, drug dealers in May and September 1999. According to Austrian authorities, the suspects formed part of a Nigerian drug cartel involved in drug dealing and money laundering in Austria. Investigators believe the dealers received the drugs, mainly cocaine and heroin, from South America and Asia. Daily turnover in Austria from this drug trade was estimated at around U.S. \$ 40,000. Approximately half of the arrested drug dealers, including the key suspect, were released due to insufficient evidence. Four have been convicted and the rest await trial.

Law Enforcement Efforts. In 1998 (1999 figures not yet available), the overall number of domestic drug-related criminal offenses decreased by 7 percent to 16,624 compared to the previous year. Serious drug-related crime dropped by 19 percent to 2,198 over the same period. However, authorities still maintain that one out of two criminal offenses in Austria is drug-related. While the number of seizures dropped slightly (5 percent) to 6,849 in 1998, the amount of confiscated illegal drugs rose by 9 percent to over 1,700 kilograms.

Corruption. Austrian ratification of the OECD anti-bribery convention is complete. The ratification instrument was deposited with the OECD in Paris on May 19, 1999. Implementing domestic legislation has been in place since October 1, 1998. The GOA's public-corruption laws recognize and punish the abuse of power by a public official. Tax deductibility of bribes and any gray market payments are no longer possible in Austria. No records

exist yet to assess the degree of enforcement. There were no cases pending at year's end that involve any bribery of foreign public officials. The U.S. Government is not aware of any high-level Austrian government officials' involvement in drug-related corruption.

Agreements and Treaties. The U.S.-Austrian Mutual Legal Assistance Treaty entered into force on August 1, 1998. The U.S. and Austria exchanged instruments of ratification on October 27, 1999, for a new U.S.-Austria extradition treaty. The treaty entered into force on January 1, 2000, replacing a 1930 extradition treaty and a 1934 supplementary extradition convention. The new treaty is a modern dual criminality treaty, i.e., it no longer lists specific extraditable offenses, but makes extraditable all criminal offenses that are prosecuted in both countries and carry a penalty of more than one year or a residual penalty of more than three months.

Austria is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 Single Convention on Narcotic Drugs and its 1972 protocol. It ratified the Council of Europe Convention in 1997 and the Europol convention in 1998.

Vienna is the seat of UNDCP, and Austria is a UNDCP major donor. The city of Vienna and various Austrian ministries co-sponsored a UNDCP training program in Kazakhstan in October 1999. Vienna is a co-sponsor of the "UN-Vienna Civil Society Award"-- a U.S. \$100,000 prize given to individuals and organizations fighting drug abuse and organized crime. In July 1999 UN Secretary General Annan awarded the prize to organizations from India, Uganda, Japan, and Mexico. Austria participates in the World Health Organization, the Dublin group within the EU, the Financial Action Task Force on Money Laundering (FATF) and the Council of Europe's "Pompidou Group." Austria supports the Southeastern Europe Cooperative Initiative (SECI) Anti-Crime Center in Bucharest. In December 1999, Austria earmarked U.S. \$ 20,000 for future vocational training projects in Bolivia, keyed to combat illicit cultivation of drugs.

Cultivation. The U.S. Government is not aware of any significant cultivation or production of illicit drugs in Austria.

Drug Flow/Transit. Traditionally, the routes of the Balkan drug path have been the major venues for illegal import/transit of southwest Asian heroin through Austria. The illicit trade is carried out mainly by Turkish groups, more recently also by traffickers from Albania and Macedonia, followed by nationals of countries of the former Yugoslavia and by Romanian and Bulgarian citizens. As in previous years, traffickers continued to use nearby Bratislava/Slovakia as one of the temporary depositories for heroin. Cocaine is imported by couriers of South American drug cartels, but also African traffickers, who increasingly rely on eastern European airports.

Domestic programs and demand reduction. Austrian authorities view drug addiction as a disease rather than a crime, a fact reflected in 1997 drug legislation and in related court decisions. Recent years have seen a growing trend toward an "integrative view" in drug policy, with special emphasis on the prevention of social marginalization of drug addicts. Demand reduction puts emphasis on primary prevention, drug treatment and counseling, as well as "harm reduction." The use of heroin for therapeutic purposes is generally not allowed. Primary intervention extends from preschool to secondary-school levels and relies on educational campaigns inside and outside school fora.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Although Austria has no specific bilateral narcotics agreement with the U.S., cooperation with U.S. investigative efforts is excellent. The Austrian Ministry of Interior has announced plans to establish a liaison office at the Austrian Embassy in Washington, D.C., to handle bilateral issues involving all forms of crime, including illegal narcotics.

Road Ahead. The U.S. will continue to support Austrian efforts to create more effective tools for law enforcement. Within the context of U.S.-EU initiatives, promoting a better understanding of U.S. drug policy will remain a priority for the U.S.

Azerbaijan

I. Summary

Azerbaijan is located along a drug transit route running from Iran and Central Asia, north into Russia and west into Western Europe. Consumption and cultivation of narcotics are at low but increasing levels. During 1999, the main drugs seized were opium and cannabis. Section 907 of the Freedom Support Act has precluded the funding of U.S. counternarcotics assistance in 1999. Azerbaijan is a party to the 1988 UN Drug Convention.

II. Status of Country

Azerbaijan's main narcotics problem is the increased transit of drugs through its territory resulting from the disruption of the "Balkan route" due to regional ethnic conflicts in several countries of the former Yugoslavia. Narcotics from Afghanistan and South Asia enter from Iran or cross the Caspian Sea from Central Asia and

continue on to markets in Russia and Europe. Azerbaijan shares a 700-km frontier with Iran, but its border control forces are insufficiently trained and equipped to patrol it effectively. Iranian and other traffickers are exploiting this situation. Domestic consumption is growing with over 12,000 persons registered in hospitals for drug abuse in Azerbaijan. The actual level of drug abuse is estimated to be many times higher. Government authorities suspect that persons displaced by the Nagorno-Karabakh conflict have been drawn into drug trafficking out of economic necessity. The Government of Azerbaijan continues to claim that the Armenian occupied areas of Azerbaijan are used for drug cultivation. The Azerbaijan government also maintains that narcotics are transported across the approximately 100 km of Azerbaijan's border with Iran that is under Armenian control.

III. Country Action Against Drugs in 1999

Policy Initiatives. The government recently created a "State Committee on Drug Control" headed by Deputy Prime Minister Ali Hasanov. This committee has been charged with implementing United Nations General Assembly resolutions relating to drug control. The Minister of Education and the Minister of Youth and Sports are currently designing a new program for the year 2000 to treat drug addicts. In May, the Ministry of Internal Affairs initiated a pilot program in the southern portion of the country, along the border with Iran, to organize local counternarcotics police officials to work closer together across local jurisdictions.

Accomplishments. The United Nations Narcotics Drug Control Program has just completed a program of technical counternarcotics assistance in Azerbaijan. A new narcotics control law entered into force in August 1999. In November a new "Law on the Police" entered into force, which provides legal authority for the operational activities of police officials. Parliament is currently debating a new "criminal code" which will authorize the police to retain not only the assets they seize, which have been used in the commission of a crime, but also assets which have been gained as a result of criminal activity.

Law Enforcement Efforts. There were 1,705 drug-related arrests during the first nine months of 1999. Police lack basic equipment and have little experience in modern counternarcotics methods. Border control facilities on the border with Iran are inadequate to prevent narcotics smuggling.

Corruption. Corruption permeates the public and private sectors. Government officials including the president and prime minister have acknowledged the gravity of the problem, but have taken no significant concrete action. Current legislation has proven inadequate to address police and judicial corruption.

Agreements and Treaties. Azerbaijan is a party to the 1988 UN Drug Convention, the 1971 Convention on Psychotropic Substances, and the 1961 UN Single Convention. Azerbaijan signed a protocol of intent on counternarcotics cooperation with Iran in 1996. There is no extradition or mutual legal assistance treaty in effect between the U.S. and Azerbaijan.

Cultivation and Production. Cannabis and poppy are cultivated illegally, mostly in southern Azerbaijan. During the first ten months of 1999, law enforcement authorities discovered and destroyed about 388 tons of cannabis and about 45 kilos of potential opium gum, which were under cultivation.

Drug Flow/Transit. Opium and poppy straw originating in Afghanistan and South Asia transit Azerbaijan from Iran, or from Central Asia across the Caspian Sea. Drugs are also smuggled through Azerbaijan to Russia, then on to Europe. For example, Azerbaijan traffickers smuggle Afghan heroin from Azerbaijan to the Baltic countries. Azerbaijan cooperates with Black Sea and Caspian Sea states in tracking and interdicting narcotics shipments, especially morphine base and heroin. Caspian Sea cooperation includes efforts to interdict narcotics transported across the Caspian Sea by ferry. Law enforcement officials report they have received good cooperation from Russia, but have encountered considerable reluctance from Iran to assist in counternarcotics efforts.

Demand Reduction. Opium and cannabis products are the most commonly used drugs. The Government of Azerbaijan has begun education initiatives directed at curbing domestic drug consumption.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. law enforcement exchange of information with Azerbaijan has increased since 1998. However, no counternarcotics programs were initiated because Section 907 of the Freedom Support Act prohibits such assistance to the Government of Azerbaijan.

The Road Ahead. Without legal authority to provide U.S. counternarcotics assistance to the Government of Azerbaijan, a key strategic partner in improving regional stability in the Caucasus, the U.S. is only able to engage in piecemeal bilateral counternarcotics cooperation with Azerbaijan.

Belarus

I. Summary

The economic, political and geographical situation of Belarus gives it the potential to become a major drug

transit and production site. Economic conditions have sharply deteriorated in 1999. The Belarusian government lacks both the legislative framework and the financial resources to combat drug trafficking. Belarus' location between Russia and the West, its good rail and road transportation, and a customs union with Russia that eliminated internal borders between the two countries has facilitated smuggling of contraband. Belarus considers itself a filter of illegal immigration and contraband materials, but enforcement of its border controls is uneven. Belarus is a party to the 1988 UN Drug Convention.

II. Status of Country

According to Government of Belarus (GOB) statistics reported at a February 1999 Commonwealth of Independent States (CIS) crime and drug conference held in Minsk, the GOB attributes 2.1 percent of all reported crimes to illicit drug trafficking. Crimes registered included: stealing narcotic and strong action substances; organizing or maintaining drug dens for using drugs; and forging medical documents with the aim of procuring drugs. Stringent internal security measures control organized crime while irregular importation by selected GOB state agencies are official sanctioned. Belarus has regional and bilateral law enforcement agreements against organized crime and drug trafficking. However, cooperation with neighboring countries is weak.

III. Country Actions Against Narcotics in 1999

Policy Initiatives. Responsibility for investigating and discovering narcotics-related crime is divided among the Ministry of Internal Affairs, National Security Service (KGB), Customs Committee, Border Guards, and Ministry of Health. An interagency commission for combating crimes and drug abuse is charged with coordinating the activities of the above listed agencies as well as state committees, public associations, and international organizations. The GOB has periodically announced campaigns to combating organized crime and drug trafficking, however, the level of interdicted smuggled narcotics or drugs confiscated from domestic seizures has been marginal.

Law Enforcement Efforts. In 1999, there were no significant arrests or seizures regarding drug trafficking reported. Police statistics indicate that during 1999, they eradicated small plots of poppy (40 acres), hemp (4 acres), and cannabis (.5 acres).

Corruption. Corruption among state enterprise directors is a serious problem affecting the economy, especially firms engaged in officially sanctioned importation alcohol and tobacco, which is then smuggled into Russia. Although several individuals have been arrested for corruption, their cases appear to be politically motivated.

Treaties and Agreements. Belarus is a party to the 1988 UN Convention, the 1961 UN Single Convention and the 1972 Protocol thereto, and the 1971 UN Convention on Psychotropic Substances. The GOB has signed an agreement on drug control assistance with Italy, and has also signed interstate treaties on assistance with Lithuania and China. Belarus is a party to the CIS convention on legal assistance and cooperation on civil, family, and criminal cases. The USG has concluded a Customs Mutual Assistance Agreement (CMAA) with the Government of Belarus. Belarus is a member of Interpol; however, Belarusian law has no provision for extradition.

Cultivation and Production. Domestic cultivation of drug crops is minimal. Belarus does however have major chemical production facilities, much of which are lying idle. There is presently no legislation in Belarus dealing with precursor chemicals. A variety of laboratories have the technical capabilities for the production of synthetic narcotics, but Belarus law enforcement does not have resources for sophisticated investigation of clandestine production.

Drug Flow/Transit. Belarus has good rail and road connections running east to Russia, west to Poland, north to the Baltics, and south to Ukraine. Incidents of drug transportation destined for Poland and Germany have increased dramatically as a result of the customs union that eliminated internal borders between Belarus and Russia. Some illegal immigrants arriving in Belarus attempt to finance travel to the West through narcotics smuggling.

Demand Reduction. Most Belarusian addicts use products made of opium poppy, poppy oil, or cannabis. Use of synthetic drugs, heroin, cocaine, barbiturates and other "hard" drugs is small but slowly increasing. It is estimated that the number of latent addicts in the country exceeds GOB official estimates by a factor of ten. No national drug abuse prevention strategy has been formulated in Belarus. The main emphasis is on treatment of current drug addicts, while only limited efforts are devoted to preventative and educational programs. Treatment for drug addicts is generally performed in psychiatric hospitals, either through arrest or self-enrollment. While the objective of these programs is to achieve detoxification and physical stabilization, knowledge is lacking on how to further assist addicts with psychological counseling and social rehabilitation.

IV. U.S. Policy Initiatives and Programs

Bilateral Initiatives/The Road Ahead. Since 1997, the USG has conducted a policy of selected engagement toward the GOB because of the latter's suppression of democratic activities and its violation of human rights. No direct assistance to the Belarus state sector, including law enforcement, has been provided by the USG since that time and none is anticipated in the future, until such time as the democratic and human rights situation in Belarus improves.

Belgium

I. Summary

The Kingdom of Belgium is not a significant producer of narcotics or precursor chemicals used in the production of illicit narcotics; however, it is a major trader in chemicals and is frequently used as a transit country for precursor chemicals destined for South America. Narcotics traffickers continue to exploit Belgium's large port facilities, transportation infrastructure, and central location in Western Europe for transshipment of illicit drugs. Belgium experienced, through 1999, a radical increase of trafficking of MDMA (Ecstasy). Belgium is a party to the 1988 UN Drug Convention.

II. Status of Country

Belgian law enforcement agencies have observed a continued increase in drug trafficking through Belgium from Asia and the Middle East via the Former Soviet Republics, primarily shipped via container through the well-established trafficking networks based in the seaports of Antwerp and Zeebrugge. Combating MDMA (Ecstasy) trafficking has assumed a higher priority. Ecstasy tablets are manufactured at clandestine labs on both sides of the Netherlands border, and carried via express mail companies, air-freight or couriers to other areas of Europe, and, increasingly, to the U.S. Ecstasy transiting Brussels through Zaventem airport is mainly controlled by Israeli trafficking organizations based in the Netherlands and in Antwerp, Belgium. Belgium is cooperating with U.S. law enforcement to disrupt this route for illicit drug trafficking.

Cannabis resin (hashish) is the most widely distributed and used illicit substance in Belgium, but heroin abuse produces the most important health and social problems, including drug-related crime. Belgian police continue to voice concern over the use of ecstasy and amphetamines by young people and over the collateral health ramifications.

III. Country Action against Drugs in 1999

Policy Initiatives. In 1998, the Government adopted a plan to re-organize the police forces, currently scheduled for implementation by April 2001. At the federal level, the plan will integrate the Gendarmerie and the Judicial Police into a police force to head major criminal investigations, including significant national and international narcotics investigations; the plan also provides for a new anti-corruption service for this federal police force. At the local level, the plan will merge Gendarmerie with Municipal Police.

The Ministry of Justice maintains drug liaison offices in 13 foreign cities (covering 33 countries), staffed by either Judicial Police or Gendarmerie officers, in Bangkok, Bogota, the Hague, Istanbul, Madrid, Moscow, Paris, Rabat, Rome, Vienna, Warsaw, Washington, and Wiesbaden. The Rabat and Bangkok offices opened in 1999. In August, a new Belgian liaison officer assumed the post in Washington, after a nine-month vacancy in the position.

Accomplishments. In 1999, Belgium entered into bilateral police cooperation agreements with Bulgaria, Hungary, and Romania, which are comprehensive in nature and provide a framework for cooperation on narcotics matters. Parliament passed new legislation on organized crime that defines a "criminal organization" and criminalizes membership in such an organization; it also endorses the use of undercover operations and wiretaps by law enforcement agents.

Law Enforcement Efforts. Belgian law enforcement authorities pro-actively investigate individuals and organizations involved in illegal narcotics trafficking into and through Belgium. The law enforcement efforts of the Gendarmerie currently focus on major trafficking organizations, particularly those involved in trafficking of heroin and, most recently, those involved in MDMA (Ecstasy). In 1999, Belgium fully met the objectives of the 1988 UN Drug Convention.

Belgian authorities initiate and conduct investigations that are generally effective. Interdiction efforts by Belgian Customs Authorities at Antwerp and Zeebrugge are frequently successful despite insufficient resources and manpower. Customs officials report that a five-man team of inspectors is responsible for all port activities involving drugs, while on a daily basis three to four thousand containers are loaded and unloaded at the port of Antwerp alone. The inspection team has the capacity to search five to 10 containers per week. Customs also reports increased activity involving the ships' crew members which might indicate, for example, smuggling of smaller quantities of drugs by individual crew members or larger operations in which crew members arrange to off-load large amounts of drugs from the ship before reaching the dock.

Corruption. Corruption is not judged to be a problem within the narcotics units of the law enforcement

agencies. Legal measures exist to combat and punish corruption.

Agreements and Treaties. The U.S. and Belgium have long had an extradition treaty; an updated treaty entered into force in 1997. The U.S. and Belgium have also ratified a supplementary treaty on extradition to promote the repression of terrorism, but it has not yet entered into force. A new MLAT entered into force January 1, 2000. The U.S. has concluded a Customs Mutual Assistance Agreement (CMAA) with Belgium.

The Government of Belgium is currently negotiating police cooperation agreements with Russia and Slovakia, and expects these agreements to enter into force in 2000. Belgium has been a party to the 1988 UN Drug Convention since 1995. Belgium is also a party to the 1961 UN Single Convention and its 1972 Protocol.

Belgium is a member of the Financial Action Task Force (FATF). As a Schengen member state, Belgium participates in the Schengen Working Group on Drugs. Belgium is a member of the Council of Europe's (COE) Pompidou Group. Belgium has fully implemented the EU Directive on Money Laundering and participates in the contact committee established by the Directive. Belgian authorities cooperate bilaterally on money laundering issues with Australia, Austria, Brazil, Bulgaria, Croatia, Cyprus, the Czech Republic, Finland, France, Greece, Hong Kong, Hungary, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Norway, Portugal, Slovenia, Spain, Sweden, Switzerland, the U.K., and the U.S.

Belgium is a member of several international anti-drug organizations, including the Heads of European Narcotics Law Enforcement Agencies (HONLEA), the European Committee to Combat Drugs (CELAD), and the Dublin Group. Belgium is a member of the major donors group of the United Nations Drug Control Program (UNDCP). Despite serious efforts by Belgian law enforcement to combat illegal drug production, trafficking and use, the Government of Belgium has reduced funding and support for multilateral eradication efforts. It did, however, increase its UNDCP budget in 1999 to BF 15 Million (approx. \$395,000).

Cultivation/Production. There is no significant cultivation or production of illicit drugs in Belgium, although police have noted an increase in production of amphetamines and ecstasy, primarily in illegal labs on the Belgium/Netherlands border. These labs are linked to criminal organizations that distribute the drugs within Europe and to the United States--most frequently through the cities of New York, Miami, Los Angeles and Orlando, Florida.

Drug Flow/Transit. Belgium remains an important transit point for drug traffickers because of its port facilities (Antwerp is Europe's second busiest port), airports, excellent road connections to neighboring countries, and central geographic location. Most illicit drugs pass through Belgium via the ports of Antwerp and Zeebrugge; across the border from the Netherlands; or through Brussels Zaventem airport. Smuggling routes change constantly, but Belgian authorities believe an increasing number of heroin shipments arrive from Central Asia via Turkey. Belgian Customs reports that the heroin is most probably concealed in containerized freight in relatively small quantities of 10-15 kilograms: because Antwerp is considered a "free trade zone," traffickers know that inspections of containerized freight are minimal. These shipments typically take one of two trafficking routes: in northern Europe through Hungary, Poland, the Czech Republic, Slovakia and Austria, or in southern Europe through Italy. The cannabis originates in Morocco, Latin America and South East Asia and arrives via land, air and sea routes.

Domestic Programs. Belgium has an active anti-drug educational program that targets the country's youth, which the regional governments (Flanders, Wallonia, and Brussels) now administer. Programs include education campaigns, drug hotlines, HIV and hepatitis prevention programs, detoxification programs, and a pilot program for "drug-free" prison sections. Unlike the U.S. approach, the Belgian approach focuses on the individuals who influence young people, rather than the young people themselves. Teachers, coaches and clergy, for example, are considered better suited to deliver the anti-drug message to the target audience because they already are known and respected by the young people.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Cooperation between the United States and Belgium continues to be excellent and to expand. DEA and FBI enjoy close and effective cooperation with the Judicial Police and the Gendarmerie. U.S. law enforcement agencies represented in Brussels enjoy excellent working relationships with the Belgian National Magistrates and Prosecutors offices.

During 1999, representatives from the FBI, the Department of Justice, the Department of State and the Belgian Ministry of Justice met to continue a series of bilateral consultations on improving judicial cooperation and streamlining procedures in judicial assistance matters (including extradition cases). Belgium participated with the U.S., the U.K., the Netherlands and France, in the 1999 Caribbean Maritime Counter-Drug Initiative.

Belgium is active in the Egmont Group, an informal forum for cooperation on money laundering issues, which held its inaugural meeting at the Egmont Palace in Brussels in 1995, under the sponsorship of the U.S. Financial Crimes Enforcement Network (FINCEN) and Belgium's Financial Intelligence Processing Unit (CTIF/CFI). Belgium chairs the Egmont legal working group, which drafted a model memorandum of understanding on

international cooperation on money laundering issues.

The Road Ahead. The United States looks forward to continued close cooperation with Belgium in combating illicit drug trafficking and drug-related crime, and to continued Belgian participation in multilateral counternarcotics fora such as the Dublin Group.

Bosnia

I. Summary

Bosnia is a small market for drugs but a significant transshipment point for international narcotics. While inter-entity law enforcement cooperation is improving and has resulted in several major drug seizures, the growing narcotics trade remains closely linked to organized crime, public sector corruption, and ethnic extremism. The absence of effective border and customs controls, serious flaws in the judicial system, and the lack of political will to undertake serious reforms have left Bosnia a permissive environment for drug trafficking. Bosnia is a party to the 1988 UN Drug Convention and is working closely with the UN Drug Control Program (UNDCP) as well as the U.S. and other regional states on counternarcotics issues.

II. Status of the Country

Situated astride the historic Balkan smuggling routes, Bosnia remains a logical transshipment point between heroin and marijuana production centers in south Asia and markets in Western Europe. Domestic production has not been a major problem to date, but Bosnian officials believe that the wartime black market dramatically increased drug trafficking. Although the disproportionately large international community in Sarajevo is believed to be the primary internal narcotics market, local authorities have expressed concern that rapid urbanization, a relatively young population, high unemployment, and "foreign cultural influence" could contribute to the eventual development of a major market for narcotics consumption in Bosnia.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Border controls have been tightened with the introduction of public hotlines to report customs violations in September and should improve further with the phased deployment of a state border service beginning December 31, 1999. The USG and the international community continue to provide advice and assistance to local law enforcement agencies, including counternarcotics and task force training. Efforts are underway to revise local laws regarding narcotics to ensure conformity with the UN Drug Convention.

Accomplishments. Police counternarcotics operations have confiscated over 1.2 kilograms of heroin and have resulted in 335 arrests in 1999. A single raid in Sarajevo in December 1998 seized a 38-kilogram shipment of heroin following a joint investigation with Croatian and Slovenian authorities. With UNDCP support, narcotics arrests and seizures are recorded in centralized databases in both the Federation and the Republika Srpska (RS). UNDCP has also sponsored joint counternarcotics exercises for Federation, RS, and cantonal officers, and has provided introductory training to over 1,500 Bosnian officers to date. Bosnian authorities are working to formalize international cooperation through full integration into the Interpol network. Police officers are increasingly equipped to conduct drug tests at crime scenes, while four police laboratories in the Federation and one in the RS are now capable of conducting sophisticated analysis to support narcotics investigations.

Law Enforcement Efforts. Both narcotics-related arrests and drug seizures – including major successes such as the arrest of a smuggling ring in Maglaj in October – are on the rise. Plans to expand the Federation Interior Ministry's anti-drug unit are under consideration. Nonetheless, Bosnia remains largely dependent on the international community for leadership and material support in the war against drugs, as underscored by the necessity of multinational military action in October against anti-Dayton elements reportedly involved in narcotics trafficking. Limited legal penalties for narcotics offenses, a lack of political will, and local resistance to Federation jurisdiction over narcotics offenses continue to prevent a fully integrated national counternarcotics strategy to focus on major traffickers.

Corruption. Criminal elements involved in narcotics trafficking have been credibly linked to public officials. Although proceeds from the narcotics trade are widely believed to support the parallel institutions maintained by ethnic extremists, there are no laws specifically targeting narcotics-related public sector corruption and there have been no legal/enforcement actions against public officials for narcotics-related offenses. Combating the influence of criminal elements, corrupt officials, and ethnic extremists remains a leading priority for the embassy, the Multinational Peace Stabilization Force (SFOR), the United Nations Mission in Bosnia, and the Office of the High Representative (OHR).

Agreements and Treaties. There is no bilateral agreement between Bosnia the United States specifically pertaining to counternarcotics. A bilateral police training agreement does provide advice and assistance regarding a broad range of law enforcement issues, including investigative techniques and major case management. Both the Federation and the Republika Srpska have honored their formal commitment to cooperate on narcotics issues and have worked closely with the UNDCP under the terms of an agreement

signed in 1997. Bosnia is a party to the 1988 UN Drug Convention and is actively pursuing a bilateral law enforcement cooperation agreement with Croatia to address regional narcotics trafficking.

Drug Flow and Transit. Heroin and marijuana shipments through several overland routes have increased markedly in the past year. Southwest Asian heroin from Turkey, Iran, Afghanistan and Pakistan is routinely smuggled through Bosnia. Local authorities believe that Western Europe – not the U.S. – is the ultimate destination for this traffic. Bosnian police officers have indicated that elements from each ethnic group and all major crime "families" are involved in the narcotics trade, often in collaboration. They suspect – and are actively investigating – alleged links to German, Italian, Albanian, and Russian criminal elements.

Cultivation and Production. Federation Interior Ministry officials believe that domestic cultivation is limited to marijuana crops grown in Herzegovina.

Domestic Programs. Community policing programs sponsored by the USG, which include anti-drug segments, have reached over 40,000 Bosnian children. Although there are no domestic substance abuse programs, pilot community outreach programs in Sarajevo and Zenica have been attended by over 18,000 Bosnians.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG remains committed to providing the counternarcotics training and support necessary to encourage independent operations by Bosnian authorities.

The Road Ahead. The international community's police assistance efforts will increasingly emphasize sophisticated technical training and intensive professional monitoring. The USG will focus its training programs on organized crime, public sector corruption, counternarcotics, and border control. A standardized national information management system, providing equal access to all law enforcement agencies and direct access to international police agencies, is essential to enhance the investigative capacity of Bosnian authorities.

Bulgaria

I. Summary

Centrally located on the Balkans route, Bulgaria is an important transit route between Turkey and Western Europe for Southwest Asian heroin and Southeast Asian marijuana. Authorities have also seized maritime deliveries of South American cocaine. The GOB is working to implement its 1998 money laundering law in accordance with European practices. In March 1999, parliament passed a drug and precursors act to provide a sounder legislative basis for pursuing and prosecuting narcotics trafficking. The GOB requires schools to offer a demand reduction program. Law enforcement authorities cooperate actively with U.S. and other counterparts on counternarcotics cases and issues. Bulgaria is a party to the 1988 UN Drug Convention.

II. Status of Country

Bulgaria is a significant drug-transit country centrally located on three traditional Balkan routes between Turkey and, respectively, Serbia, Romania and the Former Yugoslav Republic of Macedonia. Clandestine labs produce amphetamines, and diverted acetic anhydride is transported from Bulgaria to Turkey.

The GOB has wide-reaching, anti-crime legislation, including the 1998 money laundering law. As a result of 1998 legislation, the prosecutorial and investigative functions of the magistracy have been restructured. The prosecutor general, in office since January 1999, envisions a more effective prosecutorial assault on crime, including narcotics trafficking.

III. Country Action Against Drugs in 1999

Policy Initiatives. National strategy against narcotics is coordinated by an inter-ministerial body composed of ministers or deputy ministers from 17 ministries and agencies. This council has designated the National Service for Combating Organized Crime (NESEBOB) as the national focal point to gather and analyze information from all agencies. NESEBOB has opened a Center for Narcotics Data Coordination in Sofia with five analysts. It plans to open similar centers in Plovdiv and Varna, and will provide additional training for its analysts with funding from the EU Phare/UNDCP multi-country drugs project. The government has made the fight against organized crime and corruption major priorities, and has pressed forward with an extensive legislative reform effort strengthening anti-crime legislation.

Accomplishments. Significant accomplishments in 1999 have included the passage of a new law on drugs and narcotics, the recent establishment of the Narcotics Information Center, initial applications of the money laundering law in conformity with international standards, and the productive use of assistance from the EU Phare and other western sources.

Law Enforcement Efforts. While the 1999 drug and precursors law provided the legislative framework for GOB anti-narcotics strategy, NESEBOB is attempting to carry out this strategy with a team approach. The Narcotics Information Center will coordinate data from internal sources, from INTERPOL, and from Romania and

Macedonia, then be expanded to include data from the region as a whole. The goal is integration of national and regional anti-narcotics efforts. An added instrument, especially in the investigation of money laundering, is the new financial intelligence body in the Ministry of Finance. The move of many investigative functions from the former National Investigative Service to the police services, effective January 1, 2000, plans to streamline and accelerate narcotics investigations. Significant seizures during 1999 included: Heroin, 281 kilograms; opium, 6.4 kilograms; cocaine, 24.5 kilograms; and marijuana, 232 kilograms.

Corruption. Although there have been significant improvements under the current government, corruption continues to be a widely-alleged problem in Bulgaria, including among police and customs officials. The U.S., however, has no specific information that any senior GOB official has been involved in drug trafficking or other narcotics-related crimes.

Agreements and Treaties. Bulgaria is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 protocol, the 1971 UN Convention on Psychotropic Substances, and the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of Proceeds from Crime. Bulgaria is also a party to the 1957 Council of Europe Convention on Extradition, the 1959 European Mutual Legal Assistance Treaty on penal measures, and the 1983 Council of Europe Convention on Transfer of Sentenced Persons. It also has a bilateral treaty with Turkey for transfer of convicted persons. Bulgarian Customs has memoranda of understanding on mutual assistance and cooperation with several European counterparts and is negotiating or updating others. The GOB coordinates with INTERPOL and Europol. A 1924 extradition treaty and 1934 supplementary treaty are in force between the U.S. and Bulgaria.

Cultivation and Production. There is no significant cultivation or production of any illicit narcotics in Bulgaria.

Drug Flow/Transit. The main illegal drug transiting Bulgaria is heroin from the Golden Crescent and South Asian sources, although marijuana and cocaine also transit Bulgaria. The northern Balkan route from Turkey through Bulgaria to Romania is the most frequently used overland route; although there are others through Serbia and the Former Yugoslav Republic of Macedonia. In 1999, GOB officials noted apparently increasing amounts of South American cocaine coming from Brazil. The precursor chemical acetic anhydride, possibly produced in Bulgaria or coming from Macedonia, is transported from/through Bulgaria to Turkey.

Domestic Programs (Demand Reduction). The drug abuse problem in Bulgaria is small but growing. Experts estimate there are at least 45,000 heroin users, fewer than 10 percent of whom are in treatment. Cocaine is too expensive for all but the wealthy. Marijuana has traditionally been used in rural areas. Ecstasy is an important and growing problem among university students. Increases in drug consumption continue to be particularly noteworthy among the marginalized Roma (gypsy) population, among whom glue sniffing is a serious problem, as well as in prisons, in some localized geographic areas, and among traffickers.

Demand reduction is receiving increased attention. The Ministry of Education requires the teaching in schools nationwide of health promotion modules on substance abuse. There is also a World Health Organization program for health promotion in 30 target schools. The Bulgarian National Center for Addictions provides training seminars on drug abuse for school teachers nationwide. The center and the Institute of Public Health co-sponsor municipal demand reduction programs in six major cities and a number of smaller communities. Three universities provide professional training in drug prevention. Specialized professional training in drug treatment and demand reduction has been provided through programs sponsored by UNDCP, EU Phare, and the Council of Europe's Pompidou Group.

IV. U.S. Policy Initiatives and Strategies

The U.S. promotes increased attention to the problems of narcotics trafficking and money laundering, assists Bulgarian law enforcement and anti-crime legislative reform efforts with training, advisory assistance and some equipment. It also encourages further cooperation between Bulgarian and U.S. law enforcement agencies, including DEA, the FBI and the Customs Service.

Bilateral Cooperation. Bilateral cooperation between U.S. and Bulgarian law enforcement officials is excellent. U.S. bilateral assistance has focused on mid-level training at the ILEA in Hungary. The U.S. has also provided advisory assistance to the GOB in the drafting of money laundering legislation and reform of the penal code and procedural penal code.

The Road Ahead. The U.S. will continue to encourage the GOB in anti-drug efforts, in combating money laundering, in drafting and implementing anti-crime legislative reforms and in mutual cooperation with U.S. law enforcement. It will work with the GOB to identify law enforcement training, advisory and equipment needs, and provide limited assistance to meet those needs. The U.S. will continue to encourage exchange of counternarcotics information with other states in the region and to promote increased regional, Western European and UNDCP support for Bulgarian law enforcement authorities.

I. Summary

Croatia is not a major producer of illicit narcotics nor a major transit country. However, with its extensive coastline, geographic location in southeast Europe, and limited resources for patrolling its coast and borders, it offers significant possibilities for transshipping narcotics. Croatia's national narcotics strategy, which remained essentially unchanged from 1998, focused on reducing both the availability of and demand for narcotics. During 1999 no new anti-narcotics laws were passed, although a government commission proposed new legislation combating narcotics abuse. The Interior Ministry (MUP) was the government ministry most directly involved in anti-narcotics activities. In addition to its domestic efforts, the MUP conducted operations along Croatia's borders, sometimes jointly with neighboring countries, designed to disrupt Balkan-Route drug trafficking. Croatia is a party to the 1988 UN Drug Convention.

II. Status of Country

Variants of the Balkan Route crossed a large part of Croatian territory prior to the breakup of Yugoslavia, and the Government of Croatia is concerned about increases in transshipment concomitant with the opening of borders and increased border traffic with Bosnia and Serbia. Domestic narcotics abuse remains a priority area of attention, but not a problem that officials believe has significantly worsened during 1999.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Croatia continued to pursue its national strategy for combating abuse of narcotics. This initiative included implementation of measures to reduce both supply and demand for narcotics. The Interior Ministry (MUP) and the Justice Ministry had primary responsibility for the law enforcement aspects of the national strategy, while the Ministries of Education and Health, with assistance from the MUP, had responsibility for the strategy to combat drug abuse. The Interior Ministry's Drug Division oversees the work of smaller drug units in every police department throughout the country and maintains cooperative relationships with INTERPOL, as well as with counterparts in Italy, Germany, Hungary, Macedonia, Slovenia, and the U.S.

Law Enforcement Efforts. During the first 11 months of 1999, 5,738 seizures of narcotics were made, and 5,560 persons were investigated by the police. The number of seizures represents a 39 percent increase over 1998 figures. Seized drugs included: Heroin, 12.7 kilograms; cocaine, 1.7 kilograms; marijuana, 139.4 kilograms; hashish, 6.5 kilograms; LSD 247.5 doses; ecstasy, 14,319 pills; and amphetamines, 0.5 kilograms. Interior Ministry activities included gathering evidence against Croatians and members of organized crime groups, both domestic and international. The ministry conducted a series of anti-crime and tactical operations at border crossings especially with Balkan Route countries on land and sea and at airports. For example, Croatian and Slovenian police confiscated 39 kilograms of heroin during joint border operations and made several arrests. From its annual budget, the Interior Ministry provided financial support for equipment purchases.

Corruption. Throughout 1999 there continued to be allegations of corruption within senior levels of the then-ruling HDZ party; however, allegations linking officials to narcotics-related corruption have not been substantiated.

Agreements and Treaties. No new agreements or treaties were entered into in 1999. Croatia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 protocol, and the 1971 UN Convention on Psychotropic Substances. Extradition between Croatia and the U.S. is governed by the 1920 extradition treaty between the U.S. and Yugoslavia. Pending passage of a new narcotics law, the government uses its adherence to the 1988 UN Drug Convention as the basis for prosecuting those suspected of trafficking in precursor chemicals. Croatia has signed and ratified treaties and other international agreements on combating terrorism, drug abuse and drug trafficking, as well as organized crime, with Albania, Austria, Hungary, Italy, Macedonia, Poland, Slovenia, Turkey, and Ukraine. Agreements with Bosnia-Herzegovina, the Czech republic, Pakistan, and the Russian Federation and are being drafted.

Cultivation/Production. The Interior Ministry continues a program to identify areas of marijuana cultivation. The ministry assesses that small-scale marijuana production (less than 10,000 plants) for domestic sale and use is the only narcotics production within Croatia.

Demand Reduction. The Ministry of Health, with limited resources, has implemented some demand reduction programs. The Ministry of Education requires drug education in primary and secondary schools. The state-run national medical system offers treatment programs for drug users. There are also several independent drug treatment centers, which focus their efforts on cocaine and heroin treatment. One such center reported 31 individuals seeking treatment for "angel dust" (PCP) use in 1999, the first such cases reported in Croatia.

IV. U.S. Policy Initiatives and Programs

The U.S. continues to urge increased attention by the GOC to drug issues. The Interior Ministry and U.S. law enforcement agencies cooperated well at the operational level during the year, but training programs for rule-

of-law and law enforcement have been limited because of the authoritarian nature of the Croatian Government.

Cyprus

I. Summary

Although there continues to be no evidence of significant narcotics production on Cyprus, there is increasing concern on the island about a perceived increase in usage. The Government of Cyprus has traditionally adopted a low tolerance attitude toward any use of narcotics by Cypriots and has embarked on a pro-active public affairs strategy to remind Cypriots that narcotics use carries heavy penalties. Drug traffickers may use Cyprus as a transshipment point because of Cyprus' strategic location and its relatively sophisticated business and communications infrastructure. A party to the 1988 UN Drug Convention, Cyprus strictly enforces tough anti-drug laws, and police and customs authorities maintain excellent relations with United States and other foreign governments. The Government of Cyprus made progress during 1999 in its efforts to combat money laundering. The Unit for Combating Money Laundering, which coordinates the Cyprus Government's efforts against such crimes, seized houses, apartments and cars using a 1996 anti-money laundering law. The Unit recorded its second conviction under the 1996 Law Against Money Laundering and has three pending cases in the local court system. The Cypriot authorities froze assets valued at more than U.S. \$2 million. The Central Bank issued a comprehensive handbook of its guidance notes to its commercial banks and conducted a special examination of each bank's "know your customer principles" in March and April 1999. Cypriot officials involved in combating money laundering acquired extensive training in 1999 from the U.S., EU, UK, and others.

Cyprus monitors the importation and exportation of chemicals for local markets. Cyprus' geographic location and the free-port status of its two main seaports continue to make it an ideal transit country for trade in chemicals and most goods between Europe and the Middle East.

II Status of Country

Cyprus has a small, but growing population of soft-core drug users. Distribution increased during the summer months in the tourist areas. The Cypriot authorities aggressively pursue this distribution, as they do illegal cultivation, sale, transport, and financing. Cyprus attempts interdiction efforts for drugs transiting Cyprus when information is made available. There is no significant sale or identified financing occurring in Cyprus.

Cypriots themselves do not produce or consume significant quantities of drugs. The island's strategic location in the Eastern Mediterranean may have served as a convenient stopover for traffickers in the past. The decline of Cyprus as a major transshipment point for entirely licit cargoes, bound to or from Lebanon and Turkey means that Cyprus is no longer as attractive for traffickers. Nevertheless, Cyprus offers highly developed business and tourism facilities, a modern telecommunications system, and the fifth largest merchant shipping fleet in the world. Still low by international standards, drug-related crime has been steadily rising since the 1980's.

III. Country Action against Drugs in 1999

Policy Initiatives. The Unit for Combating Money Laundering has been expanded to 12 members. It includes three representatives from the Department of Customs, the Police, and the Attorney General's office. The Attorney General's office provided new office space for the Unit in 1999. This allowed most of the Unit's members to be co-located for the first time.

The Government of Cyprus amended its monetary declaration law to be in line with the European Union Money Laundering Directive of 1991. Financial entities are now required to declare transactions above 15,000 Euros (approximately USD 15,000).

In November 1999, The Central Bank consolidated all its previous circulars and guidance in a comprehensive handbook which it issued to all international banking units and administered banking units. The handbook covered, among other things, customer identification procedures, record keeping procedures and the appointment and duties of money laundering compliance officers.

On the drug enforcement front, Cyprus continued its vigorous efforts against all violators.

Law Enforcement Efforts. Cyprus aggressively pursues drug seizures, arrests, and prosecutions for drug violations.

- The Unit for Combating Money Laundering recorded its second conviction under the Anti-Money Laundering Law in the spring of 1999. There are three cases currently pending in the Courts. The Unit has issued 170 Information Disclosure Orders and the freezing of more than U.S. \$15 million in assets since its inception.
- Cyprus focuses on major traffickers when the opportunities are available and readily supports the international community in its efforts.

- There is no production of precursor chemicals in Cyprus, nor is there any indication of illicit diversion. Precursor chemicals manufactured in Europe do transit Cyprus to third countries.
- Cypriot police are generally effective in their law enforcement efforts; their techniques and capacity remain restricted by budget shortages.
- In 1999, Cypriot law enforcement agencies trained more than 500 police officers in the rules and procedures of the 1996 Law Against Money Laundering. They also made such training an element in new officer basic training.
- International enforcement cooperation is limited somewhat by the political division of the island into the internationally recognized Republic of Cyprus in the South and the "Turkish Republic of Northern Cyprus" in the North. The Republic of Cyprus authorities have no working relations with enforcement authorities in the "Turkish Republic of Northern Cyprus (TRNC)." Turkish Cypriots have their own law enforcement organization, responsible for the investigation of all narcotics-related matters. These Turkish Cypriot authorities have shown a willingness to pursue narcotics traffickers, and provide assistance when asked by foreign law enforcement authorities.

Corruption. There is no evidence of senior or other officials facilitating the production, processing, or shipment of drugs.

Agreements and Treaties. Cyprus is a party to the 1988 UN Drug Convention and the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the proceeds from crime. A new extradition treaty between the United States and Cyprus entered into force in September 1999. The U.S. and Cyprus signed a mutual legal assistance treaty in December 1999 and the U.S. plans to submit the treaty to the Senate for advice and consent in 2000. The USG has concluded a Customs Mutual Assistance Agreement (CMAA) with the Government of Cyprus.

Cultivation/Production. The only known production is the limited, but increasing, cultivation of cannabis for individual use and, on a smaller scale, for resale. The only illicitly cultivated controlled substance in Cyprus is cannabis, and this is grown only in small quantities for local consumption. The Cypriot authorities vigorously pursue this illegal cultivation.

Drug Flow/Transit. No significant increase in drug flow or transit has been observed over the last year. Cyprus police believe their efforts in combating drug trafficking have mostly converted Cyprus from a drug transit point to a "broker point" for dealers. This change is likely also the result of improved conditions in Lebanon. Lebanese containerized freight now moves directly to third countries without transiting Cyprus. However, there were occasions in 1999 when kilograms of heroin seized in London were identified as transiting Northern Cyprus from Turkey.

Domestic Programs/Demand Reduction. Cyprus actively promotes demand reduction programs through the school system and through social organizations. Drug abuse remains relatively rare in Cyprus. Hashish is the most commonly encountered drug, followed by heroin and cocaine, all of which are available in most major towns. Users consist primarily of young people and tourists. Recent increases in drug use have prompted the government actively to promote demand reduction programs through the school system and social organizations, occasionally with DEA-Nicosia participation. Drug treatment is available.

Part IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Cyprus has excellent cooperative relations with its neighbors and Western nations, including the U.S., and is quick to assist when requested. On 30 June 1998, Cyprus became a member of the international Egmont Group. This will increase Cyprus' effectiveness in combating money laundering by strengthening its cooperation with other financial intelligence units and by removing past obstacles that prevented the free flow and exchange of information. One of the highest goals of the U.S. government in Cyprus is the deterrence of money laundering activities on the island. U.S. support for this goal comes from the top. The Ambassador and other members of the U.S. Embassy in Nicosia raised the issue repeatedly during the year with key Cyprus Government officials.

Road Ahead. The USG anticipates continued close cooperation from the Cypriot Office of the Attorney General, the Central Bank, the Cyprus Police and the Customs Authority officials in our drug enforcement and anti-money laundering efforts. The USG will make every effort to track the influence/effect of organized crime on Cyprus. The Cyprus Government must heighten its efforts to change the informal code of silence, which predominates within its banking community. Instead of merely turning questionable deposits away, banks must begin aggressively to report on all such activities.

Czech Republic

I. Summary

The end of Communist rule and the opening of borders a decade ago, coupled with a westward shift in patterns of international trade, resulted in a steady increase in illicit drug trafficking through the Czech Republic. In the second half of the decade, the Czech Republic itself has become a destination country for illicit narcotics and psychotropic drugs consumption. Domestically, heroin and pervitine (a synthetic stimulant) are the most abused drugs. The rise in illicit narcotics activity has led Czech policy in 1998–1999 to shift towards a more repressive rather than preventive orientation. Amendments to strengthen the 1996 money–laundering law and related changes to the criminal code are before Parliament. Additional measures such as increasing prison sentences for drug dealers are under consideration. Czech cooperation with international law enforcement counterparts is excellent and reaping results in large seizures and multilateral arrests. The Czech Republic is a party to the 1988 UN Drug Convention.

II. Status of Country

The Czech Republic remains a transshipment and stockpile point mainly for heroin from Turkey traveling the traditional Balkan route to Western Europe, and Nigerian marijuana destined for central and northern Europe. In 1999, with Italy's tightening of border controls to stem the flow of Kosovar refugees, Czech authorities encountered a significant increase in Kosovar–Albanians trafficking heroin through Czech borders. Colombian and other Latin American cocaine trafficking has continued. Cocaine is too expensive for most Czech consumers and is used mainly by Western "drug tourists" who transit Czech territory destined for Scandinavia. Crack cocaine is found in small quantity in the Czech Republic. There are indications of an emerging trend of amphetamine smuggling to the United States through the Czech Republic. Czech authorities are abating illicit synthetic drug production by small domestic labs, and intercepting precursor chemicals (most recently from Ukraine) which are diverted from legitimate domestic pharmaceutical production.

III. Country Actions Against Illicit Drugs in 1999

The Czech government has addressed illicit narcotics abuse with more emphasis on criminal than social and health dimensions. A law criminalizing narcotics possession for personal use became effective in January 1999. Czech authorities have implemented the new law on a reasonable basis, focusing their limited resources on enforcement action against major producers and dealers of illegal drugs, although individual growers of marijuana plants face charges under the new law. In the first ten months of 1999, the Czech Police National Anti–Drug Center (NADC) submitted 4600 criminal charges for narcotics crimes, of which just 260 were for individual drug possession under the stricter standard of the new law. Kosovar Albanians, Turks, and Colombians have a strong position as illicit suppliers and generally operate within Czech territory by employing Czech nationals. As a new development, Russian–speaking organized crime syndicates are attempting to penetrate the Czech illegal narcotics market.

Accomplishments. The Czech National Anti–Drug Center (NADC) operates in close cooperation with a Czech Customs Unit focused on arms and narcotics smuggling. In 1999, Czech officials realized significant seizures of heroin destined to northern Europe leading to arrests in multiple countries, predominantly of Czech, Yugoslav/Kosovar and Scandinavian citizens. A Czech–U.S.– German action completed in early 1999 led to the biggest cocaine seizure (135 kilograms) in the Czech Republic and the elimination of an entire criminal network involving Colombian, Spanish and Russian nationals. Also in 1999, the Czech NADC located and apprehended the Kosovar Albanian drug boss Prince Dobrosi who had undergone plastic surgery to conceal his identity. Czech officials extradited him to Norway from where he had escaped a 14 year prison term. The Czech government secured the extradition of a Czech citizen from Costa Rica for prosecution as a major trafficker. Czech authorities, including the Financial Analytic Unit (FAU) of the Finance Ministry, record increased reports of suspicious transactions received from the banking, securities and real estate industry. Thirty of the 200 suspicious reports in 1999 were referred by the FAU to the police for prosecution. Czech authorities are not readily able to quantify the extent to which the various money–laundering reports are specifically narcotics–related. The largest money–laundering case intercepted by the FAU in 1999 amounted to U.S. \$ 2.2 million dollars, which were the proceeds of cashing counterfeit checks.

Law Enforcement Efforts. The Czech Police National Anti–Drug Center (NADC) and its Customs partner are among the most effective Czech law enforcement units. Czech police and Customs cooperation with U.S. counterpart agencies is excellent. Despite successive years of budget cuts for Czech law enforcement, the NADC was authorized a substantial personnel increase in 1999 to a planned total of seventy agents. However, budget constraints continue to adversely affect operations. For example, despite a German Government donation in 1999 of eight vehicles, the NADC total vehicle pool has declined by two service cars. The NADC anticipates contending with a 27 percent cut in its 2000 budget, compared with the 1999 level.

UN Drug Control Program (UNDCP) funding for the Czech Republic is largely phasing out. A final 1998–1999 UNDCP grant of U.S. \$ 162,000 will help the purchase of communications equipment.

Corruption. Narcotics–related corruption among Czech public officials is negligible and strongly resisted within NADC ranks. In July 1999, a local police chief and two police officers were charged with alleged complicity in illegal heroin trade. The outcome of the prosecution is pending in the backlogged Czech court

system.

Agreements and Treaties. The Czech Republic is a party to the 1988 UN Drug Convention. In November 1999, the Czech Parliament ratified the U.S.–Czech Mutual Legal Assistance Treaty (MLAT). Both the U.S. and the Czech Republic have ratified the treaty and it is expected to enter into force in early 2000, after the exchange of instruments of ratification. The USG concluded a Customs Mutual Legal Assistance Agreement (CMAA) with the Government of the Czech Republic in 1993, and terms of the agreement were productively invoked in early 1999. The Czech Republic is a party to the World Customs Organization's International Convention on Mutual Administrative Assistance for the Prevention, Investigation, and Repression of Customs Offenses (Nairobi Convention), Annex X on Assistance in Narcotics Cases.

Cultivation/Production. The Czech Agriculture Ministry monitors the cultivation and marketing of opium poppies which are produced for use as poppy seed, a major ingredient of Czech cuisine. In 1999, poppy production totaled 28 thousand tons, in line with average annual poppy production which ranged from 10 to 25 thousand tons in the past decade. There is no cultivation of coca or opium. Marijuana production is negligible and, in 1999 under the new law against personal possession, arrests occurred of individuals with household plants.

Domestic Programs/Demand Reduction. The Czech government's growing budget deficit and funding cuts assessed for most ministries has led to a second successive year of funding cuts for prevention and education programs. This is despite the fact that the majority of drug abusers are in the 15–19 age range, with as many as 5 percent of addicts under the age of 15 years. The age of first time heroin use continues to drop, and alarmingly occurs mostly by intravenous ingestion. The Czech government finances an extensive network of counseling and health centers readily available on an anonymous basis for drug abuse drop-in and continuing treatment, but budgets allocation lag behind increased demand. Needle exchange programs are established and well-used.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Czech law enforcement agencies maintain close and effective operational relationships with U.S. counterparts, especially the Drug Enforcement Administration (DEA) and Customs. Czech Health Ministry officials participate actively in international conferences aimed at improving controls on trade in precursor chemicals and work closely with U.S. DEA regional precursor specialists based in Frankfurt, Germany.

The Road Ahead. The Czech Education Ministry in 1999 reached agreement with the United States and United Kingdom embassies to cooperate on a demand reduction education program, after several years of negotiation. Embassy Prague is now providing a grant from the Department of State's Bureau of International Narcotics and Law Enforcement Affairs prior-year funds to the non-profit Czech Center for Conflict Resolution/Partners for Democratic Change to train teachers in demand reduction methods. In 1998, American specialists collaborated with the British Know-How Fund, the Czech government's National Inter-Ministerial Drug Commission, and the Czech Ministry of Education in the development of a nation-wide drug education curriculum and publication of an instruction manual. In 2000, about 400 primary and secondary school teachers and district-level anti-drug coordinators will receive practical training in the range of prevention skills outlined in the manual. By training-the-trainers, the program participants will be well positioned to return to their individual schools to further educate other teachers and administrators in innovative prevention techniques and strategies.

Denmark

I. Summary

Denmark's strategic geographic location and status as northern Europe's primary transportation hub make it an attractive drug transit country. The Danes cooperate closely with their Scandinavian neighbors and the EU to check the transit of illicit drugs, and Denmark plays an increasingly important role in helping the Baltic States combat narcotics trafficking. While quantities of drugs seized in Denmark are relatively small, Danish authorities assume that their open border agreements and high volume of international trade allow some drug shipments to transit Denmark undetected. Within Denmark, heroin use increased dramatically in 1999, while amphetamines and ecstasy remain popular among a growing number of younger Danes. As a result of the EU requirement that member states establish National Centers for Investigative Support (NCIS), Denmark replaced their National Drug Intelligence Unit (NDIU) with an NCIS. Although the name has changed, the mandate remains the same. Denmark is a party to the 1988 UN Drug Convention.

II. Status of Country

Drug traffickers utilize Denmark's excellent transportation network to bring illicit drugs to Denmark for domestic use and for transshipment to other Nordic countries. There is evidence that drugs from the Baltic countries, and central Europe pass through Denmark en route to western Europe states and the U.S., although the amount flowing to the U.S. remains relatively small. Kosovar Albanians are the newest actors in the

European drug trade. Their activities in Denmark have caused heroin seizures to increase over 500 percent – from 18.1 kilos last year to over 110 kilos in 1999.

III. Country Action Against Drugs in 1999

Policy Initiatives. Denmark complies with the requirements of all major international narcotics-related conventions and agreements of which it is a member. Denmark also contributes toward the development of common counternarcotics standards within the international organizations of which it is a member. Denmark continues to provide training, financing and coordination assistance to the three Baltic countries (Estonia, Latvia and Lithuania) principally to improve interdiction efforts. As part of the Politi Told Nordic (PTN – Nordic Police Customs) agreement, Denmark has a Customs officer stationed in Lithuania.

Danish authorities view narcotics-related money laundering as a manageable problem despite Denmark's role as a major financial center. Banking procedures are transparent and are subject to government review and high taxation, which discourages prospective money launderers and minimizes the likelihood of improper use of the banking system.

Accomplishments. Danish police continued their aggressive counternarcotics efforts in 1999. Danish law permits forfeiture and seizure of assets in drug-related criminal cases. Authorities strongly uphold existing asset seizure and forfeiture laws and cooperate with foreign authorities in such cases.

Law Enforcement Efforts. Danish cocaine and amphetamine seizures were down in 1999, reflecting increasingly effective narcotics control efforts. Through September 1999, Denmark confiscated 15 kilos of cocaine (down from 29.1) and 8.5 kilos of amphetamines (down from 16.4). On the other hand, seizures of heroin and hashish have risen dramatically. So far in 1999, 110 kilos of heroin have been seized (up from 18.1), including 64 kilos from a German national, arrested in August, who was working for a group of Kosovar Albanians. In April 1999, 12 tons of hashish was seized on board the M/V Kvedarna, a Lithuanian registered ship run by criminals with ties to Danish and Russian organized crime.

Denmark continues to bolster the interdiction capabilities of the Baltic States. One of the bases of operations is on the Baltic island of Bornholm, Denmark's easternmost territory, where a continuing project involving the customs services and police, in cooperation with the Danish Navy, work to interdict narcotics, other smuggled contraband and illegal migrants.

Corruption. The USG has no knowledge of any involvement by Danish government officials in drug production or sale, or in the laundering of their proceeds.

Agreements and Treaties. Denmark is a party to the 1988 UN Drug Convention and adopted the enabling legislation for the European Drug Unit (EDU) in 1997. The USG has concluded a Customs Mutual Assistance Agreement (CMAA) with the Government of Denmark. Denmark participates in the Dublin Group and EU meetings on related topics.

Drug Flow/Transit. According to law enforcement officials in Denmark, drugs transit Denmark on their way to neighboring European nations and, in small quantities, to the U.S. The abilities of the Danish authorities to interdict this flow are slightly hampered by its EU membership and its open border policies.

Denmark's interagency group responsible for monitoring the distribution of precursor chemicals reported no infractions in 1999. In 1998, U.S. authorities criticized Danish customs for lax enforcement on precursor exports to Latin America. Since that time the Danes have become extremely responsive and proactive on monitoring exports.

Demand Reduction. Denmark's Ministry of Health continues to estimate that there are between 10,000 and 12,000 drug users in Denmark, but this low tally includes only those people who are officially registered as addicts with the government and enrolled in government programs. The country maintains an extensive counternarcotics education program in schools and youth centers. Drug addicts are treated in a large number of institutions throughout Denmark. In addition to in-patient care at hospitals, out-patient care is available at hospitals, youth crisis centers, and special out-patient clinics. These programs are free of charge to Danish residents. Since 1996 the government funded programs which involve the treatment of addicts through a medically supervised reduction program as an alternative to serving prison sentences. The debate on a proposal to permit doctors to supply some addicts with heroin continues, but support for the proposal is waning.

The Road Ahead. In the coming year, the Danish authorities hope to increase their seizures of ecstasy and work closely with the Norwegian authorities in interdiction efforts. The Danes will also continue to build on the PTN agreement to increase information sharing and cooperation against narcotics trafficking.

Estonia

I. Summary

Seizures of illicit drugs, increasing numbers of serious crimes committed by drug abusers, and significant growth in the domestic demand for hard drugs all illustrate Estonia's expanding involvement in the narcotics trade. The Government of Estonia (GOE) has acknowledged the seriousness of the problem and through strong anti-drug legislation passed in 1997 is confronting the consumption and trafficking of illegal drugs. Although a party to other UN counternarcotics conventions and protocols, accession to the 1988 UN Drug Convention has been delayed pending revision to current Estonian law.

The extent of the money laundering problem in Estonia is unknown. The recently enacted law on money laundering should enable officials to begin addressing this issue.

II. Status of Country

Estonia's geographical position, on the edge of the Baltic Sea between Europe and Russia, makes it an attractive transit area for illegal drugs. The country's growing economic integration with the world economy has attracted millions of tourists. Frequent passenger ferries, linking Estonia to Finland and Sweden, disembark thousands of tourists at a time on the docks, making border control difficult. In addition to package-laden tourist ferries, small boats and freight vehicles are used for drug trafficking.

Since the mid-1990's when Estonian law enforcement clamped down on the illegal metal and wood trades, organized crime has increasingly turned to narcotics trafficking. In one incident in October 1999, the drug squad of Tallinn police arrested 20 members of a drug trafficking gang which had close ties to organized crime. The total amount of narcotics seized during the investigation ran into kilos.

According to the counter-narcotics department, Estonians have been charged with organizing illegal drug shipments that never enter Estonia, but are shipped between other countries. In separate incidents, two boats formally owned by Estonian resident Vassili Trofimov were seized with drug contraband. The Latvian-flagged "Nemo" was seized in France with 23.5 tons of marihuana and the St. Vincent-flagged "Tammsaare" was captured near the Canary Islands with 97 kilos of cocaine and 280 kilos of heroine on board.

III. Country Action Against Drugs in 1999

Law Enforcement Efforts. One police officer in each police prefecture throughout the country has been assigned specific responsibility for drug matters. The coordinating body for the involved law enforcement agencies is the Counter-narcotics Office of the Central Criminal Police. Forty-five full-time counter narcotics officers are assigned to the Tallinn-based Central Criminal Police Bureau, compared to 33 in 1998. A special 25-member counter-narcotics team in Tallinn regularly patrols the streets, high-crime areas, and youth nightspots. In 1999, drug-sniffing dogs began accompanying these team members during their rounds. A separate counter-drug office was established in Tartu, Estonia's second largest city. Another office was opened in Narva, located on the Estonian-Russian border, which is considered to have the second most serious drug problem after Tallinn.

Corruption. The U.S. Government (USG) is not aware of any narcotic related official corruption having taken place in 1999.

Agreements and Treaties. Estonia's law on narcotics and psychotropic substances is the legal basis for controlling drugs, their precursor chemicals, and the trafficking of both, and deals with the treatment and rehabilitation of drug abusers. The law took effect on November 1, 1997. Estonia also aspires to meet all the requirements of the United Nations drug conventions. Estonia is a party to the 1961 UN Single Convention as amended by the 1972 Protocol and the 1971 UN Convention on Psychotropic Substances. A working group has been set up within the Ministry of Internal Affairs to work for the accession to the 1988 UN Drug Convention. Certain parts of current Estonian law conflict with the 1988 UN Drug Convention, and the GOE must first amend the Credit Institutions Act, the penal code and the penal procedure code before adopting it. On April 2, 1998, the United States and Estonia signed a Mutual Legal Assistance Treaty, but it has not yet entered into force. In addition, there is a 1924 U.S.- Estonia extradition treaty and a 1935 supplemental treaty that is still in force.

Cultivation and Production. While the cold weather precludes Estonia from becoming an important source of narcotic crops, small amounts of opium poppies and cannabis have been reportedly cultivated. Primarily for their own use, addicts convert poppy straw into an injectable acetylated opium solution known as "liquid heroin". Estonian authorities as well as foreign experts have reported that the necessary precursor chemicals and technical expertise are present in Estonia to allow for the clandestine manufacture of amphetamine.

Drug Flow and Transit. The annual illegal drug trade in Estonia amounts to several hundred million U.S. dollars. Amphetamines and other stimulants are imported from Poland, Belarus, Ukraine and, possibly, Russia. Estonian dealers and traffickers also have established direct contact with cocaine sources in Latin America, including Colombia and Venezuela.

In 1999, 192 drug-related crimes were registered, a 16 percent increase over the same period attributable not

only to growing drug abuse, but also to the expanding expertise of law enforcement officials.

A separate counter-narcotics unit is functioning under the National Customs Board. Eight border guards have been trained to work with drug detecting dogs. The Estonian Customs Board has entered into a cooperation agreement with three private freight-forwarding companies to halt the expansion of drug trafficking both into and through Estonia. This agreement is directly responsible for the arrests.

Demand Reduction. By international standards Estonia's narcotics trade situation is not grave. While hard figures are not available, the estimated number of drug abusers is about 12,000. According to Estonian police officials, the increased use of MDMA is one of their most pressing concerns. Law enforcement officials report that MDMA is available for purchase in almost every bar and nightclub in the capital city of Tallinn and has become the drug of choice among the 15 to 25 year old age group.

The growing demand for cocaine and heroine, recently unknown in Estonia, implies that unless properly reined in, narcotics-related problems will begin to pose a threat to the society.

Estonian non-governmental organizations (NGOs) and youth organizations are also actively participating in counter-narcotics efforts, with a series of anti-drug advertising campaigns, educational exhibitions, lectures and video seminars designed both for students and teachers. Drug related topics are a compulsory health education subject of Estonia's basic and secondary education state study program.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation U.S. training programs during 1999 were limited. One Estonian policeman traveled to the U.S. for counternarcotics training via a U.S. Information Service program and the USG again provided Estonia with several narcotics test kits. In October, GOE officials participated in a USG sponsored regional money laundering seminar in Lithuania.

The Road Ahead. In 2000, the USG intends to offer Estonia additional training dealing with drug enforcement and with organized and financial crime. A regional counter-narcotics seminar will be held in Riga. Another priority will be to continue encouraging the GOE to become party to the 1988 UN Drug Convention.

Finland

I. Summary

Finland is not a significant narcotics trafficking or money laundering country. However, drug abuse has increased steadily during the 1990s, and drug-related crimes have increased nearly four-fold during the decade (including domestic marijuana cultivation, mostly for personal use.) Some criminal groups in Finland, with connections to Baltic and Russian organized crime, are used to distribute narcotics to the domestic market.

An efficient and professional law enforcement community nonetheless vigorously combats drug abuse and narcotics trafficking, regularly intercepting major shipments and denying traffickers an easy transit point and market. Effective controls on the Russian border have prevented the overland route from developing into a trafficking conduit. The police are concerned, however, about heroin and amphetamine shipments arriving from the St. Petersburg area and the Baltic countries, respectively. Finland is a major donor to UNDCP, and is active in counternarcotics initiatives within the European Union. Finland is party to the 1988 UN Drug Convention.

II. Status of Country

Finland remains an insignificant country with respect to narcotics production, trafficking, cultivation, and production/diversion of precursor chemicals. Finnish law enforcement authorities effectively counter the threat of trafficking from abroad and energetically combat domestic abuse. Estonia, the Netherlands, Russia, and Spain are Finland's principal sources of illicit drugs. Hashish is the drug most often seized by the Finnish police. Trafficking in highly-purified amphetamines from Estonia, including the drug "ecstasy," is a continuing concern for Finland. According to the police, these drugs are not generally manufactured in the Baltic region but are produced elsewhere in eastern Europe. Finnish authorities affirm that their land border with Russia is well-guarded by both sides and that the border has not become a significant narcotics transit route. They express continuing concern, however, about a fairly recent development: the arrival in southern Finland of high-quality, powerful heroin ("white heroin") from the St. Petersburg area. Despite declines in the amount of heroin seized during the first nine months of 1999 and 1998 as compared to corresponding periods in 1997 and 1996, the Finns say the stronger heroin being intercepted is increasingly intended for the local Finnish market and is not merely, as in the past, transiting Finland. A Finnish police liaison officer assigned to the Finnish Consulate in St. Petersburg works with the Russian authorities to combat this and other threats to Finland.

III. Country Actions Against Drugs

Policy Initiatives. In late 1998, the Finnish government released a comprehensive policy statement on drugs. This statement clearly articulates Finland's policy on drugs--complete prohibition. It reminds citizens that all narcotics manufacturing and trafficking are crimes punishable under Finnish law.

Accomplishments. Finland enacted legislation criminalizing money laundering in 1994. The police do not yet have final money laundering statistics for 1999. However, they estimate that they will have investigated fewer cases of narcotics-related money laundering in 1999 than during the previous year (ten fairly minor cases in 1998). During 1999, Finland maintained its staffing of one customs officer and one national police officer at Europol's European Drugs Unit (EDU) in the Hague. The Finnish authorities believe that their presence at EDU enhances their domestic counternarcotics effort.

Law Enforcement. For 1999, the police estimate that they will have investigated approximately the same number of cases of indoor cannabis cultivation as in 1998 (190 cases), extrapolating from half-year statistics. During 1999, there were no seizures of indigenously cultivated opiates, no recorded diversions of precursor chemicals, and no detection of illicit amphetamine, cocaine, or LSD laboratories in Finland.

Beginning in the mid-1980s, limited police resources focused law enforcement authorities on major narcotics cases and on significant traffickers, somewhat to the detriment of street-level patrols, investigations, and prosecutions. The police say the result of this change has been to lessen drug users' fear of arrest and to make "recreational" drug use more widespread. According to the police, the steady rise in drug use during the 1990s has led to a situation in which the number of drug offenders greatly exceeds the resources deployed to combat illegal drugs. The police report that, following the release in late 1998 of the government's policy statement on drugs, greater resources have been devoted to combating drugs at the street-level.

There are approximately 24 local crime groups in Finland, some of which have connections with organized crime in the Baltic's and Russia. These groups are used by organized crime as facilitators and distributors of narcotics to the Finnish market.

Corruption. There have been no arrests or prosecutions of public officials charged with corruption or related offenses linked to narcotics money in Finnish history.

Agreements/Treaties. Finland is party to the 1988 UN Drug Convention, and its legislation is consistent with all the Convention's goals. Finland has extradition treaties with most countries, but seldom extradites Finnish nationals to other countries. A number of Finns have been returned to Finland for prosecution, however. Extradition legislation now before parliament would make it easier to extradite Finnish suspects to other countries. Finland is a member of the major donors' group within the Dublin Group. The vast majority of its financial and other assistance to drug-producing and transit countries has been via the UNDCP. Finland has bilateral narcotics agreements with Estonia.

Cultivation/Production. Indoor cannabis cultivation is a fairly new phenomenon in Finland, according to the police. While most home-grown cannabis is for private consumption, some is intended for trafficking. Finland's climate and short growing season make natural cultivation of cannabis and opiates almost impossible. Local cannabis cultivation involves small numbers of plants in individual homes using artificial lighting. The distribution of the 22 key precursor chemicals used for cocaine, amphetamine, and heroin production is tightly controlled.

Drug Flow/Transit. The police confiscated a record amount of hashish (100 kilograms) in April 1999. In October 1999, the police seized significant amounts of the amphetamine "ecstasy" in what may be the largest case ever of ecstasy smuggling to Finland.

Domestic Programs/Demand Reduction. Existing Finnish legislation covers the distribution, sale, and transport of narcotic substances, as well as extradition, law enforcement, transit cooperation, precursor chemical control, and demand reduction. It also criminalizes abuse of illicit drugs with sentences of up to two years in prison. The police believe it is imperative to criminalize the system effectively in order to send a strong deterrent message to the "demand" end.

IV. U.S. Policy Initiatives

U.S. Policies. In January 2000 Finland will host a two-week DEA regional drug enforcement seminar in Helsinki. The DEA-conducted seminar will bring together participants from Finland, Estonia, Latvia, and Lithuania.

Bilateral Cooperation. Finland does not have mutual legal assistance, precursor chemical, or money laundering treaties with the United States. Multilateral treaties, including membership in the UNDCP, constitute the basis of Finnish cooperation with the U.S. on counternarcotics initiatives. Finland's multilateral commitments cover the spectrum of law enforcement, investigative, and jurisdictional cooperation.

The Road Ahead. Draft legislation has been sent to the Finnish parliament which would increase the law enforcement community's ability to pursue criminals using additional investigative tools undercover investigations, and authorization to make controlled "buys," etc. (wiretapping was authorized in 1995.) The

police say they are confident that parliament will approve this legislation next year. Following the issuance of the government's comprehensive policy statement on drugs in late 1998, the police have been preparing a study based on the new drug policy that advocates allocating greater resources to counternarcotics efforts.

France

I. Summary

France is an important transit country to other European countries, particularly for heroin originating in southwest Asia, cocaine originating in South America, cannabis originating in Morocco, and ecstasy originating in the Netherlands. Although heroin use appeared to decline, it continued to be a concern to French officials because of its health and social impact. Cocaine consumption increased, and cannabis (primarily hashish) consumption continued to be a problem, particularly among young people, where the number of users continued to grow. A major concern of French officials was the rising number of users of ecstasy and the large quantities of this synthetic drug entering France. Like other European countries, France increasingly faces the problem of "polytoxicomanie," or multiple drug addiction. France is a party to the 1988 UN Drug Convention.

II. Status of Country

French government narcotics data for 1998, released in the spring of 1999, show that the number of persons arrested for trafficking in heroin and cannabis remained significantly greater than for any other drug. The 1998 data also shows arrests for cocaine/crack trafficking and use up the third year in a row, but the amount of heroin seized and the number of arrests for heroin use/resale both fell significantly, indicating that actual use of heroin was also down for the third year in a row. Ecstasy and cannabis continued to be the most widely abused drugs in France, and cocaine use increased as more cocaine from South America entered the country. Reports in 1999 of large ecstasy and cocaine seizures indicate that the amount of ecstasy and cocaine seized in 1999 was even greater than in 1998.

III. Country Action Against Drugs

Policy Initiatives. In March 1999, France adopted a new law on drug use in sports, creating an independent administrative council for prevention of drug abuse in sports, "le Conseil de Prevention et de Lutte contre le Dopage" (CPLD), with authority to require sports federations to test athletes and discipline violators. Under the law, supplying doping products to athletes is a crime, but use is not. Sports federations remain responsible for imposing disciplinary sanctions against users.

France's drug control agency, "la Mission Interministerielle de Lutte contre la Drogue et la Toxicomanie" (MILDT), is the focal point of French national drug control policy and coordinates among the many ministries involved. In June the Government of France (GOF) adopted a new national drug policy based on the approach proposed in 1998 by the MILDT, which includes a three-year plan of action (1999-2001) to integrate illicit drugs into France's anti-narcotics programs efforts against the abuse of tobacco, alcohol, and prescription drugs. The plan focuses on prevention, including health, welfare and education programs, while reaffirming the role of law enforcement activities.

Accomplishments. France has stabilized and perhaps even reduced the number of heroin users. Having adopted a new national drug policy, the GOF began to implement a three-year national drug control strategy. French law enforcement officials continue to interdict and seize large quantities of narcotics destined for or transiting France.

Law Enforcement Efforts. French counternarcotics authorities are efficient and effective. In 1999 French authorities made three record seizures of narcotics. In February, French officials seized 1,270 kilograms of cocaine, the largest recorded seizure of cocaine in France, in the village of Tigery. The cocaine originated in Colombia and arrived in France by ship after being repackaged in Guadeloupe. In the same month officials made the largest seizure of cannabis in French history, approximately 23,235 kilograms, from a fishing vessel in the English Channel. The third record seizure took place in March, when 584,000 ecstasy tablets were seized on a truck which entered from Belgium and was about to depart for England. In 1998, heroin seizures (amounting to 343 kilograms) decreased by 17.25 percent, with the number of arrests for use/resale down 37.16 percent. At the same time, however, seizure figures for other drugs increased: cannabis by 1.05 percent (55,698 kilograms), cocaine by 24.47 (1,050 kilograms), LSD by 212.22 percent (18,580 doses), and ecstasy by 474.15 percent (1,142,226 doses).

Corruption. Narcotics-related corruption among French public officials is not a problem. The USG is not aware of any involvement by senior officials in the production or distribution of drugs or in the laundering of drug proceeds.

Agreements and Treaties. France is party to the 1961 UN Single Convention and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances and the 1988 UN Drug Convention. The U.S. and France have narcotics-related agreements, including a 1971 agreement on coordinating action against illicit trafficking. In

1996 the two countries signed a new extradition treaty to replace a 1911 treaty and a 1971 supplementary convention currently in effect. The U.S. ratified the new extradition treaty in 1998; France has not yet ratified it. As a participant in the G-8's Lyon Group of senior experts on transnational organized crime, France has modeled its handling of extradition issues on "best practices" for countries that do not extradite their own nationals. The U.S. and France signed a mutual legal assistance treaty (MLAT) in 1998 but it has not yet been ratified by either party.

The U.S. has a customs mutual assistance agreement (CMAA) with the France. GOF officials participate in international multilateral drug control efforts, including UNDCP, the Financial Action Task Force (FATF), and the Dublin Group. In 1998, France was the ninth largest donor to the UNDCP, giving 8 million francs (approximately \$1.3 million), with particular emphasis on judicial assistance, border controls in southwest Asia, and money laundering.

Cultivation/Production. French authorities believe the cultivation and production of illicit drugs is not a problem in France. France cultivates opium poppies for medical use and produces amphetamines. It reports its production of both products to the International Narcotics Control Board (INCB) and cooperates with the U.S. Drug Enforcement Administration (DEA) to monitor and control those products.

Drug Flow/Transit. An important transshipment point for illicit drugs to other European countries, in 1999 France received most of the heroin from southwest Asia, whether consumed in France or transiting to other Western European countries, via Turkey, Iran and the Balkans. New routes for transporting heroin from southwest Asia to Europe are developing through central Asia and Russia. French authorities believe that only a minor amount of heroin from Colombia entered France. France is a principal transit route for Moroccan cannabis (hashish) to European markets, and for South American cocaine to destinations in Europe. Most of the South American cocaine entering France comes through Spain and Portugal. West African drug traffickers also use France as a transshipment point for heroin and cocaine, moving heroin from both southwest and southeast Asia (primarily Burma), and to the U.S. through west Africa and France, with a back-haul of cocaine from South America to France through the U.S. and west Africa. Law enforcement officials believe west African traffickers stockpile heroin and cocaine in Africa before shipping it to final destinations. Most of the ecstasy in or transiting France is produced in the Netherlands, Poland, Spain, and the U.K.

Domestic Programs. MILDT coordinates France's demand reduction programs, targeting target government officials, counselors, teachers, and medical personnel. The GOF continued its experimental methadone treatment program. Public debate continued concerning decriminalization of cannabis, but the GOF remained opposed to any change in the 1970 drug law that criminalizes all uses of illicit substances, including cannabis.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Counternarcotics law enforcement cooperation between the U.S. and France continued to be excellent. In October, U.S. and French narcotics law enforcement officials met in Sicily for a four-day conference with their Italian and Canadian counterparts to discuss issues of mutual concern. The sharing of seized and forfeited assets between the U.S. and France, in cases involving international counternarcotics cooperation, is handled on a case by case basis.

The Road Ahead. The U.S. will continue its cooperation with France on all counternarcotics fronts, including multilateral efforts such as the Dublin Group and UNDCP. The U.S. will continue to seek to conclude a bilateral counternarcotics maritime agreement for the French Caribbean with France.

Georgia

I. Summary

Georgia is a secondary transit route for narcotics flowing from Central Asia to Europe. The potential for Georgia to become an important narcotics transit route in the future is exacerbated by the lack of control the government exercises over some of its borders and territory. Despite recent efforts at reform and personnel changes, law enforcement agencies remain overstaffed, under-equipped, poorly paid, and have a reputation for corruption. In response to Government of Georgia (GOG) requests, the United States Government (USG) is providing training and equipment for the border guards and customs officials. Georgia is a party to the 1988 UN Drug Convention and is working with the UN Drug Control Program (UNDCP).

II. Status of Country

Georgia is presently a secondary transit route for heroin smuggled from Afghanistan to Europe and morphine base, also from Afghanistan, being transported to Turkey. Given Georgia's geographic location and its ambition to be a key element in a future overland trade corridor between Europe and Asia, there is a possibility it could also emerge as a major drug route. Local involvement in drug trafficking remains limited, but cigarette, fuel and alcohol smuggling are major illegal activities in Georgia. Interdiction efforts are hampered by Georgia's lack of control of all its territory and its borders, some of which are under separatist control.

Border guards and customs officials are poorly paid and, despite recent personnel changes, the latter service is especially liable to corruption.

III. Country Action Against Drugs In 1999

Policy Initiatives. counternarcotics efforts are coordinated under an inter-agency group chaired by the Ministry of Interior (MOI) with the Ministry of State Security (MSS) as Deputy Chair. The interagency group did not undertake any significant counternarcotics policy initiatives in 1999, in large part due to the lead agencies being fully tasked for other priorities involving Georgian national security.

Law Enforcement Efforts. Drug seizures and arrests in 1999 were greater than in 1998. Despite a growing awareness of the dangers of increased narcotics transiting, all of the relevant law enforcement agencies in Georgia suffer from a lack of financial resources. Their personnel are under-equipped and poorly trained. Command lines are vague and these organizations are vastly over-staffed.

Corruption. Corruption is a significant problem within Georgia's law enforcement agencies. Government officials generally do not encourage or facilitate illegal narcotic activity, though a number have been involved in the smuggling of cigarettes and alcohol. Georgia's anti-corruption efforts are hampered by the widespread acceptance of corruption within Georgian society. Despite numerous investigations and firings, petty corruption on the part of lower level government officials is still widely tolerated as an inevitable consequence of economic hardship and subsistence salaries, often unpaid for months at a time. Customs officials lack proper training and are easily corruptible. Although the head of the Customs Service is appointed by the President, other positions are reportedly purchased.

Agreements and Treaties. The Government of Georgia has no counternarcotics agreements with the United States. Georgia has been a party to the 1988 UN Drug Convention since January 1998. Georgia is also a party to the Council of Europe Prisoner Transfer Treaty. Apart from a cooperation agreement between Georgian and Turkish Interior Ministries, there are no formal mechanisms to exchange counternarcotics information.

Cultivation and Production. Estimates by the GOG on the extent of narcotics cultivation in Georgia are unreliable and do not include those areas of the country outside the central government's control. Given the small amount of low-grade marijuana grown mainly in the foothills of the Caucasus mountains, largely for domestic use, Georgia is not demonstrably a significant producer of narcotics. Although Georgia has the technical potential to produce precursor chemicals, it has no known capacity for presently producing significant quantities.

Drug Flow/Transit. The government has no reliable statistics on the volume of drugs transiting Georgia. The central government only recently has assumed control from the Russians over the borders on the territory it does control and it still lacks effective control over other parts of its borders.

Demand Reduction. There are approximately 11,000 drug addicts of all sorts in Georgia, according to MOI estimates. The national program prepared by the MOI's anti-narcotics unit is comprehensive; however, program implementation has been constrained due to a lack of resources. Besides law enforcement activities, the government's strategy involves the treatment of addicts and the education of young people as keys to the long-term reduction of domestic drug use.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG has dedicated \$16.5 million in fiscal year 2000 to the Georgian Law Enforcement Assistance and Border Security Program. This program will assist the GOG in developing the capabilities of its border guards and customs officials to help it assume effective control of its borders. In October 1999, a counternarcotics component of this program was conducted by DEA and U.S. Customs to train joint classes of border guards and customs officers in contraband enforcement and the use of narcotic test kits. Upon completion of the training, two hundred test kits were divided equally between the two departments.

The Road Ahead. Corruption in Georgian law enforcement agencies makes it unlikely that counternarcotics efforts will become effective in the near future. Without radical reform and extensive personnel changes, the effect of financial and technical assistance from the U.S. and the international community will be largely nullified. Any assistance to Georgian law enforcement, including counternarcotics, must include provisions for these reforms and must be closely monitored for progress.

Germany

I. Summary

Located in the center of Europe, Germany is a significant crossroads for drug trafficking. Germany continues to be a major consumer of illicit drugs, though 10-month figures for 1999 indicate a slight decline in the number of first-time hard drug users. Heroin, ecstasy, and marijuana are the most abused illegal drugs. A 316-

kilogram seizure of heroin in February was the largest quantity of that drug ever seized in Germany. Turkey continues to be Germany's primary source of heroin moving it via the traditional Balkan and northern Balkan land routes. Ecstasy smuggling to the United States through Germany is on the rise. Germany has criminalized money laundering but the law's reporting mechanisms remain a drawback. Germany is party to the 1988 UN Drug Convention.

II. Status of Country

Drug couriers from around the world travel to or through Germany via its major airports at Frankfurt and Duesseldorf and seaports such as Hamburg and Bremen on the North Sea and Rostok on the Baltic Sea. Germany acts as a major transit point for heroin destined for the European market. Turkish traffickers remain the most significant heroin trafficking group. Colombia remains the main source of cocaine transiting Germany. Police report that smuggling from Venezuela has decreased. Germany is the world's leading manufacturer of pharmaceuticals, making it a target for precursor chemical diversions.

III. Country Actions Against Drugs in 1999

Under the ruling coalition between the Social Democrats and the Greens, coordination of drug policy was transferred from the interior ministry to the health ministry late in 1998. This signified a change in emphasis: drug use and drug problems now are to be approached more as social and health concerns rather than criminal problems that require punishment. State Secretary Christa Nickels, who is in charge of drug issues in the health ministry, is focusing on prevention efforts and raising awareness of drug addiction as a sickness. She recently announced the formation of an independent addiction and drug commission to advise her. A public media campaign on drug prevention "to make children strong" is in the works. The Bundestag (parliament) is now discussing the establishment of so-called "fixerstuben" that would provide controlled environments, or 'safe havens' that administer drug paraphernalia (clean needles etc.) for addicts. Certain "fixerstuben" also administer methadone programs. U.S. law enforcement agencies report that the changes have not reduced Germany's efforts to fight international drug trafficking.

Germany contributed U.S. \$ 4.2 million in 1998 to the UN drug control program. Due to federal budget restrictions, that amount was reduced to between U.S. \$ 700,000 and 800,000 in 1999. Most of the funds are earmarked for alternative development programs that assist small farmers in Bolivia to develop alternative crops to coca.

Accomplishments. Through October 1999, police have seized six illegal laboratories used for the production of synthetic drugs. For the first time, an ecstasy laboratory was discovered in one of former East German states – Saxony anhalt. The substances seized would have produced 40,000 ecstasy tablets. Almost half the ecstasy tablets seized in the first half of 1999 were destined for the United States. Last year, Germany added khat and mushrooms containing psilocybine to its list of illegal drugs. Through October of 1999, police seized 3959.8 kilograms of khat (primarily from Somalians) and 24.8 kilograms of mushrooms. Both narcotics were primarily brought into Germany from the Netherlands (where khat is not considered a narcotic). Heroin seizures were on the rise in 1999, in part as the result of a February seizure of 316 kilograms of heroin in Frankfurt an der Oder in the state of Brandenburg.

Law Enforcement Efforts. At the state and federal levels, German law enforcement efforts are effective and cooperation with U.S. counterparts is excellent.

Corruption. Isolated cases of corruption may occur but it is not a major problem in Germany. The government does not encourage or facilitate the production or distribution of illicit drugs.

Agreements and Treaties. Germany has been a party to the 1988 UN Drug Convention since 1993. Mutual Legal Assistance Treaty (MLAT) negotiations between the U.S. and Germany are active and moving toward completion. The USG has concluded a Customs Mutual Assistance Agreement (CMAA) with the Government of Germany.

Cultivation/Production. Police occasionally discover marijuana plants cultivated for personal use, but there is no large-scale cultivation of any type of drug in Germany.

Drug Flow/Transit. The numerous transshipments of drugs through Germany remain a cause for concern. However, U.S. law enforcement agencies report no grand initiatives on this issue by Germany during its presidency of the Schengen countries and the European Union. Turkey remains the major country of origin of heroin passing through Germany trafficked by Turks, Germans, Italians, Moroccans, and Yugoslavs. Most cocaine seizures involved drugs from Colombia, though other countries of origin include Costa Rica, Nicaragua, the Netherlands and Brazil.

Domestic Programs/Demand Reduction. It will be some time before efforts to combat drug use through a new emphasis on prevention, as is the focus of the Health Ministry, can be assessed.

IV. U. S. Policy Initiatives and Programs

Bilateral Cooperation. German law enforcement agencies work closely and effectively with their U.S. counterparts – particularly the Drug Enforcement Administration (DEA) – in narcotics-related cases. They routinely cooperate in joint investigations. This year, DEA and German law enforcement agencies cooperated to counter the surge in ecstasy smuggling to the U.S. Methods including controlled deliveries in the U.S. resulted in the confiscation of 160 kilograms of ecstasy and 20 arrests. The DEA reported cooperation in two cases in which German law enforcement agencies would have been eligible for the sharing of confiscated assets valued at U.S. \$ 60,000. But Germany has no mechanism for its law enforcement agencies to accept seized assets. Close cooperation to curb money laundering continues between DEA, the Federal Bureau of Investigation (FBI), the Internal Revenue Service, the U.S. Customs Service and their German counterparts.

The Road Ahead. The U.S. mission in Germany will continue to encourage conclusion of an MLAT, to urge the strengthening of money laundering laws and to call for greater ease in the official flow of information. U.S. law enforcement agencies intend to develop their newly established ties with police in the eastern states.

Greece

I. Summary

Greece is an important "gateway" country in the transit of illicit drugs. Narcotics flow into Western Europe both through Greece's porous marine borders and through land borders with neighboring countries. Heroin and hashish enter Greece via Turkey, while cannabis and other drugs enter via Albania, Bulgaria and FYROM. Greek authorities report that drug abuse, particularly of heroin, is increasing. The country has the second highest rate of increase in drug overdose deaths in Europe.

Local U.S. authorities report an excellent working relationship with Greek law enforcement agencies. The government of Greece (GOG) is an active member of international anti-drug and anti-money laundering organizations such as the Financial Action Task Force (FATF) and the Dublin Group, in which its representative chairs the Balkans/Near East regional working group. The GOG signed the Southeast European Cooperative Initiative (SECI) anti-crime initiative and plans to participate in the work of the regional anti-crime center in Bucharest, including a specialized task force on counternarcotics. Greece is a party to the 1988 UN Drug Convention.

II. Status of Country

Greece's geography, particularly its extensive coastline and numerous islands, its merchant marine (largest in the world), and its membership in the European Union make it a favored drug transshipment route to Western Europe. Two major Balkan drug routes pass through Greece: from Turkey through Greece and Albania to Italy, and from Turkey through Greece to Bulgaria and on to central and Western Europe.

The domestic market for illicit drugs is growing, particularly for heroin. A recent study by the University of Athens found that the use of narcotics tripled in the last 15 years. Greek officials in charge of counternarcotics policy estimated the number of persons in Greece using heroin on a regular basis at approximately 40,000, an estimated 90 percent of the heroin addicts using it intravenously. Other drugs used include cocaine, LSD, ecstasy, barbiturates, amphetamines, and locally grown marijuana. Academic sources estimated the average age for first time marijuana use to be 13 years old. Solvents are the most widely used substances among high school students (6.5 percent in 1993 and 13.7 percent among students aged 15–16 in 1998).

While not a major producer, supplier, or transshipment point for precursor chemicals, Greece has a special customs unit to track and investigate chemical imports and exports.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The Ministers of Health and Justice approved the extension of the government's network of methadone treatment, in addition to two methadone treatment centers already in Athens and in two in Thessaloniki, to several other major cities in Greece. OKANA, the Ministry of Health's agency for combating narcotics use, treats approximately 650 addicts at the four existing methadone treatment centers and has 1,800 people on its waiting list. It also runs a needle exchange program; syringes are inexpensive and readily available in pharmacies. (Greece has the lowest prevalence of HIV infections in Europe, around four percent.)

The Ministry of Justice, with OKANA and the Ministry of Health, undertook the creation of a treatment facility for prison inmates addicted to drugs. The center, to be located in Avlona (Thiva), is in the process of recruiting its 120–person staff.

Accomplishments. The Financial Crimes Enforcement Unit (SDOE) of the Ministry of Finance has participated in a number of narcotics interception operations since it was activated in 1987. In May 1999, after a 10–month investigation, the U.S. Drug Enforcement Agency (DEA), working with the Hellenic National Police (HNP), SDOE and Hellenic Coast Guard seized about four tons of cocaine, 4.5 million dollars, and arrested 16 suspects. Greek authorities' valuable assistance to DEA also led to the arrest of several high–level Colombian traffickers based in Barranquilla and Panama.

Law Enforcement Efforts. The Central Narcotics Council, composed of representatives from the Ministries of Public Order, Finance, and Merchant Marine, coordinates Greece's drug enforcement activities. Cooperation between U.S. and Greek law enforcement officials is excellent; the GOG pursues U.S. requests for legal assistance energetically. Although Greek laws permit the seizure of assets related to drug convictions, they do not permit the sharing of seized assets with other countries.

Due to budget constraints, Greek authorities are unable to devote adequate resources to anti-narcotics activities; as a result, police equipment is often outdated and training is infrequent. The anti-narcotics unit of the Greek police does not have its own budget.

Corruption. The Ministry of Public Order opened a Bureau of Internal Affairs in October 1999 to combat police corruption. A billion drachma (about \$350 million) package was under development to train police and deter corruption. Local U.S. authorities had no reports of serious corruption within the narcotics department of the police force, nor in other governmental anti-narcotics agencies. The government ombudsman's office, created in 1998, has authority to investigate corruption complaints within the governmental bodies that bear the anti-narcotics responsibility in Greece.

Agreements and Treaties. Greece is a party to the 1988 UN Drug Convention, and meets the convention's goals and objectives relating to drug cultivation, distribution, sale, transport, law enforcement, transit cooperation, and demand reduction. Greece has passed implementing legislation for essential and precursor chemical controls. An agreement between the GOG and the U.S. to exchange information on narcotics trafficking has been in force since 1928, and an extradition treaty has been in force since 1932. A new Mutual Legal Assistance Treaty (MLAT) between the U.S. and the GOG was signed and awaits ratification by Congress and the Greek Parliament. Progress was made in 1999 to advance the Police Protocol agreement which, when signed, will enhance operational police cooperation between the two countries. The U.S. has concluded a Customs Mutual Assistance Agreement (CMAA) with the GOG.

Cultivation/Production. Cannabis, cultivated in small amounts for local consumption, is the only illicit drug produced in Greece.

Drug Flow/Transit. Greece is a major transshipment route to Western Europe for heroin from Turkey, hashish from the Middle East, and heroin, ecstasy, and marijuana from South Asia. Marijuana and other drugs are smuggled across the borders from Albania, Bulgaria and FYROM. Marijuana has been smuggled into Greece on pack mules across the mountainous border with Albania. Hashish is off-loaded in remote areas of the country and transported to Western Europe by boat or overland. Larger shipments are smuggled into Greece in shipping containers, on bonded "TIR" trucks, in automobiles, on trains, and in buses. Such trucks typically enter Greece via Turkish border crossings, then cross the Adriatic by ferry to Italy. A small portion of these drugs is smuggled into the U.S., including Turkish heroin that is traded for Latin American cocaine. Nigerian drug organizations smuggle heroin and cocaine through the Athens airport, and increasingly through the Aegean islands, from Turkey. The police have raided several organizations selling anabolic steroids (not a controlled substance in Greece) by mail to purchasers in the U.S. Cocaine also transits through Greece to other parts of Europe.

Domestic Programs. OKANA coordinates all national anti-narcotics policy in Greece. It heads demand reduction efforts, develops and administers information and prevention programs, runs treatment centers for substance abusers, and coordinates with other agencies involved in narcotics treatment and prevention.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. DEA has a close working relationship with representatives of the Greek coast guard, the national police, customs, SDOE, and INTERPOL.

Embassy Athens' economic section maintains regular contact with SDOE and facilitated the visit by the U.S. Treasury's FinCEN (financial crimes enforcement network) to SDOE in October 1999. The Embassy's office for public diplomacy regularly distributes literature on drug prevention, and periodically arranges background briefings with DEA officers for local journalists and general informational seminars. Local DEA officials are frequent speakers at local schools. Another program provides grants to Kethea (a self-regulating legal entity under the supervision of the Ministry of Health, providing treatment, vocational training and social rehabilitation to drug addicts) to bring U.S. rehabilitation experts for two weeks at a time to train Greek therapists.

The Road Ahead. The U.S. will encourage the GOG to continue to participate actively in international organizations such as the Dublin Group. DEA will continue to seek funding to offer training to Greek officials.

Hungary

I. Summary

Hungary is an important transit country for illegal narcotics to western Europe. Overall, the number of seizures

increased by 12 percent, while the total weight of drugs confiscated slightly decreased. Domestic consumption of illegal narcotics, particularly LSD and ecstasy, continues to be a problem. The Government of Hungary (GOH) passed anti-drug legislation in late 1998 that went into effect in early 1999. Among the strictest in Europe, the new legislation introduced stiff penalties for using and/or selling narcotics. This legislation was followed by a government campaign to eliminate corruption among government officials, especially those in the political or judicial sphere. Drug traffickers may be punished with life imprisonment. Civil rights activists have argued that the new laws unfairly punish casual users. The USG and GOH have both a Mutual Legal Assistance Treaty (MLAT) and an Extradition Treaty. An information sharing MOU to further improve U.S.-Hungarian law enforcement cooperation was signed in January 2000. Hungary is party to the 1988 UN Drug Convention.

II. Status of Country

Hungary continued to serve as a major transit country for illegal narcotics smuggled from southwest Asia, mainly heroin from Turkey, and the Balkans to western Europe. Unrest in the former Yugoslavia, coupled with the good road, rail and air connections in Hungary, make Hungary an attractive route for drug smugglers. Drug confiscation on Hungary's borders increased slightly in 1999, although several important areas showed steep declines. For example, heroin confiscations declined, in part due to the vigilance of inspectors at Budapest's Ferihegy international airport, diverting heroin shipments to other routes. Yet, Nigerian cocaine traffickers continue to successfully smuggle cocaine into Western Europe through the Hungarian airport. Moreover, in 1999, the number of marijuana and hashish confiscations increased sharply (over 20 percent) over 1998 figures, according to GOH reports. The reduction in the weight of these confiscations, however, was even more startling. The gross weight of marijuana confiscated in 1999 compared to 1998 fell by over 90 percent. Similar figures are available for hashish confiscations by weight. The GOH assesses that foreign groups primarily control the transit and sale of narcotics in Hungary, particularly from Albania, Turkey and Nigeria. Many of these groups have been resident in Hungary for many years. Ethnic Turks increasingly are using more sophisticated means of transporting drugs through Hungary, including the use of German-licensed vehicles that are not as closely scrutinized by border guards.

Hungarian authorities report an increasingly serious domestic drug consumption problem, but GOH statistics vary widely. The Ministry of Youth and Sports Affairs (MYSAs), the element of the Hungarian government nominally responsible for drug use statistics, estimated the number of addicts in 1999 at 25,000 to 30,000. However, in October, Hungary's medical community, estimated the number at between 40,000 and 80,000. MYSAs figures from 1998 assessed that there were over 100,000 addicts and 35,000 to 50,000 occasional users.

Drug-related deaths from overdoses and traffic accidents rose from 204 in 1995 to 339 in 1997 (latest available figures). Between 1995 and 1998 the number of hospital-reported drug treatment cases for children and teenagers increased by a factor of 2.5. Heroin and cocaine prices are relatively stable, but still remain too high for most Hungarians. Domestically produced ecstasy, LSD and marijuana are readily available and their use is rising. Criminal penalties for producing precursor chemicals were substantially increased by enactment of the new legislation.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Anti-crime legislation introduced into law on March 1, 1999 was the first initiative of the new government elected in May 1998. The legislation stiffens Hungary's criminal code, extends life imprisonment for drug trafficking, allows confiscation of property, creates new criminal provisions for production of chemical precursors and increases penalties for drug-related crimes. All drug consumers, including casual users, are subject to criminal penalties, although addicts may be exempted from prosecution. Civil rights leaders claim that the new provisions, among the toughest in Europe, will unfairly punish casual users, while exempting addicts. An ad hoc parliamentary committee called for the disbanding of the inter-ministerial drug committee by a "drug czar" and a new office responsible for anti-narcotics strategy. Both initiatives, if approved, would be subordinate to the Prime Minister's office.

Law Enforcement Efforts. Hungarian and Austrian border authorities continue joint cross-border anti-narcotics investigation efforts begun in 1998. GOH officials continue to participate in international law enforcement training efforts, particularly through the Budapest-based International Law Enforcement Academy (ILEA). Eastern Hungary has seen initial steps toward joint border control efforts with Romanian and Ukrainian counterparts, while newly updated detection equipment at high-incident border posts will help to bring down incident rates in these areas.

Corruption. Hungary's new governing coalition passed an anti-Mafia package that went into effect in early 1999. Its provisions include increased criminal penalties for organized crime relating to drugs and money laundering in addition to a number of other areas. The GOH has taken measures to focus attention on corruption, especially among government officials. The new commander of the border guards, upon assuming office in late 1999, unveiled plans for a new personnel system that will break up the continuity of border guard posts in an effort to separate groups of border guards who may engage in corruption.

Agreements and Treaties. Hungary is a party to the 1961 UN Single Convention amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. An extradition treaty and an MLAT between the U.S. and Hungary have been in force since 1997. In January 2000, the U.S. and GOH concluded a bilateral information-sharing MOU that will allow U.S. and Hungarian law enforcement officials to work more closely together on investigations of mutual interest. The USG has concluded a Customs Mutual Assistance Agreement (CMAA) with the Government of Hungary.

Illicit Cultivation. GOH authorities claim that marijuana, ecstasy and LSD are locally produced; all other illegal narcotics are imported into Hungary. Marijuana is mostly cultivated in western Hungary. Twenty marijuana plantations reportedly were eradicated in 1998, but only 4 were reported through the first half of 1999 with a combined weight of 500-kg (latest available data).

Demand Reduction. In 1999 the GOH, through the Ministry for Youth and Sports Affairs, spent approximately U.S. \$ 400,000 on demand reduction activities. Nearly 75 percent of these funds were used for local programs and media events. Approximately 10 percent was used for publications and training. The USG, EU, and other international donors also provide some funding for demand reduction efforts.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG focuses its support for GOH counternarcotics efforts on training and cooperation, primarily through the Budapest-based, Department of State (Bureau of International Narcotics and Law Enforcement Affairs)-funded ILEA, established in 1995. In 1999 ILEA trained approximately 160 Hungarians, as well as law enforcement officials throughout the region. In the near future, ILEA hopes to participate in the training of Kosovar police officers as a way to share primarily U.S., but also European, including Hungarian, experience with Hungary's neighbor to the south. DEA also conducts training programs for its Hungarian counterparts. DEA maintains an office in Vienna, Austria that is accredited to Hungary and works with local authorities.

The Road Ahead. The USG is supportive of Hungarian legislative efforts to stiffen criminal penalties for drug offenses and will continue to support the GOH through training at ILEA and ad hoc initiatives elsewhere. The USG's law enforcement initiative is bringing greater USG resources to bear on the fight against organized crime, including drug trafficking. As part of that effort, the USG will continue to sponsor law enforcement training programs and technical assistance via a "6-point" plan developed in October 1998 to combat organized crime.

Iceland

I. Summary

Iceland is not a significant drug-producing or drug-transiting country. Most of the illegal drugs in Iceland originate from outside the country and appear to be brought in solely for the domestic market. The government is concerned, however, that the country's numerous unsupervised harbors and airstrips could make Iceland attractive to international drug traffickers looking for a transit point between continental Europe and the U.S. To better coordinate the activities of national and local authorities in the fight against drugs, the national Alcohol and Drug-Prevention Council was established in 1999. There is hope that the government's "Iceland without drugs" program, launched in 1997, is bearing fruit. A survey of 10th graders shows alcohol and drug use dropping for the first time since 1990. At the same time, however, other evidence indicates that general drug abuse is continuing to increase, as it has since 1995. The police had a record year in seizing drugs, largely due to the bust of a major drug ring, which had an estimated 30 to 40 percent of the hashish market. This case also marks the first time that the government pursued money laundering charges and moved to seize the assets of those involved.

II. Status of Country

Illegal drugs and precursor chemicals are not cultivated or produced in significant quantities in Iceland. The harsh climate and lack of arable land make the outdoor cultivation of drug crops almost impossible. Icelandic authorities believe that the production of drugs, to the extent it exists, is limited to individual marijuana plants and a small amount of homemade amphetamines. The vast majority of illegal drugs found in Iceland originates from outside the country, mainly Denmark, Netherlands, Germany and the U.S.: chiefly cannabis, amphetamines, cocaine and ecstasy. Icelandic authorities believe that most illegal drugs are smuggled into the country in commercial containers and by airline passengers. There is some concern that Iceland's expected accession in 2000 to the Schengen Agreement could increase the problem of drugs entering with passengers arriving from other Schengen countries.

Conventional wisdom has held that Iceland's geographic isolation in the harsh environment of the North Atlantic protects it against other types of smuggling. There is growing concern, however, that drug traffickers could be taking advantage of Iceland's sparse population and numerous unguarded harbors and airstrips to bring in drugs by small private boats and planes. Drug abuse in Iceland is considered to have increased

significantly since 1995, roughly coinciding with the economic boom that brought unprecedented prosperity to the country.

III. Country Action Against Drugs in 1999

Policy Initiatives. To better coordinate the counternarcotics efforts of national and local authorities, the national Alcohol and Drug-Prevention Council was established effective 1 January 1999. The council includes a representative from each of the seven ministries involved in the fight against drugs (i.e., Prime Minister's office, Foreign Affairs, Social Affairs, Health, Justice, Finance and Education) as well as a representative from the National Association of Municipalities. The existing five-year "Drug-Free Iceland" program, which began in 1997 as a cooperative effort among the national government, the city of Reykjavik, and the Association of European Cities against Drugs, is one of the council's main projects.

Accomplishments. The 1999 figures for the number of drug seizures, and for the value of drug proceeds seized which were being laundered through a local business, set new records for Iceland. The police estimate that the drug ring had been operating for at least a year and was supplying 30 to 40 percent of the hashish market. For the first time ever, the government pursued money laundering charges and moved to seize the assets of those involved. The street price of cannabis doubled immediately after the bust, but in a reflection at how quickly new supply sources can be found, the price returned to its former level after only a couple of weeks. In another major drug bust based on a year and a half of surveillance, the police were successful in stopping a smaller group that had planned, over time, to bring in some 500 kilograms of illicit drugs from Barcelona, Spain.

Law Enforcement Efforts. In March 1999, the National Police Commissioner and the Director of Customs signed an agreement to facilitate greater police and customs cooperation in the fight against illegal drugs. The agreement includes provisions for the sharing of information, the establishment of a joint database, the holding of regular consultations, the use of drug dogs, and the exchange of officers. In April 1999, the National Police Commissioner issued strict guidelines to the chiefs of police in each of the country's 27 administrative districts regarding the investigation of drug cases. The chiefs of police must now send a monthly report to the National Police Commission outlining who in their district is suspected of producing, importing or distributing illegal drugs and what the district police are doing about it. To assist the district chiefs of police in pursuing drug cases, the National Police Commission has divided the country into five operational areas and assigned a specially trained narcotics officer to each one. In addition, a special anti-drug task force has been established to conduct operations in the southwest of Iceland, where most of the illegal drugs are believed to enter the country. In April 1999, a special committee convoked by the Minister of Justice issued a report recommending legal changes to allow greater use of "unconventional" techniques by police when investigating drug crimes.

Corruption. Public corruption is rare in Iceland and there has never been a case of it involving illegal narcotics.

Agreements and Treaties. Iceland is a party to the 1988 UN Drug Convention as well as the 1990 European Convention on Money Laundering, Search, Seizure and Confiscation of Criminal Proceeds.

Cultivation/Production. There is no significant cultivation or production of illegal drugs, aside from isolated marijuana plants grown for personal use and small amounts of homemade amphetamines.

Drug Flow/Transit. There is no evidence currently that Iceland is being used as a transit country by international drug traffickers. The illegal drugs arriving in the country appear to be solely for the domestic market. There is concern, however, that Iceland's many unsupervised harbors and airfields could make the country attractive as a transit point in the future.

Domestic Programs. The "Drug-Free Iceland" program, launched in 1997, continued in 1999 to mobilize Icelandic society as a whole in the fight against drugs. Through a series of highly visible ad campaigns, special emphasis was put on educating parents about the reality of drug and alcohol abuse by contemporary Icelandic youth and reminding them of their primary role in preventing such abuse by doing such things as enforcing the legal curfew. There were indications in 1999 that these efforts might be having an effect. An annual survey of Icelandic 10th graders showed a decrease in alcohol and illicit drug use.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The U.S. objective in Iceland has been to facilitate to the extent possible counternarcotics cooperation between working-level officials. The embassy has addressed this in two ways: by bringing U.S. experts to Iceland to discuss their experience in fighting drugs, and by sending Icelandic police and other officials to the U.S. to participate in international visitor programs and/or law enforcement training. A November 1999 speaker program, for example, brought two drug prevention experts from Hazleton, Pennsylvania, to Iceland to discuss how they mobilized their communities to fight drug abuse. Icelandic experts visiting the U.S., such as the police officers who have attended the FBI academy, have frequently developed contacts that continue to prove beneficial to both countries.

Bilateral Cooperation. Under a 1989 bilateral agreement, a Joint Information Coordination Center (JICC) was established in Iceland, which was designed to facilitate information exchange regarding small aircraft flying between the U.S. and Europe via Iceland. The JICC reports information about transiting planes to the El Paso Intelligence Center (EPIC), which, in turn, notifies the JICC whether derogatory information exists on that particular aircraft or its passengers. Use of the JICC, however, has yielded limited results in Iceland in terms of arrests and seizures. Icelandic officials are currently reviewing their participation in the system.

There are several new avenues for bilateral cooperation, based on a meeting that the U.S. Attorney General had with the Icelandic Justice Minister in November 1999. The Justice Minister expressed interest in learning more about police training in the U.S. with a view toward upgrading Icelandic training; sending Icelandic police officers to the U.S. on study trips and consultations to become familiar with the U.S. system; receiving information about the latest technical equipment used by police in the U.S.; having Icelandic border police receive training on fraudulent travel documents; and obtaining advice on how to enhance Iceland's collection of statistical information on drug crimes.

The Road Ahead. The U.S. will continue to foster bilateral cooperation with Iceland through its speaker and international visitor programs. Embassy Reykjavik, in cooperation with DEA and legal attaches in Copenhagen, will also work to make the JICC mechanism more useful for both countries and to respond to the Justice Minister's specific requests for cooperation and assistance.

Ireland

I. Summary

The Republic of Ireland does not figure prominently in international drug trafficking, although increasing drug abuse among Irish youth continues to have a significant domestic impact. In 1999, the Irish government maintained a heightened anti-drug effort aimed at interdiction and demand reduction and approved new counternarcotics legislation. There have been no verifiable instances of Ireland being used as a transshipment point for narcotics being sent to the U.S. Ireland is a party to the 1988 UN Drug Convention.

II. Status of Country

Drug seizures within the Republic and off its coast continue to show that Ireland is used as a transit point for the shipment of narcotics to and from continental Europe. Current drug flows in Ireland indicate that this transshipment role remains small; however, an extensive and largely unguarded coastline may mean a future increase in drug flows. Ireland is not a significant source of drugs or precursor chemicals. Money laundering, although still relatively limited, has seen an increase in value over the last few years.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Ireland continues to devote considerable resources to its counternarcotics efforts. In 1999, the government approved new legislation concerning mandatory prison sentences for drug dealers, witness protection, and money laundering and announced a multi-million dollar demand reduction program. Authorities stepped up anti-narcotics cooperation with other European countries and ties were further reinforced between the Garda Siochana (National Police) and U.S. Drug Enforcement Administration (DEA) during an asset forfeiture seminar.

Cultivation/Production. Cultivation of narcotics remains limited to small quantities of cannabis. The Garda continued to break up small indoor growing operations throughout the year.

Over the last few years, the Gardai have seized fewer than 1,000 cannabis plants annually, indicating limited growth of cannabis in Ireland, usually using hydroponic methods in an indoor operation. The influx of "serious" narcotic substances, such as methamphetamine and cocaine, continued into Ireland in 1999, renewing fears by the police that domestic production of psychotropic substances may begin in the near future. To date, there is still no evidence of domestic synthetic drug production capability.

Drug Flow/Transit. Drug seizures in 1999 confirmed a continued increase in the flow of narcotics into Ireland. Irish authorities acknowledge that the republic remains a "gateway" for imports of cannabis, cocaine and amphetamines to continental Europe. The cocaine is thought to come primarily from Colombia and other countries in Latin America and the Caribbean. Cannabis and amphetamine shipments are thought to originate in the Netherlands and eastern European countries respectively. In the opposite direction, Ireland continues as a recipient of heroin shipments via the U.K. There have been no verifiable instances of Ireland being used as a transshipment point for narcotics being sent to the U.S.. In 1999, Gardai continued to destroy narcotics networks in operation throughout Ireland. Concerns remain, however, that such organizations are moving to more complex networks and distribution systems, including the involvement of non-Irish criminals.

Domestic Programs. Drug abuse in Ireland is still increasing, albeit at a slower rate than that of other western European countries. Drug abuse among the young is especially prevalent. A recent survey estimated that Irish teenagers are twice as likely to have sampled heroin than most other young Europeans and 40% of Irish 16-

year-olds have tried cannabis. The government stepped up its demand reduction efforts, allocating approximately \$54 million over the next several years toward local community drug task forces responsible for the implementation of education and prevention programs, community activity programs, local volunteer anti-drug efforts and similar programs.

Accomplishments. In 1999, the Irish government continued to make its fight against drug trafficking a high priority. It approved funding for recruitment of an additional 500 Gardai, as part of the government's effort to bring the police force to 12,000 police officers. It adopted legislation setting a minimum mandatory 10 year sentence for those convicted of dealing drugs worth 10,000 Irish pounds or more, and creating protections for witnesses called to testify at trial.

Law Enforcement Efforts. Gardai were involved during 1999 in several successful million-dollar drug busts of various substances including cannabis, cocaine and ecstasy. One notable case involved cooperation with Spanish authorities and Europol that yielded a \$1.6 billion cocaine seizure in Spanish waters. The Irish Defense forces continue to contribute to anti-narcotics efforts in the Republic. The Irish Navy is part of Ireland's drugs task force, with the Gardai and customs, and sees drug interdiction as one of its major roles while patrolling the territorial waters of Ireland. It conducts several exercises each year with the British Navy focused specifically on interdiction efforts. The Irish Air Corps supplies a variety of aircraft in support of these operations.

Irish counternarcotics organizations continue to work closely with their counterparts in Europe and the U.S. In September, Irish authorities hosted a DEA-sponsored asset forfeiture seminar in Dublin. Ireland was also the host of the European chapter of International Association of Chiefs of Police (IACP) annual conference in May, attended by the directors of the U.S. Customs Service, the FBI and DEA.

Corruption. There were no verifiable instances of police or other official corruption related to drug activities in 1999.

Agreements and Treaties. Ireland signed agreements with the U.S. on customs cooperation and taxation, and is also a party to the 1988 UN Drug Convention, the Council of Europe convention on mutual assistance in criminal matters, and the Europol Convention. There is a 1983 extradition treaty in place between the U.S. and Ireland. Although Ireland is not an identified source of precursor chemicals, the Republic maintains controls in accordance with the EU-U.S. Agreement on Precursor Chemical Control of 1997. Ireland is a member of the Dublin group and held the chairmanship until December 1999. Ireland continues to actively seek the extradition of drug traffickers from various states, mostly from within the European Union.

As a participant in the United Nations Drug Control Program (UNDCP), Ireland in 1999 contributed approximately \$280,000 to the organization's funds, slightly greater than the 1998 contribution. Fifty percent of this amount was earmarked for general purposes relating to institution/capacity building and alternative development. Twenty-five percent was used for anti-narcotics efforts in the Caribbean region with the other 25 percent aimed at alternative development in the Apurimac region in Peru.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. and Irish counternarcotics officials furthered their close working relationship in both official and unofficial capacities throughout 1999. In addition to handling requests for investigative assistance and background information, officials were often involved in joint operations/investigations. Most notably, the Garda Siochana hosted a DEA asset forfeiture seminar in September, with participants from Irish law enforcement agencies, the Isle of Man police and the Jersey and Guernsey police.

The Road Ahead. By supporting Irish efforts to counter drug trafficking, the U.S. can help ensure that Ireland does not become a transit point for narcotics trafficking to the U.S. and that Ireland's developing financial services market does not become a haven for money laundering. In pursuit of these objectives, the U.S. will continue to offer cooperation and assistance with Irish authorities in this field.

Italy

I. Summary

There have been no significant changes in Italy's status, nor its counternarcotics program since last year's report. The Government of Italy (GOI) continues to be committed to the fight against drug trafficking. Italian organized crime groups continue to be involved in international drug trafficking and money laundering. The collapse of the former Soviet Union and the political turmoil in former Yugoslavia has strengthened links between Italian organized crime and Russian and Albanian criminal organizations, and other organized crime groups active in the former Yugoslavian countries. GOI cooperation with U.S. law enforcement agencies continues to be exemplary. Italy is a party to the 1988 UN Drug Convention.

II. Status of Country

Italy is not a drug producing country. The last heroin-processing laboratory was discovered in 1985; locally-produced heroin was last seized in 1987. Although there are no cocaine HCl processing laboratories in Italy, Colombians and Italians have jointly set up cocaine conversion sites. A cocaine conversion laboratory was seized in Rome in 1999.

III. Country Action Against Drugs in 1999

Policy Initiatives. Possession of small amounts of illegal drugs is not a criminal offense in Italy. Although the majority of the population is opposed to the legalization of drugs, the Italian radical party has proposed legislation to legalize drugs such as hashish and marijuana. Italy continues to promote the Teledrug system (a data base system proposal to facilitate the sharing of drug intelligence among nations, in which 13 countries participate), and has requested that the U.S. participate also. The Italian Central Directorate for Anti-drug services (Direzione Centrale per i Servizi Antidroga or DCSA) provides training for Italian and foreign law enforcement officers such as Russians and Albanians, and currently has drug liaison officers in 17 countries. Italy is a major contributor to the United Nations Drug Control Program (UNDCP), based in Vienna, and contributed approximately U.S. \$ 9 million in 1998 to UN programs to combat illegal drugs and crime.

Accomplishments. Several major organized crime figures were arrested in 1999. Narcotics seizure statistics for 1999, contrasted with 1998 figures, suggest progress in the war on drugs: 1273 kg heroin seized (710 kg in 1998), 2895 kg cocaine (2151 kg), 42383 kg hashish (15404 kg), 20332 kg marijuana (39118 kg), 286225 ecstasy tablets (129716 tabs), 745 deaths due to overdose (1075), and 23280 persons charged for drug trafficking (23625).

Law Enforcement Efforts. The fight against drugs has been a major priority of each of the three police services and is coordinated by DCSA.

Corruption. There is no indication of drug-related corruption in Italy.

Agreements and Treaty. Italy is a party to the 1961 UN Single Convention and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Both extradition and mutual legal assistance treaties are in place between Italy and the U.S. Italy is a member of the Italian-American-Canadian-French working group, as well as the bilateral Italian-American working group, which both held annual meetings in Italy in 1999. As a member of the European Community, Italy participates in the Dublin group, UNDCP Pompidou group, Europol and EU cabinet, and attendant committees and working groups. The U.S. has concluded a Customs Mutual Assistance Agreement (CMAA) with Italy. Italy is also a party to the World Customs Organization's International Convention on Mutual Administrative Assistance for the Prevention, Investigation, and Repression of Customs Offenses (Nairobi Convention), Annex X on Assistance in Narcotics Cases.

Cultivation/Production. There is no known coca bush cultivation in Italy. Some opium poppy grows spontaneously in the southern part of Italy and the islands of Sicily and Sardinia, but its alkaloid content is minimal and thus does not present a threat. Although small amounts of homegrown marijuana are cultivated in southern Italy, the THC content is so minimal that it is only marketed locally.

Drug Flow/Transit. Italy is a consumer and transshipment country. It is a major transit point for heroin coming from southwest Asia destined to other European countries, particularly since the political turmoil in Balkan countries has caused narcotics shipments to diverge from the heavily-used "Balkan Route," re-routing through Italy; this is reflected in the increase in heroin seizures in 1999. The flow of cocaine to Italy from South America, transported by vessel and courier, also increased in 1999. Cannabis seizures recorded a slight decrease, but at the same time the use of MDMA (ecstasy), imported from the Netherlands and other western European countries, increased.

Domestic Programs. The GOI continued work on implementing the DARE program. The most recent GOI data, published by the Ministry of the Interior in April 1999, indicates that as of December 1997, Italy had 552 public health departments operated by the Ministry of Health, assisting 94,955 patients (80,897 male, 14,058 female). Data from the 517 public health departments which reported (out of the 552 total) indicated that 40,864 patients received drug substitutes in the treatment of their addiction. In addition, some 1,306 social rehabilitation centers operated (as of June 1998 - latest data available) with various government funding levels, assisting a total of 22,248 patients.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. and Italy enjoy exemplary cooperation on counter-narcotics efforts. U.S. and Italian law enforcement authorities carry out numerous joint operations against drug traffickers, money launderers and organized crime. Cooperation on extradition and mutual legal assistance is very good. Current Italian legislation, however, makes it difficult to conduct to pursue money laundering investigations concerning drug and other illegal activities proceeds.

The Road Ahead. The U.S. will continue to work closely with Italy on law enforcement operations and investigations targeting international narcotics trafficking networks and organized crime.

Kazakhstan

I. Summary

Kazakhstan continues to be a popular drug corridor for trafficking of opium from Afghanistan and Pakistan to Russian and Western European markets. The volume of drugs produced and smuggled increased in 1999. Kazakhstan has one of the region's most developed banking systems and is a potential host for money laundering operations. Thirty of the country's chemical plants have the capacity to manufacture chemical precursors, and Kazakhstan produces acetic anhydride, a heroin precursor, which is exported to Russia and other Central Asian countries. Drug abuse, especially of heroin and opium, continues to increase, with a drop in the average age of drug users. Kazakhstan is a party to the 1988 UN Drug Convention.

II. Status of Country

Drug trafficking from Afghanistan of opium and heroin continues to increase dramatically. An estimated 80–90 percent of drugs seized in Kazakhstan originate in Afghanistan. Northbound trains from Kazakhstan to Moscow remain the most popular means of smuggling drugs, but use of air routes is increasing. The number of registered drug abusers is approximately 34,000, but authorities estimate it to be 7–8 times higher. The majority of abusers now favor opium and heroin over hashish; intravenous use is increasing compared to the previously more popular method of smoking the drugs.

III. Country Action Against Drugs in 1999

Policy Initiatives. Kazakhstan met the goals and objectives of the 1988 UN Drug Convention. The government recognizes the need for increased law enforcement cooperation with its neighbors and conducted several joint border operations in 1999 with Russia, Uzbekistan, and Kyrgyzstan. It is negotiating formal border demarcations with several of its neighbors, which could eventually facilitate more effective border controls.

Accomplishments. In April 1999, Kazakhstan opened an inter-agency law enforcement/counternarcotics training center in Almaty, which trained over 185 law enforcement officials on various topics and has hosted training conducted by the UNDCP and the U.S. In 1999, the GOK granted formal diplomatic accreditation to the UNDCP regional representative. Kazakhstan has generally cooperated with UNDCP efforts and initiatives. However, implementation of some aspects of the 1998 UNDCP Master Plan for Counternarcotics and Related Crimes has been hindered by lack of government funding. The State Drug Control Commission, organized in 1994, has not been consistently effective. At the end of 1999, Kazakhstan was in the process of considering establishment of a new anti-drug agency with ministry-level status.

Law Enforcement Efforts. There were approximately 4,000 drug cases opened in 1999. Over 220 kilograms of heroin were reported seized in 1999, as well as over 30 tons of marijuana and hashish. One of the largest single seizures involved 73 kilograms of opium and 7.5 kilograms of heroin. Reported amounts of cocaine seized have been relatively steady for the past three years (less than one kilogram annually), but appear to be of increased purity. The Ministry of Internal Affairs (police), the Committee for National Security, and the Customs Committee all play a role in drug control efforts, but they often lack equipment, resources and technical expertise to do their jobs. Progress has been uneven in the area of improved cooperation among the law enforcement bodies and there is a need to clarify the division of responsibilities.

Corruption. The State Anti-corruption Commission began operating in January 1999. This body is well-funded and is becoming well-organized. A state-sponsored conference on corruption issues was conducted in June, with governmental and private sector participation from Kazakhstan, Russia, and international organizations. In 1999, over 400 cases were opened under Kazakhstan's 1998 anti-corruption law; detailed statistics of the charges are scarce. Additional regulations under this law are under consideration. Corruption remains widespread among lower and mid-level government officials, principally due to low salaries.

Agreements and Treaties. Kazakhstan is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 protocol and the 1971 Convention. Kazakhstan is also a party to a 1996 Memorandum of Understanding on Drug Control in Central Asia, which includes Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan, Russia and the UNDCP.

Cultivation and Production. Kazakhstan is not a major cultivator or producer of opium or heroin. GOK authorities discovered and destroyed less than one hectare of opium poppy plots in 1999, over one third of the total estimated cultivation. The Chu Valley area contains at least 110,000 hectares of wild growing cannabis. Other parts of Kazakhstan contain an estimated 150,000 hectares of wild cannabis and much smaller areas of cultivated cannabis. The estimated annual harvest of marijuana is 5–6,000 metric tons. Most of the cannabis is consumed locally or exported to other countries in the region, but none is destined for the U.S.

Drug Flow/Transit. Kazakhstan is a significant transit country for opiates produced in Southwest Asia

destined for markets in Russia and Western Europe, and probably, to a lesser extent, to the United States. Drug traffickers use adolescent or elderly people, especially women, to smuggle drugs along various road and rail routes, with increased use of commercial air routes as well. Law enforcement officials note that smugglers often transport drugs internally; some cases have involved illegal drugs packaged to resemble legal pharmaceuticals. There is evidence that Kazakhstan is used for transit of precursor chemicals from Russia and other Central Asian countries to Southwest Asia for the illicit production of heroin.

Domestic Programs/Demand Reduction. With U.S., British, and UNDCP funding, schoolteachers from around the country were trained in the use of an anti-drug education curriculum for students ages 7–17. Government drug treatment programs often are not adequately funded, but there has been support from some local officials for individual private non-profit treatment programs.

IV. U.S. Policy Initiatives

The U.S. goal is to provide training and assistance to strengthen Kazakhstan's ability to combat narcotics trafficking and the associated problems of organized crime, corruption, money laundering, and drug abuse.

Bilateral Cooperation. In 1999, the U.S. provided regional seminars and training at various sites in Kazakhstan, including at the new inter-agency law enforcement/counternarcotics training facility. More than 150 law enforcement and judicial officials from Kazakhstan participated in eleven programs. The U.S. donated two major pieces of forensic equipment for analysis of evidence in drug and other cases, as well as computer equipment.

Road Ahead. The U.S. will continue to support UNDCP efforts to encourage full implementation of the master plan for the control of illicit drugs and organized crime. Of particular importance is continued support for demand reduction initiatives and for the law enforcement/counternarcotics training center.

Kyrgyzstan

I. Summary

Although not a major producer of illicit narcotics, Kyrgyzstan is an important transit country for opium and heroin going to Russia and Western Europe from Afghanistan. Kyrgyzstan produces a potent strain of marijuana that is used domestically and in the region. Law enforcement agencies have made counternarcotics a top priority, but they remain poorly funded, undertrained, and understaffed. Kyrgyzstan participates in anti-narcotics efforts in the region and actively cooperates with the UNDCP. Kyrgyzstan became a party to the 1988 UN Drug Convention in 1994.

II. Status of the Country

During the Soviet era, Kyrgyzstan was a main producer of opium for legal medicines and retains the technology and ability to produce these substances. Its long and unprotected border with Tajikistan, whose internal difficulties have created a haven for drug trafficking, have made Kyrgyzstan an attractive transit route. Seizures of illicit narcotics continue to rise and the amount of Afghan heroin transiting Kyrgyzstan has increased dramatically, although none has been found to have reached the U.S. As a result of the drug trade, authorities report that organized crime has increased, as has money laundering.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The Kyrgyz legislature has approved an asset forfeiture statute; however, according to law enforcement officials, the law is weak and enforcement can be drawn out through a lengthy judicial process. Law enforcement agencies have made counternarcotics efforts a top priority, with concentrated efforts aimed at border control.

Accomplishments. Although final figures of 1999 seizures are unavailable, authorities expect figures to increase from previous years due to the increase in opium production in Afghanistan and the weak internal situation in Tajikistan.

Law Enforcement Efforts. In the major cities, Kyrgyz police have funded anti-drug units, however, these groups tend to be very small and without resources. In Osh, a major transit point, there has been a greater effort by authorities to control the situation. The Kyrgyz embrace proposals for combined regional efforts, such as the Central Asian Intelligence and Coordination Center, but are limited by severe budget constraints.

Corruption. Corruption is a widely acknowledged problem in Kyrgyzstan and there is no reason to believe that those agencies involved in counternarcotics enforcement are immune to it.

Agreements and Treaties. Kyrgyzstan is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol and the 1971 UN Convention on Psychotropic Substances. It is also a party to the Central Asian Counternarcotics Protocol with the UN. Kyrgyzstan has extant extradition statutes and has extradited terrorists accused of complicity in the February 1999 bombings in Uzbekistan. However, there is no

known instance of extradition relating to drug charges. Kyrgyzstan and the U.S. do not have a bilateral extradition or Mutual Legal Assistance Treaty.

Cultivation and Production. Except for an estimated 100 hectares of marijuana that mostly grows wild, Kyrgyzstan does not cultivate nor produce any major illicit narcotics.

Drug Flow/Transit. Because of its border with Tajikistan, Kyrgyzstan has become an important transit route for opium and heroin from Afghanistan to Russian and Western European markets.

Demand Reduction. The increase in opium and heroin transit has increased the user population in the country, but there are no official estimates of drug use. There are also no hospitals that offer drug treatment.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Kyrgyzstan has been receptive to U.S. training assistance provided during 1999. It has also cooperated with UNDCP and European Union members, especially in the area of improving the Customs Service ability to detect illegal narcotics shipments. Kyrgyzstan has made it clear that it wishes to maintain and enhance its anti-drug efforts. In 1999, the U.S. provided eight training courses to law enforcement officers to enhance their capability in law enforcement and counternarcotics efforts.

The Road Ahead. Kyrgyz efforts will continue to be constrained by financial, manpower, training and equipment shortages. The government recognizes that its greatest problem is inadequate border control and has requested assistance to improve border control capabilities. The U.S. will continue to provide training assistance with an emphasis on border control.

Latvia

I. Summary

Drug trafficking and abuse in Latvia continued to increase rapidly in 1999 following the pattern of previous years. The government's limited counternarcotics efforts reflect the lack of funding brought on by severe budget constraints during a recent economic recession. The Latvian government continues to receive assistance from the international community and multilateral organizations although the Riga-based EU Phare Drug Program Regional Coordination Unit has closed. Latvia is a party to the 1988 UN Drug Convention.

II. Status of Country

Latvia's traditional economic role as a key transit port for products to and from Russia and central Asia has extended into the narcotics trade. Latvian customs officials identify the port of Riga as a favorite destination for drug shipments destined for western Europe and the Nordic countries. Latvian officials identify hashish and marijuana shipments in Latvia as originating in Afghanistan, Kazakhstan, and other central Asian countries. Latvian authorities claim that many Azerbaijani nationals are involved in hashish trafficking. It is reported that most of the hashish smuggled into Latvia comes in by truck or rail transport. There is evidence that drugs shipped from central Asia travel onward to Scandinavia and elsewhere in the world market including the U.S., although not in quantities that appear to have any significant effect on the U.S..

Local production is minimal and declining in the face of lower prices for imported heroin and cocaine. The Latvian domestic market for drugs is increasing at an alarming rate especially among young people. The rates for drug-related crimes, deaths and HIV infections are also rising rapidly. Latvian officials continue to identify their major internal drug concerns as poppy straw/opium, ephedrine-based substances, cannabis products and Ecstasy. They continue to identify opium products (acetylated opium synthesized from poppy straw) as their major domestic problem. Latvian authorities have reported the increased availability of heroin believed to be supplied through Estonia by ethnic Azerbaijani traffickers. This white heroin is replacing the traditional poppy straw as the drug of choice for local addicts.

It is assumed that organized crime groups control the trade of drugs in Latvia. Latvian police officials have identified members of crime groups from the CIS as the most active network of smugglers. These groups include ethnic Russians, Azerbaijani's, Latvians connected to outside traffickers such as Dutch nationals providing hashish, and a very broad category the Latvian's refer to as "gypsies." The Latvian government has a money laundering law and regulatory system in place. There have been large cash transfers into Latvian banks from the CIS countries. However, these transactions are not judged to be drug-related.

III. Country Actions Against Drugs

Policy Initiatives. The government officially adopted the Drug Control and Drug Abuse Prevention Master Plan for the period 1999-2003 and noted the importance of fighting the narcotics problem for the future of Latvia. Developed with the assistance of UNDCP, the plan identifies demand reduction, interdiction, and criminal prosecution as important priorities for Latvia. However, no funding was provided for the implementation of specific projects. A specialized group for drug-related cases was formed in the prosecutor's office on organized crime. The National Drug Information Center has established a web site: www.narko.lv.

Accomplishments. 1999 brought several high-profile cases, including the arrest and sentencing of the Latvian Models Association president and her manager, the arrest by Sweden of the operators of the Stockholm-Riga ferry, and the arrest of a Latvian fishing ship by France.

Law Enforcement Efforts. All statistics for criminal enforcement rose steeply, reflecting increased drug use. The police have acknowledged their lack of resources to handle the increasing drug problem. Drug-related crimes increased from 288 for the first 9 months of 1998 to 337 for the same period of 1999.

Corruption. The USG does not know of any drug-related corruption in the government of Latvia. Though perception of corruption is a problem for Latvia, actual public corruption is not pervasive.

Agreements and Treaties. In 1993, Latvia became a party to the 1961 Single Convention, the 1971 Convention of Psychotropic Substances, and the 1988 UN Drug Convention. The U.S. has both a Customs Mutual Assistance Agreement (CMAA) and a Mutual Legal Assistance Treaty (MLAT) with Latvia. The U.S. also has a 1924 bilateral Extradition Treaty in force with Latvia.

Domestic Programs. In July 1999, the AIDS Center received funding to expand its needle exchange program. The government has approved and will begin a school-level drug education program in the year 2000, funded by UNDCP.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) funds DEA, FBI and Customs to conduct training programs primarily focused on customs enforcement, and police/judicial training. Latvian police and customs officials have been active participants in U.S.-funded training sessions at the International Law Enforcement Academy (ILEA) in Budapest, Hungary.

Multilateral Cooperation. The EU PHARE Drug Program Coordination Unit closed its Riga-based regional office in November 1999. The program is considered to be ongoing and will be coordinated from Brussels. UNDCP maintains its regional office in Riga. The U.S. Embassy participates in the mini-Dublin Group of Riga, which serves as a regional coordinating mechanism for anti-narcotics donor assistance programs.

The Road Ahead. The 1999-2003 Master Plan contains a comprehensive assessment of Latvia's programs for the next three years. Some programs have received multinational funding and others are internal to the separate Ministries' budgets. The Central Bank is considering the adoption of "know your customer" money laundering regulations. The prosecutors office has proposed stiffer sentences for drug offenders.

Lithuania

I. Summary

In 1999, new types of narcotics popular with the Lithuanian youth sub-culture appeared on the drug market, pushing prices down. Narcotics-related crimes increased by 12 percent. Lithuania continues to be a drug transit crossroads. Although the Lithuanian State Security Department and police have participated in several successful operations with law enforcement agencies from neighboring countries, statistics show that only a small amount of narcotics being shipped through Lithuania is detected and interdicted. To deal with this, the Government of Lithuania (GOL) Government has approved a new drug prevention program that will increase counternarcotics activities at the Customs department. The USG intends to continue supporting counternarcotics efforts of GOL through specialized training courses. Lithuania is a party to the 1988 UN Drug Convention.

II. Status of Country

According to police estimates, in the Lithuanian capital of Vilnius alone, some \$12-17 million are being spent annually for narcotics. Until 1998, most popular narcotics were cheap "local" narcotic substances, such as intravenous opium extract produced from locally grown poppies or derivatives made from medications containing ephedrine. With the rise in standard of living, new competitive drugs, primarily synthetic, have appeared on the market. For example, in 1999, the price of heroin went down from \$15 down to \$7 for a single dose and its use doubled.

A UNDCP report published in 1999 stated that a significantly broader cross-section of young people, compared with the relatively small group of drug-dependent individuals, is beginning to experiment with drugs. The use of marijuana, ecstasy, LSD and amphetamines is often considered an integral part of the alternative youth sub-culture. In an effort to expand the market, narcotics traders increased their activities nearby secondary schools and the number of those who try drugs among 15-16 year old pupils is growing rapidly. There are 3000 officially registered narcotic addicts in Lithuania. However, according to police estimates, there are about 15-20,000 narcotics abusers in Vilnius alone. Although there has been a significant increase in recreational drug use, the majority of drug dependency cases (over 90 percent) in Lithuania are still intravenous drug users.

According to the Lithuanian AIDS Center, from 1997 to September 1999, the number of HIV cases among intravenous drug users grew from one to 91 (and accounted for 51.4 percent of all HIV cases). According to 1998 data from the Vilnius public health center, approximately 19 percent of Hepatitis C cases in Vilnius were individuals infected via intravenous drug use.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The Lithuanian police have carried out several successful narcotics seizure operations with law enforcement agencies of Poland, Belarus, Latvia, and Russia's Kaliningrad district. Also, the Lithuanian State Security Department has worked with Belarusian law enforcement agents and cut the narcotics route from Jamaica to Belarus. In 1999, Lithuanian police seized approximately \$13.75 million in narcotics and amounts of confiscated heroin have more than doubled over 1998.

Law Enforcement Efforts. Compared to 1998, narcotics-related crimes increased by 12 percent in 1999. The majority of criminal cases brought to court for narcotics-related crimes; 550 were related to the purchase and possession of narcotics for the individual use, while 85 criminal cases were brought for trade in narcotics and five for narcotics contraband. There were 12 foreigners arrested for crimes related to narcotics, including citizens of Russia, Latvia, Azerbaijan, and Korea. In April 1999, the Lithuanian registered ship "Kvedarna" with a Lithuanian crew was detained and searched at a Danish port. Twelve tons of hashish was found on the ship, whose owner was known to Lithuanian police for his involvement in organized crime. There were 23 Lithuanian citizens arrested abroad for narcotics trafficking in 1999. Police suspect that some of them belong to organized crime groups, while others may have been hired as couriers.

Corruption. The USG is unaware of any official narcotics-related corruption in Lithuania.

Agreements and Treaties. Lithuania is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, as well as the 1971 UN Convention on Psychotropic Substances. A mutual legal assistance treaty between Lithuania and the U.S. entered into force in August 1999. Lithuania and the U.S. have a 1924 extradition treaty and a 1935 supplementary treaty that is still in force.

Cultivation/Production. A law prohibiting the cultivation of poppies was passed in 1998 and large poppy fields are identified and destroyed in order to limit the supply of poppy straw. In 1999, police detected and destroyed three times more cannabis (1842 square meters) and almost the same amount of poppy crops (33,697 square meters) as 1998. Although use of poppy has decrease and cannabis has become more popular, opium extracts derived from poppy straw still remain the predominant intravenous narcotic. A law on control of precursors (substances used in the manufacture of illegal drugs), based on recommendations by the European Union "PHARE" program, was adopted in May 1999.

Drug Flow/Transit. No exact figures are available. However, collateral information from neighboring countries indicates that Lithuania is a crossroads for narcotics transiting through the Baltic area of Eastern Europe. Lithuanian poppy straw in excess of domestic use is exported to Latvia and the Kaliningrad. Marijuana and hashish comes to Lithuania both from the east and from the west, by land and by sea. Heroin arrives to Lithuania from Russia. Cocaine is transported to Lithuania from the South America via Germany. In 1999, Lithuanian police registered their first discovery of an attempt to transport a cocaine shipment inside a person's stomach. Most amphetamines arrive in Lithuania from Poland. Lithuanian police have information that Lithuanian-produced synthetic drugs are being exported to Russia. Lithuanian police estimate that annual narcotics trade turnover in Lithuania could stand at about \$75 million. Lithuanian law enforcement agencies are aware that Lithuania is being used for narcotics transit, and in 1999, a new counternarcotics division was established at the Customs Department to increase the number of interdictions. The impact of the new division is expected to be slow, as it presently lacks both practical experience and theoretical knowledge.

Demand Reduction. In 1998, a law on the control of drugs and psychotropic substances was adopted. In September 1999, the GOL approved a drug prevention program for 1999-2003. The program's main strategy is to focus on the improvement of counter-narcotics policy; increase of control of narcotics contraband and trade; increase on control of precursors and psychotropic substances use; and the preventive education and treatment of narcotic addicts, including rehabilitation and social integration of narcotic addicts. The law on narcological supervision, passed in 1997, provided narcotic addicts with the right to health care and social services, as well as to confidentiality. Anonymous consultation and needle/syringe replacement offices were opened in 1997 and presently operate in all major cities. These efforts have resulted in somewhat better contact with drug users on the social fringes, and in a slower spread of HIV infection in Lithuania than in neighboring Latvia, Belarus, and Kaliningrad oblast. The methadone treatment programs were started in major cities in 1995. Approximately 800-900 of the approximately 3,000 officially registered drug-dependent individuals had access to treatment and rehabilitation in 1999. The use of drugs in Lithuania is punishable by administrative measures, with a maximum fine of \$250. The illegal manufacture, purchase, or possession of narcotic substances with no intent to sell is punishable by imprisonment for up to three years; possession with intent to sell is punishable by imprisonment for up to 15 years (and with repeated offences, up to 20 years). If

the amount of drugs confiscated is small (for one's own use) and the offense has been made for the first time, the court's sentence on detention is usually postponed on the condition that the offender enters a treatment program. Unfortunately, treatment programs exist only in big cities.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The GOL is working with the U.S., neighboring countries, and international institutions to strengthen law enforcement bodies and drug control programs.

The Road Ahead. The GOL needs to implement its prevention program to reduce the use of narcotics among student age youth. Equally important, Lithuanian police need to assign more personnel to investigation of organized crime in drug trafficking. The USG will continue to assist Lithuania to meet the obligations associated with ratification of the 1988 UN Drug Convention and to support Lithuania's inclusion in programs aimed at the Baltic region. In 1999, the USG sponsored a regional money-laundering seminar in Lithuania in 1999. In 2000, the U.S. State Department will fund training courses in advanced drug enforcement and on conducting investigations of money laundering, assets forfeiture, and clandestine laboratories.

Luxembourg

I. Summary

Luxembourg is a transit country for drugs destined for western European markets. Despite one of the highest per capita GDPs in the 15-member European Union (EU), the Grand Duchy also has one of the highest rates of substance abuse. The government has actively sought to discourage negative perceptions of it as a haven for laundered funds with a number of countermeasures, including the recent passage of comprehensive and more aggressive legislation; local authorities have redoubled both enforcement of the legislation and their already vigorous cooperation with international anti-narcotics efforts. Other legislation has been amended to focus on prevention and therapy rather than punishment. In 1999, Luxembourg became a founding member of the Council of Europe's Anti-Corruption Convention, and will likely ratify the U.S.-Luxembourg Mutual Legal Assistance Treaty (MLAT) and Extradition Treaty in 2000. Luxembourg is a party to the 1988 UN Drug Convention.

II. Status of Country

Luxembourg is not a significant producer of narcotics or precursor chemicals, but it continues to be used as a transit country for drugs entering western European countries. Law enforcement authorities are concerned about drugs transiting the country through Findel Airport and overland through neighboring countries. Dutch and Belgian drug traffickers are the main link for smaller Luxembourg-based groups. Despite a marked lack of the traditional social indicators that have been associated with drug abuse (unemployment, property crimes, migration, housing density and low socioeconomic status), Luxembourg still suffers one of the highest substance abuse rates in the EU. Of a population of 420,000, an estimated 2500 are known drug users. Estimates of problem drug use in Luxembourg range from 8.2 to 8.6 per 1000 inhabitants aged 15-54. Opiates (mostly heroin) are responsible for over 80 percent of admissions into drug treatment centers, with cocaine a far second at 15 percent (another anomaly in EU statistics). Despite the high levels of injected drug use, only three percent of identified users are known to be HIV positive.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Luxembourg's newly elected government has increased policy focus on domestic drug prevention and treatment. Draft legislation likely to be passed in 2000 will amend laws and punish "soft drug" use with fines rather than prison sentences, and "hard drug" use with mandatory therapy in conjunction with, or in lieu of, prison sentences. Law enforcement authorities have undertaken to enforce strictly new anti-money laundering legislation and the government has increased its already vigorous cooperation with foreign law enforcement officials, including those from the U.S.

Accomplishments. A fund established in 1992 from drug-related money-laundering seizures in Luxembourg (currently worth over one million USD) helps finance anti-drug trafficking efforts in several South American countries. Luxembourg also contributes 1.1 million USD to UNDCP's alternative development program fund in Laos and Vietnam.

Law Enforcement Efforts. In the first nine months of 1999, Luxembourg authorities seized the following: heroin - 1.148 kg; cocaine - 0.278 kg; amphetamines - 0.16 kg; hashish - 0.320 kg; marijuana - 1.984 kg; cannabis plants - 0.77 kg; mushrooms - 0.43 kg; LSD - 1 dose; ecstasy - 354 pills; and methadone - 180 ml. In this period, 73 individuals were arrested, 1321 were warned and 1024 were charged in drug-related incidents.

Corruption. There were no cases of drug-related government corruption in 1999.

Agreements and Treaties. Luxembourg is party to and complies with the goals and objectives of the 1988 UN

Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Luxembourg participates in international counternarcotics groups including the Dublin Group, the Financial Action Task Force (FATF) and the UNDCP "Major Donors" group. In 1999, Luxembourg became a founding member of the Council of Europe Anti-Corruption Convention. A mutual legal assistance treaty (MLAT) and an updated extradition treaty between the U.S. and Luxembourg await ratification by Parliament, which is likely to take place in 2000.

Cultivation and Production. There was no reported cultivation or production of illicit drugs or precursors in Luxembourg in 1999.

Domestic Programs. Public debate on cannabis use for medical purposes has intensified and, while Luxembourg's new government does not support the decriminalization of cannabis, it will not oppose any liberalization in this regard at the EU level. The government plans to establish a legal framework for the methadone program for heroin addicts that the Ministry of Health has run for the past 10 years. The Ministry of Health also distributes information and runs a 24-hour support hot line on drug use.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Luxembourg and U.S. law enforcement authorities cooperate closely on drug and judicial matters, particularly as they relate to money laundering investigations. Luxembourg police routinely contact DEA Brussels with information from suspicious transaction reports with a U.S. nexus. In 1999, Luxembourg authorities worked with DEA Brussels and Belgian gendarmerie to investigate a Brussels-based trafficking organization that attempted to move its base of operations to Luxembourg City; this cooperative effort led to the arrest of two of the principals and a seizure of cocaine and heroin.

The Road Ahead. Luxembourg and the U.S. will continue close cooperation on narcotics and money-laundering cases, which will be enhanced when the new U.S.-Luxembourg MLAT and updated extradition treaty enter into force.

Macedonia, Former Yugoslav Republic of

I. Summary

Macedonia is not a major producer or transit point for illicit drugs. However, illicit drug trafficking increased dramatically during 1999. The war in Kosovo and the air strikes against Yugoslavia are mainly responsible for the loosening of border restrictions and frontier regimes. The flow of drugs being smuggled into Western Europe through Macedonia increased with the reestablishment of a shorter and more direct east-west link and the abandonment of the traditional Balkan "road of drugs" (Sofia-Dimitrovgrad-Belgrade-Western Europe). The increased flow of drugs through Macedonia has also fueled domestic consumption and local drug-trafficking. Macedonia is a party to the 1988 UN Drug Convention.

II. Status of Country

Macedonia is a transshipment point for drug trafficking between Turkey and Western Europe. Illicit narcotics trafficking increased along the east-west link through Bulgaria and Albania, but dropped along the Balkan route through Yugoslavia as a result of NATO air strikes against Yugoslavia and the war in Kosovo. Some recent seizures of acetic anhydride on the Kosovo border indicate that Kosovo has gained importance both as a market and a production area. The main reasons cited for the sharp rise in narcotics trafficking include a lack of resources available to interdict illegal drugs, better organized criminal elements operating in Macedonia from Albania, and more open border crossings.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The Ministry of Interior undertook an active counternarcotics program in 1999. The process of establishing a counternarcotics unit continued. Presently there is an operational counternarcotics unit at the national level, while on the local level the firearms and the drug enforcement units work jointly. The Ministry of Interior is actively involved in the Interpol/Pro-Balkan program.

Accomplishments. The Government of Macedonia developed legislation to allow for limited asset seizure. Currently, Macedonian police and customs authorities can seize only vehicles involved in drug trafficking.

Law Enforcement. Efforts. In 1999, the Ministry of Interior opened 211 illicit cultivation and production related cases. The activities of the Ministry of Interior resulted in the following seizures: 11.6 kilograms of raw opium; 14.4 kilograms of heroin; 3 kilograms of cocaine; 750 grams of dissolved cocaine; 650 tons of marihuana and 103 grams of marihuana seeds; 151,262 cannabis sativa plants; 89.66 grams of hashish; 5,433 tablets of ecstasy; 6 tons and 540 liters of acetic anhydride; 3,988 grams of alkaloids; 50 uncut poppy heads; 2 bottles of methadone; 2,700 tablets of phenobarbiturates; and 135 tablets and 8 bottles of heptanone. In that same period, the authorities brought 42 cases of narcotics dealing against 52 individuals. Authorities filed 438 requests for pressing criminal charges against 475 individual addicts.

Illicit Cultivation/Production. Macedonia is not a major cultivator or producer of illicit narcotics. There is legal opium poppy cultivation that is strictly controlled. Production is by individual farmer–contractors or big socially–owned agricultural plants. Alkaloid, the only factory in Macedonia that processes the opium poppy, provides the contractors with poppy seeds and buys out the poppies and poppy straw. There have been no reports of diversion. Production is reported to the Macedonian Ministry of Health and through the Ministry of Interior to the INCB (International Narcotics Control Bureau) in Vienna. There are no reports of illicit production or refining of heroin. Some recent cases under investigation have given rise to unconfirmed reports that there is a laboratory illegally producing heroin in Macedonia, but there has been no proof. There is some unknown quantity of illicit cultivation of cannabis, mainly for personal consumption. The government has an active program against illicit cultivation. In August, the police eradicated a large field of marijuana near Skopje.

Demand Reduction. Of the total of 3,432 registered drug addicts, 2,978 are men and 454 are women. Public awareness programs are scarce and supported primarily by international organizations. There have been some efforts by NGO's to begin prevention programs, but those are also scarce and ineffective. Limited treatment of addicts is financed by the state. Addicts are given methadone on the basis of a certificate confirming that they are receiving treatment in state–owned institutions.

Agreements and Treaties. Macedonia is a party to the 1988 UN Drug Convention.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. While a non–resident DEA Country Attaché has been accredited in Macedonia since 1997, the U.S. is working to expand DEA's presence in Macedonia with a local employee. The U.S. encourages anti–drug support from nations, primarily in Western Europe, most directly affected by the drug problems from this region. In 1999, the U.S. did not provide training seminars for drug enforcement officers because of the crises in Kosovo and the bombardment of Yugoslavia. Conditioned by the political situation in the region, cooperation with the neighboring countries is uneven. There have been no reports of regional cooperation on actual cases. Cooperation with Western European police services resulted in a 1.5 tons cocaine seizure in Vienna.

The Road Ahead. The U.S. will continue encouraging Macedonia to expand its drug control activities, enact anti–drug legislation, and improve its counter–narcotic enforcement capabilities. In 2000, the U.S. will also provide training programs and limited equipment to Macedonia and plans to assign a regional legal advisor.

Malta

I. Summary

Drug abuse in Malta involves primarily heroin and ecstasy, and local narcotics seizures, generally of heroin, have been small. The various agencies in Malta which combat drug trafficking and abuse, including the police, Customs, the National Drug Intelligence Unit (NDIU), the military and SEDQA, appear to disagree on the level of severity of the drug problem. Government efforts to combat trafficking and abuse continue to increase, and have begun to reap tangible results. This success is in part a reflection of training received there in 1996, 1997 and 1998 from the DEA and FBI, which focused on counternarcotics, organized crime, money laundering, and investigative techniques. Malta is a party to the 1988 UN Drug Convention.

II. Status of Country

Malta is not now, nor is it likely to become soon, internationally significant in the production or trafficking of illegal drugs, or prominent in money laundering. Malta's large freeport container operations, however, may be used for transfer of shipments by narcotics traffickers, and some features of its financial system, particularly banking secrecy, may provide some facility for the laundering of drug money.

III. Country Action Plan against Drugs in 1999

Policy Initiatives. The Government of Malta (GOM) has clearly placed great importance on aggressively combating drugs and drug–related problems and will actively pursue illegal drug operations. The Special Police Commissioner for drug–related matters and the National Drug Intelligence Unit (NDIU) remain key to the GOM's efforts.

Accomplishments. The GOM is concerned over the increase in small–scale local drug trafficking and drug abuse. In 1999, Maltese police conducted 808 raids/seizures, made 733 arrests, 207 arraignments for possession and 109 arraignments for trafficking. For the first 11 months of 1999, the Maltese police seized 454 ecstasy pills (458 by end of year), 1.3 kg of cocaine and 1.7 kg of heroin. The GOM's most visible counternarcotics efforts remained in the areas of education and demand reduction. SEDQA, a national organization dedicated to drug and alcohol rehabilitation, coordinated these activities.

Law Enforcement Efforts. The police and the armed forces routinely attempt to interrupt local drug trafficking and drug abuse, which tend to be small–scale, limited to consumer quantities of the illegal drugs. Maltese

authorities have also increased efforts to prevent the movement of drugs through the airport and the sea terminal. Although monitoring the movement of drugs through the freeport remains difficult because of the high volume of containers moving through, the authorities have shown they can act decisively when notified by foreign law enforcement authorities of transshipment attempts. No extradition, mutual legal assistance or law enforcement or transit cooperation issues directly related to drug trafficking arose in 1999.

Corruption. Malta has appropriate laws governing official corruption. Post is not aware of any problems related to or associated with corruption of public officials due to illegal drug activities.

Agreements and Treaties. The U.S. and Malta cooperate in extradition matters under the 1931 U.S.-UK Extradition Treaty, which is applicable to Malta. A Maltese national was extradited to the U.S. in 1998 in a bank fraud case. Malta is a party to the 1988 UN Drug Convention, and ratified in November 1999 the Council of Europe convention on money laundering.

Cultivation/Production. There is no significant cultivation/production of narcotics in Malta. Malta does not produce or have precursor or essential chemicals.

Drug flow/Transit. At present, there is no apparent indication that Malta is a major trafficking location. It is impossible, however, to quantify drug movements through the Malta freeport which likely do occur.

Domestic Programs. SEDQA, a GOM-funded agency, runs awareness and drug education programs in the school system and organizes programs for parents at the agency headquarters. In addition, SEDQA develops and runs on local TV stations commercials on drug awareness and education issues. A nation-wide European values study indicated that 81 percent consider drug abuse a "serious problem," compared with 43 percent in 1984. Increased public awareness will likely translate into increased public support for interdiction efforts.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The U.S. continues to pursue its overall policy of close cooperation among law enforcement officials on drug matters. With the arrival this year of the first resident regional security officer, the embassy will have a focal point to consolidate and expand law enforcement cooperation.

Bilateral Cooperation. In 1996, 1997 and 1998 the U.S. (DEA or FBI) conducted one seminar each year for Malta's law enforcement community. The most recent was a one-week training seminar, which the FBI ran in October 1998 on general investigative techniques for Maltese police, armed forces, customs and the NDIU. There were no U.S.-sponsored seminars in 1999. The GOM remains very interested in receiving additional training assistance from U.S. law enforcement agencies, in particular on forensic investigative techniques.

The Road Ahead. We anticipate continued cooperation of the Maltese authorities on illegal drug and other issues of mutual concern.

Moldova

I. Summary

Moldova is not a significant narcotics producer and its low per capita income makes it an unattractive market for drugs. Moldova, particularly the area along its eastern border, is being used for the transshipment of illegal narcotics from, and precursor chemicals to, Central Asia. Moldova has been in a severe economic crisis since the end of 1998, which has negatively affected its law enforcement efforts. With very limited financial resources, Moldova has had a difficult time meeting its obligations under the 1998 UN Drug convention. The Ministry of Internal Affairs (MIA) has a Department to Combat Organized Crime and Corruption (DCOCC). The government submitted a draft anti-money laundering law to Parliament which was still pending at year's end. The U.S. is assisting all ministries and departments in Moldova that are involved in counternarcotics affairs. The U.S. continued to provide training and technical assistance to Moldovan officials in 1999. Moldova is a party to the 1988 UN Drug Convention.

II. Status of Country

Moldova does not produce a significant quantity of narcotics. With the eastern border of Moldova controlled by the "authorities" of the illegal and unrecognized, self-declared "Transnistrian Republic," Moldova (primarily Transnistria) is used as a transshipment route for a large amount of contraband, including narcotics to and from Central Asia and Europe. It is not a regional or international banking center and generally has an underdeveloped banking system, with little evidence of extensive money laundering.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Moldova's anti-drug policies remained basically unchanged during 1999. The Government submitted a draft anti-money laundering law to parliament. Parliament approved the draft in November after the first reading, but did not have the second reading on the draft before the end of the year. The Government is preparing a national program to combat illegal drug trafficking and organized crime. Several different

ministries will be involved in implementing the program in 2000.

Accomplishments. The Moldovan Government continued its efforts to meet its obligations under the 1988 UN Drug Convention and other international narcotics agreements to which Moldova is a party. The ongoing economic crisis, however has limited funding available for counternarcotics or other enforcement efforts. The DCOCC reported that it investigated twenty drug cases involving organized crime groups, leading to imprisonment of sixteen defendants and fines for three others. The DCOCC further reported that during 1998 and in the first six months of 1999, 26 other cases of organized crime were investigated and prosecuted. Twenty-four people were imprisoned and eighteen were fined.

Law Enforcement Efforts. According to MIA statistic, during the nine month period ending September 1999, police and customs officials made the following seizures: 468 kilos of poppy straw; 158 kilos of marijuana; and 27 liters of opium extract. Thirteen kilos of heroin were seized while transiting Moldova in 1998. The Ministry also noted that drug traffickers were carrying smaller amounts of narcotics to reduce any possible detection and increased criminal sentence.

Corruption. The DCOCC, created in 1997, continued its operations. The Department investigated five cases involving corruption in 1998 and the first six months of 1999: two defendants were imprisoned, one fined, and one given amnesty after conviction. One case was indefinitely postponed. Acceptance of bribes reportedly continues to interfere with the government's counternarcotics efforts. Moldova has no law specifically dealing with narcotics-related corruption.

Agreements and Treaties. Moldova is a party to the 1988 UN Drug Convention, the 1961 Single Convention on Narcotics and its 1972 Protocol, and the 1972 UN Convention on Psychotropic Substances. Moldova is also a party to the 1992 CIS treaty which requires Ministries of Internal Affairs to cooperate in combating illegal drug trafficking. On November 11, Parliament ratified the Southeast European Cooperative Initiative (SECI) agreement to combat cross border crime.

Cultivation/Production. The principal locally produced narcotic substance is hemp, originally introduced for rope making. Cannabis continues to be legally cultivated in southern regions and narcotic quality plants grow as weeds throughout the country. No reliable production estimates are available, but criminal elements have capitalized on hemp's ready availability. According to Moldovan authorities, oil-bearing poppies are legally grown by 20 % of the rural population, primarily in the northern regions. Other domestically produced substances include synthetic and semi-synthetic drugs including ephedrine, pervitin, omnoponi, and methadone. None of these substances are exported in significant quantities. There is no evidence that significant quantities of precursor or essential chemicals are produced in Moldova.

Drug Flow/Transit. Since 1991, the illegal and unrecognized, self-declared "Transnistrian Republic" has controlled much of Moldova's eastern border. There is significant anecdotal evidence that this area is used to transship all types of contraband, including narcotics. Intermittent seizures by Moldovan officials indicate that Moldova is used as a transit route for moving heroin from Afghanistan and cocaine from South America to Europe. Precursor chemicals move from Europe through Moldova to Central Asia.

Demand Reduction. Being readily available, opium and cannabis products are the most abused drugs in Moldova. Other drugs such as cocaine and heroin are available to a lesser extent and the high cost of these drugs makes them unattractive to most Moldovans. On the other hand, synthetic drugs such as LSD and Ecstasy are available and relatively inexpensive, making them popular with Moldovan youth. The Ministry of Health registered 5008 persons in drug treatment programs during the first ten months of 1999. This is an increase of 1039 addicts over the same time period in 1998. Accurate statistics on the actual number of narcotics users are unavailable, but according to estimates of the Ministries of Health and Internal Affairs, approximately 60,000 people use drugs in Moldova but are not officially registered as addicts. With continuing reduced health care spending due to the economic crisis, spending for Moldova's demand reduction program will remain constant at best.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. U.S. assistance is aimed at enhancing the ability of the Moldovan drug squad and Customs to interdict international narcotics shipments and increasing the competence of the DCOCC to deal with these interrelated problems. U.S. counternarcotics training is also being conducted for prosecutors and judges.

Bilateral Cooperation. One U.S. Customs adviser began working in September 1999 with the Moldovan Government, through the SECI program, on the full range of customs and border control issues. One of the primary goals of this program is to help modernize Moldova's border control system. The program will contribute to combating contraband smuggling, drug trafficking, and the shadow economy. The U.S. Embassy's new law enforcement training assistant, funded by the Bureau of International Narcotics and Law Enforcement Affairs in the Department of State, also began working in August.

Moldovan police and Customs officials continued to attend training programs conducted by U.S. law enforcement officials, in both the U.S. and Europe. Three law enforcement officials from the Ministry of Internal Affairs, the Ministry of National Security, and the General Prosecutor's office were nominated to participate in the Department of State's International Visitor program.

Beside training courses which are held locally, Moldovan judges, prosecutors, and police regularly attend regional conferences and seminars conducted by the U.S. Departments of Justice and Treasury and the FBI. One of these programs is the eight week mid-level police officers course at the International Law Enforcement Academy in Budapest, Hungary. Among the subjects covered in various courses are prosecuting organized crime, money laundering, and public corruption. The U.S. Department of Justice's National Institute of Justice and a local non-governmental organization administer an INL-funded project to develop and operate a criminal justice information network in Moldova.

Road Ahead. The U.S. Customs Advisory program was expanded with the addition of an additional U.S. Customs adviser in December 1999. An FBI agent is also scheduled to begin work in 2000 to assist Moldova in working with the SECI Center in Bucharest to combat cross-border crime.

Netherlands

I. Summary

Despite the high priority given by the Dutch government to fighting narcotics trafficking, the Netherlands continues to be an important transit point for drugs entering Europe, a major producer and exporter of amphetamines and synthetic drugs, and an important consumer of most illicit drugs. The amount of ecstasy exported to the U.S. during 1999 increased dramatically. A total of over 3.5 million dosage units of ecstasy, either in the U.S., or in Europe and bound for the U.S., were seized between January and October 1999. The Netherlands' Special Synthetic Drug Unit (USD), set up in 1997 to coordinate the fight against designer drugs, has better defined the problem of Dutch synthetic drug production and trade, and is making every effort to combat designer drug production through dismantling of production sites. The Netherlands works closely with the U.S. in fighting international crime, including drug trafficking and related money laundering. This includes joint anti-drug operations in the Caribbean, based on an interim agreement establishing forward operating locations (FOL) on the Dutch islands of Aruba and Curacao. Drug abuse, as opposed to trafficking, is viewed primarily as a public health issue. The Dutch have extensive demand-reduction programs that reach about 75 percent of the country's estimated 25,000 to 28,000 hard drug users. The Dutch are major donors to the UNDCP, members of the Dublin Group, and chair its Central European Regional Group. The Dutch are also active in the Financial Action Task Force (FATF) and play a key role in the Caribbean Action Task Force (CFATF). The Netherlands is a party to the 1988 UN Drug Convention.

II. Status of Country

The geographical position of the Netherlands and its modern transportation and communications infrastructure (including the world's busiest seaport in Rotterdam), make the country a key site for drugs entering and transiting Europe. Production of amphetamines, ecstasy and other synthetic drugs and marijuana is significant. As a center for the international chemical industry, the Netherlands also attracts individuals trying to obtain or produce precursors used to manufacture illicit drugs. The country's highly-developed financial sector provides myriad opportunities for money laundering.

The Dutch Opium Act punishes possession, commercial distribution, production, import, and export of all illicit drugs, but distinguishes between "hard" drugs that have "unacceptable" risks (heroin, cocaine, ecstasy, etc.), and "soft" drugs (cannabis). Trafficking in the former is prosecuted vigorously. Sales of small amounts (under five grams) of the latter are "tolerated" (i.e., not prosecuted, even though technically illegal) in "coffeeshops" operating under regulated conditions (no minors on premises, no alcohol sales, no hard drug sales, no advertising, and no "public nuisance"). One of the aims of this controversial policy is to separate the markets for soft and hard drugs so that soft drug users are less likely to come into contact with hard drugs. It is much-debated and includes inherent contradictions. More vigorous application of the criteria for coffeeshop operations, however, has reduced the number of such points of sale.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The Dutch government's progress report on its 1997-1999 drug policy calls for continuation of existing drug policies, and concludes that the government's fight against the production of synthetic drugs is increasingly effective, in view of the large seizures, improved information, and increased cooperation.

According to the progress report, 88 percent of Dutch municipalities, in cooperation with police and justice authorities, have adopted measures to limit the number of coffeeshops selling soft drugs and intensify controls in their communities. Although an earlier study showed the number of coffeeshops dropped by 15 percent between 1995 and 1997 to about 1,179, there are indications the number has now stabilized. A new survey will take place in 2000. In the spring of 1999, a law became effective which gives mayors the power to

close down coffeeshops, even when such premises have met all regulatory requirements.

New legislation was adopted banning all indoor cultivation of Dutch-grown marijuana ("Nederwiet"), and penalties on dealing and producing soft drugs were raised. Dutch Justice Minister Korthals recently said in response to a letter by mayors of 20 Dutch cities that legalization of cannabis is out of the question at this point, in view of international treaties. The mayors cited the "controversial and hypocritical situation" under which customers of coffeeshops are allowed to buy a small amount of cannabis products, while back-door suppliers are subject to prosecution. Korthals noted that a report on Dutch soft drug policy will be presented to parliament in spring 2000.

An international research program on the medical use of marijuana was launched in June 1999, in which some 60 Dutch cancer patients participate. They are given "Cannador" capsules, which contain the active ingredient of marijuana. The capsules are directly imported from Switzerland, under special license from the Dutch Health Ministry. The Netherlands plan to have a special bureau to oversee the cultivation and processing of marijuana for medical purposes by the end of this year.

Dutch Health Minister Borsht has expressed deep concern about the results of research demonstrating the damaging effects of ecstasy use. The study pointed to brain damage affecting memory and concentration, and showed that ecstasy use can cause depression. The minister has pledged additional funds for further neuro-toxicity research, in which there is much international interest. He also announced a ban on the import, export, trade and possession of the synthetic drug 4-MTA by placing it on List I of the Dutch Opium Act.

Pilot programs for medically-supervised distribution of heroin to chronically-addicted users continued in Amsterdam (100 participants) and Rotterdam (92), with a second treatment unit to be opened in Amsterdam. The establishment of similar projects in The Hague, Utrecht, Groningen and Heerlen were postponed, however. An experiment began in 1999 on the effects of anesthetic on hard drug addicts given Naltrexon (which counteracts the craving for opiates) while undergoing detoxification. In addition, a pilot program began in which addicts are given higher dosages of methadone than usually prescribed, following the encouragement of a report of success in the U.S. with high-dose methadone maintenance programs. A final assessment of the Dutch experiment is planned for 2000.

While the number of cocaine addicts seeking treatment increased significantly, the number of hard drug addicts appears to have stabilized in the past few years (their average age now 38), and Dutch authorities assert that the number of drug-related deaths in the Netherlands remains the lowest in Europe. HIV infection among addicts is relatively low.

Accomplishments. With the establishment of the USD in September 1997, better insight has been gained into the nature and extent of production of and trade in synthetic drugs. USD's 1998 annual report, indicating discovery of 35 production sites, confirms the picture of the Netherlands as an important producer of synthetic drugs (see below). In April 1999, the Finance Ministry headed up a new national coordination committee on chemical precursors to improve cooperation and coordination between the five ministries dealing with the problem.

Law Enforcement Efforts. While the Ministry of Health coordinates drug policy, the Ministry of Justice is responsible for law enforcement. Matters relating to local government and the police are the responsibility of the Ministry of the Interior. At the municipal level, policy is coordinated in the tripartite consultations between the mayor, the chief public prosecutor and the chief of police. Dutch police and prosecutors give high priority to combating drug trafficking. Dutch laws and police methods at times impede such law enforcement efforts, however. In 1998, in response to controversy arising from controlled drug deliveries, the Dutch government tightened rules governing criminal investigation methods used by police and justice, particularly in undercover operations. The use of criminals to infiltrate criminal organizations is now allowed only in very exceptional cases, after personal approval by the Justice Minister. The same applies to the use of controlled drug deliveries.

Dutch police investigative methods tend to be extremely compartmentalized and do not allow much leeway in taking on additional requests from the international law enforcement community. Police teams are forced to identify a task or organization to be investigated, commit personnel, and define a timeline for the investigation. This inflexible policy often means that new areas of inquiry must be forced artificially into the confines of existing investigations. There is no Dutch police entity dedicated to responding to international requests, which at times means that international law enforcement agencies "shop" for an investigative team to assist in a case. It is not uncommon for such requests to be met with the response that Dutch police teams have "no capacity" to assist. Dutch law also does not provide for plea bargaining, thereby removing much incentive for defendants to cooperate in investigations, and impeding the ability of prosecutors to obtain evidence against leaders of criminal organizations.

The following agencies play an important role in implementing policy: the 25 regional police forces and their special criminal information services; the national police services force; the national criminal intelligence

division (CRI) of the national police services force, which coordinates efforts to counter drug trafficking; and the Customs authorities and information center. Information sharing can be a major problem. Although Dutch police and investigative agencies are required, for purposes of coordination, to furnish information and intelligence on criminal investigations to the CRI, at times this process fails, resulting in two or more police entities targeting the same criminals, unaware of the interest and activities of the others. It is unclear whether the CRI has line authority to enforce this information-sharing policy.

The Netherlands has efficient national chemical control legislation in place, fully operational since 1995, which imposes record keeping and reporting requirements for listed chemicals. Dutch laws include export license procedures, including information about the shipment and the credentials of the buyer and shipper. Penalties for violations of these laws are seizure of chemicals and up to six years in prison.

The Netherlands does not have a fixed counternarcotics budget. The funds are disbursed through several distinct programs and organs of the government. In July 1995, the law on the "prevention of chemical abuse" came into force, bringing the precursors for synthetic drugs within the scope of a licensing system. The law meets Dutch commitments under the 1988 UN Drug Convention and under 1990 EU regulations. Violations of the law can lead to prison sentences (maximum of six years), fines (up to 50,000 dollars), or asset seizures. In 1999, the investigation section of the Economics Ministry's Economic Control Service (ECD), charged with precursor controls, was transferred to the Ministry of Finance. This development is being closely followed by embassy and DEA personnel at post due to a perception that this move might lessen the criminal enforcement priorities in favor of greater concerns over revenue issues.

Corruption. There were no reported cases in 1999 of corruption of public officials as a result of illegal drug activities. The Netherlands will host the May 2001 follow-up meeting to the conference against corruption convened by the Vice President in February 1999, and is working closely with U.S. officials to ensure the success of this anti-corruption initiative.

Agreements and Treaties. The Netherlands has ratified both the 1988 UN Drug Convention and the 1990 Strasbourg Convention on Money Laundering and Confiscation. Measures to counter money laundering are being extended throughout the Kingdom to include the Netherlands Antilles and Aruba. The U.S. and the Netherlands have agreements on extradition, mutual legal assistance, and asset sharing. The Netherlands has enacted legislation on money laundering and controls on chemical precursors, is party to agreements on a method of maintaining records of transactions of an established list of precursor/essential chemicals, and is a member of the UN Commission on Narcotics Drugs. It is a member of the Major Donors group of the UNDCP, to which it contributes some \$750,000 per year, and participates in the FATF and CATF. The Netherlands is a leading member of the Dublin Group, chairing the Central European Regional Dublin group, and is member of the daily management of the Caribbean Customs Law Enforcement Council (CCLEC). The Dutch are very active in the Caribbean region through the Barbados action plan, contribute to the Caribbean Coordination Mechanism (CCM), to maritime cooperation in the area, and, through the EU, it contributes to the Project Management Office (PMO) by making available one expert and paying 20 percent of the costs. At the Peru Donor Conference, the Dutch pledged about \$10 million in debt relief, which is to be used for counternarcotics programs. The Netherlands contributed \$500,000 in 1999 on relief aid to a UNDCP program to create alternatives for poppy and cannabis cultivation in Afghanistan.

The Netherlands participates in various police and criminal justice working groups of the Pompidou Group and in the narcotics working group set up in the context of the Schengen treaty, and is actively implementing the Benelux Agreement on Extradition, and the European Convention on Extradition and Mutual Assistance. Dutch police, justice and customs officials have close contacts with their colleagues in Belgium, France, Germany and the UK. The CRI has posted liaison officers in Thailand, Pakistan, Venezuela, Colombia, INTERPOL (in Lyon), the Netherlands Antilles, Turkey, Poland and Spain. New CRI posts have been opened in Hungary and Russia. The Dutch also cooperate closely with the DEA. EUROPOL is based in The Hague.

Cultivation/Production. About 50 percent of the Netherlands' cannabis market is Dutch-grown marijuana ("Nederwiet"). The Dutch government continues to give top priority to the investigation and prosecution of large-scale commercial cultivation of Nederwiet and doubled the criminal penalty to four years imprisonment and/or a fine of about \$50,000. New legislation has been adopted closing loopholes and thus completing the ban on all indoor cultivation of hemp.

The USD reported that 35 synthetic drug production sites were discovered in 1998: 18 for the production of ecstasy, 15 for amphetamine, and two for a combination of amphetamine and ecstasy. Further, 357 seizures of synthetic drugs that year could be connected in some way to the Netherlands. (Seizures occurred in 26 countries spread over five continents, 35 percent in the Netherlands and 65 percent in other countries, particularly Germany and the UK.) In the same period the USD registered 103 dumping-sites in the Netherlands, a total of about 107,000 liters of chemical waste. The USD observed that Dutch criminals take an important place in the field of production of and trade in synthetic drugs, but noted that production is shifting to central and eastern European countries.

Drug Flow/Transport. The Dutch government maintains tight border controls to combat the flow of drugs. According to the Rotterdam customs information center, the container scanner in the port of Rotterdam, which became operational in early 1999, has already proved to be very successful. The two container scanners at Schiphol airport are to become operational by early 2000. According to the drug policy progress report, larger shipments of drugs are generally found in sea freight rather than in air freight. Arrests at airports, however, are significantly higher: in 1998, some 818 drug couriers were arrested at Schiphol, and total drug seizures at the airport were more than 3,000 kilos. Dutch customs made record seizures in 1999: 700 kilos of cocaine from Suriname at Schiphol airport, and 4,000 kilos of cocaine aboard a Peruvian vessel in Rotterdam port. The Dutch intensified controls of highways, as well as trains, connecting the Netherlands to neighboring countries, which resulted in narcotics seizures and arrests.

Approximately 50 percent of hashish seized in the Netherlands enters from Morocco via France and Belgium; about 80 percent of the heroin seized enters from Germany by the so-called Balkan route.

The Dutch statistical office (CBS) estimates that domestic consumption of illicit drugs amounts to some \$850 million per year, and another \$700 million worth of drugs is exported. According to the CBS, about two-thirds of total illicit drug earnings (more than 1.5 billion guilders) are made on cannabis products.

Domestic Programs. The Netherlands has extensive demand-reduction and harm-reduction programs, reaching about 90-92 percent of the country's 25,000-28,000 hard drug users. Since the protection of the health of drug users is a major priority, Dutch drug addicts are relatively well cared for. A national drug monitoring office to coordinate the large number of monitoring activities related to drugs became operational in 1999.

From 1997 to 1998, the number of cocaine addicts seeking treatment rose 12 percent, to 5,879 people, while in 1999 the total number of hard drug users seeking treatment stood at 25,261. At the end of 1999, the Health Ministry estimated a total of 323,000 cannabis users in the country, out of a population of more than 15.5 million. Total costs of Dutch drug treatment programs in 1999 were estimated at 100 million dollars.

Drug prevention programs are organized through a network of local, regional and national institutions. Schools are targeted in efforts to discourage drug use, while national campaigns are conducted in the mass media to reach the broader public. The Netherlands requires school instruction on the dangers of alcohol and drugs as part of the health education curriculum. The Netherlands Institute of Mental Health and Addiction (the Trimbos Institute) has developed projects in the field of alcohol and drugs in the context of teaching "healthy living" in classrooms.

IV. U.S. Policy Initiatives

Bilateral Cooperation. Although the U.S. fundamentally disagrees with aspects of Dutch domestic drug policy, particularly the toleration of soft drugs, it works closely with the Netherlands in fighting international crime, including drug trafficking and related money laundering.

The Netherlands' slow responses to U.S. provisional arrest requests, mutual legal assistance requests and extradition requests are at times frustrating, owing to the lack of line authority between the Ministry of Justice (which receives the requests), and public prosecutors and police (who are tasked with responding to the requests). This continues to be the subject of consultations with the Dutch by U.S. Embassy and DOJ officials. Recent structural changes made in the Ministry of Justice may improve Dutch government coordination and responsiveness to such requests.

The U.S. and the Netherlands cooperate closely on law enforcement activities throughout the Netherlands and in Aruba and the Netherlands Antilles. In April 1999, the U.S. and the Kingdom of the Netherlands concluded an interim one-year agreement to establish forward operating locations on Aruba and Curacao. These are now operational, and negotiations for a longer-term FOL agreement are ongoing. High-level and working-level exchanges enhance information flow between U.S. and Dutch authorities and highlight areas of needed improvement in the bilateral relationship. Important exchanges during 1999 included the visits of FBI director Freeh and CODEL Mica to the Netherlands, which included meetings with Justice Ministry, Interior Ministry, and other government officials. The board of Dutch attorneys general, and prosecutors that review sensitive investigations, visited Washington for consultations and training by the FBI and DEA.

The Dutch continue to work closely with the U.S. on precursor chemical controls and investigations. This cooperation includes formal and informal agreements on the exchange of intelligence. In 1999, DEA at post continued to arrange for the training of investigators in chemical control to participate in clandestine laboratory training in the U.S.. During 1999, Dutch experts were asked to address an international conference on chemical controls in Hong Kong, but were not permitted to attend; this occurred shortly after the investigators were transferred from the Economics to the Finance Ministry. DEA headquarters chemical control personnel plan a visit to the Netherlands to meet with the new Ministry of Finance supervisors to stress the importance of continuing the involvement of Dutch experts in future conferences. Working relations between the DEA and the USD are excellent.

The Road Ahead. U.S.–Dutch bilateral cooperation is expected to remain strong. Improved methods for screening container traffic in the port of Rotterdam will further counternarcotics efforts. The Dutch unit devoted to combating synthetic drugs such as ecstasy has made concrete progress, and more is expected. U.S.–Dutch cooperation in countering trafficking in the Caribbean, already strong, will likely intensify, especially with the FOL operations. Important differences, however, in approaches toward "soft" drugs, as well as differing legal procedures and law enforcement structures, could continue to complicate bilateral cooperation against drugs. The U.S. will continue also to view with critical interest Dutch "harm reduction" programs such as heroin distribution projects.

Norway

I. Summary

Drug production remains rare in Norway because of Norway's harsh climate, and Norwegian regulations governing domestic sales, exports and imports of precursor chemicals. Norway is unlikely to become significant in terms of money laundering or precursor chemicals due to current prohibitive legislation, and adequate law enforcement. Though narcotics production remains rare, police have stepped up efforts to track and intercept drugs in transit. The number of drug seizures in Norway continued to rise on a continuing trend through 1999 with cannabis seizures accounting for the bulk (43 percent) followed by amphetamines (16 percent). Norway is implementing various programs for curbing domestic drug abuse and cooperates actively with international counternarcotics efforts. Norway is party to the 1988 UN Drug Convention.

II. Status of the Country

According to GON officials, drug production is rare in Norway because of Norway's harsh climate, and Norwegian regulations governing domestic sales, exports and imports of precursor chemicals. While Norway has become more popular as a transit country (for drugs produced in central/eastern Europe and central/south America), the rapid increase in narcotics seizures by the police and customs has helped to curb the problem. Norway is unlikely to become significant in terms of money laundering or precursor chemicals as long as prohibitive legislation remains in place, and sufficient law enforcement efforts.

III. Country Actions Against Drugs

Policy Initiatives. Norway continues to implement counternarcotics policy initiatives on several levels. While Norway has not developed an overall counternarcotics master plan, the Ministry of Justice continues to implement an anti–drug action plan to meet the objectives of the 1988 UN Drug Convention. The key goals of the Ministry's plan are to: (a) curb the inward flow of illicit drugs; (b) limit illicit drug production; (c) reduce domestic drug consumption; and (d) coordinate with other ministries the fight against illicit drug activities and related crimes, including money laundering.

Accomplishments. According to the police authorities, Norway remains in full compliance with the 1988 UN Drug Convention with timely counternarcotics plans/initiatives, strengthened anti–drug legislation, and continued cooperation with the United Nations Drug Control Program (UNDCP).

Law Enforcement Efforts. Norwegian Customs has established a mobile narcotics control unit (includes sniffing dogs), and is coordinating its efforts with the police and the Coast Guard. In 1999, the number of drug seizures rose to an estimated 18,410 cases from 17,278 in the previous year. According to the police, cannabis and amphetamines seizures rose in both number and quantity. Seizures of heroin and ecstasy also rose. Law enforcement efforts were stepped up resulting in a record number of persons charged with narcotics crimes. In order to discourage the use of narcotic substances, authorities increased the fines relating to narcotic offenses. In order to improve law enforcement efforts, the police are calling for bigger budgets and permission to use bugging devices. Various laws criminalize money laundering.

Corruption. Corruption remains a criminal offense in Norway. Norway's corruption laws have been broadened (1998) to cover corruption overseas, allowing for the prosecution of Norwegian nationals bribing officials in foreign countries. Public corruption remains insignificant in Norway, and no drug–related corruption was recorded in 1999.

Agreements and Treaties. Norway has been a party to the 1988 UN Drug Convention since 1994. Norway's extradition law (1975) governs extradition of criminals to the U.S. and other countries and it has bilateral extradition treaties with other countries, including the U.S. Norway has laws governing sales, exports and imports of precursor chemicals (1997). Norway has bilateral customs agreements with the U.S., the EU, Russia, countries in central and eastern Europe, and other trading partners. Norway remains a member of Interpol, the Dublin Group and the Pompidou Group. Norwegian counternarcotics authorities cooperate frequently with their counterparts in the Nordic countries and the U.S.

Cultivation/Production. Cultivation of drugs remains limited in Norway although small quantities of Norwegian–grown cannabis have been detected.

Drug Flow/Transit. According to the police, the inflow of illicit drugs appears to have increased again in 1999 with cannabis still in the lead. Most illicit drugs are entering Norway by trailers from European destinations in the Netherlands, Belgium, Germany and central and eastern Europe (Poland, Hungary). Some drugs have been seized in commercial vessels arriving from the European continent and central/south America. Nationals from the Former Republic of Yugoslavia (FRY) are prominent in Norway's narcotics market.

Demand Deduction. Norway's Ministry of Health and Social Affairs continues to implement educational and other programs to reduce drug abuse, and Norway's Ministry of Defense implements programs to reduce narcotics use in the armed forces. On local government levels, anti-drug campaigns have been launched in 1998 and 1999.

According to the GON, the increasing number of drug-related deaths suggests that these programs need further strengthening to become effective. Although the maximum penalty for a narcotics crime in Norway is up to 21 years of imprisonment, penalties for carrying small amounts of narcotics remain relatively mild. GON officials continue to believe that stiffer penalties and fines would probably help reduce the drug menace, especially among youths.

IV. U.S. Policy Initiatives and Programs

In 1999, the USG had no counternarcotics assistance programs in Norway. DEA officials consult with Norwegian counterparts regularly.

The Road Ahead. In the next year, the U.S. will continue to cooperate closely with Norway in combating trafficking in illicit narcotics. Norway will continue its assistance to the Baltics and within the region combating narcotics and crime.

Poland

I. Summary

Poland is not a major drug producing or major drug transit country. However, Poland's relatively open borders and its location at a crossroads of transit routes make it attractive to drug traffickers. Organized crime groups dominate narcotics activity in Poland, producing high-quality amphetamines for both export and domestic consumption. Organized crime groups in Poland also cooperate with international drug cartels and mafias to smuggle drugs into, out of and through the country. Polish narcotics law enforcement has made steady gains against drug-related crime and trafficking. Future integration of the Central Narcotics Bureau (CNB) and the Central Organized Crime Bureau may help to continue that trend, but a comprehensive national program to counteract narcotics has yet to be approved by the Polish government. Poland is a party to the 1988 UN Drug Convention.

II. Status of the Country

Poland produces some of the highest quality amphetamines in the world for both the domestic use and markets abroad. The strongest organized crime groups dominate synthetic drug production, controlling substantial financial resources and legally registered companies used to launder illicit profits and obtain necessary chemical components. These groups often make use of existing legal laboratories and employ highly educated chemists to produce amphetamines that are 90-100% free of impurities. The Central Narcotics Bureau (CNB) of the Polish National Police (PNP) estimates that there are between ten and twenty amphetamine laboratories currently operating in Poland. Criminal groups producing amphetamines are also frequently involved in the illicit trafficking of other narcotics, and Poland is an increasingly important transit point for drugs coming over land from the east and south, as well as via sea and air from Africa and South America.

III. Country Actions Against Drugs

Policy Initiatives. Poland has drafted a national program for counteracting narcotics, a comprehensive approach to both supply and demand issues under the auspices of the Ministry of Health and Social Welfare. The program, which is awaiting regulatory implementation, seeks to address supply-side issues through law enforcement initiatives and demand-side issues through harm reduction programs, social welfare programs and medical care.

A Council on Counteracting Drug Abuse, which will include representatives from the CNB, the Ministry of Health, other ministries and Polish non-governmental organizations is currently awaiting approval from the prime minister.

The upcoming reorganization in the PNP will integrate the CNB with the Central Organized Crime Bureau, giving the Organized Crime Unit the lead role in investigation. While this arrangement may improve law enforcement efficiency due to organized crime's substantial involvement in Polish narcotics activity, some authorities have expressed concern that resources currently dedicated to counternarcotics may be diverted to address other organized criminal activity.

Poland's porous borders are the result mainly of ineffective customs officials and border guards. The EU is pressuring Poland to improve border controls before it becomes an EU member. The priority Poland places on EU accession is a powerful incentive for such improvements.

Accomplishments. A Treaty on Mutual Legal Assistance entered into force between the U.S. and Poland in 1999, replacing the cumbersome letters rogatory process. Requests for assistance will be processed directly between the Polish Ministry of Justice and the U.S. Department of Justice. Under the new agreement, law enforcement agencies in each country will be able to request search and seizure of evidence in the other country's jurisdiction, and U.S. and Polish prosecutors will be able to seek forfeiture of assets relating to criminal activity located in the other country.

Poland has a strong relationship with the UNDCP, working together to implement several projects in the Poland and the region. Projects include a multinational program aimed at increasing and improving regional cooperation, demand- and harm-reduction programs, and the support of Warsaw's Regional Intelligence Liaison Office (RILO) for Eastern Europe.

Law Enforcement Efforts. During the first six months of 1999, Polish police seized 85 liters of Polish domestic heroin (compared to 78.5 during the first six months of 1998), .9 kg of heroin (8 kg), 24 kg of marijuana (13 kg), 20.5 kg of amphetamines (19 kg), 884 tablets of LSD (5431 tablets), 2109 tablets of ecstasy (437 tablets), 12 kg of cocaine (8 kg), 41 kg of hashish (544 kg), and 6 kg cannabis (no data for 1998). During the first eight months of 1999, seven amphetamine laboratories were eliminated.

Polish police cooperate closely with their international counterparts, exchanging information on drug seizures, suspects, new trends and operational methods; intercepting shipments of precursor chemicals; and coordinating controlled deliveries and transports. Polish narcotics officers are stationed in neighboring countries, and 14 foreign officers are stationed in Poland, creating a network of liaison officers to facilitate the exchange of information.

Corruption. Corruption among Polish law enforcement officers is not highly publicized, nor are figures readily available. However, anecdotal evidence suggests that significant corruption does exist, especially among the border guards and in some local police organizations.

Agreements and Treaties. Poland is a party to the 1988 UN Drug Convention, and participates in the UNDCP Cross-border Law Enforcement Project and the Eastern European Regional Demand Reduction Project. Polish drug enforcement organizations have also been key players in the Task Force on Organized Crime in the Baltic sea region, cooperating closely with their Swedish counterparts to spearhead a project aimed at counteracting illicit production and trafficking in narcotics in the Baltics. The USG has concluded a Customs Mutual Assistance Agreement (CMAA) with the Government of Poland.

Cultivation/Production. The production and consumption of low-grade domestic heroin has declined in recent years, but the illicit cultivation of poppy straw and cannabis, remain problems in Poland. To combat the problem, Polish police conduct a yearly, nationwide operation to eradicate illegal cultivation. This year's operation located and liquidated 495 illicit poppy fields (27.16 hectares) and 180 cannabis fields (6.41 hectares), a decrease from last year's 1118 poppy fields (42.99 hectares) and 257 cannabis fields (68.60 hectares). Cultivation of low-morphine poppies is legal in Poland, if a grower is properly licensed.

Polish police are making use of profiling techniques to help track the production and distribution of amphetamines. Laboratories are usually located in remote areas, where they are operated for three to four months before being moved to a new location, but synthetic drugs are sometimes produced in the legal, permanent laboratories of chemical companies and universities. According to police data, markets for Poland's high-quality amphetamines include Russia, Estonia, Scandinavian countries, Germany, the Czech Republic, Slovakia and New Zealand.

Drug Flow/Transit. Narcotics on the illegal market in Poland come from a variety of sources, with their distribution under the control of local organized crime elements. Heroin bound for Europe and the U.S. (to a lesser extent) comes into the country from Afghanistan, Pakistan and Turkey. LSD and ecstasy come to Poland by land from the Netherlands, Belgium and Germany, while marijuana and hashish are imported from Morocco, Pakistan and, most recently, Nigeria. Shipments usually come by sea, usually weigh in the tons and are either shipped directly to Poland by freighter, or loaded into cars in the Netherlands to be carried overland to Poland and markets in the Baltic states.

Polish organized crime groups are also responsible for ensuring the safe transit of cocaine, smuggled through the countries of South America and destined for the markets of Russia, Germany, Italy and Great Britain. The majority of the drug is brought into Poland by air, using small shipments sent by mail or express courier.

Domestic Programs. Poland's Ministry of Health and Social Welfare estimates that there are approximately 47,000 drug addicts in Poland, though non-governmental sources report that the numbers are actually much higher. Official estimates indicate that 30% of minors have had some contact with drugs, and the PNP report a

continuing increase in the number of drug-related crimes committed by juveniles.

Both the Ministry of Health and Social Welfare and the PNP have organized programs aimed at combating this growing trend, including a nationwide public awareness campaign. Entitled "Narcotics -- I Don't Take Them", the program uses billboards and other media to publicize its message. The PNP have also organized training courses for teachers and schoolchildren to help prevent juvenile substance abuse.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. Mission in Poland maintains close contact with the Polish agencies involved in narcotics law enforcement, and provides significant training assistance through law and democracy programs and other Department of State initiatives. U.S. agencies such as DEA, FBI, and Customs have excellent relationships with their Polish counterparts. A regular exchange program exposed Polish police officers to their counterparts in Chicago and Charlotte, and, in July 1999, U.S. Customs conducted a SEED-funded Airport Narcotics Interdiction Course in Poland for 28 customs and police officials.

The Road Ahead. The primary U.S. goal remains enhancing the Polish law enforcement community's ability to combat drug trafficking and organized crime, and to foster increased participation in international counternarcotics efforts. The USG will continue to provide specialized training requested by Polish law enforcement agencies, to support Poland's role as a key player in regional law enforcement cooperation and to promote coordination both regionally and among Poland's domestic law enforcement agencies. Training programs planned for the upcoming year include several seminars on narcotics, police management, and organized crime.

Portugal

I. Summary

Portugal figures in the international drug situation largely as a gateway into Europe for drug smugglers. In domestic consumption, hashish leads, followed by heroin and cocaine. Drugs enter by air and sea (smugglers take advantage of Portugal's long coastline) and transit overland both to and from other countries participating in the Schengen system. The drugs tend to originate from North Africa and South America. U.S.-Portuguese cooperation on drugs includes visits by American officials and experts, training of law enforcement personnel, and assistance in establishing rehabilitation programs. Portugal participates actively in international counternarcotics efforts. It views drug addiction as a public health problem and administers methadone and needle-exchange programs. Portugal is a party to the 1988 UN Drug Convention.

II. Status of Country

Production is not a significant concern in Portugal. Drug smugglers use Portugal as a point of entry for drug shipments headed into Europe from North Africa (notably Morocco), and from Latin American countries (particularly Venezuela, Colombia and Ecuador). Portugal's open borders with other members of the Schengen Agreement unfortunately simplify the work of drug smugglers, and linguistic and cultural ties with Brazil and Mozambique facilitate trafficking from those countries. In recent years, Moroccan hashish and Afghan opium have entered Portugal through the Schengen countries. Cocaine and heroin enter Portugal by commercial aircraft, truck and maritime vessel. The heroin, largely of Dutch, Indian and Thai origin, is consumed domestically. Cocaine produced in Brazil and Colombia passes through Portugal to the rest of Europe. The U.S. has not been identified as a final destination.

In the past, drug consumption occurred almost exclusively in the big coastal cities. However, drug consumption is increasingly spreading inland and to rural areas. The Portuguese acknowledge that their drug problem is increasing, and estimates suggest that (of a population of 10 million) Portugal has more than 60,000 heroin addicts, 5,000 cocaine addicts and 100,000 hashish consumers. Ecstasy is a popular drug among some urban youth who frequent nightclubs.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Portuguese President Jorge Sampaio promoted discussion of narcotics at the 1998 Ibero-American summit in Oporto and again in 1999 in Havana, and has also promoted closer European integration of drug laws and law enforcement. The president's brother, a psychiatrist, led a national commission whose report provided a basis for a comprehensive drug strategy for the country, which at year's end had not yet been introduced as legislation. Some of the strategy's organizational recommendations, however, have been adopted.

Antonio Vitorino, a prominent Portuguese politician, was recently named EU Commissioner for Justice and Home Affairs, a portfolio including counternarcotics.

Accomplishments. In December 1999, Portugal and the U.S. signed a case-specific assets sharing Memorandum of Understanding (MOU). The Portuguese intend to use a portion of the monies to fund

rehabilitation programs.

Law Enforcement Efforts. Portugal has three separate law enforcement agencies that deal with the drug program--the Judicial Police (PJ), the Public Security Police (PSP) and the Republican National Guard (GNR). The PJ is a unit of the Justice Ministry with overall responsibility for coordinating enforcement efforts and record keeping. The PSP and GNR are uniformed forces operating in the cities and countryside, respectively, although in practice overlap often occurs. The GNR also patrols the highways, inland waterways and the coast. The government recently announced its intention to equip the GNR with the new speedboats it sorely needs. PSP officers in some cities are involved in a "safe schools" project similar to the D.A.R.E. Drug awareness program in the U.S..

Drug programs overall are coordinated by the Minister for Youth, Media and Drug Addiction, Armando Vara. He is also the new Minister Assistant to the Prime Minister.

In keeping with its philosophical approach to the drug problem, Portugal prefers to see addicts in rehabilitation rather than in prison. A judge can offer a convicted user a choice between therapy and prison, but cannot compel the user to enter therapy against his or her will.

Corruption. Systematic or large-scale corruption is not a concern in Portugal, and no such cases were reported in 1999.

Agreements and Treaties. Portugal supports the goals of the 1988 UN Drug Convention, of which Portugal is a party. End-users of all narcotics-related chemicals imported into Portugal are required to be identified to the Customs Bureau. A Customs Mutual Assistance Agreement (CMAA) has been in force between Portugal and the U.S. since 1996. Portugal and the U.S. cooperate in extradition matters through a 1908 extradition treaty. The extradition treaty does not cover financial crimes, drug trafficking or organized crime, and lacks provisions for asset seizure and asset sharing. Portugal has signed judicial conventions on some of those issues, and drug trafficking offenses are extraditable in accordance with the terms of the 1988 UN Drug Convention. Planning is underway to initiate consultations on re-negotiation of the extradition treaty in 2000.

Drug liaison officers from Spain, Germany and Britain are stationed in Lisbon, and the DEA office in Madrid maintains close contact with Portuguese authorities.

Maritime interdiction cooperation between Portugal and Spain continued in 1999, following the terms of the 1998 treaty between the two countries.

Portugal is a member of the Pompidou group of the Council of Europe, which began in 1971 as a Europe-level forum to discuss narcotics issues. The European Monitoring Center on Drugs and Drug Addiction (EMCDDA), an EU facility, is located in Lisbon and serves as an information clearinghouse for EU countries.

Cultivation/Production. In Portugal production is not a significant concern.

Drug Flow/Transit. Portugal's exposed geographic position, its long, rugged coastline and proximity to North Africa, offer an advantage to traffickers who smuggle illicit drugs into Portugal. Cooperation between criminal elements in the far north of Portugal and the nearby Galician underworld in Spain is also a concern.

Available statistics indicate that the origin of about 40 percent of the heroin seized in 1998 could be identified: most came from Holland, roughly equal amounts from Spain and India. Almost a third of the cocaine seized in 1998 was from Venezuela.

Domestic Programs. Projecto Vida ("Project Life"), the umbrella organization which coordinated community and government action and aimed at raising public awareness about drugs, was phased out in 1999 after a government determination that the program was ineffective. The anti-drug public service advertising campaign showed little activity compared to similar campaigns on the danger of AIDS, but a new series of radio spots began before year's end.

The Ministry of Health administers needle exchange, psychiatric, methadone and detoxification programs. In 1999 the mayor of Lisbon called for the nationwide establishment of "shooting rooms," where addicts could use drugs under controlled conditions, similar to systems in some other European countries. The government did not support this proposal, however, stating that it would be contrary to Portugal's drug strategy and international commitments, and that the record of such "shooting rooms" was mixed in other countries. The proposal has not gone forward.

The Portuguese consider drug addiction to be an illness, not a crime. Small-scale possession is rarely prosecuted, although persons found with more than five "doses" of a narcotic are assumed to be dealers/traffickers and are prosecuted as such. Judges may, and often do, offer convicted users a choice between (shorter) prison sentences or (longer) therapy programs, but cannot compel the prisoner to enter therapy; many prisoners refuse the offer. Those who want methadone treatment can get it at branch clinics of the Ministry of Health. Registered addicts can get prescribed doses of methadone from any pharmacist, and

thus avoid having to go to a public clinic. Long-term clinics offer free detoxification.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. Embassy Madrid office of the DEA has cooperated with the Portuguese Judicial Police in several high-profile cases. As mentioned above, a case-specific assets-sharing MOU was signed at the end of 1999 and the Portuguese Customs Bureau cooperates with the U.S. under the terms of the 1996 CMAA.

In 1999, Embassy Lisbon's Office of Defense Cooperation (ODC) arranged for a U.S. Coast Guard mobile training team to conduct boarding officer training with the Portuguese Customs Bureau, following a similar and well-received visit in 1998. 1999 also saw the first GNR attendee at the USCG maritime law enforcement course in Yorktown, Virginia.

A number of U.S. counternarcotics officials have visited Portugal to collect data and share information. Most notably, Director of the U.S. Office of National Drug Control Policy (ONDCP) Barry McCaffrey visited Portugal in October, following a successful visit the previous year, to meet with President Sampaio and to conduct discussions with EU officials at the EMCDDA. The visit provided a fruitful and productive exchange of information.

The ODC at Embassy Lisbon, through the Extended Military Education and Training program (E-IMET), facilitates contact between the Portuguese Navy and a private company (International Health Resources Management) to develop a drug and alcohol rehabilitation program. The Portuguese Navy has signed an agreement with the Portuguese Industry Association that will allow civilian organizations and businesses to purchase drug testing and treatment services from this program--a unique civil-military partnership.

The Road Ahead. Portugal takes its international counternarcotics obligations seriously. Portugal is also assuming the EU presidency at a time when leading Portuguese are involved with EU counternarcotics efforts. The future should see a continued effective performance by Portugal, characterized by increasing cooperation with the United States and with European nations.

Romania

I. Summary

Romania is not a major producer of narcotics. The country's geographic position, however, makes it a transit route for drugs moving from the East to the West. In 1999, Romania made significant progress in passing legislation that targets illegal drugs and money laundering. Additional steps, however, are needed to counter what is commonly viewed as a serious corruption problem. Romania is a party to the 1988 UN Drug Convention.

II. Status of Country

Romania's primary significance is as a transit country. It is located along the northern "Balkan Route," a string of countries used to funnel drugs from the Near and Middle East to Western Europe. While Romania's economic situation continues to have a significant effect on keeping domestic consumption low, law enforcement officials are seeing a marked increase in the domestic use of some drugs, particularly heroin and ecstasy. Economic problems, which led to significant cuts and freezes in government expenditures, have hampered Romania's efforts to fight narcotics trafficking, money laundering and corruption. Romania's budgetary problems are not expected to improve in 2000.

III. Country Actions Against Drugs

Policy Initiatives. In 1999, Romania passed the "Law on Drug Consumption and Trading Control," as well as the "Law to Prevent the Use of the Financial and Banking System for Money Laundering Purposes." The U.S. is working with Romanian prosecutors to assist in the effective use of the anti-money laundering law. In April 1999, Romania created an inter-Ministerial committee to focus on the fight against narcotics. The committee, which operates under the executive branch, was designed to allow for better communication and cooperation between the Ministry of Interior, which has primary responsibility in combating crime, and other relevant ministries. The committee, however, appears to have accomplished little in 1999.

Accomplishments. Romania is home to the Southeast European Cooperative Initiative (SECI) Organized Crime Center, which is expected to commence operations in March 2000. The center will focus on all forms of cross-border crime, including narcotics, by establishing task forces on trafficking. Both U.S. Customs and the Federal Bureau of Investigation have representatives participating in the center.

Law Enforcement Efforts. The lead organization of Romania's fight against drugs is the Ministry of Interior's Squad for Combating Organized Crime and Corruption (BCCOC). In 1999, the BCCOC was split into two distinct units. One will focus on fighting the sale and use of narcotics domestically; the other will concentrate on international drug trafficking. In addition to the BCCOC, Romanian Customs and the Border Police also play a

vital role in stopping the flow of drugs through the country. Drug seizures, however, fell in 1999. According to figures provided by the BCCOC, 120 kilograms of narcotics were seized in Romania in 1999, compared to 785 kilograms the year before. The nature of seizures changed, with an two and a half-fold increase in ecstasy tablets in 1999 (10,546 tablets in 1999 as opposed to 4,203 tablets in 1998.) There were 201 arrests in 1999, compared to 118 in 1998.

Corruption. Anti-corruption legislation is currently under review. The proposed law, however, appears weak and is mostly limited to increasing penalties for existing crimes, instead of more clearly defining what constitutes corruption and making such activity a crime. Also under consideration is a law that would expand police powers to include the use of undercover officers in the pursuit of exposing certain crimes. While corruption was originally listed as a crime to be covered by this law, it has since been dropped. The law would, however, allow for the use of undercover officers in fighting narcotics.

Agreements and Treaties. Romania currently has an extradition treaty with the U. S. and in 1999 the U.S. and Romania signed a mutual legal assistance agreement. The U.S. and Romania also concluded a Customs Mutual Assistance Agreement. Romania has agreements with Bulgaria, Turkey, Greece, Moldova, and Ukraine relating to fighting organized crime, including narcotics. Romania is a party to the 1988 UN Drug Convention.

Drug Flow/Transit/Cultivation. Narcotics enter Romania from the east by land, sea, and air. Once in Romania, they continue onwards toward Western Europe. Romania may also be a transit country for precursor chemicals moving from Western Europe to laboratories further east. While illegal drug cultivation and production have traditionally not been a problem in Romania, the country is seeing a small amount of cannabis cultivation and amphetamine production. Nonetheless, actual narcotics sales and consumption remain relatively low, in part because of poor economic conditions that make drugs simply too expensive for the local population.

Domestic Programs. As consumption has not been a serious problem in Romania, there are no extensive efforts directed toward domestic drug abuse. Nonetheless, the Romanian Ministry of Health does have some programs designed to educate young people about the hazards of drug abuse. A lack of funds, however, hampers these efforts.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. anti-drug cooperation with Romania improved during 1999. The U.S. offers training assistance to local law enforcement in a variety of areas including drug control. In addition, a U.S. Department of Justice legal advisor provides assistance in legislative reform and assists in coordinating U.S.-sponsored training directed toward money laundering and corruption. During 1999, the U. S. Customs Service provided State Department funded training and approximately \$500,000 in equipment to Romanian Customs and Border Police. This training covered a broad spectrum of anti-contraband measures that are also applicable to drug trafficking. DEA activities in Romania are coordinated by the regional office in Vienna and DEA works closely with the Romanian Government, principally through BCCOC, on a case-by-case basis.

The Road Ahead. While the newly opened SECI organized crime center is not yet fully operational, it is expected to play a significant role in Romania's continuing efforts to fight narcotics, money laundering, and corruption. The U.S. will continue to work with the Romanian Government to build upon the progress achieved in 1999.

Russia

I. Summary

Drug smuggling into Russia, mainly from Central Asian countries as well as from Afghanistan and Pakistan, continued to grow in 1999. The most notable increases involved heroin and marijuana, which have dropped in cost in the Russian market. Cocaine imports have decreased, according to the Russian State customs committee, apparently as a result of its steady high price and the decreased purchasing capacity of Russian drug consumers. The number of drug-related crimes grew by more than 14 percent in the first nine months of 1999, compared to the similar period in 1998, according to statistics from the Ministry of Internal Affairs (MVD). There is insufficient information to determine how much of the money illicitly filtering through Russia's financial services system is derived from narcotics trafficking. Russia is a party to the 1988 UN drug convention.

II. Status of Country

Russia is a conduit for illicit drugs such as South Asian heroin and, to a lesser extent, cocaine, largely destined for Western European markets. Russian authorities consider heroin for domestic consumption, originating in Southwest Asia and transiting Central Asia, the greatest problem. It is also a minor producer of illicit amphetamines, cannabis and opium poppy, mostly supplying domestic consumption. The country's neighbors add to the supply of cannabis, opium and opium derivatives in the domestic market. For example, opium poppy straw is conveyed to Russia cities from Ukraine, Lithuania, and Central Asia and opium and cannabis

projects are transported to Russia from Central Asia -- marijuana has been transported into Russia from Ukraine. Law enforcement efforts have been targeted to tamp the increasing use of heroin.

Ethnic Russian criminal groups control most narcotics trafficking and distribution in the country, with the active participation of members of ethnic groups from around the New Independent states and other countries, particularly West Africans. Control over various types of drugs is divided among different groups who have established proprietary niches, often to avoid disputes. In general, Afghans, Tajiks and other Central Asians traffic heroin, opium and opium derivatives in European Russia and Western Siberia; Vietnamese and Chinese traffic drug through Eastern Siberia; Ukrainians focus on cannabis; Nigerians and other Africans are involved in the import and sale of heroin and the declining cocaine trade; and Azerbaijanis concentrate on synthetic drugs.

A 1998 Russian law on narcotics and psychotropic substances criminalized the purchase and possession of drugs without intent to distribute. Russian law now provides for punishment of up to three years imprisonment for "large" quantities, defined as 0.1 gram to 500 grams of marijuana, 0.01 to 1 gram of cocaine or up to 0.005 grams of heroin. Purchase and possession of drugs with intent to distribute of similar quantities is punishable by three to seven years imprisonment and confiscation of property. Regarding "specially large" quantities, greater than the amounts specified above, and involving the element of conspiracy or organization, the law provides for punishment of 7 to 15 years of incarceration.

Although formal extradition mechanisms are lacking, Russia cooperates with other countries in bringing international traffickers to justice.

III. Country Actions Against Drugs in 1999

Policy Initiatives. As in 1998, Russia focused its counternarcotics efforts on law enforcement. The new drug law and criminal code provisions, which went into effect in 1997, have substantially enhanced police powers to act against illicit drug trafficking. Russian law enforcement agencies place greater emphasis on drugs destined for domestic consumption, particularly originating from Central and Southwest Asia. The turnover in ministers of the MVD in Moscow in 1999 did not diminish the status of counternarcotics law enforcement as one of the MVD's highest priorities. However, inadequate resources hamper the MVD's counternarcotics efforts.

Accomplishments. In October 1999, U.S. Attorney General Janet Reno and the Director of Russia's Federal Security Service (FSB) signed a Memorandum of Understanding (MOU) on counternarcotics cooperation between the U.S. Drug Enforcement Administration (DEA) and the FSB. The U.S. and Russia also signed a Mutual Legal Assistance Treaty (MLAT) in June 1999.

Focusing on a key aspect of international narcotics trafficking, Russia and Nigeria signed a counternarcotics cooperation agreement in May 1999. The agreement was the culmination of two years of negotiations and provides for the exchange of operational information related to investigations. Russian customs cooperated with a number of foreign law enforcement organizations from more than half a dozen countries, including the United States in more than a dozen controlled shipment operations in 1999.

Russia's counternarcotics efforts in cooperation with neighboring countries reach to the southern borders of the former Soviet Union. Russian border guards protecting the frontiers of Tajikistan, for example, made numerous seizures of heroin, including one 110 kilogram shipment in August, and other drugs.

In January, the UN office for Drug Control and Crime Prevention (ODCCP) signed an agreement with the Russian government to provide technical assistance on control and prevention of drug and related organized crime. Under the agreement, ODCCP will assist in the establishment of the center for interagency cooperation at the MVD through the provision of computers and means of communications. Additionally, the project will provide counternarcotics and related training for nearly 500 law enforcement officers and judges handling drug cases. To oversee the project and other future activities, UNDCP opened offices in Moscow in July 1999.

Law Enforcement Efforts. The number of drug-related crimes grew by more than 14 percent in the first nine months of 1999, compared to the similar period in 1998, according to statistics from the MVD. Nearly 80 percent of these cases involved "large" quantities. The number of cases involving "specially large quantities" grew by 85 percent. In the first nine months of 1999 (compared to a similar period in 1998), the MVD seized 279.1 kilograms of heroin, up 120 percent; 12.7 kilograms of cocaine, up 35.2 percent; and 21,477 kilograms of marijuana, up 29.7 percent. Between January and September 1999, the State Customs Committee seized 274 kilograms of heroin, 14.8 kilograms of cocaine, and 6,977.7 kilograms of marijuana.

One of Russia's largest drug seizures in 1999 occurred early in the year, when authorities discovered 220 kilograms of heroin bound for Europe in a macaroni truck at the seaport of Olya in Astrakhan. The Turkish vehicle had started its journey in Iran and arrived at the port on a ferry boat from Turkmenistan. Later, in March 1999, customs authorities in the city Ulyanovsk seized 300 kilograms of opium. The drugs were hidden in the false fuel tanks of a truck which had come to Russia from Central Asia.

In December 1999, MVD officials in St. Petersburg culminated a lengthy investigation into methyl-fentanyl (a

synthetic, more powerful form of heroin) trafficking with the seizure of an operational laboratory. They seized precursor chemicals, lab equipment, 1.2 kilograms of the drug and arrested five persons.

Corruption. There have been no reported cases of narcotics-related corruption that facilitates the production, processing, or shipment of narcotics and psychotropic drugs or other controlled substances or that discourages the investigation or prosecution of such acts. A draft law on corruption is stalled in the State Duma.

Agreements and Treaties. Russia is party to the 1988 UN Drug Convention, the 1961 Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic substances. In 1995, the Russian border service concluded an agreement with Kyrgyzstan and Tajikistan to reinforce trilateral counternarcotics cooperation on the borders with Afghanistan, Pakistan and Iran. A customs union consisting of Russia, Kazakhstan and Belarus was also established in 1995. Russia is a party to the 1992 Kiev treaty on cooperation in inter-regional drug investigations.

The executive agreement on cooperation in criminal law matters, signed in 1995, provides for assistance in cases involving narcotics violations, as well as money laundering cases. In July 1998, the DEA and the MVD signed a memorandum of understanding (MOU) on counternarcotics cooperation. A 1995 MOU between the Russian federal border service and the U.S. Coast Guard includes provisions for maritime drug interdiction. There is no extradition treaty in force between Russia and the United States. Russia is a party to the WCO's international convention on mutual administrative assistance for the prevention, investigation, and repression of customs offenses "Nairobi Convention" annex on assistance in narcotics cases. A U.S.-Russia Customs Mutual Assistance Agreement (CMAA) is in force.

Cultivation and Production. Although there are no official statistics on the extent of opium cultivation, the USG has no evidence to suggest that more than 1,000 hectares of opium are cultivated. In 1999, Russia eradicated twelve hectares of wild and cultivated opium. Wild cannabis is estimated to cover some 1.5 million hectares in the eastern part of the country. The U.S. has no evidence of how much is harvested. In 1999, 32 hectares of cultivated cannabis were eradicated and 78,368 hectares of wild cannabis were eradicated.

Drug Flow/Transit. Heroin from South Asia flows through Central Asia into Southern Russia for domestic consumption, or further through Ukraine and Poland into Western Europe. The MVD considers the Krasnodar region and the customs point at Bratsk as major hot points. The lack of effective border controls with China and Mongolia facilitates international drug trafficking through that region. Reported seizures of ephedrine imported from China to manufacture methamphetamine are up. Nigerian and South American drug traffickers exploit international air links, routing cocaine through Moscow and other major Russian cities. Nigerian traffickers also smuggle heroin through Moscow and these other cities.

Demand Reduction. Drug abuse prevention and treatment remain limited. The 1998 narcotics law provides for compulsory treatment of drug abusers who come to the attention of the authorities. The law also restricts drug abuse treatment to government institutions and facilities.

IV. U.S. Policy Initiatives and Programs

The principal U.S. goal is to assist Russia in integrating counternarcotics efforts into international efforts against drug trafficking and to strengthen Russian institutions to address the problem domestically. The DEA has provided forensics and basic and advanced drug investigation training to representatives of the MVD, the Federal Security Service, Customs and Federal Border Guards and through its country office has facilitated cooperative efforts. Training provided by U.S. law enforcement agencies has reached some 6,000 Russian law enforcement officials through courses and seminars in Russia, the U.S. and the international law enforcement academy in Budapest.

The Road Ahead. Russia gives high priority to counternarcotics efforts and can be expected to continue its excellent cooperation on drug matters with the U.S. and the international community. The U.S. will continue to provide training and assistance aimed at strengthening institutions and law enforcement efforts.

Slovak Republic

I. Summary

The Government of the Slovak Republic (GOSR) estimates that domestic drug use rose in 1999. Slovakia remains a transshipment point for heroin to Western Europe along the "Balkan Route" from Turkey to Germany, France and other western European countries. The GOSR has funded the fight against narcotics at the same levels as 1998. The GOSR is party to the 1988 UN Drug Convention.

II. Status of Country

One of the main concerns of the GOSR is the continuing use of Slovakia as a transshipment point for the smuggling of illicit drugs. The GOSR continues to concentrate on east-west smuggling from Ukraine and

Russia. In 1999 increased emphasis was placed on the "Balkan Route" and the suspected Kosovar Albanian criminal organizations which utilize this route. The GOSR reports that cooperation of these organizations with organizations in neighboring countries has been on the increase throughout the past year.

The GOSR has maintained funding to law enforcement elements charged with the responsibility of combating illegal narcotics at the same nominal levels as in 1998. The national drug service and the customs service both report that less funding was committed to anti-narcotics efforts in real terms in 1999. One service suggested that this was due to an overall decline in the Slovak economy. Embassy observers note that many difficult choices faced the GOSR in the budget process in 1999. The overall budget for 1999, however, did not decline in real terms.

As reported in 1998, the influence of organized crime on drug sales and use continued to increase in 1999. The Slovak police continue to see organized crime elements gain ground in terms of their complexity and resources available. While some success against drug shipments connected to organized crime elements has been made, specific information about the true extent of the problem is still not known.

III. Country Actions Against Drugs

Note. At the time of writing, final statistics on drug seizures were not available. All characterizations made in this report are based upon interviews with responsible officials and their assessment of the year 1999.

Accomplishments. The current government, elected in 1998, has to a large extent completed a reorganization of the police corps and national drug service. This reorganization combined with a strong desire to participate in all educational opportunities has assisted the GOSR in their efforts to combat narcotics and organized crime. The government continues to state that fighting organized crime and corruption (which influences the porosity of the borders and the enforcement of the law) is one of its top three priorities. While the concept of cooperating with other nations in the fight against narcotics trafficking has not been completely absorbed by all GOSR elements, the GOSR has cooperated more closely on certain specific cases of international trafficking. Of particular note is the improvement of cooperation between the Slovak customs directorate, neighboring states and the United States.

Corruption. The current government is trying to reduce corruption by means of legal reform and increased education. While observers believe that some measured progress has been made, most believe corruption is still a serious problem, particularly at the lower levels of the law enforcement community. This corruption affects enforcement of applicable anti-narcotics laws. Prime Minister Dzurinda is spearheading an initiative to develop a national anti-corruption program in conjunction with the NGO Transparency International-Slovakia. The program should be publicly released in late February 2000.

Agreements/Treaties. Slovakia is party to the 1988 UN Drug Convention, the 1961 UN Single Convention and the 1972 Protocol thereto, and the 1971 UN Convention on Psychotropic Substances. The bilateral extradition treaty between Czechoslovakia and the United States has continued in force in the Slovak Republic and has been updated to encompass drug-related offenses by virtue of the GOSR's ratification of the UN narcotics conventions. The USG concluded a Customs Mutual Assistance Agreement with the GOSR in 1998.

Cultivation. Cannabis continues to be grown in all regions of the country, but it appears to be for domestic consumption only. The GOSR still has not seen evidence of production of cocaine or heroin or synthetic drugs within Slovakia.

Drug Flow/Transit. The GOSR reports that the number of attempts to smuggle illegal narcotics in 1999 was approximately equal to the number in the year 1998. More than 90 percent of those apprehended were not Slovak citizens. The border service reports that most seizures at the borders were for marijuana trafficking.

The GOSR states the Hungarian border was the site of the greatest number of attempts to enter Slovakia with illegal substances, followed by Ukraine. The greatest number of attempts to smuggle substances out of Slovakia was noted at the Czech border, followed by the Austrian border. When the total number of seizures (sum of attempts to cross the border in either direction) are considered, the most problematic border was the Czech border, followed in order by Hungary, Austria, Ukraine, and Poland. This was no change from 1998.

The major drugs of abuse are heroin, MDMA, cannabis products and, to a lesser extent, cocaine. The rising use of MDMA and heroin is of special concern to Slovak authorities. Most of the drug dealing and abuse has been confined to the region in and around the capital city of Bratislava and the western city of Kosice.

IV. U.S. Policy Initiatives and Programs

Slovakia has been the recipient of several USG sponsored training activities 1999. The USG sponsored activities were provided by the Department of State, Department of Justice, the Federal Bureau of Investigation, and the Drug Enforcement Administration. The courses were designed to increase the resistance to corruptive influences at the working level, and to improve efforts to combat narcotics trafficking and organized crime.

Through bilateral cooperation, the USG continues to encourage the GOSR to maintain its tough stance on drug interdiction and to expand its enforcement and prevention capabilities through modernization of responsible agencies.

Slovenia

I. Summary

Slovenia is not a major producer nor a major transit country for illicit narcotics. However, its location in southeastern Europe has the potential to make it an important transit country in the area. Militating against this, however, is a higher standard of living and more professional police and customs organizations than in neighboring southeastern European states. As a successor state to the Socialist Federal Republic of Yugoslavia (SFRY), the Slovenia is a party to the 1988 UN Drug Convention.

II. Status of Country

While its location between the Balkans and Central Europe could make Slovenia a vulnerable as a trafficking route, it has not yet become an important threat. While drug abuse is not a major problem in Slovenia, interdiction and seizure records indicate that the problem of illegal drugs in Slovenia is on the rise.

III. Country Actions Against Drugs in 1999

Policy Initiatives/Accomplishments. The GOS continued to make counternarcotics a priority of its law enforcement entities. In 1999 the GOS took steps to interdict illicit drugs at its borders by cooperating with U.S. officials, including Department of State, Department of Defense, DEA, FBI and Customs, to develop better interdiction, and with EU member states bilaterally and multilaterally to improve interdiction coordination. The GOS met regularly with Southeast European governments, other than Belgrade, to better coordinate counternarcotics activities in the region. It underwent an anti-money laundering mutual evaluation conducted by the Council of Europe's select committee of experts on the evaluation of anti-money laundering measures.

Law Enforcement Efforts. Law enforcement efforts led to the seizure in 1999 of 32.2 kilograms of heroin, 249 kilograms of marijuana, and 64.6 kilograms of hashish.

Slovenia's Financial Intelligence Unit (FIU), established under 1994 money laundering legislation, has processed 166 reports of which 28 were passed to law enforcement authorities for investigation, although there have been no successfully prosecuted cases to date.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. has provided bilateral training for Slovenian customs and border patrol personnel in interdiction of contraband goods, including narcotics, and other narcotics and law enforcement development courses. Cooperation between Slovenian law enforcement and U.S. and other countries has been very good. Slovenia participates in the Southeastern Europe Cooperative Initiative (SECI) among whose goals is the control of the increasing flow of narcotics trafficking across borders and to close the links to transborder organized crime. Cooperation with member SECI states will assist Slovenia's efforts to combat the predicate offenses that generate illegal proceeds laundered in Slovenia.

The Road Ahead. The U.S. will continue to provide counternarcotics and other law enforcement training to Slovenian law enforcement entities.

Spain

I. Summary

Spain is an important transit country for drugs and chemical precursors, and remains actively involved in counternarcotics efforts globally. Drug trafficking and terrorism remain Spain's highest law enforcement concerns. Spain is a party to the 1988 UN Drug Convention.

II. Status of Country

Illicit refining and manufacturing of drugs in Spain is minimal; however, small-scale laboratories which convert cocaine base to cocaine hydrochloride are discovered and confiscated each year. The first significant cocaine conversion operation was discovered in February 1995, when the Spanish National Police (SNP) seized a cocaine base extraction and conversion lab in Madrid. Spain's pharmaceutical industry produces precursor and essential chemicals, but there have been no reports of diversion of locally-produced chemicals to the illicit market. In 1999 there were two reported cases of foreign-produced potassium permanganate transiting Spain: twelve metric tons seized in April, and ten metric tons (destined for Colombia) in May. Seizures of local laboratories producing MDMA (3, 4-methylene dioxymethamphetamine, known as "Ecstasy"), have consistently shown Dutch traffickers to be in charge of operations. Spanish authorities recently dismantled two heroin laboratories in Madrid (September, 1998 and March, 1999).

Spain is the chief gateway for cocaine shipments entering Europe; the amount of cocaine seized by Spanish law enforcement agencies generally increases each year.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Spain's National Drug Plan Office (PNSD) prepared a new national drug strategy, the "Drug Strategy for 2000– 2008," which Parliament approved in late December, 1999. The strategy promises to make progress in an area previously addressed in the drug policy initiative adopted in January 1997, of which most of the proposals were implemented except for the proposal to authorize undercover operations against drug traffickers.

The new strategy authorizes the government to monitor modern methods of communication used by traffickers, to tap telephone lines without notification and to sell seized assets in advance of a conviction. It would give legal cover to police informers, create a registry of vehicles (including ships) capable of being used in drug trafficking, and reinforce border controls. The strategy also establishes a new program, the "System for Assistance and Social Integration for Drug Addicts" (SAID), to create several levels of treatment for addicts through the national health system. In recognition of the international aspect of the fight against money laundering and illicit trade in chemical precursors, the strategy calls for closer counternarcotics cooperation with France, Italy, Portugal, the UK and Germany, and for the establishment of permanent channels for collaboration with the Andean countries, Central America, and the Caribbean.

The National Central Drug Unit (OCNE), which coordinates counternarcotics operations among the various agencies involved, including the security forces and Customs Service, appears to be functioning well.

Accomplishments. Spanish authorities seized increasingly large amounts of cocaine and hashish destined for Europe. Figures through July 1999 indicate cocaine seizures already 1.3 times that for all of 1998 (predicted 1999 total: over 20 thousand kilograms), and heroin seizures already more than twice the total for 1998. Marijuana seizures were also up considerably.

Law Enforcement Efforts. Domestic measures to counter illicit drug trafficking and international operational cooperation fall under the authority (as of January 14, 1997) of OCNE, in the General Police Directorate within the Judicial Police Chief's office. OCNE is comprised of three agencies, each important in the fight against narcotics trafficking: the National Police Corps (SNP) and the Civil Guard (GC–Guardia Civil), both in the Interior Ministry; and the Customs Service, part of the Ministry of Economy. The PNSD, the equivalent of the U.S. Office of National Drug Control Policy (ONDCP) and attached to the Interior Ministry, provides political and strategic direction and develops general operational plans. Regional police units, or UDYCOs, address domestic and related international organized crime activity in designated zones of intense activity, increasing the number of cocaine seizures.

Agreements and Treaties. Extradition between the U.S. and Spain is governed by a 1970 extradition treaty, which has three additional supplements. Spain complies with EU consensus on drug trafficking and money laundering. Spain is a party to the 1988 UN Drug Convention, of which it applies all articles, and has recently become a party to the 1990 Strasbourg Convention (in force December 1, 1998). The U.S. has concluded a Customs Mutual Assistance Agreement (CMAA) with Spain.

Cultivation and Production. Coca leaf is not cultivated in Spain. Opium poppy is cultivated for research purposes under strictly regulated conditions. Insignificant amounts of cannabis are also cultivated. While refining and manufacturing of drugs is minimal, there is evidence of small scale laboratories which convert cocaine base to cocaine hydrochloride. Ecstasy is manufactured in limited quantities.

Drug Flow/Transit. Close historic and linguistic ties with Latin America attract Colombian cocaine traffickers who fully exploit Spain's position as a bridge to the rest of Europe. Maritime containerized cargo shipments account for most of the cocaine shipped to Spain, but much enters in smaller amounts smuggled by air courier, usually through Madrid's Barajas International Airport. In Galicia (northwest Spain), tobacco smugglers have turned to trafficking in cocaine and hashish.

Domestic Programs. Studies show that Spanish city residential neighborhoods tend to measure safety by the presence or absence of street-level drug trafficking and drug use: drug-related behavior appears to account for at least 80 percent of urban crime. The PNSD continued to push a positive drug prevention message to young people, reinforcing and extending media campaigns throughout 1999, giving priority to rehabilitating minors with a view to diminishing the threat of syringe-borne diseases, developing mechanisms for dispensing methadone and exchanging needles, and implementing joint action with the National Plan on AIDS (Plan Nacional del Sida). Programs now offer alternative penalties for addicts, making it possible for them to complete their sentences in accredited detoxification and rehabilitation centers, and methadone distribution programs have been extended to all penitentiaries.

Multilateral Cooperation. Spain provides counternarcotics assistance to a number of countries, including Colombia, Bolivia, and Peru, cooperating on the bilateral level as well as within the framework of the European

union. Spanish counternarcotics officials feel that police training is an area of primary importance in many Latin American countries. Spain is actively engaged in providing training assistance in El Salvador and other Central American nations. Spain is a major donor to UNDCP and is committed to additional contributions to its programs, particularly in the areas of law enforcement, interdiction, alternative crop development, demand reduction, and anti-corruption. As a member of the Dublin group, Spain serves as regional chair for Central America and Mexico.

IV. U.S. Policy Initiatives and Programs

U.S. goals and objectives in Spain include maintaining and increasing existing excellent levels of bilateral and multilateral cooperation in law enforcement and demand reduction efforts. The U.S. seeks to promote continued contacts between officials of both countries involved in all facets of counternarcotics work and related fields. Latin America continues to be an area in which both Spain and the U.S. have considerable interests and expertise and where many opportunities for counternarcotics cooperation exist. Latin America will continue to be the focus of our shared efforts to augment existing high levels of cooperation in third countries.

Bilateral Cooperation. Particularly in the law enforcement area, cooperation between the U.S. and the government of Spain on drug matters is very close.

The Road Ahead. The U.S. Embassy in Madrid will maintain close coordination with Spanish counternarcotics officials in both the public policy and law enforcement areas. Spain will continue to be a key player in the international fight against drug trafficking and money laundering.

Sweden

I. Summary

Sweden is not a significant illicit drug production, trafficking or transit country. Swedish drug policy remains zero tolerance with the long-term overall goal of a drug-free society. According to law enforcement sources, more drugs were seized annually, and drugs are available in more places in Sweden. Young Swedes today are more curious about drugs and less averse to them than at the end of the 1980s. Youth are increasingly using rohypnol or ecstasy. Purity levels of amphetamines, the most abused drug in Sweden, have gone up, and prices have decreased a bit the last few years, probably due to greater availability. Drugs from Eastern Europe and the Newly Independent States (NIS) remain a problem for Swedish law enforcement. In early 2000, Sweden will submit a draft proposal to the EU council for a new comprehensive plan against synthetic drugs in Europe. Swedish EU representatives continue to strongly oppose liberalization trends in Sweden and in Europe. In 1999, Sweden continued its co-operation in international law enforcement fora, e.g., in the UN, the Dublin Group, the Pompidou Group, the EU and with the Baltic nations to combat drug trafficking and money laundering. Sweden is a party to the 1988 UN Drug Convention.

II. Status Of Country

Sweden remains intolerant of drugs. However, increased travel and study abroad combined with extensive Internet use has led to the Swedes' increasing exposure to drugs and to other nations' liberal drug attitudes. The current restrictive government policy towards illicit drugs dates from the end of the 1970s and is supported by the majority of the population.

Cannabis/hashish and amphetamines are still the most frequently seized and abused drugs. Police report that indoor cultivation of cannabis, although small scale, has increased somewhat. Brown heroin abuse (smoked) continues to increase among immigrant youth. Ecstasy is used by some youth. GHB (Gamma-Hydroxybutyrate) abuse increased in 1999 in Sweden. Though recent court case decided that GHB is not considered a doping agent, the Swedish government intends to classify it as soon as possible as a narcotic drug.

In 1999, as in 1998, the number of amphetamine seizures (4,859 in 1998 and 3,950 January – November 1999) was about equal to the number of cannabis/hashish seizures (5,062 in 1998 and 4753 in January – November 1999). In 1999, there were three major seizures of cocaine from rollon/rolloff boats from Costa Rica and Colombia, in the Gothenburg harbor. Police believe this cocaine was destined for European markets other than Sweden. Rohypnol found in Sweden is often made in the Czech Republic. There is also some illegal diversion of legally prescribed rohypnol. Despite the increase in this abuse, the Swedish medical products agency has not yet changed rohypnol's classification to a schedule 2 (1971 UN Convention on Psychotropic Drugs).

The latest governmental nationwide study, published in 1993, indicated that there were 14,000–20,000 daily drug users in Sweden (about 2 percent of the total population). Swedish authorities believe the number of hard-core daily users may have increased somewhat in the 1990s, and limited studies indicate that weekend use among the young is increasing. In 1995, the Swedish Council for Information on Alcohol and Other Drugs (CAN) initiated ESPAD, the European School Survey Project on Alcohol and Other Drugs, a major investigation

of 15–16 year-olds in 26 nations. The result, published in November 1997, shows that cannabis is the most prevalent drug among this age group.

Precursors. The GOS monitors the import and export of all precursor and essential chemicals. The Swedish Medical Products Agency is responsible for precursor and essential chemical controls. In 1999, work continued on a joint program between the police, customs, and the medical products agency to create a national network of contact persons dealing with precursors. The idea is also to train trainers within narcotics enforcement to develop institutional knowledge about precursors and to hold seminars on the potential threat of precursors. In 1999, work continued to establish MOUs with major branch organizations covering wholesalers and retailers dealing with precursor chemicals.

III. Country Actions Against Drugs

Policy Initiatives. Swedish customs and police officials continue to train Baltic authorities in drug trafficking intelligence work, investigation methods and drug recognition in abusers. They spend U.S. \$2 million annually from a 1991 multi-year program to assist Baltic nations, Poland and St. Petersburg with various projects, such as building criminal surveillance centers, and providing technical assistance for controlling borders. The program also provides training through the Nordic Baltic police academy, including forensic training, special forces training, and advanced narcotics training.

Sweden continues to chair the Baltic Sea States' Task Force on Organized Crime established at the Visby Summit in May 1996. The Task Force consists of personal representatives of the government leaders. In 1999 there were five bi-/trilateral operations with preventive and suppressive results. The Task Force's Secretariat is in the Ministry of Justice in Stockholm. A special U.S. law enforcement point of contact has been established with the U.S. Department of Justice representative in Brussels.

SIDA, the Swedish International Development Authority, received about U.S. \$ 1.4 million in 1998 for multi- and bilateral UN normative instruments projects against drugs and tobacco primarily in Africa, and to a lesser extent in Asia. The 1999 projection remains at the same level. In 1999, Sweden's contribution to the World Health Organization was about U.S. \$ 0.241 million.

Sweden continues to work in many different ways within the EU to combat drug abuse. The Swedish government is content with the new EU strategy against drugs and feels that many Swedish viewpoints have been included, e.g., the link between unemployment, marginalization, poverty, and drug abuse. Sweden remains active in the Pompidou Group.

"European Cities Against Drugs" (ECAD) an alliance of major cities that espouses zero tolerance policies and no liberalization, is a growing Europe-wide movement founded in Sweden in 1994. The alliance maintains its Secretariat in Stockholm. In September 1999, ECAD opened its first regional office in St. Petersburg. The organization cooperates with various anti-drug organizations in the U.S., including National Families in Action and Drug Watch International, and is expanding its network to Latin America, Asia, and Australia. ECAD continues to hold anti-drug conferences. At present, 220 cities and municipalities in more than 30 European nations are members of ECAD.

Domestic policy. Sweden's National Narcotics Commission, appointed in 1998, continued its work in 1999, writing broad-based evaluation reports on the drug policy since the mid-80s in order to propose ways to strengthen it. All reports are to be concluded in the year 2000.

Accomplishments. In 1999, Parliament passed new legislation making it punishable to drive under the influence of narcotics or certain medical drugs. Another new law in 1999 bans products that are deemed hazardous to a person's health. Like other nations, Sweden faces the growing problem of designer drugs. To combat their proliferation, the criterion "strongly habit-forming" in earlier law text was replaced with "dependence-creating qualities or euphoria-creating effects" through a Parliament decision in 1999. This will be an easier-to-establish criterion, which the Ministry of Health and Social Affairs hopes will speed up investigations and thus decisions regarding new designer drugs.

In 1999, Swedish police and customs drug liaison officers continued to be located in Paris, Brussels, St. Petersburg, Bangkok, Athens, Copenhagen, the Hague, London, Warsaw, Tallinn, Riga, Bonn, Budapest, and Moscow. Sweden has both a customs and a police officer in Europol in The Hague; there is one Swedish policeman at Interpol in Lyon. In 2000, a Swedish police officer will be posted in Amman.

Agreements and Treaties. Sweden is a party to the 1988 UN Drug Convention and is meeting the convention's goals and objectives. Sweden also is a party to the 1961 Single Convention, as amended by the 1972 Protocol, and to the 1971 Convention on Psychotropic Substances.

Sweden participates in a number of international fora, including the UN Commission on Narcotic Drugs, the UN Drug Control Program (UNDCP), the Dublin Group, and the Pompidou Group. Sweden chaired the regional Dublin Group in Africa 1998–99 and contributed about U.S. \$ 0.25 million to the UNDCP "drug nexus study" in

Africa in 1998. During 1999, Sweden continued actively to promote improvement of multilateral anti-drug activities in UNDCP. According to the Ministry for Foreign Affairs, Sweden, as one of UNDCP's major donors pledged approximately U.S. \$ 4.375 million in 1999.

Sweden has bilateral customs agreements with the United States, Germany, the United Kingdom, the Netherlands, France, Finland, Denmark, Norway, Iceland, Spain, Poland, Russia, Estonia, Lithuania, Hungary, Latvia, and the Czech Republic. In 1998, a similar agreement with Slovakia entered into force. In 1997, the Swedish and Russian governments agreed on cooperation between the Russian Federal Tax Police Service and Swedish police and customs (two agreements). Sweden cooperates with the U.S. under a 1984 Extradition Treaty.

Law Enforcement. Swedish law enforcement authorities are effective. In 1999, there were 12,702 individual drug seizures by police and customs. Seizures of heroin and cocaine increased in 1999. In the first eleven months of 1999, Swedish police and customs made 930 heroin seizures weighing a total of 58 kg, and 413.8 kg of cocaine in 254 seizures. During 1999 there were 102 seizures of ecstasy, totaling 27,238 tablets. There were 253 khat seizures January–November 1999, totaling 2,797 kg.

Corruption. Corruption is very rare and, when discovered, consistently punished. Anti-corruption laws effectively deter public officials from engaging in the illicit production or distribution of drugs, and in the laundering of drug money.

Cultivation/Production. No illicit drugs are known to be cultivated or produced in significant amounts in Sweden, but there seems to be a trend towards increasing cultivation of cannabis at home, using seeds bought through the Internet.

Drug Flow/Transit. In 1999, Sweden remained a destination for synthetic drugs entering through the Netherlands or Germany and Denmark, originally produced in Poland, the Netherlands, Belgium, the Czech Republic and the Baltic nations. Sweden is also a final destination for cocaine from South America. Police report an increase in seizures of amphetamine from Estonia. Drugs enter the country concealed in commercial goods, overland, by mail, by air, and by ferry. The Netherlands remains the source for approximately half of all amphetamines seized, but substantial amounts originated in Poland, the Czech Republic, and, possibly, the Baltics. Cannabis, originating from Morocco, seems to come through Spain directly to Sweden, by air and by lorry.

Pakistani brown heroin reportedly is smuggled in by ethnic Albanians from Kosovo and FYROM, through the Czech Republic or Slovakia, via Germany and Denmark, by ferry to Sweden.

Cocaine still is most often smuggled into Sweden by passengers flying in from South America, via EU airports. There are also criminal groups from Eastern Europe involved as well. Khat smuggling, mainly for and by Somalis, has increased considerably.

Demand Reduction. The Swedish National Institute of Public Health coordinates all drug prevention efforts. Teaching about the dangers of drug abuse is compulsory in Swedish schools. Various private organizations also are active in drug abuse prevention and public information programs. Under Swedish law, individuals who abuse drugs can be sentenced to drug treatment.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Swedish cooperation with U.S. law enforcement authorities continues to be excellent.

The Road Ahead. The USG looks forward to strengthening its already good counternarcotics cooperation with Sweden, particularly in the Nordic–Baltic nexus and with the Newly Independent States (NIS).

Switzerland

I. Summary

Switzerland is both a transit and destination country for illicit narcotics, especially heroin. The government continues to evaluate, refine and consolidate its four-pillar counternarcotics policy focusing on prevention, treatment, harm reduction and law enforcement. Voter rejection of popular initiatives in 1997 and 1998, which would have either increased enforcement or decriminalized drug use, indicates that a national consensus in support of the pragmatic four-pillar policy has emerged. The Swiss government is continuing with the heroin prescription program as a therapy for hard-core addicts. Switzerland remains a site for money laundering operations. However, more effective legislation and vigorous law enforcement efforts are making it more difficult to launder money and have led to seizures of drug-related assets. The Swiss government is expected to ratify with reservations the 1988 UN Drug Convention in 2001.

II. Status of Country

On a per capita basis, Switzerland has an unusually large number of drug addicts – roughly 30,000 according

to the most recent data. Most of these individuals are users of heroin and/or cocaine. Marijuana consumption continues to increase as does the abuse of the hallucinogen "ecstasy". Police concern is growing over the tendency of casual users to increasingly mix cannabis, ecstasy and speed or other (usually synthetic) amphetamines.

An abundant supply contributes to the relatively low cost of illicit narcotics, which often have a high grade of purity. According to law enforcement authorities, foreigners from the former Yugoslavia (especially Kosovar Albanians), Turkey, Lebanon, Africa and South America play a primary role in distribution.

Switzerland has long been an attractive site for money laundering due to bank secrecy laws, the absence of currency controls, and the strength of the Swiss franc. However, by enforcing comprehensive legislation, Swiss authorities are making inroads against money laundering and are seizing significant drug-related assets.

III. Country Actions Against Drugs in 1999

Policy Initiatives. In 1991, Switzerland intensified its counter-narcotic efforts with a policy initiative based on four pillars: prevention, treatment, harm reduction and law enforcement. In 1997, 70 percent of Swiss voters rejected an initiative called "youth without drugs" which would have introduced a strict, abstinence-oriented drug policy based on repression, prevention and therapy and would have stopped the heroin prescription program. In 1998, 75 percent of voters rejected a second initiative entitled "For a Reasonable Drug Policy (DROLEG)", which would have decriminalized the production, possession and purchase of narcotics for personal use and would have compromised Switzerland's ability to cooperate internationally in the fight against drugs. In August 1998, the Federal Council opened a consultation procedure for the revision of the 1951 narcotics law. The revised law is expected to anchor the four-pillar policy in legislation with draft provisions eliminating loopholes and inconsistencies in the existing law, tightening regulations prohibiting the sale of alcohol and tobacco to youths under 16, and permanently establishing the legal basis for the heroin treatment program. Furthermore, the revision calls for improved coordination between local and federal authorities on drug enforcement issues. The Federal Council is expected to submit its conclusions regarding the revision of the law to the Swiss Parliament in the second half of 2000.

Accomplishments. Through therapy and treatment programs, Switzerland has improved the physical and mental well-being of many addicts and reduced incidents of drug-related criminality. Swiss officials credit needle exchange programs with reducing drug-related AIDS and hepatitis infections. Drug-related mortality has steadily declined with the most recent annual total dropping from 241 to 209 deaths. The average age for drug-related deaths has risen from 30 to 32.

In December 1999 the Swiss Parliament passed a bill to make prosecution of organized and white-collar crime more effective. The new law confers on the federal attorney general's office the option to intervene in cases that have international dimensions or involve several cantons and in cases involving cantons that lack resources to research and prosecute a case effectively.

Law Enforcement Efforts. The most recent statistical data shows that in 1998 the number of apprehensions under the narcotics law rose to 45,726 (from 45,093 in 1997), with approximately 81% of those offenses for consumption. Amphetamine seizures more than quadrupled from 1997 to 1998 and 403.7 kg of heroin were seized, a substantial increase above 209.3 kg in 1997. LSD and other hallucinogen seizures declined as did cocaine seizures, which dropped to 251.6 kg in 1998 from 349.4 kg in 1997. The quantity of seized marijuana rose dramatically to 13.163 metric tons from 6.6 metric tons although the number of marijuana plants seized declined.

The police investigation into one of the largest Swiss trafficking operations uncovered to date came before the courts this year. Code-named "sippe", the lengthy undercover investigation paid off when police caught the suspect, a Kosovar Albanian, with 6.67 kg of heroin in his car. Police suspect him of involvement in the trafficking of up to 44 kg of heroin in the Zurich area and are calling for an eleven-year prison sentence. The court's decision is pending.

Approximately 250 hemp shops continue to operate throughout Switzerland. They sell a variety of cannabis products. Tea, oil, paper, textiles and so-called sachets. Supposedly sold to freshen-up closets and drawers, the sachets contain good quality marijuana suitable for smoking.

In July 1999, the Wintherthur district prosecutor called for sentences of between 12 and 27 months and fines of between U.S. \$ 675-34,000 for four businessmen who had been cultivating and selling hemp since 1995. The district court found that the hemp produced and sold in the form of sachets, was intended to be smoked. The judge based his assessment on the high THC-content of the hemp and the sale price of the sachets. The federal government has taken steps to revise the law to eliminate the loophole that requires evidence of sale for narcotic use.

Corruption. There have been instances in which public officials were allegedly involved in corruption related to narcotics trafficking, but such cases are very rare.

Agreements and Treaties. A 1997 U.S.–Swiss Extradition Treaty is currently in force. Switzerland has been re-elected to the UN Commission on Narcotic Drugs (CND). It supports and is a major donor to the UN Drug Control Program (UNDCP). Switzerland works closely with the UN International Narcotics Board (INCB), and the World Health Organization (WHO), as well as with the Council of Europe's co-operative group to combat drug abuse and illicit trafficking in drugs (Pompidou Group).

Switzerland has adopted legal instruments to implement the provisions of the 1988 UN Drug Convention and adheres to the convention in practice. However, the government is expected to delay ratification until the current review and revision of the drug law is completed. The federal council has indicated that it might attach two reservations to the ratification to allow for a more liberal Swiss policy regarding individual consumption of drugs and to give Swiss cantonal (local) courts more discretion in sentencing.

In 1996, Switzerland became party to the 1971 UN Convention on Psychotropic Substances. The government intends to conform national law to the Chemical Action Task Force (CATF) recommendations and new European Union regulations.

Cultivation and Production. Police sources report that Switzerland has reached self-sufficiency in marijuana and hashish production and has even become a modest exporter. According to Swiss narcotics law, cannabis cultivation is legal if the harvest is not destined for narcotics use or production. Farmers growing hemp receive government subsidies as long as their plants contain less than 0.3 percent THC. About 300 tons of hemp is cultivated annually and hemp products, such as rope, have become a million franc industry. Figures on the extent of illegal cultivation are not available. However, police acknowledge that they have underestimated the seriousness of the problem. Police have also reported an increase in the domestic production of ecstasy and other synthetic drugs.

Drug Flow/Transit. While Switzerland continues to be used to transit narcotics to European and, to a lesser extent, U.S. markets, it is also a destination for narcotics deliveries, particularly heroin.

Domestic Programs. Switzerland focuses heavily on prevention and early intervention to prevent occasional users from developing an addiction. It spends U.S. \$ 22–25.5 million annually on programs, aimed primarily at youths, which encourage abstinence from drug use and an overall healthy lifestyle. A new nation-wide program aimed at high-risk youths and intended to prevent addiction was announced in November 1999. With over 100 public and private institutions providing drug therapy, and an annual budget of U.S. \$ 160–190 million, Switzerland has the capacity to provide therapy to two-thirds of its approximately 30,000 addicts.

Switzerland was among the pioneers of methadone treatment, the controversial drug rehabilitation program involving medically controlled delivery of heroin to hard-core addicts. A GOS assessment of this program cites significant improvements in the social and health conditions of the addicts, a significant reduction in criminality, and a reduced number of drug-related deaths. The report also found that the reduction in legal and court costs associated with drug-related crime and the improved health of addicts resulted in an overall reduction in costs to the government. In light of this assessment, the Swiss Parliament passed – and in June voters accepted – a federal decree valid until 2004, which provides the temporary legal basis for continuation of the program.

A favorable assessment of the heroin prescription program by a group of experts appointed by the World Health Organization was published in April 1999. The key results of the study showed that: "a) the medical prescription of heroin in a strictly regulated environment that provides for injection at dispensing centers is feasible, safe, responsible and can be implemented in a way that is acceptable for the community; b) according to the self-reports of participants a clear improvement was noted in the state of health, the social situation and a reduction of the criminal behavior and consumption of illegal heroin."

Harm Reduction. Switzerland was among the first countries to adopt a needle exchange program to combat the spread of the HIV virus. The Swiss federal government supports an extensive needle distribution program involving injection rooms, pharmacies, mobile needle exchange buses and public needle dispensers. Although blind (i.e., anonymous) needle exchange is available, the government employs social workers at needle exchange facilities to encourage occasional users and addicts to participate in counseling programs. Swiss officials credit this program and other housing and employment programs with reducing the prevalence of HIV and hepatitis among Swiss drug addicts. Switzerland earmarks U.S. \$ 88 to 146 million annually for harm reduction.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. officials continue to receive excellent cooperation from their Swiss counterparts in legal and law enforcement efforts to counter narcotics trafficking and money laundering. There have been several successful cooperative operations against money laundering in which the Swiss have seized bank accounts and shared the assets with the USG in the past.

Road Ahead. We will build on our solid foundation of law enforcement cooperation in the fight against

narcotics trafficking and money laundering and will encourage the Swiss government to ratify the 1998 UN Drug Convention as soon as possible. We will reiterate USG concern about the heroin prescription program, noting that while such policies may bring short-term benefits, they may in the long run prove detrimental to the well-being of Swiss society.

Tajikistan

I. Summary

Tajikistan is the usual first leg of the transit route for opiates and cannabis products from Afghanistan, via the Central Asian countries, to Russia and Europe, and probably, to a lesser extent, to the United States. The volume of drugs following this route is significant, and interdiction efforts are only occasionally successful. The amount of narcotics cultivation within Tajikistan itself is relatively small, and the government claims to have reduced it through vigorous law enforcement efforts. Drug abuse, primarily of heroin, is growing, and Tajikistan's medical infrastructure is inadequate for the population's growing need for addiction treatment and rehabilitation. Government actions in 1999 show a willingness, but little ability, to combat drug trafficking and other narcotics-related problems. Tajikistan is a party to the 1988 UN Drug Convention.

II. Status of Country

Geography and economics have made Tajikistan an attractive transit route for illegal narcotics. Its border with opium-producing Afghanistan is thinly guarded and easily crossed at a number of points. The disruption of normal economic activity during the 1992-1997 civil war gave rise to a warlord class whose leaders jostle for control of the lucrative narcotics trade. Tajikistan's under-developed banking sector will prevent it from becoming a significant money laundering country in the near future. In-country cultivation is minimal, and the Government is unaware of any processing or precursor chemical production facilities.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Following through on the recommendations of a 1998 master plan devised jointly by the government and UNDCP, a new agency, the Drug Control Agency under the President of the Republic, was created in 1999. The new agency aims to centralize government counternarcotics efforts and support drug treatment and rehabilitation efforts.

Accomplishments. Tajikistan moved towards a more centralized and coordinated approach to combating narcotics trafficking with the creation of the Drug Control Agency.

Law Enforcement Efforts. Tajikistan officials report having seized of some 700 kilograms of illegal narcotics along the border with Afghanistan during 1999. National and Russian border forces are Tajikistan's first and main line of defense against illegal narcotics trafficking from Afghanistan. These forces are, however, unequal to the task and--given low pay and incentives for corruption--are often part of the problem. Arrests and seizures are widely publicized, but probably represent only a small fraction of the estimated total trafficking volume. While political pressures, or worse, can be used against authorities to deter them from focusing on major traffickers and their organizations, the Government appeared to be giving counternarcotics law enforcement a higher priority in 1999 than in the past. The resources available are limited, however.

Corruption. Influential figures from both sides of the civil war, many of whom hold positions in the government, are widely believed to have a hand in the drug trade. While it is impossible to determine for certain how pervasive drug corruption is within government circles, it is a fact that salaries for even top officials are low and often seem inadequate to support the lifestyles many officials maintain. Even when arrests are made, the resulting cases are not always brought to a satisfactory conclusion. As a matter of policy, however, Tajikistan does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. While accusations of drug-related corruption are routinely made by political figures against their enemies, there is no direct evidence of senior officials of the government engaging in, encouraging, or facilitating illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Tajikistan is a party to the 1988 UN Drug Convention and other UN narcotics-related agreements as well. It has signed the Central Asian Counternarcotics Protocol with UNDCP and neighboring Central Asian countries, as well as a bilateral cooperation agreement with the United States. Tajikistan is a party to the World Customs Organization's International Convention on Mutual Administrative Assistance for Prevention, Investigation, and Repression of Customs Offenses (the Nairobi Convention), Annex X on Narcotics Cases.

Cultivation/Production. Opium poppies and, to a lesser extent, marijuana are cultivated in limited amounts, most in the northern Aini and Pendjikent districts. Cultivation has been limited by law enforcement efforts as well as the fact that it is cheaper and safer in neighboring Afghanistan.

Drug Flow/Transit. An estimated 80 percent of the narcotics produced in Afghanistan are smuggled across the border into Tajikistan's Shurobod, Moskovski, and Panj districts, according to government figures. Europe and Russia are the ultimate destination of most illegal narcotics transiting Tajikistan, though a small portion may reach the United States.

Domestic Programs (Demand Reduction). The new Drug Control Agency has begun some experimental initiatives aimed at increasing drug awareness, primarily among schoolchildren, but there is still a long way to go in this area.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Twenty-one law enforcement personnel from Tajikistan participated in U.S.-sponsored programs at the International Law Enforcement Academy in Budapest during 1999. In addition, 2-3 law enforcement personnel from Tajikistan have normally participated each year in DEA training programs. Opportunities for these programs were lost during 1999 because of disruptions caused by the U.S. Embassy's suspension of normal operations in Dushanbe.

The Road Ahead. UNDCP will remain the principal agency supporting counternarcotics efforts in Tajikistan. The U.S. will continue to provide law enforcement training, encourage similar support from Western European countries, and promote regional cooperation as essential to improve counternarcotics.

Turkey

I. Summary

Largely as a result of its geographical position, Turkey continues to be a major transit route for Southwest Asian opiates moving to Europe. Turkish law enforcement organizations continue to focus their efforts on stemming this transit traffic, and on disrupting illicit laboratories within Turkey which process smuggled opiate raw materials into heroin. Historically, drugs transiting Turkey have not entered the U.S. in significant quantities, and although trafficking from Turkey to the United States has increased during the last six months, the total amount entering the U.S. still remains small. There is no appreciable cultivation of illicit narcotics in Turkey. We are not aware of any diversion from Turkey's licit opium production program. Turkey is a party to the 1988 UN Drug Convention. Turkey is an active member of the Financial Action Task Force (FATF), an anti-money laundering group.

II. Status of Country

European governments estimate that as much as 75 percent of the heroin seized in Europe either transited Turkey, was processed there, or was seized in connection with Turkish criminal syndicates. Assembling reliable data on heroin and other illicit opiates transiting Turkey is notoriously difficult, although DEA estimates that the flow to Europe has remained steady for the last two years at between four and six tons of heroin each month. Turkish law enforcement and anti-narcotics forces continue to improve their professional capabilities in their aggressive efforts to stem transit traffic. The increased discoveries of processing labs and seizures of illicit precursor chemicals, such as acetic anhydride, indicate that refining heroin in Turkey remains a problem.

No appreciable illicit narcotics cultivation takes place in Turkey, although Turkey is one of the world's two traditional opium growing countries, as recognized by the U.S. government and the INTERNATIONAL NARCOTICS CONTROL BOARD (INCB). The Turkish government maintains strict controls on its licit poppy program, which provides opiates for the international pharmaceutical market. Although the Turkish government has significantly improved seed yields and processing techniques, farming inefficiencies and relatively low alkaloid content continue to make poppy production in Turkey only marginally commercial, although poppy seeds are a valuable food crop in Turkey's domestic market. The USG has an ongoing program to work with the Turkish government to improve its licit poppy production.

Turkey continues to take actions against money-laundering, which include expanding government oversight of Turkish banks and taking steps to bring the large unregistered economy under fiscal control. The Financial Crimes Investigative Board (FCIB) continues to investigate several dozen money laundering cases, although most of these focus on non-narcotic criminal actions or tax evasion. Thirty percent of the FCIB's investigations are narcotics related.

III. Country Actions Against Drugs in 1999

Policy Initiatives. In 1999, the Turkish government continued to strengthen its control over financial institutions, primarily through the passage of a banking reform bill that increased regulatory oversight over commercial bank operations. While primarily aimed at strengthening the financial health of the banking sector, the Turkish government also intends to reduce the ability of banks and companies to evade taxes, and as a collateral benefit, to reduce the ability of criminal organizations to use the Turkish financial system. The Turkish government has also successfully pursued several high profile extradition cases of notorious criminals. By and large, these criminals have little or no direct relationship to narcotics trafficking, although their seizure

will boost Turkish law enforcement efforts in general.

The Financial Crimes Investigative board (FCIB) continued to work closely with FATF and other international organizations to improve its money laundering investigative capabilities. During a review of Turkey's anti-money laundering efforts this fall, FATF gave Turkey generally good marks, although it also suggested several areas for further improvement.

Law Enforcement Efforts. During 1999, Turkish law enforcement agencies, including the Turkish National Police, the Jandarma (Rural Police), Customs and the Coast Guard, seized over 2.2 tons of heroin, five tons of hashish and thousands of pills. There were 5030 drug-related arrests and a significant increase in seizures of precursor chemicals, including acetic anhydride. Turkish counternarcotics forces continued to improve their professionalism and effectiveness. Most notable is the Jandarma, which added several more counternarcotics teams to its forces. Turkish officials continue to maintain a close relationship with counter narcotic counterparts in the U.S. and European governments, as well as with the UNDCP. Turkish officials hold monthly meetings with drug liaison officers based in Ankara.

Corruption. Allegations of corruption continue to be prevalent in Turkey, although rarely related to narcotics. The most prominent story of 1999 involved charges that high-ranking Istanbul police officials had cooperated with organized crime families in Turkey. Although there is a widespread belief in Turkey that significant corruption exists, primarily in or related to the private sector, the current government is generally regarded as being much less tolerant of corruption than previous governments.

Agreements and Treaties. The United States and Turkey have long-standing bilateral treaties covering extradition and mutual legal assistance in criminal matters, as well as a narcotics assistance protocol. The United States has concluded a Customs Mutual Assistance Agreement with Turkey. Turkey is a party to the World Customs Organization's International Convention on Mutual Administrative Assistance for the Prevention, Investigation, and Repression of Customs Offenses (Nairobi Convention). Turkey is a party to the 1988 UN Drug Convention, and is a member of FATF.

Cultivation/Production. Illicit cultivation of narcotic plants, primarily marijuana, is minor and has no impact on the United States. Licit opium poppy cultivation is strictly controlled by the Turkish grain board (TMO), with no apparent diversion into illicit channels. Sale in Turkey of poppy seeds for traditional recipes nets farmers more return than the sale of the low alkaloid content poppy straw to the state enterprise which processes it into CPS. The U.S. Government is working with TMO to improve the alkaloid content of Turkey's poppies, and the efficiency of TMO's operations. Preliminary results of this program are quite encouraging, as seen in this year's increased production.

Drug Flow/Transit. Turkey remains a major transit route for the flow of southwest Asian heroin to Europe. Indications are that Turkish narcotics traffickers are supplying the heroin fueling the upswing in Albanian trafficking reported in 1999. Heroin, and to a lesser degree, morphine base is smuggled across Turkey's eastern border. Morphine base is refined in illicit labs, most often in Turkey's rural southeast, or near Istanbul. Heroin is most commonly transferred to Europe hidden in containers on TIR (International Road Transport System) trucks, which are only subject to customs inspections in source and final destination countries, not en route. Smaller amounts are transported by bus, air passengers or in private vehicles. The DEA Ankara office reports an increase over the past six months in the number of U.S.-destined heroin trafficking cases. However, this change is from a very low base, as historically, there has been very little evidence that heroin from Turkey enters the United States, either directly or through another transit state.

There are continued reports that the Kurdistan Worker's Party (PKK) is involved in drug (and weapons) trafficking. The PKK, a terrorist separatist group active in the southeast border region of Turkey, is reportedly paid protection money by narcotics traffickers and refiners. PKK groups based in Europe are also alleged to be involved in narcotics trafficking. The Turkish government made major gains in its campaign against the PKK in 1999 with the capture of the organization's leader, Abdullah Ocalan, and several of his top lieutenants. Ocalan's capture and subsequent Turkish government actions aimed at improving conditions in southeastern Turkey may reduce PKK activities, including drug and arms trafficking, while also improving the Turkish government's ability to control its borders and interdict narcotics smuggling flows.

Demand Reduction. Turkey improved its efforts to reduce domestic demand for drugs by opening two new prevention and substance abuse clinics in 1999. Turkey plans to open a further three clinics in 2000. The incidence of substance abuse in Turkey remains low, although surveys indicate that the abuse rate among school children is growing and is beginning at an earlier age. Turkey's oldest drug prevention and substance abuse clinic, the Istanbul ANATEM, has broadened its outreach to local schools and doctors in an effort to better educate children about the dangers of drugs. The Ministry of Health is also preparing a national plan to combat drug abuse. The Turkish government established a national council with representatives of all concerned ministries, the Istanbul ANATEM and university faculties, which meets monthly to discuss strategies and coordinate efforts.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. Policy remains to strengthen Turkey's law enforcement capability to combat narcotics trafficking and to enhance Turkey's ability to control money laundering and financial crimes. The USG provides counternarcotics commodity and training assistance to the Turkish National Police and Jandarma; training and equipment to Turkish Customs to improve border interdiction; and training and assistance to the Turkish FCIB. The USG is also helping the Turkish government improve its licit poppy production program to prevent its diversion into illicit channels. USG counternarcotics programs in Turkey are budgeted at U.S. \$500,000 annually.

Bilateral Cooperation. U.S. counter-narcotic agencies report that their Turkish counterparts have steadily increased cooperation with U.S. officials. Turkish counternarcotics forces have also become increasingly professional, in part because the U.S. program affords them access to the training and equipment they need to pursue more sophisticated investigations. U.S. officials held several very successful training sessions for Turkish law enforcement officials, including a major money laundering investigation seminar in April.

Road Ahead. Turkey's primary focus will remain to interdict and disrupt narcotics flows across its territory. As part of its broader campaign against tax evasion and corruption, Turkey will also continue to increase its ability to combat money-laundering. Turkey will need to improve its judicial system, including increasing the number of judges and providing them with advanced training in issues like money laundering, to produce significant convictions which will begin to serve as a deterrent. Turkey will also need to procure more advanced equipment to keep pace with increasingly sophisticated trafficking methods.

Turkmenistan

I. Summary

Turkmenistan is not a significant producer of illegal drugs or precursor chemicals. The country's geographic location, however, makes it an ideal corridor for drug transit from Southwest Asia to Russian and European markets. Turkmenistan borders Afghanistan and Iran for more than 1,000 kilometers along its southern and southeastern frontier. The Border Guards, State Customs and Committee for National Security (KNB) share responsibility for preventing the flow of drugs into the country. Their efforts are made difficult by a lack of resources and equipment. Domestic drug use remains relatively low, but there is anecdotal evidence that the user population is increasing. Turkmenistan is a party to the 1988 UN Drug Convention, having acceded to it on 1996.

II. Status of Country

Turkmenistan has become a popular transit country for opium, heroin and precursor chemicals. Narcotics move through the country to European, Russian and Turkish markets from Afghanistan, Iran, Pakistan, Tajikistan and Uzbekistan. Border crossing points with Iran have heavy truck and bus traffic flowing into Turkmenistan. This year Turkmenistan Airlines added Bangkok to the list of 8 major international cities with direct routes to Ashgabat. The trafficking of the precursor chemical acetic anhydride continues to be a concern in Turkmenistan. Border officials report an increasing number of drug smugglers who carry the drug, usually heroin, within their bodies by swallowing it. Officials report an increase in street-level distribution of heroin in Ashgabat. Traditionally, white or brownish heroin has been sold. However, recently officials report that a higher quality black crystal type of heroin has been introduced by Afghan-based traffickers. Turkmen authorities believe Afghan traffickers keep considerable amounts of drugs hidden in and around Ashgabat while finalizing details for transporting the contraband to Russia, Turkey and Europe.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The manufacture, possession, sale and use of illicit narcotics are illegal under the criminal code that took effect in 1997. Although the 1997 code allowed for the death penalty in such cases, President Niyazov declared a moratorium on capital punishment in early 1999. However, sentences are strict--8-10 years--even for those convicted of possessing small amounts of drugs. Drug interdiction remains a priority for the Government of Turkmenistan.

Accomplishments. During the first 8 months of 1999, Turkmen border authorities seized 16 tons of various drugs, mostly hashish, marijuana, opium and heroin. In May 1999, Turkmen authorities seized approximately 12 metric tons of acetic anhydride at the Kushka border crossing point inside a truck destined for Afghanistan. In July 1999, Turkmen law enforcement personnel were involved in a skirmish with Afghan traffickers attempting to cross the border with a 20-mule caravan. During this confrontation, two traffickers were killed, two were arrested, and 1,800 kilograms of opium were seized. There were 1,490 drug-related criminal proceedings in the first 8 months of 1999 and 2,148 persons were taken into custody. Other notable seizures include 1.4 kilos of hashish and 316 kilos of heroin discovered in Kushka in a railway container en route from Afghanistan to Russia.

Law Enforcement Efforts. The Ministry of Interior established a 20–person unit dedicated solely to counternarcotics, with a presence in all five velayats (regions). Turkmen authorities have concentrated border interdiction efforts along the Iranian border and the Kushka crossing point at the Afghan border. As a result, seizures in these areas have decreased slightly as traffickers adjust to law enforcement actions. However, seizures have increased in the remote areas bordering Afghanistan and in Lebap Province in the east. Additionally, law enforcement efforts at border crossing points with Uzbekistan have increased.

Corruption. Low salaries of police and other officials and lack of rule of law create a climate in which corruption can occur. In November, three KNB officers were publicly reprimanded by the president for allegedly receiving payoffs from drug smugglers. According to official reports, the three had arrested a trafficker, but then allegedly accepted USD 2,000 to let the smuggler go free.

Agreements and Treaties. In 1996, the Government of Turkmenistan signed a memorandum of understanding pledging cooperation with its Central Asian neighbors (Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan) in the fight against drugs. In June 1999, Turkmenistan and Iran signed a memorandum of understanding for curbing drug and chemical precursor trafficking along their border. In 1996, Turkmenistan became a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances.

Cultivation and Production. Turkmenistan is not a major drug producing country. Opium cultivation is illegal, although it does occur on a limited scale in remote mountain and desert areas. Each spring, the Ministry of Interior conducts aerial inspections of outlying areas in search of illicit poppy cultivation and illegal crops are eradicated.

Drug Flow and Transit. Turkmenistan's popularity as a transit country for drugs and precursor chemicals is increasing. According to law enforcement officials, 80 percent of the drugs flowing into Turkmenistan originates in Afghanistan. Because border control units are concentrated heavily in the south, Turkmen officials fear traffickers will route their contraband through Uzbekistan, where border crossing points are less well staffed and equipped than those with Afghanistan and Iran. Although the Turkmen do a decent job of interdiction given their limited resources, the illegal flow of narcotics through Turkmenistan will likely increase in the coming years.

Demand Reduction. Treatment clinics for drug addicts operate under the auspices of psychiatric hospitals. Reliable statistics are unavailable on the total number of addicts in Turkmenistan, although there is anecdotal evidence that drug abuse is rising. No concerted anti–drug campaign or educational program currently exists, but government–run newspapers frequently run articles about the harmful health and social effects of narcotics use.

IV. U.S. Policies and Initiatives

Bilateral Cooperation. The U.S. has provided significant law enforcement and counternarcotics training to Turkmen law enforcement entities and remains committed to providing training assistance to enhance existing capabilities in narcotics control.

The Road Ahead. The U.S. will work with the Government of Turkmenistan to further enhance counternarcotics and law enforcement capabilities, especially in border control by providing training courses and programs. The U.S. will encourage development of demand reduction efforts and improvement of judicial and legal institutions handling of narcotics–related crime.

Ukraine

I. Summary

Ukraine continued to witness an increase in narcotics trafficking and use in 1999. Although domestic cultivation of poppy and hemp has been on the upswing in recent years, the Government of Ukraine continued to take concrete steps in 1999 to limit their cultivation. The transit of narcotics from Turkey, Asia, South America, and Africa through Ukraine, however, remains problematic. Although combating narcotics trafficking and use is a national priority for law enforcement agencies, the lack of sufficient funding continues to severely hamper Ukrainian efforts. Coordination between law enforcement agencies responsible for anti–narcotics work has improved but still remains a problem. Corrupt officials may also contribute to the increased use of Ukraine for drug transit and may complicate interdiction efforts. Ukraine is a party to the 1988 UN Drug Convention and has sought to follow the provisions of the convention in enacting counternarcotics legislation.

II. Status of Country

While Ukraine is not a major drug producing/transit country, Ukrainian officials believe the trends for the past three years appear to indicate an increase in trafficking of narcotic drugs through Ukraine (although no official statistics exist to support this trend and drug seizures leveled off in 1999). A rise in domestic drug use has also been reported and is documented by the increase in the number of officially registered drug addicts. Due

to its geopolitical location, Ukraine is becoming more of a significant transit corridor for narcotic drugs (primarily heroin and hashish) originating in Uganda, Nigeria, Colombia, Turkey, as well as other parts of Southeast and Central Asia. Numerous ports on the Black Sea and porous borders, coupled with poorly funded and underequipped Customs and Border units, make Ukraine increasingly attractive to trafficking organizations. While drug seizures appear to have leveled off, drug usage levels and trafficking activity continue on upward trends.

According to preliminary Ukraine government statistics for the first eleven months of 1999, approximately 40,168 cases involving narcotics were brought to court, a small increase over last year's figures. Additionally, 20,389 persons were fined administratively for minor drug-related violations, a small decrease over last year's figures. About 14,700 individuals are currently in confinement for drug-related offenses. At the same time, there were approximately 3,723 criminal cases involving crimes committed primarily by unemployed persons under the age of 30.

While the number of officially registered drug addicts in the country now exceeds 85,000, an increase of approximately 20,000 over last year's figures, the number of unregistered abusers is estimated to be two to three times that number. Opium poppy straw extract continues to be the main drug of choice for addicts, although marijuana is also prevalent and growing in popularity among young people. Synthetic drugs are also becoming popular with the younger generation. Hard drugs such as cocaine and heroin are still too expensive for the average Ukrainian citizen, so their levels of abuse are still not significant. Ukrainian efforts to combat narcotics continue to be plagued by low pay among law enforcement personnel and by the lack of resources available for the fight against drugs.

III. Country Actions Against Drugs in 1999

Policy Initiatives. In February 1995, the Ukrainian Parliament passed a package of drug control laws that were drafted with the assistance of the United Nations Development Program (UNDP). The laws are generally well drafted, quite comprehensive, and in line with the 1988 UN Drug Convention. In general, Ukrainian law enforcement officials praise the drug control legislation as being effective tools in drug enforcement.

Under this legislation, the counternarcotics enforcement responsibility is given to the Ministry of Interior (MVD), the State Security Service (SBU), the State Customs Service, and the Border guards. In 1993, the Drug Enforcement Department (DED), an independent department within the MVD, was also created. The DED reports directly to the Minister of Interior and is currently staffed by 1,570 personnel. Although understaffed, the DED has achieved some major successes in fighting drug trafficking by eliminating a number of international drug trafficking channels.

In 1994, the National Anti-narcotics Coordinating Council, established in the Cabinet of Ministers to coordinate the efforts of government and public organizations, approved a 1994-97 anti-drug plan. However, many of the steps, including the establishment of an inter-agency drug data bank, were shelved due to lack of funds. A counternarcotics plank was incorporated into Ukraine's 1996-2000 anti-crime program. In 1998, the MVD made the anti-drug effort a top law enforcement priority and continues to do.

Because of the increasing use of Ukrainian seaports in the transit of drugs to the West, in 1997 the government also tasked the State Security Service with focusing on preventing the shipment of drugs by sea. The authorities have also stepped up counternarcotics efforts at the nation's airports.

Accomplishments. As mentioned above, Ukraine's efforts to implement its anti-narcotics plan have been greatly hindered by severe lack of funding for police and social organizations. Despite this, the Ministry of Health working with the MVD is moving ahead with an anti-drug educational program, conducting training of teachers, health care workers and police to serve as counselors. During the first eleven months of 1999, Ukrainian law enforcement agencies were successful in seizing approximately 25 tons of narcotic drugs. This included domestic seizures of 6.0 kilograms of heroin, 21 tons of opium straw extract, 123 kilograms of opiates, 4 tons of marijuana, 18,000 tablets of ecstasy, and 253 doses of LSD. The Drug Enforcement Department of the Ministry of Interior was also successful in uncovering 35 laboratories, some of which were involved in making synthetic drugs, including amphetamines. The government has also made efforts to periodically destroy poppy fields using pesticides and slash and burn tactics. In 1999, government authorities destroyed 1,903 square meters (approximately two hectares) of opium poppy fields, 18,000 square meters of marijuana and 26,000 square meters of wild cannabis. Local consumption, rather than export, absorbs most of what is grown. The police also broke up 680 criminal groups (most of which number only a handful of people) involved in narcotics. The latter figure is down from last year.

Law Enforcement Efforts. Ukrainian drug enforcement units remain relatively inexperienced, understaffed, and severely underfunded. The MVD has approximately 1,570 officers assigned to drug units throughout Ukraine, but it is estimated that four times this number is needed to operate effectively. Budget cuts may also force further staff reductions and limit operations. Although coordination between law enforcement agencies (primarily the MVD, SBU, Customs Service and Border Guards) responsible for counternarcotics has improved,

conflicts of investigative jurisdiction, as well as the degree of cooperation, continue to hamper interagency effectiveness.

Corruption. Ukrainian politicians and private citizens consistently point out that corruption remains a major problem and hinders investment and broader economic reform. While corruption is rarely linked with narcotics, it diminishes the effectiveness of Ukrainian government efforts to combat organized crime, a major player in the narcotics business. It is possible that the increased use of Ukraine for drug transit to Western European markets may be linked to easily corrupt law enforcement officials, especially since the drugs are not intended for the domestic market. Parliament passed a law on corruption in 1995 which was intended to clean up the Ukrainian government. The President, in April 1998, approved a seven-year concept to combat corruption. While a number of lower ranking officials have been prosecuted, there have been very few cases involving senior officials.

Agreements and Treaties. Ukraine is a party to the 1988 UN Drug Convention and has also signed counternarcotics agreements with the United Nations Drug Control Program (UNDCP). It is also a party to the agreement of the police forces of the members of the Commonwealth of Independent States, which provides for coordination of operational drug control activities, and bilateral anti-narcotics agreements have been signed with the security services of Belarus and Russia. Intergovernmental agreements providing for joint enforcement efforts against illicit drug trafficking have been signed with the Czech Republic, Austria, Hungary, Poland, Bulgaria, Romania, Slovakia, and the United Kingdom. The Ukraine government has also concluded a Customs Mutual Assistance Agreement with the USG.

Cultivation and Production. Opium poppy is predominately grown in western, southwestern and northern Ukraine, while hemp cultivation is centered in the eastern and southern parts of the country. Small quantities of poppies are grown legally for the food industry by state farms, which are closely controlled and guarded. In late 1997, the Cabinet of Ministers approved a proposal which allows specially licensed farms to engage in poppy and hemp cultivation. In 1999, special certificates for cultivation were issued to seven agricultural enterprises, totaling 804 hectares.

Drug Flow/Transit. Ukraine continues to see an increase in drug traffic from Central and Southeast Asia, Russia, Moldova, and Hungary. In 1999, twenty-nine international drug trafficking routes through Ukraine were eliminated. Shipments are usually destined for Western Europe and transit by road, rail or sea. While some drugs are produced locally, synthetic drugs are also imported from Moldova, Hungary, Germany, and other European countries.

Ukraine's importance to drug traffickers as a transit corridor to Western and Eastern Europe is increasing, as evidenced by the following seizures in late 1997 and 1998 in port areas on the Black Sea: 6.1 tons of hashish (originating in Uganda), 250 kilograms of cocaine paste (originating in Ecuador), and 624 kilograms of refined cocaine (originating in Colombia). There were no large seizures of narcotic drugs in 1999. However, in 1999 two Panamanian registered ships, crewed by Ukrainian seamen and carrying considerable quantities of cocaine, were seized in the Gulf of Mexico by U.S. authorities. Four Ukrainian sailors were recently convicted in federal court in Houston, Texas for trafficking in narcotics.

Domestic Programs. Since most Ukrainian drug abusers are under the age of 30, Ukrainian officials are targeting education efforts in schools. A U.S. based non-government organization has been operating a drug information center in Kiev since 1996. In addition, religious organizations have opened over one half dozen rehabilitation centers throughout Ukraine.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. objectives are to assist Ukrainian authorities to develop effective counternarcotics programs both in interdiction of drugs transiting the country and demand reduction. Ukraine signed a mutual legal assistance treaty in criminal matters with the United States in 1998, which is pending before the U.S. Senate. The U.S. Department of Justice and Drug Enforcement Administration, as well as U.S. Customs have sponsored a number of training courses in such areas as interdiction, management training, asset forfeiture, forensics, border control, and money laundering.

The Road Ahead. Ukraine does not yet have a serious drug problem by world standards. However, the collapse of the Soviet Union has resulted in the rapid growth of criminal activity, including narcotics trafficking and use. The trafficking of narcotic drugs from Central and Southeast Asia, Africa, and South America to European destinations through Ukraine is on the increase as traffickers look for ways to circumvent stringent Western European customs and border controls. Demand reduction and treatment for drug abusers continues to be an area that needs attention. Law enforcement agencies need continued assistance in Western techniques. The U.S. government, through training and law enforcement assistance, is working to increase Ukrainian performance in counternarcotics efforts.

I. Summary

The United Kingdom (UK) is a consumer country of illicit drugs. In the course of legitimate business it produces and exports precursor and essential chemicals that could be used to manufacture illicit drugs, strictly enforcing national precursor chemical legislation in compliance with European Union (EU) regulations. Implementation of tougher legislation appears to have reduced vulnerability of British financial institutions throughout the crown dependencies and overseas territories to money laundering, but offshore banking facilities in the Channel Islands, Isle of Man and Caribbean Overseas Territories (COTS) remain attractive to drug funds. Crime syndicates from around the world tap into the underground narcotics market, and use the UK as a major shipping route. Like other developed nations, the UK faces a serious domestic drug problem. The UK is in the second year of a 10-year drug strategy, monitored by the UK anti-drug coordinator (UKADC), Keith Hellawell. The two governments held their first drug summit in October 1999. The UK is party to the 1988 UN Drug Convention.

II. Status of Country

British drug policy addresses demand reduction, treatment and law enforcement, and focuses on locally-based action plans. Marijuana is still the most popular illicit drug in the UK. With the number of heroin addicts at more than 100,000, heroin and other injected drugs (notably cocaine and crack cocaine), which have been on the increase over the last four years, continue to be a major concern. The region around Edinburgh and Glasgow, Scotland is the hardest hit, but even Oxford, England and many rural areas confront a serious heroin problem; heroin seems to be a greater problem outside London. The death toll from heroin rose from last year's figure of 99 to 107 as of September 1999.

Reports of arrest for possession of crack cocaine and cocaine have doubled or even tripled over the last three years. Seizures of illegal narcotics have quadrupled, yet increased arrests have failed to make a serious dent in the drug trade: the value of drugs confiscated amounts to only a fraction of the overall profits from drug dealing. The National Criminal Intelligence Service (NCIS) reported that Britain faces its worst-ever threat from national and international organized crime: drugs are linked to about 80 percent of all organized gangland crime in London, and about 60 percent of UK crime overall. British authorities are also concerned about the use of amphetamines and ecstasy (MDMA), particularly among young people in London's popular club scene. Methadone is frequently misused. On a brighter note, a recent survey revealed that drug use among teenagers dropped about seven percent from the previous year.

III. Country Action against Drugs

Policy Initiatives. The government developed a 10-year strategy, first outlined in an April 1998 white paper which emphasized the importance of all sectors of society working together to combat drugs: drug problems do not occur in isolation, but are often linked to other social problems. This reflects wider UK government reforms in the welfare state, education, employment, health, criminal justice and the economy.

The UK's continuing drug strategy focuses on preventive measures to help young drug users resist the use of narcotics, aid to communities in dealing with the effects of drug abuse, effective treatment for drug abusers, and reducing availability of drugs on the streets. This strategy continues to prompt a wide-scale review of available resources. The UK government spends around \$2.3 (BPS 1.4) billion per year on fighting drugs: 62 percent for enforcement-related work and the balance for education, prevention, and treatment, shifting away from expenditure dealing with the consequences of drug misuse, toward greater investment in prevention.

The UK works closely with the UNDCP and is its second-largest bilateral donor. The British play a leading role in a number of international drug-control fora, including the Council of Europe's Pompidou group, the Dublin group, EUROPOL's drug unit and other EU forums, and the Financial Action Task Force (FATF). The UK chairs the south Asian region of the Dublin group and is an active counternarcotics advocate in the many mini-Dublin groups throughout the world. In 1999, the FCO spent approximately \$9.9 (BPS 6) million on aid and assistance focusing on the primary southwest Asian and Balkan heroin route and on the Latin American and Caribbean cocaine route. In addition, the UK government allotted \$3.3 (BPS 2) million for Royal Navy ships on counternarcotics duty and assistance programs in the Caribbean.

In January 1999, the UKADC announced an additional \$445.5 (BPS 270) million for domestic anti-drug education, treatment and prevention schemes. In July, it pledged support for a new \$33 (BPS 20) million challenge fund scheme to reduce drug-related crime through the use of more arrest referral programs in local police stations.

The government is planning legislation to give police the power to test criminal suspects whose offense may be linked to hard-drug misuse. Courts will be required to give weight to a positive test-result when deciding bail, and testing will be extended to offenders serving community sentences and those on parole. Tough drug policies have bipartisan support. Parliament's opposition leader proposed legislation to mandate life sentences for drug dealers twice convicted of supplying hard drugs to children.

New Scotland Yard appointed in January 1999 its first anti-drugs coordinator for the London Metropolitan Police, to work closely with the UKADC on coordinated drug programs for the capital. In Scotland, the government announced a tough new crackdown on drugs in prisons: inmates in open prisons caught using drugs will be sent immediately to high-security prison.

Accomplishments. The Drug Treatment and Testing order is a new community-based sentence authorizing courts to require that offenders undergo treatment, and submit to mandatory and random drug testing. The new order began as a pilot program in September 1998 in three areas of England. Outcomes are being closely monitored and evaluated. If successful as a pilot scheme, implementation of the new order will begin across the country in 2000.

In January 1999 the Home Secretary announced a new initiative to reduce smuggling of drugs into prisons, and the government launched a prison service drugs treatment program. In April the government published new clinical guidelines for doctors (GPS), based on evidence and offering best-practice guidance for clinicians. A drug prevention advisory service was launched, building on the drug prevention initiative, to provide guidance and support for drug action teams (DATS). In May the UKADC published its first annual report and plan, which set tough, binding targets for all government departments. Key targets include reduction in the number of young people using heroin and cocaine, of the availability of heroin and cocaine among young people, and of the level of repeat offense by drug misusing offenders (25 percent by 2005, and 50 percent by 2008). Another key target is to increase the number of people accessing treatment services (66 percent by 2005, and 100 percent by 2008). In May came also the announcement of a new fund, deriving from money seized from drug traffickers, to be used in the fight against drugs.

Results of the National Treatment Outcome Research Study (NTORS) released in June 1999 indicated that two years after treatment, former users' drug consumption and related offenses are significantly reduced, supporting the strategy's aim of getting offenders into treatment. A survey of arrestees began, using the New-Adam urine analysis, to monitor recent and long-term drug use and availability. In July, the Home Secretary announced the new arrest referral challenge scheme (see above), endowed with \$33 (BPS 20) million for drug offender arrest referral programs over a three-year period.

In September a new schools survey began to measure use of and attitudes toward narcotics among students between the ages of 11 and 16. In October, a streamlined DAT template came into use, improving the quality of data on the year's progress in the four strategic areas of focus.

Law Enforcement Efforts. British law enforcement officials, including customs and excise officials, are vigilant and effective. Scotland Yard's Special Branch was assigned to help fight the war on drugs, to add their expertise to that of MI5 (internal intelligence) and MI6 (external intelligence). Former regional crime squads merged in April 1998 to create a single national crime squad under one central command. The Scottish Parliament plans a separate position similar to the UKADC, as well as a Scottish drug enforcement agency similar to the DEA.

Corruption. Narcotics-related corruption of public officials is not considered a problem in the UK. When identified, corrupt officials are vigorously prosecuted.

Agreements and Treaties. The U.S.-UK Mutual Legal Assistance Treaty (MLAT) entered into force in December 1996. The UK is a party to the 1988 UN Drug Convention and complies fully with its provisions. It was the first country to ratify the Council of Europe's directive on money laundering, as well as the first EU member to ratify the agreement establishing EUROPOL. An extradition treaty and protocol are in force between the U.S. and the UK. The UK is party to the WCO International Convention on Mutual Administrative Assistance for Prevention, Investigation and Repression of Customs Offenses ("Nairobi Convention") Annex X on assistance in narcotics cases. The U.S.-UK customs mutual assistance agreement (CMAA) dates from 1989.

Cultivation/Production. Marijuana is cultivated in limited quantities for personal use, and occasionally is sold commercially for illicit use. Most illicit amphetamines and ecstasy are imported from continental Europe, but some are manufactured in the UK in limited amounts. Authorities destroy the crops and close down clandestine facilities as detected.

Drug Flow/Transit. Steady supplies of heroin and cocaine continue to enter the UK. Heroin comes primarily (95 percent) from southwest Asia, chiefly Afghanistan, but also Pakistan. Most goes through Iran, Turkey (where much of it is processed), and eastern/central Europe. The UNDCP believes that drug traffickers increasingly use some of the Newly Independent States (NIS) as alternative smuggling routes to the UK, but British authorities have not been able to verify this. Hashish comes primarily from Morocco. Large cocaine shipments arrive directly from South America, while smaller shipments often come up from the Spanish coast, either directly or via Amsterdam. The street price of cocaine is much higher than in the U.S., making the UK an attractive market. A synthetic drug supply originates out of western and central Europe; amphetamines, ecstasy, and LSD have been traced from the Netherlands, Poland, as well as the UK.

The UK supports drug interdiction efforts in Iran, a key country on the heroin transit route. The FCO provides

\$1.65 (BPS 1) million for UN counternarcotics projects in Iran and \$247,500 (BPS 150,000) for related bilateral assistance to Iran. The UN project covers training and equipment primarily to strengthen counternarcotics work at the borders with Afghanistan and Pakistan. In March 1999, the UK donated \$495,000 (BPS 300,000) to the UN to provide Iranian border personnel with 1020 bulletproof vests. Following discussions with Iranian authorities in November 1999, the UK expanded such assistance to include direct training (by British Customs and Excise) and equipment to strengthen Iran's exit border with Turkey, which will address gaps in UNDCP coverage. The FCO observed that export from the UK of some equipment may be subject to control, and an export license may be required if sourced from the UK. If such a license were granted, it would constitute an exception to the UK's arms embargo on Iran.

Domestic Programs. The UK government's demand and reduction efforts focus on school and other community-based programs to educate young people and prevent them from taking drugs. New guidelines were enacted in November 1998 to help teachers and youth-workers to warn young people about the dangers of drugs, and in April 1999 the drug prevention advisory service established school and community teams to give specialist prevention advice to all of the locally-based drug action teams. In the same month, the Standing Conference on Drug Abuse published guidance for teachers on managing drug problems in school. In July (as mentioned above) the Home Secretary launched a joint funding initiative for arrest referral programs in local police stations.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Since 1989 the U.S. and UK governments have conducted periodic consultations at the senior level to coordinate and harmonize policies, plans and programs on all counternarcotics fronts. Law enforcement cooperation between the two countries is excellent and growing. The first U.S.-UK drug summit, held in London in October 1999, revealed near unanimity on U.S.-UK drug issues, ranging from drugs in prisons to doping in sports, and demonstrated that domestic and foreign drug-policy issues have merged. The FCO Minister of State noted participants' agreement that demand and supply reductions are two sides of the same coin, and said he plans to move the anti-drug effort up the UK's foreign-policy agenda. The successful summit reflected and built upon closer ties formed between U.S. and UK drug officials. Through ONDCP, in particular, the U.S. has formed a solid working relationship with the UKADCU and other parts of the British anti-drugs machinery, including the FCO.

At the November 1999 International Olympic Committee (IOC) conference in Sydney, Australia, the UK supported the U.S. proposal to establish a fully independent anti-doping agency, which differed from the proposal made by the IOC. The U.S. and UK agreed on some basic principles and on continuing to work together to build consensus with the EU and its international partners on this issue.

The Road Ahead. The U.S. looks forward to continued close cooperation with the UK on all counternarcotics fronts.

Uzbekistan

I. Summary

Uzbekistan is a transit country for opium and heroin going to Russia and Europe mainly from Afghanistan. It is not a producer of narcotics or precursors. Although narcotics seizures have increased significantly, drug control efforts are hampered by lack of adequate resources and centralized coordination. The Ministries of Health and Internal Affairs count approximately 22,000 identified addicts in Uzbekistan and the number of drug abusers is assumed to be much higher. The government considers the fight against drugs to be a high priority. Uzbekistan is a party to the 1988 UN drug convention.

II. Status of Country

Several transshipment routes for opium, heroin and hashish originate in Southwest Asia and cross Uzbekistan on the way to Russia and Europe. Precursor chemicals have in the past traveled the same routes in reverse on their way to laboratories in Afghanistan and Pakistan, but there were no seizures of precursors in 1999. With the explosive growth in heroin and opium production in Afghanistan, the volume of narcotics crossing Uzbekistan is growing. Effective government eradication programs have eliminated nearly all illicit production of opium poppy in Uzbekistan.

III. Country Actions Against Drugs in 1999

Policy Initiatives. On August 19, 1999, the president signed a new law "on narcotic substances and psychotropic agents," which took effect January 1, 2000. The law regulates production, use and transport of narcotics and precursors. All legitimate activities involving these substances, including medical use, will require state licensing, although the government has yet to assign licensing responsibility to any state agency. Many activities, including import and export of narcotics and precursors, will also require the explicit permission of the State Commission on Drug Control.

The law also contains a section on combating illegal trafficking in narcotics and directs the State Commission on Drug Control to coordinate counternarcotics efforts. It also authorizes law enforcement measures, such as conducting searches, confiscating contraband and compelling blood testing for suspected criminal drug use. The law's final section guarantees medical treatment for addicts. Although the law's scope is comprehensive, it is not detailed. Officials are currently drafting implementing regulations.

A draft counternarcotics master plan through the year 2000, submitted to the presidential apparatus in 1998 and delayed for lack of funding, will be updated and resubmitted in 2000. Current Uzbek legislation nominally meets the requirements of the 1988 UN Drug Convention in that illicit cultivation, production, sales distribution and transport are criminalized. However, money laundering legislation and asset seizure regulations are vague.

Accomplishments. Uzbekistan agreed to a UNDCP project on precursor control that will establish an agency to oversee trade, transport and production of precursor chemicals. The UNDCP plans to assist in developing the legal framework for precursor control and in training and advising the new agency's staff. Uzbekistan continues to support the Uzbek Institute of Plant Genetics, which is developing a pathogen specific to opium poppies. This project has existed since 1997 with UNDCP and USDA support.

Law Enforcement Efforts. According to the State Commission on Drug Control, law enforcement agencies seized about 4 tons of illicit narcotics in 1999, a significant increase over 1998. Preliminary statistics show that in the first 9 months of 1999, Uzbek law enforcement seized nearly 4 metric tons of illicit drugs. In October and November, there were further significant seizures amounting to nearly 1 ton. The Customs Service in particular has improved its drug interdiction record over the last year.

Uzbek law enforcement agencies have cooperated with UNDCP on two projects that were completed in 1999. They include assistance to the National Drug Information and Analysis Center within the State Commission on Drug Control and a regional project involving Tajikistan and Kyrgyzstan aimed at improving interdiction in the Ferghana valley. The project established regional communication links among the law enforcement agencies of the three countries.

Three agencies with separate jurisdictions have counternarcotics responsibilities. The Ministry of Internal Affairs (MVD), the National Security Services (NSS), and the State Customs Committee. The MVD concentrates on domestic crime, the NSS handles international organized crime (in addition to its traditional foreign intelligence role), and Customs works on the border. Despite this apparently clear delineation of responsibilities, the lack of operational coordination diminishes the effectiveness of counternarcotics efforts. The State Commission on Drug Control was designed to minimize mistrust, rivalry and duplication of efforts among the agencies, but has had limited success to date. To address this problem, the new narcotics law clearly assigns the commission responsibility for coordination.

Corruption. There were no major narcotics-related corruption cases in 1999. Nonetheless, corruption and bribery among law enforcement officials are common and sometimes related to narcotics.

Agreements and Treaties. Uzbekistan is a party to the 1988 UN Drug convention; the Central Asian Counternarcotics Memorandum of Understanding with the UNDCP; the 1994 Central Asian Economic Commission that includes pledges to cooperate in counternarcotics efforts; and the 1999 Uzbekistan, Kyrgyzstan, Tajikistan and Kazakhstan agreement on regional cooperation in fighting transnational crime, which includes a protocol on counternarcotics and calls for regular liaison among the signatories. In April 1998, Uzbekistan and the U.S. signed a letter of agreement for provision of USG counternarcotics assistance. Uzbekistan has bilateral agreements to cooperate in the fight against narcotics and in other areas of law enforcement with Russia, Ukraine, Georgia, Kazakhstan, Kyrgyzstan, Turkmenistan, the Czech Republic, Germany, Turkey and Pakistan. In November 1999, President Karimov committed to bilateral counternarcotics cooperation with China. The country is party to the commonwealth of independent states multilateral extradition and mutual legal assistance agreements and has bilateral agreements with several other states.

Cultivation/Production. The annual "Operation Black Poppy" destroyed 2.7 hectares of poppies, the total amount found by the government in 1999. The government eradication effort, which has been ongoing for several years, has all but eliminated illicit opium poppy cultivation in Uzbekistan. There were no reports of significant narcotics production in 1999.

Drug Flow/Transit. While Uzbekistan is not the premier transit country in the region, the quantity of drugs crossing Uzbek territory continues to grow. Opium and cannabis products from Southwest Asia transit Uzbekistan through several routes, mostly routes that pass through its border with Tajikistan. The drugs then travel through Kazakhstan and Turkmenistan to markets in Russia and Europe.

Domestic Programs (Demand Reduction). Most observers agree that there are around 200,000 narcotics abusers among Uzbekistan's 24 million inhabitants. The problem is growing. According to the Ministry of Health, the number of registered addicts rose from 15,000 in 1998 to 22,000 in 1999. The government youth agency, Kamolot, launched a public relations campaign against drug use in 1999. Registered addicts are

subject to compulsory treatment.

IV. U.S. Policy Initiatives

U.S. Policy Initiatives. The U.S. continues to support counternarcotics efforts in the Central Asian Region, including Uzbekistan. The goals of the 1998 counternarcotics bilateral agreement between the U.S. and Uzbekistan are to prevent illicit drug activities in and through the territory of Uzbekistan and to increase the effectiveness of the fight against the trade in illicit narcotic substances.

Bilateral Cooperation. In 1999, the U.S. assisted Uzbekistan's counternarcotics efforts by continuing support of the Uzbek Institute of Genetics Research into an opium destroying pathogen and providing training courses aimed at improving counternarcotics and law enforcement infrastructure development. The U.S., United Kingdom and Germany provided bilateral counternarcotics and border control assistance in 1999.

The Road Ahead. The U.S. is planning several training initiatives in Uzbekistan in 2000. The U.S. intends to provide the State Customs Committee with vehicles for border control. In-country advisors will work with the Uzbek Customs Committee to improve narcotics detection and drug interdiction. Fifteen courses have been requested for 2000, including counternarcotics and law enforcement infrastructure development.

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U.S. DEPARTMENT OF STATE

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Africa and the Middle East

BENIN

I. Summary

During 1999, Benin continued to make modest and incremental progress in the fight against illegal narcotics trafficking for which it remains a transit route (next door to Nigeria). Benin itself is not a narcotics producing country. The Government of Benin (GOB) made one notable heroin seizure at its international airport. It also continued an investigation into a drug smuggling operation involving members of its UN Mission in New York and use of its Diplomatic Pouch. Benin officials have been very cooperative with USG on a variety of drug control law enforcement efforts. Unfortunately, a poor country like Benin is unable to allocate adequate resources to law enforcement generally and to drug control programs in particular. Benin is a party to the 1988 UN Drug Convention.

II. Status of Country

Benin is not, and is not likely to become, a significant producer of drugs or a source of precursor chemicals. Marijuana is grown in Benin but quantities are not large, and that marijuana is consumed almost exclusively within Benin. Benin, due to its proximity to Nigeria and its relatively porous borders, is believed to be a transit point for drugs to and from Nigeria. Money laundering is known to take place in Benin. Traffickers use legal businesses such as the building trades to camouflage drug operations and buy assets, particularly real estate, to launder illicit profits. GOB authorities suspect that the flourishing market in used cars and second-hand clothing are used as a method of laundering drug money, but have not taken robust measures to interfere with these commercial activities.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The government in Benin has yet to put into place an apparatus to enforce the comprehensive anti-narcotics law that was enacted in 1997. This law provides for stronger sentences for traffickers, establishes a basis for asset forfeiture, criminalizes money laundering, and promotes increased inter-agency cooperation in combating trafficking. The law was based on a model law prepared by the UNDCP to bring countries into compliance with the 1988 UN Drug Convention.

Accomplishments. The only major and tangible accomplishment recorded in Benin in 1999 was a follow-up by the government to its own arrest of several members of its UN mission staff. In 1998, Yacoubou Fassassi, Benin's Ambassador to the United Nations, was arrested by the Beninese authorities for allegedly using his government's diplomatic pouch to introduce narcotics into the United States. He was jailed in April and tried in August 1999. Charges against Fassassi were eventually dropped for lack of evidence and Fassassi was acquitted. Nevertheless, he was not restored to his position at the UN, being replaced by a new Beninese UN resident representative in New York. Fassassi soon thereafter departed for France, reportedly for medical treatment. Three co-defendants, however, either pleaded guilty or were tried in absentia. One of them, Charles Nobre, a prominent businessman, received a five-year sentence in the case. Many observers believe the trial and the convictions, which left Fassassi untouched, were rigged due to Fassassi's wealth and political ties.

Law Enforcement Efforts. Law enforcement efforts appear to be hampered by lack of cooperation among government agencies. In one case, after a major drug seizure, one agency (police customs) refused to cooperate with another agency (gendarmes) on the proper disposition of drug evidence.

On July 5, the Interior Ministry, with EU financial support, held a conference over several days in Abomey to complete drawing up a blueprint for a new comprehensive national anti-drug policy (POLUDRO). The opening of the conference, attended by the U.S. ambassador, focused on the prevention and suppression of drug trafficking and on the treatment/rehabilitation of addicts. Adoption of a new anti-narcotics code is expected to result from this conference, but there had been no announcement of such, as of the end of 1999.

In 1999, Benin made no changes with regard to law enforcement agencies responsible for drug enforcement. Resources devoted to drug enforcement remain far below adequate levels. It appears that little or no effort is made to pursue major traffickers despite widespread acknowledgment of their activities. The few law enforcement resources that do exist are mostly devoted to arresting and prosecuting small-scale couriers and users. Such efforts are woefully inadequate. One example of a well-known drug trafficking suspect allowed to travel freely for a considerable time is businessman, Kashamu Burushi, better known by his street name, Kasmal. Eventually, in 1998, Kasmal was detained at London's Heathrow Airport with a large amount of hard currency in his possession. Following a standard name check, British customs authorities found that there was an outstanding U.S. warrant for his arrest on narcotics trafficking charges.

Seizure and Forfeiture of Drug-Related Assets. Benin's narcotics laws permit the seizure and forfeiture of the assets of narcotics traffickers and provide for significant prison terms and fines. The laws permit the seizure of assets used for the manufacture, transport, sale or safekeeping of illegal drugs; this includes all assets derived directly or indirectly from drug trafficking. As in many developing countries, the law itself is well drafted in Benin and quite modern in its approach to narcotics crime, the issue is that the law isn't well enforced.

Corruption. There has been an increased level of public discussion of corruption and several press reports have alleged government officials, especially in the state run cotton industry and at the port of Cotonou, embezzle official funds and are "on the take." Overall, little real progress has been made in addressing the entrenched and institutionalized corruption existing among career government bureaucrats. The heart of the problem seems to lie in the main theme of a recent transparency international (TI) sponsored conference in Cotonou, namely – the impunity of corruption. This state of affairs continues despite the appointment of a presidential task force on corruption at Cotonou and a very candid USAID-sponsored publication describing and condemning corrupt practices in Benin. Resistance to reform efforts persists. This is most notable among government agencies responsible for law enforcement and includes schemes on government contracts, embezzlement, etc.

Agreements and Treaties. Benin is a party to the 1988 UN Drug Convention, as well as to the 1961 UN Single Convention on Narcotic Drugs, its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. There is no bilateral extradition or mutual legal assistance treaty between the U.S. and Benin.

Cultivation/Production. To USG knowledge, the only significant drug cultivated in Benin is marijuana, and no figures are available regarding the amounts grown. As noted, Benin does not export marijuana, but rather it is illicitly grown for domestic use.

Drug Flow/Transit. Benin is said to be a transshipment point for cocaine, heroin and marijuana. It is believed that these drugs depart Benin primarily through the international airport in Cotonou.

Domestic Programs. There are no significant demand reduction programs in Benin.

IV. U.S. Policy Initiatives and Programs

U.S. Goals/Objectives in Benin. The primary U.S. goal is to build on successful bilateral anti-narcotics cooperation efforts, as well as efforts in other areas, so as to aid in the combat against the transit of drugs to the U.S. or Europe.

Bilateral Cooperation. The U.S. and Benin signed a Letter of Agreement in 1995 under which the U.S. agreed to provide material assistance to the narcotics squad in the form of radios and testing kits. In 1998, the U.S. embassy provided 15 Motorola radios and close to a 1000 drug testing kits for cocaine, heroin, and marijuana to the Beninese National Police.

Road Ahead. The U.S. is considering training for local prosecutors and police in the use of Benin's new asset forfeiture legislation. In a country where law enforcement resources are so inadequate, this law could provide law enforcement personnel with additional resources and stronger incentives to pursue drug traffickers.

BOTSWANA

I. Summary

Botswana does not produce any of the harder drugs such as heroin, methamphetamine or precursor chemicals, and it is not a significant drug transit country. Botswana does cultivate marijuana but a vigorous eradication campaign keeps realized production down. In 1999 drug control officials seized cannabis transiting from South Africa, as well as small amounts of cocaine and heroin. Due to an increase in the number of drug-related arrests, drug control officials fear an increase of drug abuse in Botswana, especially with respect to cannabis because of its cheap street price. Those caught with drugs in Botswana can expect to face punishment including prison sentences.

II. Status of Country.

Botswana is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. In 1998, the government established a national drug control coordination council, chaired by a senior official in the Office of the President. The Government of Botswana has tough legislation against drug production, trafficking, and money-laundering associated with the drug trade. Botswana's courts hand down stiff sentences for drug-related offences, such as mandatory sentences of 1–5 years for possession of under 60 grams of cannabis, and 5–10 years for more than 60 grams. The Botswana national police force participates enthusiastically in training opportunities provided by the U.S. and other donors. In 1999, two narcotics squad officers participated in a regional drug enforcement seminar in South Africa sponsored by the U.S. Drug Enforcement Agency.

III. Country Actions Against Drugs in 1999

There has been a slight reduction in drug seizures transiting and entering the country. Police seized 1200 kilograms of cannabis during 1999, mostly produced in neighboring Zambia and Zimbabwe. In 1999, police seized four shipments of cocaine sent by mail from Peru and Brazil, which police presume were meant for transit to South Africa. The police also made their first-ever interception of heroin, seizing a one-kilogram shipment from Pakistan sent by mail. The Botswana Police report generally good cooperation on drug control with their regional partners, with the exception of Zambian officials. Other countries, such as South Africa, Swaziland, and Namibia, have cooperated with and invited Botswana drug control officials to participate in destroying seized drugs. The United Nations Drug Control Program (UNDCP) has provided drug detection dogs to Botswana for use in drug searches. There are no indications of senior government officials being involved in drug-related offences.

IV. U.S. Policy Initiatives and Programs

A U.S. Inter-Agency Survey team has recommended Botswana as the site for a planned African International Law Enforcement Academy (ILEA). Discussions with the Government of Botswana on arrangements to establish an African ILEA in Botswana should begin shortly.

CAMEROON

I. Summary:

Cameroon is not a major producer of drugs. However, Cameroon remains a transit point for drug trafficking. There is no evidence that drugs trafficked through Cameroon have a significant impact on the U.S. Drug use among Cameroonians, especially youth, is on the rise. Most types of narcotics are available, but locally grown cannabis is the drug most widely consumed. Cameroon is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention and its 1972 Protocol. Except for a few drug seizures in 1998–99, including a 1998 seizure of 11 1/2 MT of cannabis, little has been done to combat drug trafficking or use in recent years.

II. Status of Country

Cameroon produces few illegal drugs, except marijuana, and is not known to be heavily involved in trafficking. The Government of Cameroon (GOC) reports that drug use among young adults is on the rise. Exact figures on the scale of drug abuse in Cameroon are not available. In 1999 there were no new government initiatives to address this problem. Cameroon is believed to be a relatively minor drug transit country, but it is difficult to assess if drug trafficking through Cameroon is increasing, because interdiction is sporadic and few records are kept. While select members of the customs service and police force are dedicated to combating drugs, the majority remains indifferent or enforces laws haphazardly. Even less clear are the types of drugs and quantities passing through Cameroon, but cannabis, heroin, and cocaine are suspected. Customs authorities insist that new efforts to establish a special customs/police taskforce and develop profiles of drug smugglers have made Cameroon much less attractive to smugglers. More likely the smugglers have simply changed their tactics.

III. Country Actions Against Drugs in 1999

The government of Cameroon initiated no new actions in 1999 to meet the goals and objectives of the 1988 UN Drug Convention. The National Committee for the Fight Against Drugs (CNLD), created in 1992 under the auspices of the Ministry of Health, was inactive. There were no specific legal or law enforcement measures taken to prevent and punish narcotics-related public corruption. Cameroon gives a low priority to counternarcotics law enforcement. Only limited resources and training are available to Customs and police officials. Counternarcotics law enforcement activities in 1999 were limited to minor drug seizures.

Customs officers at Douala International Airport on February 17, 1999 found a Nigerian national with 28 balloons of heroin (500 grams) concealed on his person. On February 24, Customs officers apprehended another Nigerian with 84 balloons containing a total of 1,500 grams of heroin. Both individuals arrived in Douala on a Kenya Airways flight from Nairobi. Both intended onward travel to Lagos, Nigeria. Customs officials also reported three additional drug seizures at Douala, two of unspecified amounts of cannabis and

one of one kilogram of cocaine.

Cannabis is widely available in Cameroon; some of it grown domestically, more imported from Nigeria. According to the local press it is the drug most widely used among Cameroonians (next to alcohol). The average price of 2–3 grams of cannabis is 50 – 100 CFA (USD .08 – .16). The GOC has taken few national measures to combat this phenomenon. However, in 1999 the Gendarmerie in the Northwest Province conducted a limited campaign to destroy cannabis fields. They also seized 2600 kg of cannabis en route to other provinces.

IV. U.S. Policy Initiatives

The USG provides no counternarcotics assistance to Cameroon. A program initiated in 1991 under a U.S.–Cameroon Letter of Agreement was suspended in 1992 due to a lack of cooperation on the part of police and alleged human rights violations by security forces. The U.S. Embassy continues to receive requests from police and customs officials for training and material assistance.

CAPE VERDE

I. Summary

The Republic of Cape Verde is not a narcotics producer, but may be on its way toward a role in the international transit of narcotics to developed country markets. Government leaders are outspoken about their concern that a currently small-scale domestic use problem could worsen, and are anxious to cooperate with others in order to keep drugs away from their national territory. In 1999, the USG agreed to assist the Government of Cape Verde (GOCV) by providing information about possible drug trafficking in Cape Verdean waters, and by providing drug testing kits. The test kits will enable police to identify narcotics at a potential crime scene, and to produce credible evidence for criminal cases against accused drug traffickers. The intelligence information should assist Cape Verde to make better use of its limited enforcement resources. Cape Verde is a party to the 1988 UN Drug Convention.

II. Status of Country

Cape Verde does not produce illicit drugs. However, its geographic location, off the West Coast of Africa, and astride routes between South America and Europe, Asia and Europe, and to a lesser degree, Africa and North America makes Cape Verde a potential transshipment point. The country's wholly inadequate defense against sea borne trafficking is its modest coast guard. This is a small, under-funded, but professional branch of the military which lacks sufficient resources to maintain credible vigilance over Cape Verde's territorial sea and air space. As a result, this potential transshipment point is open to nearly uncontrolled use by those shipping drugs. There are unconfirmed reports of unidentified ships from Brazil or aircraft from abroad dropping cargo in Cape Verdean waters, but authorities have been unable to apprehend any violators, if, indeed, such transactions have actually taken place.

The GOCV has ambitious plans to host offshore banking along the lines of arrangements in the Canary Islands. Decision makers believe that with the proper rules in place, offshore banking can be successfully regulated.

III. Country Actions Against Drugs in 1999

The GOCV's limited sea borne forces patrol the islands' large territorial waters as best they can given their limited resources. The GOCV has held a round table with potential donors (including the USG) to solicit assistance in its national anti-narcotics program. While law enforcement and coast guard forces are already engaged in an effort to counter narcotics trafficking through, and sales of narcotics in Cape Verde, the government lacks adequate resources to mount an effort proportionate to the threat. Cape Verdean police units willingly cooperate with international law enforcement authorities, as opportunities arise for such cooperation.

IV. U.S. Policy Initiatives and Programs

The USG and the GOCV have signed a letter of agreement to provide the Ministry of Justice with \$20,000 worth of narcotics identification test kits. The Ministry will use these kits to test suspect substances to determine whether they are controlled or banned by national narcotics laws. Such determinations will be important scientific evidence in criminal trials. This letter of agreement was signed in September 1999.

The Road Ahead. Cape Verde and the USG are considering methods for using Cape Verde's limited coast guard resources more efficiently to combat narcotics transshipment. Among the options under discussion are further training opportunities for Cape Verdean seamen and officers, and possible technical assistance to vector coast guard vessels directly to suspect ships.

COMOROS

Comoros is neither a major producer, nor a significant consumer of narcotics. Nevertheless, Comoros officials

expressed concern in 1999 over a perceived increase in domestic consumption of cannabis and Mandrax. Comoros is a transshipment route to South Africa and Europe for cannabis and cocaine from Madagascar and heroin from Southwest Asia. There is no evidence of transshipment to the U.S. The amount of trafficking is unknown, but political instability, exacerbated by a military coup in April, the ongoing secession of Anjouan Island, and weak law enforcement make this three-island nation a vulnerable target for drug traffickers. The Comoran police have a small anti-narcotics unit, which has received assistance and training in the past from France. Comoros is not a party to any of the UN drug conventions. Money laundering is not criminalized, but given the small size of the financial sector (one bank), it is not thought to be a major problem.

COTE D'IVOIRE

I. Summary

Cote d'Ivoire continues to be a transit point for narcotics from Asia and Latin America bound for Europe and, to a lesser extent, North America, but there is no evidence of significant impact on the U.S. Domestic drug production remains minimal and limited to cannabis, but consumption of hard drugs is reportedly increasing. Counternarcotics activities rose during 1999 in government priority, and a national strategic counternarcotics plan was nearing completion. In 1999, European donors and the U.S. continued to coordinate efforts toward meeting law enforcement and public health drug treatment training needs. Cote d'Ivoire is a party to the 1988 UN Drug Convention.

II. Status Of Country

Abidjan is a major West African financial center and a regional hub for international airline travel and ocean freight. Following USG civil aviation visits under the "safe skies" program, security at Abidjan's airport has been tightened somewhat. Nevertheless, drugs and money continue to pass through Ivoirian ports and across porous borders, along with other smuggled goods, including light arms and stolen vehicles. Police seizures of narcotics during 1999 were usually small and often incidental to arrests of petty crime suspects. Limited educational and economic opportunities fuel a slowly growing domestic trade in heroin and cocaine.

III. Country Action Against Drugs in 1999

Policy Initiatives. Cote d'Ivoire continued to take steps toward meeting the objectives of the 1988 UN Drug Convention. During 1999, a new Secretary General of the Inter-Ministerial Committee on Narcotics Affairs improved coordination between government agencies. The government also sponsored a regional meeting of technical experts to move toward cooperation in fighting cross-border crime.

Accomplishments. Following closure of the Abidjan UNDCP project office in December 1998, Cote d'Ivoire cooperated with the U.S. Government and the European Union's (EU's) African anti-drug program to identify training needs for drug abuse prevention, law enforcement, and addict treatment and rehabilitation. Classes have been offered at the recently refurbished regional narcotics training center in Grand Bassam. U.S. assistance has been suspended in the wake of a military coup.

Law Enforcement Efforts. There were no significant drug-related seizures, arrests, or prosecutions during 1999. Law enforcement continued to rely on roadside document checks and tips to arrest small dealers and users. No significant action was taken against major traffickers. Counternarcotics law enforcement remained a low priority for government and police, and enforcement efforts continued to be hampered by official collusion and bribery.

Corruption. Following a corruption scandal unrelated to narcotics, three ministers were dismissed, but there were no significant arrests or prosecutions for drug related corruption in 1999.

Agreements and Treaties. The government of Cote d'Ivoire is party to the 1961 UN Single Convention, and its 1972 Protocol, the 1972 UN Convention on Psychotropic Substances and the 1988 UN Drug Convention. In 1992, 1993, and 1994, the governments of the United States and of Cote d'Ivoire signed Letters of Agreement for the establishment of an Ivoirian capability to suppress the cultivation, processing, trafficking, consumption, and export of illegal narcotics, but apart from training, no assistance has been extended recently. The government is a party to several regional counternarcotics cooperation agreements.

Cultivation/Production. Cannabis is grown in the more remote parts of the southern half of the country, in limited quantities and primarily for local consumption. Crops are frequently hidden among cocoa plantings while maturing and then transported overland, concealed in shipments of coffee or cocoa to Abidjan and other distribution centers. The national police continued to destroy any illicit planting they found, but they did not keep records of crop size and yield. Herbicides are not in general use against drug-related crops.

Drug Flow/Transit. Despite some recent effort to tighten passenger-related security, Abidjan's Houphouet-Boigny Airport remains a transit point for flows of cocaine and heroin to destinations in Europe and beyond. In addition, seaports in Abidjan and San Pedro reportedly serve as transit points as well. Drugs and other goods cross borders by boat and vehicle, tolerated or abetted by easily bribed frontier authorities. There are no

reliable statistics on movement of narcotics.

Domestic Programs (Demand Reduction). Public awareness of social effects of drug abuse remains low. Several government agencies participated in workshops sponsored by the EU's African anti-drug program to identify training priorities. The resulting broad training effort focused on drug awareness and demand reduction as well as on law enforcement, treatment, and reinsertion of former addicts into productive society.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. U.S. policy goals remained focused on reducing use of Cote d'Ivoire as a transit point for narcotics trafficking.

Bilateral Cooperation. U.S. Government assistance in 1999 emphasized law enforcement training at all levels. Cote d'Ivoire had several law enforcement courses scheduled for the current year, but the current political situation raises questions as to whether they can go forward.

Road Ahead. The principal U.S. counternarcotics interest in Cote d'Ivoire remains preventing Nigerian drug cartels from using the West African "back door" to Europe and the U.S. U.S. training for police, Gendarmerie, Customs, and judicial authorities remains the principal avenue for broader U.S.-Ivoirian engagement in counternarcotics matters.

EGYPT

I. Summary

Egypt is not a major producer, supplier, or consumer of narcotics or precursor chemicals, nor does it have a serious problem with money laundering. It does remain a transit point for heroin and cannabis, though the level of traffic appears to have diminished in 1999. The Anti-Narcotics General Administration (ANGA) is the lead agency for fighting narcotics trafficking in Egypt. Egypt is a party to the 1988 UN Drug Convention.

II. Status of Country

Egypt is not a significant producer or consumer of narcotics or precursor chemicals, though opium and cannabis are grown in parts of Egypt. Egypt is also not a center for money laundering. It continues to be a transshipment point for narcotics going to Western Europe and North America, though this role appears to have diminished somewhat in 1999, and there is no evidence that such drugs are reaching the U.S. in significant quantities. The country's long uninhabited borders and the large volume of traffic through the Suez Canal facilitate transshipment of Asian heroin and opium. Continued use of Cairo International Airport also remains of concern. Cannabis and stimulants are the most commonly abused drugs in Egypt.

ANGA has offices at Cairo Airport and along the Canal, and retains overall jurisdiction for investigating all drug related crimes. The U.S. DEA country office assists ANGA in some of its smuggling interdiction efforts at the Canal and airports through the provision of equipment and training.

III. Country Actions Against Drugs in 1999

Policy Initiatives. In 1994 the Government of Egypt (GOE) formally adopted a comprehensive drug control strategy which it continues to develop. Under this plan and using a "task force" system, the Egyptian coast guard, customs service, police forces, selected military units, and ANGA cooperate to interdict narcotics shipments. At the same time, the ministries of health and education and several religious organizations run drug awareness programs designed to curb demand. These efforts are hindered by a shortage of equipment and funding. A bill specifically criminalizing money laundering is under discussion in parliament.

Law Enforcement Efforts. Counter-terrorism continues to dominate Egyptian law enforcement, though ANGA is effective in its program of arresting low-level drug traffickers and users, interdicting shipments and eradicating illicit crops. As drug abuse is relatively rare in Egypt, the smaller scale of narcotics activities means that large seizures and arrests are infrequent. ANGA also runs a drug awareness campaign and is pursuing a program of crop substitution in the Sinai; this latter program has so far been largely unsuccessful.

ANGA's fulltime eradication unit in the Sinai continues to run almost daily successful eradication operations against cannabis and opium production. In a recent joint operation with ANGA and British officials, U.S. law enforcement was able to seize \$2 million from a fugitive Egyptian drug trafficker. The U.S. then shared approximately 1/2 of this sum with the GOE pursuant to a case-specific sharing agreement, in recognition of the contribution to the operation made by Egyptian authorities. Working unilaterally, ANGA continues to seize assets from narcotics traffickers, and in 1999 confiscated 3.5 million Egyptian pounds. Another 15 million Egyptian pounds have been seized pending the outcome of court cases.

Corruption. Narcotics-related corruption seems limited, and restricted to low-level officials. Nonetheless, the Egyptian government has strict laws with stringent penalties for government officials convicted of involvement in narcotics trafficking or related corruption.

Agreements and Treaties. Egypt and the U.S. have had an extradition treaty in place since the late 1800s. Egypt is a party to the 1988 UN Drug Convention, as well as to the 1971 UN Convention on Psychotropic Substances and the 1961 UN Single Convention on Narcotic Drugs and the 1972 Protocol thereto. A mutual legal assistance treaty between the U.S. and Egypt is awaiting ratification. [The U.S. And Egypt have also signed two case-specific memoranda of understanding regarding the sharing of assets seized in joint operations. These are one-time agreements.]

Cultivation and Production. Opium poppy is grown in the southern Sinai part of the year, and cannabis is grown year round in the northern and southern Sinai and in parts of Upper Egypt. The Egyptians estimate crop size, as the irregular shapes of most plots make precise measurement difficult. According to the United Nations Drug Control Program (UNDCP), opium production in Egypt is declining while cannabis production is increasing. ANGA uses aerial surveillance and confidential informants to identify illicit crops, and then stages daylight eradication raids. ANGA is seeking to develop a herbicide eradication strategy, but currently relies on cutting and burning. Some methamphetamine has been reported in Egypt, and a handful of labs are supposed to operate clandestinely. Though opium is grown, no heroin processing labs have been discovered in Egypt in the last 10 years.

Drug Flow and Transit. The flow of drugs through Egypt has decreased recently. ANGA speculates that this is due both to increased Egyptian border surveillance and interdiction activity as well as to the opening of alternate smuggling routes from South Asia through the countries of the former Soviet Union. Nonetheless, ANGA continues to intercept shipments of hashish and heroin heading to Western Europe and North America from such producers as Lebanon, Pakistan and Afghanistan.

Domestic Programs (Demand Reduction). The Ministries of Health and the Interior sponsor a national drug campaign and various public awareness campaigns, which target school-aged children through the mass media. The GOE, with support from DEA Cairo, also runs a national drug awareness campaign. Drug treatment for the small population of drug abusers is largely carried out by private doctors.

IV. U.S. Policy Initiatives and Programs

U.S. policy in Egypt is to continue to work with the GOE to further reduce transshipment through Egypt and to decrease cultivation of opium poppy and cannabis. Specifically, U.S. policy has the following objectives:

- Increasing training;
- Targeting eradication efforts;
- Improving interdiction; and
- Improving intelligence collection and analysis.

The Road Ahead. In FY2000, the U.S. Government will provide training to the GOE in police science, anticorruption and border control operations. The DEA country office will continue to work closely with ANGA to improve interdiction and eradication methods, as well as to develop additional sources of information on trafficking and cultivation.

ETHIOPIA

I. Summary

Ethiopia is not an important country with respect to money laundering, precursor chemical production or the production of narcotic drugs, although the traditional stimulant Khat continues to be widely produced and exported throughout the region. Ethiopia is strategically located along a major narcotics transit route between Southwest Asian drug producing regions and markets in Europe and West Africa. Ethiopia is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention and its 1972 Protocol. The Ethiopian Counternarcotics Unit (ECNU) maintains an interdiction team at Bole International Airport, which is where its two drug-sniffer dogs are primarily employed. The interdiction unit routinely screens passengers, luggage, and cargo on flights arriving from "high risk" origins, i.e. Bangkok, New Delhi, Mumbai (Bombay), and Islamabad.

II. Status of Country

Ethiopia is not, nor is it likely to become, significant in terms of the production of narcotic drugs, money laundering, or the production of precursor chemicals. Ethiopia continues to be, however, a major producer and exporter of Khat. Cannabis is being produced in small amounts for export primarily to neighboring countries.

III. Country Actions Against Drugs in 1999

Ethiopia is a party to the 1988 UN Drug Convention. Ethiopia did not pass any new counternarcotics legislation in 1999. During 1999, the ECNU conducted a training course in basic narcotics detection and investigative techniques for regional police officers. These officers, while still responsive to their respective regional police headquarters, will also be expected to coordinate their counternarcotics activities with the ECNU. The use of

heroin and other hard drugs remains quite low, due primarily to the high street price and limited availability. The availability and consumption of these hard drugs is caused by the "spillover" effect from the transiting of drug couriers through the airport. Bole is a major air hub for flight connections between Asia and Africa, and much of the heroin entering and/or transiting Ethiopia comes from Asia. Many of the flights require up to a two-day layover in Addis Ababa which encourages the introduction of these drugs into the local populace.

Law Enforcement. The ECNU has been severely hampered due to a lack of leadership at the federal level, and a vacuum created by the transfer of the former commissioner and deputy commissioner to other duties. As of the end of 1999, these positions had not been filled. ECNU suffers from managerial/leadership ineptness. The ECNU commander lacks a commitment to attacking the international drug problem; the focus is almost solely on domestic issues. The interdiction team at Bole International Airport is largely ineffective, although the number of officers assigned has increased. Only two of the officers assigned to the interdiction team have had any real training. The other officers have severely limited enforcement experience, and do not speak any foreign languages and are, thus, limited in their ability to interdict foreign drug couriers or "mules". . The interdiction unit is, however, capable of identifying male Nigerian/Tanzanian drug couriers, who traditionally swallow drugs, encased in protective bags for concealment. Any other interdiction is dependent on luck.

Policy Initiatives. The Ministry of Justice is in the process of updating the penal code. Currently the maximum sentence for trafficking is two to three years, which does not serve as an effective deterrent to using Ethiopia as a transit country. Additionally, Ethiopia lacks a central coordinating body to systematically coordinate anti-drug activities of the ministries of education, health, and justice.

Senior Ethiopian government officials have admitted that attention to counternarcotics issues has waned, primarily due to the ongoing Ethiopian-Eritrean conflict. These senior officials have promised to re-focus attention on the drug problem and to re-commit Ethiopia to countering narcotics traffickers.

Money laundering is not considered a problem. There were no asset seizures or extraditions, and mutual legal assistance was of little significance in 1999. The United States has no extradition or mutual legal assistance treaty with Ethiopia.

IV. U.S. Policy Initiatives

There were no major policy initiatives undertaken in 1999.

The USG emphasis has remained on improving law enforcement, specifically the ECNU. Ethiopia has limited resources and must rely on assistance from external sources. Overall, the ECNU needs more training, better facilities, and improved access to resources if it is to prove effective in meeting the growing challenge.

GHANA

I. Summary

Ghana takes an active stance against drug abuse and illicit trafficking of narcotic drugs and psychotropic substances. Ghana has active enforcement, treatment and rehabilitation programs. Ghana is a party to the 1988 UN Drug Convention.

II. Status of Country

Ghana is increasingly a transit point for illegal drugs, particularly cocaine and heroin from South America, and Southeast and Southwest Asia. Most are headed for Europe, but some go to South Africa and a small amount to North America. Trafficking occurs at Accra's Kotoka International Airport as well as the ports of Tema and Sekondi. Overland trafficking occurs at the land borders with Togo (Aflao) and Cote d'Ivoire (Elubo). As Nigeria improves its interdiction efforts, Nigerian traffickers are strengthening their presence in Ghana. The trafficking problem has fueled an increase in domestic consumption. Cannabis use is a problem in Ghana, although the extent of local cultivation is uncertain because of its clandestine nature. Individuals cultivate it in plots averaging about half an acre in size or by inter-cropping it in vegetable and staple food fields. Money laundering occurs, but this is not a major problem. Precursor chemicals are also not a major problem.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The Narcotics Control Board (NCB) coordinates the efforts and cooperates with all organizations involved in counternarcotics activities. The NCB's 1999 activities encompassed numerous areas of counternarcotics, including enforcement and control, education, prevention, treatment, rehabilitation, and social re-integration.

In 1999 the NCB completed its counternarcotics master plan, renamed "The National Plan of Action 1999-2003." Financial and technical support was provided by the European Commission through its African Anti-Drug Program (AADP) for West Africa. The policy initiatives of the Board are:

to motivate all organizations, both governmental and non-governmental, to assist in the suppression of illicit

drug supplies being transported into the country, the reduction of drug demand and the fight against drug abuse and illicit trafficking;

to coordinate the efforts of all "stake-holding" organizations towards a common goal; and

to cooperate with the international community in the fight against the global drug scourge.

In 1999 the NCB submitted proposals to the Ghanaian government to amend the 1990 narcotics law. The following proposals were still under review in 1999:

A) amending penalties for drug offenses from a minimum of 10 years imprisonment to imprisonment of a term of not less than five years and, in addition, a fine of not less than 20,000,000 Cedis (approximately U.S. \$ 6,400) or a further term of not less than 5 years.

B) raising the fine for certain narcotics-related violations from 20,000 Cedis in section 7 (2) to 1,000,000 Cedis (U.S. \$ 320) because of depreciation of the Cedi.

C) amending section 4 of PNDC law 236 to vest in the Board any property forfeited under the law for the Board to manage and administer instead of the present situation where such fees, fines and other monies paid as fines go to the government's general fund.

D) defining the concept of possession/control to include the person who employed a carrier "mule", agent, or servant.

Law Enforcement Efforts. The police Criminal Investigative Division's (CID) narcotics unit based at CID headquarters in Accra undertakes interdiction exercises, raids, arrests, seizures, and prosecutions alone or in joint operations with officials of the NCB. NCB narcotics squads are located at known drug-prone areas – Kumasi (Ashanti region), Koforidua (eastern region) Ho (Volta region) and Tema (greater Accra region)– which conduct similar operations. The Customs Excise and Preventive Service (CEPS) headquarters also has a counternarcotics unit, as well as anti-drug squads at some of Ghana's borders (at Aflao, on the border with Togo, and at Elubo, on the border with Cote d'Ivoire) and at Kotoka International Airport in Accra.

Arrest and seizure statistics show a decrease in arrests, but more seizures in cocaine-related offenses. The slight decrease in arrest is perhaps due to the deterrent effect of increased law enforcement vigilance at the borders. One of the arrests took place in Papua, New Guinea and involved a single trafficker trying to smuggle a large amount of cocaine (7 kg.) A gram of cocaine, depending on its purity, sells at Cedis 60,000 (approx. U.S. \$ 18). Heavily diluted cocaine sells at Cedis 40,000 per gram (approx. U.S. \$ 12).

Figures show a decrease in heroin-related arrests and seizures, again, perhaps due to the deterrent effect of increased law enforcement vigilance at the borders. A gram of heroin, depending on its purity, sells at Cedis 40,000 – 45,000 (approx. U.S. \$ 12 – 14). Heavily diluted heroin sells at Cedis 25,000 – 30,000 per gram (approx. U.S. \$ 8 – 9).

There was an increase in cannabis-related arrests and seizures in 1999 but a significant decrease in quantities seized. The increased arrests may be due to greater vigilance. The NCB attributes the decrease in quantity seized to the deterrent effect of improved enforcement and drug prevention education which reduces demand for cannabis. Traffickers may also be carrying smaller quantities.

Drug dealers, using matchsticks as measures, retail cocaine or heroin at prices between Cedis 1000 and 2000 (approx. U.S. \$.30 – .60), depending on purity. The matchstick is dipped in the cocaine or heroin powder and what collects on the head of the match is sold. A drug addict might need eight to twelve of these matchsticks per day.

The police narcotics unit has worked closely with the Accra INS sub-office. INS Accra continually receives information from sources in Ghana and the U.S. who have identified drug activities between the two countries. INS shares this information with the Ghanaian police, who corroborate the information and ultimately work the case. This free exchange of information has resulted in the arrest of several drug dealers who have ultimately been convicted in Ghanaian court.

In addition, several DHL packages containing narcotics, which were destined for Ghana, have been intercepted in the U.S. due to cooperation between Ghanaian officials and the DEA. DHL Ghana has also cooperated with NCB to intercept narcotics packages destined for London.

Corruption. In 1999, there were no narcotics-related public corruption cases reported. There were two such cases from 1998, involving the Bureau Of National Intelligence and the Customs Service; these are still under investigation.

Agreements and Treaties. U.S.–Ghana extradition relations are governed by the 1931 U.S.–UK Extradition Treaty, to which Ghana acceded. Ghana has extradited three narcotics offenders to the U.S. under this treaty (1 in 1992 and 2 in 1994). Additionally, Ghana is a party to the Economic Community of West African States

(ECOWAS) Protocol Agreement, which includes an extradition provision. Ghana is also a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention and its 1972 Protocol.

Cultivation and Production. A combined team of the NCB's rapid deployment unit and the police narcotics unit continued to investigate the production and distribution of narcotics and to destroy cultivated cannabis farms and plants in 1999.

Marijuana or cannabis (also known as "wee" or Indian hemp) grows in Ghana, so it is easily available and widely abused. The cannabis comes from the rural areas, where it is cultivated illicitly, to the urban areas, where there is a ready market for it. Some cannabis is trafficked to neighboring and European countries. A kilo sells between Cedis 6000 and 7000 (approx. U.S. \$ 2). A wrap or joint sells at Cedis 3000 (approx. U.S. \$ 1).

Drug Flow/Transit. Cocaine and heroin are the main drugs that transit Ghana. According to DEA, there has been a notable increase in the number of intercepted packages of narcotics destined for Accra. Narcotics entering Ghana are sometimes repackaged for shipment to the United States and Europe through various concealment methods, such as: hidden in false compartments in briefcases, bags, cartons; deposited into unaccompanied baggage; hidden in exported foodstuffs (yams, pineapples, palm oil, etc.); or placed in condoms or cellophane material, which is then swallowed by individuals. There is no evidence that drugs transiting Ghana have a significant effect on the U.S.

Money Laundering. Proceeds from illegal trade in diamonds, gold and narcotics are suspected to be laundered through the non-bank financial systems, such as the foreign exchange bureaus. Additionally, there are allegations that some funds are laundered through donations to religious institutions.

Seizures. Approximately U.S. \$880,000 in assets of a drug baron wanted in the UK were forfeited to the state. The NCB received 20 percent of the forfeited assets. There are three cases pending. One case was in forfeiture proceedings at the end of 1999, with assets of U.S. \$ 1.19 million. In the other two cases, seizure notices were filed against the assets of an individual jailed in the U.S. for drug trafficking in 1996 and a fugitive drug dealer resident in Accra.

Precursor Chemical Control. The Ghana Food and Drugs Board and the Ghana Environmental Protection Agency control precursor chemicals by issuing licenses for chemicals and monitoring their distribution and use. The NCB monitors the licenses and is in liaison with international exporting agencies who require records on these chemicals.

Domestic Programs (Demand Reduction). The NCB's demand reduction efforts are at the grassroots levels in the rural areas. The NCB works with the Ministry of Local Government and Rural Development to encourage members of Ghana's 110 district assemblies to include narcotics prevention education in their education programs. In addition, the NCB works with the ministries of health and education through the ministries' representatives on the Board. Drug prevention education programs, coordinated through the NCB, are provided for the general public as well as for the ministries themselves.

The NCB has also received cooperation from Ghanaian newspapers in publishing the mug shots of drug offenders in the papers. The NCB hopes that this will increase awareness of the repercussions of drug activities.

With school authorities, the NCB has helped establish drug-free clubs in all secondary schools to apply peer pressure in drug prevention education. The NCB prepared a booklet called "Guidelines for the Formation of Drug-Free Clubs in Schools" for use nationwide, and provides personnel to deliver talks or lectures at schools. In 1999, the Ministry of Education, in cooperation with the NCB, placed drug prevention education in the curriculum of all secondary schools and teacher training colleges.

In October 1999, the NCB and the AADP broadcast a quiz on drug prevention information over Ghana radio. Prizes were given to schools and individuals who participated. In 1998, with the Ministry of Education, the NCB designated the School Health Program (SHEP) of the Ghana education service as the drug unit to handle all drug prevention education in all Ghanaian schools. In 1999, the Ghana education service formed a committee, whose membership is drawn from SHEP, the guidance and counseling units of the schools, and the welfare unit. This committee will handle all matters relating to drug prevention education in Ghana. Treatment programs have lagged behind preventive education and enforcement due to lack of funding. Three non-governmental organizations form the nucleus of treatment and rehabilitation facilities in Ghana. These are: The Cheshire Home (Kumasi), the Abba Jenkins Home (East Legon), and the Remar Association (Accra).

IV. U.S. Policy Initiatives and Programs

U.S. Goals and Objectives. To strengthen Ghanaian law enforcement capacity; to strengthen the Ghanaian Government's ability to identify and investigate narcotics-related crime; and to reduce Ghana's role as a transit point for narcotics.

Road Ahead. The USG wants to work with the government of Ghana to improve its narcotics interdiction and investigative capabilities.

ISRAEL

I. Summary

Demand for drugs in Israel is growing, use is becoming more accepted, and users begin at increasingly younger ages. Drug prices have remained stable or decreased, suggesting that significant supplies of illicit drugs are available to users. Drug users generally fall into one of two groups: one where use of amphetamines dominate, and a second where use of cannabis dominates. Among amphetamine abusers, LSD is also abused and, to a much lesser extent, cocaine. For those abusers where cannabis is the primary drug of abuse, it seems that heroin is frequently a secondary drug of abuse. This is particularly so for the hard core user.

Israel's Anti-drug Authority (ADA) has made the most of a tight anti-narcotics budget, but faces the prospect of future budget cuts. Cooperative efforts with Egypt, Jordan and the Palestinians remain important for the interdiction of some drugs coming into Israel and cordial relations exist between counterparts. However, there is little to no operational assistance, and therefore no benefit yet from the improving relationship for improved narcotics interdiction. Money laundering legislation is pending in the Knesset. After it becomes law, Israel hopes to become a party to the 1988 UN Drug Convention.

II. Status Of Country

Israel is neither a major transshipment point nor a major producer of drugs or precursor chemicals. Most law enforcement officials believe that a significant amount of money is laundered through Israel, because money laundering is not a crime. There is increased attention to the problem of organized criminal activity in Israel.

III: Country Actions Against Drugs in 1999

Policy Initiatives. While the government of Israel has a strong anti-drug policy, drug interdiction and prevention efforts are limited due to budgetary constraints. Although the 1999 budget for the ADA was roughly similar to the 1998 budget of \$8 million, the FY2000 ADA budget may be cut by another five to ten percent, which is expected to reduce the ADA's capacity to fight drug abuse.

In April 1999, money laundering legislation passed the first of the three necessary readings in the Knesset. Israeli officials expect the bill to become law by June 2000. Stricter law enforcement will be possible immediately after promulgation of the law, although the collection database required by the law is not expected to be completed for another three years. The Justice Ministry has already begun workshops for banking and law enforcement authorities that explain the new legislation.

Law Enforcement Efforts. Israel works closely with the U.S. FBI, U.S. Drug Enforcement Agency, and U.S. Customs officials, and has eight police officers and four customs attaches stationed around the world. Israeli officials enjoy good relations with their Palestinian, Egyptian and Jordanian counterparts, but offer little substantive operational assistance to any of them. Interdiction efforts focus on the transit of cannabis, and to a lesser extent, heroin, over Israel's physical borders with Lebanon, Jordan and Egypt and on the growing use of express mail to move amphetamines, LSD, and other drugs. Sniffer dogs have been an asset in drug interdiction, but are unable to detect new synthetic drugs, e.g., ecstasy (MDMA) and LSD.

The largest drug seizures in 1999 were: 1175 kg of cannabis; 163,760 ecstasy tablets; 200 LSD sheets; and 800 grams of cocaine. No labs were uncovered.

Corruption. Israel has had no documented cases of government narcotics corruption.

Agreements and Treaties. In 1991 the U.S. and Israel signed a memorandum of understanding calling for bilateral cooperation to combat illicit narcotics trafficking and abuse. Israel and the U.S. signed a Mutual Legal Assistance Treaty in 1998 which entered into force in 1999. Israel has acceded to the European Convention on Mutual Legal Assistance in criminal matters. Israel is a party to the 1971 UN Convention on Psychotropic Substances and the 1961 Single Convention and its 1972 Protocol. Israel is one of 36 parties to the European Treaty on Extradition and has separate extradition treaties with five other countries, including the U.S. For many years, Israeli law precluded the extradition of Israeli nationals under any circumstances. A 1999 law allows Israel to extradite its citizens for trial abroad, so long as those who reside in Israel are permitted to return to serve their sentences. Israel is a party to a number of other bi- and multi-lateral agreements that allow for extradition and asset seizure. The USG concluded a Customs Mutual Assistance Agreement (CMAA) with the Government of Israel in 1997.

Cultivation/Production. Israel is not a cultivator or producer of significant quantities of illicit drugs. Indeed, drug cultivation in Israel doesn't even meet Israel's own illicit demand.

Drug Flow/Transit. Israel is not a significant transit country for narcotics and no narcotics have been seized exiting the country. Israeli authorities believe the majority of cannabis and heroin consumed in Israel

originates in Turkey, Egypt, and elsewhere and enters Israel across her borders with Lebanon, Jordan, and Egypt. The relatively high price and quality of narcotics available in Israel suggest that Israel is a more profitable market for illicit drugs. Amphetamines and other narcotics which enter Israel by express parcel carriers or mail often originate in Europe. Other drugs come to Israel from the U.S. and South America.

Domestic Programs (Demand Reduction). ADA initiatives are geared to 17 to 25 year-olds in universities, the Israeli Defense Forces, minority communities, and affluent youths who are the primary drug users. The ADA estimates one in five university students are drug users and five percent of this group use hard drugs. At one university, drug use is estimated to be as high as 33 percent. Among recent immigrants, Russian and Ethiopian youths have significantly higher drug use, while the ADA reports drug use in the Israeli-Arab community is three times that of the rest of the country.

Israel has been concerned about the increasingly young age at which drug use begins. A 1998 ADA study showed that a significant number of young people began experimenting with drugs at age 14-16. The next year, a similar study showed that a higher percentage of young people began experimenting with drugs at ages 12-14. Another ADA study indicates that the percentage of Israelis who find recreational drug use culturally acceptable rose from 10 percent to 20-25 percent in the last four years.

Future initiatives will be aimed at emphasizing the danger of amphetamines, particularly ecstasy, which the ADA says drug users perceive as a "harmless, fun drug." Use of ecstasy has increased more than ten fold over the past three years.

IV: U.S. Policy Initiatives and Programs

Policy Initiatives. U.S.-Israel cooperation aims to assist Israel in building a self-sustaining, professional drug interdiction force, assist in the development of effective anti-drug legislation, and to help foster regional cooperation with Israel's neighbors on anti-drug issues.

Bilateral Cooperation. Israeli anti-drug officials characterize relations with U.S. counterparts as excellent. The Israeli National Police work cases with the U.S. Drug Enforcement Agency office in Cyprus, while the Israeli Customs National Drug Enforcement Section works closely with the U.S. Customs Service in Rome. Israel makes excellent use of U.S.-trained drug sniffer dogs at points of entry to detect narcotics. In addition, the United States offered several workshops over the past year dealing with drug abuse.

Road Ahead. Maintaining the gains of prior bilateral cooperation and building substantive regional relationships are key goals for Israel's Anti-Drug Authority. Given tight government budgets, maintenance of equipment and training for personnel and dogs remain difficult for Israel. Interdiction of drugs across Israel's border is a constant challenge. Money laundering legislation, when enacted, will open up new possibilities for U.S. agencies to engage in training and case sharing.

JORDAN

I. Summary

Jordan's domestic drug abuse problem remains small, due largely to the active enforcement of existing laws, and the cultural and religious norms which help limit the use of illegal drugs. Jordan remains, however, a transit country due to its pivotal location between drug producing countries to the north, and drug consuming countries to the south and west. Cooperation between neighboring countries, particularly Lebanon and Syria is ongoing and robust. Cooperation with Israel intensified with movement in the Middle East peace process, but law enforcement officials hope for a more comprehensive and cooperative relationship. Seizures of hashish, once the most prevalent drug seized, declined due largely to eradication efforts and tough enforcement from Lebanon, the purported country of origin. Jordanian officials recently announced a three-year national strategy to combat drugs of abuse. Jordan is a party to the 1988 UN Drug Convention and looks forward to increased support from the European Union and the United States for its anti-drug efforts.

II. Status of Country

There are no obvious indicators to suggest Jordan will move from a narcotics transit country to a narcotics producing country in the foreseeable future. Low seizure statistics and minimal reported drug use seem to support this assessment.

As in previous years, Jordan still remains a country without a money laundering law. Law enforcement sources fear the lack of such a law will ultimately open the borders to more aggressive trafficking with potential for money laundering. Legislative sources report no recognizable efforts to obtain such a law in the immediate future.

III. Country Actions Against Drugs in 1999

Policy Initiatives. In December of 1999, Jordanian officials announced a government-wide project entitled "The National Plan To Combat Drugs And Psychotropic Substances". The project is set to run from 1999

through 2001 with an estimated budget of \$22.4 million. The project is being implemented by a number of ministries including the Ministries of Interior, Health, Education, Youth, Social Development, Information, Finance, and Justice, and the Public Security Directorate. The plan encompasses three main objectives: prevention, enforcement, and treatment.

Law Enforcement Efforts. As a member of Jordan's Ministry of Interior, Jordan's Public Security Directorate maintains an active anti-narcotics and counterfeiting bureau. In an effort to enhance enforcement, this bureau added an additional 15 officers in 1999. The bureau also sought and received training from France and Italy during the reporting period. Italian authorities hosted a training session on organized crime, narcotics smuggling, and money laundering. France trained Jordanian enforcement officers during an exercise where members of the bureau worked and trained alongside French narcotic officers. Jordan continues to seek training assistance from other countries.

Law enforcement and drug policy officials report a decrease in the amount of hashish seized in Jordan for 1999. Officials attribute this success to the tough enforcement by the public security directorate's anti-narcotics bureau. Members of this bureau cite specific steps taken by Lebanon, the purported source country, to eradicate hashish. Further, bureau members report a vigorous, cooperative, and ongoing drug enforcement effort with Lebanon, Syria and Saudi Arabia.

While hashish seizures have decreased in 1999, statistics reveal seizures of opium have increased. Enforcement officials attribute this increase to the flow of drugs from Turkey, making their way to and through Jordan. These same Jordanian officials hope to further enhance the already existing anti-narcotics agreement with Turkish enforcement officials and improve efforts to combat this increase.

Corruption. Jordanian officials report no narcotic-related corruption or investigations during 1999. There is no evidence to suggest that senior level officials are involved in narcotics trafficking.

Agreements and Treaties. Jordan remains committed to existing bilateral agreements providing for some counternarcotics cooperation with Syria, Lebanon, Iraq, Saudi Arabia, Turkey, Egypt, Pakistan, and Hungary. Although a 1995 bilateral extradition treaty is in force between Jordan and the U.S., Jordan has failed to honor any U.S. extradition requests since a 1997 Court of Cassation ruling that the treaty had not been approved properly by the Jordanian Parliament. The United States has repeatedly urged the GOJ to rectify any impediments to implementation of the treaty. Jordan is a party to the World Customs Organization's International Convention on Mutual Administrative Assistance for the Prevention, Investigation, and Repression of Customs Offenses (Nairobi Convention), Annex X on Assistance in Narcotics Cases.

Cultivation or Production. Existing laws prohibit the cultivation or production of narcotics in Jordan. These laws have been effectively enforced.

Drug Flow or Transit. Jordan has been in the past, and remains today, a transit country for illicit drugs. Jordan's most challenging burden in eliminating trafficking remains the long, open, and often desolate borders with neighboring countries to the north. While law enforcement sources substantiate robust and effective enforcement efforts with Syria and Lebanon, the vast array of nomadic tribes associated with trafficking often elude even the most sophisticated efforts of interdiction. None of the drugs that transit Jordan are believed to be destined for the United States.

Seizure statistics for 1999 suggest a reduction in the amount of hashish that transits Jordan. Heroin seizures indicate no significant increase, but opium seizures have increased as noted above. Transit problems to Israel were recently highlighted by an 8 kg seizure of heroin by the anti-narcotics bureau. According to enforcement officials, family members from Jordan attempted to smuggle the heroin through Jordan and over the western border to family members in the West Bank.

Domestic Programs And Demand Reduction. The Ministries of Interior and Health offer treatment and rehabilitation as an option to incarceration. Enforcement officials and prosecutors work side-by-side to identify potential candidates for treatment.

Officers of the Ministry of Education and Health make presentations to school age youths, conduct awareness briefings, and produce lecture materials on prevention, awareness, and addiction. In 1999, the Ministry of Health and Social Development officials opened a treatment facility in Jabal Weibdeh, a suburb of Amman, and expect the number of treatment beds to rise in the coming years. As always, the cultural and religious norms cannot be ruled out as a factor in the help to control drug use. The Ministry of Moslem affairs and Holy Places manages a program of religious speeches, lessons, and lectures on awareness of drugs and their effects.

IV. U.S. Government Policy Initiatives and Programs

Policy Initiatives. In keeping with the past goals of creating an effective Jordanian interdiction force, the U.S. State Department offered a course on rural border operations and interdiction. In June and July of 1999, the Department's anti-terrorism assistance program hosted 24 public security directorate members in an effort to

teach principles of conducting effective border patrol operations. All sides expect that lessons learned during this type of training will be applied in the border areas where narcotics smuggling takes place, and help deter and eradicate the flow of drugs through Jordan.

Bilateral cooperation. Jordan's anti-narcotics bureau has a close working relationship with the U.S. Drug Enforcement Agency Country Attache in Cyprus. The U.S. does not have a bilateral narcotics agreement with Jordan.

The Road Ahead. Embassy officials expect continued cooperation with Jordanian enforcement and policy officials on anti-narcotics matters, and hope to assist Jordan as it carries out its three-year national

KENYA

I. Summary

Kenya is a transit country for hashish and heroin, mostly bound from Southwest Asia for markets in Europe and, to a lesser extent, North America. It is a major regional supplier of a mild narcotic known as Khat, which is legal in Kenya. Cannabis/marijuana is grown commercially for the illegal domestic market. There is a small local heroin market. Kenyan anti-narcotics police cooperate well with U.S. and other nations' law enforcement agencies. Extensive training in air passenger profiling has helped reduce airborne heroin shipments. Interdiction of sea shipments of heroin, cannabis, hashish and other drugs has been less successful, but a program for profiling shipping containers is in effect and has resulted in some seizures. To date, however, there have been relatively few prosecutions of major drug traffickers in Kenya. The Kenyan government still has not finalized a long-awaited national drug control master plan. Although government officials profess strong support for anti-narcotics efforts, the overall program suffers from a lack of resources. Kenya is a party to the 1988 UN Drug Convention and has enacted full implementing legislation.

II. Status of Country

Kenya is a significant transit country and a minor producer of narcotics, but there is no evidence drugs reaching the U.S. from Kenya have a significant impact on the U.S. The country legally grows Khat for domestic and regional markets. Khat is a mild chewable narcotic, used traditionally in the Arabian Peninsula and the Horn of Africa. Cannabis or marijuana is produced in commercial quantities for the domestic market; there is no evidence of a major impact on the United States.

Kenya's sea and air transport infrastructure, and the network of commercial and family ties that link some Kenyans to South Asia, make Kenya a significant transit country for Southwest Asian heroin. Europe is the primary market for narcotics transiting Kenya, with North America serving as a secondary destination, but the amount of drugs moving to North America is not large enough to have a major impact on the U.S. In the past, Kenya has also been an important transit point for Southwest Asian cannabis resin (hashish), although there were no seizures in 1999. There were also no seizures of Southwest Asian-origin methaqualone (Mandrax), a drug which transits Kenya en route to consumers in Southern Africa. Although Nairobi serves as a regional financial center, there continues to be no direct evidence that Kenya is a major money laundering country. Kenya does not produce significant quantities of precursor chemicals.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Kenyan Government officials, donors and others held a workshop in May 1999 to review and modify a draft drug control master plan for Kenya. A government committee then reviewed the plan, revised some sections, and presented it to the relevant minister in November 1999. The minister recently gave assurances that the plan would be presented to the cabinet no later than early 2000. Although this progress is encouraging, officials still are not sure when the master plan will be enacted.

The Anti-Narcotics Unit (ANU) of the Kenyan police force remains the focus of government anti-narcotics efforts. A key element of the proposed master plan is the identification of a senior civil servant to liaise with donors and coordinate a broad anti-narcotics effort, including a much expanded preventive education campaign. The ANU would then be free to concentrate on its interdiction mandate.

Accomplishments. The ANU continues its professionalization efforts. Many ANU officers have undergone training, much of it through the UN Drug Control Program (UNDCP) and bilateral programs sponsored by the U.S., German, British, Japanese and other governments. The ANU and the Kenyan Customs Service now have a cadre of officers proficient in profiling and searching suspected drug couriers and containers at airports and seaports. There have been some good results with profiling at airports, although only for couriers not major traffickers, and positive but even more modest results at seaports. The ANU deploys drug-sniffing dogs, thanks to a UNDCP training program, although this program has so far not resulted in any significant seizures. The ANU cooperates fully with the USG and other nations on investigations and other operations. The ANU is building its surveillance capabilities, but still lacks the capacity to conduct sophisticated undercover operations. Inadequate resources, a problem throughout the Kenyan police force, significantly reduce the

ANU's operational effectiveness.

Law Enforcement Efforts. Kenya seized 17.5 kilograms of heroin in 1999 and arrested 18 people on heroin-related charges. The amount of heroin seized in Kenya has increased steadily over the last three years, but is still below the all-time high of 29.7 kilograms seized in 1995. Police report that traffickers are shipping heroin in smaller quantities, perhaps in response to increased interdiction efforts. Many individuals caught attempting to smuggle heroin into Kenya are of South Asian origin. An increasing number, however, are from East Africa. Heroin continues to be delivered principally to criminals of West African origin for onward delivery to Europe and North America. In 1999, the brother of a prominent Mombassa businessman was sentenced to jail for attempting to smuggle 6.5 kilograms of heroin into Kenya.

Cocaine seizures in Kenya have fluctuated widely in recent years. Police made only two arrests and seized 110 grams in 1999.

The killing of four high school prefects in May 1999 by students allegedly high on cannabis and other drugs prompted increased government efforts to limit the production, sale and consumption of cannabis. The ANU and other police units destroyed about 450 acres of cannabis in 1999, principally in the protected Mt. Kenya forest. In 1999, 7,762 kilograms of cannabis and its derivatives were seized, a significant increase over 1998. In addition, the ANU mounted its first-ever roadblock operations in cannabis-producing areas, which yielded significant quantities of cannabis and a better understanding of cannabis trafficking patterns. Officials report increased importation of cannabis from Uganda and Tanzania, where the quality is said to be better than Kenya's domestic product.

Kenyan authorities have made several multi-ton hashish seizures in Mombassa in recent years, but no such seizures occurred in 1999.

There were no significant changes in the organization or budget of anti-narcotics initiatives in Kenya in 1999. Several new officers were, however, assigned to the ANU, which has grown steadily from three officers in the early 1980's to over 100 today. ANU personnel report adequate policy support from central government, but inadequate financial and transportation resources. ANU appears to prioritize effectively, and targets major traffickers.

Officials have never identified any clandestine airstrips in Kenya used for drug deliveries, and believe that no such airstrips exist. On the seacoast, however, small boats meet with larger vessels anchored offshore and transport drugs to small landings away from major ports.

Corruption. Public corruption remains a significant barrier to effective narcotics enforcement. Despite Kenya's strict narcotics law, which encompasses most forms of narcotics-related corruption, there are continued, unconfirmed reports of public officials being involved in narcotics trafficking. There were no prosecutions of public officials for narcotics-related corruption in 1999. A member of a prominent and politically-connected Mombassa family, however, was successfully prosecuted for importation of heroin in 1999.

Agreements and Treaties. Kenya is a party to the 1988 UN Drug Convention, which it implemented in 1994 with the enactment of the Narcotic Drugs And Psychotropic Substances Control Act. Kenya is also a party to the 1961 UN Single Convention and its 1972 Protocol. Kenya's national assembly, however, has not ratified the 1971 UN Convention on Psychotropic Substances, in spite of government promises to make ratification a priority

The 1931 U.S.-UK Extradition Treaty remains in force between the United States and Kenya through a 1965 exchange of notes.

Under a 1991 Memorandum of Understanding (MOU), amended in 1996, the USG donated surveillance and computer equipment to the ANU in 1997. The MOU also provides for sharing of narcotics-related information. The three nations of the East African Cooperation (EAC) group (Kenya, Tanzania, and Uganda) continue to consider a draft protocol designed to enhance regional anti-narcotics cooperation.

Cultivation and Production. Increasing numbers of Kenyan farmers illegally grow cannabis or marijuana on a commercial basis, for the domestic market. Fairly large-scale cannabis cultivation occurs in the Lake Victoria basin, in the central highlands around Mt. Kenya, and along the coast. Foreign tourists export small amounts of Kenyan marijuana. Kenyan officials say about 450 acres of cannabis was destroyed in 1999, up from about 200 acres in 1998 and 80 acres in 1997 (the first year of large-scale efforts to eradicate cannabis). Cannabis eradication efforts were aided in 1999 by an extensive aerial survey of the Mt. Kenya region. The Kenyan government has no estimates of crop size or yield. Khat is widely grown as a cash crop.

Drug Flow and Transit. Kenya is strategically located along a major transit route between Southwest Asian producers of heroin and markets in Europe and North America. Heroin normally transits Kenya by air, carried by individual couriers. These couriers were once primarily West Africans. More recently, however, couriers are more commonly South Asian (Indian, Pakistani) or East African (Tanzanian, Ugandan). Once in Kenya, heroin is

typically delivered to agents of West African crime syndicates. Some of the heroin goes from Kenya to West Africa for re-export to consumer markets. An increasing amount, however, enters Kenya for direct re-export to Europe or to a lesser extent the United States. The ANU focuses on airport heroin interdiction. Although the total amount of heroin seized has increased over the last three years, the average size of seizures has declined. Traffickers continue to dispatch couriers, officials say, but are unwilling to risk seizure of large quantities. We have no evidence that heroin from Kenya reaches the United States in quantities sufficient to significantly affect the United States.

Postal and commercial courier services are an increasing conduit for narcotics shipments through Kenya. Kenyan-grown Khat is legally exported by air from Kenya to Somalia, Ethiopia and Yemen. In the past, Kenya has been a transit country for methaqualone en route from India to South Africa. There have been no methaqualone seizures in Kenya, however, for the last two years. In the past, Mombassa has been a major transit port for hashish. Containers with hashish were reportedly re-documented or repackaged in Mombassa for onward shipment. Most hashish transiting Kenya has been bound for Europe, although some shipments have reached the United States and Canada. There were no hashish seizures in Kenya in 1999.

Domestic Programs. Kenya has made little progress on demand reduction, although government officials express increasing concern. In addition to alcohol, illegal cannabis and legal Khat are the domestic drugs of choice. Heroin abuse is limited to members of the economic elite. Solvent abuse is widespread (and highly visible) among street children in Nairobi and other urban centers. There are no reliable statistics on domestic consumption of illicit narcotics.

Demand reduction efforts are largely limited to a poster campaign sponsored by private donors and a UNDCP project to bring anti-drug education into the schools. Kenyan officials have expressed interest in demand reduction and rehabilitation, but there are no government programs other than occasional speeches to schools and community groups by members of the ANU. There are no special government rehabilitation or drug abuse treatment facilities, but some churches and non-governmental organizations provide limited rehabilitation and treatment programs for solvent-addicted street children.

IV. U.S. Policy Initiatives and Programs

The principal U.S. anti-narcotics objective in Kenya is the encouragement of a strong Kenyan government commitment to narcotics interdiction, and the strengthening of Kenyan anti-narcotics capabilities.

Bilateral Cooperation And Accomplishments. The USG provided a grant in 1999 to permit a senior official of the ANU to visit the United States and observe U.S. drug control programs. The U.S. Coast Guard also provided training to the Kenyan Navy in May and October 1999 in techniques for boarding and inspecting suspicious vessels. The United States donated \$40,000 of surveillance and computer equipment. In recent years, the Department of State has provided funding for ANU officers to attend several DEA and U.S. Customs training programs. Kenya routinely provides samples of seized narcotics to DEA for laboratory analysis.

Road Ahead. The USG will continue to take advantage of its good relations with Kenyan law enforcement to build professionalism, operational capacity, and information sharing. The USG will encourage progress on a planned national anti-narcotics strategy, and provide input where appropriate. The USG hopes to provide a basic drug interdiction course for new ANU officers (and colleagues from neighboring countries) in 2000. The adoption and implementation of a drug control master plan in 2000 will be a significant benchmark of Kenyan progress in anti-narcotics policy.

LEBANON

I. Summary

Lebanon is not a major illicit drug-producing or drug-transit country. Local cannabis production is insignificant and there is practically no lab processing. Drug trafficking across the Lebanese-Syrian border has substantially diminished as a result of Lebanese and Syrian efforts to deter illicit cultivation and smuggling activity. There is no significant money laundering, and banks comply with a self-regulating due diligence guidelines. Lebanon is a party to the 1988 UN Drug Convention.

II. Status Of Country

For the tenth consecutive year, the Government of Lebanon (GOL) continued to combat forcefully illegal crop cultivation. Strict control was imposed on areas that traditionally cultivated cannabis. In 1999, the Lebanese International Security Force (ISF) destroyed hashish cultivation in Deir al Ahmar, Yamouneh, Yunin, Irsal, and Btadi'. However, some plots escaped control in the remote areas of the eastern mountains (Yamouneh, Ainata, Ouyoun Urgush, Jabab al-Homr, Marjahin, Kalaat Aruba, Kanisset al-Kobeyat) and of the western mountains (Brital, Haam, Ma'rabun). Also, some very limited cannabis cultivation persisted among tobacco crops in the Biqa' valley, but on a small scale. (The areas planted were much less than in years preceding 1989, when Lebanon started the eradication of illicit crops.)

III. Country Actions Against Drugs in 1999

Policy Initiatives. Following his election in 1998, Lebanese president Emile Lahoud renewed a platform promise and vowed to extend his anti-corruption campaign to the war on drugs. In early 1999, the second-in-command of the Beirut narcotics unit, Colonel Michele Chakkour, was tried on charges that he directed the torture of a narcotics suspect who subsequently died. Chakkour was convicted and sentenced to three years incarceration.

Cultivation/Production. The GOL, in cooperation with Syrian authorities, continues to suppress the illicit cultivation of opium and cannabis in the Biqa' Valley. In May 1999, the Internal Security Forces announced they would increase patrols and crack down on illicit cultivation, warning violators they would face penalties of life imprisonment and heavy fines. Nevertheless, dissatisfaction continued among farmers who cited the UNDCP failure to provide adequate funds for crop substitution. GOL authorities maintain that as a result of destruction of hashish and poppy plantations, the production of hashish and heroin was nearly eliminated, although small quantities of morphine and heroin are smuggled overland from Turkey for local use.

Transit/Trafficking. Lebanon is no longer a major transit country; any transit is done by amateurs, outside the major drug trafficking networks. Established smuggling routes have been substantially weakened. The transport of hashish across the Syrian-Lebanese border was drastically reduced in quantity and value in 1999. This is attributable to the general attitude of both the Lebanese and the Syrian government's toward fighting drug trafficking. There were less significant quantities of drugs imported by sea or air in 1999 as a result of tighter control by the Lebanese security apparatus. Syrian authorities seized seven kilos of hashish from a large bus battery modified to conceal the drugs. When interdicted, the bus was transiting Syria as it journeyed from Lebanon to Saudi Arabia. More significant than the seizure was the fact that the bus had been transporting hashish in this manner every week for the past four years. Eight Syrians and four Saudis were arrested in connection with this case.

Three types of drugs are available in Lebanon: hashish, heroin, and cocaine. Hashish and heroin are no longer available in large quantities; sales of user quantities continue at the local level. South American cocaine is smuggled into Lebanon primarily via air and sea route connections with Europe, Jordan, and Syria. Lebanese nationals living in South America in concert with resident Lebanese traffickers often finance these operations.

Law Enforcement Efforts. In March 1999 a Lebanese Armed Forces (LAF) soldier was killed in an exchange of gunfire between his patrol and several unidentified persons in the Hermel region of the Biqa'. Following the incident, the LAF raided several houses in the area, arrested several suspects, and confiscated weapons and one kilogram of opium.

In July 1999, five individuals were arrested for distributing large quantities of cocaine, opium, and hashish to a reported two hundred college students in the Massourieh/Metn area of the Biqa'. The group sold half a gram of heroin for \$20, half a gram of cocaine for \$25, and hashish cigarettes for \$15. The deals were transacted using cell phones.

In August 1999, GOL officials at Beirut International Airport arrested a Kuwaiti woman after seizing from her person nineteen (19) grams of pure cocaine and five grams of heroin. In September 1999 the commander of the judiciary police announced that a joint ISF/LAF operation had resulted in the arrest of a notorious drug dealer, the object of more than sixty outstanding warrants of arrest. The GOL also arrested dozens of the fugitive's associates. GOL authorities reportedly seized massive quantities of hashish, cocaine, and cannabis seeds as a result of this joint operation. In October 1999 an Egyptian national was arrested for attempting to smuggle four hundred forty-five (445) grams of heroin in a washing machine through Beirut International Airport. The drugs were outbound to Egypt. In November 1999, an LAF tank was rocketed in the village of Hourtaala, Biqa' Valley, injuring three soldiers. The subsequent sweep by the LAF resulted in seizures of weapons and drugs from the homes of the alleged perpetrators. In December 1999 ISF anti-narcotics personnel seized a reported four tons of hashish plants from an isolated storage site between Deir al-Ahmar and al-Kneisseh.

In 1999, the GOL orchestrated several controlled delivery operations in concert with their European counterparts, resulting in significant drug seizures. The GOL, through its Ministry of Health, the Anti-Narcotics Bureau, and the Customs Directorate General, monitors the legal importation of all precursor chemicals into Lebanon.

Corruption. President Lahoud successfully campaigned in 1998 on a platform of attacking corruption at all levels of government. Efforts continue in support of that position, including anti-corruption legislation passed in late 1999, popularly known as the "Illicit Wealth Bill". In 1999, several key government administrators, including a former minister of petroleum, were arrested on embezzlement and fraud charges. Some were subsequently released, others remain incarcerated pending trial.

Agreements and Treaties. Lebanon and the United States have no formal bilateral agreements addressing the issues of narcotics trafficking or extradition. There continue to be renditions to other countries of Lebanese

citizens suspected of drug-related offenses. Legislation passed the Lebanese Parliament in 1998 authorizing seizure of assets if a drug trafficking nexus is established in court proceedings. Lebanon is a party to the 1988 UN Drug Convention, as well as the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances.

Cultivation/Production. It is roughly estimated that only 240–260 hectares of cannabis cultivation remain in Lebanon, a very similar accounting to that identified in 1998. The total value of the season's crop ranged between \$2.88 and \$3.75 million. It is worth noting that one metric ton of green cannabis yields the following according to crop quality: 5 kgs of first category hashish, 5 kgs of second category hashish, 5 kgs of third category hashish, and 2 kgs of hashish seeds.

Domestic Programs. Personal drug abuse is not perceived as a significant problem in Lebanon. As a result, there are few programs designed to raise drug abuse awareness. There are, however, several private drug treatment clinics in Lebanon.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. USAID, in close cooperation with the U.S. Embassy in Beirut, is planning to implement a four-component program to aid and empower key Lebanese stakeholders, local government, media, and civil society in their efforts to fight corruption. The program aims to increase public awareness of the costs of corruption, strengthen investigative journalism, foster transparency and accountability at the municipal government level, and provide small grants to support anti-corruption efforts by local groups.

Bilateral Cooperation. As noted, there are no bilateral narcotics-related agreements. Cooperation takes the form of counternarcotics training courses and operational cooperation with regional DEA Agents.

Road Ahead. Given the level of Syrian involvement in Lebanese domestic affairs, success in combating narcotics cultivation and trafficking depends on Syrian as well as Lebanese government will. Syria has demonstrated, however, a continued commitment to anti-narcotics actions in Lebanon. We expect Syria and Lebanon will both continue to pursue this policy. The GOL has not done enough to develop a socio-economic strategy to tackle the problem of crop substitution. The government was successful in destroying the illegal crops but has yet to find a suitable crop to replace the lost revenues and sustain the livelihoods of the local farmers.

LESOTHO

I. Summary

Lesotho is a small, landlocked, mountainous country completely surrounded by the Republic of South Africa. It is becoming attractive to narcotics traffickers seeking to enter South Africa, and from there move on to Europe and North America, including the U.S., but there is no evidence drugs transiting Lesotho have a significant impact on the U.S. Lesotho is a source country, but not a major source country, for marijuana. It is not a major producer of other narcotics or precursor chemicals, nor does it have drug processing labs or high levels of money laundering. Lesotho is a transit country for illicit narcotics from South Asia and the Andean region of South America to South Africa and onwards to Europe. Recent indications suggest an influx of Asian heroin and Andean cocaine transiting Lesotho with involvement of Nigerian and other crime syndicates. This trafficking pattern is associated with the trade in small arms that contributes to political instability, violent crime, and incidents of cross-border livestock theft.

Lesotho lacks adequate financial and institutional resources to mount a comprehensive, sustained and effective counternarcotics campaign. The USG does not have a counternarcotics agreement with Lesotho. Lesotho has no bilateral counternarcotics or mutual legal assistance agreements with other countries either, but cooperates closely with South Africa in joint operations. Lesotho is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention and its 1972 Protocol. The 1931 U.S.-UK Extradition Treaty, applicable to Lesotho since 1935, continues to be in force, though there have been no extradition requests made by either country. Lesotho also approved the Southern Africa Development Community (SADC) Protocol on Combating Illicit Drugs in 1997.

II. Status of Country

Lesotho does not currently have a modern "offshore" business and financial services sector, and is not believed to have extensive money laundering. The banking sector is small, risk averse and provides limited financial service options that could facilitate significant money laundering. Supervision of the banking sector by the central bank is guided by legislation and regulations that require banks to be aware of clients who routinely make large cash deposits and to share information on suspicious transactions with central bank regulators. Policy discussions to promote the business and financial services sector actively include recognition of the risks associated with money laundering.

Landlocked Lesotho is emerging as a transit country for illicit narcotics from South America and South Asia to

South Africa. This traffic is made possible by Lesotho's relatively open frontier, inadequate control of the movement of people and goods, and proximity to major transport hubs in South Africa. Andean cocaine and South Asian Mandrax are the most commonly observed substances transiting Lesotho. There is limited evidence of the availability in recent years of crack cocaine, hashish, opium, and amphetamine-type stimulants. However, authorities are concerned about recent indications of an influx of Asian heroin and Andean cocaine, with Nigerian and other crime syndicates in South Africa and elsewhere on the continent working with traffickers in other distant regions. This traffic is linked with the significant amounts of counterfeit U.S. and South African currency being passed in Lesotho and regionally.

III. Country Actions Against Drugs in 1999

Serious political, institutional and statutory limitations have constrained the ability of the GOL to mount an effective counternarcotics campaign. The lack of funds, training, materials and helicopter transport seriously hampers local law enforcement efforts. There is no comprehensive counternarcotics master plan to coordinate the roles of the police, army, intelligence, customs, and immigration services. There is no joint intelligence gathering system or data base, though less than dependable procedures exist for the timely sharing of relevant information among law enforcement and the political directorate. No training facilities, programs or training aids exist to support officials responsible for counternarcotics activities, but efforts are underway to establish a U.S.-supported International Law Enforcement Academy in the region. There are no drug sniffing dogs or crop substitution development initiatives. Physical cutting and burning of marijuana fields occurs only when police receive tips and can get to the location, but there is no program for manual or aerial spraying of herbicides or defoliants to eradicate marijuana fields. Local authorities suspect that traffickers use airstrips in Lesotho, but law enforcement lacks the capacity to monitor them. Containerized export shipments are also being used to surreptitiously transport drugs across international borders.

The GOL successfully concluded an extradition treaty with South Africa in 1994, and strengthened sentencing guidelines and criminal codes to allow for the seizure of vehicles involved in a drug trafficking offense. New procedures coordinated by the Ministry of Justice allow for counter narcotics cooperation among airport and border control officials. A division within the police and the national intelligence service was established to coordinate law enforcement against drug syndicates. New legislation to counter official corruption of government elected officials and civil servants—the Prevention of Corruption and Economic Offences Act No. 5 Of 1999—was under consideration in early 1999. No other new legislation or policy directives have been implemented. However, the cabinet is actively considering new laws, to implement the 1988 UN Drug Convention's provisions on money laundering and the seizure and forfeiture of assets gained via narcotics trafficking. Additionally, discussions are underway about negotiating a series of mutual legal assistance treaties that might support a broader, more coordinated counternarcotics effort.

There were no arrests or prosecutions of major drug traffickers in recent years, but a large number of small operators and individuals have been successfully prosecuted. Periodic police road blocks result in the arrest of individuals transporting illicit narcotics and small arms.

IV. U.S. Policy Initiatives and Programs

Two Lesotho police officers participated in a U.S.-funded SADC regional counternarcotics training program in 1998. The U.S. is also making administrative arrangements to establish a law enforcement academy in the region. Since law enforcement training is desperately needed all over Africa, this new Academy should have a very positive effect on regional counternarcotics and law enforcement efforts. USG officials are concerned with growing evidence that drug trafficking organizations use Lesotho as a transit country into South Africa, and continue on trafficking routes leading to Europe and North America, but there is no clear indication yet of significant impact on the U.S. Lesotho officials participated with U.S. Customs and DEA agents in controlled deliveries of narcotics from Colombia, via Lesotho, to South Africa; and from Pakistan to Nicaragua (via Lesotho and Miami).

MAURITIUS

Mauritius is a minor consumer and transshipment route for heroin from South Asia, primarily to South Africa. A small amount of cannabis estimated at 75,000 plants maximum is produced and consumed locally. The absence of an anti-money laundering law could facilitate narcotics-related money laundering in the rapidly expanding offshore financial and re-export sectors, although there is no concrete evidence of such activity to date. Despite repeated assurances from the government over the past two years, no anti-money laundering legislation has yet been presented to parliament. Although the current anti-drug law provides for forfeiture of assets used in or derived from narcotics trafficking, no forfeitures have ever been finalized. Mauritius signed the 1988 UN Drug Convention, but has never ratified it. It is, however, a party to the 1961 Single Convention on Narcotics Drugs and its Protocol, as well as the 1971 Convention on Psychotropic Substances.

A 268-person Anti-Drug and Smuggling Unit (ADSU) within the national police force has primary responsibility for narcotics law enforcement. It has implemented a cooperation agreement with its counterpart agency in

India, and is developing formal links with Southern African Development Community (SADC) partners pursuant to the SADC protocol on illicit drug trafficking. Relations with the U.S. DEA are good.

The government provides drug education and demand reduction training and programs to its affected citizens. It supports similar projects undertaken by NGO's. The ADSU is preparing a counternarcotics master plan for submission to the government in early 2000. Corruption is moderate by regional standards, and does not appear to affect counternarcotics efforts.

There is no bilateral narcotics assistance agreement between the United States and Mauritius. The 1931 U.S.-UK Extradition Treaty continues to be in force between the U.S. and Mauritius.

The United States periodically provides training for Mauritian law enforcement authorities, and two ADSU officers attended a regional training course in 1999. The U.S. embassy provided \$ 4230 in assistance to two NGO's involved in drug education and rehabilitation.

MOROCCO

I. Summary

Despite the Government of Morocco's (GOM's) law enforcement efforts, Morocco remains a major producer and exporter of cannabis. While there continues to be no evidence that Moroccan cannabis reaches the United States in significant amounts, an estimated 2000 tons is believed to reach Europe annually. Estimates vary, however, regarding the extent of cannabis cultivation in Morocco. The Ministry of Interior estimates that an average of 50,000 hectares of cannabis are cultivated illicitly in the Kingdom of Morocco annually. Since 1995, the GOM's Royal Center for remote sensing, a scientific research facility, independent of UCLAD and the Interior Ministry, estimates primary cannabis growing areas in Morocco in the range of 15,000 to 40,000 hectares. In contrast to these lower Moroccan figures, the European Union (EU) estimates the area of illicit cannabis cultivation at between 80-85,000 hectares. There are reports that Morocco is used as a transshipment point for hard drugs such as heroin and cocaine entering Europe. Clearly, the threat from Moroccan enforcement efforts, as they are, has not been enough to deter drug traffickers. This reality coupled with GOM counternarcotics budgetary constraints does not bode well for near-term or even long-term progress against hashish cultivation, production, and trafficking in Morocco. Morocco is a party to the 1988 UN Drug Convention.

II. Status of Country

Morocco consistently ranks among the world's largest producers of cannabis and its cultivation and sale provide the economic base for much of northern Morocco. According to EU law enforcement officials, Moroccan cannabis is typically processed into hashish, resin, or oil and exported to Algeria, Tunisia, and Europe. To date, money laundering and precursor chemicals have virtually been non-factors within the Moroccan drug market.

While cannabis is the traditional drug of choice for Moroccans, there is also a small but growing domestic market for harder drugs, such as heroin and cocaine. Newspaper reports on Morocco's role as a major producer and exporter of drugs allege a connection between local drug traffickers and international cartels such as Latin American cocaine rings. However, these allegations have never been substantiated.

III. Country Actions Against Drugs in 1999

Policy Initiatives. In 1996, the GOM established a coordination unit for the fight against narcotics (Unite de Coordination de Lutte Anti-Drogue or UCLAD) in an effort to improve coordination between the various law enforcement services involved in the counter narcotics effort. UCLAD is subordinate to the Ministry of Interior. UCLAD officials report that they have been instrumental in reworking legislation to increase the maximum allowable prison sentence to 30 years and also increase fines for narcotics violations to a range of \$20-\$80,000. Ten years imprisonment remains the typical sentence for major drug traffickers arrested in Morocco. Coordination among law enforcement agencies remains weak. In short, UCLAD's centralized control of all drug-related matters is not yet completely realized. However, European diplomats believe UNCLAD's problems result partly from a lack of resources to fulfill its mandate.

Law Enforcement Efforts. Approximately every six months, as part of an anti-drug initiative launched by the late King Hassan in 1992, 10,000 police are rotated into the Rif Mountain region to maintain drug control checkpoints. Moroccan forces also man observation posts along the Mediterranean coast, and the navy carries out routine sea patrols and responds to sightings by the observation posts.

Corruption. The GOM does not promote drug production or trafficking as a matter of policy, and it disputes allegations that government officials in the northern territories are involved in the drug trade. However, most international observers believe that some drug-related corruption exists in that region.

Agreements and Treaties. Morocco is a party to the 1988 UN Drug Convention, the 1961 UN Single

Convention on Narcotic Drugs, and the 1971 UN Convention on Psychotropic Substances. With respect to agreements between the U.S. and Morocco, a bilateral narcotics cooperation agreement has been in force since 1989, and a convention on mutual assistance in criminal matters has been in force since 1993. Morocco also has anti-narcotics and or/mutual legal assistance treaties with the EU, France, Spain, Germany, Italy, Portugal, and the UK. Morocco is a party to the World Customs Organization's International Convention on Mutual Administrative Assistance for the Prevention, Investigation, and Repression of Customs Offenses (Nairobi Convention), Annex X on Assistance in Narcotics Cases.

Cultivation/Production. Small scale farmers cultivate most Moroccan cannabis in the northern or Rif region, although some is also grown in the Souss Valley of the south. The average hectare of cannabis produces 2 to 8 metric tons (MT) of raw plant, and although the GOM has stated that it is committed to the total eradication of cannabis production, given the economic dependence of the northern part of the country on cannabis—cannabis crops are estimated to yield two billion U.S. Dollars in revenues annually—eradication is only feasible if accompanied by a highly subsidized crop substitution program.

Drug Flow/Transit. There are reports that Morocco is used as a transshipment point for hard drugs such as heroin and cocaine entering Europe. However, with the exception of the six tons of cocaine which inadvertently washed up on the Moroccan Coast in July 1997, there have been no substantial seizures of hard drugs in Morocco.

Domestic Programs (Demand Reduction). The GOM does not acknowledge a significant hard drug addiction problem and does not actively promote reduction in domestic demand for cannabis, or other narcotic drugs. It has established a program to train the staffs of psychiatric hospitals in the treatment of drug addiction.

IV. U.S. Policy Initiatives Programs

Policy Initiatives. U.S. policy goals in Morocco are to: encourage GOM anti-narcotics efforts; cooperate with Moroccan law enforcement officials in curtailing production and transshipment of drugs; provide training in law enforcement techniques; promote GOM adherence to bilateral and international agreement requirements; provide support, as appropriate, for existing Moroccan-European cooperation; and encourage greater international cooperation to control Moroccan production and export of drugs.

Bilateral Cooperation. The U.S. has trained some Moroccan law enforcement officers in basic narcotics enforcement techniques, and provided anti-narcotics intelligence. The GOM is expected to participate in additional training in FY2000.

The Road Ahead. The U.S. will continue to monitor the narcotics situation in Morocco, cooperate with the GOM in its anti-narcotics efforts, and, together with the more directly affected EU, provide law enforcement training, intelligence, and other support where possible.

MOZAMBIQUE

I. Summary

Although there is a small but growing awareness in Mozambique that it is time for the government to focus on the problem of drug trafficking and drug abuse, narcotics control issues do not top the government's list of priorities. Mozambique's unpatrolled coastline and porous borders make it a potentially convenient transit point for narcotics intended mainly for South Africa and Europe. Information on domestic abuse is sparse. Mozambique is a party to the 1988 UN Drug Convention.

II. Status of Country

Information on Mozambique's domestic consumption of illicit drugs and role as a transit country is sparse. It is known that marijuana and hashish are the drugs most commonly abused, while cocaine and heroin usage is confined to the country's small wealthy elites. United Nations, South African and Mozambican officials fear Mozambique is becoming part of a "Portuguese-Speaking Connection" bringing cocaine into South Africa from Brazil. Mozambique also serves as a channel for Mandrax (Amphetamine Type Stimulant) imports to South Africa from South Asia.

Mozambique's ability to detect, interdict, and deter narcotics trafficking within its borders is nearly nonexistent. Law enforcement and security entities are poorly trained and equipped, and susceptible to corruption due to their extremely low salaries. Mozambique's "narcotics police" is not a specially trained force, but merely a small group of police officers who are currently incapable of meaningful drug investigations or interdiction operations.

III. Country Actions Against Drugs

Mozambique's national assembly passed anti-narcotics legislation in March 1997, which made trafficking illegal and specified penalties for the trafficking and use of narcotics. The assembly will resume consideration of anti-money laundering legislation when it reconvenes in January 2000.

Law Enforcement Efforts. Over the past several years there have been some large seizures of illegal substances. However, no major seizures have been reported for 1999. Efforts at prosecution have been less than successful. A total of 130 traffickers were arrested in 1998 (the latest year for which figures are available), of which 39 were found guilty and sentenced to prison. In November 1999, police in Manica Province announced that they had destroyed 13 metric tons of marijuana in plantations over the past twelve months.

Mozambique lacks basic coastal and border control capabilities. Police units are under-equipped and most are without radios, telephones or transportation. Mozambique continues to express an interest in assistance in counternarcotics techniques, and international donors have responded to these requests in some cases:

The Italian government is funding two programs of \$600,000 each under the auspices of the UNDCP (United Nations Drug Control Program) regional office in South Africa. The first is a joint Mozambique, Swaziland and South Africa project designed to improve interdiction capabilities at the borders. The second is designed to build Mozambican capacities to craft anti-drug legislation, improve enforcement of laws, and create better forensic capabilities.

The Spanish government, supported by the Netherlands and Germany, continues to fund in-country training (conducted by a thirty-two member Guardia Civil unit) for six hundred Mozambican policemen.

In December 1998, donors and potential donors formed a 'Mini-Dublin Group' to coordinate assistance and share information.

IV. U.S. Policy Initiatives and Programs

In fiscal years 1999 and 2000 the U.S. is offering training in the following areas from a variety of U.S. law enforcement agencies: law enforcement safety and survival; police science; assessment of the justice system (legislation and enabling regulations), and investigating and prosecuting public corruption. Total assistance will amount to approximately \$260,000 over these two years.

The Mozambican government has requested USG assistance in formulating a coastal protection policy, which would include counternarcotics interdiction efforts. A USG coast guard assessment team visited Mozambique in early May 1999 to assist the Mozambican government with this plan.

In June 1998, the Minister of the Interior, leading a delegation that included officials from the Ministries of Justice and Health and the Prime Minister's office, attended the UNGA Special Session on Drugs, at which time the government of Mozambique deposited the instruments of ratification for the 1988 UN Drug Convention. During that visit the Minister met with officials from the U.S. Departments of Treasury, Justice, and State to discuss USG assistance to Mozambican counter narcotics efforts. The outcome was a program featuring training of the police and key members of the judicial system. The U.S. will continue to work with Mozambique to improve narcotics law enforcement in the years ahead.

NAMIBIA

I. Summary

Namibia does not produce any drugs or precursor chemicals. The transshipment of narcotics through Namibia to South Africa, however, remains a concern. Cannabis and Mandrax (Amphetamine Type Stimulant) tablets constitute the majority of police seizures with cocaine running a distant third. Although Namibia is not a party to the 1988 UN Drug Convention, it is a party to the 1971 UN Convention on Psychotropic Substances.

II. Status of Country

The Government of the Republic of Namibia (GRN) acknowledges a growing problem with the transshipment of drugs destined for markets in South Africa. Financial and manpower restraints have limited interdiction efforts throughout the country. Despite this problem, domestic consumption levels remain low.

III. Country Actions Against Drugs in 1999:

Namibia is not a party to the 1988 UN Drug Convention. Anti-drug legislation has taken a back seat to other issues. Nonetheless, a Money Laundering Act, Drug Trafficking Bill, International Cooperation In Criminal Matters Bill, and the Proceeds of Crime Bill continue to be under consideration.

IV. U.S. Policy Objectives and Programs The U.S. Government encourages Namibia to enforce its anti-narcotics trafficking and abuse legislation within budget constraints, and looks forward to a time in the not-too-distant future when it will be able to provide training for law enforcement forces at a regional international law enforcement academy in southern Africa.

NIGERIA

I. Summary

Nigeria remains the hub of African narcotics trafficking. Nigerian poly-crime organizations operate extensive global trafficking networks, dominate the Sub-Saharan drug markets, and account for a large part of the heroin imported into the United States. They also transport South American cocaine to Europe, Asia and Africa, especially to South Africa, and export marijuana to Europe and West Africa.

As was the case last year, Nigeria's counternarcotics effort remains unfocused and lacking in material support. The strong public denunciation of narcotics trafficking and financial crimes by the new democratic government of President Obasanjo is a welcome departure from the high-level indifference that characterized most of Nigerian military rule. However, there have been no major new actions or policies to bring about change. The year 1999 saw the continuation of efforts limited largely to interdiction of low-level couriers and destruction of cannabis crops. Nigeria did not bring to successful closure any of the outstanding extradition requests by the U.S.. Well-drafted counternarcotics legislation is already on the books, but remains largely un-enforced.

Nigerian law enforcement agencies did not significantly improve their counternarcotics performance in 1999. The National Drug Law Enforcement Agency (NDLEA) makes regular arrests of individual couriers, but few major traffickers were arrested or prosecuted. Total heroin seizures increased, due primarily to a large seizure at Kano Airport. The NDLEA has signaled a willingness to increase its professional expertise, but institutional limitations make it difficult for Nigerian law enforcement to make progress against increasingly sophisticated criminals. Awareness of the local drug abuse problem continues to grow, but demand reduction efforts have been limited in scope and success.

Nigerian money launderers operate sophisticated global networks to repatriate illicit proceeds from narcotics trafficking, financial fraud, and other crimes. In 1995, the Nigerian Government enacted a decree to combat narcotics-trafficking-derived money laundering, but enforcement has been uneven, producing few seizures and no convictions. To date, asset seizures have not proven a useful counternarcotics tool. Nigeria is a party to the 1988 UN Drug Convention.

II. Status of Country

Nigeria produces no precursor chemicals or drugs that have a significant effect on the United States. However, Nigeria is a major narcotics trafficking hub and the base for trafficking organizations, responsible for a significant amount of the heroin used in the United States. Nigerian traffickers maintain establishments in all of the opium-producing centers of Asia and the markets of many heroin-consuming nations around the world. They have links to South American cocaine producers and permanent distribution networks in Europe, the NIS, and East Asia. Nigerians dominate the African drug trade. Cannabis is cultivated in Nigeria, and is consumed locally and exported to other West African countries and Europe.

Interdiction efforts at Nigeria's airports continue to have an impact on traffickers' use of individual couriers. In 1999, the NDLEA seized 67.5 kilograms of heroin and made two arrests in connection with the seizure at Kano Airport. The NDLEA's performance at the airport has increased traffickers' use of Nigeria's porous borders and bases in neighboring countries. Nigerian traffickers now rely less on individual couriers and more on increasingly sophisticated concealment methods and difficult-to-detect air, sea and land bulk shipments and express mail services. Traffickers' methods are moving beyond the capability of Nigerian law enforcement to detect or interdict.

As specialists in moving narcotics and other contraband, Nigerian criminal organizations are heavily involved in corollary criminal activities such as document, immigration, and financial fraud. Their ties to criminals in the United States, Europe, South America, and South Africa are well documented. Nigerian poly-crime organizations exact significant financial and societal costs, especially in West African nations with limited resources for countering these organizations.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Since its inauguration on May 29, 1999, the Nigerian government has taken no new major legislative or financial initiatives to fight narcotics trafficking. However, both chambers of the new National Assembly established narcotics affairs committees to monitor, among other things, the performance of the NDLEA. Wage increases that would give law enforcement personnel a living wage for the first time in more than a decade were again announced, but were not yet implemented. In October 1999, President Obasanjo appointed Ibrahim Lame as his special adviser on counternarcotics and financial crimes. The new Ministry of Police Affairs has promised comprehensive reform and re-organization of the Nigerian police and other law enforcement bodies. In its proposed year 2000 budget, the Obasanjo Administration requested the Naira equivalent of about U.S. \$210 million for law enforcement, the third largest ministerial appropriation in the budget.

Accomplishments. According to the NDLEA, 226 persons have been convicted by Nigerian courts of narcotics offenses since the Obasanjo Administration took office on May 29, 1999. The NDLEA's aggressive presence at

airports produced regular seizures of heroin from couriers. The NDLEA also conducted raids at seaports and border checkpoints. In addition, the NDLEA maintained cannabis eradication efforts in virtually every Nigerian State, with a focus on plantings in isolated areas. More progress against corruption within the NDLEA once again contributed to its reputation as Nigeria's most professional law enforcement body.

Law Enforcement Efforts. Numerous small-time couriers were arrested, but major traffickers and their controlling organizations remained largely unaffected. NDLEA attempts to prosecute narcotics and money laundering kingpins were again stymied by a weak judicial system and government corruption. Law enforcement agencies faced systemic shortcomings. The NDLEA, like virtually all Nigerian agencies, lacks proper funding, equipment and training. Widespread government corruption, especially in law enforcement, exists at least in part because salaries remain low.

Like last year, there has been little inter-agency cooperation among Nigerian law enforcement units with respect to systematic follow-up on investigations or targeting of major narcotics traffickers or their organizations.

Asset seizures from narcotics traffickers and money launderers are permitted under Nigerian law, but were not used as an effective law enforcement tool in 1999. Despite some seizures, there were no prosecutions. Asset forfeitures must be preceded by convictions.

Corruption. Corruption remains widespread in Nigerian Government and society. After resource constraints, lack of targeting of major traffickers, and inadequate inter-agency coordination, corruption is the most serious obstacle to effective counternarcotics performance. The Obasanjo Administration, however, has made anti-corruption a major political and legislative priority, recording some success in establishing a higher standard for government service and injecting new transparency into contracting and general economic decision-making.

Agreements and Treaties. Nigeria is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The 1931 U.S.-UK Extradition Treaty, which was made applicable to Nigeria in 1935, is the legal basis for pending U.S. extradition requests, including nine on narcotics or narcotics-related money laundering charges. Nigeria is a party to the World Customs Organization, Nairobi Convention, Annex on Assistance in Narcotics Cases.

Cultivation and Production. The only illicit drug produced in Nigeria in any volume is cannabis, which is cultivated in virtually all 36 states. Nigerian marijuana and marijuana resins are consumed in Nigeria and exported to neighboring countries and Europe. There is no evidence of significant Nigerian marijuana exports to the United States. The Nigerian government's eradication efforts focus on individual fields. There are no significant crop substitution programs.

Sizable quantities of ephedrine, both an amphetamine precursor and common ingredient in pharmaceuticals, are imported by Nigeria, but an illicit manufacturing link between the imports and some large amphetamine seizures has not been proved. Diversion of licit narcotics from the pharmaceutical industry appears to be common, and may explain the wide illicit distribution of sedatives in Nigeria and West Africa.

Drug Flow/Transit. Nigeria is still Africa's narcotics trafficking hub and a major transshipment point between the eastern and western hemispheres. Nigerian traffickers account for a significant amount of the heroin transported to the United States. Nigerian criminal organizations have expanded and shifted some activities to neighboring countries and other strategic locations. Large quantities of drugs go through Nigerian ports and land borders, which are poorly managed and patrolled. The NDLEA has made the airport transit of couriers more risky to the trafficking organizations, but traffickers use cargo and express mail services, as well as bulk land and sea shipments.

Demand Reduction. The abuse of psychotropic drugs (mostly cannabis) and, more recently, of hard drugs like heroin continues to rise in Nigeria, according to the NDLEA and Nigerian NGO's. Notwithstanding the change in government, many officials continue to deny that Nigeria has a serious problem, and some still say narcotics is a foreign issue and responsibility. The NDLEA has opened well-publicized anti-drug clubs at Nigerian universities, presenting them with anti-drug literature and videos. University officials state drug usage on campus is limited, but that student couriers were a serious problem until the NDLEA began arresting them in large numbers several years ago. There are indications, however, that university "cults," essentially criminal gangs involving, but not necessarily run by students, have become more active in transporting and distributing cannabis and hard drugs. Efforts by UNDCP and Nigerian NGO's in the area of demand reduction remain rudimentary.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S.-Nigerian counternarcotics cooperation focuses on stopping individual couriers, combating local cannabis production and consumption, and attacking corruption within the NDLEA. Following a USG inter-agency team visit in 1998 to explore law enforcement engagement with the Nigerian government,

a new law enforcement cooperation program was developed that included comprehensive training and some material assistance. In 1999, the U.S. Internal Revenue Service and the Secret Service conducted basic training courses in Lagos. USG working-level officials enjoyed good access to their Nigerian counterparts, who generally are willing to interact frankly and constructively. In July 1999, a joint U.S.-EU narcotics assessment mission to Nigeria produced a detailed action plan for engagement.

Bilateral Accomplishments. The expanding law enforcement cooperation program with the new Nigerian Government represents an important starting point in the United States-Nigeria law enforcement relationship. There were, however, few concrete changes in bilateral law enforcement efforts or results in 1999. The U.S. DEA office in Lagos continued to maintain close contact with NDLEA officials and operations.

The Road Ahead. The USG is working actively to take advantage of new opportunities for bilateral law enforcement cooperation presented by the Obasanjo Administration. However, the underlying institutional and societal constraints are deep seated and require comprehensive, long-term solutions. Major counter-narcotics policy initiatives with the new government will suffer from drift or inaction unless pursued with consistent attention and vigor. Implementation and adequate funding of Nigeria's own 1999 National Drug Control Master Plan will be a crucial test for the new Administration. It will be important to maintain a proactive approach to cooperation that allows us to demonstrate the concrete benefits to counternarcotics efforts to Nigerian law-enforcement agencies and Nigerian society.

SAUDI ARABIA

I. Summary

Saudi Arabia continues to make compliance with the provisions of the 1988 UN Drug Convention -to which it is a party- a national priority, and the SAG continued in its determination to eliminate drug trafficking and abuse during 1999. Penalties for drug crimes in Saudi Arabia severe; under the Saudi Islamic (Sharia) legal code, drug trafficking is a capital crime, enforced against Saudis and non-Saudis alike. After a hiatus in 1998, public executions for drug trafficking resumed with 43 executions during the year, including three Nigerian women executed for smuggling cocaine. Pakistan continues to be the single largest source of narcotics and Pakistani nationals continue to be the largest conduit of illegal substances. Saudi Arabia relies upon a network of overseas drug enforcement liaison offices and on state of the art detection and training programs to apprehend and deter drug traffickers.

Government determination notwithstanding, however, embassy believes that drug trafficking and abuse is a growing problem, albeit a minor one when compared to other countries. We are unable to substantiate this assessment with hard data, however, because the government provides no statistics on drug consumption, interdiction, and trafficking. Anecdotal evidence suggests that Saudi Arabia's relatively affluent population, large numbers of unemployed youth, and strict privacy laws make it an attractive target for drug dealers.

II. Status of Country.

Saudi Arabia has no significant drug production and, in keeping with its conservative Islamic values, places a high priority on fighting narcotics abuse and trafficking. The government undertakes widespread anti-narcotics educational campaigns in the media, health institutes, and schools, and since 1988 has applied the death penalty for drug smuggling. As a result, drug abuse and trafficking are not major social or law enforcement problems. However, Saudi officials acknowledge that illegal drug use is on the rise.

Saudi government efforts to treat drug abuse are aimed solely at male Saudi nationals, who are remanded to one of the country's four drug treatment centers. There are no treatment facilities for Saudi women, and expatriate substance abusers are jailed and deported. Health officials confirm anecdotal reports of a general increase in substance abuse, but note that most addictions are not severe, reflecting the scarcity of narcotics available and their diluted form. Heroin is more prevalent in urban areas, with hashish, cocaine, and amphetamines are also in demand.

III. Country Actions Against Drugs in 1999. Policy Initiatives. The lead agency in Saudi Arabia's drug interdiction effort is the Ministry of Interior, which has more than 20 overseas offices in countries identified as representing a trafficking threat. In addition, the Saudi government continues to play a lead role in efforts to enhance intelligence-sharing among the six countries of the Gulf Cooperation Council. Saudi Arabia is a member of the United Nations Drug Control Program (UNDCP) and its drug enforcement personnel regularly participate in international fora and training programs, including the UN General Assembly's Special Session on the world drug problem in June 1998.

Law Enforcement Efforts. Illegal narcotics, with the exception of marginal cultivation of the mild-stimulant qat in the south-western tribal areas bordering Yemen, are not cultivated or produced in Saudi Arabia. Drug seizures, arrests, prosecutions, and consumption trends are not a matter of public record, although reports of drug seizures by Saudi law enforcement officers appear regularly in local Arabic-language newspapers. Saudi interdiction efforts tend to focus more on individual carriers than on follow-on operations designed to identify

drug distributors and regional networks. Working with U.S. Customs advisors, Saudi Customs agents have begun using new techniques which have resulted in an increase in drug seizures (predominantly heroin, cocaine and hashish) at some points of entry.

Corruption. The USG has no indication of involvement by Saudi government officials in the production, processing, or shipment of narcotic and psychotropic drugs and other controlled substances.

Agreements and Treaties. There is neither an extradition nor a mutual legal assistance treaty between the United States and Saudi Arabia. Saudi Arabia is a party to the 1988 UN Drug Convention. Through the Saudi-U.S. Joint Economic Commission, U.S. Customs officials are seconded to Saudi Arabia to provide advice and training for Saudi Customs. Saudi Arabia is a party to the World Customs Organization's International Convention on Mutual Administrative Assistance for the Prevention, Investigation, and Repression of Customs Offenses (Nairobi Convention), Annex X on Assistance in Narcotics Cases.

Cultivation/Production. Cultivation and production of narcotics in Saudi Arabia is negligible.

Drug Flow/Transit. Saudi Arabia is not a major transshipment point. In part due to new techniques being employed at major points of entry, drug seizures, primarily of heroin, cocaine, hashish and amphetamines coming primarily from Pakistan, Afghanistan, Nigeria and Turkey, have increased.

Domestic Programs (Demand Reduction). In addition to widespread media campaigns against substance abuse, the Saudi government sponsors drug education programs directed at school-age children, health care officials, and mothers. Executions of drug traffickers, conducted in public and extensively publicized, are believed by Saudi narcotics officials to serve as a deterrent to narcotics trafficking and perhaps to abuse. The country's influential religious establishment preaches actively against narcotics use and several government treatment facilities provide counseling for Saudi male addicts free of charge.

IV. U.S. Policy Initiatives and Programs –

Policy Initiatives. The U.S. seeks to enhance bilateral and multilateral cooperation with the Saudi government. A non-binding Memorandum of Understanding proposed by the Department of State in May 1996, and still under review by the Saudi Ministry of Interior, calls for increased bilateral cooperation in information sharing, legal assistance, training, and demand reduction.

Bilateral Cooperation. Saudi officials actively seek and participate in U.S.-sponsored training programs and are receptive to enhanced official contacts with DEA.

Road Ahead. The U.S. will arrange for officers from the Drug Enforcement Administration to visit Saudi Arabia regularly for liaison visits, professional exchanges, and training.

SENEGAL

I. Summary

The Senegalese drug agency, the Office of Control and Repression of Traffickers of Illicit Stupefacients (OCRTIS), has the lead law enforcement role in combating drugs in Senegal. OCRTIS is an independent agency acting on behalf of all drug suppression services (Police, Gendarmerie, and Customs) and the key coordinating agency on the drug issue.

The Senegalese believe that their country is primarily a transit country for drugs, with some consumption. There is no evidence that drugs transiting Senegal have a significant impact on the U.S. Cannabis is still a profitable cash crop in the Casamance region of Senegal, and cannabis is the illicit drug of choice in Senegal. OCRTIS has fully cooperated with the U.S. DEA on two cases since January 1999. OCRTIS also works closely with other drug enforcement agencies. Senegal is a party to the 1988 UN Drug Convention.

II. Status of Country

Senegal is a major transportation hub in West Africa. Dakar's Leopold Sedar Senghor International Airport is the point of departure for flights abroad, including a direct flight to New York. The busy international port of Dakar as well as Senegal's loosely controlled land borders, makes it relatively easy to transport drugs through the country. Cannabis is still grown as a highly profitable cash crop in the southwestern Casamance region, but it is either consumed locally or exported to regional countries. It is very difficult for law enforcement personnel to reach some Senegalese marijuana fields because of swampy terrain and lack of equipment. It is believed that the MFDC, a Senegalese separatist group active in this region, has used the profits from the sale of drugs to fund their movement, but there is no evidence that Senegalese marijuana comes to the U.S. in any significant quantity.

III. Country Actions Against Drugs in 1999

Senegal is a party to the three UN drug conventions of 1961, 1971, and 1988. Senegal has amended its laws

in an effort to provide a stronger basis to combat illicit drug trafficking. Senegal, however, needs to enforce these laws against narcotics trafficking and possession with more vigor.

In late December 1997, the Senegalese government adopted a national plan of action to fight illicit drug abuse and trafficking which was to be implemented over a period of three years. The plan was developed with the assistance of the UN Drug Control Program. The goals of the Senegal National Plan are: improving Senegal's institutional and operational framework for drug control, better coordination of enforcement actions, and emphasis on prevention and treatment of drug addicts. It is estimated that this national plan will cost approximately 4.4 million dollars to implement. The plan is to be financed by the national budget and by international cooperation, both bilateral and multilateral. As of December 1999, the Government of Senegal had not moved any closer to financing the plan.

Law Enforcement. The drug code permits controlled deliveries; allows seizure of benefits earned from drug trafficking; legalizes modern methods of investigation, such as telephone taps and use of computer data; and increases drug offense penalties to a maximum of 10 years in prison.

In 1999, an operation called "Cannabis V" was launched. It led to the destruction of cannabis fields with the following results: 500 kg of treated cannabis destroyed; 120 kg of seeds burned. Officer, OCRTIS seized thirty (30) kg of cocaine at the Dakar International Airport in December 1999. The total amount of drugs reportedly seized by various law enforcement entities in Senegal was: cocaine, 31.4 kg; "crack" crystal cocaine, 110 pieces; heroin, 382 small balls; hashish, 14 gr.; cannabis, 7 tons; other psychotropic substances, 4,737 pills.

The total number of narcotics-related arrests was 2665. OCRTIS states it is currently investigating one case of money laundering involving two persons.

Corruption. The full extent of corruption in Senegal is unknown. Bribery and other forms of corruption have not been aggressively investigated or prosecuted, but it is generally believed that corruption negatively affects government activities in Senegal.

Agreements and Treaties. Senegal is a member of INTERPOL and of the World Customs Organization (WCA). Senegal is a party to the 1961 UN Single Convention and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Senegal is also a party to both ECOWAS conventions, including the 1992 convention on mutual judicial cooperation with regards to penal matters and the 1994 extradition convention. Senegal also has extradition treaties with Cape Verde, the Gambia, Guinea Bissau, Mali, Morocco, Tunisia, and France. There are no extradition or mutual legal assistance treaties in force between the U.S. and Senegal.

Cultivation and Production. Cannabis is a lucrative cash crop, leading many farmers to abandon traditional agriculture. The cannabis grown in Senegal does not have a significant impact on the U.S.

Domestic Programs (Demand Reduction). Only a few NGOs, with minimal help from the government, have been active in the fields of prevention and awareness for potential users. A French government financed center for awareness and information about illegal substances was created in Thiaroye, a suburb of Dakar. Another is planned for the regional capitol of St. Louis. In the near future, drug awareness and prevention educational modules will be included in public school academic programs. The ministry of education has planned several training sessions to train instructors on how to teach/moderate these drug awareness modules to local children. Senegalese authorities are also planning the creation of local shelters for drug addicts.

Road Ahead Senegal needs to implement its counter narcotics legislation more energetically, and continue its efforts to suppress marijuana cultivation.; and 3 seeded fields destroyed.

Working with the U.S. DEA, OCRTIS seized five hundred (500) grams of cocaine in February 1999 during a controlled delivery. Working with British customs, the Belgian police, and the British Drugs Liaison

SEYCHELLES

The two major sectors of the Seychelles economy are tourism and fishing. However, these sectors have not generated sufficient foreign exchange earnings to meet Seychelles investment and import needs. As part of its strategy to diversify the economy and increase foreign exchange earnings, the government is marketing Seychelles as an offshore financial and business center, creating a Seychelles International Trade Zone (SITZ) managed by the Seychelles International Business Authority (SIBA). The most glaring weakness of this program is that it permits bearer shares, which facilitate money laundering by making it extremely difficult to identify the beneficial owners and directors of an International Business Corporation (IBC). There is, however, little concrete evidence of money laundering at present.

The 1995 Economic Development Act, which was drafted in such a way as to invite major investors to launder money, as well as to offer them protection from extradition and asset seizures, remains on the books, but has not been brought into force. The government has provided assurances that this law will remain inactive. A 1996 law criminalized money laundering, but it is uncertain how energetically this legislation is being

implemented. The Seychelles has been a party to the 1988 UN Drug Convention since 1992. In the latter part of 1999, the U.S. and the Seychelles Governments engaged in discussions regarding the applicability of the 1931 U.S.-UK Extradition Treaty to the Seychelles under its succession agreement with the UK.

A small amount of cannabis is produced in the Seychelles, primarily for domestic use. The Seychelles also is a destination for marijuana smuggled from Madagascar. There are unconfirmed reports that the islands are being used increasingly as a transshipment point for heroin from Southwest Asia to South Africa and Europe.

SOUTH AFRICA

I. Summary

South Africa is committed to fighting domestic and international trafficking in illicit narcotic drugs. Nevertheless, it is a significant transit area for cocaine from South America and heroin from the Far East, with South African or European markets as the primary final destinations. In addition to being a large producer of cannabis, most of which is consumed in the southern African region, South Africa is perhaps the world's largest consumer of Mandrax (methaqualone, an amphetamine-type stimulant).

In 1999, the U.S. and South Africa concluded negotiations on a bilateral extradition treaty and a mutual legal assistance treaty. In addition, the South African Parliament was occupied considering amendments to the Prevention of Organized Crime Act through much of 1999. South Africa's cabinet also began consideration of a bill to establish a financial intelligence reporting center in November. South Africa became a party to the 1988 UN Drug Convention in late 1998.

II. Status of Country

South Africa's emergence from international isolation and its transition to democracy and toward a free-market economy have been accompanied by the increased use of its territory for the transshipment of contraband of all types, including narcotics.

An interesting revelation from the depths of the apartheid past recently has come to light as a result of the hearings held by the Truth and Reconciliation Commission and of the trial of the apartheid government's chemical and biological warfare guru, Wouter Basson. Apparently, the apartheid government not only acquiesced in the trafficking in narcotics among some ethnic groups, but it went so far as to produce illegal drugs, primarily mandrax, that were to be utilized as an instrument of social and political control.

South Africa has for sometime been the hub of many major smuggling routes. Additionally, South Africa has the most developed transportation, communications, and banking infrastructure in Africa. The country's modern international telecommunications systems, its direct air links with South America and Europe and its permeable land borders provide opportunities for regional and international trafficking in all forms of contraband, including narcotics.

South Africa continues to rank among the world's largest producers of cannabis. Most of the South African-produced cannabis is still primarily marketed and consumed domestically or within the southern African region. Exports to the UK and Europe, however, continue to increase. There also have been seizures in the U.S. of cannabis originating from southern Africa; although the impact of such shipments on the U.S. market is believed to be minimal.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Combating narcotics trafficking and use is important for the South African government (SAG) anti-crime agenda, but as a practical matter SAG tends to target its limited anti-crime resources on serious, violent domestic crime. (N.B. South Africa still has one of the world's highest murder rates and may lead the world in number of rapes per capita). South Africa's porous borders are crossed daily by criminals trafficking in many forms of contraband, including, but certainly not limited to, stolen cars, illicit firearms, diamonds, and precious metals. Over the last two years, the inter-ministerial National Crime Prevention Strategy (NCPS) office has become more effective in bringing a modicum of coordination to the law enforcement and criminal justice systems. Owing to SAG's limited resources, however, the narcotics bureau (SANAB) continues to suffer from a lack of training, resources, and qualified personnel.

Accomplishments. In November 1998, South Africa's parliament passed a Prevention of Organized Crime Act, designed to outlaw certain criminal conspiracies and put teeth into previous legislation outlawing money laundering. Unfortunately, the act has not fared well under judicial and constitutional scrutiny. It has been amended several times and several challenges to arrests and seizures under the new version are pending. As of November 1999, the cabinet was considering a draft anti-money laundering bill, the "Financial Intelligence Center Bill." While neither of the above bills is solely targeted at drug traffickers (the problems with organized crime and money laundering are more broad in scope), both can provide SANAB with legal tools for more thorough investigations of drug trafficking organizations and for pursuing drug-related money laundering operations.

Law Enforcement Efforts. SANAB and South African Customs Service continue to make seizures of cocaine arriving in the country at international airports. The aerial wing of the police carries out an airborne cannabis eradication regime domestically and with neighboring states. The effectiveness of these operations often is hampered by lack of funds. However, increased training and police presence have meant that more seizures of drugs destined for export are taking place. The Revenue Service has reorganized the Customs Service to make it more effective in interdicting and investigating smuggling of all types, including narcotics.

South African Customs has been active in investigating the use of the mails for international criminal activities. Over a dozen seizures of cannabis bound for Europe via the postal system have been made in the last year. Moreover, suspicious checks from the U.S. addressed to individuals or locations with known ties to international crime gangs have been intercepted.

Corruption. Officials accused of corruption are prosecuted under the 1992 Corruption Act. Accusations of widespread police corruption are frequent, but many failures and lapses by the police also can be attributed to a lack of training and resources as much as to corruption. We have seen no credible evidence of narcotics-related corruption among senior South African law enforcement officials. Nevertheless, low level corruption among border control officials, does appear to be a contributing factor to the permeability of the borders. Efforts to improve esprit de corps and improve salaries and training may address this problem.

Agreements and Treaties. South Africa is a signatory to the 1996 Southern African Development Community (SADC) "Protocol On Combating Illicit Drug Trafficking." In September 1999, the South African Minister of Justice and the U.S. Attorney General signed an extradition treaty, to replace the 1947 extradition treaty, and a mutual legal assistance treaty (MLAT). The U.S. and South Africa also negotiated and initialed a Customs Mutual Assistance Agreement. South Africa is a party to the 1988 UN Drug Convention, as well as to the 1971 Convention on Psychotropic Substances and the 1961 Single Convention on Narcotic Drugs and its 1972 Protocol.

Cultivation/Production. Cannabis, which grows wild in southern Africa, also is a traditional crop grown in many rural areas, particularly the Eastern Cape and Kwa-Zulu Natal provinces as well as in neighboring Swaziland. It is possible to have three cannabis crops a year in some areas. Most of South African-produced cannabis is consumed domestically or in the southern African region. However, increasing amounts are being seized in Europe and the UK.

Drug Flow/Transit. Cocaine, in significant amounts, reaches South Africa from South America. Previously, Brazil was thought to be the most popular departure country. Recent seizure patterns indicate that Miami may have replaced Rio as the transfer point of choice for cocaine entering South Africa from South America. The bulk of the cocaine entering South Africa probably is destined for re-export to Europe. Nevertheless, domestic consumption of cocaine, both powder and crystal (crack), apparently is increasing. Heroin is smuggled into South Africa from Southwest and Southeast Asia; much of this is destined for onward shipment to Europe. The amount of drugs transiting South Africa to the U.S. is believed to be minimal.

Domestic Programs. South Africa has had a long history of Mandrax and cannabis use/abuse; opium smoking is widespread among some groups. Drug counselors have noted a sharp increase in the number of patients seeking treatment for crack addiction in the past two-five years. (N.B. In South Africa the pipe often is the instrument of choice for drug use; thus, crack fits more easily into the tradition of smoking, be it opium or cannabis, than does injectable heroin.) General budgetary constraints have meant that SAG subsidies for non-government drug rehabilitation agencies have been cut the last few years.

IV. U.S. Policy Initiatives and Programs

There is a profusion of international criminal activities, including drug trafficking, in and through South Africa and the southern African region. These activities have a direct and indirect impact on U.S. interests, although their actual impact in the U.S. is still minimal. U.S. law enforcement officers from the DEA, FBI, U.S. Customs, and Secret Service work diligently with their South African counterparts. Moreover, the USG has been active in urging SAG to propose legislation that will strengthen South Africa's legal system and provide a framework for prosecuting sophisticated organized criminal activities, including drug trafficking.

In February 1999, The U.S.-South African Binational Commission (BNC) created a new committee dedicated to anti-crime issues. The New Justice and Anti-Crime Cooperation Committee has been the focal point since then of U.S.-South Africa anti-crime and counter narcotics cooperation efforts.

Road Ahead. Notwithstanding the lack of a bilateral counter narcotics agreement, there has been excellent cooperation between SANAB and DEA. Likewise, the relationship between U.S. Customs and its South African counterpart has been quite productive. The USG's fiscal year 2000 anti-crime and counter narcotics strategy includes a program of continued assistance to and cooperation with South African law enforcement and criminal justice authorities. The USG is especially looking forward to the establishment of another of its International Law

SWAZILAND

I. Summary

International drug trafficking continues to grow in Swaziland. Currently, local production consists of a marijuana cash crop consumed locally, as well as exported, primarily to South Africa, but also to Europe and, to a lesser extent, the U.S. Trafficking has become the major threat as multiple factors make Swaziland attractive as a regional base or transshipment point for international trafficking organizations: its proximity to South Africa, which is Africa's richest market for illicit narcotics; lack of effective anti-drug legislation; limited enforcement resources; a relatively open society; and a developed economic infrastructure. There is a 20-person anti-narcotics unit within the Royal Swaziland Police which has benefited from training opportunities and proven increasingly successful at interdicting shipments. The unit's effectiveness is dramatically limited by a lack of key resources and legislation to convict those arrested, as well as rumored corruption among related entities. Swaziland's strength is high-level awareness of the potential problem, which has led to regional cooperation. This includes the arrest of a reputed drug kingpin, Ron Smith, and the spraying of cannabis crops with herbicides, as a result of South African and USG assistance. Swaziland is a party to the 1988 UN Drug Convention.

II. Status of Country

Local official concern is growing, as anecdotal evidence and newspaper accounts point toward rapidly increasing narcotics trafficking in Swaziland. South African Narcotics Bureau (SANAB) personnel believe that bulk shipments of narcotics are being sent to Swaziland, where the narcotics are cut for onward shipment to South Africa, Europe, and to a lesser extent, the U.S. One local customs officer accepts a ballpark estimate of a 300-400 percent increase in narcotics transiting Swaziland over the past three years, with increasing amounts apparently destined for Swaziland rather than onward recipients. There are also reports of harder drugs, including crack cocaine, in Swaziland.

Local narcotic drug cultivation is still largely limited to marijuana, with the crop considered by police to be "extensive." In addition to being consumed locally, marijuana production is shipped to South Africa with some onward shipment, mostly to Europe, but also to a lesser extent the United States. Local consumption consists of the local marijuana crop, plus small amounts of Mandrax, an amphetamine type stimulant, cocaine, and heroin. The largest metropolitan city, Manzini, is the center of illegal drug activity in Swaziland.

Swaziland's narcotics law dates from the 1920s. It does not address conspiracy, asset seizure, or money laundering. Draft legislation has been languishing in the Attorney General's (AG) office since 1997. However, the new AG, appointed in November 1999, has publicly stated that he will dust off the legislation for consideration by the parliament in early 2000. The 1931 U.S.-UK Extradition treaty remains applicable to the U.S. and Swaziland through an exchange of notes dated July 28, 1970. Swaziland also has an extradition treaty with South Africa, as well as a protocol and mutual understanding on narcotics with Commonwealth Countries.

The police have a 20-person narcotics unit. It lacks vehicles, detection equipment, narcotics dogs, and office automation equipment, which significantly dampens its effectiveness. The unit's level of training, while increasing, remains limited. Additionally, it is sometimes called upon to perform routine, non-narcotics related police work, which detracts from its focus. There are rumors of corruption amongst police, customs, and other government officials. Although the corruption has been characterized as "mild" by expatriate police officials, it is thought to affect interdiction, arrests and convictions.

Swaziland is not considered a regional financial center, however, it is a short distance from major South African cities, and is a different jurisdiction so there is a potential for money laundering. Swaziland has included a section on money laundering in its draft narcotics legislation.

III. Country Actions Against Drugs in 1999

Law Enforcement Efforts. In 1999, Swaziland took a major step in combating the drug trade by assisting South African authorities in arresting a reputed drug kingpin in Swaziland. The accused remains under house arrest in South Africa until his trial begins early next year.

About twice a year, Swazi officials publicly incinerate narcotics seized through sting operations, routine vehicular checks, and during other criminal investigations. This was last done in June when over U.S. \$217,000 street value worth of cannabis, cocaine and mandrax was destroyed.

With assistance from the DEA and the regional narcotics officer assigned at the Embassy in South Africa, Pretoria, the Swazis arranged for the South African Police to spray herbicides on its illicit cannabis crops throughout the inaccessible regions of Swaziland. The South African Police used their helicopters to carry out this operation and eradicated a third of the country's cannabis crop. The Swazis have also worked closely with DEA Pretoria to carry out controlled deliveries of narcotics.

Regional cooperation continues with South African anti-drug officials, including the sharing of information.

Swaziland has strengthened this cooperation throughout its tenure as chair of the Southern African Regional Police Chiefs Cooperation Organization (SARPCO). Swaziland officials welcome regional initiatives and cooperation. Both Swaziland and South Africa support UK provided training and U.S. assistance programs.

IV. U.S. Policy Initiatives and Programs

The USG supports Swazi efforts in drug interdiction and demand reduction in an effort to promote regional stability. Coordination is close with the regional DEA and NLEA offices in Pretoria. The USG will also continue to support Swazi interdiction and demand reduction efforts and has the following near-term objectives in Swaziland:

Urging rapid enactment of the updated drug legislation;
Continued assistance to eradicate cannabis crops;
Assistance to Swazi initiatives in the counter drug arena, as budget ceilings permit.

SYRIA

I. Summary

In 1999, the Syrian Arab Republic Government (SARG) continued to make progress in combating the drug trade, but Syria remains an important transit country. Jordan has become the primary destination for drugs transiting Syria, while Lebanon and Turkey remain significant transshipment points to/from Syria. Syria has used its influence in Lebanon to assist Lebanese officials to significantly suppress drug production and trafficking. Syria is a party to the 1988 UN Drug Convention, but does not have a bilateral narcotics agreement with the U.S. In recognition of SARG drug control efforts, President Clinton removed Syria from the drug Majors List in 1997 and placed it on a "watch list" for continued monitoring for the suppression of cultivation.

II. Status of Country

Syria is a transit country for hashish and heroin moving through the region, especially from Lebanon and Turkey, and for opium and morphine entering Lebanon and Jordan from Iran, Afghanistan, and Turkey. 1999 saw some increase in movement of cocaine from Brazil, via Europe, through Syria, en route to Lebanon. Increased shipment of drugs through Syria to Saudi Arabia and Israel via Jordan was also observed. The available evidence indicates that the bulk of narcotics transiting Syria goes to other parts of the region and to Europe, but not in significant quantities to the United States.

No members of the Syrian military stationed in Lebanon were prosecuted for drug trafficking in 1999. While there have been previous allegations of such trafficking, Syrian counternarcotics officials maintain that these accusations are seldom substantiated by hard evidence and that, meanwhile, drug production in the Biqa' valley has decreased significantly, even in remote mountainous areas without roads. At the same time, these officials acknowledge that some low-ranking individuals in the Syrian military have been arrested in the past with small amounts of drugs.

Syria was added to the Majors List in the late 1980's because opium in the Syrian-controlled Lebanese Biqa' Valley exceeded the threshold limits set by the Foreign Assistance Act of 1961, as amended. Estimates in 1991 determined that 3400 hectares were being used for opium production in the Biqa' valley. In 1992, Syria and Lebanon launched a successful eradication campaign which has been sustained to the present, reducing the cultivated area to approximately 150 hectares in recent estimates. The cultivation of cannabis, processed into hashish for primarily non-U.S. markets, was also reduced drastically during the same period. In recognition of these efforts, Syria was removed from the Majors List in 1997.

III. Country Actions Against Drugs in 1999

Policy Initiatives. Syria's anti-trafficking law of 1993 calls for the death penalty for certain offenses. In practice, the maximum sentence is 30 years, however. Many cases are pending under this law, and there are on-going prosecutions of drug offenders. There are provisions for the seizure of assets financed by profits from the drug trade which are invoked on a case-by-case basis.

Law Enforcement Efforts. Movement of precursor chemicals through Syria is currently believed to occur on a small scale, and Syrian authorities have seized very small amounts of precursor chemicals in transit. In 1999 the Syrian government codified a 1996 plan to control these chemicals.

Syria cooperates closely with Lebanese authorities in the areas of interdiction, cultivation and production. In 1999, Syria also continued its cooperation with Jordan on narcotics matters. Syrian and Turkish officials have continued to cooperate on a limited basis.

Corruption. In the past there have been unconfirmed reports of corruption among some Syrian military officials in Lebanon involving the issuance of passes permitting the free movement of goods and persons in return for bribes. The SARG has an Investigations Administration (Internal Affairs Division) responsible for weeding out corrupt officers in the counternarcotics unit and the national police force. The Investigations

Administration is independent of both the counternarcotics unit and the national police and reports directly to the Minister of the Interior. According to Syrian authorities, there were no arrests or prosecutions of officers in the counternarcotics unit for corruption in 1999.

Agreements and Treaties. Syria is a party to the 1988 UN Drug Convention and the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol, as well as the 1971 UN Convention on Psychotropic Substances. Syria maintains anti-drug agreements with Cyprus, Iran, Jordan, Lebanon, Saudi Arabia, Egypt, and Turkey. In 1999 Syria renewed its anti-drug agreement with Saudi Arabia. In 1996, Syria signed a new agreement with Pakistan which called for increased information-sharing in the counternarcotics field. Syria and the U.S. do not have a narcotics agreement, nor is there an extradition treaty between the two countries. Syria is a member of INTERPOL.

Cultivation/Production. Authorities do not permit the cultivation and/or production of narcotics within Syria. They are generally successful in preventing narcotics cultivation/production.

Drug Flow/Transit. Syrian officials estimated that in 1999 the flow of narcotics transiting Syria and destined for other countries in the region was approximately 20 percent higher than in 1998. They said shipment of narcotics from Turkey continues to be a major challenge, and shipment of drugs to Jordan has surpassed that to Lebanon. Drug interdiction remains the focus of the Syrian counternarcotics effort.

Domestic Programs/Demand Reduction. Due to the social stigma attached to drug use and Syria's strict anti-trafficking law, the incidence of drug abuse in Syria is low. The SARG uses the media to educate the public on the dangers of drug use. Drug awareness remains part of the national curriculum for school children.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In meetings with Syrian officials, the USG continues to stress the need for diligence in preventing narcotics and precursor chemicals from transiting Syrian territory; the need to work with the Lebanese government in dismantling drug laboratories in Syrian-controlled areas of Lebanon; and the necessity of terminating any involvement, active or passive, of individual Syrian officials in the drug trade.

Bilateral Cooperation. U.S. embassy officials in Damascus and DEA officials based in Nicosia maintain an ongoing dialogue with Syrian authorities in the counternarcotics unit. In addition, high-ranking U.S. Officials periodically share their views and recommendations with the Syrian ministries of foreign affairs and interior.

The Road Ahead. The USG will continue to press the Syrian government to maintain its commitment to combating drug transit and production in the region; to follow through on plans to enact anti-money laundering legislation; to encourage Syria to improve its counternarcotics cooperation with neighboring countries. The USG will also encourage Syrian officials to continue their work with their Lebanese counterparts to ensure that drug production in Lebanon is eliminated; to find and destroy drug processing laboratories in those areas where Syrian forces are present; and to work to minimize the involvement of Syrian officials in drug trafficking.

TANZANIA

I. Summary

Tanzania is located along trafficking routes from Asia and the Middle East to South Africa, Europe and the United States. Drugs like hashish, mandrax, cocaine, heroin, and opium have found their way into Tanzania, and through Tanzania's porous borders onwards. In addition, the domestic production of khat (a chewable, traditional stimulant used in the Horn of Africa and the Arabian Peninsula) and cannabis is growing. As a result, drug abuse (mainly cannabis and khat) is increasing, especially among younger generations. Some money laundering happens in Tanzania, but a very weak financial sector and under-trained and under-funded law enforcement make it difficult to track and prosecute.

Tanzania is a party to the 1988 UN Drug Convention and, in conjunction with UNDCP, is seeking to address objectives of that Convention. Recent accomplishments include a high profile and successful master plan policy workshop and the establishment of an inter-ministerial anti-drug commission. However, Tanzania's government is unable to allocate the necessary resources to make these institutions effective and, despite public promises to combat graft, apparently unwilling/unable to put a stop to rampant corruption.

II. Status of Country

Until 1989, Tanzania's contact with drugs was largely limited to the traditional cultivation of Bhang (cannabis sativa) and khat in some parts of the mainland. Since then, the situation has changed dramatically and new drugs like hashish, mandrax, cocaine, heroin, and opium, have found their way into Tanzania, and through Tanzania's porous borders onwards.

In addition, the domestic production of khat and cannabis is growing. As a result, drug abuse (mainly cannabis and khat) is increasing, especially among younger generations. Harder drugs (mostly heroin) are used in small

quantities within the wealthier classes. Recent reports indicate that crack cocaine has also been introduced to Tanzania. The growing tourism industry has created a larger demand for narcotics, and Tanzania has also become a victim of the familiar phenomenon that drugs transiting for elsewhere create a growing domestic market.

For criminals, Tanzania has a favorable geographic location along trafficking routes with numerous possible illegal points of entry. The drugs originate from Pakistan, India, Thailand, Burma, Iran, Syria, and South America en route to Europe, the United States and South Africa. They enter Tanzania by air, sea, roads and trains. Major ports of entry include airports in Dar es Salaam, Zanzibar, Kilimanjaro and sea ports at Dar es Salaam and Zanzibar, as well as smaller ports like Tanga and Mtwara.

There are also strong indications of a drugs–arms connection in Tanzania linked with the arms demand in the Great Lakes region (Democratic Republic of the Congo, Burundi, Rwanda, Uganda, etc.) There are few confirmed incidents of drugs which have transited Tanzania arriving in the U.S.

Country Actions Against Drugs in 1999

Tanzania is a party to the 1988 UN Drug Convention. Tanzania has also signed the Southern African Development Community (SADC) Protocol on Drug Control. The 1931 U.S.–UK Extradition Treaty was continued in force between Tanzania and the U.S. through a 1965 exchange of notes.

In 1995 Tanzania passed the Drugs and Prevention of Illicit Traffic and Drugs Act, which establishes severe punishments for the production and trafficking of narcotics. It stipulates long sentences, including life imprisonment, and forfeiture of property derived from or used in the illicit traffic. Offenses under this act are not bailable. A 1995 act of parliament also created the Inter–Ministerial Anti–Drug Commission (established in January 1997) to define, coordinate and promote Tanzania's national and sub–regional narcotics policies.

The GOT has recently put narcotics issues higher on the political agenda. President Mkapa has declared the government's "fight against drugs" involving the nine ministries that are party to the IADC, as well as five other ministries that work in close cooperation with the Commission. UNDCP assisted the Commission's national master plan policy workshop on drug control. The workshop was opened by the Prime Minister, who expressed a high degree of concern and commitment to narcotics issues. The results of the workshop are now being prepared for presentation to the parliament for approval.

Tanzania has two anti–drug police units of more than fifty officers (with twenty more currently enrolled in narcotics training courses), one on the mainland and one on Zanzibar. A structured cooperation between the drug police in Uganda, Kenya and Tanzania has been established.

Through UNDCP, Tanzania receives technical cooperation that amounts to U.S. \$700,000 for a multi–sectoral project that includes capacity building for law enforcement, institution building and demand reduction. Tanzania also receives UNDCP support to encourage regional cooperation on drug enforcement. The Organization of African Unity (OAU) has established its own drug control unit. The Southern African Development Community, of which Tanzania is also a member, has approved an anti–drug action plan and will appoint a drug advisor.

Traditional cultivation of bhang (cannabis sativa) and khat take place in remote parts of the country, mainly for domestic use. No figures exist, but police and government officials report that production is increasing. In March 1998, a device believed to be used in the production of mandrax was seized at Dar es Salaam port, originating from India. Mandrax trafficking along the East African coast to South Africa has diminished somewhat. It is unclear if this is because other drugs are being substituted, or if Mandrax is now being produced locally.

There has been no study of narcotics consumption, but UNDCP is in the progress of conducting a rapid–assessment study which should be ready in early 2000. In addition, the IADC is preparing to set–up a central databank to compile narcotics statistics. It is well–known that domestic demand is increasing due to both "spill–over" from trafficking and increased tourism. The tourist industry has brought Ecstasy to Zanzibar and police reports indicate that crack cocaine (crystalline form of cocaine for smoking) is now consumed locally.

Due to its geographical location and porous borders, ports and airports, Tanzania has become an important transit country for narcotics in Sub–Saharan Africa. Control at the ports is especially difficult as sophisticated forged documents are combined with poor controls and corrupt officials. Trafficking through private mail–courier companies is becoming more common. In addition, a growing number of Tanzanians are arrested abroad for serving as drug couriers.

Due to lack of resources and corruption among local officials, only small amounts of narcotics are seized. For example, the Tanzanian Coast Guard which is responsible for a large portion of Tanzania's borders including the Indian Ocean, Lake Victoria, Lake Tanganyika, Lake Malawi, and others, has only one functional boat, which was donated by the British High Commission in 1998.

Police and government officials report that money laundering occurs in Tanzania, but to date, there have been no prosecutions for drug-related money laundering. However, officials assert that real estate investments and used/stolen cars are areas where money laundering is no doubt present. Money laundering is an illegal act under the Prevention of Corruption Act and the Pursuits of Crime Act.

IV. U.S. Policy Initiatives and Programs

The USG has supported the training of a number of Tanzanian enforcement officers, and hopes to do more training in the region, after a regional International Law Enforcement Academy (ILEA) is established for Africa. In 1999, Tanzanian police officials attended a South African regional drug enforcement seminar with U.S. DEA trainers funded by the State Department. The U.S. FBI also conducted two one-week training seminars on major case management for one hundred Tanzanian police officers. In June, fifteen Criminal Investigations Department and Tanzanian Intelligence and Security Service officers attended a counter-surveillance course in Richmond, Virginia. In November, an inspector from the anti-narcotics unit attended a three-week course in the United States on narcotics and contraband interdiction. The U.S. will continue to cooperate with Tanzania to improve law enforcement skills, and the administration of justice.

TOGO

I. Summary

In 1999, Togo took several aggressive steps in the direction of confronting a growing drug trafficking problem. Togo began enforcing punitive measures outlined in its tough anti-drug law, passed in 1998. If Togo continues in this direction, and all indications suggest that it will, then improvement in the trafficking/abuse situation will surely follow. Togo is a party to the 1988 UN Drug Convention.

II. Status of Country

Togo is not a drug producing country. Togo is a significant narcotic transit point for other African states and for Europe. There are no clear indications that Togo is a significant transit point to the U.S.

There are some indications of an art export/narcotics connection. Togo has no antiquity laws or restrictions on the export of African art. As a result, African art is one of Togo's few flourishing industries. A large number of major European and American African art dealers visit Togo for the specific purpose of buying African art. There have been some reports that traffickers have used "art-dealer cover" to facilitate trafficking.

III. Country Actions Against Drugs in 1999:

Togo is working slowly, but diligently, to meet the goals and objectives of the 1988 UN Drug Convention. In 1998 Togo passed a very strict anti-drug law, which provided for stiff financial penalties, long sentences, and asset seizures and forfeitures for anyone knowingly involved in the facilitation of illegal drug activities. This new law contained two major procedural changes. The first procedural change delegated primary authority for the criminal investigation and interdiction aspect of drug trafficking to the national police. The second change allowed GOT officials to remove representative samples of contraband for evidence either in the presence of the offender or in his absence. Seized drugs must be destroyed as quickly as possible. Togo does not have an extradition treaty with the United States, but there have been indications the GOT is amenable in cooperating with the U.S. on law enforcement issues.

There is no seizure data as yet for 1999, but seizures were down sharply during 1998 in comparison to 1997. The GOT simply does not have the resources to stop the exporting of drugs. Corruption, poor training and government disorganization only add to the problem.

Official arrest statistics for narcotics-related crimes during 1999, broken down by type of drug, are as follows:

- Marijuana – 27
- Heroin – 2
- Cocaine – 0
- Total – 29

Several of those arrested were put on national television to inform the general public that dealing in drugs was not appropriate employment. In another case, three individuals arrested at the Tokian International Airport for drug offenses had their pictures published in the local press.

The National Drug Committee developed a proactive program similar to DARE in the United States, which is now beginning to gain momentum. Through the creative use of football (soccer) clubs around the country, the National Drug Committee has been spreading the word to the youth in-country about the hazards of using illicit drugs. T-shirts sporting anti-drug slogans, brochures and other prizes are awarded to the winners of athletic events. Anti-drug posters are also appearing more frequently at Togo's international airport.

The GOT sponsored a conference on drug-free prisons. It seems that Togo suffers from similar problems to

those one finds in U.S. prisons: Visitors bring in illicit drugs, and prisoners with the financial means to corrupt minor prison officials. The Rotary Club of Lome also organized a conference for local dock workers during which the commander of the national anti-drug committee spoke on the dangers of drug abuse.

IV. U.S. Policy Initiatives and Programs

The U.S. is working to establish a regional International Law Enforcement Academy (ILEA) for Africa, which would go a long way to improving the competence and esprit of narcotics law enforcement officers throughout the African Continent.

TUNISIA

I. Summary

Tunisia's role as a drug transshipment point is limited, and its government works closely with neighboring states and with international bodies to interdict shipments. Tunisia has only a minor domestic demand problem, which may be growing, especially among high school and university students, and the mostly European tourist market. The use of drugs such as heroin and cocaine, historically virtually unknown, has increased in recent years but remains limited. The government took action against users and traffickers in 1999. In two separate trials in January 1998, the Government of Tunisia (GOT) convicted 35 users and traffickers to sentences ranging from five to 46 years in prison. In July, Tunisian officials arrested 87 Tunisians and foreign citizens accused of being part of a drug ring centered in the southern port city of Sfax; they await trial. The GOT has an active anti-drug education program with a special focus on youth. There is no counternarcotics agreement between the U.S. and Tunisia. Tunisia is a Party to the 1988 UN Drug Convention, and participates in international counternarcotics efforts. Cooperation with DEA and French narcotics law enforcement liaison officers is excellent.

II. Status Of The Country

Tunisia is not a significant drug transshipment or consumption point, and does not play a significant role in money laundering or precursor chemical production. While consumption of hard drugs was previously virtually unknown, in recent years there has been some increase in drug use, including use of cocaine, ecstasy, marijuana and cannabis, primarily at high schools and universities and at tourist resorts. There is no reliable information about whether scattered production of cannabis in northern Tunisia, which had been legally cultivated for local use in pre-independence Tunisia, continues.

III. Country Actions Against Drugs in 1999

While Tunisia does not have a significant drug problem, the GOT was active in counternarcotics efforts. On January 7, 1999, the appeals court of Tunis announced sentences ranging from five to 46 years in prison for ten persons convicted of using and trafficking in cocaine. On January 12, the appeals court of Tunis sentenced 23 persons in what the press called the "Vap Bon Gang" (referring to the peninsula southeast of Tunis where they were active) for the use and distribution of marijuana and hashish. In this case, prison terms range from one to seven years. An additional three people were found innocent, and three of the 23 persons found guilty were tried in absentia and remain in hiding. In July, the Government arrested 87 people and seized hashish valued at 700,000 dinars (\$593,000) in an alleged drug ring centered in the southern port city of Sfax. These people, who await trial, are accused of selling hashish-filled cigarettes to high school students. In December, the court of Tunis will begin appeal hearings on a case involving 139 persons accused of drug-related offences which was tried in December 1998.

Regarding international counternarcotics efforts, there is no UN drug control program presence in Tunisia. There is no U.S.-Tunisia bilateral narcotics agreement.

IV. U.S. Policy Initiatives and Programs

The USG supports Tunisian counternarcotics efforts and seeks Tunisian support for US international anti-narcotics initiatives, such as at the annual meeting of the Committee on Narcotics Drugs (CND) in Vienna. There has been no recent USG assistance to the GOT on counternarcotics matters. In the past, the USG provided narcotics-related training assistance in maritime security for Tunisian customs officials.

UGANDA

I. Summary

Uganda operates primarily as a transit country for drugs destined for the European, South African, and to a lesser extent, the United States and Canadian markets. There has been an increase in local consumption of illicit drugs. Heroin, cocaine and cannabis are the drugs of choice for international trafficking. With the exception of cannabis, most drugs enter the country through a variety of portals, including the international airport at Entebbe and, increasingly, overland from Kenya, Tanzania and Rwanda. A secondary route is by boat via Lake Victoria. Due to the huge area involved, Uganda cannot effectively police the shoreline. Foreign

nationals are largely involved in this trade, although increasingly Ugandan nationals are being recruited.

Uganda is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances and the 1961 UN Single Convention and its 1972 Protocol. Law enforcement agencies, however, have little capability to deal with drug-related crime and trafficking due to extremely limited resources and an inefficient judicial system hampered by ineffective laws. Uganda's narcotic drug and psychotropic drug bill is scheduled to be debated in the next session of parliament. Enacting this bill will create a basis in law for the law enforcement and judicial system to combat drug distribution and drug related crimes, but they both will remain hampered by the resource problems mentioned above.

Uganda is not a major hard-drug consuming country. Local cannabis cultivation and consumption is a problem. Money laundering is thought to occur, but there are no good estimates of the amounts involved.

II. Status of Country

Uganda is unlikely to become a significant drug producer or precursor chemical producing center in the short-to-medium term. It remains a low-level transit country, with drug seizures increasing. There is little doubt some money laundering takes place. Police authorities believe money laundering may have contributed to the collapse of one local bank.

III. Country Actions Against Drugs in 1999

In December 1998, Uganda signed an MOU with Nigeria for cooperation in combating illicit drug trade. Uganda supports and intends to sign the protocol for East African regional cooperation in combating illicit drugs, which is scheduled to be signed in Arusha in July 2000. Kenya, Tanzania and Uganda hold rotational bi-annual operational meetings focusing on regional cooperation.

Illicit Cultivation. Cannabis for local consumption is grown in southern, western, and eastern Uganda. Some is sold in neighboring countries and there is now evidence that Ugandan grown cannabis is appearing in European markets.

Production. There is no manufacture of other drugs, but there is a possibility that chemicals used in the manufacture of Mandrax are being imported. This danger becomes more real to Uganda as Uganda's domestic pharmaceutical industry increases production. Many precursor chemicals for the licit industry can be misused to produce illicit drugs. The Ugandan authorities are taking steps to monitor the pharmaceutical and chemical industries.

Traffic/Transit. Most drugs transiting Uganda come in by plane, boat and overland through the Kenyan and Tanzanian borders. In the past, Nigerians were most prominently involved, but more recent arrests have included Kenyans and Ugandans. Twelve foreigners were arrested this year for drug smuggling.

Agreements/Treaties. Uganda is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention and its 1972 Protocol. There is no bilateral extradition treaty between the U.S. and Uganda. However, Uganda has extradition agreements with commonwealth countries, and presently an extradition is being arranged from Tanzania to Uganda. The case involves a Nigerian living in Kenya to be brought back to Uganda for distributing cocaine.

Law Enforcement. Ugandan law enforcement agencies are eager to cooperate with international interdiction efforts, but are poorly funded and trained. The anti-narcotics unit has increased from 70 to 100 active officers dedicated to the entire country. The situation is unlikely to change for the foreseeable future as Uganda concentrates its extremely limited security and police resources on combating domestic insurgencies. The police force suffers from inadequate funding, resources, training, pay, and benefits. The average police officer is paid \$40 U.S. per month. Top ranking police officials average \$500 U.S. per month. INTERPOL, UNDCP, and the German and British governments have provided legal assistance and limited training to the Ugandan authorities. The Germans have presented courses on intelligence gathering and sharing, the legal system, strengthening mutual assistance, and money laundering.

A national drug control plan is under review and is scheduled to be part of the narcotics crime bill implementation planning.

Seizures:

- Heroin-9.59 kg. Cocaine - 412 gr.
- Hashish-9.09 kg.
- Cannabis-5000 kg and 25,000 plants destroyed
- Arrests-12 foreigners and 396 Ugandans

Demand Reduction. Illicit drug consumers appear to be "casual labor" and centered around urban areas. Drug abuse in Uganda is viewed as a problem of the poorer class. Local authorities attribute some of the rising trend in crime as being related to illicit drug activity.

Uganda has a small hard drug consumer problem, but the drug of choice in Uganda is cannabis. The narcotics unit of the government is continuing its public awareness campaign with a focus on schools.

Road Ahead. Uganda needs assistance with police training and judicial reform, but the will of the current government is excellent and many of the basics for continuing improvement are in place.

UNITED ARAB EMIRATES

I. Summary

Although not a narcotics producing nation, the United Arab Emirates (UAE) has all the characteristics of a potential major transshipment point for illegal narcotics emanating from south and southwest Asia. It is located at the crossroads of southwest Asian trade routes, in close proximity to the drug-producing countries of India, Afghanistan, Pakistan, and Iran, and is in a region with porous borders and coastlines. The UAE is also situated in a region full of affluent consumers and utilizes a domestic banking system in which money laundering is not illegal. These factors, combined with the country's role as a "free-trade" zone and regional hub for international air travel, lead many to speculate that narcotics transshipment is endemic. However, neither the USG nor the UAEG has hard evidence to support these suspicions at this time.

In 1999, the UAE Government (UAEG) released previously unpublished statistics on narcotics seizures and domestic addiction problems. These statistics reveal a domestic drug problem among UAE and third-country nationals which, while not significant by world standards, is remarkable given the country's harsh drug laws. The overwhelming majority of drug seizures have netted hashish, not heroin and opium. The UAE Ministry of Interior's Federal Drug Administration (DEA) is tasked with coordinating drug enforcement efforts for the seven emirates which comprise the UAE as well as executing the country's anti-drug strategy. The UAE government is a party to the 1988 UN Drug Convention and is committed to the fight against international narcotics trafficking and narcotics abuse.

II. Status of Country

A major regional financial center and hub for commercial shipping and trade, the UAE is a transshipment country for illegal narcotics from south and southwest Asia to international markets and serves as a transshipment point for precursor chemicals destined for production areas in southwest Asia. Illicit narcotics, originating from southwest Asia, has reached the United States through the UAE, but not in significant quantities.

The majority of this illegal trafficking is presumed to occur in the northern emirates, i.e., Abu Dhabi, Dubai and Sharjah). This is due to the sustained commercial and financial growth of the Emirate of Dubai; the location of the country's "free zones" in the north; and the emergence of Dubai and Sharjah as regional centers in transportation of passengers and cargo, respectively.

The absence of money laundering legislation, which is reportedly drafted but not yet approved, leaves the UAE in an increasingly vulnerable position as a target for money laundering by narcotics traffickers and criminal organizations.

III. Country Actions Against Drugs in 1999

Policy Initiatives. The UAEG co-hosted a drug conference with the UNDCP, where it presented its national drug control strategy. Of special significance was the two-pronged approach targeting reductions in both the supply of and demand for illegal drugs. Major supply reduction initiatives are as follows: the formation of a counternarcotics force within the UAE coast guard; the establishment of special drug task forces throughout the emirates; the registration of convicted drug offenders in a central database to deny entry at border points; assignment of specially trained counternarcotics officers to all border points to profile potential traffickers; increased cooperation with neighboring countries regarding information exchange and drug seizures; the monitoring of precursor chemicals to ensure their legitimate use; and the signing of anti-narcotics agreements with Pakistan and India. A national drug demand reduction plan is also being formulated. This plan is expected to seek to assure that all UAE citizens are gainfully employed, are provided with incentives to lead stable family-oriented lives, and are provided with financial incentives to cooperate with police in detecting drug crimes. In conjunction with reducing demand the UAEG has established drug treatment centers for addicts.

UAE drug enforcement representatives attended the 1999 United Nations Special Session on Narcotics. The UAEG has been extremely receptive to USG training on money laundering and asset forfeiture and welcomes training programs with U.S. Drug Enforcement Agency personnel.

Law enforcement Efforts. In 1998, the UAE government established its first regional narcotics liaison office in Islamabad, Pakistan, and is currently evaluating an initiative to establish a network of liaison offices. UAE officials have identified a need for a data center to coordinate narcotics-related information throughout the UAE and have taken preliminary measures to establish a countrywide database. Approximately eighty percent

of the UAE population is comprised of third-country nationals or "guest workers" who, when convicted of narcotics offenses, generally receive prison sentences. Upon completion of their sentences, they are deported from the UAE.

Strict adherence to enforcement of drug offenses continues. The average sentence for individuals convicted of drug usage in the UAE is four years. In 1999, the death sentence was imposed on a Canadian citizen for possession with intent to distribute narcotics. A UAE court commuted this sentence to life in prison. The Canadian citizen was arrested for possessing 5.54 grams of heroin, 1.2 grams of hashish, and 25 drug tablets (not further identified). This illustrates the severity of drug sentences in the UAE. However, to date, no executions for drug crimes have been carried out. Local media report the street value of one kilogram of Pakistani hashish (Cost in Pakistan \$9) to be \$4658 in Abu Dhabi and \$3288 in Dubai, so the incentive for trafficking remains strong, even in the face of stiff penalties.

The UAE has a dedicated precursor chemical unit that pursues investigative leads and is active in stopping illicit chemical shipments.

Corruption. UAE officials aggressively pursue and arrest individuals involved in illegal narcotics trafficking and/or abuse. There is no evidence that corruption of public officials is a problem in the UAE.

Agreements and Treaties. There is currently no extradition or mutual legal assistance treaty (MLAT) between the United States and the UAE. The UAE is a party to the 1998 UN Drug Convention. The UAE is also a party to other multilateral or bilateral counternarcotics agreements. Recently announced were two agreements with Pakistan and India as well as a number of memoranda of understanding with other governments, including the UK and the U.S. involving information exchange. The UAEG cooperates with the U.S. on law enforcement issues.

Cultivation/Production. There is no evidence of drug cultivation and/or production in the UAE.

Drug Flow/Transit. Although no official countrywide statistics are available in the public domain, unofficial source information indicates that narcotics smuggling from south and southwest Asia to Europe and the United States via the UAE is increasing. Most drug transit is from India, Pakistan, Afghanistan, and Iran to Saudi Arabia, Qatar, Oman, and Bahrain. Hashish, heroin, and opium shipments originate in south and southwest Asia and are smuggled in cargo containers, via small vessels and powerboats, and/or trucked overland via Oman. UAE officials made further progress in eliminating the flow of narcotics by small watercraft in 1999. A ban on powerboats in UAE ports has effectively shut down speedboat smugglers from Iran. Successful shallow-water interdictions have forced narcotics traffickers to seek alternate smuggling routes, specifically Oman's long 1,500 km coastline, for overland transport across the UAE/Oman border. Recognizing these developments, the UAEG has increased border patrols, utilizing enhanced monitoring equipment. As legitimate commercial trade via the UAE intensifies, the likelihood of additional illegal smuggling increases.

Recognizing the need for increased monitoring at their commercial shipping ports and borders, the UAEG is making efforts to tighten inspections of cargo containers transiting the UAE. (Over two million containers entered the emirate of Dubai in 1998.) Customs officials are randomly searching containers and following up leads of suspicious cargo. The UAEG is in the process of procuring state-of-the-art equipment which allows for rapid, thorough searches of shipping containers and vehicles.

Domestic Programs (Demand Reduction). The focus of the UAEG's domestic program is demand reduction via public awareness campaigns directed at young people and the establishment of rehabilitation centers. UAE officials believe that adherence to Islamic mores as well as imposing severe prison sentences for individuals convicted of drug offenses serve as a deterrent to narcotics abuse. Although UAE authorities state that domestic narcotics consumption is not a major problem, they acknowledge an increase in narcotics usage among the local population. The UAE government has established an extensive drug treatment and rehabilitation program for its citizens. In accordance with federal law no. 1511995, which stipulates that addicts who present themselves to the police or a rehabilitation center are exempt from the punishment usually imposed for narcotics offenses, UAE nationals who suffer from narcotics addiction undergo a two-year drug rehabilitation program which includes family counseling/therapy.

IV. U.S. Policy Initiatives and Programs.

U.S. Policy Initiatives. U.S. Government policy seeks continued and enhanced cooperation with the government of the UAE on programs against narcotics trafficking, precursor chemical diversion, and money laundering. The USG is considering additional USG training and exchange programs for law enforcement and banking personnel in the UAE.

Road Ahead. The USG will continue to support the UAE government's efforts to devise and employ bilateral/multilateral strategies against illicit narcotics trafficking and money laundering. The USG will encourage the UAEG to focus enforcement efforts on dismantling major trafficking organizations and prosecuting their leaders, and to enact money laundering and asset forfeiture and seizure legislation.

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Chemical Controls

Introduction

The manufacture of cocaine, heroin and synthetic drugs requires chemicals. Chemical diversion control is a proactive and straightforward strategy to deny traffickers the chemicals they must have to manufacture illicit drugs. It involves the regulation of licit commerce in the chemicals most necessary for drug manufacture to ensure that only transactions for which legitimate end-uses have been established are permitted to proceed, thereby preventing the diversion of drug-producing chemicals from licit trade to illicit drug manufacture. Since it involves regulation of licit commerce, chemical control is a cost-effective strategy aimed at preventing illicit drugs from entering clandestine criminal channels.

The essential element of effective international chemical control is rapid multilateral exchange of information between competent national authorities on proposed transactions in regulated chemicals in order to identify and stop or seize those shipments involving chemicals likely to be diverted to illicit drug manufacture. National control systems alone cannot prevent diversion. The USG continues to seek the establishment of formal and informal mechanisms for this information exchange.

Chemical control is complicated by the widespread international commerce in many of the chemicals required for illicit drug manufacture. Most of them have extensive commercial applications and are available from many source countries.

Chemical control is also a strategy to prevent a crime. It requires the examination of proposed commercial transactions, the bulk of which are legitimate – an examination that requires chemical traders and manufacturers to provide commercial information to the exporting country's authorities. At least a portion of this information must be shared with other governments to ascertain the legitimacy of the proposed end-use, and to prevent traffickers from turning to alternative chemical source countries when transactions in one country are denied.

Because of its nature, many governments consider chemical control a trade issue to be handled by trade ministries/agencies with a bias towards promoting, not regulating trade. This leads to a reluctance to share the information they receive from domestic companies in the course of implementing national chemical control regimes. This reluctance is reinforced by the concerns of companies that the information they have provided will reach competitors.

The challenge is to develop and gain acceptance of multilateral mechanisms for the exchange of information necessary for the effective implementation of national chemical control regimes, including procedures for identifying and bringing under control substitute chemicals, while respecting the legitimate commercial interests involved. A key element of this will be greater recognition that chemical control is also a law enforcement strategy to be administered with law enforcement agencies to curb criminal activity.

A second challenge is to promote the establishment of effective national chemical control regimes that are consistent with and reinforce these multilateral cooperative mechanisms.

International Framework for Chemical Control

The need for chemical control has been internationally accepted. Article 12 of the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988 UN Drug Convention) establishes the obligation for parties to the Convention to control their chemical commerce to prevent diversion to illicit drug manufacture. The two tables of the Annex to the Convention list 22 chemicals as those most necessary for drug manufacture and, therefore, subject to control.

In 1990, the Inter-American Drug Abuse Control Commission of the Organization of American States (CICAD) approved Model Regulations for the control of drug-related chemicals that set a high standard for government

action. In June 1999, the Model Regulations were updated to cover all the chemicals included in the 1988 UN Drug Convention, and to strengthen domestic and international chemical controls and enforcement authorities. Many Latin American countries have adopted chemical control laws and regulations based on the CICAD Model Regulations.

The United States and other governments use the annual meetings of the United Nations Commission on Narcotic Drugs (CND) to promote international acceptance of chemical control and to highlight emerging chemical control concerns. The CND is also used to focus international attention on the use by traffickers of substitute chemicals in place of those controlled under international conventions, particularly in the manufacture of synthetic drugs such as methamphetamine.

The June 1998 "United Nations General Assembly Special Session Devoted to Countering the World Drug Problem Together" (UNGASS) was an important vehicle for promoting chemical control. Two of the five action plans adopted by the Special Session – those dealing with amphetamine-type stimulants and their precursors and the control of precursors – were directly connected to chemical control.

The USG has a major chemical control agreement with the European Union, signed on May 28, 1997. The value of the agreement is that it is with a 15-member state organization representing many of the world's major chemical manufacturing and trading nations. It also importantly provides for the exchange of information on chemical transactions with third countries.

At Mexico's request, the U.S. and Mexico are now negotiating a memorandum of understanding on chemical control.

Diversion Methods

The huge trade in chemicals, both domestic and international, offers multiple opportunities for traffickers to obtain through diversion from legitimate commerce the chemicals they require. They use a variety of tactics, exploiting legal and regulatory weaknesses, to circumvent national chemical control laws and regulations. The following are some of the more common diversion methods.

- Chemicals are diverted from domestic chemical production to illicit in-country drug manufacture. This requires the domestic capacity to manufacture the needed chemicals, coupled with poor domestic controls on them.
- Chemicals are imported legally into drug-producing countries with official import permits and subsequently diverted. The failure of importing countries to adequately investigate legitimate end-use before issuing import permits, and the acceptance by exporting countries of import permits as sufficient proof of legitimate end-use without any effort at independent verifications make this possible.
- Chemicals are manufactured in or imported by one country, diverted from domestic commerce, and smuggled into neighboring drug-producing countries. Inadequate internal and import controls and weak border security make this type of diversion possible.
- Chemicals are mislabeled throughout a transaction, either domestic or international, as non-controlled chemicals. In this case, the diversion takes place at the manufacturer or distributor level. Poor domestic controls that permit the initial diversion, coupled with the inability of enforcement officials to verify the true nature of the chemicals, permit this form of diversion.
- Chemicals are shipped to countries or regions where no systems exist for their control. This occurs because some chemical source countries do not insist that exports of controlled chemicals be only to countries that have in place viable, countrywide regulatory systems.

These tactics are embellished, or masked, by the use of front companies, false invoicing, multiple transshipments, use of free trade zones, and any other device that will conceal the true nature of the product, its ultimate recipient or its final end-use.

There is some recycling of the solvents used in illicit drug manufacture; recycling cannot be used for acids, alkaline materials or oxidizing agents. Since recycling requires some sophistication, and there is a loss of chemical with each recycling process, it is not a preferred method for unsophisticated heroin and cocaine labs.

1999 Chemical Diversion Trends

The continuing increase in the illicit manufacture of amphetamine-type-stimulants, the growth of heroin manufacture in Afghanistan, and the impact of intensive international cooperation in the control of potassium permanganate have been the major factors that influenced chemical diversion trends in 1999.

Abuse of amphetamine-type-stimulants (ATS) is a growing concern, particularly in East and Southeast Asia. The increased demand for ATS generates an increased demand for the chemicals required for their manufacture. Burma is emerging as a major center for ATS manufacture; the fact that it shares borders with

India and China, two important producers of ephedrine, a key ATS precursor chemical, facilitates this. Ephedrine can be diverted from domestic trade in these countries, thereby avoiding international controls, and smuggled across porous borders to Burmese ATS labs.

Afghanistan has no domestic industry capable of producing the chemicals required for heroin manufacture and no operational chemical control system. This means the chemicals required for heroin manufacture can be imported, to the extent international trade with Afghanistan exists and chemical-source countries are willing to authorize exports of controlled chemicals to the country under these circumstances. Now smuggling via Pakistan, the Central Asian states and the Persian Gulf is probably a more significant source, as the obvious lack of chemical controls in Afghanistan increases the reluctance of chemical source countries to authorize exports.

Potassium permanganate was one of two chemicals identified in the UNGASS Precursor Chemical Action Plan for controls stricter than those required by the 1988 UN Drug Convention. Specifically, exporting countries would be required to provide pre-export notification for any shipments of the chemical when requested by the importing country. Acetic anhydride was the other chemical identified for special attention. These two were chosen because they are "choke" chemicals, chemicals that are central to the manufacture of cocaine and heroin respectively, and difficult to substitute in the manufacturing process.

The UNGASS Precursor Chemical Action Plan has been a key factor in the international acceptance of "Operation Purple," targeting potassium permanganate. The operation was launched in February 1999 at a DEA-organized meeting in Madrid, Spain. The concept is that exporting countries will notify importing countries of all proposed transactions involving over 100 kilograms of potassium permanganate. The importing country will verify legitimate end use of the chemical prior to shipment, and those shipments that are authorized will be tracked from origin to final end-use.

The Multilateral Chemical Reporting Initiative, which the U.S. initiated in 1997, is providing the procedures and the vehicle for the information exchange required by Operation Purple.

The Madrid meeting agreed to begin Operation Purple for a six-month trial period. It became operational on April 15, 1999.

A second Operation Purple meeting was organized by DEA in October 1999. Participants reviewed progress and agreed to extend the operation through the year 2000.

From April 15, 1999 through December 31, 1999, Operation Purple tracked 248 shipments totaling 7,778,012 kilograms of potassium permanganate. Of these, 32 shipments totaling 2,225,893 kilograms were stopped or seized. Participation in Operation Purple has expanded to 18 countries, the UN International Narcotics Control Board, ICPO/INTERPOL, and the World Customs Organization.

Operation Purple has made it more difficult for traffickers to obtain potassium permanganate. There are reports that in Colombia traffickers are carefully husbanding the chemical and only bringing it to labs when it is needed, rather than stockpiling it at the labs. In Bolivia, there are reports that traffickers are foregoing the oxidation stage in cocaine manufacture because of problems obtaining sufficient potassium permanganate, resulting in a less pure and satisfactory product. There are also reports that traffickers are smuggling cocaine base from Bolivia to other countries for final processing due to a shortage of potassium permanganate.

The Road Ahead

Chemical control has been accepted by law enforcement agencies worldwide as a valid counternarcotics strategy. A principal obstacle to its more widespread adoption remains the proclivity of many governments to consider chemical control as a trade issue to be handled by trade ministries/agencies with a bias toward promoting, not regulating, trade. This leads to a reluctance to participate in the multilateral information initiatives required for effective chemical control.

Therefore, despite its demonstrated success, chemical control needs to be more widely exploited by law enforcement agencies as a law enforcement strategy. Regulatory agencies need to be convinced that chemical control can be effectively achieved without harm to indigenous commercial interests, and that law enforcement agencies have an essential role in its implementation. When implementation of chemical control regimes is restrained by commercial concerns, criminals can more easily obtain the chemicals they require for illicit drug manufacture, hindering international cooperative efforts against criminal drug trafficking.

The success of Operation Purple, implemented largely by law enforcement agencies, demonstrates that chemical diversion can be attacked without jeopardizing legitimate commercial interests. It also demonstrates the magnitude of the diversion problem, and the positive contribution of successful diversion control programs to our overall counternarcotics objectives.

The feasibility of intensive control efforts targeting the heroin essential chemical acetic anhydride (AA) needs to be explored. Operation Purple demonstrates that this approach works. Intensive controls on acetic

anhydride will be difficult, however, given the number of countries producing AA and its vast international trade.

Any initiative targeting acetic anhydride diversion must be multilateral and include concerned international organizations such as the International Narcotics Control Board. The specific citing of acetic anhydride in the UNGASS Precursor Chemical Action Plan provides an opening for a multilateral initiative and an incentive for countries to participate. The challenge will be to develop procedures and mobilize support for them to exploit the opening.

Major Chemical Source Countries

The countries in this section are those with large chemical manufacturing and trading industries that have significant trade with drug-producing regions and those countries with significant domestic chemical commerce liable to diversion and smuggling into neighboring drug-producing countries. Many other countries manufacture and trade in precursor chemicals, but not on the scale, or with the broad range of precursor chemicals, of the countries in this section. These designations are reviewed annually.

Article 12 of the 1988 United Nations Convention against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances (1988 UN Drug Convention) is the international standard for national chemical control regimes and for international cooperation in their implementation. The Annex to the Convention lists the 22 chemicals most essential to illicit drug manufacture. The Convention includes provisions for maintaining records on transactions involving such chemicals, and provides for their seizure if there is sufficient evidence that they are intended for illicit drug manufacture.

Europe

Chemical diversion control within the European Union (EU) is regulated by two EU regulations binding on all Member States. The first regulation, issued in 1990, meets the chemical control provisions of the 1988 UN Drug Convention. The second regulation, issued in 1992, expanded the first to incorporate the more comprehensive recommendations contained in the 1991 G-7 Chemical Action Task Force Report. The EU regulations include provisions for record keeping on transactions in the chemicals listed in the 1988 UN Drug Convention, require a system of permits or declarations for exports and imports of regulated chemicals and authorize governments to suspend chemical shipments. EU member states implement the regulations through national laws and regulations.

The EU regulations govern the regulatory aspects of chemical diversion control. Member States are responsible for the criminal aspects, investigating and prosecuting violators of the national laws and national regulations implementing the EU regulations.

The U.S./EU Chemical Control Agreement, signed May 28, 1997, is the formal basis for U.S. and EU Member State cooperation in chemical control. Our bilateral chemical control cooperation is good with the Member States and many are participating in and actively supporting voluntary initiatives such as the Multilateral Chemical Reporting Initiative and Operation Purple.

Germany and The Netherlands, with large chemical manufacturing or trading sectors and significant trade with drug-producing areas, are considered the major European chemical source countries. Other European countries have important chemical industries, but the level of chemical trade with drug-producing areas is not as large and broad-scale as that of Germany and The Netherlands.

Germany

The German chemical industry produces, distributes, consumes, and exports significant quantities of the chemicals listed in the 1988 UN Drug Convention. Germany is a party to the Convention. Its chemical handlers comply with German chemical control legislation, which is well structured, in accord with EU regulations and meets Convention requirements. German authorities maintain an outstanding system of voluntary cooperation with the chemical industry. However, there is no effective control over brokers who handle international transactions in third countries.

Germany has a very active joint Federal Police/Customs unit that handles chemical control and chemical diversion investigations. Cooperation between the German authorities and other national and international authorities is excellent. Germany has participated in and fully supported the Multilateral Chemical Reporting Initiative and Operation Purple. A senior DEA chemical diversion investigator was posted to Germany in September 1999. The official works closely with the joint police and customs unit. The result is excellent information exchange, both informally and within the context of the U.S./EU Chemical Control Agreement.

The Netherlands

The Netherlands is primarily a chemical trading country with major transit and storage capacities for large quantities of chemicals traded in international markets by brokers and distributors. The Dutch have excellent

chemical diversion control laws in place, meeting the requirements of EU regulations and the 1988 UN Drug Convention, to which the country is a party. However, The Netherlands is also an important producer of illicit synthetic drugs, primarily amphetamine-type-stimulants, the manufacture of which requires diverted chemicals.

The Dutch work closely with U.S. authorities on chemical control and diversion investigations. This cooperation includes informal information sharing and formal sharing under the U.S./EU Chemical Control Agreement. In 1999, DEA continued to arrange participation by Dutch investigators in U.S. clandestine laboratory training.

During 1999, the unit responsible for implementation of the chemical control laws, the Economic Control Service (ECD), was given more resources to investigate violations and potential violations of these laws. The ECD was also transferred from the economic ministry to the finance ministry, raising concerns that this could lessen criminal enforcement priorities in favor of revenue issues. Shortly after the transfer, The Netherlands withdrew from a DEA-organized conference in Hong Kong to review the progress of Operation Purple, increasing these concerns.

Asia

China. China has one of the world's largest chemical industries. Chemicals required for the manufacture of illicit drugs are manufactured, distributed, consumed, and exported by Chinese business. China is a vigilant monitor of precursor chemical exports. It is a party to the 1988 UN Drug Convention and has regulations for record keeping and export/import control for the 22 chemicals in the Convention. It also requests a "letter of no objection" from importing countries prior to authorizing exports of methamphetamine precursor chemicals.

The Chinese Public Security Bureau maintains a chemical control unit that performs regulatory audits on Chinese chemical companies. Provincial police throughout China are tasked with monitoring chemical companies in their respective provinces.

Chinese authorities have a difficult task. With a remote 2,000-kilometer border with Burma, smuggling of domestically traded chemicals to traffickers in that country is a problem. The volume of international trade makes complete monitoring difficult. Nevertheless, preliminary figures for 1999 indicate that seizures of illegally diverted chemicals will approach the prior year's record levels.

Chemical control is one of the strongest aspects of bilateral U.S./Chinese counternarcotics cooperation. Information is exchanged frequently and the Chinese have been active participants in Operation Purple targeting the key cocaine chemical, potassium permanganate.

India. The Indian chemical industry includes large-scale manufacture, consumption and export of controlled chemicals. India is a party to the 1988 UN Drug Convention, but it does not have legislation meeting all the Convention's chemical control provisions or covering all 22 chemicals in its annex.

Indian chemical control initiatives concentrate on the chemicals most likely for diversion. Acetic anhydride, a key heroin essential chemical sought by traffickers in both Burma and Afghanistan, is strictly controlled near the Indo/Burmese and Indo/Pakistani borders. Regulations also require sellers of the chemical to establish the identity of buyers before sales can be completed. A February 1999 seizure in the United Arab Emirates of 9 metric tons of Indian-origin acetic anhydride bound for Afghanistan indicates traffickers are utilizing other routes.

Ephedrine and pseudoephedrine, precursor chemicals for amphetamine-type-stimulants (ATS), are also subject to special controls. Indian authorities notify DEA of any significant export shipments and do not authorize them until DEA issues a letter of no objection. Domestic diversion of the chemicals for smuggling into Burma seems to be growing to meet demand from increasing illicit ATS production there. Significant seizures have been made in Northeast India, the natural smuggling route to Burma.

The Indian Central Bureau of Narcotics and the DEA have a good working relationship including exchange of information. In addition to the letter of no objection procedures for ephedrine and pseudoephedrine, the Government of India has been a full participant in Operation Purple targeting potassium permanganate.

Latin America

Argentina. The Argentine chemical industry produces all but two of the necessary solvents, acids and oxidizing agents commonly used in the manufacture of cocaine. The exceptions are potassium permanganate and chloroform.

Argentina is a party to the 1988 UN Drug Convention. A 1989 law meets the Convention's requirements for record keeping, import and export licensing, and the authority to suspend shipments. Presidential Decrees in 1991 and 1996 added the requirement that all manufacturers, importers, exporters, distributors, and transporters be registered with the Secretariat for the Prevention of Drug Addiction and Narcotics Trafficking (SEDRONAR).

SEDRONAR is short of resources and little has been done to verify the legitimacy of transactions in controlled chemicals. New and more secure import and export certificates have been introduced and efforts continue to rebuild a national database of chemical producers and distributors to gain a better understanding of the chemical diversion problem. In late 1999, the government began implementing measures to revise the country's chemical control laws and address staffing issues for the chemical control authorities.

This is important given Argentina's shared border with Bolivia. In 1999, a large seizure of Argentine chemicals was made in Bolivia and an additional 25,000 liters of acetone were seized at the border between Argentina and Bolivia. While these represent successes in chemical control, they are also indicative of the magnitude of the problem.

Argentine authorities share chemical control information with U.S. officials on request.

Brazil. Brazil has South America's largest chemical industry. In addition, it imports significant quantities of chemicals to meet its industrial needs.

Brazil ratified the 1988 UN Drug Convention in 1991, but it has not yet adopted legislation necessary to fully implement it. National chemical control laws require registration with the Federal Narcotics Police of chemical producers, transporters and distributors. A 1995 law places 11 chemicals under federal control, sets minimum thresholds for record keeping and reporting of transactions in them, and provides for import and export licenses. There are substantial administrative penalties for non-compliance.

Compliance with chemical control laws appears to be widespread, but a lack of resources (3 Federal Police agents and 8 clerical workers to check on 22,000 chemical firms) prevents active federal follow-up and verification of most shipments to their final destinations. Authorities are dependent on chemical companies for information on shipments of controlled chemicals such as acetone and ether to neighboring Bolivia, Colombia and Peru.

Some synthetic drugs are produced illicitly in Brazil using chemicals diverted from domestic commerce. In addition, because of the relative availability of necessary chemicals, there are indications that traffickers may be investing in cocaine processing labs in Brazil to process coca leaf and/or cocaine base smuggled from neighboring countries in response to improved chemical control programs in those countries.

The United Nations International Drug Control Program has an ongoing nine million U.S. dollar chemical control program in Brazil, to which the Brazilian Government is contributing eight million dollars. The program is reportedly progressing satisfactorily.

The U.S./Brazilian Counternarcotics Agreement provides the formal basis for bilateral cooperation in chemical control, including information sharing. Brazil also participates in two voluntary information exchange arrangements with the U.S., the Multilateral Chemical Reporting Initiative and Operation Purple, the multilateral effort targeting potassium permanganate.

Mexico. The large Mexican chemical industry includes manufacturers, distributors and end-users of most of the chemicals required for illicit drug manufacture. Mexico is an importer and transit country for potassium permanganate from Asia to other Latin American countries. It is also an important entry and transit point for ephedrine, pseudoephedrine and phenylpropanolamine used in the illicit manufacture of amphetamine-type-stimulants in Mexico and the U.S.

Comprehensive chemical control legislation adopted in 1997 places 24 chemicals under government regulation: 13 precursor chemicals used in the manufacture of synthetic drugs and 11 essential chemicals used in refining opium and coca leaf into heroin and cocaine. In September 1999, implementing regulations were published which defined reporting and notification requirements for both the import and export of these chemicals, explained what constituted end-use, and authorized Mexican government agencies to share information with other governments. These laws and regulations meet the requirements of the 1988 UN Drug Convention to which Mexico is a party.

The U.S. and Mexican Governments have established a bilateral chemical control working group as a formal mechanism for cooperation and information exchange in chemical control matters. In 1999, the group placed special emphasis on methamphetamine trafficking, chemical control training and the drafting of a memorandum of understanding on chemical control cooperation. Late in 1999, Mexico joined Operation Purple, the multilateral initiative targeting potassium permanganate.

Mexico faces a considerable challenge in implementing its chemical control legislation. Responsibility for various aspects of chemical control is spread among seven agencies, which have some way to go towards better coordination and communication among themselves.

Major Heroin and Cocaine Manufacturing Countries

Heroin and cocaine manufacture requires significant quantities of chemicals. Most major manufacturing

countries for these illicit drugs do not produce all the required chemicals, and traffickers must meet the majority of their chemical requirements from external sources. This section summarizes the sources of chemicals used in heroin and cocaine manufacturing countries and these countries' initiatives to control these chemicals.

Asia

Afghanistan. Afghanistan has emerged as the world's largest manufacturer of heroin. The chemicals required for this manufacture must come from abroad. Although Afghanistan is a party to the 1988 UN Drug Convention, there is no viable chemical control system.

Europe, the Central Asian States and India are the principal sources for chemicals, either shipped directly to Afghan entities or to nearby countries and smuggled into Afghanistan. The Central Asian States and Persian Gulf countries have been used as smuggling routes.

Burma. Burma has dropped to number two in worldwide heroin production, but there has been a significant increase in the manufacture of amphetamine-type-stimulants (ATS). Burma does not have a viable chemical control system. The bulk of the key chemicals required for illicit drug manufacture, most importantly acetic anhydride for heroin and ephedrine for ATS, are smuggled across porous borders from China and India, where they were diverted from domestic commerce. The Burmese Government seized 6.43 metric tons of ephedrine in 1999, most of it coming from India.

Latin America

Bolivia. Bolivia is a party to the 1988 UN Drug Convention and has the legal framework for implementing its chemical control provisions. The Bolivian chemical police, GISUQ, have been very active in doing so.

Most of the chemicals used by traffickers for the processing of coca leaf into cocaine products are smuggled into Bolivia from neighboring countries. Diversion from licensed imports is considered small. An effective chemical interdiction program has made many smuggled chemicals hard to get or prohibitively expensive. As a result, Bolivian lab operators are using inferior substitutes such as cement instead of lime, and sodium bicarbonate instead of ammonia, and they are recycling solvents such as ether. They have also virtually eliminated the oxidation phase, which requires potassium permanganate, in their cocaine processing. The result is that the purity of Bolivian cocaine HCl has been reduced to as low as 47 percent. There are reports that traffickers are smuggling cocaine base into neighboring countries for final refining into cocaine HCl.

Bolivia participates in both the Multilateral Chemical Reporting Initiative and Operation Purple.

Colombia. Colombia is the world's largest producer of cocaine and an important producer of heroin. Most of the chemicals required for this production are imported into the country with facially valid import licenses and are subsequently diverted. Lesser amounts are smuggled in from neighboring countries, Brazil, Ecuador and Venezuela.

Colombia is a party to the 1988 UN Drug Convention and the country's chemical control laws meet or exceed the provisions of the Convention. However, the system for issuing import permits weakens implementation. The permits are not reliable proof that the legitimate end-use for controlled chemicals has been verified prior to their issuance. The permits are also issued for lengthy time periods, rather than on a shipment-by-shipment basis. DEA now requires documentation identifying the ultimate consignee and the end-use for all U.S. exports, and transshipments through the U.S., of potassium permanganate and the solvents necessary for cocaine production destined for Colombia before shipments may proceed.

Colombian authorities are making a determined effort to improve enforcement of chemical control laws. Particular emphasis has been placed on the key cocaine chemical, potassium permanganate. A National Action Plan for the Control of Potassium Permanganate has been developed and Colombia actively participates in Operation Purple. A study is underway to determine the legitimate national requirements for the chemical and a special group has been established to visit all commercial establishments that have inventories greater than 15 kilograms. Among the findings thus far are that potassium permanganate is being imported disguised as other chemicals and that much of the diversion takes place in quantities less than 5 kilograms. The government is considering a proposal to eliminate the regulatory threshold of 15 kilograms.

Peru. Peru produces most of the chemicals necessary for cocaine base manufacture, but not for cocaine HCl. The country is a party to the 1988 UN Drug Convention and has laws meeting its chemical control provisions.

The Peruvian National Police chemical control unit, DICIQ, is active in enforcing these laws. In 1999, it conducted over 1,500 regulatory and criminal investigations of suspect businesses and seized over 112 metric tons of controlled chemicals. The government also enacted a law mandating DICIQ to take a 5-gram sample of all cocaine seizures to develop a signature analysis of the chemicals used in cocaine manufacture.

Peruvian industry does not produce potassium permanganate. In 1999, DICIQ continued its initiative to track

shipments from the importer to the final end-user. Peru also participates in Operation Purple.

[End.]

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Money Laundering and Financial Crimes

Introduction

In 1999, money laundering exploded onto the front pages of the world's newspapers. In August, news headlines claimed that \$15 billion in funds from Russia might have been laundered through banks in New York. Newspapers have continued to follow this story. In September 1999, U.S. Treasury Secretary Summers testified before the House Banking Committee on this issue, placing international money laundering directly into the spotlight. The investigation continues and indictments of a former bank official, two other individuals and the three companies have been filed. As the 2000 INCSR goes to press, guilty pleas from two of the individuals and the three companies have been entered. The large movements of money out of Russia and through American banks continue to focus the attention of the world on the problem of money laundering. Around the globe, there were both positive and negative developments in this field.

September marked the release of the Administration's National Money Laundering Strategy for 1999. This Strategy, prepared pursuant to the Money Laundering and Financial Crimes Strategy Act of 1998, highlighted the federal government's effort to address the problem of money laundering on a coordinated and comprehensive level. One of the four major goals of the Strategy is to strengthen international cooperation to disrupt the global flow of illicit money, and there are a number of action items in the Strategy that specifically address international money laundering.

Another major money laundering development in 1999 was the issuance of financial advisories concerning Antigua and Barbuda by the United States and the United Kingdom in April. The issuance of these advisories demonstrated that the United States and other nations will take tough, concrete action against governments that do not seriously address the problem of money laundering and do not adequately supervise financial institutions within their jurisdictions. The U.S. advisory, which advised financial institutions to give "enhanced scrutiny to all financial transactions routed into or out of Antigua and Barbuda," was issued because of negative changes in Antigua and Barbuda's anti-money laundering laws. These changes threatened to "create a 'haven' whose existence will undermine international efforts of the United States and other nations to counter money laundering and other criminal activity."

Issuance of these advisories is part of a coordinated campaign to identify and engage, and if necessary isolate, those jurisdictions that are not adequately addressing the problem of money laundering and to induce them into fulfilling their responsibilities as members of the international community. For example, the National Money Laundering Strategy has as one of its objectives that the United States should "apply increasing pressure to jurisdictions where lax controls invite money laundering." Action items included under this objective include a mandate to consider unilateral action where appropriate, including the issuance of bank advisories.

There is also multilateral support for stronger measures against non-compliant jurisdictions. The Financial Action Task Force has embarked upon an initiative to consider steps to be taken regarding countries and territories (including among FATF members) that fail to provide effective international administrative and judicial cooperation in money laundering cases. The first step in this process was to develop criteria for defining the non-cooperative countries and territories. The second step is to identify the jurisdictions that meet these criteria. The third step will be to agree upon the necessary international action to encourage compliance by the identified non-cooperative jurisdictions. The FATF is well underway on this initiative. Further, the FATF has already issued a press release expressing its concern about Austria, a FATF member, with respect to its failure to eliminate the anonymous passbook savings accounts that are available in Austria. Austria must begin to eliminate these accounts or face suspension of its FATF membership in June 2000. The FATF's willingness to take action against one of its members indicates that it will not shrink from fully pursuing this initiative.

In 1999, FATF agreed to expand its membership and invited three new countries to join as observers. These

strategically important countries are Argentina, Brazil and Mexico. Full membership will be extended to each country once they satisfy FATF membership requirements.

Also during 1999, the Financial Stability Forum was created by the G-7 Finance Ministers to enhance international cooperation and coordination in the area of financial market supervision and surveillance. The Forum met for the first time in April and agreed to focus initially on three issues: the implications of highly leveraged institutions, the offshore financial services sector and short-term capital flows. This focus benefits efforts being undertaken in other various international initiatives to combat global money laundering and financial crime.

Any investigation of money laundering in the United States that involves the proceeds of a crime committed in a foreign country requires evidence that would establish the commission of the crime in the foreign country. Consequently, a successful money laundering prosecution in the United States requires the assistance and cooperation of the jurisdiction where the proceeds were generated. Such cooperation, in turn, requires that the countries involved have good working relationships between law enforcement agencies and have laws that allow and facilitate the exchange of information and evidence. Without such cooperation, it is difficult to investigate and prosecute international movements of money. Several bills to promote anti-money laundering cooperation have been introduced recently in the United States Congress.

Finally, it should be noted that two international crime conventions are also seeking to strengthen the international efforts against money laundering. In December 1999, the United Nations General Assembly adopted the International Convention for the Suppression of Terrorist Financing. This Convention requires States Parties to criminalize the providing or collecting of funds with the intent or knowledge that they are to be used to conduct certain terrorist activity. The Convention also contains important advances in the area of mutual legal assistance, including a provision that States Parties may not refuse a request for mutual legal assistance on the ground of bank secrecy. In addition, a new UN Convention against Transnational Organized Crime is being negotiated for General Assembly adoption in 2000. This Convention is expected to contain provisions to criminalize the laundering of proceeds beyond drug proceeds and to enhance anti-money laundering regulations, enforcement and cooperation worldwide.

Over the past year, it is encouraging that while anti-money laundering jurisdictions and organizations have been marshaling their forces, new colleagues have joined their ranks. Positive developments on this front include major initiatives in Eastern and Southern Africa, South America and the Asia-Pacific region. Each of these initiatives strengthens the global anti-money laundering community.

Why We Must Combat Money Laundering

People who commit crimes need to disguise the origin of their criminal money so that they can use it more easily. This fact is the basis for all money laundering, whether that of the drug trafficker, organized criminal, terrorist, arms trafficker, blackmailer, or credit card swindler. Money laundering generally involves a series of multiple transactions used to disguise the source of financial assets so that those assets may be used without compromising the criminals who are seeking to use the funds. Through money laundering, the criminal tries to transform the monetary proceeds derived from illicit activities into funds with an apparently legal source.

Money laundering has devastating social consequences and is a threat to national security because it provides the fuel for drug dealers, terrorists, illegal arms dealers, corrupt public officials and other criminals to operate and expand their criminal enterprises. In doing so, criminals manipulate financial systems in the United States and abroad. Unchecked, money laundering can erode the integrity of a nation's financial institutions. Due to the high integration of capital markets, money laundering can also negatively affect national and global interest rates as launderers reinvest funds where their schemes are less likely to be detected, rather than where rates of return are higher because of sound economic principles. Organized financial crime is assuming an increasingly significant role in money laundering that threatens the safety and security of peoples, states and democratic institutions. Moreover, our ability to conduct foreign policy and to promote our economic security and prosperity is hindered by these threats to our democratic and free-market partners.

In recent years, crime has become increasingly international in scope, and the financial aspects of crime have become more complex, due to rapid advances in technology and the globalization of the financial services industry. Modern financial systems permit criminals to order the transfer of millions of dollars instantly through personal computers and satellite dishes. Money is laundered through currency exchange houses, stock brokerage houses, gold dealers, casinos, automobile dealerships, insurance companies, and trading companies. Private banking facilities, offshore banking, shell corporations, free trade zones, wire systems, and trade financing all have the ability to mask illegal activities. The criminal's choice of money laundering vehicles is limited only by his or her creativity. Ultimately, this laundered money flows into global financial systems where it can undermine national economies and currencies. Money laundering is thus not only a law enforcement problem but a serious national and international security threat as well.

There is now worldwide recognition that we must deal firmly and effectively with increasingly elusive, well-

financed and technologically adept criminals who are determined to use every means available to subvert the financial systems that are the cornerstone of legitimate international commerce. Global events over the past year involving offshore financial centers and new cyber money laundering trends point to the necessity of promptly addressing this growing threat.

Money launderers also negatively impact jurisdictions by reducing tax revenues through underground economies, competing unfairly with legitimate businesses, damaging financial systems, and disrupting economic development. Money laundering is now being viewed as a central dilemma in dealing with all forms of international organized crime because financial gain means power. Fighting money launderers not only reduces financial crime; it also deprives criminals and terrorists of the means to commit other serious crimes.

The United States and other nations are victims of tax evasion schemes that use various financial centers around the world and their bank secrecy laws to hide money from tax authorities, thus undermining legitimate tax collection. Financial centers that have strong bank secrecy laws and weak corporate formation regulations, and that do not cooperate in tax inquiries from foreign governments, are found worldwide. These financial centers, known as "tax havens," thrive in providing sanctuary for the deposit of monies from individuals and businesses that evade the payment of taxes in their home jurisdictions and to keep the money they have deposited from the knowledge of tax authorities. Billions of funds on which tax is properly due (marks, lira, pounds, et cetera) are held on deposit in these tax havens.

It makes no difference whether the funds on which tax is due emanate from illegal activity or revenue earned legally. Tax evasion and money laundering are activities that are aided by financial centers that have strong bank secrecy laws and a policy of non-cooperation with foreign tax or law enforcement authorities.

Offshore Financial Centers (OFCs)

Recent events of the past few years have led to a marked increase in 1999 in the efforts of the international financial community to identify and eliminate deficiencies in regulatory systems that may have the potential to threaten global financial stability. Simultaneously, the international financial community has been examining jurisdictions engaged in cross-border transactions to determine the extent to which individual jurisdictions adhere to standards and norms designed to thwart money laundering, tax evasion and other transnational financial crimes.

No sector in the global financial system is undergoing more intense scrutiny than the offshore financial services sector. Nearly sixty jurisdictions, scattered around the globe, comprise this constantly expanding sector (see offshore chart in this chapter.) A recent study found that by the end of 1997, the share of cross-border assets held in the offshore sector (\$4.8 trillion) accounted for more than half all cross-border assets held globally.¹

It is not only the sheer volume of cross-border assets held by the offshore financial centers that has riveted the attention of the world's regulators, supervisors, law enforcement organizations and international financial institutions. While the OFCs serve many legitimate functions in international commerce and financial planning,² some of the products and services provided by the OFCs when combined with certain aspects of the regulatory and legal regimes within the sector can be used for criminal purposes. In particular, the lack of transparency that characterizes the offshore sector has acted as a powerful magnet to governments, groups and individuals desirous of hiding their financial activity from public scrutiny.

Although there is little consensus regarding the exact definition of an offshore financial center, certain characteristics distinguish traditional onshore financial centers from those termed "offshore." Unlike the onshore jurisdictions, the vast majority of OFC jurisdictions restrict access to their OFC financial services and products to non-residents. Further, many OFCs conduct financial transactions only in currencies other than the local currency.

OFC jurisdictions also differ from onshore jurisdictions in their regulatory regimes and legal frameworks. In general, OFC jurisdictions lack the stringent banking regulatory and supervisory regimes found in developed onshore jurisdictions. In many OFC jurisdictions, banks are not required to adhere to a wide range of regulations normally imposed on onshore banks. Formation of a bank is more easily accomplished in OFC jurisdictions; in some, a bank can be formed and registered and its ownership placed in the hands of nominee directors via the Internet. However formed, there are few, if any, disclosure requirements. Bank transactions frequently are free of exchange and interest rate restrictions, minimal or no capital reserve requirements are required, and transactions are mostly tax-free. Some 4,000 banks are thought to have been licensed and registered in the offshore sector by December 1998.³ How many are merely "brass plate banks" is not known. Other non-bank financial industries, such as the insurance and securities industries are subject to even less, if any, regulation than is the banking industry in the offshore sector.

While there are well-regulated OFC jurisdictions, a principal attraction of the sector itself is the existence of legislative frameworks that, to varying degrees, are designed to provide anonymity, to promote regulatory and

supervisory arbitrage, and to provide mitigation or evasion of home-jurisdiction tax regimes.⁵ Even OFC jurisdictions with well-regulated banking systems normally provide loosely regulated non-bank financial services, such as the insurance and securities industries. Common to the sector are the confidential formation and management of a variety of international business companies (IBCs) and exempt companies, trusts, investment funds and insurance companies, replete with nominee directors, nominee officeholders and nominee shareholders. While all these services or products are legitimate in and of themselves, it is the skillful use of these products, combined with the loose regulation and enhanced secrecy of the OFC jurisdictions that attract those intent on criminal behavior. Additionally, many of the OFC jurisdictions also provide bearer shares for corporations and banks, in addition to specific forms of trusts designed to protect individual assets as well as to provide anonymity to the beneficial owners of corporate entities.

This lack of transparency, coupled with a concomitant reluctance or refusal of many OFC jurisdictions to cooperate with regulators and law enforcement officials from other jurisdictions, attracts those with illegitimate purposes. Drug traffickers, terrorists, money launderers, tax evaders and other criminals have found the OFCs a particularly inviting venue in which to conduct and conceal their nefarious activities.

¹ Luca Errico and Alberto Musalem, Working Paper of the International Monetary Fund, "Offshore Banking: An Analysis of Micro-and Macro-Prudential Issues," 1999, p.10.

² OFCs maintain that their carefully crafted laws and regulations provide beneficial business and financial planning options for their clients, including but not limited to: sophisticated trade financing, estate planning for high net worth individuals, tax mitigation for individuals and corporations, avoidance of exchange controls, liability containment for ships and airplanes, sophisticated insurance management options, investment opportunities that transcend home jurisdiction marketing regulations, preservation of assets, investment of overnight funds, and freedom from certain home jurisdiction regulatory requirements.

³ UNODCCP, Working Paper of the United Nations Office for Drug Control and Crime Prevention "The UN Offshore Forum," January 2000, p.6. Forty-four percent of all offshore banks are thought to be located in the Caribbean and Latin America, 29% in Europe, 19% in Asia and the Pacific and 10% in Africa and the Middle East.

⁴ The United Kingdom, Japan and the United States provide for the registration and operation of non-resident banks and corporations. However, they are normally excluded from analyses of offshore jurisdictions for reasons relating to the transparency of their stringently regulated regimes and their open access to law enforcement authorities which differentiate them from OFCs discussed in this analysis. In macro-economic terms, they are described as "primary OFCs," having advanced settlement and payment systems and operating in liquid regional markets where both the source and use of funds are available. These characteristics also distinguish them from the OFCs discussed herein. (Economic description derived from Errico and Musalem, p.12.)

Improper Use of OFCs

The opacity of the offshore sector appeals to sovereign states as well. A 1999 working paper of the International Monetary Fund (IMF) concluded that OFCs played a contributory role in the recent financial crises in Asia and Latin America by providing a hiding place for losses of loans from the international financial institutions. In 1997, Malaysia hid some \$10 billion in losses in its OFC. Thailand, between 1993-1996, disguised poor lending decisions by "rolling over" its losses into its offshore sector. In the 1995 banking crisis in Argentina, \$3-\$4 billion of depositor and creditor losses were incurred due to the failure of Argentina's offshore banks operating in the OFCs in the Caribbean and in Uruguay. Similarly, in Venezuela's 1994 banking crisis, the offshore financial sector was used to hide billions of dollars by shifting assets and liabilities through unmonitored offshore establishments.²

Another example of disguising financial irregularities involved the Russian Central Bank (CBR) and the Isle of Jersey OFC. FIMACO, established as an IBC in Jersey at the end of the Soviet-era with a capitalization of only \$1,000, became a wholly owned subsidiary of Eurobank, a subsidiary of the CBR, in 1992. Between 1993 and 1997, the CBR and Eurobank transferred just under \$2.5 billion through FIMACO in order to inflate CBR reserve levels in order to mislead the IMF. Investigation into these transactions have found no evidence to date that any funds had been misappropriated or stolen.³

IBCs

As noted above, FIMACO was an IBC formed in the Jersey OFC with an initial capitalization of only \$1,000. Although FIMACO's beneficial owner was eventually revealed, a primary attraction of IBCs is their ability to hide the identity of the beneficial owner by the use of nominee directors and officeholders. When combined with the use of bearer shares, IBCs present impenetrable barriers to law enforcement. Formed nearly instantaneously via the Internet in many OFCs, IBCs offering prepackaged anonymity (shelf companies) are convenient and accessible vehicles for those engaged in money laundering, tax evasion and other financial crimes. The well-

advertised OFC in the British Virgin Islands (BVI) is reported to register nearly four hundred new IBCs each month. With more than 300,000 IBCs on its registers, the BVI may be the repository of more than 12% of all IBCs registered globally.¹

¹ IBC is the term used to describe a variety of offshore corporate entities which, by design, can only transact business outside the jurisdiction in which they are formed. IBCs are characterized by rapid formation at low cost, broad powers, low to no taxation, minimal reporting requirements and secrecy. Many OFCs also permit IBCs to issue bearer shares.

² Errico and Musalem, pp.37–38.

³ PricewaterhouseCoopers, "Report to V.V. Gerashenko, Central Bank of Russia, re: FIMACO," August 1999.

Asset Protection Trusts

Although IBCs play an important legitimate role in international commerce, they also play an important role in money laundering, as do a variety of trusts. One form of trust, the Asset Protection Trust (APT), protects the assets of individuals from civil judgments in their home jurisdictions. A common provision of APTs is that challenges or claims against the assets of the trust must be brought before the courts of the jurisdiction of the APT domicile within a relatively short period of time (usually two years). Many APTs contain "flee clauses," requiring the immediate transference to another OFC if the APT is threatened by inquiry. Used in combination with one another, IBCs, mini-trusts, bearer shares and APTs, these instruments make it nearly impossible for competent authorities to generate paper trails or to identify the beneficial owner of companies, while they simultaneously protect those engaging in serious financial crime from civil or criminal prosecution.

Economic Citizenship

Other practices found in some offshore and onshore jurisdictions can be problematic for law enforcement. The selling of varying degrees of citizenship ("economic citizenship") for a contribution to the State, can be found in both onshore and offshore jurisdictions. However, when combined with "special benefits" such as an instant change of name and the ability to travel to many countries without a visa on a new passport, economic citizenship can be misused by criminals. Currently, six OFCs sell economic citizenship: Belize, Dominica, Grenada, St. Kitts and Nevis and St. Vincent and the Grenadines in the Caribbean and Nauru, in the Pacific.

Virtual Casinos

The Internet has spawned "virtual" casinos and sports betting shops, claiming to have their physical locations in the Caribbean Basin (see the OFC chart). While the details of gambling in cyberspace are discussed elsewhere in this Report, it is instructive to note that with the exception of St. Vincent and the Grenadines, all Caribbean Basin OFCs that sell economic citizenship also sell virtual casino licenses. In the Pacific, only the offshore jurisdictions of Niue and the Cook Islands are known to sell these licenses. Wherever actually located, virtual casinos are extremely profitable for the governments that sell the licenses (\$75,000 for a sports betting shop, \$100,000 for a virtual casino licenses—a typical fee) and, quite possibly, that share in the operator's profits. As was reported in the 1999 INCSR, the Pacific jurisdictions were thought to have generated nearly \$1.2 million dollars a month in these license fees, principally in the Cook Islands. Reports suggest that in 1999, monthly income rose by 25% to \$1.5 million. Internet gambling executed via the use of credit cards and offshore banks represents yet another powerful vehicle for criminals to launder funds from illicit sources and to evade taxes.

Sharing Control with the Private Sector

The reality is that, even in the better-regulated OFCs, opportunities for sovereign states to disguise losses and for criminals to engage in the placement and layering of illicitly gained funds are on the increase. New technologies and the creative abilities of unethical attorneys, accountants and other professional "gatekeepers" provide opportunities to manipulate the system. Two Pacific jurisdictions, the Marshall Islands and Niue, appear to have entered into various awkward sharing arrangements, whereby an external agent controls entry to the market, thereby assuming fundamental regulatory functions, nominally in the hands of the government. Entry to the Marshall Islands OFC and regulatory control of the OFC appear to be in the hands of the Reston, Virginia branch of a multi-national company, while entry into the Niue OFC is controlled by a Panamanian law firm.

Similar arrangements can be found in some Caribbean Basin OFCs as well. In the Belize OFC control of the registration of IBCs and ships was ceded to the private sector at its outset. In the case of Antigua and Barbuda, ceding control to an external agent played a major role in that government's decision to change legislation to create a haven for those engaged in money laundering. After intensive but fruitless negotiations with the Government of Antigua and Barbuda, the United States, followed by the United Kingdom issued financial

advisories in April 1999 warning their own financial institutions to view with suspicion all transactions to, through and from Antigua and Barbuda, or involving any of its Nationals. One result of these advisories was the closing of all but 18 of Antigua and Barbuda's 57 offshore banks. Another beneficial result of the advisories has been the passage of new legislation, which reportedly has corrected many defects of the former laws pertaining to banking. Under the 1998 defective IBC Act the regulatory function of IBCs effectively was in the hands of private sector agents responsible for marketing the sector. It is expected that the act will be revised to reflect the complete separation of government regulatory functions from marketing, the latter of which is a private sector function. More recently, St. Lucia, despite the specific advice of the United States to the contrary, enacted legislation that places all but nominal regulatory control of its proposed OFC into the hands of the private sector. If the reports of the contents of the recently brought into force legislation are accurate, St. Lucia will have transferred control of its OFC to the private sector.

Entering into such arrangements is not a necessary pre-condition, however, to attracting dubious activity. Nauru, a Pacific Island with a population of only 10,000 individuals, has nearly 400 offshore banks registered to a single post office box. Reports by the Central Bank of Russia in 1999 allege that during 1998-1999, nearly \$70 billion was either "booked" to Russian-owned banks registered in Nauru or transferred through Nauru's correspondent banks to OFCs in the Caribbean and Europe. Much smaller amounts of the \$70 billion are alleged by the Central Bank to have been booked to, or transferred through, the Vanuatu OFC and through Palau. As is frequently the case, the markets reacted to these allegations quickly. Deutsche Bank issued a message to the nearly 300 correspondent banks within its system to stop processing dollar denominated transactions from the three Pacific jurisdictions. Republic National Bank, Bankers Trust and the Bank of New York followed suit.¹

¹ UNODCCP, p.6. Of the nearly 2.5 million IBCs registered globally, 37% were registered in the Caribbean and Latin America, 25% in "Europe, 30% in Asia and the Pacific and 8% in Africa and the Middle East

Current International Initiatives

The damage to the reputation of an individual OFC resulting from governments or markets reacting to reports of irregular or illicit activities is significant as is the unavoidable collateral damage to the reputation of the offshore sector as a whole. For that reason, better-regulated OFCs understandably resent being tarred by the same brush as those which are not well regulated.

During the past year or so, the threats presented by a lack of transparency and oversight to an increasingly interdependent global financial system have been examined in variety of fora. While all these initiatives are important, the following will have a direct and immediate impact on the offshore sector and on the reputation of individual offshore jurisdictions.

United Kingdom White Paper on the Offshore Industry in the Overseas Territories

Anthony Edwards' extensive review of the British Crown Dependencies of Guernsey, Jersey and the Isle of Man was presented to Parliament in November 1998. Edwards concluded that while "prudential regulation of banks, investment business and insurance is generally of a high standard," there were specific areas in which all the Channel Islands could improve.¹ For example, the use of instruments such as asset protection trusts and bearer shares provided obstacles to international law enforcement.

Following the Edwards report, a White Paper on the offshore industry in the British Overseas Territories (Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Gibraltar, Montserrat and Turks and Caicos) was issued in March 1999. That paper describes potential changes designed to ensure that those jurisdictions' regulatory regimes are effective, transparent and offer adequate accessibility for the legitimate investigation of criminal activity, including money laundering, other financial crimes as well as tax fraud and tax evasion. The potential changes would also apply to the Channel Island jurisdictions.

¹ Anthony Edwards, "Review of Financial Regulation in the Crown Dependencies," presented to Parliament by the Secretary of State for the Home Department, November 1998, p. vi.

The Organization for Economic Co-operation and Development (OECD) Program to Counteract Harmful Tax Practices

While the British Crown Dependencies and Overseas Territories will face new regulations, including to withhold taxes, that may not be the case with smaller sovereign offshore jurisdictions located around the world. In pursuit of their effort to combat harmful tax practices, OECD governments are in the process of identifying jurisdictions that function as tax havens, and the OECD is taking steps to eliminate the adverse consequences that those jurisdiction have on the world economy. The identified jurisdictions will be encouraged to eliminate the harmful features of their regimes as part of an ongoing co-operative dialogue with the OECD Forum on

Harmful Tax Practices. In situations in which those discussions are unsuccessful, coordinated countermeasures by OECD member countries are foreseen.

Mandated by the 1998 Report on Harmful Tax Competition to produce a list of tax havens, the Forum, over the last year has engaged in extensive factual review and dialogue with the jurisdictions initially identified for review (with the exception of a small number that chose not to participate). On the basis of these consultations, the Forum met in November 1999 in Paris to undertake an initial technical evaluation of whether each jurisdiction meets the criteria for being a tax haven, as set out in the 1998 Report. Those preliminary findings were presented to the Committee on Fiscal Affairs, the OECD's senior tax policy body in January 2000.

As defined in the 1998 Report, a tax haven is a jurisdiction that (i) imposes no or only nominal taxes (generally or in special circumstances), (ii) offers, or is perceived to offer, itself as a place to be used by non-residents to escape taxation in their jurisdiction of residence, and (iii) possesses "confirming criteria." Those confirming criteria are: 1) lack of effective exchange of information, 2) lack of transparency, and (3) attracting businesses that conduct no substantial activities. These criteria are consistent with the nature of the tax poaching schemes that are the object of the OECD's work: schemes that impede the ability of home jurisdictions to enforce their own tax laws.

Currently, private dialogues are underway with those jurisdictions under review, and any list of tax havens would be submitted to the OECD Council in June 2000. Publication of the Forum's findings is not expected until after the June 2000 Ministerial. The report is expected to distinguish between uncooperative tax havens and jurisdictions that choose to commit themselves to work towards eliminating the harmful aspects of their regimes. No distinction will be made between jurisdictions that are independent states and those that are dependencies.

Financial Action Task Force (FATF) Ad Hoc Group on Non-Cooperative Countries and Territories (NCCT)

The Financial Action Task Force, is engaged in a process designed to identify non-cooperative jurisdictions in the fight against money laundering and to encourage them to implement international standards in this area. The year-old initiative began with the development of twenty-five criteria¹ to identify detrimental rules and practices that impede international cooperation in the fight against money laundering. The criteria address the following issues:

- Loopholes in financial regulations that allow no, or inadequate supervision of the financial sector, weak licensing or customer identification requirements, excessive financial secrecy provisions, or lack of suspicious transaction reporting systems.
- Weaknesses in commercial requirements including the identification of beneficial ownership and the registration procedures of business entities.
- Obstacles to international co-operation, regarding both administrative and judicial levels.
- Inadequate resources for preventing, detecting and repressing money laundering activities.

The criteria are consistent with the international anti-money laundering standards set out in the forty Recommendations of the FATF, the intergovernmental body set up in 1989 to combat money laundering.

The FATF has set up four regional review groups to begin reviews of a number of jurisdictions, both within and outside the FATF membership. Jurisdictions to be reviewed are being informed of the work to be carried out by the FATF. The reviews will involve the gathering of all relevant information, including laws and regulations as well as any mutual evaluation reports, self-assessment surveys or progress reports, if available. The factual information on each jurisdiction's regime will then be analyzed with respect to the twenty-five criteria and a draft report will be prepared and sent to the jurisdictions concerned for comment. Once the reports are completed, the FATF will address further steps to encourage constructive anti-money laundering action and is expected to publish a list of non-cooperative jurisdictions.

¹ The twenty-five criteria are set forth in the Annex – to the Money Laundering and Financial Crimes section.

The Financial Stability Forum (FSF) Working Group on Offshore Financial Centers

The FSF established the OFC Working Group in April 1999. The Working Group is comprised of officials of industrial and emerging market economies, international institutions, and regulatory and supervisory groupings. The Working Group's purpose is to evaluate the impact on global financial stability of the uses made by market participants of financial offshore centers. The Working Group is reviewing the uses and activities of OFCs. Those OFCs with weaknesses in financial supervision, cross-border cooperation, and transparency allow financial market participants to engage in regulatory arbitrage of several forms, undermining efforts to strengthen the global financial system. The Group considers that the key to addressing most of the problems with these OFCs is through the adoption and implementation of international standards,

particular in cross-border cooperation. The Group's work is focused on identifying the relevant international standards whose implementation would address these issues, and developing recommendations on mechanisms for assessing compliance in the implementation of the standards and ensuring appropriate incentives to enhance such compliance.

The OFCs in the New Millennium

Were all problematic OFCs to implement all the recommendations of the international organizations, the opportunities presented to those intent on using the OFCs for criminal purposes in the opening decades of the 21st century would still increase greatly with the introduction of new technologies. Governments will have to devote substantial resources to cope with issues that promise to be as complex than those currently associated with cyberspace.

But the Internet need not be a weapon wielded primarily by those with criminal intent. A cursory search on the Internet reveals dozens of websites promising instantaneous access to the OFCs. Not infrequently, regulators of the named OFC jurisdictions state that they have no contractual connection to the agents advertising their access and are, in fact, being victimized by being named in these websites.

A novel idea might resolve this problem. To protect against reputational damage, each OFC jurisdiction could construct a website in which it names its contracted agents and also names those who are fraudulently advertising their connection to the OFC. Alternatively, a multinational entity, such as the United Nations might consider providing this service. Additionally, a global website could track fraudulent OFCs such as The Kingdom of EnenKio Atoll, the Republic of Melchizedek and the Republic of Lomar, which exist only in cyberspace. These fraudulent entities are responsible for defrauding individuals of hundreds of millions of dollars through the selling of economic citizenship and other criminal schemes.

Beyond the challenges that new technologies pose for regulators and law enforcement authorities, another lingering issue not yet sufficiently addressed by those committed to achieving transparency in the offshore sector, is the critical role played by licensed professionals in aiding and abetting criminal behavior in the OFCs. Achieving transparency would require convening groups representing governments and licensed professionals (such as lawyers, accountants, auditors, company formation agents and notaries) to consider developing clear standards, guidelines and rules to govern conduct in order to avoid putting professionals "in a place in which their obligations to client and to country clearly conflict."² The United States Government considers this to be a very serious issue and is closely studying it and all its ramifications. While this problem is not unique to the OFCs, it is of particular import in the OFC sector.

Ultimately, the concerted joint effort of regulators, law enforcement officials, and regulated licensed professionals working closely with those providing financial services in all jurisdictions will be necessary to combat all financial crimes, including money laundering and tax evasion, while diminishing the perceived potential threat of the offshore financial sector to global financial stability.

¹ Jonathan M. Winer, "The Coming Wave of Transparency Reform: A Tidal Shift", keynote address at the Seventeenth Cambridge Symposium on Economic Crime" September 1999, p.8.

Explanatory Notes To the Offshore Financial Centers Chart

Given the intrinsically secretive nature of OFCs, public information is frequently difficult to obtain. Industry publications, discussions with officials responsible for managing the OFCs, finance ministry officials, embassy reports, analyses from U.S. agencies, studies of international organizations and other governments and secondary sources provided the data for the chart.

Jurisdictions which are considering establishing OFCs, Nepal and Palau for example, are not included on the chart. Excluded also are jurisdictions which provide low or no taxes to individuals but offer no other services normally associated with the offshore financial service sector.

Within most categories presented on the chart, the designations Y and N are used to denote the existence (Y) or the non-existence (N) of the entity or service in a specific jurisdiction. Where there is no (or only fragmentary) information regarding specific categories, the corresponding cells on the chart are left blank. In some categories, symbols other than, or in addition to Y or N are employed. Explanations for additional symbols are provided below.

Explanations of the categories themselves are either provided in the preceding text, are considered to be self-evident, or are provided below.

Category Designations on the Offshore Financial Centers Chart

Offshore Banks: The number is provided if known. A Y in this category indicates that although the OFC registers offshore banks, the number of such banks is not known. A P indicates that the jurisdiction refuses to

reveal the number of registered offshore banks. An N indicates that there are no offshore banks in the jurisdiction. A blank cell indicates that the United States does not know if offshore banks are offered within the OFC.

Trust and Management Companies: These are companies which provide fiduciary services, serve as marketing agents, representatives, lawyers, accountants, trustees, nominee shareholders, directors and officers of international business corporations. Y=Yes; N=No; Blank cell=Unknown.

International Business Corporations (IBCs) & Exempt Companies: Numbers provided when known and public; in many cases, the numbers are significantly underreported. A Y indicates that IBCs and/or Exempt Companies are offered but the number is not known. A P means the jurisdiction refuses to reveal the information; a blank cell indicates that it is not known whether IBCs are offered.

Bearer Shares: Y = Yes; N = No; Blank Cell = Unknown.

Asset Protection Trusts (APTs): Y = Yes; N = No; Blank Cell = Unknown

Insurance and Re-insurance Company Formation: Y = Yes; N = No ; Blank Cell = Unknown

Provides "Economic Citizenship": Passports are sold by jurisdictions that enable their holders to evade taxation and legal remedies by law enforcement agencies of their "home countries". Y = Yes; N = No.

Services Advertised on the Internet: The Internet has been an extraordinary boon to OFCs. For minimal cost, remote and little known jurisdictions and agents can advertise globally, describing the services provided by the OFCs and providing almost instantaneous registration. There is no distinction on the chart between government sponsored websites and those sponsored solely by the private sector. Y = Yes, N = No; Blank cell = Unknown

Internet Gaming: Licenses granted by jurisdictions enable grantees to establish "virtual casinos" on the Internet." Pay via credit card. Y= Yes; N= No; Blank Cell = Unknown

Criminalized Drug Money Laundering. A D in this column indicates that the jurisdiction has passed a law criminalizing narcotics-related money laundering only. BD indicates that the money laundering encompasses other crimes in addition to narcotics related money laundering. N = no legislation criminalizing money laundering.

Suspicious Activities Reports: An M indicates that reporting suspicious transactions to law enforcement by banks, and in some jurisdictions, other financial institutions is mandatory. A P indicates that reporting is voluntary. N=no requirement to report.

Cooperates with International Law Enforcement: Y= Yes; N=No; Blank Cell = Unknown

Membership in International Organizations: These multinational organizations have been formed to combat money laundering or to establish sound supervisory regimes; the Asia/Pacific Group, the Financial Action Task Force, the Caribbean Financial Action Task Force, the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures, the Offshore Group of Banking Supervisors and the Organization of American States Inter-American Drug Control Commission. N = not a member in any of these organizations.

Mutual Legal Assistance Treaties (MLATs): In money laundering cases, MLATs can be extremely useful as a means of obtaining banking and other financial records from our treaty partners. A Y in this column on the chart indicates that the United States has an MLAT with a specific jurisdiction or with the jurisdiction which is responsible for the international relations of the jurisdiction and which has extended application of the treaty to that jurisdiction. An R designates a country or jurisdiction with which the United States has signed an MLAT which has been ratified by the United States but is not yet in force. A D in this column indicates that the OFC jurisdiction is an overseas territory of the United Kingdom and is covered under the MLAT with the United Kingdom. Madeira, as was, Macau, is an autonomous region of Portugal, which does not have an MLAT with the United States. Similarly, Aruba and the Netherlands Antilles are part of the Netherlands, which does not have an MLAT with the United States. Hong Kong's MLAT.

[Offshore Financial Centers Chart](#) -- [Excel file]

Money Laundering Trends

In last year's Report, we noted that there was relatively little change in the predicate offenses that generate illicit proceeds. A review of U.S. suspicious activity reports (SAR),¹ investigative activity, prosecutions and convictions during 1999 continues to suggest that sources of illicit proceeds are consistent with those reported in prior years. Specifically, drug trafficking, bank fraud, medical and commercial fraud appear most often as predicate offenses.

Money laundering and evasion of currency reporting requirements continue to be major problems in the United

States. All income from illegal activity, such as narcotics trafficking, illegal gambling, Internet, bankruptcy and health care fraud, embezzlement, public corruption and other crimes for profit involve some degree of money laundering.

From 1986 when money laundering was made a separate crime in the United States, through September 1998, there were more than 5,900 convictions or guilty pleas for federal money laundering offences. In fiscal year 1997 through 1999, U.S. Attorneys charged approximately 2,000 defendants each year.

_____ ¹In the United States, financial institutions are required to report suspicious transactions to the competent authorities.

Money Laundering and Tax Evasion

During fiscal year 1999 (October 1, 1998 to September 30, 1999), the Internal Revenue Service (IRS) initiated 2,076 money laundering investigations; many worked jointly with other U.S. law enforcement agencies. Of those, 1,710 were recommended for prosecution. The approximate total dollar amount of proceeds laundered on the 1,710 cases was over \$7 billion.

In recent years, the IRS has seen a proliferation in tax evasion schemes using trusts, bank accounts, and corporations in offshore financial centers (OFCs). Currently, there are sophisticated promotions of trust schemes that involve a series of trusts formed domestically and in OFCs that are also utilizing foreign bank accounts and international business corporations (IBCs). These promotions are directed to individuals with incomes usually greater than \$100,000. Promoters are selling these fraudulent trust packages for \$10,000 to \$75,000 that purportedly detail how individuals can take their businesses offshore and avoid federal income tax. These promotions are in reality elaborate tax evasion and money laundering schemes, whose multiple layers make it difficult, if not impossible, to determine beneficial owners and to track transactions.

For example, in one sophisticated scheme, promoters instruct individuals to transfer their businesses, including income earned during the year, to a trust, tax-exempt or asset Management Company (AMC). Next, promoters instruct clients to form a trust with nominee directors in an OFC. All income earned by the business that was transferred to the AMC is then distributed to the foreign trust. The trustee of the foreign trust is the AMC. The promoters then instruct individuals to form a second foreign trust also located in an OFC. All the income, less some fraudulent expenses, is distributed from the first foreign trust to the second foreign trust. The first foreign trust is the trustee of the second foreign trust and Certificates of Beneficial Interest (CBIs) are issued to the first foreign trust or other foreigner controlled by the taxpayer. At this point, according to the promoters, the income transferred to the second foreign trust is now outside U.S. tax jurisdiction. Promoters claim that since the source of the income and the beneficiary are foreign, there is no U.S. tax return filing requirements.

Since the business income is now offshore, individuals need to repatriate their earnings back into the United States. The most popular method used to do this is to open a foreign business account with an anonymous IBC in an OFC and deposit business earnings into that account. In other cases, individuals are purchasing offshore banking licenses and forming their own financial institutions (as has been documented in Belize and Nauru). The earnings are returned to the individual by the use of a debit or credit card or through wire transfers. In the case of debit or credit cards, the individual uses the cards for cash access through ATMs in the United States or to pay everyday living expenses. Since these cards are issued by banks in OFCs, it is very difficult for U.S. law enforcement to document the transactions. In some instances, the business earnings are wire transferred back to the United States. This scheme occurs in OFCs around the world.

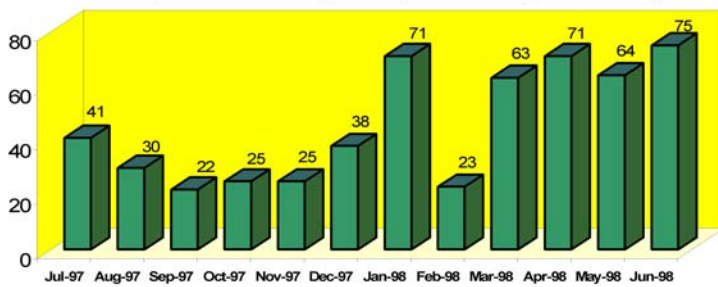
Money Laundering: New Technologies and Terrorist Financing

The use of automated teller machines (ATMs) is a recently identified method of money laundering that came to light during a comprehensive review of SARs. Other forms of electronic transactions, including via the Internet and with smart cards, are also of concern to U.S. officials responsible for fighting money laundering. Terrorist financing also has been included in this section due to the high priority placed on this problem by U.S. law enforcement authorities.

Automated Teller Machines

A review of SARs filed from July 1997 through June 1998 identified a significant number of reports noting a Bank Secrecy Act (BSA) violations and citing instances of ATM activity. Reports were filed by more than 60 different banks in 32 states, the District of Columbia and Guam. The reporting indicates that ATMs are being used domestically and abroad to deposit and withdraw large sums of cash on a recurrent basis with the apparent purpose of evading detection by law enforcement authorities.

ATM Related SARs
(BSA/Structuring/Money Laundering Violations)



Domestically, the SARs indicate structuring of cash transactions to avoid the Currency Transaction Report (CTR) filing requirement. Customers do this by making multiple ATM cash deposits and withdrawals in combination with same day bank counter activity aggregating more than \$10,000.

Internationally, the SARs reveal that, in many instances, cash or wired funds in accounts based in the United States were subsequently withdrawn from ATMs located in jurisdictions with a high risk for money laundering or drug trafficking. The size and number of the withdrawals within short time frames are indicative of potential money laundering.

Online Banking¹

The sources of illicit proceeds and schemes used to launder those proceeds remain generally unchanged from prior years. However, there has been a significant increase in the use of online banking services to carry out specific steps in the money laundering cycle. In particular, an increase in the exploitation of online banking for both the layering and integration phases of money laundering has been observed.

Institutions offering online banking use the Internet as the delivery channel to facilitate consumer and business financial transactions, such as funds transfers, bill payment, and account balance review. An online banking customer accesses his or her accounts from an Internet browser--software that runs the banking programs resident on the institution's Internet server.

Although many online banks offer virtually the same services as do traditional brick-and-mortar banks, Internet banking is viewed by many analysts as an important means of maintaining an increasingly sophisticated customer base, of developing a new customer base, and of capturing a greater share of depositor assets. Because Internet banks generally have lower operational and transactional costs than do traditional banks, they are often able to attract new customers with offers of low-cost checking accounts and favorable interest returns on deposits and investments.

Despite lingering customer fears about security, reliability, and privacy, many industry analysts believe that online banking in the United States is positioned for dynamic growth. More than 1,200 U.S. banks and credit unions purchased Internet banking technology in 1998, and it is believed that about 7,200 banks and credit unions did the same by the end of 1999.

The growth of electronic banking has introduced various new challenges for regulatory and law enforcement authorities. Governments must continually evaluate industry developments in order to formulate strategies to ensure continued growth of online banking, while minimizing the risk for financial fraud and money laundering.

Today's online bank may consist of no more than a computer server and a telecommunications connection. Depending on its location, an online bank may be subject to a wide range of oversight and supervision--from very robust and effective policies and programs, to very lax or nonexistent regulatory regimes. In addition, an online bank whose practices come under suspicion by regulatory and law enforcement authorities may be difficult to investigate because of the remote and global projection capabilities of the Internet and other telecommunications technologies. The victims of a bank fraud and the perpetrators of a money laundering scheme each may be half-a-world away from the physical location of the bank's computer servers. Online payment technologies may also pose other unique problems vis-à-vis concealed transactor identities and insufficient or non-existent audit trails.

As the phenomenon of online banking continues to spread globally, so too will the threat for criminal abuse by individuals and organizations engaged in money laundering, fraud and other financial crimes. Electronic banks, particularly those that operate in traditional bank secrecy jurisdictions, offer many unique services that may be misused for the purpose of laundering illicit funds.

¹ "Online banking" is often used as an umbrella term to describe Internet banking, PC banking and telephone banking. This discussion focuses exclusively on the issues associated with Internet banking.

Internet Banking and Gambling

Electronic commerce, or E-commerce, is a growing application within the Internet being used for both legitimate and illegitimate businesses. E-commerce comes in many legitimate forms such as electronic funds transfer and electronic banking. This particular area of Internet banking has undergone regulatory scrutiny in the United States primarily to identify banking customers through verification of driver license, residential address, telephone, social security and passport information. However, in the international electronic banking markets, few regulatory or due diligence oversights address the verification of Internet customers.

For example, offshore Internet banks are often associated with offshore Internet gaming businesses, which further facilitate the laundering of illicit cash. The countries associated with offshore Internet banking do little to conduct on-site review and regulation of these "cyberbusinesses." This poses unique challenges to U.S. law enforcement agencies.

Jurisdictions that have provided a haven for offshore Internet gaming argue that the offshore locations and licenses put the Internet operation outside the jurisdiction of U.S. law. Those cases, however, that have been adjudicated by United States courts, indicate that the act of entering the bet and transmitting the information from the United States via the Internet constitutes gambling activity within the United States and is sufficient to confer jurisdiction to U.S. courts. However, a number of non-cooperative jurisdictions in the Caribbean continue to utilize Internet gaming as a means to target U.S. gamblers and provide a sanctuary for offshore Internet money launderers.

Encryption and Electronic Money

United States law enforcement agencies are concerned about cryptography (the art of ciphering and deciphering messages in code). Cryptography has allowed the development of electronic money (e-money). The basic technology that has furthered the use of e-money allows banks and their customers to protect their financial transactions through the use of encryption "keys." By utilizing encryption keys, the banks and individuals can encrypt e-money to be an identified or an anonymous transaction. Identified e-money contains information revealing the identity of the person who originally withdrew the money. Anonymous e-money is similar to paper cash. Once anonymous e-money is withdrawn from an account, it can be spent, given away or laundered without leaving a transaction trail. These types of transactions serve as a conduit for money launderers to facilitate their illicit cash businesses.

Electronic Communication

The Internet is also known as a new forum for public and private speech. This speech is carried-out via electronic mail (e-mail), chat rooms and bulletin boards. These forums are often used by potential money launderers to provide misleading and inaccurate stock and commodity market information. The idea of the money launderer is to provide penny stock or initial public offering stock information that misleads investors to interpret the electronic communication as potential (unofficial) investment advice. This information causes many investors to purchase or sell stocks by anticipating an increase or decrease in market prices. The criminals then use these market adjustments to realize millions of dollars in profits. These profits are then placed into stock transactions via the Internet with commingled lawful cash transactions.

Web Page Crimes

Legitimate vendors have established elaborate web pages in support of their product display, service catalogs, and have utilized a variety of secure payment options to facilitate purchases. These web pages allow for business-to-business or business-to-consumer transactions. Vendors can choose to host their web stores locally or host their web stores remotely through an Internet Service Provider (ISP). These web stores have been used by white collar criminal networks as a mechanism to conduct a wide variety of criminal schemes, including money laundering. Many criminal associates and enterprises also have established their own web pages. One of the schemes involves the use of identity theft and credit cards. In this scheme, criminal enterprises utilize merchandise purchases to launder illicit cash with merchandise sales. Many of these thefts come from criminals who can duplicate legitimate web pages to intercept legitimate consumer purchases (called "web spoofing"). These thefts occur specifically to obtain credit card and identity information from the consumer. Once the information is captured, the thief forwards the intercepted information to the legitimate web page vendor. The legitimate vendor sends the purchase confirmation to the consumer. Many consumers will not know of the theft until the unauthorized merchandise purchases are noted on the consumer's credit card bill.

Smart Cards

Another concern to U.S. law enforcement officials is the developing use of smart cards to facilitate the

laundering of illicit cash. Smart cards allow users to bypass paper money by adding cash value to a computer chip embedded on the front of the card. The microchip keeps track of how much money is on the card after each deposit and purchase. Because the cash value is stored on the card, there is no need for the merchant to dial up a bank or credit card company's computer to get approval for a transaction.

Smart cards can be used for direct purchases, computer-to-computer purchases and automatic teller machine withdrawals. This advanced technology has enabled individuals with a pre-loaded value card to withdraw currencies in 53 countries throughout the world.

Although smart cards have been widely accepted in Europe and Asia, consumers in the United States have been slow in welcoming the technology. However, money launderers have determined that smart cards are a far easier way to move large sums of money than bulk cash shipments.

Internet Fraud Center

These new technologies and criminal applications of the Internet have caused U.S. law enforcement officials to encounter difficulty in handling complaints by consumers and even problems in receiving complaints from victims. In many cases, the victim does not know where or even what agency to report an Internet crime. When a law enforcement agency receives a complaint, it is difficult to determine exactly where the crime took place. In response, the Federal Bureau of Investigation (FBI) has opened the Internet Fraud Center (IFC). The IFC will be a conduit for Internet criminal complaints received domestically and internationally. The IFC was designed by the FBI to address Internet crimes regardless of the violation or where the crime originated or was committed. This information will then be disseminated to the appropriate law enforcement agency for further investigation.

The IFC will allow U.S. law enforcement to apply better investigative resources to address criminal enterprises utilizing the Internet to commit their criminal activity in the year 2000 and beyond.

Terrorist Financing

In 1998, terrorists mounted approximately 273 attacks killing 741 people worldwide. Most notable were the August 1998 bombings of the U.S. Embassies in Dar Es Salaam, Tanzania and Nairobi, Kenya--allegedly orchestrated and financed by Usama Bin Ladin and his al-Qa'ida terrorist organization. The simultaneous attacks claimed 301 lives and injured more than 5,000 people.

Terrorist groups differ from other criminal networks in the motives behind their crimes. Unlike drug traffickers and organized crime groups that primarily seek monetary gain, terrorist groups usually have non-financial goals, such as publicity, dissemination of ideology, political legitimacy, and political influence. As a result, uncovering and interdicting the finances of a terrorist organization with existing anti-money laundering laws and FATF guidelines requires that policy makers and law enforcement officials recognize that terrorists' revenues, expenditures and methods of moving funds may differ from profit-oriented organized crime networks.

While not seeking financial gain as an end in itself, international terrorist groups need money to attract and retain adherents and to support a presence locally and overseas. Hizballah, HAMAS, Bin Ladin's al-Qa'ida, and others also need funds for media campaigns, to buy political influence, and even to undertake social projects--largely with the aim of maintaining membership and attracting sympathetic supporters. Indeed, for many terrorist groups, the planning and execution of violent attacks probably comprise a small part of their total budget. It is much more difficult to investigate the financial dealings of a terrorist organization if most of its funds are earmarked for legitimate political, social, and humanitarian activities.

Although many countries have passed laws that prohibit money laundering for all crimes--including terrorism--the laws usually have been applied to terrorists only in cases where they have taken part coincidentally in fraud, drug trafficking, or some other crime that generated illicit proceeds. More needs to be done on a comprehensive basis to prevent money laundering from facilitating terrorist activities.

Global Money Laundering Typologies

Asia and the Pacific

Structuring of transactions to avoid the prevention and detection of money laundering by threshold-based reporting requirements continues to be a significant problem in the United States as evidenced by a review of the SARs. This problem is further exacerbated by use of cashier's checks and money orders to facilitate physical transportation of funds. For example, one case involved a scheme to structure currency deposits into U.S. financial accounts in amounts just under \$10,000 and then to wire transfer these funds to individuals in Hong Kong, Singapore, Bangkok and Vietnam. Additionally, the scheme involved sending cashier's checks and negotiable instruments via the U.S. Postal Service. The structured financial transactions involved the purchase of over \$1 million of American Express money orders. The investigation revealed that an illegal money transmitting business was utilized to transfer over \$20 million to individuals outside the United States. One of

the defendants pled guilty to filing false tax returns and received a sentence of six months plus three years probation. The other defendant was convicted of conspiracy, operating an illegal wire transmitting business, structuring, and tax evasion.

Central and Eastern Europe

A review of SARs filed from January 1997 through February 1999 was undertaken to determine if SAR data could be used to construct a meaningful typology of suspicious financial activity that could be linked to Russia and jurisdictions in Eastern Europe and Eurasia (EEAE). This research identified approximately 500 SARs filed during this period reporting transactions or transactors associated, directly or indirectly, with Russia or one of jurisdictions in EEAE – (Estonia, Latvia, Lithuania, Belarus, Ukraine, Moldova, Armenia, Azerbaijan, Georgia, Turkmenistan, Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan). The SAR narrative field proved to be invaluable in identifying the relevant transactions and transactors and provided the vast majority of the information of value used in building the typology.

The national SAR database was searched to extract and then analyze SARs that include a reference in the narrative to Russia or the EEAE jurisdictions. An analysis of SAR data showed extensive, large dollar wire transfer activity, typically involving apparent connections between multiple accounts, companies, banks, and countries often involving a Russia-based bank or company, or a Russian citizen.

There are many variations of the overall paths of the wire transfer activity. However, a basic pattern that emerges from SAR data is that bank accounts based in the United States are identified as either primary reception or origination points for large wired sums, coming in from, or destined for, Russia and neighboring countries. It further appears that some of these U.S.-based accounts may also serve as conduit accounts from which large sums are then wired offshore, often to money laundering havens. Similarly, wires may also be received from offshore havens or other foreign locations.

With few exceptions, there appears to be no significant net flow in favor of any frequently cited country, including the United States. In many instances, the activity seems to have no purpose other than to move a transaction through a series of financial institutions, domestically and internationally. Such activity may reflect what law enforcement officials call "layering," or the transfer of funds to and from various locations and accounts for the express purpose of concealing the nature, origin or beneficiaries of the transactions.

Large wire transfer activity associated with Russia and the EEAE is most often identified by the banks as being unusual or suspicious for two reasons. First, the suspect has been unwilling or unable to provide sufficient information about the beneficiary or sender of the wire, or second because inadequate identifying information has traveled with the transaction through a chain of activity.

A second type of unusual or suspicious activity often reported involving Russia and EEAE is that which is not normally expected or commensurate with the stated business of the account holder. Similarly, relatively dormant accounts appear suddenly to experience a noteworthy and unexplained increase in wire transfers or other financial transactions. In some instances, the banks have reported suspected front companies, since it may be discovered by the bank that a given business entity is apparently non-existent (i.e., not operating at its stated address).

The account holders of the U.S.-based bank accounts with active wire transfer activity involving Russia and EEAE include primarily the following types of businesses: import, export and trade; investment and finance; management companies; car dealer, parts and sales; construction; electrical and computer; medical supplies; consulting and marketing; oil; and telecommunications and media companies. While any of these business types can be used as a front for illicit financial activity, international trade entities, investment and financial management companies and construction companies are believed by U.S. and foreign law enforcement authorities to have been used as cover for the movement of criminal proceeds into or out of Russia.

There is also evidence from the SARs pertaining to large dollar wire activity which involves correspondent accounts that a Russian bank maintains at an U.S.-based bank (i.e., through which correspondent account the Russian bank transacts U.S. dollar-denominated wire transfers on behalf of its customers). Banks that are monitoring and reporting such activity as suspicious appear to be doing so because of concerns about the identity of actual transactors, unusually large amounts involved, or atypical patterns of account activity.

Jurisdictions that appear may have some links to these transactions include the British Virgin Islands, Canada, the Cayman Islands, People's Republic of China, Cyprus, Germany, Ireland, Israel, Italy, and Switzerland. With the exception of the Cayman Islands, each of these jurisdictions experienced a significant increase from 1997 to 1998 in suspicious transactions linked to Russia or the other former Soviet Republics.

On average, approximately 75% of these reported violations are BSA-related—i.e., involving structuring or money laundering. In filings which report wire transfer activity, these jurisdictions are, by a slight margin, more often the destination of wires sent out from a suspicious account, rather than the origination point of wires sent to a suspicious account

Many of these SAR filings refer to more than one of the jurisdictions listed above, indicating that money is being transferred to or from a number of these jurisdictions from the account in question. The country most often mentioned in conjunction with other jurisdictions on this list was Switzerland.

Of the NIS themselves, the three countries that exhibited a marked percentage increase in activity, as reported in the SARs, from 1997 to 1998 are Armenia, Latvia and Ukraine. These are also the three republics with the most overall SAR filings after Russia itself.

The study also involved an updated review on SARs filed since March 1999 (the cut off date for the original data set). That review indicates that activity identified by financial institutions as suspicious and involving Russia and the NIS continues to be consistent with the current typology. The review also indicates that there has been an increase in reporting since that time by some banks, often in response to subpoenas or other requests for information from law enforcement agencies.

Latin America

Operation Casablanca

This case was first discussed in last year's Report and the following information is an update to this ongoing investigation.

In May 1998, the United States Customs Service concluded Operation Casablanca, the largest, most comprehensive and significant drug money laundering case in the history of U.S. law enforcement.

This undercover money laundering investigation resulted in the seizure of over \$98 million in U.S. currency (\$67 million from bank accounts and \$31 million in cash from drug traffickers), over 4 tons of marijuana and two tons of cocaine. The indictment, which was issued in U.S. District Court in Los Angeles, charged 26 Mexican bank officials and three Mexican banks, CONFIA, SERFIN, and BANCOMER with laundering drug money. The indictment alleged that officials from 12 of Mexico's largest 19 banking institutions were involved in money laundering activities. Additionally, bankers from two Venezuelan banks, BANCO INDUSTRIAL DE VENEZUELA and BANCO DEL CARIBE were charged in the money laundering scheme.

Operation Casablanca was significant for a number of reasons: (1) because of the sheer volume of the amounts of money involved, and (2) because it represents the first time Mexican banks and bank officials have been directly linked to laundering the Cali and Juarez cartels' U.S. drug profits, and (3) because it uncovered a systematic scheme to launder money via a large number of Mexican institutions.

The money laundering scheme worked in the following manner:

- Undercover agents were introduced to financial managers from both the Cali Cartel and the Juarez Cartel and obtained contracts to "pick up" drug proceeds on the streets of major U.S. cities.
- The agents were also introduced to Mexican bankers who then opened bank accounts for them.
- The funds that were "picked up" were then transported back to Los Angeles, California where they were deposited in U.S. Customs Service-controlled undercover bank accounts.
- The funds were then wire transferred to accounts opened by the Mexican banking officials. After taking out their commission, these officials then issued Mexican bank drafts drawn on the U.S. accounts of the Mexican banks. These bank drafts were delivered back to the undercover agents in the U.S. either in person or via courier.
- The funds were then disbursed at the direction of the money launderers. A large percentage of the money seized during Operation Casablanca was as the result of the use of "substitute assets" laws. Substitute assets are assets owned by a business or individual and seized by the government in lieu of the actual property (in this case money) that was used to further a criminal enterprise.

Court orders were obtained allowing for the seizure of the total amount of drug money laundered through the accounts and the amount of commission money paid to the bankers. Because the Mexican bank drafts were drawn on the U.S. accounts of the Mexican banks, court orders were obtained allowing for the seizure of the aforementioned funds from those U.S. accounts.

As a result:

- BANCOMER and SERFIN each pled guilty to criminal money laundering violations and together forfeited a total of \$16 million to the government. Each bank was also fined \$500,000.
- CONFIA settled the indictment with a civil plea and forfeited \$12 million.
- 28 individuals, including 12 Mexican bankers and their associates, have pled guilty to money laundering and/or drug smuggling charges.
- 3 Mexican bankers were convicted, and 3 Mexican bankers were acquitted of money laundering charges

in trials in Los Angeles.

- Three Venezuelan bankers were convicted in December 1999 on money laundering charges.
- \$64 million of the \$98 million seized during this investigation has been forfeited to the government of the United States.

Africa and the Middle East

Alien smuggling as a money laundering predicate offense in the United States has grown from being a problem primarily involving neighboring countries to involve transportation of illegal immigrants from all regions of the world. Proceeds from this type of crime have unique characteristics and result in highly complex financial investigations for our immigration authorities and for other law enforcement agencies that have collateral jurisdiction, such as the U.S. Postal Inspection Service.

In a recent case, postal inspectors and special agents from the Immigration and Naturalization Service (INS) uncovered an alien smuggling/money laundering scheme. On September 30, 1999, an anti-smuggling task force of the INS and Internal Revenue Service (IRS) executed a federal seizure warrant at the Bank of America, New York, New York. The warrant covered the contents of an operating account maintained by a gold exchange company in Dubai, United Arab Emirates. Nearly \$300,000 was seized from the operating account.

Over the past three years, the INS and agencies involved in the alien smuggling task force also have been conducting an international alien smuggling investigation based in Dallas, Texas. The investigation revealed that alien smuggling proceeds in the form of structured postal money orders and other monetary instruments have been funneled through the UAE-based gold exchange company's account in New York to members of alien smuggling organizations located abroad. A number of the organization's members have pled guilty in Dallas, Texas to alien smuggling and money laundering, and they are now cooperating defendants. The co-conspirators stated they used the gold exchange company's account to launder money and transfer alien smuggling proceeds.

Investigators concentrated on identifying the movement of the illegal proceeds and the financial institutions in which the proceeds were deposited. An Indian national living in the eastern United States structured large postal money order purchases at several post offices in his city. The Indian national, who was arrested on alien smuggling and money laundering charges in November 1998, transferred these money orders plus checks received at a post office box (usually via Express Mail), through a network of co-conspirators to the UAE-based currency exchange. During questioning, he stated that the Hawala or Hundi alternative remittance system provided a mechanism for him to send currency between the United States and India. Further, he indicated the primary reason to utilize the Hawala system was to transfer money to smugglers in India or to reimburse smuggling fees to relatives in India who had provided money to smugglers in India.

With the assistance of FinCEN, a complete analysis is being conducted on a number of deposits into the operating account. As of December 31, 1999, the analysis disclosed a large percentage of the deposits consisted of structured postal and non-postal money orders, cashier's checks and traveler's checks. The investigation is continuing.

Other Money Laundering Trends and Typologies

Black Market Peso Exchange System

The Black Market Peso Exchange system is the primary money laundering conduit used by Colombian narcotics traffickers in repatriating revenues to Colombia and is the single most efficient and extensive money laundering scheme in the Western Hemisphere. Specifically the process begins when a Colombian drug cartel arranges the shipment of drugs to the United States. The drugs are sold in the U.S. in exchange for U.S. currency that is then sold to a Colombian black market peso broker's agent in the United States. The U.S. currency is sold at a discount because the broker and his agent must assume the risk of evading the Bank Secrecy Act (BSA) reporting requirements when later placing the dollars into the U.S. financial system.

Once the dollars are delivered to the U.S.-based agent of the peso broker, the peso broker in Colombia deposits the agreed upon equivalent in Colombian pesos into the cartel's account in Colombia. At this point, the cartel has laundered its money because it has successfully converted its drug dollars into pesos, and the Colombian broker and his agent now assume the risk for introducing the laundered drug dollars into the U.S. banking system, usually through a variety of surreptitious transactions. Having introduced the dollars into the U.S. banking system, the Colombian black market peso broker now has a pool of laundered dollars to sell to Colombian importers. These importers then use the dollars to purchase goods, either from the U.S. or from other markets, which are transported to Colombia, often via smuggling in order to avoid applicable Colombian law.

The exact size and structure of the BMPE system cannot be determined with any degree of precision. However, based on anecdotal law enforcement evidence, informants' statements, and Colombian law enforcement and intelligence officials, it is believed that between \$3 billion and \$6 billion is laundered annually. Other sources

of demand for BMPE dollars include capital outflows by Colombian residents, who seek either to conceal the funds from the Colombian authorities or simply to take advantage of the favorable BMPE exchange rate.

The BMPE system and the contraband imports it finance would likely have faded in significance following the liberalization of exchange controls in the early 1990s. However, narcotics traffickers increased their reliance on the system to launder their illicit drug proceeds. Continued Colombian trade restrictions and high tariffs, coupled with the fact that the growing supply of "narco-dollars" lowers the BMPE exchange rate to a level below the official rate, act to perpetuate this money laundering scheme.

To combat the BMPE, the U.S. Government has proposed the formation of an international task force of experts from Colombia, Aruba, Panama, and Venezuela to examine the BMPE as a money laundering system. As proposed, the BMPE task force would report its findings and recommended policy options to senior government officials from the respective jurisdictions. Pending agreement by all involved governments, the first meeting of the task force could occur as soon as June 2000.

Money Services Businesses (MSBs)

The United States has categorized businesses that offer alternative financial services as MSBs. The use of currency exchange houses and money remittance businesses to dispose of criminal proceeds remains among the most often cited threats in our domestic fight against financial crimes. The prolific use of the wire remitter industry by narcotics organizations is evidenced by historical data obtained from the prior Geographical Targeting Order (GTO) covering metropolitan New York City, northern New Jersey, and Puerto Rico, and from the various wire remitter investigations that are ongoing across the country.

Criminal organizations are drawn to the use of wire transmitter businesses because they provide a swift and relatively anonymous means of laundering their money. Their preference for this mode is enhanced by the lack of money laundering regulations and controls imposed on the wire transmitter industry by the government. Although wire transmitter businesses are subject to the currency transaction reporting provisions of BSA, they are not currently required to file suspicious activity reports when they become aware of possible criminal activity occurring through their institutions. Non-bank wire remitters, are being illegally used in the following ways:

Structuring	The traffickers or associates will go from transmitting agent to transmitting agent, with cash, conducting wire transfers in amounts under the reporting requirements (\$10,000) in order to evade the Currency Transaction Report (CTR) filing requirements. This method, known as "smurfing," began with banks in the 1980s.
Collusion:	The rogue transmitting agent may agree, for a fee, to take sums greater than \$10,000 and upon depositing the money with the bank, have the CTR filed in his name, thus effectively insulating the trafficker. The transmitting agent may attempt to structure the deposit with his own financial institution in order to evade the filing requirement.
Direct Ownership:	The trafficker may purchase a transmitting outlet and install his associate as the agent. This can be done at very little cost and would allow wholesale transmission of funds abroad.

The Hawala System

The hawala (or hundi) alternative (or parallel) remittance system is the key factor in money laundering and other financial crimes committed in and associated with South Asia. It is closely related to the "black" or "off the books" economies in the region. The size of the underground economies in South Asia are estimated to be 50 to 100 percent the size of the "white" or "documented" economies.

Hawala operates on trust and connections ("trust" is one of several meanings associated with the word "hawala"). Customers trust hawala "bankers" or "operators" (known as hawaladars) who use their connections to facilitate money movement worldwide. Hawala transfers take place with little, if any, paper trail, and, when records are kept, they are usually kept in code. Contrary to various media reports, hawala is an ancient system;

it was the primary money transfer mechanism used in South Asia prior to the introduction of Western banking. Today, hawala continues to be used for many legitimate transfers for cultural reasons, and it also often operates in conjunction with Western banking operations.

In 1999, there were significant developments in "Operation Seek and Keep." This Operation concerned the investigation of an international alien smuggling and money laundering ring. Aliens were smuggled from South Asia to the United States. Many of the aliens' had their fees paid by U.S. businessmen, who were in effect purchasing indentured servants to help them operate a variety of businesses. The Operation Seek and Keep Task Force, which consisted of representatives from the U.S. Immigration and Naturalization Service, FinCEN, Internal Revenue Service, Customs Service, Postal Inspection Service and Federal Bureau of Investigation identified both the routes by which aliens were smuggled and the means by which the proceeds from this operation were laundered. In late 1998, all but a handful of the major subjects in this case were apprehended. In 1999, most of these subjects began prison sentences, and work is continuing to locate the remaining fugitives.

Hawala was the primary means by which money was moved by the alien smugglers, and the hawala operators assisted them with laundering the criminal proceeds and the arrangements for payment of alien smuggling fees. Throughout 1999, members of the Task Force analyzed telephone and other transcripts and conducted detailed interviews with several of the subjects to develop a fuller understanding of the financial aspects of the case. This work resulted in the identification of an account belonging to a Dubai-based firm that appears to have been a party to the money laundering operations. This account is now the object of an asset forfeiture proceeding.

In another U.S. case, a nationwide network of criminals appears to be channeling money to a Dubai-based trading company. Once the money reaches Dubai, hawala is used to move it to various destinations in Asia and elsewhere.

In Pakistan, the newly established Musharraf government is attempting to recover national assets allegedly stolen by former (and deposed) Prime Minister Nawaz Sharif. There are also similar allegations about former Prime Minister Benazir Bhutto and her husband, Asif Zardari. Bhutto and Zardari are accused of having used a combination of hawala, offshore centers in Europe and Dubai-based businesses to launder money.

Dubai, India and Pakistan form a "hawala triangle" responsible for significant international money laundering activities that go far beyond South Asia. While interdiction of non-bank money laundering systems such as hawala is difficult enough in itself, this difficulty is sometimes compounded by the lack of insufficient effective money laundering countermeasures in Dubai and the other Emirates.

The Market for Gold and Other Precious Metals

Gold is known to play a significant role in international money laundering. Gold, just like certain currencies (e.g., the U.S. dollar, Swiss franc, and British pound) is a nearly universal commodity for international commerce. The attractiveness and value of a particular currency depend on a complex and often unstable variety of political and economic conditions. Gold has been a key medium of exchange since antiquity and will, in fact, most likely always enjoy this position, as it appears nearly immune to the consequences of changing global fortunes.

Gold serves as both a commodity and, to a lesser extent, a medium of exchange in money laundering conducted in Latin America, the United States, Europe and Asia. In this cycle, for example, gold bullion makes its way to Italy via Swiss brokers. There it is made into jewelry, much of which is then shipped to Latin America. In Latin America, this jewelry (or the raw gold from which it was made) then becomes one, if not the most important, of the commodities in the black market peso exchange. Other commodities include various consumer goods and electronic equipment.

Gold is often shipped from South America to the United States where it is refined and sold to domestic customers. Payments owed for the imported gold are documented as being used to pay for goods shipped to South America. This scheme also serves, often fraudulently, as a source of U.S. dollars for the black market peso exchange. Often, the sales to the domestic customers are made through jewelry supply distributors to individuals who are "engaged in jewelry manufacture." Some of the gold thus obtained is cast and disguised as shapes that resemble common objects such as nuts, bolts or tools. These items are then smuggled out of the United States back to the South America. The cycle can then repeat over and over. This gold scheme has the capacity to launder hundreds of millions of dollars in illegal proceeds and defraud the foreign countries of millions of dollars of tax revenue.

In money laundering associated with the hawala (hundi) alternative remittance system (or practices based on or associated with it), gold often plays a somewhat different role: that of the primary medium of exchange in certain transactions. Even though many hawala transactions take place without a gram of gold, many of these transactions moving money to South Asia involve gold for two reasons: first, the combined historical, religious and cultural importance gold enjoys in the region; and second, the increasing distrust in the value of local

currencies. (Many South Asian nations prohibit speculation on their currencies, and exchange rates are fixed by the central banks). Worldwide, gold is often used as a hedge against inflation. In South Asia, gold is often the primary means of preserving and protecting wealth.

In one case, a gold dealer operating in a major U.S. metropolitan area was also operating as the "banker" for various jewelry shops in the region. These jewelry shops give him the checks and cash they receive for purchases, and he processes these through his own bank accounts. In return, he gives them gold scrap and gold jewelry for use in their businesses. He retains a few percentage points of the money he receives from them for his "services" (as well as the legal risk he is incurring). The owners of the jewelry shops do not have to deal with the bureaucracy of banking and, because there is almost no paper trail of their sales, they enjoy a greatly reduced tax liability.

In another case, an U.S.-based hawaladar (hawala operator) is facilitating the smuggling of aliens from South Asia to the United States. He receives payments from people who want to have aliens smuggled. He then makes contact with a hawaladar in South Asia, and instructs him to make the necessary payment to an alien smuggler. In order to settle his accounts with the South Asian hawaladars, the U.S. hawaladar sends U.S. postal money orders to a precious metals house in the Persian Gulf. This allows the South Asian hawaladars to receive payment in gold, held either by the precious metals house in their name or delivered to them in South Asia.

In both these cases, currency is being converted into gold. Even though the first case does not involve hawala transfers, many of the techniques associated with hawala (e.g., coded documents, the use of gold) are present, and, because most of the participants in this case are South Asian, it underscores the cultural significance that is attached to gold there. In the second case, there is no doubt that gold is the preferred medium of exchange, and the thriving gold markets in the Persian Gulf make the necessary conversions and payments possible.

What Can be Done to Combat Money Laundering

In an electronic world in which the banking system operates through linked computers 24 hours a day, there must be increased global emphasis upon thorough vetting of personal, company and financial institution accounts at the bank of origin. There is no substitute for a thorough know-your-customer policy, especially as applied to those placing currency into the system and converting it to an account susceptible to immediate transfer outside the jurisdiction.

Considerable attention also must be focused by anti-money laundering authorities on establishing international standards, obtaining agreements to exchange information, establishing linkages for cooperative investigations, and overcoming political resistance in various key jurisdictions to ensure such cooperation.

Governments need laws and regulations that: establish corporate criminal liability for bank and non-bank financial institutions for money laundering violations; apply to all financial transactions, not just to cash transactions at the teller's window; apply anti-money laundering measures to serious crimes, not just drug trafficking; criminalize investments in legitimate industry if the investment proceeds were derived from illegal acts; and enable the sharing of financial and corporate ownership information with law enforcement agencies and judicial authorities.

Governments also need strategies that focus on changes in both the operations of financial systems and the methods criminals develop to exploit them--strategies that look at specific governments and specific financial systems.

U.S. Money Laundering Countermeasures

The National Money Laundering Strategy For 1999

In light of the ongoing threats posed by money laundering, Congress recently passed, and the President signed, the Money Laundering and Financial Crimes Strategy Act of 1998, which calls for the development of a five year anti-money laundering Strategy. The National Money Laundering Strategy for 1999 is the first of five annual reports to be submitted to Congress.

The Strategy is organized around four broad goals: strengthening domestic enforcement; enhancing the measures taken by banks and other financial institutions; building stronger partnerships with state and local governments; and bolstering international cooperation. It sets forth an ambitious agenda of actions designed to advance these goals. It establishes a Steering Committee led by the Deputy Secretary of the Treasury and the Deputy Attorney General, to oversee implementation. Treasury will work with Departments of Justice and State and other existing anti-money laundering experts within U.S. Government, and will provide the U.S. Congress with a second of five National Money Laundering Strategy annual reports in February 2000. An additional 180-day review of the Strategy will begin in March 2000.

Specifically, the Strategy calls for (1) designating high-risk money laundering zones at which to direct coordinated law enforcement efforts; (2) rules requiring the scrutiny of suspicious activities in a range of financial institutions, from money transmitters to broker-dealers and casinos; (3) submission of the

Administration's Money Laundering Act of 1999, to bolster the domestic and international crimes—from arms trafficking to public corruption and fraud—subject to U.S. money laundering prosecutions; (4) a 90-day review of measures that would restrict the use of correspondent accounts in the United States by certain offshore or other institutions that pose money laundering risks; and (5) intensified pressure on nations that lack adequate counter-money laundering controls to adopt them. The following are priority Strategy action items which will be implemented immediately:

- Promote adoption of supervisory and regulatory actions (to include items such as increased regulatory reporting, increased external and internal audits, differentiated risk weights or provisioning) in response to specified jurisdictions that fail to make progress in implementing effective international standards, including those related to money laundering.

In an effort to apply pressure to jurisdictions where lax controls invite money laundering, Treasury will conduct a 90-day review of issues involving non-compliant offshore jurisdictions. Federal bank regulators and law enforcement officials will examine what guidance would be appropriate to enhance the scrutiny of correspondent bank accounts in the United States maintained by certain offshore and other financial institutions that pose money laundering risks.

- As part of Treasury's effort to understand the implications of counter-money laundering programs for personal privacy, it will conduct a 180-day review in which it will expand on and outline privacy protection efforts in the context of anti-money laundering programs.
- The Strategy encourages regulatory and cooperative public-private efforts to prevent money laundering. It enhances the defenses of U.S. financial institutions against use by international criminal organizations. Thus, Treasury and Justice will convene a high-level working group of federal bank regulators and law enforcement officials to examine what guidance would be appropriate to enhance bank scrutiny of certain transactions or patterns of transactions in potentially high-risk accounts. The federal bank supervisory agencies, in cooperation with Treasury, will conduct a review of existing bank examination procedures relating to the prevention and detection of money laundering at financial organizations.
- The Strategy assures that all types of financial institutions are subject to effective Bank Secrecy Act requirements. As such, Treasury will issue a final rule for the reporting of suspicious activity by money service businesses and casinos, and it will work with the Securities and Exchange Commission to propose rules for the reporting of suspicious activity by brokers and dealers.
- The Strategy calls for the improvement of coordination and effectiveness of international enforcement efforts. The G-7 nations will be urged to consider an initiative to harmonize rules relating to international funds transfers so that the originators of the transfers will be identified. In addition, Treasury, State and Justice will consider establishing a program to deny or revoke visas in all cases where couriers are being used to repatriate drug currency.
- Treasury and Justice, in an effort to identify and target major money laundering systems, will issue joint memoranda to investigators and prosecutors recommending that investigative and prosecutorial guidelines include considerations for below-threshold cases that offer the potential of having a systemic or financial sector-wide effects on money laundering.
- Treasury, in consultation with Justice, will begin designation of High-Risk Money Laundering and Related Financial Crimes Areas (HIFCAs) and inaugurate the Financial Crime-Free Communities Support (C-FIC) program. This program will help strengthen partnerships between federal, state and local governments to fight money laundering throughout the United States.
- The Strategy shepherds the coordinated efforts of the Congress, states and localities, the private sector and the international community, and it lays out a road map for combating money laundering and other financial crimes.

International Crime Control Strategy

On May 12, 1998, President Clinton released the first International Crime Control Strategy in U.S. history. The Strategy provides a framework for integrating all facets of the federal government's response to international crime. It is an outgrowth of Presidential Decision Directive 42 (discussed below). One of the eight goals of the Strategy is to counter financial crime. This reflects the high priority that the United States attaches to preventing the continued use of financial instruments and systems in the perpetuation of international crime.

The objectives of the Strategy to fight financial crime include combating money laundering by denying criminals access to financial institutions and by strengthening enforcement efforts to reduce inbound and outbound movement of criminal proceeds.

Other objectives include seizing assets of international criminals through aggressive use of forfeiture laws and enhancing bilateral and multilateral cooperation against all financial crime by working with foreign governments to establish or update enforcement tools and standards.

Finally, one of the more important objectives is the targeting of offshore centers for international fraud, counterfeiting, electronic access device schemes and other financial crimes. During 1999, this sector became an important global focus for numerous countries and multilateral organizations as noted in the offshore financial centers chapter in this report.

As can be seen throughout this report, the administration is fully engaged in implementing all aspects of the Strategy's components to counter financial crime.

Presidential Decision Directive (PDD)-42

During 1995 the President signed PDD-42, ordering the Departments of Justice, State, and Treasury, the Coast Guard, the National Security Council, the intelligence community, and other federal agencies to increase and integrate their efforts against international crime syndicates and money laundering.

During 1999, U.S. officials continued efforts to address PDD-42, specifically targeting the nation's fight against international crime by going after the profits of crime. In consultation with the Secretary of State and the Attorney General, the Secretary of the Treasury has been identifying the most egregious overseas sanctuaries for illegally obtained wealth and negotiating with those governments to end the safe havens sought by international criminals. Negotiations have resulted in strengthened anti-money laundering regimes and weakened safe haven status. United States authorities have improved coordination among themselves and expanded cooperative programs with foreign law enforcement agencies. Training and technical assistance have been targeted to assist foreign police forces, prosecutors, judges, and bank supervisors to become more effective crime fighting agencies, while strengthening and generating contacts for information-sharing with U.S. counterparts.

A key component of the International Crime Control Strategy and PDD-42 has been the imposition of sanctions under the International Emergency Economic Powers Act (IEEPA). The U.S. now has at its disposal two powerful economic sanctions options against narcotics traffickers, the entities they own or control, and those persons acting for them or supporting their narcotics trafficking activities.

In addition to IEEPA, the U.S. Government also will use the new Foreign Narcotics Kingpin Designation Act ("the Kingpin Act"). In December of 1999, the President signed into law the Kingpin Act, which provides him with a statutory framework for imposing sanctions against foreign drug kingpins when such sanctions are appropriate. The Kingpin Act is modeled after the highly effective Specially Designated Narcotics Traffickers ("SDNT") program that Treasury's Office of Foreign Assets Control ("OFAC") administers against the Colombian cartels pursuant to Executive order 12978, which was issued in October, 1995 under the authority of IEEPA. Nearly 500 individuals and entities have been identified as SDNT's in the five years since the Colombia program's inception.

Both the Kingpin Act and the IEEPA-SDNT program prohibit U.S. persons from engaging in transactions, trade and services involving foreign narcotics kingpins and derivative designees. The objective of both laws is to deny drug kingpins, their businesses and agents access to the U.S. financial system and to the benefits of trade and transactions involving U.S. businesses and individuals. The long-term effectiveness of designations under the Kingpin Act, as well as designations under an IEEPA program, will depend heavily upon Treasury's authority to make derivative designations of entities and individuals as is being done in the IEEPA-SDNT program against Colombian cartels.

The Kingpin Act, moves beyond the IEEPA-SDNT Colombia model to target the activities of significant foreign narcotics traffickers ("drug kingpins") and their organizations on a worldwide basis. In keeping with PDD-42's emphasis on interagency cooperation, the Kingpin Act requires that the Departments of Treasury, Justice, State and Defense and the CIA coordinate to develop a list of recommended kingpins for presidential designation by June 1 of each year. The statute permits kingpin designations at other times as well.

In keeping with PDD-42's emphasis on international cooperation and collaborations, to the extent feasible, the United States will continue to coordinate carefully with the host government concerning the drug kingpins, and it will continue to work cooperatively with appropriate host governments authorities to pursue additional measures and leads against those significant foreign narcotics traffickers. For instance, the cooperation of the Government of Colombia has been important to the success of the IEEPA-SDNT program against narcotics cartels in that country.

Enforcement Cases

Cayman Island Bank Assist Russian Money Launderers

The FBI conducted an undercover operation to determine the existence and extent of a Russian-based business using the United States to launder money. As a result of this investigation, the FBI found a Cayman Island bank being used to support money launderers in the United States and Russia.

The bank supplied the Russians and the FBI undercover agents with instructions on how to covertly bypass U.S. currency transaction reports and provide bogus merchandise invoices to enable the businesses to substantiate expending payments that in fact were deposits to the secreted offshore bank account.

An indictment was returned against the Chief Executive Officer of the Cayman Island bank for facilitating money laundering in the United States.

Diploma Mill College

A New Orleans-based FBI investigation into mail order colleges discovered an offshore money laundering operation facilitating the frauds. The investigation involved mail order correspondence schools that offered external degree studies. These entities solicited students through printed advertisements in magazines and major newspapers. These entities had a national and international student registration of over 15,000 students. However, none of these entities were recognized by any collegiate accrediting body.

The students being targeted by these entities were generating over \$2 million per semester in student fees. The victim-students would pay their fees by check, credit card or bank draft. Approximately \$36 million was obtained and laundered by the use of this deception to obtain students.

The mail order entities used many shell companies to conceal the source of the income they generated. Over 12 different bank accounts were located by the FBI. Some of the accounts owned or controlled by these entities were located in the Cayman Islands and were maintained under various company names. The accounts were used by the owners to buy drugs, produce pornographic movies, and establish a quasi-militia organization with anti-government objectives.

The investigation allowed the FBI to issue seizure warrants for bank accounts totaling over \$10 million. Later, the home of a company official, valued at approximately \$2 million, was forfeited to the FBI. All of the "university" officials were convicted of various charges of mail fraud, wire fraud, and money laundering.

Forfeiture Of \$50,000,000

On May 27, 1999, a Federal Judge in the Southern District of Florida issued a final order forfeiting \$50,000,000 to the United States. The funds represent the narcotics proceeds traceable to Paul Edward Hindelang. Hindelang, a convicted narcotics smuggler, plead guilty in the 1980's to importation of narcotics. The plea agreement signed by Hindelang called for him to forfeit all illegal proceeds generated through his narcotics trafficking. Based on information developed by the U.S. Customs Service and the Monroe County Sheriffs Office, an investigation was initiated into allegations that Hindelang failed to identify all his illegal assets. The investigation revealed that Hindelang concealed his narcotics proceeds through the use of nominee accounts in the names of individuals, associates and corporations in Switzerland, Turks and Caicos Islands, the Cayman Islands, Costa Rica and Panama.

This forfeiture represents the largest single forfeiture in the history of the Treasury Department and the largest single asset sharing disbursement, \$25 million, to any law enforcement agency.

Forfeiture of Mustang Ranch

On July 9, 1999, the world famous Mustang Ranch Brothel in Storey County, Nevada was forfeited to the U.S. Government based on a guilty verdict in a three-week jury trial. The trial was the result of a thirty-three-count indictment charging Joseph Conforte, A.G.E. Enterprises, A.G.E. Corporation and other individuals with money laundering, wire fraud and racketeering.

The indictment was based on a joint investigation between the U.S. Customs Service, Internal Revenue Service and the Federal Bureau of Investigation that alleged Conforte, the owner of the Mustang Ranch, skimmed over \$6 million from the Mustang Ranch during bankruptcy proceedings. Conforte laundered this money by opening bank accounts in fictitious names in Switzerland. Conforte, who remains a fugitive, utilized the laundered money to set up various corporations to re-purchase the Mustang Ranch from the IRS after it had been seized by the IRS for failure to pay back taxes.

Along with the Mustang Ranch, a restaurant, six parcels of land, a trailer park, and 264 acres of land were forfeited. The value of these properties is estimated to be in excess of \$6 million. In addition, the jury issued a monetary judgment against A.G.E. Corporation and A.G.E. Enterprises in the amount of \$20,000,000 each. The total amount of the forfeiture ordered by the jury is in excess of \$46,000,000.

Former Mexican Deputy Attorney General Arrested On Money Laundering Charges

On August 26, 1999, at the conclusion of a four-year investigation, former Mexican Deputy Attorney General Mario Ruiz Massieu was arrested by the U.S. Customs Service pursuant to an indictment returned in Houston, Texas charging him with laundering over \$9 million in narcotics proceeds. The investigation was initiated based on a request by the Mexican government for assistance in locating Massieu for questioning in the assassination of his brother Jose Francisco Ruiz Massieu, the former Secretary-General of Mexico's ruling

political party, Partido Revolucionario Institucional (PRI).

The U.S. Customs Service arrested Ruiz Massieu in 1995 as he attempted to depart the U.S. without reporting over \$46,000 in currency. The ensuing investigation revealed that between 1993 and 1995, twenty-five cash deposits totaling over \$9 million were made to an account in the name of Mario Ruiz Massieu. In 1997, following a civil trial in Houston, Texas, a federal jury ruled that the \$9 million in Massieu's account were proceeds derived from drug trafficking and forfeited the money to the United States.

Offshore Comes Onshore

Owen K. Stephenson and Ronald G. Sparks were indicted in November, 1998 on 30 counts of mail fraud, money laundering and conspiracy. The two California men had conspired to run an Anadarko bank scheme that fraudulently pulled in more than \$7,000,000 from investors and depositors.

Sparks and Stephenson initially met with Apache tribal officials in November, 1996 to discuss creating a tribal bank that would provide low-interest loans to Apache Tribal members. In order to establish the framework for the bank, in April, 1997, the Apache Business Committee enacted a banking code, by which First Americans Bank, LTD was created. However, by May, 1997, Sparks and Stephenson, while continuing negotiations with the Apache Tribe, were already advertising on the Internet for investors and depositors. They boasted of giving "offshore" banking secrecy using the sovereignty of the Apache Tribe in Oklahoma.

Once the money was received from unsuspecting investors and depositors, it was deposited in corporate accounts Sparks and Stephenson controlled at Citizens Bank in Lawton, Oklahoma.

Sparks and Stephenson were both tried and convicted of money laundering, mail fraud and conspiracy. Sparks was sentenced to 11 years and 3 months in prison and ordered to pay over \$6,000,000 in restitution. Stephenson is currently a fugitive.

Offshore Money Laundering Operation

John M. Matthewson of San Antonio, Texas, former chairman and owner of Guardian Bank & Trust recently was sentenced in August 1999 to six months home confinement followed by five years of supervised release after pleading guilty to conspiracy to commit money laundering and wire fraud, and assisting clients in tax evasion. The light sentence was due to Mr. Matthewson's deteriorating health and his willingness to share information with authorities.

The scheme established by Matthewson involved the establishment of shell corporations and the opening of offshore bank accounts in fictitious names at Guardian Bank and Trust, a Cayman Island Bank. As part of the scheme, from 1990 to 1994 Guardian Bank received payments from U.S. depositors and, in return, provided false and inflated sales invoices to create the appearance that goods and services were purchased and the transactions were legitimate. Matthewson instructed his bank to issue bogus invoices, which allowed the depositors' businesses to take fraudulent tax deductions on federal tax returns.

Matthewson also arranged the issuance of Visa gold credit cards in the names of anonymous IBCs that permitted U.S. depositors access to their money in the offshore account without revealing the existence or ownership of the account. Matthewson further assisted in the creation of Dutch corporations that were used to issue sham mortgages that gave the appearance that depositors of his bank were borrowing money from a legitimate lender. These sham mortgages allowed depositors to use unreported funds from their offshore accounts at Guardian, to create sham tax deductions for mortgage interest, and to redeposit mortgage interest into secret offshore accounts.

Operation Calecia

Benito Ramos-Salcido and Sergio Campo-Salcido were the leaders of a Mexican drug organization until Benito Ramos-Salcido was murdered in 1996. Sergio Campo-Salcido allegedly continued to direct the smuggling of hundreds of kilograms of cocaine into the United States and used the proceeds to purchase pieces of real estate in California in the names of his wife, Raquel Trujillo-Yanez, Benito Ramos-Salcido's widow, Claudia Mendoza-Ibarra, and CLRA, Inc., a company owned by the two women. Trujillo and Mendoza used CLRA, Inc. and these properties as a means to launder the proceeds generated by the drug organization. John L. Matkin acted as a business manager and assisted the organization in the purchase and development of the properties. All four were indicted on money laundering conspiracy and narcotics conspiracy charges. Mendoza and Matkin pleaded guilty to the money laundering charges while Campos and his wife are fugitives believed to be living in Mexico. In the United States, the case involved the seizure of real estate valued at \$4 million, jewelry worth \$180,000, and \$27,000 in cash. As a result of cooperation between IRS and Mexican authorities, records were supplied to the Mexican officials who seized approximately \$9 million from Mexican bank accounts controlled by Campos, Trujillo and Mendoza. This money is in the process of being forfeited. The Mexican Office of the Attorney General (PGR) and the Secretariat of the Treasury (Hacienda) are also attempting to locate real property assets owned by the targets in Northern Mexico for possible forfeiture.

Operation Juno

Operation Juno was initiated after the seizure of approximately 386 kilograms of liquid cocaine, which had been concealed and shipped in frozen fish from Cartagena, Colombia, in July, 1995, and shipped under the name of the Colombian company "COLAPIA S.A.," whose U.S. distribution center was in the Atlanta area. The subsequent investigation of "COLAPIA S.A." indicated that the company owner was a partner of Arfranio ("Phanor") Arizabaleta Arzayur, a prominent Cali, Colombia, narcotics trafficker. The operation resulted in the indictments of Armando Mogollon, Hector Fabio Botero, Juan Montoya, Juan Carolos Arias, and Samuel Vallejo, all of Colombia. The indictments charged that from October, 1996 to August, 1999 the defendants conspired to launder drug money and traffic in narcotics.

In September 1996, the Drug Enforcement Administration (DEA) and the Internal Revenue Service (IRS) began an undercover money laundering "sting" investigation called "Operation Juno," based out of a rented office building in suburban Atlanta. DEA and IRS Special Agents gained permission from the Attorney General to open a legitimate stockbrokerage firm, which served to validate the undercover money laundering operation. No stock trades were ever executed through the undercover stockbrokerage firm.

Members of the Arzayur organization referred Operation Juno to other drug trafficking organizations in need of financial and money laundering services. At the request of one of the five indicted defendants in this case, Operation Juno picked up drug proceeds usually ranging between \$100,000 and \$500,000 in U.S. currency. Pickups were made in Dallas, Houston, New York, Newark, Providence, Miami, Chicago, Madrid, Spain, and Rome, Italy. Juno later wire-transferred the monies from the collection city to an undercover bank account in Atlanta.

Along with the five named defendants, 40 arrests have been made in the United States during the course of the investigation. In addition, 15 other defendants are in the process of being arrested in New York and Chicago. Civil seizure warrants are also being brought against bank accounts worldwide. Approximately \$26 million in drug proceeds were targeted for seizure. \$10 million was seized during the investigation, and the balance is being seized in 59 accounts at 34 U.S. banks, and 282 accounts at 52 foreign banks.

Bilateral Activities

Training and Technical Assistance

During 1999, a number of U.S. law enforcement and regulatory agencies provided training on money laundering countermeasures and financial investigations to their law enforcement, financial regulatory, and prosecutorial counterparts around the globe. These courses have been designed to give financial investigators, bank regulators, and prosecutors the necessary tools to recognize, to investigate, and to prosecute money laundering, financial crimes, and related criminal activity. Courses have been provided at U.S. locations as well as within the jurisdictions to which the programs were targeted.

Department of State

The Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) developed a fiscal year 1999 \$3.4 million dollar program for providing law enforcement, prosecutorial and central bank training to countries around the globe. A prime focus of the training program was a multi-agency approach to develop or enhance financial crime and anti-money laundering regimes in selected jurisdictions. Supported by and in coordination with INL, the Department of Justice (DOJ), Treasury Department component agencies, the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve (FRB), and non-government organizations offered law enforcement, regulatory and criminal justice programs worldwide.

During 1999, INL funded over 70 programs to combat international financial crimes and money laundering in 40 countries. Nearly every federal law enforcement agency assisted in this effort by providing basic and advanced training courses in all aspects of financial criminal activity. In addition, many federal agencies were provided funding to conduct multiagency financial crime assessments and develop specialized training in specific jurisdictions worldwide to address assessment findings.

In May, 1999, an INL-led multi-agency team delivered a weeklong money laundering seminar in Ankara, Turkey, which focused on investigative techniques, suspicious transactions reporting, information systems, mutual legal assistance and organized crime. The audience included members of the Turkish judiciary, police, customs, banking community, and FIU. A similar November, 1999 seminar in Nicosia, Cyprus, dealt with money laundering on the Internet, offshore financial centers, bank secrecy, Russian organized crime, and wire transfers.

Also in 1999, INL led a team from DOJ, the U.S. Customs Service, DEA, and the Federal Reserve Board of Governors that conducted a weeklong money laundering and training assessment in Lebanon. The team met with Lebanese law enforcement, banking and judicial personnel, as well as U.S. embassy officials.

As in previous years, INL training programs continue to focus on the interagency approach and bring together,

where possible, law enforcement, judicial and central bank authorities in assessments and training programs. This approach allows for an exchange of information and a dialogue usually not undertaken by those attending the training seminars. This approach has proven successful in various parts of the globe, from Asia, Central and South America, Russia, the New Independent States (NIS) of the former Soviet Union, and Central Europe. INL also provides funding for many of the regional training and technical assistance programs offered by the various law enforcement agencies, including those at the International Law Enforcement Academies (ILEA).

The following summary provides a glimpse of training activities undertaken in 1999 by U.S. law enforcement agencies.

Drug Enforcement Administration (DEA)

International Asset Forfeiture and Money Laundering Seminars are a part of the U.S. Department of Justice Asset Forfeiture Program conducted by the Drug Enforcement Administration Office of Training, International Training Section. The intent of these seminars is to share, compare, and contrast U.S. legislation with that of other countries, building a relationship and fostering communications with foreign narcotics enforcement and prosecutorial personnel. On average, the yearly budget allotted is \$420,000 to complete five seminars. Each seminar provides instruction to 35 to 50 high-level drug law enforcement and money laundering specialists.

DEA's primary focus for its training courses include specialized training for central bank regulators, police and customs officials, and prosecutors. Course materials include training in U.S. asset forfeiture laws, asset and financial gathering techniques, financial investigation techniques, case studies, document exploitation, and international banking.

Training is designed for one-week seminars involving lectures, presentations, case studies, and practical application exercises. Guest lecturers are utilized from various areas of the U.S. Government: The Department of Justice Asset Forfeiture and Money Laundering Section, the U.S. Customs Service, the U.S. Marshals Service, and bank regulators, as well as from various divisional offices of DEA.

This training is focused on cultures with economic systems developed enough to accommodate money laundering activities. All seminars are conducted in country. During 1999, seminars were conducted in the following locations: Brussels, Belgium; Dublin, Ireland; Bangkok, Thailand and Bogota, Colombia.

Federal Bureau of Investigation

The Federal Bureau of Investigation/Money Laundering Unit (MLU) conducts training with the goal of providing international law enforcement with the ability to adequately investigate all forms of money laundering. The training emphasizes the techniques that money launderers use to conceal or disguise the true nature of illicit cash proceeds and provides law enforcement with the ability to trace the location, source, or ownership of these proceeds.

The FBI has either exclusive or concurrent jurisdiction over 133 of the 164 "Specified Unlawful Activities" (SUAs) under the United States money laundering statutes. This background has allowed the FBI to gain extensive experience in unconventional money laundering methodologies associated with various SUAs in areas such as organized crime, drugs, violent crime and white collar crime. This experience places the FBI in a unique position to provide expert training in traditional and non-traditional money laundering investigations that transcend SUAs. The FBI has also provided experts for advanced training in the areas of emerging technologies such as digital cash, smart cards, Internet banking, the Black Market Peso Exchange and bulk cash shipments. Further, FBI provides technical assistance for the new weapons that law enforcement can utilize to investigate money laundering such as Geographic Targeting Orders, the International Emergency Economic Powers Act, and Suspicious Activity Report Task Forces.

The FBI provides training independently and in conjunction with other federal, state, and local agencies within the United States and internationally. The FBI/MLU has worked with the United Nations in conferences to provide a United States perspective on successful tactics used to disrupt and dismantle money laundering enterprises. On other occasions, the FBI has provided independent money laundering training and briefings at the FBI Academy in Quantico, Virginia and at FBI headquarters, in Washington, D.C.

During 1999, the FBI participated in money laundering training courses in: Santiago, Chile; Bogota, Colombia; Nicosia, Cyprus; London, the United Kingdom; Tokyo, Japan; and Auckland, New Zealand. Federal Law Enforcement Training Center (FLETC).

During 1999, FLETC conducted numerous law enforcement programs at its Glynco, Georgia facility and internationally. As part of its training program, FLETC conducted two International Banking & Money Laundering Training Programs during the year. One course was held in Tyumen, Russia and was attended by 48 students. The other course was delivered to 40 students in Kiev, Ukraine.

Financial Crimes Enforcement Network

FinCEN, the U.S. financial intelligence unit (FIU), has an international training program that focuses on providing training and technical assistance to a broad spectrum of foreign government officials, financial regulators, law enforcement personnel, and bankers. This training covers a wide variety of topics, including money laundering typologies, the creation and operation of FIUs, establishment of comprehensive anti-money laundering regimes (including assistance in the drafting of anti-money laundering legislation), computer systems architecture and operations, and assessments of country-specific money laundering regimes and regulations.

FinCEN also works closely with the Egmont Group of FIUs in providing training and technical assistance to various jurisdictions in establishing and operating their own FIUs.

During 1999, FinCEN consulted with a number of jurisdictions including Ukraine and Chile, on drafting and revising their anti-money laundering legislation.

FinCEN also took part in a number of seminars on money laundering and investigative techniques (Moldova, Russia, Dominican Republic, Turkey, Cyprus), as well as seminars or high-level discussions specifically targeted on FIU development (Bulgaria, Bolivia, Dominican Republic, Russia).

During the course of the year, FinCEN hosted numerous foreign visitors and provided orientation and training in FIU development and various money laundering related topics, including officials from Paraguay, Costa Rica, Venezuela, Jamaica, El Salvador, Brazil, People's Republic of China, Thailand, Singapore, Chinese Taipei, and Panama.

FinCEN also provided technical assistance to Bolivia regarding equipment for Bolivia's FIU.

Internal Revenue Service

The Internal Revenue Service, Criminal Investigation Division (IRS) International Training Program is one segment of the IRS International Strategy. IRS focuses its training on investigative techniques courses involving financial crime and money laundering. The goal of this training is to provide assistance to foreign governments in establishing or enhancing money laundering, criminal tax and asset forfeiture laws. In addition the training program provides assistance in the investigation of violations of these laws and promotes enhanced anti-money laundering regimes that conform to international standards.

IRS develops and conducts training courses independently, as well as with other agencies. In some instances these courses are developed jointly with other law enforcement agencies to address a specific need. IRS participates on an ad hoc basis with other agencies as part of their curriculum and correspondingly invites other agencies to participate in IRS training.

Training lead by IRS during 1999 included:

- Financial Investigative Techniques training in Budapest, Hungary, Khabarovsk, Russia and Lagos, Nigeria.
- Money laundering training in Vilnius, Lithuania, Santo Domingo, Dominican Republic and Bogota, Colombia.
- Advanced Money Laundering training in Mexico City, Mexico.
- Suspicious Activity Report utilization training in Mexico City, Mexico.
- Complex Financial Investigations training in Bangkok, Thailand taught jointly with the U.S. Customs Service.

IRS participates in the core course program at ILEA Budapest, ILEA Southeast Asia and ILEA Western Hemisphere.

IRS also participated in training sponsored by other agencies in Russia, Uruguay, Mexico, Ghana, Moldova, Armenia and Romania.

Secret Service

The Secret Service continues to be extensively involved in training foreign government officials and law enforcement in the areas of financial fraud schemes and counterfeit U.S. currency investigations. This past year, the Secret Service taught foreign officials to identify and investigate violations that impact on their jurisdictions as well as those of the Secret Service. Specific financial fraud schemes involving credit cards, smart cards, electronic fund transfers, fictitious financial instruments, "419" advance fee fraud, cellular telephone fraud, skimming, telemarketing fraud, identity theft and other types of schemes were highlighted. These violations represent the underlying Specific Unlawful Activities (SUA's) that provide the nexus for the Secret Service to conduct money laundering investigations.

The goal of the Secret Service foreign training program is to train and assist the foreign participants with their financial systems, and to establish a permanent conduit for information exchange and liaison. The previously mentioned SUA's were highlighted in an effort to concentrate all available resources on the root of the criminal activity.

Training programs have varied depending on the foreign participants. The training initiatives throughout 1999 proved invaluable in fostering a heightened awareness for foreign government officials and law enforcement in the identification of systemic weaknesses within financial systems. In training foreign law enforcement officials, the Secret Service conducted comprehensive programs that included an emphasis on crimes involving electronic commerce.

Smart cards, generally issued by non-banking financial service providers, such as large brokerage houses, operate completely outside of any U. S. government regulations. This lack of regulatory oversight creates vulnerability as no record is created or maintained on the transfer of data. In theory, financial information and monetary funds can be accessed, manipulated, and transferred to or from an account, or from card to card, with no "footprint" being made. Systems that support this industry can move billions of dollars a day through computer networks that often are not regulated or controlled by any government entity.

Skimming is the unauthorized capture and replication of data from a person's credit card through the use of a small, hand-held device, which can later be used to download the information for illicit purposes. The ease and speed which information can be gathered and used for illegal purposes in a skimming operation represents a threat to financial institutions around the world. The Secret Service has trained foreign law enforcement officials about the type of equipment, manner of operation, and distribution methods for the information taken from unsuspecting credit card holders. It has been estimated by industry sources that skimming outside of the United States alone affects approximately one hundred seventy five different businesses per week. This large number of compromised points of sale has the potential to cause many millions of dollars in fraud losses.

During 1999, the Secret Service, using INL-provided funds, conducted training for foreign law enforcement and financial institutions in Hungary, Nigeria, Ghana, Egypt, Thailand, and Romania. The Secret Service also independently conducted training for law enforcement and financial institutions in Romania, Bulgaria, Germany, the United Kingdom, Peru, Chile, Argentina, South Africa, France, the Netherlands and Italy.

This past year, Secret Service's Counterfeit Division, in conjunction with other U.S. Treasury agencies, participated in the International Currency Audit Program in Argentina, Chile, and Peru.

United States Customs Service

The U.S. Customs Service (USCS), Office of Investigations, Financial Investigations Division continues to be extensively involved in the INL-sponsored multi-agency international money laundering training program. Drawing on its expertise in undercover drug money laundering as well as traditional money laundering investigations related to all types of criminal activity, the USCS strives to impart its considerable experience to law enforcement, regulatory and banking officials of all jurisdictions identified by INL.

As host or co-host with numerous other federal agencies, the USCS conducted anti-money laundering and financial crime seminars domestically and abroad for officials from sixteen different jurisdictions. Approximately 1,220 students and officials received USCS anti-money laundering training in 1999. In addition, the USCS participated in a joint training program sponsored by the Department of Justice and the Mexican Attorney General's Office in Mexico City, Mexico.

The countries that received training in 1999 are: Australia, Belgium, Hong Kong, Republic of Indonesia, Israel, Japan, Malaysia, New Zealand, Peoples Republic of China, Republic of the Philippines, Russia, Singapore, South Korea, Taiwan, Thailand, and Turkey.

International Law Enforcement Academies (ILEAs)

Europe

The ILEA in Budapest, Hungary offers a core law enforcement training course targeted at mid-level managers in the police and criminal justice services of Central Europe and the New Independent States. Over 1,000 officials from 25 countries have successfully completed this course. In addition to this program, ILEA Budapest also offers regional seminars and specialized training courses. More than 1,500 criminal justice officials have participated in such courses.

Asia

The ILEA for Southeast Asia opened in March 1999, in Bangkok, Thailand. The curriculum and structure of this Academy is similar to that in Budapest, except for the duration of the core course and an added emphasis in narcotics matters. ILEA Bangkok also offers specialized courses in a wide range of topics. Over 600 officials from 10 Southeast Asian nations have attended these courses.

The Americas

For the Western Hemisphere, we offered a core course similar to Bangkok's - tailored to regional needs - for officials from Central America and the Dominican Republic. Two pilot courses were conducted in Panama in

1997 at a temporary site. Sixty-four participants attended these courses. All activities of this Academy have been temporarily suspended, pending a review to determine its permanent location.

Africa

Plans are well underway to establish an ILEA to serve the Southern Africa region. The overall format for this new Academy will be similar to the other three, adjusted to suit the needs of the region. The interagency group responsible for the ILEAs is taking steps aimed at the establishment and operation of an ILEA for Southern Africa.

Treaties and Agreements

Mutual Legal Assistance Treaties (MLATs) allow generally for the exchange of evidence and information in criminal and ancillary matters. In money laundering cases, they can be extremely useful as a means of obtaining banking and other financial records from our treaty partners. MLATs, which are negotiated by the Department of State in cooperation with the Department of Justice facilitate cooperation in criminal matters, including money laundering and asset forfeiture, are in force with the following countries: Antigua and Barbuda, Argentina, Australia, Austria, the Bahamas, Belgium, Canada, Grenada, Hong Kong, Hungary, Israel, Italy, Jamaica, Latvia, Lithuania, Mexico, Morocco, the Netherlands, Panama, the Philippines, Poland, South Korea, Spain, St. Lucia, St. Vincent and the Grenadines, Switzerland, Thailand, Trinidad and Tobago, Turkey, the United Kingdom, the United Kingdom with respect to its Caribbean overseas territories (the Cayman Islands, Anguilla, the British Virgin Islands, Montserrat, and the Turks and Caicos Islands), and Uruguay. MLATs have been ratified by the United States but not yet brought into force with the following countries: Barbados, Brazil, Colombia, Czech Republic, Dominica, Estonia, Luxembourg, St. Kitts and Nevis, and Venezuela. Additional MLATs have been signed, but are not yet in force with: Cyprus, Egypt, France, Greece, Nigeria, Romania, Russia, South Africa, and Ukraine. The United States has also signed the Organization of American States MLAT. The United States is actively engaged in negotiating additional MLATS with countries around the world.

In addition, the United States has entered into executive agreements on forfeiture cooperation, including: (1) an agreement with the United Kingdom providing for forfeiture assistance and asset sharing in narcotics cases and (2) a forfeiture cooperation and asset sharing agreement with the Kingdom of the Netherlands. The United States has asset sharing agreements with Canada, Colombia, Ecuador and Mexico, as well as exchanges of letters on asset sharing with Anguilla, the British Virgin Islands, the Cayman Islands, Montserrat, and the Turks and Caicos Islands, which supplement the MLAT between the United States and the United Kingdom on their behalf.

Financial Information Exchange Agreements (FIEAs) facilitate the exchange of currency transaction information between the U.S. Treasury Department and other finance ministries. The U.S. has FIEAs with Colombia, Ecuador, Mexico, Panama, Paraguay, Peru, and Venezuela. In addition, Treasury's Financial Crimes Enforcement Network (FinCEN) has Memoranda of Understanding or exchanges of letters in place with the financial intelligence units (FIUs) of Argentina, Australia, Belgium, France, the Netherlands, Slovenia, Spain, and the United Kingdom to facilitate the exchange of information.

The United States has Customs Mutual Assistance Agreements (CMAAs) with the European Community and with the following jurisdictions: Argentina, Australia, Austria, Belarus, Belgium, Canada, Colombia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Honduras, Hong Kong, Hungary, Ireland, Israel, Italy, Japan, Kazakhstan, South Korea, Latvia, Lithuania, Mexico, Mongolia, the Netherlands, New Zealand, Norway, Panama, Poland, Portugal, Romania, Russian, Slovakia, Spain, Sweden, Ukraine, United Kingdom, Venezuela and Yugoslavia. (The U.S. view is that the Socialist Federal Republic of Yugoslavia (SFRY) has dissolved and that the CMAA continues to apply to the successors that formerly made up the SFRY – Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Slovenia, and the Federal Republic of Yugoslavia (Serbia and Montenegro).) CMAAs have also been signed, but are not yet in force, with the People's Republic of China and Turkey.

All of the agreements are patterned after a World Customs Organization Model CMAA. Since assistance can be provided in the enforcement of any laws related to customs, the U.S. Customs Service uses these agreements to assist in the gathering of information and evidence for criminal and civil cases involving trade fraud, smuggling, violations of export control laws, and most recently, in the growing effort to combat narcotics smuggling and money laundering.

Asset Sharing

Pursuant to the provisions of 18 U.S.C. ♦ 981(i), 21 U.S.C. ♦ 881(e)(1)(E), and 31 U.S.C. ♦ 9703(h)(2), which permit the United States to share forfeited assets with foreign jurisdictions under certain conditions, the Departments of Justice, State and Treasury have aggressively sought to encourage foreign governments to cooperate in joint investigations of drug trafficking and money laundering, offering the inducement of sharing in forfeited assets. A parallel goal has been to encourage spending of these assets to improve narcotics law

enforcement. The long-term goal has been to encourage governments to improve asset forfeiture laws and procedures, so that they will be able to conduct investigations and prosecutions of drug trafficking and money laundering which include asset forfeiture. The United States and its partners in the G-8 are currently pursuing an aggressive program to strengthen asset forfeiture and sharing regimes. To date, Canada, the Cayman Islands, Jersey, Switzerland, and the United Kingdom have shared forfeited assets with the United States.

From 1989 through December 1999, the international asset sharing program, administered by the Department of Justice, resulted in the forfeiture in the United States of \$386,431,072 of which \$167,257,174 was shared with foreign governments which cooperated and assisted in the investigations. In 1999, the Department of Justice transferred forfeited proceeds to: Anguilla (\$328,529); Colombia (\$5,825,000); Ecuador (\$14,328); Switzerland (\$4,671,878); and the United Kingdom (\$410,984). Prior recipients of shared assets (1989-1996) include: Argentina, the Bahamas, the British Virgin Islands, Canada, the Cayman Islands, Colombia, Costa Rica, Ecuador, Egypt, Guatemala, Guernsey, Hungary, the Isle of Man, Israel, Liechtenstein, Luxembourg, Paraguay, Romania, St. Maarten, Switzerland, the United Kingdom and Venezuela.

The international asset sharing program administered by the Department of Treasury has been in existence since 1995. In 1999, the program resulted in the forfeiture in the United States of approximately \$7,889,000 of which \$2,944,667 was shared with foreign governments which cooperated and assisted in the investigations. In 1999, the Department of Treasury transferred forfeited proceeds to: Canada (\$42,119); Egypt (\$999,187); Honduras (\$139,720); Portugal (\$85,840); Switzerland (\$938,576); and the United Kingdom (\$739,225). Prior recipients of shared assets (1995-1998) include: Aruba, the Bahamas, Canada, the Cayman Islands, Guernsey, Jersey, Mexico, Qatar, Switzerland, and the United Kingdom.

Multilateral Activities

Financial Action Task Force

The Financial Action Task Force on Money Laundering (FATF), which was established at the G-7 Economic Summit in Paris in 1989, is an inter-governmental body whose purpose is the development and promotion of policies to combat money laundering. These policies aim to prevent proceeds of crime from being utilized in future criminal activities and from affecting legitimate economic activities.

The FATF currently consists of 26 jurisdictions and two international organizations. Its membership includes the major financial center countries of Europe, North America and Asia. One of the guiding principles of the FATF is that money laundering is a complex economic crime which cannot be effectively controlled by conventional law enforcement methods alone, and that finance ministries, financial institutions, and regulators must work closely with law enforcement agencies in combating money laundering. Accordingly, the FATF is a multi-disciplinary body, bringing legal, financial and law enforcement experts into the policy-making process.

During 1999, FATF concluded its second round of mutual evaluations. Since FATF's creation in 1989, the 26 FATF countries and territories have now undergone two in-depth examinations of their anti-money laundering regimes. A large majority has reached an acceptable level of compliance with the forty Recommendations for combating money laundering, which were drawn up in 1990 and revised in 1996. Summaries of the mutual evaluation examinations (Spain, Finland, Luxembourg, Ireland, Hong Kong, China, New Zealand, Iceland, Singapore, Portugal, Turkey, Aruba and the Netherlands Antilles) which were conducted during FATF's tenth round of work (1998-1999) are contained in its latest annual report. In January 1999, the FATF carried out a mission to the Gulf Cooperation Council's headquarters in Riyadh to discuss how to improve the implementation of effective anti-money laundering systems among the GCC members.

In 1999, the FATF focused on several major initiatives. Perhaps the greatest achievement during 1999 was the addition of three new observer members. In September 1999, Argentina, Brazil and Mexico attended their first FATF Plenary Meeting and were officially welcomed as observers. Mutual evaluations of the three observer members are underway and the FATF hopes to complete all three mutual evaluations by June 2000. After each new observer member undergoes a successful mutual evaluation, it will become a full member. The FATF will continue to address the issue of new members this year with the goal of maintaining a certain level of geographical balance throughout the globe.

In February 1999, the FATF published its annual money laundering typologies report. This report discusses recent money laundering trends and methods, emerging threats, and significant countermeasures implemented by governments around the world. Law enforcement experts focused this year's typologies exercise on several specific issues. These include offshore financial centers and non-cooperative jurisdictions, vulnerabilities of new payment technologies, the potential use of the gold market in money laundering operations, and the use of large denomination banknotes and potential implications of the Euro currency changeover. The report highlights the importance of Suspicious Activity Reports and Financial Intelligence Units in preventing, detecting and prosecuting money laundering.

As a result of Austria's lack of compliance with the customer identification requirements of the FATF Forty Recommendations, the FATF issued a press release on February, 11, 1999 which expressed its deep concern

regarding Austria's failure to take action to eliminate their anonymous savings "passbook" accounts. This warning asks FATF member governments to persuade the Government of Austria to put an end to these accounts and calls on financial institutions worldwide to give special attention to transactions associated with these accounts.

In response to the G-7 Finance Ministers Conclusions from the 1998 Birmingham Summit, the FATF formally created an Ad Hoc Group on Non-Cooperative Countries or Territories. This group has established criteria to define the rules and practices which characterize a non-cooperative country or territory. The Ad Hoc group is also expected to identify jurisdictions that pose a serious threat to the international community and recommend steps that can be taken by FATF and/or G-7 Finance Ministers to encourage such jurisdictions to comply with international norms. (See the offshore section of this report for further information regarding this effort.)

Also in relation to the G-7 Finance Ministers' 1998 Conclusions, the FATF discussed ways that anti-money laundering systems can "contribute to deal more effectively with tax related crimes." In this regard, in order to help close the "fiscal excuse" loophole in the reporting of suspicious transactions, FATF members adopted the following Interpretative Note to Recommendation 15:

In implementing Recommendation 15, suspicious transactions should be reported by financial institutions regardless of whether they are also thought to involve tax matters. Countries should take into account that, in order to deter financial institutions from reporting a suspicious transaction; money launderers may seek to state inter alia that their transactions relate to tax matters.

During 1999, an Ad Hoc Group was also created for Africa to coordinate anti-money laundering efforts and establish one or more FATF-style regional body(s). In November, the Eastern and Southern African Anti-Money Laundering Group (ESAAMG) was officially established with seven signatories to the group's Memorandum of Understanding. The formal establishment of a similar FATF-style regional body for the countries of central and western Africa (the Intergovernmental Task Force against Money Laundering in Africa - ITFML / Africa) took place in December 1999 at the Summit of the Economic Community of Western African States (ECOWAS). This group covers the 15 countries of West Africa, from Mauritania to Nigeria. These initiatives were warmly welcomed as they have furthered the increasing network of FATF-style bodies throughout the globe.

Work continued on the study to estimate the magnitude of money laundering in an Ad Hoc Group chaired by the United States. The purpose of this study is to confirm that money laundering is a significant element in the global financial system and to quantify the amount of money laundering activity. Each participating country has formed an advisory board of experts for the purpose of identifying the quantifiable sources of data. Once determined, this figure will allow policy makers and the public, through press reporting, to appreciate the critical value of anti-money laundering programs and their relationship to ensuring the integrity of the global financial system.

The United States hosted the 1999-2000 Experts Meeting on Money Laundering Typologies on November 18-19, 1999 in Washington, DC. This meeting represented the first time countries outside of the FATF participated in the FATF Typologies Exercise, making it an unprecedented and truly global review of anti-money laundering activity. In addition to sharing information on specific cases of money laundering activity within the jurisdictions in attendance, there were presentations describing on-line banking, alternative remittance systems, company formation agents and international trade. In early February 2000, the FATF released the 1999-2000 typologies report to the public.

Asia/Pacific Group on Money Laundering (APG)

The Asia Pacific Group on Money Laundering (APG) was formally established in February 1997 at the Fourth Asia/Pacific Money Laundering Symposium in Bangkok, Thailand. The APG currently consists of 17 members from South Asia, Southeast and East Asia and the South Pacific. The establishment of this group is a positive step toward recognizing that money laundering is a significant international issue which affects the Asia/Pacific region, and that jurisdictions within the region need to cooperate in combating money laundering. During the August 1999 annual meeting in Manila, the Republic of Indonesia joined the APG.

The APG conducted a typologies workshop in March, 1999, in Tokyo, Japan, addressing the issue of underground banking systems and money laundering. A significant outcome of the March workshop was the creation of a working group, which will study the problem of underground banking in more depth. It was also agreed that the APG should address the issue of improved control and monitoring of alternative remittance systems and underground banking during its consideration of additional measures to the 40 Recommendations of the Financial Action Task Force. The next typologies meeting is scheduled for March 1-2, 2000 in Bangkok, Thailand and will focus on the use of false identities for money laundering purposes.

The APG held its Second Annual Meeting in Manila, the Philippines, on August 4-6, 1999. The Asian Development Bank and the Philippines hosted the meeting. The APG has now agreed on a strategic plan that includes, among other initiatives, self-assessment exercises, mutual evaluations, a training strategy,

typologies exercises, an annual report, and a members-only section of its meetings. The FATF 40 Recommendations have been reconfirmed as the basis for the work of the APG. Initial discussions are taking place on holding a financial services forum for the area, and a region-wide mutual legal assistance workshop is being considered. Four jurisdictions have agreed to undergo assessments of their level of international co-operation during the first quarter of 2000. The next annual general meeting of the APG will take place in early June, 2000, in Australia.

Caribbean Financial Action Task Force (CFATF)

The Caribbean Financial Action Task Force, an FATF-style regional body comprised of 25 jurisdictions, continues to progress and to advance its anti-money laundering initiatives within the Caribbean basin. In October 1999, the British Virgin Islands assumed the Chairmanship of the CFATF, following the Cayman Islands.

Members of the CFATF subscribe to a Memorandum of Understanding that delineates the CFATF's mission, objectives and membership requirements. All members are required to make a political commitment to implement the 40 Recommendations of the FATF, as well as the CFATF's additional 19 Recommendations, and to undergo peer review in the form of mutual evaluations to assess their level of implementation of the Recommendations. Members are also required to contribute to the CFATF budget and to participate in the activities of the body. In October 1999, Spain joined the five original Cooperating and Supporting Nations (COSUNs) of CFATF (Canada, France, the Netherlands, the United Kingdom, and the United States) bringing the number of COSUNs to six. All COSUNs are committed to providing financial and other support to the CFATF. Mexico has applied for COSUN status, pending its joint FATF-CFATF mutual evaluation, scheduled to occur in March 2000. The Inter-American Development Bank was welcomed as an observer organization in CFATF.

Several changes occurred within the CFATF Secretariat during 1999. In March 1999, Calvin Wilson, previously the CFATF's Deputy Director, was promoted to Executive Director of CFATF. Pierre LaPaque was seconded by the French Government to serve as CFATF's Deputy Director.

The CFATF mutual evaluation program made significant progress during 1999. The CFATF revised its mutual evaluation procedures setting a timetable for more expeditious completion and approval of evaluation reports. Six mutual evaluation on-site visits took place in 1999. Seven mutual evaluation reports were completed and approved by the CFATF Council of Ministers. In May 1999, the CFATF conducted a successful training program for its mutual evaluation examiners.

Also during 1999, the CFATF revised its 19 Recommendations, updating them to make them consistent with the revised FATF 40 Recommendations and the current money laundering situation in the region. A typologies exercise was conducted on the illegal trade in firearms and its impact on the drug trade and money laundering in the region.

Council of Europe (COE)

The Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV) continued to make significant progress in its second year. Its mutual evaluation program is on schedule, with 7 mutual evaluation on-site visits conducted during 1999—to Andorra, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia, Liechtenstein, Poland, and Romania; an on-site visit to Estonia took place in January 2000. At the PC-R-EV's June 1999 plenary meeting, three mutual evaluation reports were adopted – on Andorra, Hungary, and Lithuania. Progress reports were provided by Cyprus and Slovenia. This brings the total number of on-site visits conducted to 15 since the inception of the PC-R-EV evaluation program in April 1998, with a total of 8 mutual evaluation reports adopted by the plenary (Andorra, Cyprus, Czech Republic, Hungary, Lithuania, Malta, Slovakia, and Slovenia). The terms of reference of PC-R-EV were amended in 1999 to permit the provision of technical assistance and to enable any interested FATF member government to follow the work of the PC-R-EV as an observer.

PC-R-EV conducted a typologies exercise February 7–11, 2000 in conjunction with its fifth plenary meeting. This exercise focused on organized crime and money laundering. Mutual evaluation reports on Liechtenstein, Poland, and Romania were adopted during the February plenary, with progress reports provided by the Czech Republic, Malta and Slovakia. A second training seminar for examiners is planned for fall 2000.

OAS/CICAD

During 1999, the Organization of American States Inter-American Commission on Drug Abuse Control (OAS/CICAD) carried out three major initiatives related to money laundering. These included:

- A peer review process which will include indicators of progress in implementation of members' national anti-money laundering programs,
- Several actions by the Experts Group on Money Laundering Control, most notably a revision of the Model Regulations on Money Laundering Control to reflect new elements such as expansion of predicate

offenses to include serious crimes and mandatory suspicious transaction reporting, and;

- Completion of on-site surveys to assess training needed by each CICAD member and to determine what courses will best assist them in implementation of the Buenos Aires Communiqué.

Work on the peer review process established a Multilateral Evaluation Mechanism (MEM) that continues to evolve on schedule. Agreement was reached on the process and framework for these evaluations in October 1999. It is anticipated that the first round of evaluations of all 34 OAS/CICAD member countries will begin sometime in the first half of 2000 and be concluded by December 2000.

CICAD's Experts Group on Money Laundering Control concluded the updating of the Model Regulations, the on-going assessment of countries' anti-money laundering activities under the Buenos Aires Action Plan, and two typologies exercises and provided guidance to the Secretariat on implementation of money laundering prevention training programs.

A needs assessment of five South American countries under the joint Inter-American Development Bank (IDB)/OAS pilot project for the prevention of money laundering in financial institutions was successfully concluded. Training, in the form of regional seminars, is expected to commence early in 2000. The OAS/CICAD Group of Experts has also identified two additional key areas for training and technical assistance: FIU development and the training of judges and prosecutors. OAS/CICAD has completed two variations of a project proposal for Judicial/Prosecutorial training and is now attempting to identify suitable donors. Finally, a project proposal for the funding of FIU development by the IDB is in the final stages of completion.

The United Nations

The United Nations Office for Drug Control and Crime Prevention (ODCCP) has played a major role in promoting understanding of the offshore financial sector. In June 1998, the ODCCP introduced to the General Assembly Special Session on Drugs the findings of a study it had commissioned. That study, Financial Havens, Banking Secrecy and Money Laundering, provided the first global view of the systemic risks inherent in the criminal abuse of the offshore financial services industry. The ODCCP, through its Global Program Against Money Laundering, has served a unique function as the only multinational global entity providing comprehensive anti-money laundering training and technical assistance to legislators, law enforcement officials, prosecutors and judges, regulators involved in compliance matters, as well as bankers and providers of other financial services.

In view of the activities of the OECD, the FATF and the FSF, there can be little question that many OFC jurisdictions will require training and technical assistance to create or improve their money laundering counter measures. The United Nations Offshore Forum (UNOF) will offer a comprehensive range of anti-money laundering training and technical assistance to offshore jurisdictions. Only those offshore jurisdictions that express a firm political commitment to adhering to a number of international standards and norms will be admitted to the program.

Believing that the cross-border sharing of information is vital to combat money laundering, particular emphasis will be placed on developing the infrastructure necessary to establish a financial intelligence unit. The UNOF plans to design a database, which will track global anti-money laundering programs. In addition to training and technical assistance, the UNOF is considering providing longer term on-site assistance to develop institutions and advise and assist on ongoing major money laundering investigations and prosecutions.

Financial Intelligence Units (FIUs) and the Egmont Group

The fight against money laundering has been an essential part of the overall struggle to combat illegal narcotics trafficking and the activities of organized crime. The measures governments have developed to counter money laundering can also help stem corruption, terrorist financing, and other serious crime. Banks and other financial institutions are an important source for information about money laundering and other financial crimes.

In the 1990s, governments around the world began to work together to mitigate the corrosive dangers that unchecked financial crimes posed to their economic and political systems. To address this threat, many governments created specialized agencies to deal with the problem of money laundering. In the beginning, there was no unifying concept of what functions these agencies should perform, and it was almost by accident that they had in common the function of receiving and processing financial disclosures. At about this time, the heads of these organizations began to become more visible on national delegations represented in various international meetings and conferences. Through these informal contacts, they shared common experiences and determined that it might be useful to meet and discuss these commonalities. These first contacts led to a meeting on June 9, 1995 at the Egmont-Arenberg Palace in Brussels, Belgium to discuss financial intelligence units or FIUs. Chaired jointly by FinCEN and the Cellule de Traitement des Informations Financieres (CTIF) of Belgium, the meeting in Brussels enabled participants to become acquainted with the already existing FIUs (14 nations) and to open communication channels. Now known as the Egmont Group, these FIUs meet yearly to

find ways to cooperate, especially in the areas of information exchange, training, and the sharing of expertise.

During the Egmont Plenary in November, 1996, in Rome, the Egmont Group came to an agreement on the definition of an FIU. FIUs are centralized agencies that, at a minimum, receive, analyze, and disclose to competent authorities information provided by financial institutions (and other mandated entities) concerning possible money laundering and other financial crimes. FIUs offer law enforcement agencies around the world an important new avenue for information collection and exchange.

The Egmont Group as a whole meets once a year, and working groups (Legal, Technology/Training, and Outreach) meet three times a year to discuss issues related to money laundering and to conduct common business. The Legal Working Group deals with exchange of information. The Technology/Training Working Group looks at ways to communicate more effectively, identifies training opportunities for FIU personnel and examines new software applications that might facilitate the analysis work of these personnel. A significant program developed by this working group is the FIU personnel exchange program. Exchanges between FIUs have occurred all over the globe with good results. The Outreach Working Group works to create a global network of FIUs to facilitate international cooperation. The Egmont Group has no secretariat. Administrative functions are shared by FIUs on a rotating basis.

There are currently 48 operational FIU units worldwide, with many others in various stages of development. FIUs operate in:

Aruba	Cyprus	Italy	Paraguay
Australia	Czech Republic	Jersey	Portugal
Austria	Denmark	Latvia	Slovakia
Belgium	Finland	Lithuania	Slovenia
Bermuda	France	Luxembourg	Spain
Bolivia	Greece	Mexico	Sweden
Brazil	Guernsey	Monaco	Switzerland
British Virgin Islands	Hong Kong	Netherlands	Taiwan
Bulgaria	Hungary	Netherlands Antilles	Turkey
Chile	Iceland	New Zealand	United Kingdom
Costa Rica	Ireland	Norway	United States
Croatia	Isle of Man	Panama	Venezuela

During the plenary meeting in May 1999, 10 new units (bolded above) joined the Egmont roster. One of the main goals of the Egmont Group is to create a global network of FIUs to facilitate international cooperation. Although FIUs operate differently, FIUs exchange information with their counterparts under certain specific conditions. This information could be suspicious or unusual transaction reports from the financial sector as well as government administrative data and public record information. Many FIUs can be of assistance in providing financial intelligence rapidly to other FIUs. One of the most significant accomplishments of the

group's efforts has been the creation of a secure Internet web site. Egmont's International Secure Web System—developed primarily by FinCEN—permits members of the group to communicate with one another via secure e-mail, posting and assessing information regarding trends, analytical tools, and technological developments. In other words, this system provides the ability to facilitate practical, rapid exchanges of information that could enhance the efforts of the fight against money laundering. FinCEN, on behalf of the Egmont Group, maintains the Egmont Secure Web.

The ongoing development and establishment of FIUs exemplify how countries around the world continue to intensify their efforts to focus on research, analysis and information exchange in order to combat money laundering and other financial crimes.

Ideas for the Future

In addition to well-known technical elements to combat money laundering, the following concepts are being pursued to varying degrees around the world and are possible innovations to current international practice that would provide for greater reach for law enforcement authorities and less impunity for financial criminals.

Asserting Jurisdiction Over and Access To Records

Mutual legal assistance treaties are a major new mechanism by which jurisdictions may cooperate with one another in retrieving essential evidence of financial crimes. The UN Convention on Transnational Organized Crime currently under negotiation in Vienna may create a universal system for mutual legal assistance in cases involving conspiracy and money laundering by organized crime. However, jurisdictions can exercise self-help as well, making the right to do business in their territory contingent on agreement to make records available to law enforcement authorities. Such a provision, if universally adopted, would do much to protect shareholders, depositors, and creditors from having no remedy in the event of something going wrong. Simultaneously, the G-8 and the Council of Europe need to complete their work on problems of high-tech and computer-related crime. This work includes the difficult jurisdictional issues raised by electronic communication and on rules for search, seizure and use of electronic records which may be located thousands of miles distant from where the crime itself took place. Progress on these issues will be necessary to reduce the threat posed if some jurisdictions do not require records to be maintained or do not permit records maintained in their jurisdiction to be accessed in cases involving financial crime.

Refusing To Accept Bank Secrecy In Cases Involving Financial Crime

Jurisdictions cannot protect their citizens or residents from financial crime if financial criminals are able to shield their criminal conduct through the use of bank secrecy. Jurisdictions that do not permit law enforcement authorities to gain access to financial records in cases involving allegations of criminal conduct from terrorism to tax crime turn themselves into safe havens for financial criminals. Just as the European Union has sued one of its members, Austria, to stop its issuance of anonymous passbook savings accounts, the Financial Action Task Force and other international bodies need to consider taking appropriate measures regarding jurisdictions that have become safe havens for financial criminals. Such measures need not be anything that would impair the ability of financial markets to function normally. Such an approach could develop into a two-tier system for international banking transactions. The top tier jurisdictions that provide the requisite access would have their transactions treated normally. Jurisdictions not permitting overseas regulators or law enforcement officials to have access to financial records would have their transactions subjected to additional regulatory or enforcement review, such as through an automatic presumption that the transaction is suspicious. This type of two-tier system would reflect the actual risks to the global financial system inherent in having portions of that system inaccessible to law enforcement investigations.

Eliminating Differential Treatment of Offshore Financial Center Transactions

The OFC concept is based on, in part, the notion that what is necessary to regulate transactions involving the citizens of one's own jurisdiction is not necessary in handling transactions involving the citizens of other jurisdictions. Its impact, however, has been to encourage some financial institutions to deliberately structure themselves so that they are not regulated by anyone. Recently, one such institution, Caymanx Bank, structured itself so that its operations in the Isle of Man were offshore to the Isle of Man because it was a subsidiary of an institution in the Cayman Islands. It was also offshore to the Cayman Islands because it was only doing business in the Isle of Man. As a result, its activities were effectively free of regulation, and its clients' records were advertised on the Internet as being free of oversight by the authorities of any jurisdiction. Whatever the economic justification for such differential treatment in the past, when national laws impose tariffs on many forms of economic activity, treating as offshore anyone's transactions one licenses makes no sense. Such differential treatment is especially inappropriate when everyone is using the same technological infrastructure and when it is increasingly difficult to determine the national origin or citizenship of any individual or corporate user of this global system. Jurisdictions that continue to offer unregulated or under-regulated offshore services will develop reputational problems that drive off legitimate businesses. Also, firms based in OFC jurisdictions that are inadequately regulated could be subjected to additional due diligence by major

clearinghouse banks.

Eliminating The "It's Only Tax Evasion" Loophole

One of the great difficulties in developing information on a timely basis in financial crime cases is the problem of proving that monies hidden in shell companies, international business corporations, or trusts are the proceeds of criminal activity other than tax evasion. In the United States, some of the most important federal prosecutions of serious organized crime figures responsible for contract killings, drug trafficking, and other extraordinarily serious crime, have succeeded only through the making of tax cases. In such domestic organized crime prosecutions, the inability of criminals to explain where their money came from, and the clear frauds involved in their handling of the funds, made criminal prosecutions successful. By contrast, the generally accepted principle that there is nothing wrong with handling mere "tax evasion" money offshore has created a swamp in which financial criminals breed. Jurisdictions could eliminate the "tax evasion" loophole through two techniques: including tax evasion among the grounds for the elimination of bank secrecy in the provision of documents to law enforcement and amending mutual legal assistance agreements to include tax offenses. If such an approach became generally accepted, jurisdictions that continued to make themselves available for tax evasion aimed at other jurisdictions might well find that the potential damage to their reputation from remaining outside this new system outweighed the potential income from continuing to offer these services. The G-7 initiative to coordinate, where appropriate, fiscal fraud and anti-money laundering enforcement efforts is a welcome step in this direction.

Cooperating In Repatriation of Assets and Broadening Civil Remedies for Victims of Financial Crime

Too often, victims of financial crime find themselves unable to reach the assets of those who have victimized them. Governments need to look at mechanisms designed to permit early immobilization of assets of financial criminals and mutual assistance in ensuring that the immobilization is international, not merely domestic. They may also wish to consider providing for an adequate array of civil causes of action for victims of financial crime against institutions that have facilitated the crime as well as against the actual perpetrators. Governments may wish to determine where and when financial institutions doing business in their territories should be held at risk for losses occasioned through the use of their institutions by financial criminals. Failure to adopt and implement mechanisms to ensure the "know your customer" principle in a case where the "customer" proved to be engaging in a pattern or practice of fraudulent activity could lead to civil liability to victims. Such a finding of civil liability could in turn lead to enhanced compliance practices throughout the entire industry.

Linking Future Global Financial Assistance by Multilateral Lenders to Strengthened Governmental Supervision and Enforcement

Future global economic assistance to any jurisdiction or region needs to be more closely tied to taking specific rule of law actions that strengthen the ability of the governments involved to carry out essential regulatory and enforcement functions. This need not involve conditionality, but instead concurrent initiatives such as agreement to strengthen the role of central banks in auditing and inspecting the banks they regulate and to further protect them from political influence. Such audits could help ensure that central banks enforce safety and soundness provisions consistent with international standards and audited by international auditors, with goals, outputs, and benchmarks for reform defined. Among the actions to be undertaken would be to establish public, transparent standards for uniform business operation regulations, as well as requirements for the issuance and regular renewal of business licenses and permits. The International Monetary Fund and the World Bank would be two helpful initiators of this kind of approach, were they to have the support of the member states who fund them in undertaking this essential add-on to their past financial assistance programs.

Legislating Transparency in Government and Public Disclosure for Public Officials

Transparent government decision-making in procurement, regulatory, administrative and other decision-making processes inhibit bribery and corruption, both of which are nearly inescapable factors in criminal exploitation of financial systems and institutions. The adoption of laws, regulations, procedures and practices designed to promote integrity of public servants and to prevent or disclose and punish acts of official corruption is closely related to mechanisms that increase the integrity of financial systems used by the public and private sector alike. Implementing an initiative of the International Crime Control Strategy, in February 1999 in Washington, the Vice President hosted and chaired the first Global Forum on Fighting Corruption: Safeguarding Integrity Among Justice and Security Officials. Senior officials from ninety countries addressed Guiding Principles and practices that are effective to promote integrity and control or combat corruption in specific aspects of public service, including regulation of the financial sector, customs, judicial, procurement and budget officials. Their declaration called on governments to adopt comprehensive national effective practices, based on those in the Guiding Principles, and to assist each other to implement them through processes of mutual evaluation. The United States has continued to promote the definition of standards and norms for governments, based on these Guiding Principles, in global and regional fora. General recognition and adoption of such effective practices would assuredly make it easier for states to take other steps needed to combat financial crime, by reducing the ability of would-be financial criminals to purchase the kind of

legislative, executive or judicial environment needed to facilitate their activities.

Money Laundering Comparative Table

Each year, U.S. officials from agencies with anti-money laundering responsibilities meet to assess the money laundering situations in more than 175 jurisdictions. The review includes steps taken or not taken to address financial crime and money laundering, each jurisdiction's vulnerability to money laundering, the conformance of its laws and policies to international standards, the effectiveness with which the government has acted, and the government's political will to take needed actions.

The 2000 INCSR assigned priorities to more than 160 jurisdictions using a classification system consisting of three differential categories titled Jurisdictions of Primary Concern, Jurisdictions of Concern, and Other Jurisdictions Monitored.

INCSR priorities draw upon a number of factors which indicate: (1) the extent to which the jurisdiction is or remains vulnerable to money laundering, notwithstanding its money laundering countermeasures, if any; (2) the nature of the money laundering situation in each jurisdiction (for example, whether it involves drugs or other contraband); (3) the ways in which the U.S. regards the situation as having international ramifications; (4) the situation's impact on U.S. interests; (5) whether the jurisdiction has taken appropriate legislative actions to address specific problems; (6) whether there is a lack of licensing and oversight of offshore financial centers and businesses; (7) whether the jurisdiction's laws are being effectively implemented; and (8) where U.S. interests are involved, the degree of cooperation between the foreign government and U.S. government agencies. There are approximately two dozen sub-factors that are also considered. These sub-factors (Category Criteria) are explained below.

A government can have comprehensive laws on its books and conduct aggressive anti-money laundering enforcement efforts, but still be classified as a jurisdiction of Primary Concern. In such jurisdictions the volume of money laundering continues to be substantial and continued vigilance and effective enforcement by the government is essential to successfully combat money laundering.

When the severity of the money laundering problem places a jurisdiction in the Primary Concern category and other deficiencies exist, this categorization indicates that this jurisdiction needs to take immediate action to develop or enhance its anti-money laundering regime and will receive near-term priority attention from the U.S. Government. In categorizing a jurisdiction as a Primary Concern jurisdiction, the U.S. belief is that near-term remedial action by that jurisdiction is needed to address the problems cited in the individual country summaries or reflected in the Comparative Chart. Jurisdictions categorized in the Jurisdictions of Concern category need to develop or to enhance their anti-money laundering regimes. Specific attention to OFCs, their licensing and regulation, may be necessary to protect respective financial systems from criminal abuse. Jurisdictions in the Other Jurisdictions Monitored category are not of immediate concern, but will be monitored for changes in money laundering activity.

Category Criteria

As any financial system can be penetrated, every jurisdiction has the potential of becoming a money laundering center. There is no precise measure of vulnerability for any financial system, but a checklist of what drug money managers reportedly look for provides a basic guide.

Failure to criminalize money laundering for all serious crimes or limiting the offense to narrow predicates.

Rigid bank secrecy rules that cannot be penetrated for authorized law enforcement investigations or that prohibit or inhibit large value and/or suspicious or unusual transaction reporting by both banks and non-bank financial institutions.

Lack of or inadequate "know your client" requirements to open accounts or conduct financial transactions, including the permitted use of anonymous, nominee, numbered or trustee accounts.

- No requirement to disclose the beneficial owner of an account or the true beneficiary of a transaction.
- Lack of effective monitoring of cross-border currency movements.
- No reporting requirements for large cash transactions.
- No requirement to maintain financial records over a specific period of time.
- No mandatory requirement to report suspicious transactions or a pattern of inconsistent reporting under a voluntary system; lack of uniform guidelines from which to identify suspicious transactions.
- Use of bearer monetary instruments.
- Well-established non-bank financial systems, especially where regulation, supervision, and monitoring are absent or lax.
- Patterns of evasion of exchange controls by legitimate businesses.
- Ease of incorporation, especially where ownership can be held through nominees or bearer shares, or where off-the-shelf corporations can be acquired.

- No central reporting unit for receiving, analyzing and disseminating to the competent authorities large value, suspicious or unusual financial transactions that might identify possible money laundering activity.
- Lack of or weak bank regulatory controls, or failure to adopt or adhere to the Basle
- Principles for International Banking Supervision, especially in jurisdictions where the monetary or bank supervisory authority is understaffed, underskilled or uncommitted.
- Well-established offshore financial centers or tax-haven banking systems, especially jurisdictions where such banks and accounts can be readily established with minimal background investigations.
- Extensive foreign banking operations, especially where there is significant wire transfer activity or multiple branches of foreign banks, or limited audit authority over foreign-owned banks or institutions.
- Limited asset seizure or confiscation authority.
- Limited narcotics, money laundering and financial crime enforcement and lack of trained investigative personnel.
- Jurisdictions with free trade zones where there is little government presence or other supervisory authority.
- Patterns of official corruption or a laissez-faire attitude toward the business and banking communities.
- Jurisdictions where the U.S. dollar is readily accepted, especially jurisdictions where banks and other financial institutions allow dollar deposits.
- Well-established access to international bullion trading centers in New York, Istanbul, Zurich, Dubai and Mumbai.
- Jurisdictions where there is significant trade in or export of gems, particularly diamonds.
- Jurisdictions with large parallel or black market economies.
- Limited or no ability to share financial information with foreign law enforcement authorities.

Changes in INCSR Priorities, 1999-2000

Upgrades	Downgrades	Additions
Grenada --> Other- Concern	Montserrat --> Concern-Other	Brunei --> Other
Nauru --> Concern- Primary	Nepal --> Concern-Other	Cameroon --> Other
St. Lucia --> Other- Concern	Trinidad and Tobago --> Concern- Other	Comoros --> Other
		Lesotho --> Other
		Macedonia --> Other
		Namibia --> Other

Comparative Chart

The following comparative chart (preceded by a Glossary of Terms) identifies the actions taken by each of the jurisdictions to combat money laundering. This reference chart provides a comparison of a broad range of elements that define legislative activity and identify other characteristics that can have a relationship to money laundering vulnerability.

Glossary of Terms

"Criminalized Drug Money Laundering": The jurisdiction has enacted laws criminalizing the offense of money laundering related to drug trafficking.

"Criminalized Beyond Drugs": The jurisdiction has extended anti-money laundering statutes and regulations to include non-drug-related money laundering.

"Record Large Transactions": By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.

"Maintain Records Over Time": By law or regulation, banks are required to keep records, especially of large or unusual transactions, for a specified period of time, e.g., five years.

"Report Suspicious Transactions": An "M" (for "mandatory") indicates that by law or regulation, banks are required to record and report suspicious or unusual transactions to designated authorities. A "P" indicates that by law or regulation, banks are permitted to record and report suspicious transactions. An effective know-your-customer policy is considered a prerequisite in this category.

"Financial Intelligence Unit": The jurisdiction has established a central, national agency responsible for receiving (and, as permitted, requesting), analyzing, and disseminating to the competent authorities disclosures of financial information concerning suspected proceeds of crime, or required by national legislation or regulation, in order to counter money laundering. These reflect those jurisdictions that have met the Egmont definition of an FIU.

"System for Identifying and Forfeiting Assets": The jurisdiction has enacted laws authorizing the tracing, freezing, seizure and forfeiture of assets identified as relating to or generated by money laundering activities.

"Arrangements for Asset Sharing": By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions which assisted in the conduct of the underlying investigation.

"Cooperates w/Domestic Law Enforcement": By law or regulation, banks are required to cooperate with authorized law enforcement investigations into money laundering or the predicate offense, including production of bank records, or otherwise lifting the veil of bank secrecy.

"Cooperates w/International Law Enforcement": By law or regulation, banks are permitted/required to cooperate with authorized investigations involving or initiated by third party jurisdictions, including sharing of records or other financial data.

"International Transportation of Currency": By law or regulation, the jurisdiction, in cooperation with banks, controls or monitors the flow of currency and monetary instruments crossing its borders. Of critical weight here are the presence or absence of wire transfer regulations and use of reports completed by each person transiting the jurisdiction and reports of monetary instrument transmitters.

"Mutual Legal Assistance": By law or through treaty, the jurisdiction has agreed to provide and receive mutual legal assistance, including the sharing of records and data.

"Non-Bank Financial Institutions": By law or regulation, the jurisdiction requires non-bank financial institutions to meet the same customer identification standards and adhere to the same reporting requirements that it imposes on banks.

"Disclosure Protection Safe Harbor": By law, the jurisdiction provides a "safe harbor" defense to banks or other financial institutions and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.

"Offshore Financial Centers": By law or regulation, the jurisdiction authorizes the licensing of offshore banking and business facilities.

"States Parties to 1988 UN Drug Convention": The jurisdiction is a party to the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or the country that is responsible for the jurisdiction's international relations has extended the application of the Convention to the jurisdiction.

Annex to the Offshore Financial Centers Section

FATF Criteria for Defining Non-Cooperative Countries or Territories

Loopholes in financial regulations

(i) No or inadequate regulations and supervision of financial institutions 1. Are there effective regulations and supervision, if any, for all financial institutions in a given country or territory, onshore or offshore, on an equivalent basis with respect to international standards applicable to money laundering?

(ii) Inadequate licensing and rules for the creation of financial institutions, including assessing the backgrounds of their managers and beneficial owner

Is it possible for individuals or legal entities to operate a financial institution without authorization or registration or with very rudimentary requirements for authorization or registration?

3 Are there measures to guard against holding of management functions and control or acquisition of a significant investment in financial institutions by criminals or their confederates?

(iii) Inadequate customer identification requirements for financial institutions

4. Do anonymous accounts or accounts in obviously fictitious names exist?

5. Are there effective laws, regulations, agreements between supervisory authorities and financial institutions or self-regulatory agreements among financial institutions on identification by the financial institution of the client and beneficial owner of an account?

Is it mandatory to verify the identity of the client?

Is it a requirement to identify the beneficial owners where there are doubts as to whether the client is acting on his own behalf?

Is there an obligation to renew identification of the client or the beneficial owner when doubts appear as to their identity in the course of business relationships?

Are financial institutions required to develop ongoing anti-money laundering training programs?

Is there a legal or regulatory obligation for financial institutions or agreements between supervisory authorities and financial institutions or self-agreements among financial institutions to record and keep, for a reasonable and sufficient time (five years), documents connected with the identity of their clients, as well as records on national and international transactions?

7. Are there legal or practical obstacles to access by administrative and judicial authorities to information with respect to the identity of the holders or beneficial owners and information connected with the transactions recorded

(iv) Excessive secrecy provisions regarding financial institutions

8. Can secrecy provisions be invoked against, but not lifted by competent administrative authorities in the context of enquiries concerning money laundering?

9. Can secrecy provisions be invoked against, but not lifted by judicial authorities in criminal investigations related to money laundering?

(v) Lack of efficient suspicious transactions reporting system

10. Is there an efficient mandatory system for reporting suspicious or unusual transactions to a competent authority, provided that such a system aims to detect and prosecute money laundering?

11. Are there monitoring and criminal or administrative sanctions in respect to the obligation to report suspicious or unusual transactions?

B. Obstacles raised by other regulatory requirements

(i) Inadequate commercial law requirements for registration of business and legal entities

12. Are there adequate means for identifying, recording and making available relevant information related to legal and business entities (name, legal form, address, identity of directors, provisions regulating the power to bind the entity)?

(ii) Lack of identification of the beneficial owner(s) of legal and business entities

13. Are there obstacles to identification by financial institutions of the beneficial owner(s) and directors/officers of a company or beneficiaries of legal or business entities?

14. Are there regulatory or other systems which allow financial institutions to carry out financial business where the beneficial owner(s) of transactions is unknown, or is represented by an intermediary who refuses to divulge that information, without informing the competent authorities?

C. Obstacles to international co-operation

(i) Obstacles to international co-operation by administrative authorities

15. Do laws or regulations prohibit international exchange of information between administrative anti-money laundering authorities or do not grant clear gateways or subjecting exchange of information to unduly restrictive conditions?

16. Are relevant administrative authorities prohibited from conducting investigations or enquiries on behalf of or for account of their foreign counterparts?

17. Has obvious unwillingness to respond constructively to requests (e.g. failure to take the appropriate

measures in due course, long delays in responding) been observed?

18. Are there restrictive practices in international co-operation against money laundering between supervisory authorities or between FIUs for the analysis and investigation of suspicious transactions, especially on the grounds that such transactions may relate to tax matters? (ii) Obstacles to international co-operation by judicial authorities

19. Is the laundering of the proceeds from serious crimes being criminalised?

20. Do laws or regulations prohibit international exchange of information between judicial authorities (notably specific reservations to the anti-money laundering provisions of international agreements) or place highly restrictive conditions on the exchange of information?

21. Has obvious unwillingness to respond constructively to mutual legal assistance requests (e.g. failure to take the appropriate measures in due course, long delays in responding) been observed?

22. Does the jurisdiction refuse to provide judicial co-operation in cases involving offences recognized as such by the requested jurisdiction especially on the grounds that tax matters are involved?

D. Inadequate resources for preventing and detecting money laundering activities

(i) Lack of resources in public and private sectors

23. Are the administrative and judicial authorities provided with the necessary financial, human or technical resources to exercise their functions or to conduct their investigations?

24. Is there inadequate or corrupt professional staff in governmental, judicial or supervisory authorities or among those responsible for anti-money laundering compliance in the financial services industry?

(ii) Absence of a financial intelligence unit or of an equivalent mechanism

Is there a centralized unit (i.e., a financial intelligence unit) or of an equivalent mechanism for the collection, analysis and dissemination of suspicious transactions information to competent authorities?

[Money Laundering Country/Jurisdiction Table](#) -- [Excel file]

[Money Laundering Comparative Chart](#) -- [Excel file]

Country Reports

Afghanistan (Other). Afghanistan's importance as an opium poppy production center is not paralleled in the money laundering sector: Afghanistan is not a center for money laundering. Financial institutions barely exist. The country is neither an important regional financial center nor an offshore financial center.

Afghanistan does play a key role in the heroin trade, the proceeds of which appear to be laundered outside the country, particularly in the United Arab Emirates, or through the hawala alternative remittance system. Reports indicate that the Taliban, the Northern Alliance, and other factions are involved in narcotics trafficking.

The hawala (or hundi) alternative remittance system is known to be used to remit money to Afghanistan. Although most remittances represent money being sent home by Afghan expatriates, some may represent the sale of narcotics produced in or moved through Afghanistan as part of a larger money laundering scheme.

Contraband smuggling, including the smuggling of narcotics, generates funds. Private investment of drug trafficking profits reportedly contributed to a surge in building construction and other licit commercial activity in Kandahar City during 1998. Profits are also invested in improving trafficking capabilities by purchasing fast, all-terrain vehicles and acquiring more potent weaponry.

There are no U.S. training or other programs aimed at combating money laundering in Afghanistan. **Albania (Concern).** The significant presence of organized crime and the weakness of government structures make Albania a transit country for narcotics and arms trafficking, as well as for the smuggling of contraband goods and illegal aliens, all of which put Albania at risk for money laundering. Organized crime groups use Albania as a base of operations for criminal activities in other countries. Criminal proceeds are easily laundered in Albania, since official corruption is rife and government enforcement controls are weak or nonexistent. Albania's government is still in the process of asserting its authority in many areas of the country following the collapse of the Albanian economy and ensuing civil strife of 1997.

Article 287 of the Albanian Criminal Code of 1995 criminalized all types of money laundering. With the assistance of several European regional organizations, Albania is drafting comprehensive anti-money laundering legislation that should meet international standards. Albania participates in the Council of Europe's PC-R-EV. In September 2000, Albania will undergo a mutual evaluation conducted by the PC-R-EV. The report may provide detailed suggestions to improve Albania's anti-money laundering program.

As Albania considers adopting anti-money laundering legislation, it must deal with more fundamental issues such as establishing enforcement and judicial systems capable of supporting an effective anti-money laundering regime. It also faces huge obstacles in reigning in the influence of organized crime that generates money laundering proceeds, and corruption that could undermine the best of anti-money laundering measures.

Algeria (Other). There is no evidence of widespread money laundering in Algeria, although there are unofficial reports of money laundering being carried out in conjunction with various types of smuggling. Algeria has not enacted any type of anti-money laundering legislation. There is a requirement that a declaration be made of any type of foreign currency brought into the country, but it is not clear how strictly this regulation is enforced.

Algeria is a party to the 1988 UN Drug Convention.

Anguilla (Other). Anguilla is a United Kingdom Caribbean Overseas Territory (COT), and therefore subject to the laws of the United Kingdom. Anguilla has a small offshore financial services sector, which includes offshore banks, trusts and international business companies. For its 8,000 inhabitants, Anguilla has 2 offshore banks, both subsidiaries of major banks, and 1,500 international business companies.

The extent of money laundering in Anguilla is unknown, but the relatively large size of this tiny Caribbean island's offshore financial sector makes it an attractive location for money laundering. Rumors of bulk currency transport persist.

Legislation adopted in 1995 brought Anguilla into compliance with the requirements of the 1988 UN Drug Convention. The legislation includes provisions for asset seizure and forfeiture. Anguilla, along with its COT brethren, has increased its regulation over its financial sector; for instance, it has promulgated guidelines stating that new bank licenses will be issued only to subsidiaries of established banks with effective parent-bank supervision. Anguilla's existing anti-money laundering regime and practices will be assessed against international standards under a contract signed in 1999 with an international consulting firm, providing for an independent, in-depth review of financial regulatory practices.

Anguilla is subject to the U.S./UK MLAT and the U.S./UK extradition treaty. Its operational contact with the United States and the other United Kingdom Overseas Territories is close and effective. Anguilla, through the UK, is a party to the 1988 UN Drug Convention. Anguilla is also a member of the CFATF.

Antigua and Barbuda (Primary). Until early 1997, Antigua and Barbuda had an active and virtually unregulated offshore financial service industry, which, combined with stringent bank secrecy, made the country an attractive site for money launderers. The country took steps in 1997 and 1998 to address problems and assert control by passing sound anti-money laundering legislation. However, in October 1998, individuals suspected of involvement in money laundering and other illicit economic activities used their considerable financial influence to weaken Antigua's anti-money laundering legislation. Certain amendments to the Money Laundering (Prevention) Act and the 1982 International Business Corporations (IBC) Act distorted the regulatory regime and undermined the ability of law enforcement to investigate and prosecute financial crimes.

These developments resulted in the issuance of a financial advisory by the U.S. Treasury Department in April 1999. Shortly thereafter the United Kingdom issued a similar advisory, and France publicly expressed its concerns. The U.S. Advisory, which advised financial institutions to give "enhanced scrutiny to all financial transactions routed into or out of Antigua and Barbuda," was issued because changes in Antigua and Barbuda's money laundering laws threatened to "create a 'haven' whose existence will undermine international efforts of the United States and other nations to counter money laundering and other criminal activity, a concern of which the United States has repeatedly made the Government of Antigua and Barbuda aware".

Since the issuance of the advisories, the Government of Antigua and Barbuda (GOAB) has rescinded most of the objectionable legislation and enacted most of the new legislation which, if effectively implemented, would bring the GOAB into compliance with international norms governing offshore financial services. Additionally, the GOAB is taking other steps to clean up its financial services sector. As a result of an intensive two year review of the licensed offshore banks, the GOAB revoked the licenses of approximately two-thirds of the offshore banks for failing to provide an approved financial audit and to meet the increased capitalization requirements, and, more importantly, for participating in illegal activities such as fraud and money laundering. Numerous criminal investigations in the United States have revealed that several of the offshore banks, most of which have been closed, engaged in financial transactions with funds of questionable origin. Currently there are about 18 offshore banks operating in Antigua and Barbuda, down from about 47 in 1998.

During 1999, the GOAB also increased its bilateral and multilateral cooperation on various law enforcement initiatives. In July 1999, the GOAB became the first country in the eastern Caribbean to bring the new Extradition Treaty and MLAT with the United States into force. Despite difficulties and delays in 1998, the GOAB has provided substantive assistance to U.S. law enforcement and prosecutors investigating and prosecuting fraud and money laundering cases involving the Antiguan-licensed Caribbean American Bank and

European Union Bank. A request for the extradition of William Cooper, a director of Caribbean American Bank and owner of Antiguan American International Bank, is currently pending. The GOAB also worked closely with Canadian authorities in the investigation and successful prosecution of a major money laundering case, receiving over \$400,000 in shared forfeited assets. Additionally, the GOAB has instituted its own case against former Ukrainian Prime Minister Lazarenko for money laundering. Lazarenko allegedly used an Antiguan offshore bank to conceal monies stolen from the Ukrainian government.

The GOAB created and staffed the Supervisory Authority mandated by the Money Laundering (Prevention) Act and issued regulations to implement the mandated suspicious financial transaction reporting system. In accordance with these new regulations, the Supervisory Authority has received a number of reports of suspicious activity. However, Internet gambling is largely unregulated in Antigua, although the GOAB has indicated it is developing regulations to control this burgeoning industry.

During the past year, the GOAB has amended its Money Laundering (Prevention) Act and IBC Act to correct deficiencies and bring them into compliance with international standards. GOAB cooperation in investigative and forfeiture matters has also improved. The new laws, combined with an increase in resources allocated to regulation of the international financial services sector and a demonstrated willingness to investigate and prosecute suspect individuals and transactions, suggest that the GOAB is now committed to creating a regulatory and anti-money laundering regime which meets international standards. In the future, GOAB must focus its efforts on fully implementing the Money Laundering (Prevention) Act, ensuring compliance with the new regulations of the IBC Act, and enhancing international cooperation on law enforcement matters.

Argentina (Concern). Argentina is neither an important regional financial center, a significant tax haven nor an offshore banking center. Until recently most of the money laundering occurring in Argentina was believed to be primarily related to bribery, contraband and tax evasion. However, there is increasing evidence that cells of the powerful Colombian and Mexican drug cartels are laundering millions of dollars in Argentina, particularly through the purchase of diverse and lavish real estate properties. The ongoing investigation into the financial activities of Maria Henao Vallejos, widow of Colombia drug lord Pablo Escobar, while residing in Argentina may confirm long-term suspicions of narcotics-related funds being laundered in Argentina. As a ramification of the U.S. Customs Service Operation Casablanca, an international investigation is being conducted into the Buenos Aires-based bank Mercado Abierto on suspicions that it may have laundered millions of dollars for the late Mexican drug kingpin Amado Carrillo Fuentes. It is believed that most of the laundered funds had been sent to Argentina through various U.S. banks, and once the funds arrived into an account at Mercado Abierto they were invested in luxury apartments and cattle ranches in Argentina. These investigations continue with the full cooperation of the Government of Argentina (GOA).

Argentina's current anti-money laundering program is based on Drug Law No. 3,737 of October 1989, which criminalized narcotics-related money laundering, and a series of communications issued by the central bank of Argentina aimed at the prevention and detection of money laundering activities through the financial sector. Among other things, these communications require banks and non-banks to identify customers; discontinue accounts with parties using obviously fictitious names; prohibit the payment by tellers of checks above \$50,000 issued to third parties; report to the central bank personal data on account holders where cash over \$50,000 is deposited monthly, or \$200,000 annually; and report suspicious transactions. Compliance with the requirement to report suspicious transactions remains low.

The GOA has made several attempts at expanding the scope of this legislation and at creating a financial intelligence unit (FIU). In September 1999, the House approved a bill proposing to expand the list of predicate offenses beyond narcotics-related activities to include terrorism, trafficking in arms, human beings and human organs, crimes against the public administration, extortion, and kidnapping for ransom. The bill would also create a multi-agency autonomous FIU that would act in coordination with the Office of the Public Prosecutor sector. However, this bill remains under review by the Senate, where a Committee has weakened some of the provisions already approved by the House. The Senate version of the bill eliminates penalties for negligent or imprudent behavior resulting in money laundering, requires that criminal intent be demonstrated, and proposes that the FIU destroy all case records if a year passes without any action being taken in an investigation. The jurisdiction of the FIU continues to generate debate: the House bill makes it into a multi-agency autonomous body, while the Senate version gives the central bank control of the proposed unit.

The United States will continue to support the GOA's effort to join the FATF, since this signals Argentina's commitment to join the international community's fight against money laundering. However, it is imperative that Argentina enact a comprehensive anti-money laundering program in the very near future, since failure to do so could become a roadblock to future full FATF membership. Argentina is a party to the 1988 UN Drug Convention and an active participant in the OAS/CICAD. Argentina has bilateral agreements for financial information exchange with over 25 countries, including the United States. In September 1999, Argentina was accepted as an observer member of the FATF, and will undergo FATF's evaluation of its anti-money laundering program in early 2000. **Armenia (Other).** Armenia is a transit country for narcotics trafficking and smuggling, due to lax border controls between Commonwealth of Independent States (CIS) countries and Armenia's

location along an important Iran–CIS trade route. The primary destinations are Western Europe and other CIS countries. While its current economic situation creates a favorable money laundering environment, Armenia is not a major financial or money laundering center.

Economic crime is primarily connected to smuggling, tax evasion, looting of privatized companies, embezzlement of state funds and diversion of foreign assistance. High unemployment, low salaries, a large underground economy, corruption, and organized crime provide classic conditions for money laundering. Criminal groups operating in Armenia maintain ties to those in other CIS countries and with Armenian communities abroad.

Although there is no evidence that foreign illegal proceeds are laundered in Armenia, Armenian authorities admit that enforcement agencies have not focused on investigating money laundering operations. Investigators have a poor understanding of the concept of money laundering and inadequate resources to pursue cases. Schemes to launder domestically generated illegal funds include the under-invoicing of imports, false invoicing, double bookkeeping, and use of the banking system.

The government has made the prosecution of economic crimes a government priority as part of an ongoing reform process. A new criminal procedure code went into effect on January 12, 1999. There are no anti-money laundering measures applicable to either banks or non-bank financial institutions but a complete new criminal code, including provisions dealing with economic crime (such as the criminalization of money laundering), is expected to be passed in 2000.

Bank secrecy laws create difficulties in obtaining bank records for investigations. In addition, the gray economy affects the banking system due to the dollarization of the economy (forty percent of public expenditures are derived from foreign remittances) and the magnitude of cash circulating outside the banking sector. Even if anti-money laundering regulations are introduced, they would regulate only a fraction of Armenia's domestic financial transactions.

Armenia is a party to the 1988 UN Drug Convention.

Aruba (Concern). Aruba, with its free zones, casinos, and especially its growing offshore industry, is vulnerable to being used for money laundering. The Government of Aruba (GOA) has undertaken a number of measures in recent years to strengthen its anti-money laundering system. Money laundering is a criminal offense in Aruba, and money laundering offenses extend to all predicate offenses, including tax offenses. Aruban anti-money laundering legislation provides for the creation of a financial intelligence unit (MOT Aruba), which became operational in 1996. The legislation also specified know your customer requirements, requirements for the reporting of unusual transactions, and record-keeping requirements. However, the money laundering law requires proof of an underlying crime, a standard that has so far proven extremely difficult for police, who lack the sophisticated methods necessary to build a successful case. The GOA also established four committees, consisting of representatives of both Aruba and The Netherlands, to review specific industries and make recommendations. Each of the initial committees has completed its work. The GOA has approved the recommendations and appointed implementation committees, and the necessary legislation has been drafted and is being discussed. The four committees are the following:

The Mixed Committee Gaming Industry, which recommended bringing casinos under the Reporting and Identification Ordinances and the creation of an independent Gaming Board;

The Mixed Committee Aruba Free Zone, which compiled recommendations to monitor the free zone. These recommendations will be put in place soon;

A Mixed Committee to assess the system of organization, registration and supervision of legal entities in Aruba. This Committee seeks to address the supervision of the Aruba offshore sector by ensuring that the identity of the ultimate beneficial owner is known to the trust company, and that know your customer policies are implemented; and

A Mixed Committee to implement a system requiring the reporting of imported or exported cash or monetary instruments of more than \$10,000.

A new asset seizure law is in effect in Aruba that currently states that the prosecution must prove that the defendant knew the assets came from illegal activities, in addition to proving the underlying crime.

The Director of the Free Zone Aruba has worked to keep money laundering activities from shifting from the recently regulated financial sector into the still largely unregulated trade sector. He has prepared standards that could ultimately be used to deter corruption in free zones throughout the Caribbean.

Aruba is rapidly developing as an international financial services center. Services include finance companies, offshore banking companies, royalty companies, investment and holding companies, and the Aruba Exempt Company (AVV). Aruba introduced the concept of the AVV in 1988 to enhance the attractiveness of the approximately 3,000 offshore companies in Aruba, which are represented by 100 trust companies. The most

important feature of the AVV is its complete exemption from all taxes. Instead, a registration fee of \$280 is charged each year. The capital of an AVV may be divided by the designation of stock shares. Registered shares as well as bearer shares are allowed, and preference shares may also be issued. The minimum authorized capital for an AVV is \$5,600. The AVV cannot participate in the economy of Aruba. The AVV is exempt from several obligations, including the filing of an annual financial statement and currency restrictions. These advantages, combined with the general tax exemption, make the AVV a very attractive entity in the offshore sector. The trust offices provide a wide range of corporate management and professional services to the AVVs. The trust offices also look after the interests of the shareholders, stockholders, or other creditors of the AVVs.

The Aruban banking sector is small, consisting of 15 financial institutions: six onshore commercial banks, two offshore banks, two mortgage banks, two credit unions, and three other credit institutions (an investment company, a finance company and a local governmental bank). All 15 institutions are under the direct supervision of the Central Bank of Aruba (CBA). There are also ten life insurance companies and seven general insurance companies. The CBA supervises the life insurance companies, whereas the general insurance companies are unsupervised. There are also 11 casinos, all of which belong to hotels.

The Aruba MOT has an extremely capable and dedicated staff. The Aruba MOT faces the same problems as its counterpart, the Netherlands Antilles MOT, in that both are understaffed and risk becoming overwhelmed with the huge volume of unusual transactions they must process. Both units need to develop more on-line databases, instead of relying on manually inputting voluminous data. As part of the Kingdom of the Netherlands, Aruba is a member of the FATF. Aruba underwent a second mutual evaluation report by the FATF in January 1999. Aruba is also an active member of the CFATF. The Aruba MOT is a member of the Egmont Group.

The Netherlands and the United States have an MLAT that applies to Aruba. Aruban judicial authorities have maintained an excellent record of cooperating with the United States under the MLAT.

Despite the progress it has made in its anti-money laundering regime, Aruba has not yet successfully prosecuted any money laundering cases. The U.S. continues to urge that the GOA amend its anti-money laundering legislation to shift the burden of proof from the prosecutor to the defense. With this amendment, and once Aruba's anti-money laundering program is fully implemented, successful prosecutions of money launderers should follow.

Australia (Primary). Financial fraud and narcotics trafficking are the major sources of criminal proceeds laundered in Australia. A comprehensive money laundering study commissioned by the Australian government in 1995 estimated that approximately \$ 2.8 billion is laundered in or through Australia, or offshore, each year. Organized crime groups involved in narcotics trafficking launder a large part of these proceeds. Besides domestic Australian groups, ethnic Chinese, Italian, Colombian, Japanese, Lebanese, Vietnamese, and Romanian organized crime groups are known to operate in Australia. Alternative remittance systems are used by some of the organized crime groups to move and launder their funds. Detecting and investigating the movement or laundering of funds through these alternative remittance systems is extremely difficult. Other major money laundering methods include the use of wire transfers structured below the threshold required for mandatory reporting, large wire transfers, cross border exports of cash, representative offices of foreign banks, currency exchange businesses, and real estate purchases.

Three legislative acts form the basis of Australia's anti-money laundering regime. These are the Proceeds of Crime Act (POCA) of 1987, the Mutual Assistance in Criminal Matters Act (MA) of 1987, and the Financial Transaction Reports Act (FTR) of 1988. The POCA criminalized money laundering for all serious offenses. It contains provisions to assist in the collection of evidence for money laundering investigations and prosecutions in the form of production orders, search warrants, and monitoring orders. The MA allows Australian authorities to assist other countries in identifying, freezing, seizing, and confiscating the proceeds of crime.

The purpose of the FTR is to discourage financially motivated criminals and to provide financial intelligence to law enforcement and revenue collection agencies. It specifies anti-money laundering measures applicable to the financial sector. The provisions of the Act apply to financial institutions; insurance businesses; securities dealers; trustees; sellers of monetary instruments; bullion dealers; gaming establishments and services; persons who collect, hold, or deliver currency on behalf of others; and persons who prepare payrolls for others in whole or in part from collected currency. These are required to report suspicious transactions, cash transactions of approximately \$8,000 or more, and international funds transfers into or out of Australia. The FTR contains provisions for customer identification requirements for account holders.

The Australian Transaction Reports and Analysis Centre (AUSTRAC) is the agency created to receive and process reports required under the FTR. It is Australia's financial intelligence unit. The FTR assigns AUSTRAC a regulatory role vis a vis the wider financial services sector of the Australian economy. AUSTRAC also monitors the movement of currency across Australia's borders.

AUSTRAC supports Australian law enforcement and revenue agencies by monitoring, analyzing and disseminating financial intelligence. Partner agencies have online access to AUSTRAC's database. AUSTRAC produces specialized reports based on in-house software applications to extract information from its database. In addition, AUSTRAC runs automated monitoring of its database to identify financial activity that indicates money laundering, other serious crime and tax evasion. AUSTRAC's database can also provide an alert system to its partner agencies when a report matching specific criteria enters the database.

Australia plays a very active role in international anti-money laundering fora. It is a member of the FATF and has implemented the FATF Forty Recommendations for combating money laundering. Australia continues to promote the adoption of anti-money laundering systems by countries in the Asia/Pacific region through its funding and hosting of the Secretariat of the Asia/Pacific Group on Money Laundering and by raising the issue of money laundering to a priority concern by the Asia Pacific Economic Cooperation Forum. AUSTRAC has provided assistance to a number of countries such as Poland, Thailand, South Africa, Japan, Canada, and Korea to establish anti-money laundering systems and to develop their financial intelligence units.

An MLAT is in force between the United States and Australia. AUSTRAC and FinCEN have signed an MOU for the exchange of information. Australia also has bilateral agreements with the UK, New Zealand, Belgium, France and Denmark, allowing the exchange of information on money laundering.

Australia has a comprehensive and an effective anti-money laundering regime. It fully complies with the FATF Forty Recommendations. Australia is studying possible amendments to its legislation in order to keep up with the rapidly changing financial services sector and to counter the opportunities that new technologies may offer criminal enterprise, especially in the evolving field of electronic commerce. Australia's approach to combating money laundering and its demonstrated ability to adapt to change serve as a model for other countries to emulate.

Austria (Primary). **Austria is not an important regional financial or banking center but it is a** potentially attractive site for money laundering due to the existence of Sparbuch (literal meaning: "savings book") accounts. Austria's failure to terminate these anonymous accounts has led the FATF to threaten to suspend Austria's membership after June 15, 2000 if Austria fails to take decisive action against the Sparbuch accounts. Russian organized criminal groups have established front and shell companies through Austrian fiduciaries to launder money.

Money laundering was added to Austria's Penal Code as a criminal offense in 1993. Austria's Banking Act of 1994 also prohibits money laundering, and requires customer identification for bank transactions involving over \$15,000 for customers without a permanent business relationship with the bank. Banking records must be maintained for at least five years after termination of the business relationship with the customer. In 1998, Austria tightened its money laundering regulations in both the Act and the Penal Code. Banks, insurers and bureaux de change are currently required to report suspicious transactions to Austria's financial intelligence unit (FIU), the Central Department for Combating Organized Crime (Reporting Office) (EDOK). The FIU is located in the Federal Ministry of Internal Affairs and participates in the Egmont Group. During 1998, Austria's banks reported 254 suspicious transactions, of which 16 resulted in criminal proceedings. Of the proceedings initiated in 1998, only two resulted in convictions; the low number was primarily due to lack of evidence. During the first ten months of 1999, banks reported 177 suspicious transactions.

Austria has legislation allowing freezing and forfeiture of assets. However, there is little evidence of enforcement to date. Legislation implemented in 1999 provides for asset seizure and forfeiture of illegal proceeds. Courts may freeze assets in the early stages of an investigation. The amended extradition and judicial assistance law provides for expedited extradition, expanded judicial assistance and acceptance of foreign investigative findings in the course of criminal investigations, as well as enforcement of foreign court decisions. Austria has not enacted laws for sharing narcotics-related assets with other governments, but MLATs can be used as an alternative vehicle to accomplish equitable distribution of forfeited assets.

The Sparbuch anonymous accounts violate the EU anti-money laundering directive and are not in full compliance with the FATF Forty Recommendations. Although Sparbuch accounts are technically available only to residents of Austria, no identification is required to open the account. The account can be opened in any name; in fact, a common name in which these accounts are opened is "Berbringer" (passbook holder). The account has an identifying number assigned by the bank. Access to the account is controlled by a password selected by the owner of the account. Anyone presenting the passbook and knowing the password can withdraw funds.

However, two additional and significant restrictions on these accounts make them less attractive to potential money launderers. First, all transactions must be made in person—wire transfers of deposits or withdrawals are not permitted. Second, all settlements from Sparbuch accounts must be made in cash. The requirement for in-person transactions greatly reduces the Sparbuch's utility as a money laundering tool. In many money laundering schemes, funds are wired to an anonymous account for subsequent layering and integration. This is obviously not possible with the Sparbuch account. In addition, the requirement for cash settlements makes it

difficult if not impossible to use the account to convert cash into another form, a common use of accounts in money laundering schemes. Sparbuch accounts are offered or brokered (in probable violation of the Austrian residency requirement) by many businesses on the Internet. Banks oppose the elimination of Sparbuch accounts out of fear that account holders will transfer money out of Austria to avoid taxes, and because the task of identifying ownership of the 26 million Sparbuch accounts is formidable.

Despite the availability and anonymity of the Sparbuch accounts, U.S. law enforcement agencies indicate there is no evidence that these accounts are being used to launder drug money. Even though the restrictions on the Sparbuch accounts do not hinder their typical use (such as the use of several Sparbuch accounts to pay different bills or having a separate Sparbuch for each grandchild), they do, in fact, make them less than attractive as a money laundering vehicle. Austria is a party to the 1988 UN Drug Convention and a member of the FATF. In 1996, Austria abolished anonymous securities accounts, in compliance with the FATF Forty recommendations and EU regulations. In 1997, it tightened restrictions on trustee accounts. However, the FATF decided at its February 2000 meeting to suspend Austria's membership as of June 15, 2000, unless the Austrian government, by May 20, 2000, (1) commits to eliminating the system of anonymous passbooks by the end of June 2002 and (2) introduces and supports legislation to prohibit the opening of new passbooks and to eliminate the existing passbooks.

An Austria-U.S. MLAT has been in force since August 1, 1998. Austrian cooperation with U.S. investigative efforts has been excellent.

The Government of Austria should come to terms with the commitments it has made to the EU and the FATF. Both of these organizations have called on the Austrian government to eliminate Sparbuch accounts.

Azerbaijan (Other). Azerbaijan is not an important center for narcotics-related money laundering. There is presently little or no laundering taking place in Azerbaijan on behalf of international narcotics groups. However, because of Azerbaijan's geographic location, drug trafficking and the related movement of drug proceeds in or through the country may increase. Banking in Azerbaijan is still in its nascent stages and is in many cases unreliable. Banking laws are changing on a regular basis; many banks are forcibly closed because they fail to meet minimum capital requirements. The two largest state-owned banks of Azerbaijan are presently being privatized. Neither would be attractive as establishments to deposit or launder funds. Large scale money laundering by local businesses to avoid invasive taxes and customs fees is probably done primarily in the non-bank financial system and black markets, not in banking. The transportation of illegal source currency falls within the purview of the Organized Crime Division of the Interior Ministry as well as the Ministry of National Security. However, they appear to be more concerned about the transport of such funds for anti-state activities (anti-government propaganda, terrorism) than for their connection with money laundering.

Azerbaijan's current legislation does not prohibit money laundering and is inadequate to combat police and judicial corruption effectively. Parliament is currently debating a new criminal code that will authorize the police to retain seized assets used in the commission of a crime and assets acquired as a result of criminal activity.

Azerbaijan is a party to the 1988 UN Drug Convention.

The Commonwealth of The Bahamas (Primary). The Bahamas is an important regional financial and offshore center. Its bank secrecy laws and liberal international business company (IBC) regime make it vulnerable to money laundering and other financial crimes. Bahamian central bank officials have stated that in the recent past Russian banks have applied for offshore banking licenses, but were rejected. There is a strong suspicion on the part of government officials that the insurance sector may also be used for laundering funds.

International Business Companies (about 67,000) and offshore banks (about 400) are two of the several services available in the Bahamas' offshore financial sector. Under the 1989 International Business Companies Act, investors can operate an IBC as long as it does not carry on any business with Bahamian residents or own interest in real estate in the Bahamas. An IBC cannot be a bank, insurance or trust company. It does not require a license and normally takes a day to form upon reserving the name, and presenting a Memorandum and Articles of Association to the Registrar General. A minimum of two shareholders is required, although the shares can be transferred to a single person. The shareholders can be nominees; therefore, the name of the beneficial owner never appears on the register. An annual report must be filed containing information on shareholders, number of shares, amount of capital, and the names, addresses and occupations of the directors and managers, but the annual report does not have to include financial statements. The annual reports, accounts, and the names of the director, officers or shareholders do not need to be public knowledge, and the books and records do not have to be maintained in the Bahamas. The offshore banks are governed by the 1992 Companies Act and can be public or private. All offshore banks must submit annual statements that do not have to include financial statements. The banks' records can be maintained anywhere. The shareholders can be nominees, but in applying to the Central Bank of Bahamas for non-resident status, the name of the beneficial owner must be disclosed.

Overall, with the passage of the Money Laundering (Proceeds of Crime) Act (1996), its December 1996 regulations, and the 1996 Central Bank of The Bahamas Guidance Notes, the Bahamas now has a comprehensive anti-money laundering regime in place. Under these legislative and regulatory mechanisms, the Bahamas criminalized the laundering of the proceeds of serious crimes and required banks and other financial institutions (including insurance companies, casinos, credit card issuers, money transmitters, trust companies and securities dealers) to identify customers and maintain records of significant transactions (\$20,000 or above) for five years.

Banks are required to report suspicious financial transactions to the Bank Supervision Department of the Central Bank of The Bahamas, which, after review and analysis, forwards any relevant disclosures to the Director of Public Prosecutions (DPP) of the Attorney General's Office. The 1996 Central Bank Guidance Notes provide a definition of money laundering, assist in interpreting the 1996 Act and its regulations, describe examples of what may constitute suspicious transactions, and discuss the internal controls and procedures that should be implemented. These Guidance Notes are not mandatory, although a court, in deciding whether an individual or institution has complied with the 1996 Regulations, may take them into account.

The Bahamas is party to the 1988 UN Drug Convention and a member of the CFATF, and continues to express interest in furthering its anti-money laundering efforts by creating a financial intelligence unit (FIU) and joining the Egmont Group of FIUs. Given the size and diversity of The Bahamas' financial sector, the government should expedite efforts to create a separate FIU that would collect and analyze financial information and exchange information with similar units worldwide in the pursue of money laundering investigations.

Bahrain (Concern). Bahrain is a regional financial and offshore center and as such is potentially vulnerable to money laundering. The Government of Bahrain (GOB) has provided a number of incentives to foreign investment, including the elimination of corporate withholding taxes and the removal of restrictions on the repatriation of profits (including those of offshore companies). According to a press report of June 1999 quoting a Canadian money laundering consultant, the Bahraini Ministries of Interior and Commerce and the Bahrain Monetary Agency (BMA), which functions as the central bank, have identified and collected information on money laundering schemes in Bahrain, but the lack of an anti-money laundering law has made it difficult for authorities to follow through on prosecution. The most common sources of illegal proceeds include narcotic trafficking, fraud, and illegal trade involving sanctions evasions. Another major source of illegal money flow results from the sale of oil reserves outside of OPEC production agreements.

Bahrain has not yet criminalized money laundering. However, banking laws require the reporting of suspicious transactions to the BMA and establishment of know-your-customer rules. It is not known how strictly these regulations are enforced. The BMA is expected to introduce legislation to combat money laundering sometime in 2000, and to issue even tighter banking regulations. These regulations are reportedly to address such areas as the reporting of large transactions, providing specific guidelines for accepting transactions, and more monitoring of banking activity. While details of the proposed legislation are not available, it is expected to enable the filing of criminal charges against institutions and individuals in cases of money laundering.

Bahrain is known for its offshore banking units (OBUs), which currently number 49. The BMA licenses the OBUs, which must be audited yearly by outside firms that have been approved by the BMA. OBUs may deal only with non-residents (except for agencies of the GOB and all their activities must be in a foreign currency. With the approval of the BMA, OBUs may participate in domestic development projects. OBUs must be fully staffed, and the majority of the staff must be Bahraini nationals. All books and records must be available at all times for examination by the BMA. OBUs must submit half-yearly statistical returns. They are exempt from taxes and are not subject to any restrictions involving foreign exchange payments or receipts.

The GOB also permits international business companies (IBCs) with limited liability from parent companies. There are two types of IBCs in Bahrain: the first is the offshore resident company, whose principal offices are in Bahrain but which operates exclusively offshore. Such a company must be a joint stock company with a minimum capital of \$54,000. If it deals in financial activities, it requires a license from the BMA. The second type of IBC is the offshore non-resident company. This category consists of joint stock companies other than those involved in insurance or investments. These may be exempted from the requirement of maintaining an office in Bahrain, and may instead appoint a law or auditing firm in Bahrain as their resident address. Such firms require a minimum capital of \$6,750. Registration of an IBC can take as little as seven days. There are no restrictions on remittances sent abroad. The government-sponsored offshore services are advertised on the Internet.

Bahrain is represented at the FATF by the GCC, of which it is a member. Bahrain is a member of the OGBS and has agreed to undergo a mutual evaluation by this body. No date for the evaluation has yet been set. Bahrain is a party to the 1988 UN Drug Convention.

Bahrain should act expeditiously to enact anti-money laundering legislation and should ensure that its offshore sector is subject to prudent supervision.

Bangladesh (Other). Bangladesh is not an important regional financial center, or an offshore financial center. Money laundering activities here are not primarily related to drug trafficking but rather to evasion of Bangladesh income taxes and illegal import of consumer goods. There is no evidence that proceeds from drug trafficking are laundered in Bangladesh.

Bangladesh has not criminalized money laundering. Banking regulation and enforcement is spotty. Goods are readily smuggled across Bangladesh's long and porous borders, and black market goods are available in the local market. Some illegal drugs are also smuggled across the border. Bangladesh laws allow for the seizure of assets related to illegal smuggling or corruption.

Bangladesh is a party to the 1988 UN Drug Convention, and is a member of the Asia/Pacific Group on Money Laundering.

Barbados (Concern). The Government of Barbados (GOB) has taken several steps to provide a defense against the threat of money laundering, including enacting offshore banking laws and oversight and comprehensive anti-money laundering legislation, but it must fully enforce these measures to protect the nation's domestic and offshore financial sectors.

In December 1998, the Parliament enacted the Prevention of Money Laundering Bill, criminalizing any transaction involving, or possession or concealment of, money or property that is the proceeds of crime. The law creates a centralized unit, the Anti-Money Laundering Authority, to supervise financial institutions in accordance with the Act. Penalties for money laundering include up to 25 years in prison and a \$1 million fine. The law also contains asset seizure and forfeiture provisions.

The law applies to a wide range of institutions, including domestic and offshore banks, international business companies (IBCs), and insurance companies. These institutions are required to identify customers, maintain records, and report suspicious transactions and transactions exceeding \$5,000 to the Anti-Money Laundering Authority. After reviewing these disclosures, the Authority will forward this information to the Commissioner of Police if it has reasonable grounds to suspect money laundering. The Authority may also issue training requirements and regulations for institutions. Although the legislation is officially in force, the Anti-Money Laundering Authority has not yet been established and no regulations have been issued.

The GOB criminalized money laundering in 1990 in its Proceeds of Crime Act, No. 13. This law authorizes asset confiscation and forfeiture and provides a disclosure protection safe harbor for individuals reporting suspicious activities. In 1997, the central bank issued its Anti-Money Laundering Guidelines for Licensed Financial Institutions. The Guidelines follow international standards against money laundering, but lack any enforcement authority.

Barbados is an offshore center, offering offshore banking, international trusts, exempt insurance companies, international business companies (IBCs) and foreign sales corporations (FSCs), which are specialized companies permitting persons to engage in foreign trade transactions from within Barbados. Unofficial sources report Barbados has about 40 offshore banks, 360 exempt insurance companies, and at least 2,000 IBCs and 1,800 FSCs. In 1998 the GOB indicated it had \$10 billion in offshore deposits.

The Off-Shore Banking Act (1980) gives the central bank authority to supervise and regulate offshore banks, in addition to the nine domestic commercial banks. The Ministry of Finance issues licenses after the central bank receives and reviews applications and recommends applicants for licensing. Offshore banks must submit quarterly statements of assets and liabilities, and annual balance sheets to the central bank. Profits from offshore banks are subject to 2.5% tax rate for profits up to \$5 million and less, but not less than 1%, for greater profits. In late 1999, the GOB proposed new legislation designed to facilitate access by regulators to offshore bank records. It broadens the central bank's ability to share information on licensees with regulators in jurisdictions where the licensees have a holding company, subsidiary, or affiliate.

The International Business Companies Act (1992) provides for general administration of IBCs. The Ministry of International Trade and Business vets and grants licenses to IBCs after applicants register with the Registrar of Corporate Affairs. Barbadian IBC's must pay a 2.5 percent tax on profits up to \$7.5 million, plus a one percent tax on profits in excess of \$7.5 million. Bearer shares are not allowed, and financial statements of IBCs are audited if total assets exceed \$500,000. Barbados has bilateral tax treaties that eliminate or reduce double taxation with the UK, Canada, Finland, Norway, Sweden, Switzerland, and the United States. Canada's treaty allows IBC and offshore banking profits to be repatriated to Canada tax-free after paying the 2.5% tax in Barbados. As a result, the Barbadian offshore financial services industry continues to expand, driven largely by Canadian-based companies.

In 1996, the United States and Barbados signed an MLAT and an extradition treaty. The United States ratified both treaties in January 1999, and the GOB has signaled that it is prepared to exchange instruments of ratification, the final step necessary to bring the treaties into force.

The GOB needs to maintain strict control over vetting and licensing of offshore entities, and pass legislation to

facilitate compliance by offshore banks to prevent abuse of the offshore sector. It should also establish the Anti-Money Laundering Authority, provide it the necessary resources to enforce compliance by financial and commercial sectors, and enable it to fully cooperate with foreign authorities to investigate and prosecute money laundering and other financial crimes.

Belarus (Other). Belarus is neither a major regional or international finance center, nor a significant country for drug-money laundering. The money laundering environment in Belarus shares many of the same characteristics found in the Baltic States and Russia. Financial institutions used to launder proceeds include banks and non-bank financial institutions such as casinos, currency exchanges, real estate companies and businesses that receive large deposits. Common methods used to launder assets continue to be false invoicing schemes, keeping double books, and contract fraud. The absence of anti-money laundering laws and the failure to criminalize money laundering will significantly hinder the attempts made to combat money laundering and any associated crimes.

Local authorities do not believe that money laundering is an immediate problem. However, they state that bank secrecy and the lack of money laundering legislation may in the future attract drug traffickers to launder their profits in local casinos.

Current Belarusian laws used to combat money laundering focus on the underlying crime that generates illegal proceeds. Belarus requires banks to report transactions of more than \$10,000, and to maintain records on customer identification and transactions indefinitely. However, banks are not required to report or record unusually large or suspicious transactions. Belarusian banks are not presently required to develop anti-money laundering programs but would be required to do so by an anti-money laundering law currently being drafted. No specific laws establishing and regulating non-bank financial institutions have been passed to replace the 1996 Temporary Regulations on Non-Banking Financial Institutions in the Republic of Belarus.

Belarusian law does not provide for the seizure of assets resulting from illicit gain. Belarus is a party to the 1988 UN Drug Convention.

Belgium (Concern). Belgium is a country of concern for money laundering, primarily because of its role as a transit country for narcotics trafficking. Although narcotics trafficking proceeds constitute the major source of criminal proceeds, other sources include tax evasion, organized crime, financial fraud, and commercial fraud. The main money laundering methods identified by Belgian authorities include the use of currency exchange bureaus, international wire transfers, and deposits into bank accounts. Many instances of money laundering in Belgium are internationally connected. Narcotics traffickers from the Netherlands, Africa, South Asia, and South America operate and launder their proceeds in Belgium. Belgian authorities have identified organized crime networks involving nationals, residents, or financial institutions from Central and Eastern Europe and countries of the former Soviet Union.

Belgium criminalized money laundering by supplementing Article 505 of Belgium's Penal Code dealing with the receiving of criminal proceeds. The supplemental provisions of 1990 broadened the concept to one of "extended" receiving of criminal proceeds. The Act of 11 January 1993, On Preventing the Financial System From Being Used for Money Laundering Purposes, codified most of the provisions of the FATF Forty Recommendations. These concern customer identification, record keeping requirements, suspicious transaction reporting, a financial intelligence unit, and internal anti-money laundering procedures and training for all Belgian banks and non-bank financial institutions.

As provided for in the Law of 11 January 1993, the Financial Intelligence Processing Unit (CTIF-CFI) came into existence on 1 December 1993. The organization is an independent administrative authority that is supervised by the Belgian Ministries of Justice and Finance. Its mission is to receive and analyze all suspicious transaction reports made by financial institutions (and other persons and entities as specified by the law) subject to the reporting requirements. CTIF-CFI operates as a filter between financial institutions and judicial authorities. Upon identifying credible indicators of money laundering relating to specific predicate offenses among the disclosures it receives, CTIF-CFI reports these cases to the Crown Prosecutor in Brussels.

When a financial institution knows or has reason to suspect that a transaction relates to money laundering, it must inform CTIF-CFI before executing the financial operation and indicate, when possible, the deadline for completing the operation. After analyzing all data and finding credible indications of money laundering, CTIF-CFI will submit the information, along with appropriate justifications, to the Crown Prosecutor in Brussels for further investigation and/or prosecution. In order to safeguard the integrity of money or property that is linked to instances of money laundering (and thus subject to seizure by judicial authorities), CTIF-CFI has the authority to block the completion of a suspect financial transaction before the deadline indicated by the reporting institution. The delay may extend to a period of up to 24 hours.

CTIF-CFI is composed of six financial experts, including three magistrates (prosecutors) appointed by the King. A magistrate serves as president of the organization. Besides a secretariat with personnel to provide administrative support, the organization has its own investigations department consisting of six inspectors.

CTIF-CFI also has three liaison officers (from the Gendarmerie and Judicial Police) responsible for maintaining contacts with various law enforcement agencies. The strict confidentiality to which CTIF-CFI members and staff are subject does not apply in the same way to communications made in the framework of international cooperation. Exchange of information may take place on the basis of international treaties to which Belgium is signatory or by reciprocity with foreign counterpart agencies possessing secrecy obligations analogous to those of CTIF-CFI.

Belgium is a member of FATF, and CTIF-CFI is a member of the Egmont Group. Belgium has implemented the EU Directive on Money Laundering.

Belgium and the United States signed an MLAT in 1988. It was ratified by the United States in 1989 and by Belgium in March 1998, and entered into force in January 2000.

Belgium has a very effective and consistent anti-money laundering regime that meets, and in some areas exceeds, international standards. Belgium is considering additional legislative measures aimed at improving what is already a well-planned anti-money laundering system.

Belize (Concern). Belize authorities have expressed concern over the increase during the past year in the number of individuals found bringing large amounts of currency into the country in briefcases or concealed under clothing. Authorities have also detected instances of Belize-flagged ships being used to transport drugs and violate UN sanctions. A better understanding of Belize's money laundering dynamics may surface once the Money Laundering Unit being created within the Police Department starts its fieldwork.

Belize's August 1996 Money Laundering Prevention Act meets most of the standards prescribed by the CFATF, which Belize joined in October 1996. The Act criminalized the laundering of proceeds derived from narcotics trafficking, blackmail, counterfeiting, extortion, false accounting, forgery, fraud, illegal deposit taking, robbery and theft involving more than \$10,000, terrorism, arms trafficking, and kidnapping. It also introduced the mandatory reporting of suspicious financial transactions by banks and other financial institutions. The Central Bank of Belize, as the supervisory authority designated to receive the reports of suspicious transactions and monitor compliance with the law, issued the implementing regulations in January 1998. Although the laundering of proceeds derived from numerous illicit activities was criminalized in August 1996, law enforcement authorities have yet to try a single case under this law.

Belize's August 1996 offshore banking legislation is the latest in a series of laws to establish an offshore sector that began with the passage of the International Business Companies (IBC) Act in 1990 and the Offshore Trusts Act in 1992. However, Belize remains a minor player in the offshore banking arena. The central bank has received numerous inquiries about offshore banking licenses, and in August 1997 two Central American banks received conditional approval for licensing; however, they never started operations. In August 1998, the central bank approved an offshore banking license for Provident Bank and Trust Limited, which started operation in September 1998.

There are approximately 11,000 registered international business companies (IBCs) in Belize, up from 8,000 last year. While there is no requirement to file audited accounts with the authorities, an IBC is required to keep records that reflect the financial position of the company. There is no disclosure of the beneficial ownership to the authorities. Even though the IBC Act prohibits IBCs from engaging in banking or insurance, an IBC may own and control a bank, since the ultimate ownership of the bank is obscured. IBC records are maintained by Belize International Services Limited, a subsidiary of CHI Corporation, traded on the NASDAQ and formerly known as BHI Corporation. Central bank officials have stated that the system of accounts for the IBCs, for which the central bank of Belize keeps no record, represents a loophole that might allow for money laundering. Although the central bank is required to regularly report the total amount of all IBC account holdings, the patterns and changes of individual accounts are not seen by any central bank authorities unless ordered. There is no registry at all for offshore trusts, since the Offshore Trust Law did not specify an oversight or regulatory body, thus making it impossible to determine the beneficial owners of an offshore trust. In May 1999, Belize created the International Financial Services Commission to regulate and supervise the offshore activities; however, the vast majority of the Commission is composed of offshore practitioners themselves.

The Government of Belize needs to remain vigilant of its growing offshore financial sector, particularly the regulatory authorities. It should also consider establishing a financial intelligence unit to receive suspicious transactions.

Bermuda (Other). A British Overseas Territory, Bermuda remains one of the world's premier offshore international financial and business centers, with a large number of international business companies (IBCs). The Government of Bermuda (GOB) has made considerable progress in combating financial crime in recent years. Both the proceeds of Crime Act 1997 and the Proceeds of Crime Act Regulations 1998 came into force in January 1998. These measures criminalized money laundering, mandated the reporting of suspicious transactions, provided safe harbor protection for those making such disclosures, mandated customer identification and cash transaction record keeping procedures, and developed internal reporting procedures.

The GOB issued extensive guidance notes to all financial institutions subject to the laws.

The Proceeds of Crime Act is being amended to include offenses that were not covered as indictable crimes under the original legislation. Implementation is being deferred pending resolution of concerns expressed by the international business community. Additionally, an extension to the Proceeds of Crime Act is being discussed that would substantially increase the amount of reporting, internal controls, and training that must be implemented. It would also provide the Bermuda Monetary Authority (BMA), Bermuda's central bank, with the authority to investigate the finances of a convicted person and to confiscate crime-related cash and property. A National Anti-Money Laundering Committee, chaired by the GOB's Financial Secretary, is focusing on enhancing public awareness of financial crime.

The Financial Investigation Unit within the Bermuda Police Service, which serves as Bermuda's financial intelligence unit, has been receiving a steady stream of suspicious activity reports and investigating money laundering activity since early 1998.

In 1998, the offshore banking sector in Bermuda consisted of approximately three offshore banks and 37 trust companies. As in the case of domestic banks, the BMA has regulatory authority over these entities. Authority to issue licenses for the offshore sector is vested with the Minister of Finance, who may seek the advice and assistance of the BMA. Approximately 10,000 IBCs are registered in Bermuda. The GOB has always been aware of the potential use of IBCs for money laundering, and scrutinizes closely all applications for the incorporation of new IBCs.

Continued supervision and enforcement of rules in the offshore banking sector in Bermuda are necessary to discourage infiltration by organized crime and money launderers. The GOB is paying close attention to this issue, with an eye to full compliance with international standards of financial activity as mandated by the 1999 United Kingdom White Paper on Overseas Territories.

Bolivia (Concern). Most money laundering occurring in Bolivia is related to contraband smuggling rather than to narcotics trafficking. Still, Bolivia's tradition of bank secrecy facilitates the laundering of illegally obtained earnings and the evasion of taxes. The Government of Bolivia (GOB) is making efforts to implement and enforce the anti-money laundering measures available under the Controlled Substances Law No. 1008, and the March 1997 reforms made to the Penal Code (Law 1768) that criminalized the laundering of proceeds related to illicit narcotics, organized crime and public corruption. In June 1999, the Bolivian Special Narcotics Task Force arrested former military official Marino Diodato and members of his ring believed to have connections to a major Italian Mafia organization dealing in, among other things, narcotics, arms trafficking, and money laundering. The Diodato investigation continues, and over \$5.7 million of the organization's assets have been seized, raising serious concerns about the extent of the Mafia presence in Bolivian society.

Bolivia is six months into the transition for full implementation of the new Code of Criminal Procedures enacted in 1999, and progress is already noticeable, particularly in the selection and training of judges, prosecutors and police. This new Code established an accusatorial, oral, public criminal procedure designed to be more rapid and transparent and to improve the judicial system and administration of justice through public proceedings and citizens' participation. It also enhances the abilities of law enforcement bodies by allowing the use of undercover agents and controlled deliveries of narcotics in criminal investigations.

Anti-money laundering regulations issued in July 1997 (Decree 24771) introduced mandatory customer identification and record keeping (10 years) requirements, and the reporting of unusual and/or suspicious financial transactions to the Financial Investigations Unit (FIU) created in late 1998 within the Superintendency of Banks and Financial Institutions. Efforts to staff and equip the unit continue, albeit at a slow pace.

Prior to December 1995, the GOB's seizure and disposition of the assets of individuals accused and/or convicted of narcotics-related crimes was governed by the Controlled Substances Law No. 1008, which permitted the sale of seized property upon Supreme Court affirmation of the conviction of the defendant. To accelerate the disposition process, in 1995 Supreme Decree No. 24196 was issued, which permitted the sale of seized assets with the consent of the accused and in certain other limited circumstances. Overall, judges have refused to enforce Decree No. 24196 on the basis that it is unconstitutional, since it deprives the accused of his/her property without due process, i.e., without a final Supreme Court determination that the accused was guilty. It was hoped that provisions contained in the 1999 Code of Criminal Procedures would remedy the situation by permitting the sale of certain types of property with or without the consent of the accused, on the grounds that the asset might lose value or cost too much to maintain. However, the Constitution does not make distinctions between the types of property. Therefore, these provisions in the new Criminal Code do not further the Government's efforts. The GOB should quickly resolve the internal conflicts and ambiguities afflicting the FIU and the seized assets program, both essential components of an effective anti-money laundering program.

Bosnia and Herzegovina (Other). A significant hub for narcotics transshipment to Western Europe, Bosnia is nevertheless neither a regional financial nor a money laundering center. Cooperation between Bosnian Serb

and Croat law enforcement agencies is improving and has resulted in several major drug seizures and exposed some official corruption. However, the growing narcotics trade remains closely linked to organized crime, public sector corruption and ethnic extremism.

Although local banking laws generally conform to the Basle Committee's core principles, Bosnian participation in international financial fora is extremely limited. Bosnia's anti-money laundering legislation, which includes requirements to report suspicious transactions and to conduct due diligence, is stringent on paper. In practice, the law is not enforced in this primarily cash-based and largely unregulated economy.

As a result, government control over the banking industry is tenuous at best and the potential for financial crime is widespread (indeed, the banking system in Bosnia is very underdeveloped and lacks many of the attributes of a normal banking regime). Capitalizing on the prevalence of public sector corruption and the absence of the political will necessary to institute and enforce meaningful reforms, criminal elements linked to narcotics trafficking have engaged in major financial crimes, including bank fraud and money laundering. Regulatory officials have been subject to threats in the course of their duties.

Botswana (Other). Despite the government's keen interest in making it one, Botswana is not a financial center. Botswana is not a money laundering center either. Botswana has tough legislation against illicit drug production and trafficking, as well as against money laundering associated with the drug trade. In this connection, Botswana has implemented legislation that allows the courts to identify, freeze and require the forfeit of drug-related assets. The Bank of Botswana has the power to provide information regarding large currency transactions to law enforcement agencies.

Botswana law enforcement authorities have reacted positively to U.S. Government-sponsored anti-narcotics training and have expressed interest in the high-technology training necessary to combat bank fraud and money laundering.

Brazil (Primary). Money laundering related to drug trafficking and white-collar crime continues to be a problem in Brazil. The highly developed financial sector, increasing local drug consumption and trafficking, and the absence of laws against money laundering until 1998 all have contributed to make Brazil a money laundering center. The administration of President Ferdinand Enrique Cardoso has demonstrated a firm commitment to fighting this problem, and implemented regulations in 1999 to increase the effectiveness of Brazil's anti-money laundering regime.

In 1998, Brazil passed the comprehensive Law 9613, criminalizing money laundering for various offenses, penalizing offenders with up to 16 years in prison, expanding asset seizure and forfeiture provisions, and providing a "safe harbor" for good-faith compliance. It also created the Council for the Control of Financial Activities (COAF) as the country's financial intelligence unit (FIU). The COAF is housed within the Ministry of Finance and is composed of 21 members, consisting of 13 permanent personnel and 8 representatives from other regulatory and law enforcement agencies, including the central bank and Federal Police.

In 1999, Brazil began to fully implement this law by issuing twelve regulations pertaining to a wide array of financial and commercial sectors. The COAF issued eight regulations which pertain to: real estate, factoring companies, gaming and lotteries, dealers in jewelry and precious metals, bingo, credit cards, commodities trading, and dealers in art and antiques. The existing regulatory bodies (the central bank, the Securities and Exchange Commission (CVM), the Examiner of Private Insurance Companies (SUSEP), and the Office of Supplemental Pension Plans [PC]), issued four parallel regulations. These regulations require customer identification, record keeping, and reporting of suspicious transactions. The central bank, CVM, and SPC regulations also require reporting of large transactions. All of the above regulations include a list of guidelines that may indicate the occurrences of criminal activities. By the end of 1999, the COAF had already received over 250 reports of suspicious transactions. A similar regulation pertaining to the commodities and futures market is to be issued in early 2000. The central bank also established a dedicated financial crimes unit in the bank's audit department.

Regulations issued in October 1998 require that individuals transporting more than \$5,500 in cash, checks or traveler's checks across the Brazilian border fill out a customs declaration that is sent to the central bank. Financial institutions remitting more than \$5,500 must also make a declaration to the central bank.

Recognizing these efforts, the FATF invited Brazil to become a member in June 1999. In May 1999 the COAF was also admitted as a member of the Egmont Group of FIUs.

Throughout 1999, media attention in Brazil has been dominated by the Panel of Congressional Inquiry (CPI) investigations that have exposed widespread criminal networks operating in at least 14 of Brazil's 26 states, connecting drug trafficking networks, judges, members of Parliament and the police, and related money laundering schemes. Although the commission has no official powers of arrest, it does have strong investigative powers that have enabled it to get waivers of bank secrecy rules and to track bank, tax and telephone records. The CPI estimated that \$28 billion a year in drug money moves through Brazil, and indicated that the town of Campinas, near São Paulo, was the center for money laundering activity.

A two-year Federal Police investigation, "Operation Northeast", uncovered what was believed to be the largest money laundering scheme in northeastern Brazil, in the state of Cear . The case involves a local businessman who allegedly used his 15 companies to launder at least \$150 million—the same companies linked to previous investigations. As a result of the evidence already uncovered, the central bank canceled the authorization for these companies to operate in the exchange market and suspended an application by the group to set up a finance and investment company. A Federal Police task force is also working on this ongoing investigation.

The border region with Paraguay also remains a center for the laundering of proceeds, mainly from illegal operations in nearby Ciudad del Este, through local businesses and exchange houses. Officials stated that nearly 40 percent of the businesses in Foz de Iguazu were companies created as fronts to launder profits by local organized crime. A central bank official indicated that \$18 million was being laundered daily in banking agencies in Foz de Iguazu. One method is to employ Paraguayans and Brazilians living in Brazil to open special non-resident, "CC-5" accounts, which can legally send money abroad, in the Brazilian border cities. Criminals also employ "laranjas" (oranges), poor people who essentially sell the use of their names to illegal businesses. The public prosecutor in the town of Cascavel identified the accounts of 310 such poor people from whose accounts \$5 billion was transferred out of the country. Documents showed that in 1997, \$18 million was transferred abroad from the account of one man alone, who earns \$150 per month.

In the face of the CPI and Federal Police investigations in 1999, several exchange houses in Foz de Iguazu shut down operations. Although some agencies may still operate illegally, increased scrutiny has resulted in a decrease in the number of exchange houses authorized by the central bank from 40 to 15.

Although the laundering of proceeds from drugs and other crimes remains a major problem in Brazil, recent efforts by the government show that Brazil is taking the problem seriously. High-profile Congressional investigations have led to dozens of arrests and brought new energy and enthusiasm for rooting out drug trafficking, corruption and related money laundering. In October 1997, Brazil and the United States signed an MLAT that has been ratified by the United States but is not yet in force. New financial regulations should help the COAF, central bank, and other regulatory agencies collect and track information, and investigate and successfully prosecute financial crimes. When fully implemented, these new measures should demonstrate Brazil to be a regional leader in the global fight against money laundering.

British Virgin Islands (Concern). The British Virgin Islands (BVI), a United Kingdom (UK) Caribbean Overseas Territory (COT), is one of the larger offshore financial centers in the Caribbean. Money laundering occurs in the BVI, particularly at the layering and integration stages. UK Foreign Secretary Robin Cook has directed the UK overseas territories to enforce the highest international standards of financial regulation to preclude their being used for money laundering. The BVI continues to focus its efforts on thwarting money laundering.

On September 29, 1999, the Anti-Money Laundering Code of Practice 1999 was approved by the Governor-in-Council of the BVI. The Code provides guidance for all licensed financial service activities and establishes clear and definite procedures for the identification and verification of clients, maintenance and retention of records, and maintenance of a register of money laundering inquiries. The Code also makes relevant institutions and persons subject to due diligence audits by the Director of Financial Services or other designated individuals, to ensure compliance with the Code. Previously, these audits were conducted informally. The Code also mandates the appointment of compliance officers, establishing internal reporting procedures for identifying and reporting transactions, and training staff. The Code complements the Anti-Money Laundering Guidance Notes for the BVI Financial Sector prepared by the Territory's Joint Anti-Money Laundering Coordinating Committee.

The Proceeds of Criminal Conduct (Designated Countries and Territories) Order, 1999 was also approved on September 29, 1999 by the Executive Council of the BVI. The Order provides that, subject to certain modifications, the Proceeds of Criminal Conduct Act, 1997, applies to an order made by a court in a designated country or territory for the purpose of recovering payments or other rewards received in connection with money laundering or their value. It also applies to proceedings that have been, or are to be, instituted in a designated country or territory and may result in an order being made there. The Order also provides that the value of any property recovered in a designated country or territory for assistance in the enforcement of an order is to be treated as reducing the amount payable in the territory under a confiscation order made by the High Court.

The Proceeds of Criminal Conduct Act expands the scope of anti-money laundering legislation to cover the proceeds of all serious crime. The Act is closely modeled on British law and creates four types of offenses: assisting another to retain the benefit of the proceeds of criminal conduct; acquisition, possession or use of the proceeds of criminal conduct; concealing or transferring the proceeds of criminal conduct; and tipping off. Under the Act, suspicious currency transactions must be forwarded to a Reporting Authority, whose chairman is the director of the Financial Services Department.

The Financial Investigations Unit (FIU) within the Financial Services Department is responsible for the investigation of fraud and money laundering. Three individuals staff the Unit: an Inspector detailed from the

UK police force (the Head of the Unit), a Sergeant and an Acting Sergeant. The FIU receives reports of suspicious transactions from the Reporting Authority, individuals and businesses. The reports are analyzed at the FIU. Most investigations relate to international business companies (IBCs) and other offshore entities. The FIU has an excellent relationship with other BVI government agencies and has no difficulty obtaining information from these agencies on suspects in investigations. The FIU was admitted to the Egmont Group at the Plenary meeting in Bratislava on May 27, 1999.

There have been no prosecutions for money laundering in the BVI.

Financial services remain the largest sector of the BVI economy. The BVI has developed as an important jurisdiction for international finance and commerce, the incorporation and management of offshore companies, and the provision of offshore financial and corporate services. There are now over 300,000 IBCs registered in the BVI. A 1988 amendment permits a bank, insurance, or reinsurance company to be an IBC, but does not allow a registry agent forming other companies to be one. A company that is not an IBC must be established under the stricter Companies Act and is taxed at a rate of 15 percent. An IBC can be used for investment and property holding and for financial management, including offshore banking, trading, copyrighting, licensing, unit trusts, mutual funds, and personal trusts. IBCs can have offices in the BVI and be managed from within the Islands without being subject to BVI income taxes and stamp duties. An IBC is not allowed to do business with individuals who reside in the BVI.

Offshore banks can be formed in the British Virgin Islands only by backers who are financially strong and are willing to file and publish audited financial statements. There are currently 13 offshore banks in the BVI. Registered agents adhere to a strict Code of Conduct, which is being given statutory authority by the BVI government. The Code covers know-your-customer procedures, reporting requirements and record keeping procedures. All banking institutions and trusts must obtain a license from the Government before doing business. BVI policy with respect to bank licensing is that, unless the bank is predominantly locally owned and doing business in the BVI, offshore banking activities will not be permitted unless the bank is a branch, subsidiary or affiliate of a well established bank with a proven track record that is subject to effective supervision by the bank supervisory authority. Such banks must have a principal office on the Islands and appoint at least two directors and two individuals who will serve as authorized agents and as intermediaries between the licensee and the Governor or Inspector of Banks and Trust Companies.

In addition to banking institutions and trusts, insurance companies in the BVI must be licensed. Insurance companies are discouraged from selling directly to the public, but re-insurers and captive insurance companies (an insurance company owned by the entity it insures) are attracted by the BVI's quick and easy organization procedures. Captives may be taken over "off the shelf." The absence of controls on the types of insurance captives may write has drawn many companies interested in self-insuring to the BVI.

The BVI's 1992 Trustee (Amendment) Act made trusts more attractive. The Act releases the settler from forced or statutory inheritance provisions by stating that he is not bound by any rule of inheritance or succession laws of the country in which he is domiciled. The life of the trust can be up to 100 years. The law also grants complete exemption from BVI taxation to non-residents of the BVI unless a trust asset is land or a business conducted in the territory.

To ensure that international criminals do not abuse its territories, the UK has proposed that a study be conducted of its Overseas Territories' financial services industries. The Government of the BVI has joined the Governments of Bermuda, the Cayman Islands, Anguilla, the Turks and Caicos Islands, and Montserrat in requesting a review. The study will cover all banking practices and banking legislation.

As a member of the CFATF, the BVI underwent a CFATF mutual evaluation in July 1999, and assumed the CFATF chairmanship in October 1999.

The MLAT between the United States and the United Kingdom concerning the Cayman Islands was made applicable to the BVI in 1990.

The BVI's regulatory legislation meets international standards, such as those established by the FATF and the OGBS. However, the BVI must fully implement its Proceeds of Criminal Conduct Act to have an effective anti-money laundering program.

Brunei (Other). Brunei is neither an illicit drug consumer nor trafficking country, and there are no strong indications that Brunei is being used for money laundering. Nevertheless, the Government of Brunei (GOB) has in place a strong anti-drug program, and has drafted anti-money laundering legislation. The legislation was still undergoing legal review in late 1999 but the GOB announced that the law would be put into place soon. Anticipating such a law, in 1999 Brunei authorities initiated a cooperative effort with regional U.S. anti-drug officials to investigate a potential money laundering scheme.

Asset forfeiture laws are used in Brunei's drug-related cases.

Brunei is a party to the 1988 UN Drug Convention.

Bulgaria (Concern). The economic factors associated with Bulgaria's transition to a market economy, and the resulting instability, have created favorable conditions for financial crime and money laundering to flourish, especially in the mid- and late-1990s. Bulgaria serves as a major narcotics transit country along the Balkan Route, especially for narcotics destined to Western Europe through Romania. Both foreign and domestic sources of illegal proceeds are laundered in Bulgaria. Foreign sources of suspected illegal proceeds transit Bulgarian banks and are eventually transferred abroad. These transactions are conducted in violation of Bulgarian foreign exchange and other laws. Bulgarian banks are used as conduits for funds that are suspected of being connected to drug trafficking or other crimes committed abroad. Besides narcotics trafficking, the major sources of criminal proceeds laundered in Bulgaria have included smuggling, financial institution fraud, auto theft, alien smuggling, prostitution, tax evasion, tax fraud and extortion.

The types of financial institutions used to launder proceeds have included banks, casinos, currency exchanges, real estate companies, used car dealerships, and non-bank financial institutions such as brokerage firms and insurance companies. Bulgarian banks are used to launder funds from foreign sources, especially from former socialist countries of Eastern Europe and the former Soviet Union, Turkey and other Middle Eastern countries. The types of monetary instruments used to launder proceeds include cash—primarily U.S. dollars and German marks—bank drafts, travelers' checks, and wire transfers.

Bulgaria's anti-money laundering legislation, Law on Measures against Money Laundering, became effective on July 24, 1998. Money laundering was simultaneously criminalized by the addition of Articles 253 and 253a to the Bulgarian Criminal Code. The criminal provisions apply to all proceeds derived from all serious crimes.

The anti-money laundering law provides for a definition of money laundering, the types of transactions and financial institutions covered by the law, customer identification, recordkeeping requirements, suspicious transaction reporting, a financial intelligence unit, and the establishment of internal rules for financial institutions to implement an anti-money laundering program.

The Bureau of Financial Intelligence (BFI) of the Ministry of Finance is Bulgaria's financial intelligence unit and has jurisdictional responsibility for money laundering violations. The BFI is a member of the Egmont Group. Ministry of Finance "Decree on the Structure and the Organization of Bureau of Financial Intelligence Activities" formally established the functions of the BFI. The BFI is an administrative agency composed of three main divisions. One division collects, processes, analyzes and stores suspicious transaction reports. The second division is responsible for international relations and the international exchange of information. The third division exchanges information with Bulgarian agencies.

Bulgaria is a member of the Council of Europe and participates in the Council of Europe's PC-R-EV. In November 1999, Bulgaria underwent a mutual evaluation by the PC-R-EV. The evaluation provided detailed suggestions to improve Bulgaria's anti-money laundering program.

Bulgaria has made commendable progress in adopting and implementing anti-money laundering legislation. As Bulgaria continues to implement its anti-money laundering regime, taking into account the recommendations of the PC-R-EV report will give Bulgaria a more effective regime that fully meets international standards for combating money laundering.

Burma (Primary). The sheer volume of proceeds derived from narcotics production and trafficking, and official toleration of the laundering of narcotics proceeds, make Burma a country of major concern for money laundering. Narcotics proceeds figure prominently in the Burmese economy. Although there is no reliable information on the extent of money laundering, some insurgent groups fund their activities through proceeds derived from narcotics trafficking. Domestic narcotics proceeds and proceeds laundered abroad are very significant factors in the overall Burmese economy, and widely and openly invested in business, real estate and infrastructure projects. In some cases, investments of narcotics proceeds in public works projects supplement government expenditures. Such flows may be a dominant element in some local areas. The Burmese government has encouraged ethnic cease-fire groups that have been involved in narcotics trafficking to invest in legitimate businesses instead of narcotics. However, the government has not instituted a system of safeguards to prevent the investment of drug-related proceeds.

Burma is a predominately cash-based economy, and the state controls major sectors of the economy. The state-dominated financial sector is underdeveloped by international standards. The official exchange rate of the local currency to the U.S. dollar is overvalued by 60 times the black market exchange rate. Due to strict foreign exchange controls, the non-convertibility of the Burmese currency and the pervasiveness of narcotics trafficking, ethnically based alternative remittance systems (ARSs) operate throughout Burma.

The ARS, in conjunction with import/export business, is probably the most prevalent mechanism for laundering money in Burma today. In a typical case, money earned from the sale of illicit narcotics (or black market gems or precious metals) is deposited into the underground banker's account in Thailand. The money is then either exchanged and given out by his associate (in Burmese currency) to the source of supply in

Burma, or it may be used to pay off import/export debts in another country, such as Singapore. Burmese import/export companies generally deal in such items as cigarettes, electronics or fabrics, and they are often owned by underground bankers who knowingly facilitate drug traffickers' proceeds in order to expedite payment to their sister companies abroad.

Burma criminalized narcotics-related money laundering with the adoption of its 1993 Narcotics Drugs and Psychotropic Substances law. The law also allows for the seizure of assets derived from narcotics trafficking. Burmese officials admit their difficulty in implementing provisions of this law due to a lack of understanding of money laundering concepts and their inability to investigate financial crimes. Burma does not have a financial intelligence unit, nor is it active in international or regional anti-money laundering fora.

The challenge before Burma is to criminalize money laundering to include all serious crimes that generate criminal proceeds and adopt legislation that provides measures for detecting, monitoring, and enforcing money laundering activity. It should enforce existing anti-money laundering measures and should cooperate more fully with international attempts to prosecute narcotics traffickers and their money laundering operations.

Cambodia (Concern). Cambodia is not a major domestic or offshore financial center, but crime, corruption, and money laundering are on the rise. Cambodia is a source country for marijuana, and serves as a transit country for heroin trafficking from the Golden Triangle. Cambodia has experienced an increased presence of foreign organized crime activity, and narcotics-related money laundering is a growing problem. The Cambodian alternative remittance system allows criminals to easily hide and transfer their proceeds without official scrutiny. Enforcement personnel are untrained to investigate financial crimes and money laundering. Official corruption plays a major role facilitating criminal activity.

The primary sources of criminal proceeds include narcotics trafficking, smuggling, prostitution, illegal gambling, alien smuggling, and corruption. Criminal proceeds are laundered in a variety of ways, including the use of financial institutions, cross border currency movements, the purchase of real estate, investments in businesses, and credit transactions. Cambodia's growing casino industry is particularly vulnerable to money laundering because of the volume of cash turnover and connections to organized crime.

Banks play a minor financial role in Cambodia's economy—there are 30 in the country and only a few conduct significant volumes of domestic business. Cambodia is a cash intensive economy and in some regions of the country, gold is used instead of currency. The public has little confidence in the commercial banking system, and fees can be prohibitive for the average Cambodian. An alternative remittance system is available for Cambodians to transfer funds internationally. It is also an effective mechanism to transfer and launder criminal proceeds. In the early 1980s, its use became widespread by expatriate Cambodians living abroad to send earnings to their families in Cambodia. It is identical to the Chinese and Indian systems developed centuries ago to remit funds and send letters between these countries and expatriate communities established abroad. The system relies on a network of businesses such as jewelry stores, travel agencies, money exchangers, finance companies, and import/export companies. The system, which operates throughout Asia, is successful because it operates on the principle of trust that is enforced by family, social, ethnic, commercial, and organized crime ties.

Cambodia criminalized narcotics-related money laundering with the adoption in 1996 of its Law on Drug Control. Although this law focuses on narcotics trafficking, it includes general anti-money laundering provisions for customer identification, suspicious transaction reporting and the establishment of an Anti-Money Laundering Commission subordinate to the Prime Minister's Office to process these reports, record keeping requirements, and provisions for anti-money laundering training in Cambodian financial institutions. The composition and functions of the Anti-Money Laundering Commission were to be promulgated through decree at a later date. These measures have not yet been implemented.

In practical terms, agency jurisdiction to enforce money laundering has yet to be determined and the Anti-Money Laundering Commission has yet to be established. Money laundering offenses are investigated by the agency charged with enforcing the predicate crimes that generate the illegal proceeds. Unfortunately, the Cambodian institutions required to effectively counter money laundering—the enforcement agencies, the courts, and financial institutions—are not trained to detect, investigate, and prosecute money laundering. For this reason, money laundering is for the most part left unchecked by Cambodian authorities.

Cambodia is a member of the Asia/Pacific Group on Money Laundering and has assisted neighboring countries in investigating money laundering operations.

Cambodia is aware of the need to enforce its anti-money laundering legislation and to take the appropriate measures to combat money laundering. It should make efforts to educate its officials and financial institutions in anti-money laundering methods and implement existing measures to monitor and enforce money-laundering activity.

Cameroon (Other). Cameroon is not a major drug-producing country, nor is it a regional or international

financial center. Illicit drugs transit Cameroon, but there is no information to indicate this has led to significant money laundering activity.

Cameroon's banking system is controlled by a regional central bank serving the six member countries of the Central African subregion.

Cameroon is a party to the 1988 UN Drug Convention. There is no information indicating the status of Cameroon's compliance with the money laundering precepts of the Convention. The government initiated no new actions in 1999 to meet the Convention's goals and objectives.

Canada (Primary). Canada remains vulnerable to money laundering due to its advanced financial services, lack of reporting requirements for suspicious financial transactions, and heavy cross-border flow of currency and monetary instruments. Canada is home to virtually every ethnic organized crime group in the world. Numerous Russian organized crime figures live in or visit Toronto, Montreal, and Ottawa to launder criminal proceeds through financial institutions or stock exchanges. Italian organized crime syndicates—particularly the Sicilian Mafia—are heavily involved in drug trafficking, money laundering, gambling and extortion in Canada. Asian organized crime groups, which have been active in Canada for three decades, are involved in a variety of criminal activities such as drug trafficking and money laundering—including the use of an underground banking system to launder criminal proceeds. Canada has financial institutions which engage in currency transactions involving international narcotics proceeds that include significant amounts of U.S. dollars.

Canada's Proceeds of Crime Act, which came into force in March of 1993, contains anti-money laundering sections but criminalizes money laundering only for drug offenses and enterprise crimes. It lacks both cross-border currency reporting requirements and suspicious activity reporting (SAR) requirements (the reporting of SARs is strictly voluntary.) The legislation also lacks a currency transaction reporting (CTR) requirement. The depositor and the financial institution are only required to maintain a record of any CTR at or above \$6,890 for five years. The CTRs are not forwarded to authorities unless they are requested through a subpoena. These reports are merely intended to preserve the audit trail for investigators and prosecutors.

Canada is in the process of strengthening its defense against money laundering. In 1999, the Government of Canada (GOC) introduced legislation on money laundering to address some of the FATF Forty Recommendations on countering money laundering. The legislation, currently before Parliament, will bring Canada's money laundering laws into further compliance with FATF requirements. The draft rules are the government's latest step toward stricter monitoring of large financial transactions, following years of criticism from the United States and other countries that already possess tough measures. The draft regulations contain mandatory suspicious transaction reporting requirements, reporting requirements for currency transactions exceeding \$6,890, and requirements to report currency and monetary instruments in excess of \$10,344 transported across the border. A new government body, the Financial Transactions and Reports Analysis Centre (FTRAC), will collect and analyze reports of suspicious transactions from financial institutions and financial intermediaries. This proposed financial intelligence unit (FIU) will make the determination as to which SARs merit investigation.

Under the proposed law, currency transactions of \$6,890 or more would have to be reported to the Centre by deposit-taking institutions, currency exchanges, securities dealers, life insurance companies and casinos. Reporting requirements would also apply if an individual transacted two or more payments, totaling \$6,890 or more, on a single day, as well as transactions involving five or more C\$ 1,000 (\$689) bills. Many dealings involving payment for professional fees or services would be exempt from the reporting regime. Transition teams to set up this agency were already in place by the end of 1999.

The GOC intends to have FTRAC recognized by the Egmont Group as an FIU. The new anti-money laundering regulations will authorize FTRAC to negotiate and set guidelines so that it can share information with foreign counterparts.

Canada is a member of the FATF, and underwent a second FATF mutual evaluation in May 1997. Canada also participates in the CFATF as a Cooperating and Supporting Nation.

Canada has long-standing agreements on law enforcement cooperation with the United States, including extradition and Mutual Legal Assistance Treaties.

Canada should be encouraged to expeditiously enact the regulations requiring the mandatory reporting of suspicious transactions, large currency transactions, cross-border movements of currency and monetary instruments, and the establishment of an FIU. The Government should ensure that the FIU meets Egmont standards, especially with regard to information sharing. Canada also needs to expand money-laundering offenses beyond drug offenses and enterprise crimes to include all serious crimes.

Cayman Islands (Primary). The Cayman Islands, a UK Caribbean Overseas Territory (COT), has an extremely large offshore sector and thus remains vulnerable to money laundering. In March 1999, UK Foreign Secretary Robin Cook released a White Paper directing Britain's Overseas Territories to bring their financial and criminal

legislation in line with that of the UK, as part of an agreement granting UK citizenship to citizens of Britain's Overseas Territories. In response, the Government of the Cayman Islands has taken new steps to strengthen its defenses against money laundering. In 1999, an anti-money laundering committee, consisting of representatives of both the public and the private sector, completed a code of practice, which was sent to the Executive Council for final approval. Additionally, the banking industry and the mutual funds industry drafted codes of conduct focusing on know-your-customer issues, suspicious activity and money laundering. The insurance sector and the companies management sector (which regulates registration of international business companies) are expected to write their drafts in early 2000. Included in the drafts is the stipulation that the Cayman Islands Monetary Authority (CIMA) will supervise building societies, credit unions and money service providers, which will have to follow the same know-your-customer procedures as those laid out in the code of practice and code of conduct for the other financial institutions. CIMA will regulate and supervise these sectors to ensure that they are following the same procedures as the rest of the financial services industry. CIMA was originally established in 1997 with regulatory and supervisory authority over the financial industry. In addition to regulating the financial services industry, CIMA also manages currency and reserves.

In December 1998, the Assembly removed a clause from its Proceeds of Criminal Conduct Law that had prevented the Cayman authorities from cooperating with other jurisdictions on financial offenses. The change states that, provided the offense is a crime under Cayman law, the Islands' authorities will cooperate in the investigation and prosecution of fraud, money laundering, drug trafficking and other offenses. However, the Cayman Islands will not cooperate in investigating tax evasion, since there is no direct taxation there.

The Cayman Islands' Proceeds of Criminal Conduct Law, which criminalized money laundering from all crimes, was considered a monumental step when it was enacted in 1996. The law extended the principles of the Misuse of Drugs Law to all serious crimes and created four new offenses: money laundering, assisting in money laundering, receiving the proceeds of another's criminal conduct, and tipping off. It provided for the freezing and forfeiture of the assets of those who have engaged in criminal conduct and their recipients. The law also established an Authority to which suspicious transactions are to be reported. The Authority has the power to disclose to foreign regulators information necessary to enable those regulators to carry out functions similar to those conducted by the Authority. The law has a provision for a Code of Practice, which will set forth the practical aspects of due diligence procedures and record keeping.

The Cayman Islands had no prosecutions in courts for money laundering in 1999, but individuals have been arrested for suspicion of money laundering. The Government of the Cayman Islands has been cooperative with U.S. law enforcement in financial investigations not involving tax offenses.

The Cayman Islands has a large offshore financial sector offering strict confidentiality, and has thus historically been attractive to money launderers. There are approximately 584 offshore banks on the Islands, including a number of the world's 50 largest banks. The Cayman Islands' financial sector provides a wide range of services, including private banking, brokering, mutual funds, establishment of various types of trusts, and company management. More than 44,000 international business companies are registered in the Cayman Islands.

There are several types of offshore banking licenses available in the Caymans. The most popular type of arrangement is a private bank holding a restricted "B" license. These banks can receive or request funds only when doing business with people named on a list accompanying the application. A private bank has the power to issue letters of credit and bank guarantees and to carry on business free of taxation and currency restrictions. This permits U.S. investors to trade in Eurodollar markets freely without having to provide an accounting to the U.S. Government. A restricted "B" license is granted only to a bank or trust with a net worth of at least \$34,000, or more if required by the Governor. A much higher net worth (\$480,000) is required for an unrestricted "B" license, which allows the holder to conduct business freely with any client outside the Cayman Islands. Applications for this type of license are normally accepted only from a branch, subsidiary or affiliate of a major international bank with substantial capital. This type of offshore bank pays \$18,290 for a banking or a combined banking and trust license, and the same amount for an annual fee. An "A" or full-service bank, allowed to conduct banking business inside and outside the Cayman Islands, must pay \$97,560 annually for a license. Approval is usually granted only to international banks with a sterling reputation that are subject to consolidated supervision in another reputable jurisdiction. Cayman Islands Government policy is to grant these licenses only to major international corporations in relation to their in-house banking business.

The Governor-in-Council can refuse to grant or revoke a banking license, on advice from the regulator, if he believes the licensee is conducting business in an illegal manner or in a manner that is harmful to his clients. The application for a banking license requires a substantial amount of information, including information on investors and shareholders. Banks are required to have their accounts audited by an approved firm on an annual basis, and CIMA can require repeat audits.

The Cayman Islands and the Caribbean's other offshore financial centers have been concerned over the listing by the Organization for Economic Cooperation and Development (OECD) of 21 jurisdictions in the region

(among 47 worldwide) which OECD says have harmful tax regimes. The OECD wants a review of the taxation regimes of jurisdictions that appear to offer an unfair advantage, and which might be open to international financial crimes. The Cayman Islands and Britain's other Overseas Territories in the region have accepted a proposal from London that independent experts be used to conduct a study of all banking practices and banking legislation in their financial services sectors to ensure that the sectors are not being abused by international criminals. This includes legislation on the offshore insurance industry, securities sector, companies and trusts, independent regulatory authorities, international cooperation and anti-money laundering legislation and preventive measures.

Despite close supervision, the Cayman Islands offshore sector remains vulnerable to abuse. An investigation of Eurobank in the Cayman Islands is still underway. In this case, individuals fraudulently billed customers' credit cards. CIMA shut Eurobank down on the grounds that the bank did not have strong know-your-customer procedures in place. The bank's assets are currently being liquidated. The investigation extends to the United States and relies on the Proceeds of Criminal Conduct law for evidence from the United States.

Recently, the Cayman Islands was involved in the laundering operations of Mexican bankers who were arrested in Operation Casablanca by the U.S. Customs Service. Mexico's Bancomer entered a guilty plea to U.S. charges that its employees laundered drug money through Bancomer's Cayman Islands subsidiary, Mercury Bank & Trust, Ltd.

A Cayman Islands institution was identified in the U.S. General Accounting Office's (GAO) investigation of alleged money laundering by Raul Salinas through accounts at Citibank. In a report of October 1998, the GAO said Citibank formed a private investment company (Trocca) for Salinas through its Cayman Islands affiliate, Cititrust. According to the Citibank representative, Trocca was set up primarily for secrecy, tax advantages, and facilitating the distribution of assets to Mr. Salinas's family in the event of his death.

In recent developments, possible ties between two Cayman Islands bank accounts and the Russian money laundering inquiry have emerged. Thomas Renyi, Chairman and Chief Executive of the Bank of New York, confirmed that two accounts at a Cayman Islands branch were linked to Leonid Dyachenko, the husband of former Russian president Boris Yeltsin's daughter Tatyana. CIMA said that investigators would cooperate with the U.S. Federal Reserve Bank, the regulator for the Bank of New York.

The Cayman Islands is an active member of the CFATF, and the Caymanian Financial Secretary was Chairman of the CFATF from 1998-99.

The Cayman Islands is a party to the 1988 UN Drug Convention and has an MLAT with the United States. The United States and the Cayman Islands have begun negotiations to expand the existing MLAT to cover criminal tax matters. The Cayman Islands is a member of the OGBS and serves on the informal advisory board of the UN Offshore Forum.

Due to its popular offshore banking industry and confidentiality laws, it is essential that the Cayman Islands continues its diligence in regulating and enforcing its anti-money laundering program. The Cayman Islands should be encouraged to implement its new code of practice and to expeditiously complete, and implement, its codes of conduct for its financial services industry.

Chile (Concern). Chile has a dynamic market-oriented economy and a relatively well-developed financial sector, but it has not yet become a major regional financial center, nor is it an important tax haven or offshore banking center. Money laundering remains a threat due to inadequate laws. All known cases of money laundering have been related to the narcotics-trafficking activities of Mexican cartels attempting to launder their profits through the banking sector and through investments in construction projects.

Despite arrests and investigations carried out during the past two years by the Council for the Defense of the State (CDE), the agency with jurisdiction over money laundering investigations, not a single conviction on money laundering charges has been obtained. This is due mostly to the inadequacies of the law, which requires actual seizures of drugs in Chile. In January 1995, Chile enacted Counternarcotics Law No. 19366, which criminalized money laundering related to the illicit narcotics trade. The law allows banks to report suspicious activities to the CDE, but does not require them to do so. The Law does not contain safe harbor provisions to protect banks from liability for reporting suspicious transactions, and as a result, banks rarely do so. In October 1995 a Financial Investigations Unit (FIU) was established within the CDE to receive the reports of suspicious transactions and conduct money laundering investigations. The Unit (Department for the Control of Illicit Drug Trafficking) was admitted into the Egmont Group of FIUs in 1998.

Under the 1995 Narcotics Law, the Council (for up to 60 days) and a judge (for an indefinite period) can seize assets derived from narcotics-related activities. A judge can seize narcotics-related assets and temporarily turn them over to the CDE or law enforcement until a conviction is obtained. After conviction, the assets pass to the Ministry of National Property where non-liquid assets are sold at public auction. The Law does not address sharing seized narcotics assets with other governments.

Since March 1996, currency exchange houses have been required to issue a receipt and to keep records identifying both the buyer and seller on all foreign exchange transactions over \$10,000. Copies of the receipts are sent to the Internal Tax Service; the information is also available to the CDE. Failure to complete the invoice and report the transaction carries criminal sanctions. In March 1997, the Chilean Superintendency of Banks and the U.S. Federal Reserve Board of Governors entered into an agreement to cooperate in the supervision of cross-border branches and other establishments of banking organizations incorporated in both Chile and the United States. Each regulator has undertaken to notify the other of applications filed by banking organizations from the other country and of any supervisory concerns with respect to the local operations of banking organizations from the other country, and to exchange other information relevant to their ongoing supervision of operations from the other country. They will also cooperate in carrying out on-site inspections of cross-border establishments in the host country and may share information on the results of audits or examinations.

As a result of the Judicial Reform Law enacted in September 1997, Chile continues the transition from an inquisitorial to an adversarial judicial system. The law also established a new Attorney General's office.

The Government of Chile (GOC) is making a concerted effort to address the inadequacies in its Narcotics Law. There is consensus among the Government agencies on the need to criminalize the laundering of proceeds from other serious crimes and to require the reporting of suspicious financial transactions. There is also consensus about the possible need for an FIU with different functions and expanded resources. As a result, the present FIU may be expanded, or a new one created under another government entity. Strengthening anti-money laundering efforts has finally received the attention of the highest levels of the GOC, including that of the new Administration. Acting on this realization will further protect Chilean financial institutions and society from the ravages of money laundering.

China (Primary). China's introduction of free-market reforms to its centrally planned economy has created new conditions for financial crime and money laundering to thrive. Legal reforms have been slow to keep pace with the rapidly evolving criminal sector. The availability of anonymous bank accounts and the Chinese underground banking system allow criminals to hide and transfer their proceeds with impunity. In addition, enforcement personnel are understaffed and underpaid, and are not trained to investigate financial crimes and money laundering. Official corruption plays a major role in facilitating criminal activity and in obstructing investigations. Crime rates are spiraling with increases in narcotics trafficking, smuggling, auto theft, alien smuggling, racketeering, and intellectual property counterfeiting. Tax evasion, banking fraud, and the theft of state-owned assets have also increased. The laundering of criminal proceeds from these predicate crimes has become a particularly acute enforcement concern. Although crime rates in China are low in comparison with those of the United States and other Western countries, their growth threatens China's economic security and undermines future economic reforms.

Organized crime groups from Hong Kong, Macau, Taiwan and Japan are known to launder money through joint ventures and real estate purchases in China. Other methods used to move and launder criminal proceeds include bulk smuggling of currency, invoice manipulation, letters of credit, front companies, casinos, and the purchase of precious gems. In other schemes, illegally acquired state-owned funds are transferred to Hong Kong through gray market channels and reinvested in China as foreign capital. Not only is the Chinese state initially defrauded of its own funds through financial manipulation or outright theft, but the funds are then laundered through Hong Kong and invested in China, taking advantage of foreign investment programs that further deprive the state of revenue.

Banks play a dominant role in financing China's economy. China's state-owned banks are involved in financing up to 90 percent of Chinese business ventures. This level of financial activity makes the banking system subject to theft, fraud, corruption, and other criminal activities. Local politicians direct banks within their jurisdictions to grant credit for their favored projects regardless of the merits of the venture. Inadequate regulation and supervision by the central bank, combined with government manipulation of credit transactions, are the major factors influencing bank losses.

A money laundering method widely used by ethnic Chinese communities throughout the world—and is used throughout Asia—is the underground banking system. It is the Chinese version of alternative remittance systems or parallel banking that originated in Asia centuries ago. Where the Chinese system is unavailable, the Indian version, hawala, is used to transmit money to China. Third countries such as Thailand or Singapore, where both systems are present, act as transit points. Chinese overseas workers originally used this remittance system to send earnings to their families in China. The system was established through the network of shops and commercial shipping routes of Chinese merchants who traveled throughout Asia. The network remitted funds and letters between China and Chinese communities abroad.

The underground banking system can transfer large sums of money efficiently and quickly without leaving financial records tied to the transactions. The paper trail is eliminated by avoiding official reporting requirements to Customs authorities that bulk cash or monetary instruments would attract at the border, and commercial bank reporting requirements that cash or suspicious transactions require. The system is still used

for its traditional purpose, however, it is also used for tax evasion and as a means to move and launder criminal proceeds. Chinese underground banking is successful since it operates on the principle of trust that is enforced by family, social, ethnic, commercial, and organized crime ties.

China has taken modest steps to respond to money laundering. With the adoption of its Criminal Code in 1997, China criminalized money laundering for the proceeds of narcotics, organized crime, and smuggling under Article 191. Although Chinese authorities have successfully prosecuted several cases under this Article, this statute is limited in addressing China's money laundering problem. For Article 191 to be an effective enforcement tool, it must address the entire spectrum of serious crimes generating the proceeds laundered in China. Furthermore, China has yet to adopt comprehensive anti-money laundering legislation establishing the requisite mechanisms to effectively prevent and detect money-laundering activities.

Despite China's weak anti-money laundering statute, the government is adopting and examining measures to address financial crimes and money laundering. These efforts are connected to capital flight, illegal foreign exchange trading, and reforms in the banking sector.

The State Administration of Foreign Exchange with the General Administration of Customs issued a regulation that took effect in August 1999 requiring the licensing of exports of \$10,000 or more in foreign currency by Chinese citizens. This regulation was issued to rein in the transfer of illegal proceeds masquerading as capital flight. These schemes include proceeds from invoice manipulation of trade goods, illegal trade in foreign exchange, falsification of foreign trade statistics, and other questionable transactions. In October 1999, the Ministry of Public Security announced the recovery in 1998 of \$10 billion in illegally converted yuan, the local currency. Fearing a yuan devaluation, Chinese companies, many of them owned by state or local administrations, illegally exchanged these funds for foreign currency. Although the bulk of these funds may at first glance be attributed to capital flight, the proceeds of crime are sure to figure into these statistics. The distinction between the two is hard to determine given the shades of illegality of the funds' origins, methods of currency conversion and transfer, and the use of document falsification.

The state agencies that enforce foreign exchange laws have cracked down on illegal foreign exchange trading during 1999 through a series of enforcement operations. Under China's foreign exchange system, the government strictly regulates the exchange of yuan to foreign currency. Since 1994, only authorized banks have been permitted to conduct currency exchange. The foreign exchange is held in accounts strictly regulated by the central bank. To circumvent government scrutiny of the exchange of yuan proceeds derived from crime and other illegal activities within China, a black market in currency trading developed. Criminal proceeds in yuan must be exchanged into a convertible foreign currency to be of use outside China.

Starting in 1998 and throughout 1999, several government agencies, among them the central bank, proposed abolishing the use of anonymous accounts, a feature of China's centrally planned economy. During this era of collective ownership of property, individuals opened accounts associated with their household or family enterprise rather than under their own name. Commercial banks allowed individuals to choose obviously fictitious names when opening accounts. Neither the central bank nor any other regulatory agency exercises control over the registration of these accounts. In addition, these accounts are fully transferable. As a result, proving the beneficial ownership of these accounts is nearly impossible. On January 20, the head of the People's Bank of China (China's central bank) stated that the Bank planned to adopt a "real name system" for deposit accounts sometime in 2000 in order to aid tax collection and fight corruption. However, he added, the proposed rule change will apply only to new accounts, in order to avoid "serious disruption" to the banking system.

Private firms and state-owned banks use these accounts for purely economic reasons. They hold reserve cash accounts at more favorable interest rates than those offered by official central bank accounts sanctioned by the government. These accounts, however, facilitate tax evasion, payment of bribes, money laundering, and other illegal activities. Although China is concerned about the misuse of these accounts, the government has not yet abolished their use. The reasons cited by government officials include the lack of automation within many Chinese banks and the banking system's general lack of development.

In 1998 and 1999 China instituted a number of banking reforms to improve supervision of the banking system, including the reorganization of the central bank into nine regional branches patterned after the U.S. Federal Reserve System. The new regional branches were granted regulatory authority to prevent manipulation of credit by local politicians, and to prevent financial crime within the banking system. In addition, the performance rating of regional directors of the central bank branches is directly tied to deterring and preventing financial scandals. The central bank was also forced to divest itself of direct operation in the thousands of associated businesses it owned. Although the purpose of these reforms was to modernize the banking sector, these changes will facilitate the implementation of anti-money laundering measures in China's financial institutions, once China adopts anti-money laundering legislation consistent with international practice. The shedding of central bank's business connections will allow it to perform its supervisory functions more objectively by eliminating conflict of interest concerns.

China does not have a financial intelligence unit, although the Economic Crimes Investigations Department (ECID) of the Ministry of Public Security is charged with investigating incidents of money laundering and other financial crimes such as counterfeiting, underground banking, and tax fraud. In November 1999, an ECID delegation visited the United States to discuss money laundering and financial crime issues with a variety of agencies from the Departments of State, Justice, and Treasury. The major focus of their visit was to establish working relationships with U.S. agencies and to gather information to improve China's ability to combat money laundering and financial crimes. Money laundering topics of discussion included legislation, information automation, and suspicious transaction reporting, as well as other anti-money laundering measures.

The United States and China continue to hold discussions on cooperation in such fields as combating international organized crime, narcotics trafficking, alien smuggling, counterfeiting, and money laundering through the auspices of the U.S.-PRC Joint Liaison Group (JLG) on law enforcement cooperation. The JLG was established in May 1998 on the basis of a memorandum of understanding. The next JLG meeting will be held in Beijing in early to mid 2000.

In March 1999, during the second round of discussions of the JLG, the question of Chinese membership in the FATF was referred to Chinese government representatives for consideration. The Chinese government raised several political issues regarding FATF membership and requested additional information on the FATF that was forwarded to them in April 1999. The FATF cooperates closely with international and regional organizations concerned with combating money laundering, including the Asia/Pacific Group on Money Laundering (APG). China participated in the initial meeting of the APG and hosted the first round of working group meetings in Beijing in July 1997. However, China has not attended subsequent meetings of the APG.

The United States and China are near completion of a framework for mutual legal assistance. Both sides signed a Customs Mutual Assistance Agreement in 1998 that speeds communication and enhances the flow of counternarcotics intelligence.

China does not allow the licensing of banks or corporations for offshore operations. Hong Kong, a premier offshore center, continues to service China's offshore needs. China's Special Economic Zones (SEZs) are frequently confused with offshore centers. During the early 1980s, China established four SEZs along the southeastern coast near Hong Kong and Taiwan and granted them legislative autonomy in passing laws favorable to foreign investment, as well as generous government funding for development. By 1993, thousands of SEZs were in existence, rendering the designation meaningless. The government finally revoked the preferential tax treatment of all the SEZs with the adoption of a uniform national tax code in 1994. However, with relative autonomy from Beijing in adopting economic legislation, some SEZs went quite far in embracing capitalism. The SEZ's may offer anonymous accounts, a convenient avenue for money laundering.

As first steps in combating money laundering, China must expand its money laundering legislation to include all serious crimes that generate criminal proceeds. It must also abolish the use of anonymous, numbered, or pseudonym accounts that shield the beneficial owner of the funds. Legislation that provides for controls in detecting, monitoring, and enforcing money laundering activity in the financial and commercial sectors would be a logical second step. China must make efforts to address the related issues that encourage money laundering. The slow pace of economic reform, and development of the rule of law, combined with the prevalence of corruption and organized crime, allows money laundering to flourish. These anti-money laundering actions can serve as regulatory and enforcement tools to root out financial crime, corruption, and organized crime in China and discourage the laundering of foreign proceeds.

Colombia (Primary). During 1999, significant anti-money laundering developments occurred in Colombia. In order to assist the Colombian Customs and Tax Directorate's (DIAN) efforts to identify and attack smuggling crimes, including the smuggling of consumer goods paid for with U.S. narcotics proceeds through the Black Market Peso Exchange (BMPE) system, the Colombian National Police detailed 500 officers, and anticipates raising that figure to 1000 during CY 2000. This increased anti-smuggling activity is having an effect on the BMPE and making it more difficult to repatriate U.S. narcotics dollars in the form of smuggled goods. Colombia has financial institutions which engage in currency transactions involving international narcotics proceeds that include significant amounts of U.S. dollars.

On August 12, 1999, legislation was enacted establishing, for the first time, a unified central Financial Information and Analysis Unit (FIAU). The FIAU, established within the Ministry of Finance and Public Credit, will have the authority to receive and act upon all suspicious and large value reports filed by Colombian financial institutions, as well as interact with all other Colombian public and private institutions having information concerning possible financial crimes. The FIAU should expedite money laundering investigations by the Fiscalía by providing the prosecutors with analyzed information concerning suspect transactions.

Colombia criminalized the laundering of the proceeds of all illegal activities in 1995. In 1998, the Prosecutor General's Office established a special money laundering unit to investigate and prosecute cases under the law, but there still has not been a single money laundering conviction. This is attributable in part to the high rate of turnover within the money laundering unit, making it difficult for the unit to develop the requisite expertise in

this highly complex area. The unit has also encountered difficulties in developing its money laundering investigations sufficiently to prove the underlying illegal activity required for a money laundering conviction. Colombia's banks continue to comply with the reporting requirements designed to flag suspicious transactions and have been very cooperative with U.S. efforts to curtail financial transactions by individuals and entities designated as involved with narcotics trafficking.

Colombia's 1996 asset forfeiture statute permits criminal forfeiture of drug and money laundering proceeds, provides for forfeiture of substitute assets, and permits in rem forfeiture when assets are held in the name of a nominee or have been transferred. While Colombia used this statute in 1999 to seize millions of dollars of narco-related assets, the legal process of converting those seizures into forfeitures remains stalled in the judicial system. There have been only three final forfeitures since the forfeiture law was enacted in 1996. More than fifty cases are pending, including many that involve the former leaders of the Cali Cartel.

The Colombian Ministry of Justice and Law, along with the Office of the Presidency, has embarked on an ambitious effort to reform and streamline several of the procedural and other impediments to effective asset forfeiture. In June, President Pastrana issued extraordinary decrees establishing, among other things, an abbreviated forfeiture procedure and authority to liquidate certain types of property pending forfeiture. These reforms were invalidated when the Constitutional Court struck down, on procedural grounds, the underlying statute giving the President legal authority to issue such extraordinary decrees. However, the Ministry of Justice and Law has incorporated these and other reforms into new draft legislation it will propose to the Colombian Congress.

Building upon their execution of a 1998 U.S. request for assistance in the Operation Casablanca money laundering investigation, Colombia successfully executed the U.S. request for legal assistance in the BMPE money laundering investigation entitled Operation Juno. As part of Operation Juno, Colombian authorities executed seizure warrants on more than 25 banks and restrained approximately \$150,000 in Colombian bank accounts.

In December 1999, the United States delivered a first installment of shared assets in the amount of \$5,825,000, from U.S. forfeitures of assets belonging to deceased narcotics trafficker Jose Gonzalo Rodriguez Gacha. The United States transferred these assets in recognition of Colombian assistance in achieving the forfeitures. Pursuant to a supplemental sharing MOU signed in October of 1998, a Bilateral Committee of Colombian and U.S. law enforcement officials reviewed and approved projects to be funded in Colombia using these assets. Among the projects approved for this first installment are joint law enforcement training for Colombian law enforcement agencies, initial funds for a multi-agency law enforcement academy, training for the four specialized units of agents and prosecutors under the Attorney General, training and substantial start-up funds for the new Colombian Tax and Customs Police unit, funding for prosecutor and witness protection, initial funds for Colombia's new financial intelligence unit, expansion of wiretapping, and automated fingerprinting capabilities. Colombian law still does not permit reciprocal asset sharing to the United States.

Even though progress has been made with respect to fighting money laundering, Colombia has fallen short in its implementation of the money laundering and asset forfeiture laws. The Colombian congress has yet to pass an international asset forfeiture provision that is in line with the 1988 UN Drug Convention standards. The Government of Colombia must systematically enforce the laws and, most importantly, prosecute money launderers to disrupt and close their operations.

Comoros (Other). Comoros is neither a major producer nor consumer of illicit drugs, but it is a transshipment route. However, Comoros is not a financial center, and the small size of its financial sector --one bank -- indicates that it is not likely to be one in the immediate future. There is no information on the sources or extent of money laundering, if any.

Comoros is not a signatory to the 1988 UN Drug Convention.

Cook Islands (Concern). This self-governing group of islands in the South Pacific maintains a free association with New Zealand. Cook Islanders are citizens of New Zealand, and the Cook Islands are part of the British Commonwealth. The Cook Islands have a well-established offshore sector known for its good asset protection features. Financial transactions through the Cook Islands' offshore center have received increasing international attention because of alleged ties to Russian criminal activities. The offshore services available in the Cook Islands include International Business Companies (IBCs), banks, insurance companies, and trusts. Marketers of offshore services via the Internet promote the Cook Islands as a favored jurisdiction for establishing IBCs and for its asset protection trusts. The anonymity and confidentiality offered to financial transactions through Cook Islands IBCs appear to be particularly attractive to those linked to money laundering and other questionable activities, and may also account for the recent increase in Russian financial activity.

The International Companies Act of 1981 (amended 1982) is the legislative basis for establishing IBCs in the Cook Islands. The Act does not require the disclosure of beneficial ownership, permits bearer shares, allows the marketing of shelf companies, and allows no public access to registers of corporate directors or managers.

In fact, before a corporation's records can be examined in the Companies Office Registry, the corporation must give approval in advance. Corporate documents must be written in English. Corporate entities may be listed as officers and shareholders since Cook Island IBCs have all the legal powers of a natural person except for engaging in banking and insurance activities (unless specifically licensed under the Offshore Banking Act or the Offshore Insurance Act). Resident corporate directors are not necessary, although a registered office and resident company secretary are. There is a requirement to file an annual return, but audited accounts are not required.

Although marketers of offshore services via the Internet promote the Cook Islands as a favored jurisdiction for establishing IBCs, they rate the Cook Islands as a poor choice for private international bank licenses because of regulatory controls and high capital requirements. An alternative does exist: to register as an International Investment Bank (IIB) that performs investment and most functions of a traditional bank with the exception of accepting deposits. Annual licensing fees for IIBs are also much lower than for normal banks.

The Cook Islands criminalized money laundering for all serious offenses with the adoption of the Offshore Industry (Criminal Provisions) Act of 1993. The Cook Islands also adopted the related Offshore Industry (Criminal Provisions) Act of 1995–96 that provides for the protection of the Cook Islands offshore industry from serious criminal activity. The major provisions of the Offshore Industry (Criminal Provisions) Act 1995–96 apply to the six trustee companies through which all offshore transactions are conducted. These trustee companies are licensed by and maintain a close relationship with the government.

The Offshore Industry Act requires officers and employees of the trustee companies to report suspicious activities of business entities to the Cook Islands Monetary Board (Board). The suspicious activity must be related to narcotics trafficking, or the trustee companies must have actual knowledge that a person related to or involved with the business entity has been convicted of a serious crime listed under the Crimes Act of 1969. The trustee companies must provide any additional information required by the Board to substantiate the suspicion. The Board may then petition a judge of the High Court, in camera, who may then issue a court order, after due inquiry, for the offshore entity to be struck off, de-licensed, or de-registered from the appropriate register and prohibited from carrying out business in the Cook Islands. The High Court may, as part as the court order, dispose of the assets of the business entity.

Part of the asset protection attraction for setting up offshore entities in the Cook Islands is the near impossibility of proving the criminal origins of proceeds, especially of offenses committed abroad, in court. Linking criminal proceeds seized in the Cook Islands with the offense committed abroad is all but impossible, since a case may involve a complex series of financial transactions conducted by related corporations operating in several offshore jurisdictions. In addition, Cook Island investigators and prosecutors are unfamiliar with investigating these schemes. Enforcement of foreign court rulings is also a near impossibility under current Cook Islands legislation. These obstacles prevent successful prosecutions and effective cooperation with foreign counterparts for money laundering. It must be emphasized that the Act of 1995–96 is aimed at the safety and soundness of the offshore industry, rather than a means to prosecute persons engaged in money laundering.

The Cook Islands should draft additional anti-money laundering legislation that institutes measures such as suspicious transaction reporting requirements, among others, to monitor abuse of its offshore and onshore financial institutions. The standard of proof required by the Offshore Industry (Criminal Provisions) Act of 1995–96 to disbar offshore entities is too stringent for it to be an effective regulatory tool. The Cook Islands should also lift corporate secrecy for money laundering and applicable criminal investigations. Training should also be considered for Cook Island investigators and prosecutors in complex international financial transactions typical of money laundering schemes.

Costa Rica (Concern). Costa Rica is an attractive site for money laundering. Anecdotal evidence suggests that financial institutions, currency exchange houses, casinos and real estate have been used to facilitate money laundering. The absence of stringent regulatory and supervisory controls for the offshore banking sector continues to constrain law enforcement efforts and renders the financial sector vulnerable to financial crime. The sector consists of 20 foreign corporations (financial entities) and approximately 24 offshore branches of Costa Rican private banks. The foreign offshore banks adhere to the regulations established by their parent banks located outside of Costa Rica but are not subject to effective local supervision. In addition, they are required only to provide monthly balance statements and year-end audited statements to General Superintendent of Financial Entities (SUGEF).

The Costa Rican government is committed to implementing and enforcing the anti-money laundering mechanisms available through Law No. 7786 on Narcotics and Psychotropic Substances of May 1998. This law criminalized the laundering of narcotics-related proceeds and introduced requirements for the reporting of suspicious transactions, currency transactions over \$10,000, and cross border transport of currency. The law also established the Joint Counternarcotics Intelligence Center (CICAD), which since June 1998 has been operating a Financial Analysis Unit (FAU) responsible for receiving and analyzing suspicious financial

transaction reports and investigating money laundering. Financial institutions report the suspicious financial transactions to SUGEF, which subsequently forwards the disclosures to the FAU. In June 1999, the FAU joined the Egmont Group. The FAU exchanges information with its counterparts and is currently pursuing about 20 cases for investigation.

The Narcotics Law also strengthened the asset forfeiture program by restructuring and reorganizing the National Drug Center (CENADRO), the institution responsible overseeing the asset forfeiture program and for granting permission to law enforcement agencies to dispose of forfeited assets. CENADRO is currently arranging for the disposition of substantial assets seized as a result of the narcotics-trafficking investigation on the Hidalgo Vargas brothers.

An extradition treaty is in force between the United States and Costa Rica. U.S. law enforcement agencies work effectively and in partnership with Costa Rican public security forces in counternarcotics and money laundering investigations. Although corruption is not a serious problem in Costa Rica, the government is creating a Special Anti-Corruption Unit within the Office of the Attorney General to improve its ability to investigate and refer cases of corruption to the prosecutor.

The absence of an effective regulatory and supervisory regime for the offshore banking sector in Costa Rica remains a cause for concern. In addition, the Costa Rican government should consider expanding the scope of present anti-money laundering laws beyond narcotics to include proceeds from all serious crimes.

Cote d'Ivoire (Other). Cote d'Ivoire is an important regional financial center in West Africa, but not a tax haven nor an offshore financial center. Drugs and money continue to pass through Ivoirian ports and across porous borders, along with other smuggled goods, including light arms and stolen vehicles. To the extent money laundering exists, most results from trafficking in narcotics, principally heroin and cocaine. Money laundering is concentrated in the banking system and controlled by organizations other than local traffickers. Financial fraud is mostly limited to Nigerian-type scams aimed at foreigners, and endemic smuggling of contraband does not generate profits substantial enough to require laundering. The government does not encourage, facilitate, or engage in drug money laundering activities, nor does it license offshore banks and businesses.

Laundering of money related to any activity is a criminal offense in Cote d'Ivoire. Banks are required to report suspicious transactions and maintain records of large currency transactions and to report the data to the government, which may inspect their records. Bankers are protected by law with respect to their cooperation with law enforcement entities. Money laundering controls are not applied to non-banking institutions. The government has not addressed the problem of international transportation of illegal-source currency and monetary instruments. There are controls on the amount of currency that can be brought into and out of Cote d'Ivoire. There were no arrests or prosecutions reported for money laundering in 1999.

The Government of the Cote d'Ivoire (GOC) has enacted an asset forfeiture and seizure law, which can encompass mobile and immobile property, bank accounts and legitimate businesses used to launder drug money. The law makes no provision for sharing seized assets with other governments, nor does it allow for civil forfeiture. The government has yet to apply existing drug-related asset seizure and forfeiture laws. The police lack adequate resources to track and seize assets.

According to post reporting, the GOC would respond favorably to a specific request for cooperation, to the extent feasible, but it has not entered into bilateral agreements with any countries for the purpose of exchanging information on money laundering. The government has, to date, not been formally requested to cooperate with any law enforcement agency of the U.S. Government in investigating financial crimes related to narcotics.

Croatia (Other). Croatia is not a major financial or money laundering center. Croatian money laundering activities tend to be connected to financial crimes, such as tax evasion, financial and privatization fraud, bribery and corruption, rather than the laundering of narcotics proceeds. Croatia is developing a legal structure that should help it address money-laundering problems.

Turbulent political conditions in the Balkans and a cash-based economy create concerns that the banking sector could be vulnerable to money laundering. In response, Croatia criminalized money laundering in the 1997 penal code and the 1997 anti-money laundering legislation. The anti-money laundering legislation established suspicious transaction reporting requirements for bank and non-bank financial institutions and required the reporting of any currency transaction, or a series of related transactions, exceeding \$17,500. The government also established criteria for suspicious transactions. The legislation provided for the establishment of a financial intelligence unit (FIU) within the Ministry of Finance. The government plans to amend other laws, such as the foreign exchange laws, to complement the anti-money laundering measures, and to adopt common law-based enforcement tools and other techniques.

U.S. law enforcement sources report that casinos, currency exchange houses, real estate companies and banks are used in Croatia to launder funds. Monetary instruments involved include cash, bank drafts, travelers checks, credit cards, wire transfers, and letters of credit. Croatian banks have been used to launder funds from

foreign sources, such as funds transferred from Russian to Croatian banks.

In September 1999, Croatia underwent a mutual evaluation, conducted by the Council of Europe's PC-R-EV. At the request of Croatian authorities, the U.S. Government supported Croatian participation in a regional 1998 conference on FIU development and scheduled training on operating an FIU. With an improvement in capabilities, Croatia will be in a favorable position to contribute to the international anti-money laundering effort.

Cuba (Other). Cuba is not an international financial center and there is no evidence of significant money laundering. The Cuban peso is not accepted outside Cuba. The Cuban government controls all Cuban banks. However, Cuban government officials have expressed concern about the potential for money laundering. Cuba's National Assembly passed legislation criminalizing money laundering in February 1999. The law makes it a crime for anyone who knows, or is in a position to know, that goods or proceeds are derived from criminal activities, to seek to hide the true ownership, nature, origin or location. The long-awaited law stipulates that persons found guilty of laundering money acquired illegally through the sale of drugs, arms, or persons are subject to penalties ranging from five to twelve years in jail. Persons entering Cuba are required to declare the amount of currency they bring into or out of the country. The Cuban Central Bank has issued guidelines encouraging banks to "know their customers", to investigate unusual transactions, and to ask bank customers to declare the source of funds for any transaction greater than \$10,000.

The Cuban government retains all property seized for, or suspected of being linked to, narcotics trafficking. There were no published reports of asset forfeitures in 1999.

Cuba has solicited assistance in combating money laundering from numerous countries. France and Spain are likely to be the first countries to start cooperation and training programs with Cuba.

Cuba became a party to the 1988 UN Drug Convention in 1996.

Cyprus (Primary). Cyprus is a major regional financial and tourist center, and as such remains vulnerable to money laundering activity. Cypriot officials state that burglary, theft, fraud and drug trafficking are the major sources of proceeds to be laundered. Other financial crimes that present major problems include credit card fraud, the use of stolen or fraudulent cards, and the manipulation of data from stolen credit or ATM cards. Nigerians have also attempted to carry out their advanced-fee fraud in Cyprus. It is possible that money launderers use the legitimate facilities of Cyprus to further their activities in other countries.

Cyprus has taken strong and concrete steps to upgrade its anti-money laundering regime. Its seminal 1996 anti-money laundering law (The Prevention and Suppression of Money Laundering Activities Law) criminalized non-drug-related money laundering; provided for the confiscation of proceeds from all serious crime; codified actions which banks and financial institutions must take, including customer identification; and mandated the establishment of a financial intelligence unit (FIU). (An earlier law had criminalized drug-related money laundering). A 1998 amendment to the 1996 law extended the list of predicate offenses (to include trafficking in women, terrorism, trafficking in human organs, attempted murder, and nuclear proliferation), addressed the topic of corruption in government, and facilitated the exchange of financial information with other FIUs and the sharing of assets with other governments. A 1999 law criminalized the counterfeiting of bank instruments, certificates of deposit, and notes.

Cyprus established its FIU (the Unit for Combating Money Laundering) in January 1997 to receive and investigate suspicious transactions. The 14-member Unit is comprised of representatives from the Attorney General's Office, Customs, and Police, as well as support staff. Its statutory authority directs it to evaluate evidence generated by the Unit member organizations and from elsewhere to determine if investigation is necessary. Since its inception, the Unit has investigated over 237 suspected cases of money laundering (half referred by other governments). During the period January 1997-December 1999, the unit obtained 13 court orders to freeze bank accounts and other assets for a total of over \$15 million, as well as 166 disclosure orders. There have been two money laundering convictions in Cyprus since 1997, and three cases are coming to trial. In a highly-publicized case, the former Bishop of Limassol was charged by Cypriot authorities with conspiring to defraud a British-based investor of \$3.7, a crime that also involved the laundering of assets.

The Unit also conducts anti-money laundering training for Cypriot police, bankers, accountants, and other financial professionals.

Cyprus made further progress in 1999 in the fight against money laundering. Authorities froze assets totaling \$2 million in the course of the year. The Central Bank issued a comprehensive handbook of its guidance notes to commercial banks, and conducted a special examination of each bank's know-your-customer policy in March and April.

Cyprus restricts the percentage of foreign ownership of property, and places controls on the transportation of currency and bullion. Cypriot law requires that all cash entering or leaving Cyprus in the amount of \$1,000 or more must be declared, and any such declarations over \$10,000 are sent to the Investigations Section of

Cypriot Customs. In connection with its hoped-for EU accession, the Government of Cyprus (GOC) supports liberalization of the financial system, including lifting the cap on interest rates and removing restrictions on capital controls. All banks and financial institutions (as well as the insurance industry, stock exchange, cooperative banks, lawyers, accountants and other financial intermediaries) must report suspicious transactions to the Unit for Combating Money Laundering. Banking institutions must report to the central bank all cash deposits over \$10,000. A declaration form must accompany all foreign currency deposits. In 1998, the central bank instructed banks and financial institutions to pay special attention to all complex, unusual large transactions, and to report electronic funds transfers in excess of \$500,000 per month for a single customer. There are no statistics available on compliance with these regulations.

Cyprus's offshore sector consists of 34 banks, 100 financial services companies, seven management companies of collective investment schemes, and 15 offshore trustee companies. The central bank has in place a strict regulatory framework aimed at preventing abuses, and offshore banks are required to adhere to the same legal, administrative and reporting requirements as domestic banks. The central bank states that prospective offshore banks face a detailed vetting procedure to ensure that only banks from jurisdictions with proper supervision will be allowed to operate in Cyprus. Offshore banks must have a physical presence and not be brass plate operations. Once they are registered in Cyprus, they are subject to a yearly onsite inspection by the central bank. Offshore banks are generally restricted to foreign currency business outside Cyprus, although they may accept deposits and make loans in foreign currency to residents if the resident has obtained an exchange control permit from the central bank.

There are nearly 41,000 international business corporations (IBCs) registered in Cyprus, but the central bank stated in June 1999 that more than half of these are dormant. Only 12,000-14,000 are active, and only 1,057 employ any staff on the island, i.e., have a physical presence. According to post reporting, Russian IBCs constitute a "significant" fraction of the total. Beneficial ownership is permitted, but a list of the names of the beneficial owners is maintained at the central bank. The central bank needs to continue to upgrade its capabilities for tracking beneficial ownership. The names of beneficial owners may be released to law enforcement under a court order. Bearer shares are not permitted, and IBCs must file annual reports. The popularity of the offshore sector can be explained at least partly by the fact that Cyprus has dual-tax treaties with 26 nations, including Russia. Profits of Cypriot offshores are taxed at a rate of only 4.25 per cent, there is no tax on dividends, and foreign employees of the offshores pay only half the normal Cypriot income tax rate. IBCs may keep freely transferable currency accounts both abroad and in Cyprus. If the IBC is registered as an offshore partnership, the partnership profits are tax-free.

Cyprus is a party to the 1988 UN Drug Convention. It is a member of the Egmont Group of FIUs and the Council of Europe's PC-R-EV. It is also an active member of the OGBS. In November 1999, the GOC hosted a money laundering seminar conducted by a multi-agency U.S. Government team. The seminar focused on Russian Organized Crime, "cybercrime" (such as Internet gaming and credit card fraud), and investigative methods.

In light of the GOC's stated and commendable dedication to combating money laundering, the central bank needs to continue to focus on meeting the increasing supervisory challenges of the offshore sector and on increasing its transparency. In particular, it should ensure that law enforcement has easy access to the names of beneficial owners of IBCs. In addition, commercial banks, when confronted with questionable deposits, must aggressively report such transactions instead of merely turning them away, as is sometimes the case now. They must also overcome any reluctance to share information with the central bank.

[Cyprus has been divided since the Turkish military intervention of 1974, following a coup d'etat directed from Greece. Since that year, the southern part of the country has been under the control of the Government of the Republic of Cyprus. The Northern part is ruled by a Turkish Cypriot administration that in 1983 proclaimed itself the "Turkish Republic of Northern Cyprus". The U.S. Government recognizes only the Government of the Republic of Cyprus.]

The "Turkish Republic of Northern Cyprus", which is recognized only by (and receives massive cash infusions from) Turkey, is at risk for money laundering because of the presence of a network of 24 essentially unregulated casinos, as well as suspected narcotic links with Turkey. There is also a small offshore sector comprising 40 banks and 12 international business companies. Turkish Cypriot officials believe that any money laundering that takes place most likely does so in the casinos, through such traditional methods as buying chips and never playing them, or customers "playing" each other in rigged games. Drugs are a major source of illegal proceeds, and cash smuggling is also a problem.

A new anti-money laundering law, based on EU norms and on U.S. anti-money laundering statutes, was enacted in November 1999. Under the new law, banks, financial institutions and foreign exchange dealers must report all cash transactions over \$20,000 and suspicious transactions in any amount. They are to be on the lookout for structuring and to maintain records for 12 years. The law contains a safe harbor provision. Banks must follow a know-your-customer policy and require customer identification. The suspicious

transaction reports will be filed with a central multi-agency committee that apparently will function as an FIU and have investigative powers.

Turkish Cypriot banking authorities work closely with the Central Bank of Turkey—the local currency is the Turkish lire, and interest rates are pegged to those in Turkey. These authorities receive reports on all cash transfers in or out of the area, as well as all transfers over \$100,000. They supervise and audit (on a yearly basis) the 35 domestic banks in operation. However, the small (8 people) auditing staff is insufficiently trained.

The 40 Turkish Cypriot offshore banks may not deal in cash, only in fund transfers, and may not conduct business with residents. They are not audited and their records are not publicly available. Offshore banks are not subject to the new anti-money laundering law, but a draft bill in the pipeline will reportedly restrict the issuing of offshore licenses to those banks already having licenses in an OECD country.

The new anti-money laundering law is too recent for an evaluation of its effectiveness. In the interim, Turkish Cypriot officials need to set up a system of regulation for the casinos and obtain intensive training for bank examiners. They should also develop a prudent supervisory regime for its offshore sector.

Czech Republic (Concern). Due to a combination of economic and geographic factors, the Czech Republic has become a location for transnational crime. This is especially true for narcotics trafficking, originating mainly from the Balkan region but also from the Middle East, South Asia and South America. Besides narcotics trafficking, other sources of illegal proceeds include smuggling, auto theft, arms trafficking, financial fraud related to tax evasion, tax fraud, embezzlement, racketeering, prostitution, and trafficking in illegal aliens. The Czech Republic remains a predominately cash intensive economy, and the continued availability of anonymous savings accounts in the form of bearer passbooks may be a vehicle for money laundering. Financial institutions used to launder proceeds include banks and non-bank financial institutions such as currency exchanges, casinos, other gaming establishments, investment companies, and real estate agencies. Monetary instruments used to launder proceeds include cash, bank drafts, and stocks and bonds. Domestic and foreign organized crime groups play a major role in money laundering activities.

The Czech Republic's anti-money laundering legislation, Act No. 61/1996 Concerning Some Measures Against Legalization of Proceeds of Criminal Activity and Amending Legislation Thereto, became effective on July 1, 1996. Money laundering was criminalized by the addition of Articles 251 and 251a to the Czech Criminal Code on September 1, 1995. The criminal provisions apply to all proceeds derived from all serious crimes. The Czech Government, recognizing deficiencies in the law, submitted to Parliament in November 1999 a package of legislative amendments that would, among other things, eliminate bearer accounts, extend access to tax records, and increase prison sentences for money laundering convictions. The legislative amendments are expected to pass by year-end 2000. They are designed to meet EU standards and requirements for FATF membership, for which the Czech Republic applied in October 1998.

The anti-money laundering law provides for a definition of money laundering, the types of transactions and financial institutions covered by the law, customer identification, recordkeeping requirements, unusual disclosure (suspicious transaction) reporting, a financial intelligence unit, and the establishment of internal rules for financial institutions to implement an anti-money laundering program.

The Financial Analysis Unit (FAU) of the Ministry of Finance is the organization having jurisdictional responsibility for money laundering violations. It serves as the Czech Republic's financial intelligence unit (FIU). Provisions for this unit were made in the Czech Republic's anti-money laundering legislation. Ministry of Finance Decree No. 183 formally established the FAU. The decree specifically outlines how financial institutions are to comply with requirements for reporting unusual transactions to the FAU.

According to the Czech anti-money laundering law, a financial institution reporting an unusual transaction may not effect the client transaction earlier than 24 hours after receipt by the FAU of the disclosure. If the FAU requires a longer period of time to analyze the unusual transaction, it may instruct the financial institution to delay the transaction of a period of up to 72 hours after receipt of the disclosure by the FAU. The FAU must inform the financial institution within this 72 hour time frame if it intends to file a complaint with the General Prosecutor's Office, and if so, the financial institution must wait an additional 72 hours for instructions from the prosecuting authorities as to the disposition of the assets relative to the transaction. The financial institution may effect the transaction after 72 hours if it receives no further instructions from the FAU. The Czech unusual transactions reporting system does not preclude banks from contacting the criminal police if there is a strong indication of criminal violation.

The Czech Republic participates in the Council of Europe's PC-R-EV, and the FAU is a member of the Egmont Group.

The Czech Republic and the United States signed an MLAT in December 1998 that was ratified by the U.S. Senate in January 1999, and by the Czech Parliament in November 1999.

The Czech Republic has established a good legislative basis for anti-money laundering in a relatively short

time. As its money laundering regime was implemented, areas for improvement were recognized by Czech authorities, who are completing the corrective legislation.

Denmark (Other). Although Denmark is a major financial center, money laundering is not considered to be a significant problem. Danish banking procedures are transparent and are subject to government review and high taxation, both of which discourage prospective money launderers and minimize improper use of the banking system. Laws enacted in 1993 require banks and other financial institutions to record and report the identities of customers engaging in large or suspicious cash transactions. These records must be maintained and made available to appropriate government authorities.

Danish law includes asset seizure and forfeiture provisions; however, this legislation applies to drug-related criminal cases only and there are no civil forfeiture provisions. Danish law limits asset forfeiture to the proceeds of a crime, and to instruments of crime such as vehicles for transporting drugs. Farms used for drug crop cultivation typically are not subject to forfeiture. Forfeited assets may not be used by law enforcement agencies, nor can Denmark share assets internationally. There were no significant asset seizures in 1999.

Denmark is a party to the 1988 UN Drug Convention. It enacted laws in 1993 to implement the EC Directive on Measures to Prevent the use of the Financial System for Money Laundering. Denmark is a member of the FATF and the Council of Europe. Its financial intelligence unit (FIU) participates in the Egmont Group of FIUs.

Dominica (Primary). Like other eastern Caribbean countries, Dominica has sought to compete in the market for financial services. In addition to offering the traditional offshore services with promises of confidentiality, low fees, and little government supervision, Dominica has also increased the number of economic citizenships granted. As a result, Dominica is increasingly attractive to international criminals and money launderers.

Dominica has greatly expanded its offshore services in the past several years, with the Offshore Banking Act 1996, the International Business Companies Act 1996, and the Exempt Insurance Act 1997. The International Exempt Trust Act 1997 allows establishment of Asset Protection Trusts that restrict seizure, expropriation or confiscation of assets by foreign authorities. The government offers Internet gaming and rapid processing of Internet gaming license applications, and is considering an Open Ship's Registry and Free Port legislation, which would establish individual tax-free locations, such as an office or building. A government-sponsored web-site advertises "asset security and protection from seizure" and "total anonymity and confidentiality." Companies can be registered on-line, and bearer shares are available. These advertisements appear to attract business, as government figures in 1999 showed an expansion of the offshore sector and indicated at least \$3.5 million in revenue in 1998. The Ministry of Finance reported it had incorporated 5,800 international business companies (up from 4,600 last year), 6 offshore banks (up from 5), and 20 Internet gaming companies (up from 5). The Exempt Trust Act came into effect in 1999, and one company and six trusts were registered. The International Business Unit of the Ministry of Finance screens applications for offshore banks, but oversight of banks and businesses is minimal.

Dominica also offers economic citizenship, a phenomenon in the offshore market that has caused increasing suspicion from international law enforcement. In return for a \$50,000 direct payment, or \$75,000 in government bonds, applicants acquire citizenship, a passport, and possibly a new name. The process for obtaining economic citizenship in Dominica remains very loosely regulated, and Dominican officials apparently do not maintain proper control over the program. Between 200 and 300 Russians reportedly purchased citizenship by 1998, increasing suspicions of Russian money laundering activities on the island. As a result of the negative publicity this has aroused, Dominican officials claim they have stopped granting citizenships to Russians, but a review of the most recent gazettes indicates otherwise. The press reported that Dominica sold a citizenship to Australian fugitive Christopher Skase, who is charged in Australia with financial crimes. Dominica claims to have officially about 1,000 economic citizens, with fewer than 100 actually living on the island. Most of those who live in Dominica are from China and Taiwan, and the program has also come under fire as a method for Chinese or other foreign nationals to become Dominican citizens and then to enter Canada and, ultimately, the United States, without visas. Currently Canada does not require visas for Dominican citizens, as both are members of the Commonwealth, but it is considering imposing visa requirements for countries with such schemes.

Dominica is a member of the CFATF, and underwent a CFATF mutual evaluation from 12-16 April 1999.

Dominica has criminalized money laundering and placed controls on the export of money. It requires banks to report unusual foreign exchange transactions. The United States ratified the Dominica-U.S. MLAT in January 1999. The new Government of Dominica, which came into power after an election on January 31, 2000, has indicated its interest in expeditiously bringing the treaties into force.

The rapid expansion of the offshore sector without proper supervision makes Dominica fertile ground for money laundering and other financial crimes. The government of Dominica needs to enact and enforce comprehensive anti-money laundering measures, including strict regulation of the economic citizenship program, to protect the country and its financial sector from the risk of abuse by international criminals.

Dominican Republic (Primary). The Dominican Republic is a burgeoning commercial exporter, and remittances from Dominicans abroad reached \$1.4 billion in 1999. Opportunities abound for the smuggling of drugs and the laundering of money. The main source of foreign exchange is dollars generated by the tourism industry, free zone companies and remittances from Dominicans living in the United States. Cash obtained from the illegal drug trade is brought into the Dominican Republic utilizing these sectors to facilitate money laundering. The Dominican Republic has financial institutions which engage in currency transactions involving international narcotics proceeds that include significant amounts of U.S. dollars. The Government of the Dominican Republic (GODR) is cognizant of the problem but still lacks a coordinated strategy to effectively combat money laundering.

In 1995, the Dominican Republic enacted drug money laundering and forfeiture laws based on the OAS/CICAD Model Regulations on money laundering. These laws provide for both domestic remedies and international cooperation. The law also requires financial institutions to establish "know your client" programs and to report suspicious and large currency transactions to the bank superintendent's office. The law gives the superintendent's office broad supervisory and information-gathering authority over all financial institutions in the country, including exchange houses and remittance institutions. A financial intelligence unit receives and analyzes the suspicious activity reports filed by the financial institutions; however, further efforts need to be directed at the quality of the analysis and the unit's timely sharing of information with the National Drug Control Directorate (DNCD).

The DNCD has responsibility for investigating narcotics-related money laundering and has authority to request the cooperation of all other government departments. It has established an operating financial investigative unit. The DNCD aggressively pursues and arrests individuals involved in the financing of illegal activities and the sale and transport of illegal substances.

In 1995, the GODR also enacted comprehensive forfeiture laws for narcotics offenses and narcotics-related money laundering. These provisions, based on the OAS/CICAD Model Regulations, provide for preventative seizures, criminal forfeiture of drug-related assets, and international cooperation in forfeiture cases. The law also permits provisional use of seized assets pending forfeiture, which can create opportunities for abuse. In 1999, Dominican authorities confiscated \$94,687 in U.S. currency, Dominican currency worth approximately \$1,926,852 and 353 vehicles worth approximately \$4.5 million, as well as 33 residential and business properties linked to narcotics-related crimes. The Dominican National Drug Council now holds seized assets in excess of \$40 million but has no mechanism to manage the divestment of the assets. Dominican authorities provided assistance to U.S. law enforcement's 1997 seizure and 1999 forfeiture of three aircraft related to the narcotics trafficking of Luis Cano.

With the assistance of the United States, the GODR is currently working on a new draft law that would criminalize money laundering related to other serious crime and institute substantial reforms to its asset forfeiture procedures. The draft legislation is tentatively scheduled for congressional debate in early 2000.

The GODR is a member of the CFATF and underwent a CFATF mutual evaluation in 1997.

In order to meet international anti-money laundering standards, the GODR needs to enact and fully implement an enhanced money laundering law as soon as possible.

Ecuador (Concern). During 1999, Ecuador suffered a major financial and economic crisis when most of its principal banks collapsed and required Government intervention. At the end of 1999, the Government controlled 75 percent of the country's banking sector, capital flight was widespread to the extent that savings accounts were frozen to control further capital flight, and the national currency was sharply devalued. This precarious economic situation reduced the attractiveness of Ecuador as a site for money laundering, particularly through the banking sector. However, due to Ecuador's proximity to drug-producing countries such as Colombia and Peru, some narcotics-related money laundering may be taking place, primarily through the real estate market.

Because the Government of Ecuador (GOE) was focusing its efforts on the severe financial and economic crisis, it carried out almost no investigations of money laundering during 1999, and introduced no new legislative or regulatory mechanisms. Ecuador's current anti-money laundering program continues to be ineffective despite the fact that narcotics-related money laundering is illegal under the 1990 Narcotics Law (No. 108), there are recordkeeping and reporting requirements on suspicious financial transactions and those over \$10,000 (in cash or stock), and two operational financial investigations units exist. A series of conflicting statutes severely limits information sharing among the various GOE agencies with jurisdiction over money laundering matters. For example, the Bank Secrecy Law limits the information that a financial institution can directly provide to the police during a money laundering investigation. The Banking Procedures Law restricts information sharing on private accounts to the Superintendency of Banks, and the Criminal Defamation Law imposes sanctions on banks and other financial institutions that provide information on accounts to police or advise the police of suspicious transactions. This results in banks and financial institutions generally refusing to honor requests for financial information (through court orders) from the National Police, claiming that they are answerable only to

the Superintendent of Banks. In turn, the Superintendent of Banks will not accept requests for information directly from the police, but responds to such requests only if they come from the National Drug Council (CONSEP).

The National Police operate a financial investigations unit that has received added personnel and DEA-sponsored financial investigations training. The CONSEP also has a financial unit, and the Superintendent of Banks is considering establishing one. In 1994, the GOE and the United States entered into an asset sharing agreement that allows each country to share assets seized from narco-traffickers. During December 1999, the CONSEP convened meetings to begin interagency consideration of a major reform to the Drug Law (108) that would criminalize money laundering as a stand alone crime, as well as establish procedures for the authorization of investigative techniques such as controlled deliveries, undercover operations and wiretapping.

The GOE has achieved some progress in combating corruption and enhancing the judicial system. The 1990 Narcotics Law contains provisions for prosecution of any GOE official, including judges, who deliberately impedes the prosecution of anyone charged under this Law. In collaboration with the United States, the Chief Prosecutor's Office has agreed to establish a special task force to work with the police in pursuit of corruption cases. In November 1999, the National Judicial Council fired two judges who prematurely released from custody two suspected drug traffickers, and has begun investigations on other court employees involved in the case. In November 1999, the Ecuadorian Congress enacted a new Code of Criminal Procedure that is intended to fundamentally change Ecuador's criminal justice system from an inquisitorial to an accusatorial-style system. It gives powers to the Fiscalía to investigate and prosecute crimes, and changes the role of judges to that of neutral arbiters presiding over oral trials.

The GOE should finally clarify the existing legislative framework that continues to hinder the effective exchange of financial information for use in criminal investigations. Once it has resolved these legal conflicts, the GOE should consider establishing a joint task force, with participation by the financial investigative units already existent within the National Police and the CONSEP, that would conduct joint investigations and foster better interagency working relationships.

Egypt (Concern). Egypt is not considered a major financial center, and although it has bank secrecy laws, it is not an offshore center or a tax haven. There are no customer identification requirements for financial institutions in force, or any other type of anti-money laundering obligations. Presidential Decree Law No. 205 of 1990 concerning the Secrecy of Bank Accounts states that "all accounts, deposits, trusts and safes" in banks are to be "maintained secret". No access is allowed, nor is any information to be divulged, except with the written permission of the owner or his agent. Such a prohibition is in force even if the relationship between the client and bank is terminated. Names of account owners are anonymous-known only to bank officials. The only exception to bank secrecy is when felonies or misdemeanors are involved, in which case the Egyptian Attorney General may seek from the Cairo Court of Appeal access to account information, provided there is "serious" proof of such an offense. The Egyptian Anti-Narcotics General Authority (ANGA), which maintains a unit specifically charged with investigating financial crimes related to narcotics trafficking, states that bank authorities cooperate fully with law enforcement once a court order is obtained, and that banks maintain records adequate for a thorough investigation.

There is no significant black market in Egypt. About 70 per cent of money laundering is believed to be generated by drug trafficking and the rest by organized crime and terrorism. Narcotics-related money laundering usually takes the form of investment in real estate or business ventures. In a typical scheme, a money launderer will invest through a middleman (usually a relative or a trusted friend.) Money launderers rarely use the Egyptian banking system, partly due to a cultural mistrust of banks and partly due to fears that banking records (despite the bank secrecy law) would provide Egyptian authorities with readily available investigative tools.

An anti-money laundering law is pending in the Egyptian Parliament. In the interim, prosecutors are making use of a 1971 law that targets those who make money through any illegal activity ("The Law of the Socialist Prosecutor"). This law allows prosecutors to impound for up to five years the cash and property belonging to a criminal and his immediate family. The highest Egyptian criminal court, the Court of Ethics, then determines whether the impounded property was obtained as a result of illegal activity and therefore forfeit. Seized assets go directly to the Egyptian treasury. A bill is pending in Parliament under which a portion of the assets seized in narcotics cases would go to ANGA for operational use. The ANGA unit which investigates the financial aspects of narcotics trafficking will have responsibility for enforcing the anti-money laundering legislation if and when it is enacted.

In order to protect its economy from financial crime, Egypt should move swiftly to pass its draft anti-money laundering law and to issue the necessary complementary financial regulations for its financial institutions.

El Salvador (Concern). The Salvadoran banking system remains one of the largest in the region, and maintains important financial contacts with neighboring countries, Mexico, the Caribbean, and the United States. The growth of El Salvador's financial sector, its stable currency and an increase in narcotics trafficking activity in

the region continue to make the country fertile ground for money laundering. Throughout 1998 and 1999, the government of El Salvador has continued to demonstrate its commitment to fight this threat.

The El Salvadoran Government took a significant step forward with the passage of the comprehensive "Law against Laundering of Money and Assets (Decree No. 498)" in December 1998 and the adoption of implementing regulations in January 2000. After a financial scandal in 1997 exposed weaknesses in the banking system, the government and financial sectors agreed on the need for new legislation and worked with U.S. officials to develop a comprehensive money laundering bill. During bilateral law enforcement discussions in August 1999, the U. S. Government praised the government's initiative.

The new law applies to a wide range of financial institutions, including banks, exchange companies, stock exchanges, insurance companies, credit card companies, casinos and real estate transactions. It criminalizes money laundering related to drug trafficking or any other criminal activity. It requires these institutions to identify their customers, maintain records for five years, train their personnel in money and asset laundering, and establish internal auditing procedures. They must also report suspicious transactions and transactions exceeding \$57,000 to the Salvadoran financial investigations unit, also established in the law. The new unit will be housed within the Attorney General's office and will analyze these financial disclosures and investigate alleged money laundering violations. The law also lifts bank secrecy for money laundering investigations and contains penal sanctions, fines, and asset forfeiture provisions.

Throughout 1999, the GOES continued to work with the banking sector and U.S. Treasury officials to implement the new law and establish the financial investigations unit. The new Attorney General designated office space for the investigations unit and named a person to head the unit, which will consist of prosecutors, investigators, analysts and support staff. There are plans to expand the unit once it is fully operational. The unit staff recently visited similar units in Costa Rica and Mexico for initial training and organizational ideas. The U.S. Government has provided funding for computer and office equipment, and initial training programs for Salvadoran analysts, bankers, and investigators.

In a complimentary move, in January 2000 the National Civilian Police announced the creation of a specialized police unit to work in conjunction with the financial investigations unit. Officers drawn from the anti-narcotics, financial and criminal investigations divisions will staff the new police unit.

El Salvador is a party to the 1988 UN Drug Convention. The government has expressed interest in having its financial investigations unit join the Egmont Group.

Estonia (Other). Estonia has the strongest, most developed banking system of the Baltic states; however, it has had a money laundering problem since the early 1990s. Estonian financial institutions have been linked to the laundering of questionable foreign funds, especially from Russia and other members of the Commonwealth of Independent States. Estonia is a significant Russian trading partner, but much of the "trade" may be only a shell for the movement of funds. Corruption is a problem at the local level.

Banks may participate in other financial activities such as leasing, insurance and brokerage.

Estonia's new law against money laundering came into effect in July 1999. Under the new law, Estonian banks are now required to notify the government of cash deposits or withdrawals in excess of about \$7,500 (\$15,000 for non-cash transactions). However, Estonia's central bank only recently established a unit to act as a repository for this information. Criminal proceedings have been instigated in only one case of suspected money laundering. Nonetheless, the recent consolidation of the banking sector, and the takeover of Estonian banks by other European banking interests (mainly Swedish), give rise to hopes that the Estonian money laundering law will soon begin to operate effectively.

The Estonian police have established a money laundering department composed of a commissioner, two officers and a banking specialist.

Estonia is a June 1999 signatory of the Council of Europe's (COE) Strasbourg Convention. It is a member of the COE's PC-R-EV; field work on a mutual evaluation took place in January 2000. Estonia is not a party to the 1988 UN Drug Convention. Estonia has received U.S. anti-money laundering training, including courses offered in a Baltic regional context.

Ethiopia (Other). Ethiopia is not a significant threat with regard to money laundering and other financial crimes. Its lack of economic development makes Ethiopia unlikely to become a financial center or a haven for money launderers in the near future. Moreover, the government-owned commercial bank is the largest in Ethiopia. Although there are seven private banking companies, foreign investment in the banking sector is prohibited. Therefore, links to the international financial community, a preferred condition for attracting money launderers to a country, do not exist.

Ethiopia currently does not have money laundering or asset forfeiture legislation. Ethiopia is, however, a party to the 1988 UN Drug Convention.

Fiji (Other). There has been little information on money laundering cases in Fiji over the past few years. However, press reports indicate the possible involvement of Nigerian nationals in Fiji-based money laundering. In March 1999, Pacnews reported that the Fiji Police uncovered a financial crime whereby clients would receive a kit to print "perfect" \$100 U.S. notes after sending money to an offshore bank account.

Responding to FATF concerns about Pacific Islands and their vulnerability to money laundering, the Fiji Reserve Bank has taken steps to prevent money laundering that should make Fiji less likely to be used as a money laundering site. The Fijian Reserve Bank has drawn up guidelines for licensed financial institutions to counter money laundering, effective July 1, 2000. The policy requires financial institutions to identify the ownership of all accounts. The Reserve Bank can inform the police commissioner of any suspicions of money laundering which result from on-site examinations. The police commissioner and director of public prosecutions are responsible for offenses under the Proceeds of Crime Act. The press reports that penalties for money laundering are a \$120,000 fine or 20-year imprisonment for an individual, and a \$6,000,000 fine for a corporation.

Fiji is a member of the Asia /Pacific Group on Money Laundering.

Finland (Other). Finland is neither a major money laundering country, a major financial center nor a tax haven. According to Finnish authorities, in 1999 they investigated even fewer narcotics-related money laundering cases than the ten minor ones investigated in 1998. In recent years, Finnish authorities continue to express concern about possible money laundering by Russian organized crime, as well as money laundering arising from fraud (including tax fraud) and other economic crimes. The money laundering provision in the Finnish Penal code covers the proceeds of all crimes, and there are no thresholds for predicate offenses.

The 1998 Act on Preventing and Clearing Money Laundering established a Money Laundering Clearing House (MLCH) at the National Bureau of Investigation (NBI) as the central unit to receive reports on suspicious transactions. The MLCH passes relevant cases to other units of the NBI or to local police for investigation. The Act also extended the suspicious transaction reporting requirement to all credit and financial institutions and to most non-bank financial institutions, including currency exchange offices, betting agencies, casinos, real estate agencies, pawnshops, insurance companies, and investment firms. There is still no plan to extend the Act to accountants or lawyers.

The MLCH serves as Finland's financial intelligence unit and participates in the Egmont Group. Finland is also a member of the FATF and the Council of Europe. Finland is a party to the 1988 UN Drug Convention.

France (Primary). France is an attractive location for money laundering due to its large economy, strong currency, political stability, central location in Europe, and international financial and transportation connections. Domestic organized crime groups are active in France's major cities, especially in Paris, Lyon, and Marseilles. Organized crime groups from the former Soviet Union also operate in France. France serves as a transit country for the movement and laundering of foreign criminal proceeds, such as narcotics trafficking proceeds sent to France by South American, North African, and Middle Eastern organized crime groups, and questionable proceeds arriving from Central and Eastern European countries. Money laundering methods prevalent in France include the use of bank deposits, foreign currency and gold bullion transactions, corporate transactions, and purchases of real estate, hotels, and works of art. Central and Eastern European money laundering schemes are characterized by exceptionally large transactions and the use of multiple jurisdictions such as the United States, other western European countries, and offshore centers. Organized crime investment in real estate is a problem because of the difficulty in identifying the source of funds.

France criminalized the laundering of proceeds from all crimes with the adoption of the Act N^o 93-392 of 13 May 1996, entitled "On the Fight Against Money Laundering, Drug Trafficking and International Cooperation in Respect of Seizure and Confiscation of the Proceeds of Crime". Prior to passage of this Act, the French Penal Code and the French Customs Code criminalized money laundering as it related to the proceeds of narcotics and other serious crimes. Act N^o 93-392 of 13 May 1996 made money laundering in itself a general offense.

France has also enacted numerous pieces of legislation that codify the FATF Forty Recommendations concerning customer identification, record keeping requirements, suspicious transaction reporting, internal anti-money laundering procedures and training for all French financial institutions and non-bank financial institutions.

France has recognized two major problems related to French money laundering prosecutions in general. First, money laundering is treated as a separate offense and French sentencing guidelines are weighted to the higher offense. In a case involving multiple charges that include a predicate crime and money laundering, the defendant would be sentenced based on the predicate crime since the penalty is greater than that for money laundering. The second is that some French courts do not allow for the joint prosecution of money laundering and the predicate offense because the judges consider them the same offense.

In the area of offshore investigations the French identify two major problems. These are the lack of international cooperation with offshore centers and fiscal (tax) secrecy. In order for French authorities to

receive judicial assistance from many offshore jurisdictions, they are required to prove that the suspected offense is not tax related.

TRACFIN (Treatment of Information and Action Against Clandestine Financial Circuits) is France's financial intelligence unit (FIU). It was created by a government decree signed into law on 9 May 1990. TRACFIN is a specialized unit that conducts and coordinates, as necessary, investigations and administrative actions to detect perpetrators of crimes related to illegal financial networks, on both national and international levels. The unit is subordinate to the Ministry of the Economy and Budget.

TRACFIN receives and analyzes suspicious transaction reports made by French financial institutions that are subject to the reporting requirements. It therefore operates as a filter between the private financial sector and judicial/prosecutorial authorities. Upon identifying credible indicators of money laundering among the disclosures it receives, TRACFIN may provide such information to the National Public Prosecutor.

TRACFIN deals with the laundering of money derived from narcotics trafficking and organized crime activity. The unit is not an investigative agency; rather, it is an information centralizing unit responsible for receiving disclosures on suspicious financial transactions made by financial institutions and for analyzing the data received.

In accomplishing its mission, TRACFIN has a number of powers. It may block completion of a suspect financial transaction for a period of up to 12 hours. It can require financial institutions to furnish additional information on specific transactions that are deemed suspicious. It can seek additional related information from other sources, to include law enforcement records and government registries, as well as those maintained by foreign official entities. It may transmit credible information on suspect criminal financial activity to the French judicial authorities for further investigation and eventual prosecution.

TRACFIN has in place two coordinators at each of 4,000 banks or financial institutions in France. One of the coordinators is responsible for gathering and forwarding disclosures of suspicious transactions to TRACFIN. These disclosures can be verbal or written. The other coordinator serves as the point of contact for responding to requests for additional information from TRACFIN. Persons or organizations that do not fit the definition "financial institution" under French law—but which are nevertheless subject to the reporting requirement—provide information on suspect financial activity directly to the National Public Prosecutor.

TRACFIN consists of approximately thirty personnel. Civil administrators, operational agents from the Ministry of the Budget (Customs Service and the Public Directorate), a magistrate judge assigned as legal advisor, and a representative of the Public Accounting Directorate are included among this personnel. Operational agents assigned to TRACFIN investigate the specific suspicious disclosures received by the unit. The representative of the Public Accounting Directorate is responsible for maintaining relations with public financial organizations. The secretary-general of TRACFIN is also the Director-General of the French Customs Service.

TRACFIN may exchange information with foreign counterpart agencies that observe the same rules regarding confidentiality of information; it may not, however, pass such information to French agencies that may use the information for police or tax cases.

France is a founding member of the FATF, and TRACFIN is a member of the Egmont Group. France is a party to the 1988 UN Drug Convention. France has implemented the EU Directive on Money Laundering.

France and the United States signed an MLAT in December 1998, but the treaty is not yet in force.

France has a comprehensive anti-money laundering regime that exceeds FATF standards in many areas. French authorities continually make efforts to improve the legislative basis for combating money laundering and to bolster the methods of investigation and the effectiveness of prosecutions.

Georgia (Other). Georgia is not an important regional financial center, and its economy is too small to cover large flows of illicit foreign funds. Commercial banks are small but have the ability to clear and transfer funds electronically. Money laundering schemes are small-scale, used mostly to launder funds generated domestically through illegal activities, most of which are not connected with narcotics. Reportedly, some commercial banks have become involved in laundering funds generated by the smuggling of alcohol and cigarettes, but these proceeds are generally held in dollars outside the banking system. Although corruption is an issue in Georgia, no government official has been publicly linked to money laundering. The National Bank of Georgia plays a growing role in regulating the banking industry.

Money laundering is not specified as a criminal offense under the new Georgian criminal code, due to go into effect in June 2000, but the code will make it a crime to "transform illegal money into legal income" or to conceal the source, location, or owner of property acquired illegally. Violations are punishable by imprisonment. Suspicious transactions do not have to be reported, nor are there legal safeguards protecting banks and other financial institutions which cooperate with law enforcement agencies. There are no known instances of Georgian law enforcement agencies investigating commercial banks or other businesses for

possible involvement in money laundering. There are no controls on the amount of money that may be brought into the country. There are no money-laundering controls applied to non-bank financial institutions, which are, in any event, all but non-existent. Most financial transactions in Georgia are conducted in cash.

The Constitutional Court has declared asset forfeiture and seizure legislation to be unconstitutional.

Georgia became a party to the 1988 UN Drug Convention in 1998. Apart from a cooperation agreement between the Georgian and Turkish interior ministries, there are no formal mechanisms to exchange counternarcotics information.

USAID provides technical assistance and training to the Georgian tax inspectorate in support of improvements in tax policy and regulation, which could enable the tax inspectorate to identify underreporting of income, including questionable gains from illegal sources.

Germany (Primary). Germany has one of Europe's largest economies and a diverse financial services sector. As such, it is intrinsically vulnerable to money laundering. Russian organized crime, the Italian mafia, and Albanian and Kurdish drug trafficking groups launder money through bank deposits, foreign exchange houses, and investments in small local businesses and real estate.

Germany has several pieces of legislation that address money laundering in accordance with the EU anti-money laundering directive as well as the FATF Forty Recommendations. In 1992, section 261 of the German Penal Code took effect, criminalizing money laundering for narcotics trafficking, fraud, forgery and embezzlement. The Money Laundering Act of 1993 imposes certain requirements on financial institutions. These responsibilities include obtaining customer identification for transactions over \$16,000 conducted in cash, securities or precious metals. In addition, suspicious transactions are to be reported to prosecutorial authorities.

Since January 1998, money transmitters have been required to be licensed and are subject to supervision by the Federal Banking Supervisory Office (FBSO). Anti-money laundering guidelines were also issued to these businesses in 1998 including know your customer policies, policies to prevent structuring, and the filing of monthly statistics with the FBSO.

With the development of electronic commerce, the FBSO has taken a pro-active step to its regulation of this industry by requiring customer identification for non-account linked transactions. This requirement became effective in June 1998.

One of Germany's main anti-money laundering units, the Gemeinsame Finanzaermittlungsgruppe Geldwäsche – Bundeskriminalamt / Zollkriminalamtmeinsame Finanzermittlungsgruppe has participated in the Egmont Group, but is not a financial intelligence unit. Each of Germany's states has its own unit, as German law does not permit the creation of a centralized unit.

Germany participates in the FATF and is a member of the Council of Europe.

Germany's lack of a centralized financial intelligence unit is a significant issue with both the FATF and G7. Germany should be encouraged to resolve this issue as soon as possible through the creation of such a unit.

Ghana (Other). Money laundering occurs in Ghana, but is not considered a major problem as Ghana is not an important financial center. The proceeds laundered stem primarily from the illicit sale of diamonds, gold and narcotics. Non-bank financial institutions, such as foreign exchange bureaus, are suspected conduits for laundering. Churches have also been accused of laundering money. There were no arrests or prosecutions for money laundering in 1999.

Both drug and non-drug related money laundering are criminal offenses in Ghana. However, banks and other financial institutions in Ghana are not required to report the identities of customers engaging in significant, large currency transactions. In cases of suspected narcotics offenses, the Attorney General is given special powers to authorize a police officer to investigate, inspect and take copies of any document held by a public official, bank or a financial institution. The Attorney General may require disclosure of assets sent outside the country, their estimated value, the real owner and sources of income, earnings or assets. Bankers and others are protected in their cooperation with the law enforcement entities. Any amount of currency can be brought into the country provided it is declared to customs when entering the country and also when leaving the country.

Ghana's Narcotics Law provides for the forfeiture of equipment or property used for the commission of an offense, even if no person has been convicted of the offense. The Law has resulted in the forfeiture of approximately \$880,000, comprising the assets of a drug baron wanted in the United Kingdom. Cases pending at the end of 1999 included assets valued at over \$1 million. Ghana has not enacted laws for sharing seized assets with other governments.

Ghana has bilateral agreements for the exchange of money laundering information with the United Kingdom,

Germany, Brazil and Italy. Cooperation with U.S. law enforcement agencies has resulted in several arrests for money laundering. The U.S. funded a "Money Laundering and Other Financial Crime" seminar, which was held in September 1999.

Ghana is a party to the 1988 UN Drug Convention.

Gibraltar (Concern). Gibraltar is a major point of entry for drugs into Europe. The Government of Spain alleges that front companies established in Gibraltar as import-export concerns are actually involved in drug trafficking, as well as money laundering schemes involving Spanish real estate.

Gibraltar has been a Dependent Territory of the United Kingdom since 1713, when Spain ceded it to Britain. The United Kingdom is responsible for its defense and international affairs. The local legislature, the House of Assembly, is responsible for local matters, including taxation and company formation laws.

Under the Drug Offences Ordinance of 1995 and the Criminal Justice Ordinance of 1995, the GOG criminalized the laundering of proceeds derived from all crimes, and introduced the mandatory reporting of unusual financial transactions by banks and other financial entities including: mutual savings entities, insurance companies, financial consultants, postal services, bureaux de changes, attorneys, accountants, financial regulatory agencies, unions, casinos, charities, lotteries, car dealerships, yacht brokers, company formation agents, dealers in gold bullion, charities, and political parties.

In January 1996, the Government of Gibraltar (GOG) established a financial intelligence unit (FIU) – the Government of Gibraltar Co-ordinating Centre for Criminal Intelligence and Drugs (CFID) to receive, analyze and disseminate information on these unusual disclosures. The CFID is comprised mostly of police and customs officers but operates independently of the Police and Customs Authorities. It hopes to join the Egmont Group in the near future.

Gibraltar continues to flourish as a jurisdiction with favorable tax policies and international offshore financial center providing for the formation and use of corporations, banks, trusts and insurance companies. The offshore financial sector makes up the third major component of the economy after tourism and commercial port services. In 1973, when Britain joined the EU, Gibraltar was accepted as an associate member. Gibraltar is determined to capitalize on its participation in the EU to expand its offshore financial sector into EU member nations.

The private limited company with share capital is the most favored offshore corporation in Gibraltar; it has been available since passage of the 1930 Companies Ordinance. A hybrid that issues shares and is limited by guarantee is gaining in acceptance since it allows for anonymity for the beneficiaries of trusts. All companies established in Gibraltar must have a registered office there. Annual general meetings must be held, and an annual return filed with the public registry containing updated information on the directors, shareholders, capital structure, and audited accounts. The beneficial ownership of some non-resident companies (exempt companies and qualifying companies) must be disclosed in confidence to the authorities upon establishment. Details of the directors and shareholders appear on the Public Registry, but the use of nominees in these positions can preserve anonymity.

Under the 1992 Banking Ordinance, the Commissioner of Banking issues both regular and offshore banking licenses. There are four classes of bank licenses offered: Full Class A (entitles the licensee to accept deposits from any person); Limited Class A (authorized to accept deposits from any person, but not meeting the qualifications for a full license); Full Class B (permitted to accept deposits from any person who is not resident in Gibraltar, any holder of a Class A license, or any other person specified by the Governor); and Limited Class B (allowed to accept deposits from non-residents and holders of Class A licenses but more limited in scope to its activities than a full Class B licensee). Of the 29 banks operating, 11 offer only offshore services. Every Gibraltar bank must be managed by at least two Gibraltar residents and keep audited accounts, which are available to the public.

As a result of 1980 amendments made to income tax laws, non residents of Gibraltar are exempted from Gibraltar taxes earned on deposit accounts held in Gibraltar banks, building societies, or in other licensed deposit-taking institutions. Because of this, a properly established and managed Gibraltar company can greatly reduce its tax liability. In October 1979, the United Kingdom removed exchange and remittance controls, making it possible for Gibraltar's financial community to engage in a wide range of activities and offer products such as foreign currency accounts for nonresidents.

As a result of its associate membership in the EU, Gibraltar can now market certain financial services without restriction in other EU member states. Since 1997, insurance companies based in Gibraltar have been able to operate in EU member states without having to register there. Pending legislation would make this possible for banks.

While it has comprehensive legislation in place, Gibraltar needs to remain vigilant of its offshore sector, particularly as it expands into the EU.

Greece (Concern). Both Greek and U.S. officials consider narcotics to be the major source of proceeds that need to be laundered. These proceeds are invested in real property, Greek government bearer bonds on the resale market, stocks, and companies. The illicit cross-border movement of currency and monetary instruments is still a problem, according to Greek authorities. Casinos are attractive to money launderers, primarily for gambling transactions and to a lesser degree for investment transactions. While there are oversight mechanisms in place, Greek law – designed to be attractive to foreign investors – does not have particularly onerous disclosure requirements on sourcing of foreign capital, unless government investment incentives are involved. There are currently five private and two state-owned casinos in Greece. U.S. firms with casino interests comply with applicable U.S. federal and state gaming and licensing laws and regulations.

According to Greek media reports of late 1999, casino gambling and the Greek stock exchange are the current favored venues for laundering funds. Though they are required to be in compliance with tax laws regarding the transfer of foreign exchange, stock market investors are not subject to rigorous background checks on all sources of income when they purchase stocks or bonds. Since there are small transaction fees but no capital gains on stock or bond transactions, it is relatively easy for money launderers to claim that large amounts of funds are the result of shrewd stock trading. A report by the Ministry of Public Order indicated close links between Russian organized crime and money laundering in Greece. The report states that "more than 40 companies operated by Russian interests are engaged in suspicious dealings. . .two of these have been proved to have close links with a Russian criminal organization." Uncorroborated press reports claim that up to \$50 billion is laundered each year in Greece, the illicit proceeds of drug trafficking, prostitution, gun rackets, blackmail, and gambling activities by both Russian and Albanian crime syndicates. A Greek Customs official ranked Greece third in Europe (behind Italy and Spain) as a money laundering center.

Greece enacted a comprehensive anti-money laundering law in 1995 ("Prevention and Combating the Legalization of Income Derived from Criminal Activities") that criminalized money laundering from all sources. The law is in full compliance with EU directives on money laundering; the Bank of Greece has the authority to cooperate fully with central banks of the other EU nations in matters relating to money laundering. The law requires that banks and financial institutions file suspicious transaction reports (STRs) with a central authority called the Competent Committee. A supplementary law is under consideration that would extend the STR requirements to casinos.

According to the Greek anti-money laundering law, banks and brokerage firms request identification (internal ID or passport) to open an account and for any transaction over 15,000 euros. The regulations of transfer of foreign exchange require Greek citizens to provide a tax registration number for 1,000 euros exchanges and proof of compliance with tax laws for 10,000 euros exchanges.

Application of the 1995 anti-money laundering law began in earnest with the establishment in 1997 of the eight-member Committee of Article 7 of Law 2331/1995. The Committee functions as Greece's financial intelligence unit (FIU); it is chaired by a senior judge and includes representatives of various government ministries, the central bank, and the Athens Stock Exchange. The unit meets at least once a week to review reports of suspicious transactions filed by financial institutions throughout the country. If the Committee decides an STR merits investigation, it refers the STR to the Financial Crimes Enforcement Unit (SDOE), a multi-agency group that functions as the investigative arm of the Committee. Should SDOE find evidence of possible criminal violation, it sends the STR back to the Committee, which then prepares the case for the public prosecutor's office. The Committee maintains links with Interpol for assistance in investigations outside Greece. According to post reporting, Greek authorities are investigating several cases of money laundering, but very few have reached the public prosecutor.

The Central Directorate of SDOE is preparing a comprehensive report on money laundering in Greece which will evaluate how the anti-money laundering law is functioning; how well the banking sector complies with STR requirements; practices, techniques and methodologies of money laundering in Greece; and how the Greek experience conforms to international standards.

Greece is a member of the FATF and the Council of Europe. The Committee participates in the Egmont Group of FIUs. Greece is a party to the 1988 UN Convention and is in full compliance with its goals.

To strengthen its anti-money laundering regime, Greece should extend and implement the requirement for STR filing to gaming and stock market transactions, and adopt rigorous standards on casino ownership/investments. Without creating disincentives for legitimate foreign or domestic investors, it should also consider strengthened safeguards to ensure that sources of income for large investments conform to domestic and international legal obligations.

Grenada (Concern). Money laundering and other financial crimes are very real concerns in Grenada due to the government of Grenada's (GOG's) rapid and relatively unsupervised venture into offshore services.

Like other Caribbean jurisdictions, Grenada has sought revenue by competing for offshore dollars, earning almost \$3 million from the sector in 1998. In 1996, it passed the Offshore Banking Act 1996, the Offshore

Insurance Act 1996, and the Company Management Act 1996. The International Companies Act (Amended 1996) allows bearer shares, and the International Trust Act 1996 allows establishment of asset protection trusts that greatly restrict seizure by foreign authorities. The Minister of Finance reviews applications and issues licenses for offshore banks. The International Betting Act, enacted in 1998, provides for licensing of international gaming and gaming companies. Grenada has issued 30 offshore banking licenses (up from 10 in 1998) and indicated it has incorporated 900 IBCs and six Internet gaming licenses. The Registrar of Offshore Services supervises the sector, but it has too few staff to provide proper supervision.

The Grenada Citizenship Amendment Act of 1997 allows foreign nationals to purchase citizenship for a family of five for approximately \$40,000, with no obligation to live on the island. New citizens may also change their names, thereby increasing suspicions that international criminals may take advantage of the program. The GOG claims that proper background checks are made, and the Registrar of Offshore Services and the Director General of Finance must approve applications. To date, Grenada has issued approximately 200 economic citizenships.

In 1999, the GOG took several steps to develop and implement anti-money laundering laws and practices to avoid escalation of financial crimes. It passed legislation to turn the understaffed Offshore Services Registry into a semi-autonomous Financial Services Authority with more personnel, but no implementation has yet taken place. The FSA is still woefully understaffed. It also passed the Money Laundering Prevention Act of 1999, which is not yet in force. The Act criminalizes the laundering of proceeds relating to drugs, or from any other crime that, had it occurred inside Grenada, would have been punishable by at least five years imprisonment under Grenadian law. If convicted, violators face fines of \$1 million and/or imprisonment for 27 years. "Tipping off" and aiding and abetting are punishable by a fine of \$500,000 and/or 5 years in prison.

The law applies to a wide range of financial institutions, including onshore and offshore banks, money transmitters and exchanges, issuers of credit cards and traveler's checks, insurance businesses and trust businesses. These institutions are required to report suspicious transactions, keep transaction records for at least seven years, comply with any other regulations issued, and permit on-site inspections. The law also creates the Supervisory Authority to receive these financial disclosures; if it finds reasonable grounds that money laundering may have occurred or may occur, it will forward this information to the Director of Public Prosecutions. The Supervisory Authority must establish training requirements, may issue guidelines to financial institutions, and may disseminate information outside Grenada. The Ministry of Finance may also issue a code of practice to help institutions comply with the Act.

Individuals who leave Grenada carrying more than \$37,000 must make a declaration to the Supervisory Authority. The law also contains asset seizure and forfeiture provisions, exempts good faith compliance from criminal liability, and overrides bank secrecy for money laundering investigations.

In May 1996, the GOG signed mutual legal assistance and extradition treaties with the United States. These treaties entered into force on September 14, 1999.

Grenada is a member of the CFATF, and underwent a CFATF mutual evaluation in November 1999.

With its expanding venture into financial services, the GOG needs to bring the Money Laundering Prevention Act into full force, establish and fully staff and fund the Supervisory Authority, and adequately train its personnel to detect and prosecute money laundering and other financial crimes. The GOG also needs to implement measures to provide more comprehensive regulation of the offshore sector, including the economic citizenship program, to prevent the jurisdiction's becoming a haven for international criminals.

Guatemala (Concern). As a transit point for much of the Colombian drug trade, Guatemala remains a site for money laundering activities. The lack of an anti-money laundering law and weak regulation and supervision of the financial sector continue to allow kidnappers, corrupt public officials and smugglers to use Guatemala as a safe haven for their illicit profits. During the past two years there has been an increase in the number of seizures of large amounts of currency in Guatemala.

The Government of Guatemala (GOG) continues to struggle to enact an effective anti-money laundering law. While the 1992 Narcotics Law includes a provision for investigating and prosecuting illicit transactions and investments, it is limited to investigating business transactions with funds or assets tied to narcotics investigations. There has never been a prosecution under this Law. In December 1997, the Secretariat for the Commission Against Addictions and Illicit Drug Trafficking (SECCATID) drafted a bill to criminalize the laundering of proceeds derived from several serious crimes and to introduce record keeping and currency reporting requirements. Another bill was drafted with in 1998, with U.S. Government participation, but neither one was ever introduced in Congress. In September 1999, the Guatemalan Banking Association presented to SECCATID its version of the bill, which eliminated many of the key anti-money laundering provisions. The banking sector continues to oppose the enactment of a comprehensive anti-money laundering law that would include the mandatory reporting of suspicious financial transactions and the creation of an investigation unit. The banking sector remains reluctant to make financial information available to law enforcement entities, on

the grounds that banks are capable of self-policing, and it believes that the enactment of stronger legislation is therefore unnecessary.

The GOG has been very responsive to U.S. requests for extradition of Guatemalan nationals for prosecution on narcotics violations.

The GOG cannot continue to underestimate the negative effects of unchecked and unregulated access to its financial institutions by criminal elements. It needs to work with all appropriate Guatemalan institutions to promptly develop and implement effective anti-money laundering legislation that includes the mandatory reporting of suspicious or unusual financial transactions. Such a program would attract and retain the type of quality institutions that would ensure a sound and safe financial sector. The GOG should also renew its participation in the CFATF.

Guernsey (Primary). The Bailiwick of Guernsey covers a number of the Channel Islands, and encompasses three separate legislative assemblies (Guernsey, Alderney and Sark). Guernsey is a British Crown Dependency.

Guernsey's highly sophisticated offshore sector is vulnerable to money laundering in the layering and integration stages. Historically, the international banking sector, and company and trust service providers, are areas of risk for money laundering. Use of company directors from Sark, which has no company law, has been a particular vulnerability. Guernsey does plan to license and supervise company and trust service providers and to extend this regulatory regime to Sark and Alderney.

Until the enactment of the Proceeds of Crime Law and Regulations 1999 ("the 1999 Law") there were significant gaps in Guernsey's anti-money laundering system. The Drug Trafficking Offences Law 1988 criminalized drug-related money laundering, while the Prevention of Terrorism law 1990 added terrorist-related activities as a predicate offense. The 1999 Law, which went into effect on January 1, 2000, extends the offense of money laundering to all indictable offenses. Overseas offenses are covered where, had the equivalent conduct occurred in Guernsey, it would have been a predicate offense. There is no exemption for fiscal offenses.

Until the 1999 Law came into force, suspicious transaction reports could be made voluntarily. The 1999 Law does not mandate suspicious transaction reporting; however the law provides an absolute defense for money laundering in cases where suspicious transaction reports were promptly filed. Reports of suspicious activity are made to the Joint Police & Customs Financial Investigation Unit – Guernsey, which serves as the Bailiwick's financial intelligence unit (FIU), and is a member of the Egmont Group. Guernsey is planning new drug trafficking legislation that will make suspicious transaction reporting mandatory for drug money laundering.

Guernsey's offshore sector is controlled by the Financial Services Commission. The majority of Guernsey's offshore activities consist of the formation of exempt companies, which may not conduct business in Jersey but serve primarily as holding companies for concerns operating elsewhere. Exempt companies pay no Guernsey taxes.

The Criminal Justice (Proceeds of Crime) Regulations 1999 apply to a wide range of financial businesses including company and trust service providers and professionals (to the extent they conduct financial business). Guernsey has special arrangements for financial business introduced by certain intermediaries. Under this system, for certain categories of individuals or institutions covered by the Regulations, a financial institution need not know the beneficial owner of funds. This represents a potential gap in Guernsey's system.

Guernsey is not a party to the 1988 UN Drug Convention. Guernsey plans to introduce the necessary legislation to enable it to accede to the Convention.

Guernsey is a member of the OGBS.

Guernsey is developing a comprehensive anti-money laundering regime and has demonstrated the political will to ensure that its financial institutions and services industry is not used to launder money. Guernsey's key to success in preventing its financial sector from being used to launder money will be the force with which it enacts and implements new legislation and regulations.

Guyana (Other). Guyana is not an important financial center or tax haven. Offshore banking is not permitted. Nevertheless, a largely unregulated banking sector, several independent currency exchanges and growing illicit trade in licit goods (particularly gold and diamonds) foster concerns that both narcotics- and non-narcotics-related money laundering take place.

Current Guyanese law makes the Bank of Guyana the sole financial regulator and applies regulations and penalties to all deposit-taking institutions. However, neither banks nor other financial institutions are required to know, record or report the identities of customers engaging in large currency transactions, or to maintain transaction records. Guyanese law requires reporting of funds over \$10,000 imported into or exported out of Guyana, but no mechanisms facilitate such reporting.

Despite having finalized draft money laundering legislation in 1998, 1999 saw no discernible progress in

passing this legislation. The National Assembly is expected to enact this bill in 2000. The bill criminalizes money laundering related to drug trafficking and other serious crimes, and allows for the expansion of predicate offenses. The bill also establishes suspicious transaction reporting requirements, requires confidentiality in the reporting process, provides a "safe harbor" for good faith reporting, and contains provisions for asset forfeiture, international cooperation and extradition for money laundering. The bill also creates a supervisory authority to receive financial disclosures and supervise financial institutions' activities to detect and prevent money laundering. Nevertheless, the proposed legislation falls short of the FATF recommendations and the amended OAS model regulations on money laundering. Guyana has not signed the CFATF Memorandum of Understanding; it would benefit by doing so and by actively participating in CFATF activities, including undergoing a mutual evaluation.

Guyana is a party to the 1988 UN Drug Convention, but needs to pass and implement a wide range of additional legislation before it will be in compliance with the Convention's goals and objectives.

Haiti (Concern). The Government of Haiti (GOH) has yet to take any concrete steps to fight money laundering. Haiti's institutional infrastructure continues to decline, and drug traffickers are taking advantage of this, further corroding already weak institutions. The young and inexperienced law enforcement system has been unable to effectively combat the rapid increase in drug trafficking, mainly cocaine, through Haiti on its way to the United States. Drug money corrupts police officers, judges, prosecutors, politicians, and financial institutions. Criminals are able to take advantage of the absence of financial regulations and abuse the fragile financial system. Bulk proceeds of cash are smuggled through Haiti, and criminals launder illicit funds through exchange houses, and via wire transfers through banks and money remitters.

Political problems contributed to the lack of progress in 1999. After two years of impasse, President Preval effectively dissolved parliament in January 1999. Disagreements between the government and the private sector have exacerbated the declining economic infrastructure. In 1997 the GOH drafted money laundering legislation which would have criminalized drug money laundering, established procedures for asset seizure and forfeiture, imposed customer identification requirements, and mandated suspicious activity reporting. But in the absence of a parliament and a working government, these measures were never introduced and cannot be considered until a new parliament is convened after elections scheduled for March 2000.

The absence of up-to-date anti-money laundering legislation continues to undermine the efforts of Haitian law enforcement agencies. The GOH needs to update its draft anti-money laundering legislation to criminalize the laundering of proceeds from all serious crimes, especially corruption, and to require cross-border currency declarations. It then needs to act expeditiously to enact the legislation. Once legal measures are in place, the GOH needs to create, train, and equip a centralized financial intelligence unit to coordinate anti-money laundering efforts and work with foreign governments to help protect the Haitian economy from criminal abuse. The GOH should also consider joining the CFATF, which would help provide additional support and coordination in the fight against money laundering.

Honduras (Concern). Although money laundering is believed to be on the increase, Honduras has not developed into a major money laundering center, and it is not an offshore financial center. What laundering takes place is primarily related to narcotics trafficking, followed by auto theft, kidnapping, bank fraud, illegal alien smuggling and corruption. Money laundering takes place in the banking sector, and in currency exchange houses, casinos, and front companies as well.

Honduras' current anti-money laundering program is based on Law No. 27-98 enacted on December 29, 1997. The law criminalized the laundering of narcotics-related proceeds, and introduced customer identification (no anonymous bank accounts permitted), recordkeeping (five years) and transaction reporting requirements for financial institutions, including banks, currency exchange houses, money transmitters and check sellers/cashiers. Casinos, however, are unregulated. Regulated financial institutions are required to report currency transactions over \$10,000 and all unusual and/or suspicious financial transactions to the National Banking and Insurance Commission. After analysis of these reports, the Commission forwards those it believes may be linked to narcotics-trafficking activities to the Public Ministry or to the General Prosecutor's Office. Financial institutions in general have complied with the \$10,000 currency transaction reporting requirement but have not reported any unusual or suspicious financial transactions, despite the fact that the law includes safe harbor provisions to protect financial institutions and their employees from civil and/or criminal liability when complying with such requirements. There have not been any prosecutions under this 1997 legislation, and mechanisms for the seizure, forfeiture and sharing of assets remain totally inadequate.

To combat corruption, in December 1999 the Government of Honduras approved a new Code of Criminal Procedure, which is in the process of implementation. New legislation was drafted in 1999 that would broaden the definition of money laundering to include the proceeds from any criminal activity. The new law, expected to be presented to the Congress in late February 2000, will also clarify procedures and responsibilities for prosecution of cases.

Honduras is a party to the 1988 UN Drug Convention.

The GOH anti-money laundering program remains weak, and efforts need to be expedited to enact the new anti-money laundering law.

Hong Kong (Primary). Hong Kong's status as a major financial center with an open and democratic society makes it attractive to money laundering activities. The combination of low taxes, modern financial services, flexible corporate laws and the absence of foreign exchange controls attract funds from across the globe, including those involving criminal proceeds. Narcotic trafficking is the major source of criminal proceeds laundered in Hong Kong. Organized crime groups based in Hong Kong dominate large portions of the Southeast Asian narcotics trade. Other sources of criminal proceeds include loan sharking, gambling, and financial crimes. Foreign sources of criminal proceeds are likewise sent to Hong Kong for laundering and Hong Kong serves as a major transit point in international money laundering schemes. Organized crime groups from Hong Kong are known to launder money through joint ventures and real estate purchases in China. Financial institutions and alternative remittance systems are the primary vehicles for money laundering. Laundering schemes include the use of bank accounts, shell companies, remittance businesses, and offshore corporations registered in Hong Kong through incorporation services.

A money laundering method widely used in Hong Kong and by ethnic Chinese communities throughout the world is the Chinese alternative remittance system (ARS). After the communist takeover of China, Hong Kong became the primary conduit for remitting funds through the ARS to China. The laundering of criminal proceeds through this system is extremely difficult to detect or prevent. The Chinese ARS can transfer large sums of money efficiently and quickly without leaving financial records tied to the transactions. The paper trail is eliminated by avoiding official reporting requirements to Customs authorities that bulk cash or monetary instruments would attract at the border, and commercial bank reporting requirements that cash or suspicious transactions require. The system is still used for its traditional purpose of conducting legitimate transactions; however, it is also used for tax evasion and as a means to move and launder criminal proceeds.

The Chinese ARS relies on a network of businesses such as jewelry stores, gold shops, travel agencies, money exchangers, finance companies, and import/export companies. At certain stages of the money transfer, the system depends on legitimate banks to balance the accounts of the parties conducting the transaction. No physical transfer of funds takes place; the transaction is merely a credit entry in the sending company's account and a debit entry in the receiving company's account. Even though physical funds are not moved during the transfer of funds using the Chinese ARS, the books must be balanced to reflect the actual exchange of value that the entries in the correspondent accounts represent. To accomplish this, the entities conducting underground transactions would use larger banks to transfer money usually through foreign intermediary banks to settle their accounts.

The advantages of using the ARS include anonymity, speed, price, and convenience. The system is much faster than bank procedures since large currency transactions can be conducted in a matter of hours. Fees are kept low, since the Chinese underground bankers also profit by taking advantage of unofficial currency exchange rates that are more favorable than official exchange rates. ARS uses businesses located within the community where banks may not be present or located at some distance. ARS hours tend to be more flexible than commercial bankers' hours.

Hong Kong criminalized narcotics related money laundering with the adoption of the Drug Trafficking (Recovery of Proceeds) Ordinance (DTROP) 1989. The law was suspended for several years pending the outcome of a court appeal. Both the Hong Kong Police and the Customs and Excise Department enforced the provisions of the DTROP of 1989. They established the Joint Financial Intelligence Unit (JFIU) to coordinate counter-money laundering activities and designated it to receive suspicious transactions related to narcotics. Although the DTROP allowed for reporting of suspicious transactions, the law did not require financial institutions to make such reports.

The criminalization of money laundering was extended to include any indictable offense with the adoption in 1994 of the Organized and Serious Crime Ordinance (OSCO). It was not until 1995 that amendments were made to the DTROP and OSCO to make suspicious transaction reporting mandatory for all financial institutions and non-bank financial institutions. On January 19, 2000, Hong Kong's Legislative Council enacted the Organized and Serious Crimes (Amendment) Bill of 1999, which requires money changers and remittance agents to implement customer identification procedures and to keep records for at least six years for transactions exceeding \$2,500. The effective date for the law will be decided later this year.

In addition to the DTROP and OSCO, anti-money laundering measures are contained in the Prevention of Money Laundering Guideline issued by the Hong Kong Monetary Authority, the Guidance Note on the Prevention of Money Laundering issued by the Office of the Commissioner of Insurance, the Anti-Money Laundering Guidance Notes issued by the Securities and Futures Commission, and the Anti-Money Laundering Guidance Notes issued by the Law Society of Hong Kong. These regulations require the legal entities supervised by the above mentioned agencies to follow the measures and procedures for record keeping, customer identification, and suspicious transactions reporting.

The Joint Financial Intelligence Unit (JFIU), Hong Kong's financial intelligence unit, began to receive all suspicious transaction reports in 1995. The JFIU records and analyzes the suspicious transactions and forwards those indicating criminal activity to the Financial Investigative Groups of the Hong Kong Police and Customs and Excise Department for investigation. The JFIU is able to share information with foreign counterparts for investigative purposes. After investigations are completed, the enforcement agencies provide feedback to the JFIU for annotation in the JFIU database. The JFIU is a member of the Egmont Group.

Money laundering investigations by Hong Kong enforcement authorities have involved offshore corporations registered in Hong Kong. Hong Kong-registered Private Limited Companies provide a level of anonymity that makes them attractive for money laundering. The Companies Ordinance of 1932 with amendments through 1999 is the legislative basis for establishing Private Limited Companies in Hong Kong. The Ordinance does not require the disclosure of beneficial ownership because it permits the use of nominee shareholders, and it is possible to use corporate directors provided by incorporation services run by attorneys and accountants. Hong Kong allows for the marketing of shelf companies. Corporate documents must be written in English but may include Chinese characters. Corporate entities may be listed as officers and shareholders since Hong Kong registered companies have all the legal powers of a natural person. Resident corporate directors are not necessary; however a registered office in Hong Kong is required along with a resident company secretary. The ordinance prohibits bearer shares and allows public access to registers of corporate directors, managers, and members. All Hong Kong registered companies must appoint a certified auditor with membership in the Hong Kong Society of Accountants and are required to keep accounting records at a location selected at the discretion of the directors. Company accounts must be filed with tax authorities but not with the Registrar.

The agreement between Hong Kong and the United States on mutual assistance in criminal matters entered into force in January 2000. Hong Kong is a member of the FATF and the Asia/Pacific Group on Money Laundering. Hong Kong has a strong legislative basis to combat money laundering and is expected to enact and implement additional measures to increase suspicious reporting by non-bank financial institutions and to increase the number of prosecutions and convictions. Hong Kong underwent its second mutual evaluation by the FATF in 1998.

Hungary (Primary). Hungary is vulnerable to money laundering for a variety of reasons, including rising crime rates, a strong presence of both domestic and foreign organized crime groups, and Hungary's role as a transit country for narcotics trafficking along the Balkan Route. Hungary also has strict personal data protection laws that significantly hinder the ability of Hungarian authorities to share information on money laundering and other criminal activities with their foreign counterparts. Major sources of criminal proceeds come from narcotics trafficking, smuggling, arms trafficking, auto theft, tax evasion, financial fraud, alien smuggling and racketeering. Hungary is also used as a location for the laundering of foreign criminal proceeds, especially those from countries of the former Soviet Union. The availability of anonymous bearer passbooks may pose a risk for money laundering, although Hungarian officials doubt that they are used as vehicles for money laundering.

Although Hungarian financial institutions are subject to Hungary's anti-money laundering legislation, most cash intensive businesses such as real estate firms are not subject to money laundering controls, and Hungary is still a predominantly cash-based economy. The types of financial institutions used to launder proceeds include banks and non-bank financial institutions such as currency exchanges, casinos, investment companies, and real estate agencies. The types of monetary instruments used to launder proceeds include cash, wire transfers, bank drafts, letters of credit, and stocks and bonds. Front companies and false documents are used to establish elaborate systems to transfer funds and launder money. Hungarian authorities have investigated incidents of front companies located in offshore zones sending fictitious invoices to Hungary for the purpose of justifying the wiring of funds abroad.

Hungary's anti-money laundering legislation, Act XXIV of 1994 on the Prevention and Impeding of Money Laundering, became effective on May 8, 1994. Money laundering was simultaneously criminalized with the amendment of Section 303 "Money Laundering" of the 1978 Hungarian Criminal Code. The criminalization provisions apply to proceeds derived from any crime, including the instrumentalities of money laundering.

Hungary's anti-money laundering law specifies the types of transactions, financial institutions, and employees covered by the law. It also provides for customer identification and the recording of identification data, and sets out requirements for recording and disclosure of suspicious transactions, including exceptions to bank secrecy. The law mandates the establishment of internal rules for existing financial institutions to implement the provisions of the law and makes submission of these internal rules an integral part of the licensing requirements of future financial services institutions. The law also establishes a disclosures unit to receive suspicious transactions reports.

The Anti-Money Laundering Section (AMLS), a sub-department of the Hungarian National Police Headquarters (ORKF), is the central authority for receiving or collecting suspicious transaction reports. The ORKF designated the AMLS to perform this role under the authority granted it by Hungary's anti-money laundering law.

Government Decree N◊74/1994 (V.10.) outlines the procedures for financial institutions to report suspicious transactions to the AMLS. The obligation to report to the AMLS in no way prohibits financial institutions from reporting obvious criminal incidents directly to the police.

The AMLS is the financial intelligence unit having jurisdictional responsibilities for money laundering violations. It is subordinate to the Economic Crimes Department of the Central Criminal Directorate (KBI), which in turn is subordinate to the National Police Headquarters (ORFK). The ORFK is an organizational component of the Ministry of the Interior, but is neither subordinate nor reports to the Minister of Interior. Provisions for the AMLS were made in Hungary's anti-money laundering legislation and implementing regulations.

According to Section 3, Paragraph 1 of the Hungarian anti-money laundering law, financial institutions must report suspicious transactions immediately to the AMLS. As the central point for receiving suspicious transaction reports, the AMLS registers them and has 30 days to conduct a preliminary investigation. The time period may be extended for just cause. If circumstances warrant an immediate preliminary investigation of a suspicious transaction, an order for action may be issued within a specific time frame—24 hours, 48 hours, or 15 days. While conducting a preliminary investigation, the AMLS may ask for additional information from the financial institution making the initial suspicious transaction report or from other government agencies. It may also request information from foreign counterparts, including customs services and other financial investigative agencies, either directly or through the Hungarian National Central Bureau of Interpol. The anti-money laundering law allows the AMLS to request this information without requiring the prior approval of the Prosecutor's Office. Once the preliminary investigation is completed, the AMLS prepares a summary report about its findings. A criminal investigation is opened by the Investigations Department of the KBI if the findings indicate a strong suspicion of a money laundering offense—if not, then all documents related to the preliminary investigation are archived.

An MLAT between the United States and Hungary entered into force in March 1997. Hungary is a member of the Council of Europe's PC-R-EV. The ORTK is a member of the Egmont Group. In January 2000, the United States and Hungary signed a non-binding information sharing agreement between agencies responsible for law enforcement and transnational issues. This agreement is anticipated to aid in criminal investigations in both countries.

Despite what appears to be a comprehensive anti-money laundering regime in place since 1994, Hungary has initiated only three major investigations for money laundering, none of which has resulted in any convictions. Hungary should examine methods to bolster the effectiveness of its anti-money laundering regime.

Iceland (Other). Iceland is not a financial center, and money laundering is not considered a significant problem. The first apparent instance of money laundering arose in 1999 in connection with a large drug bust, in which for the first time the government is pursuing money laundering charges and moving to seize the assets of those involved.

Iceland first adopted a law against money laundering in 1993 based on the Forty recommendations of the FATF on money laundering. The Trade Ministry issued implementing regulations in 1994, which spelled out in detail the obligation of financial institutions to fully identify customers and to report large deposits and suspicious transactions. Money laundering is considered a crime no matter what the underlying offense, although the punishment can be greater when it is related to drug trafficking. FATF representatives visited Iceland in 1998 to review how the law and regulations were working. Based on their recommendations, the government has submitted a bill to Parliament to strengthen the 1993 law.

Iceland is a party to the 1988 UN Drug Convention, as well as the 1990 EU Convention on Money Laundering. Iceland's financial intelligence unit (FIU), the Ríkissaksóknari, participates in the Egmont Group of FIUs.

India (Primary). The money laundering situation in India is complex. There are many sources of illicit funds, including corruption, smuggling, financial fraud, narcotics trafficking, and prostitution. Tax evasion and the financing of terrorist and insurgent groups, issues that are related to money laundering, are also of concern in India. Given India's population and emergence as a regional financial center, Indian money laundering is a growing concern.

The hawala (or hundi) system plays a major role in money laundering in India. Hawala transactions are efficient, cost-effective and private. Licit as well as illicit transactions are conducted through hawala. Hawala is part of the "black" or underground economy in India. Estimates of the size of this economy range from one half to equal in size to the "white" (or "on the books") economy, affording some idea of the magnitude of hawala transactions. Hawala money laundering has been a component of a variety of money laundering schemes for many predicate offenses including corruption, alien smuggling, narcotics trafficking and financial fraud.

At present, India has a wide range of legislation addressing money laundering and other financial crimes. The Code of Criminal Procedure, 1973, Chapter XXXIV (sections 451–459) establishes the basic framework for confiscating the proceeds of crime. The Criminal Law Amendment Ordinance of 1944, allows for the attachment of money or property obtained through bribery, corruption, criminal breach of trust or theft, as

well as of assets disproportionate to known sources of income by the order of a district judge; section 13 of this Ordinance provides for forfeiture of these assets to the state on conviction.

The Narcotic Drugs and Psychotropic Substances Act of 1985, Amended in 1988, calls for the tracing and forfeiture of property or assets acquired through narcotics trafficking and has provisions that address attempts to transfer or conceal property or assets. In effect, this act criminalizes drug-related money laundering, as called for by the 1988 UN Drug Convention.

Section 16 of the Prevention of Corruption Act of 1988 provides for forfeiture of the assets disproportionate to known income (presumably from bribes) held by a corrupt public servant convicted under section 13 (i) (e) of this Act. Sections 111 to 127 of the Customs Act of 1962 contain provisions for the confiscation of any money or property that was obtained through violation of any provisions of this Act.

The Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act of 1976 calls for the forfeiture of property acquired through smuggling and illegal foreign exchange transactions. In effect, this Act criminalizes money laundering where smuggling and certain hawala-like transactions are involved.

The Foreign Exchange Regulation Act (FERA) is one of India's primary tools for fighting money laundering. Among its objectives are the establishment of controls over foreign exchange, the prevention of capital flight and the maintenance of external solvency. A closely related piece of legislation is the Conservation of Foreign Exchange and Prevention of Smuggling Act, which provides for preventive detention in smuggling and other matters relating to foreign exchange violations. The FERA (and its successor, the Foreign Exchange Management Act (FEMA)) is enforced by the Enforcement Directorate (ED), which is part of India's Ministry of Finance; the ED is the organization most often involved in the investigation of hawala cases, as they often involve foreign exchange transactions.

India's anti-money laundering legislation has passed the lower house of Indian Parliament . It was referred to a special committee in the upper house for possible further amendments. This legislation would criminalize money laundering for a wide range of offenses, including white collar crimes, bank fraud, corruption, tax evasion, and narcotics trafficking.

The replacement for the FERA, the FEMA, was enacted in late 1999. This Act contains provisions facilitating continued financial liberalization in India in the area of foreign exchange. As under the FERA, the Reserve Bank of India, India's central bank, would still play an active role in the regulation and supervision of foreign exchange transactions, and hawala transactions would continue to be illegal.

India does not have a financial intelligence unit, and the draft legislation does not call for the formation of one. India does have an organization, the Central Economic Intelligence Bureau (CEIB), which is India's apex organization for fighting all financial crimes. Other organizations, such as the Directorate of Revenue Intelligence, Indian Customs and Excise, the Reserve Bank of India and numerous others all make essential contributions to India's anti-money laundering efforts.

In 1999, the Immigration and Naturalization Service (INS) and Postal Inspection Service (USPIS), with assistance from FinCEN, initiated efforts to seize funds from U.S. accounts associated with an international alien smuggling ring. In 1998, the Operation Seek and Keep task force (INS, IRS, FinCEN, USPIS, FBI, Customs) halted the operation of this alien smuggling ring, which used hawala to finance its activities. In early 1999, further analysis identified the details of the money transfer routes and, in mid-1999, the seizures were initiated. In addition to cooperation between the U.S. members of the task force, various agencies in India, specifically the CEIB, DRI and CBI, provided essential assistance on many aspects of this case. U.S. and Indian officials are also currently conducting investigations into Indian components of the money laundering associated with the alien smuggling operations.

India does not offer offshore services.

India needs to pass and then implement its draft legislation, in order to protect its financial institutions from money laundering and other financial crimes.

Indonesia (Primary). Indonesia's money laundering problem continues to grow. Strict bank secrecy laws, inadequate legislation, and a strategic geographical location combine to make Indonesia vulnerable to money laundering. Money laundering in Indonesia is believed to be connected with domestic narcotics trafficking, fraud and corruption. Money laundering most likely takes place in Indonesia's traditional financial sector as well as through alternative remittance systems. Indonesian banks have also been the victims of numerous large-scale frauds and corruption. Lax banking practices are often components of these frauds. A 1999 report commissioned by the Indonesian government found that nearly \$80 million secretly transferred out of PT Bank Bali went into the accounts of former Indonesian President Habibie's senior aides, as well as his own political party, and entailed a large money laundering operation aimed at hiding numerous beneficiaries.

Indonesia has not enacted anti-money laundering legislation. Despite calls for several years by senior officials

of the Bank Indonesia (Indonesia's central bank) to do so, there are no signs that any action has been taken. There are also indications that Indonesia's banks are not subject to adequate supervision or regulation. Several Indonesian banks have been victimized in scandals that might have been prevented if adequate safeguards had been in place. Once again, senior officials have, on occasion, called for action in this area, but none has been taken.

Indonesia does not have a financial intelligence unit.

Indonesia does not offer offshore services.

The Government of Indonesia (GOI) should prepare and implement both anti-money laundering legislation and prudential bank supervisory practices that are in accord with accepted international practices and standards.

Iran (Other). Iran is not a financial center, and is not considered to be of significance with regard to money laundering. The United States considers Iran to be a sponsor of international terrorism, which involves the laundering of operating funds. In addition, Iran's border with Afghanistan makes it an ideal transit country for drugs entering the European market. Iranian law enforcement officials reportedly carry out financial investigations in the context of drug crimes.

The Iranian real estate market is widely used as an alternative remittance system similar to hawala: real estate transactions take place in Iran, but no funds change hands there; rather, payment is made overseas. This is often done because of the difficulty in getting funds out of Iran and the relative weakness of the Iranian rial. However, in at least one case the real estate market was used to launder narcotics-related funds under the cover of legitimate businesses.

Iran has no laws against money laundering.

Iran is a party to the 1988 UN Drug Convention.

Ireland (Concern). The primary sources of illicit proceeds in Ireland are narcotics trafficking, smuggling of contraband tobacco and VAT fraud. Money laundering takes place in financial institutions as well as unofficial banking networks using bureaux de change, which are not regulated in Ireland.

Ireland has two pieces of legislation that address money laundering, the Criminal Justice Act 1994 (CJA94) and Criminal Justice Act (miscellaneous provisions) 1997 (CJ(MP)A97). The CJA94 criminalized the laundering of the proceeds of narcotics trafficking and other criminal activity. It also required financial institutions to report suspicious transactions, implement customer identification procedures and retain records of financial transactions. The CJ(MP)A97 adds requirements for the implementation of counter-money laundering programs and for training in the identification of suspicious transactions.

Reports of suspicious transactions are filed with the Bureau of Fraud Investigation, which is Ireland's financial intelligence unit (FIU). The Bureau is a member of the Egmont Group.

Offshore banking in Ireland is concentrated in Dublin's International Financial Services Centre (IFSC). Attracted by a preferential ten percent corporate tax rate, around 400 international financial institutions and companies operate in the IFSC, employing over 7,000 people, mostly in the areas of fiscal management, re-insurance, fund administration and foreign exchange dealing. Since Irish personal tax rates are high and duties in Ireland on items such as automobiles are considerably higher than in other western European countries, this type of company is very attractive. IFSC companies are regulated by the Central Bank of Ireland. To date, there have been no proven cases of money laundering or other illegal financial activities associated with IFSC companies.

Until 1999, Irish law permitted the establishment in Ireland of Irish Registered Non-Resident Companies (IRNRs). Many IRNRs had no substantial operations in Ireland and were not liable to Irish taxation. Irish police suspected that a large number of the estimated 40,000 IRNRs were engaged in fraud, tax evasion, money laundering and other illegal operations. Abuse of IRNRs also threatened Ireland's reputation as an emerging financial center. In response, in 1999 the government introduced new tax and company law arrangements to clamp down on criminal use of IRNR-company status. The 1999 Finance Bill equates company registration in Ireland with tax residence, except in limited circumstances. New company law measures also require that every new application for company registration in Ireland be required to show how the proposed company will carry on activities in Ireland, and that every Irish registered company have an Irish resident director.

Ireland is a member of the Council of Europe and the FATF. Its FIU participates in the Egmont Group. Ireland is a party to the 1988 UN Drug Convention.

Isle of Man (Primary). The Isle of Man (IOM) is a British Crown Dependency. Its vulnerability to money laundering lies in its sophisticated offshore services sector, at the layering and integration stages. Historically, corporate service providers have been a relative weak link in the IOM's regulatory system. To address this problem, the IOM is taking aggressive steps to regulate, license and supervise company formation agents and corporate service providers. The legislation is scheduled to be implemented during 2000.

The IOM criminalized drug-related money laundering in 1987, and added terrorism as a predicated offenses for money laundering in 1990. The Criminal Justice (Money Laundering Offenses) Act 1998 extended the money laundering offense to cover the proceeds of all serious crimes. There is no exemption for fiscal offenses. The IOM also enacted the Anti-Money Laundering Code 1998 (The 1998 Code) and amended that legislation effective December 1999. The Code (as amended) applies to a very wide range of financial businesses including lawyers, registered legal practitioners and accountants operating client accounts, company service providers and trust service providers. However a recent amendment to the Code provides an exemption from the identification of customers requirement for business relationships which were formed prior to December 1998.

The primary type of offshore company formed on the IOM is the Exempt Company. An exempt company may not do business on the IOM, and its beneficial owners are usually not residents of the IOM. The name of the beneficial owner need not be disclosed. Bearer shares may be issued, but not allotted directly to the bearer—they are allotted in registered form and then transferred. IOM law requires that the name and address of the holder of the bearer warrants be recorded.

The IOM allows "eligible introducers" to facilitate arrangements for financial transactions, such as opening bank accounts. Under this system, a financial institution need not know the beneficial owner of funds. This represents a potential gap in the IOM system.

Under laws covering drugs and terrorism, all citizens are required to report suspicious transactions. The penalty for failing to report is 5 years imprisonment and/or a fine. However, the Criminal Justice (Money Laundering Offenses) Act 1998 does not require mandatory reporting, but provides an absolute defense for money laundering in cases where suspicious transaction reports were made to the Police or Customs officials. All registered financial businesses, bureaux de changes, estate agents, casinos, betting shops, company and trust service providers, accountants, and lawyers are required to file reports of suspicious activity with the Fraud Squad Financial Investigation Unit, IOM Constabulary, which serves as the financial intelligence unit. The Fraud Squad is a member of the Egmont Group.

The IOM is a member of the OGBS and has played a leading role in the organization's anti-money laundering program.

The IOM has a good record of cooperation with overseas requests for assistance, on both regulatory and criminal matters, and new legislation will enhance its ability to share information. The IOM has developed a comprehensive anti-money laundering regime and has clearly demonstrated the political will to ensure that its financial institutions and services industry is not used to launder money. The IOM's key to success in preventing its financial sector from being used to launder money will be in the continued force with which it implements the new legislation and regulations.

Israel (Primary). Most law enforcement officials believe that a significant amount of money is laundered through Israel, primarily because money laundering is not a crime. Absent a money laundering law, Israeli officials have been unable to investigate and estimate the extent of money laundering in Israel or its relation to narcotics trafficking. Many observers believe that Israel's banking sector is used to launder criminally derived funds but the volume is still unknown. The U.S.–Israeli MLAT went into effect in May 1999, but it has not facilitated cooperation in the asset forfeiture area because Israel has yet to enact the necessary legislation.

On April 14, 1999, the Israeli Government presented to the Knesset Law Proposal 5759–1999, "Prohibition of Money Laundering." The legislation has passed the first of the three readings necessary for the legislation to become law. Israeli cautiously expect the bill to pass all three readings in the Knesset by June 2000.

The proposed law would establish a comprehensive anti-money laundering regime in Israel. It also includes significant provisions on asset forfeiture. Specifically, the bill would criminalize money laundering predicated on a list of several serious offenses such as corruption, terrorism, gambling, counterfeiting, fraud, and narcotics trafficking; establish inbound and outbound currency reporting requirements; mandate certain recordkeeping and reporting requirements such as suspicious transaction and large currency transaction reporting for financial and non-bank financial institutions; and require the Minister of Justice to establish a central database that would receive the reports mandated by the law. With respect to asset forfeiture, the law would institute criminal and civil forfeiture regimes for money laundering offenses.

The proposed law requires implementing regulations by the Minister of Justice and other Ministers before it can be fully operational. Thus, a final evaluation of the new regime must await the drafting of the regulations. Nonetheless, the introduction of this law is very significant.

Currently, Israel only has criminal forfeiture as part of its Dangerous Drug Ordinance. Due to the pleading and evidentiary restrictions of the law, it is extremely difficult to apply. Israel has an asset forfeiture fund under which half of the proceeds are to be allocated to law enforcement purposes, with half going to other government programs. An official from the Anti-Drug Authority, the agency that has the controlling vote on how forfeited proceeds are allocated, has said that the forfeiture fund has not been effective in promoting

forfeiture cooperation. Moreover, the official claimed it has not helped develop new cases because so much of the forfeited funds can be dedicated for non-law enforcement purposes.

The U.S. Department of Justice Forfeiture Program has shared forfeited assets with Israel on two occasions. The most recent was on August 10, 1998, when the United States transferred approximately \$35,000 from the Department of Justice forfeiture fund to the Government of Israel in recognition of the assistance of the Israel National Police (INP). The successful prosecution and forfeiture case involved Ran Efraim, a heroin dealer prosecuted in Brooklyn, New York. The INP provided background intelligence on the targeted defendants who were Israeli citizens and sent eight police officers to New York to translate Hebrew on wiretapped calls. As a result, DEA was able to obtain search warrants and seize forfeitable property, which ultimately led to indictments against 11 individuals on charges of racketeering, heroin trafficking and conspiracy to commit murder.

Israel has been in the process of considering anti-money laundering legislation for the past several years. Although the collection database required by the proposed law is not expected to be completed for another three years, stricter law enforcement should be possible immediately after the promulgation of the law. It is critical that the proposed anti-money laundering legislation be enacted and implemented as soon as possible.

Italy (Primary). Although Italy is not a regional financial center, its large financial sector renders it vulnerable to money laundering. Italy is a drug consumption country and a drug transshipment point for western European nations, and a site for the laundering of narcotics-related proceeds. Italian organized criminal groups, particularly in the southern part of the country, continue to pose the major threat vis-à-vis money laundering. These groups engage in narcotics and alien smuggling, extortion, usury, and kidnapping, and the subsequent laundering of the proceeds of these crimes. Following the turmoil in the former Yugoslavia, the links between Italian criminal groups and their counterpart Russian and Albanian organizations have grown to include other organized crime groups active in the countries of the former Yugoslavia.

In 1997, the last year for which figures are available, money laundering activity in Italy was estimated to total over \$50 billion annually. Much of this illicit money is funneled into commercial and financial entities in Italy and abroad, including both the bank and non-bank financial sector. Italian money launderers are reportedly purchasing large parcels of real estate in Italy and other European countries, particularly hotels in resort areas. The illegal gold market is also heavily used by money launderers.

Italy's major piece of anti-money laundering legislation is Act No. 153/97, which does the following:

- Designates the Ufficio Italiano dei Cambi (UIC) as the recipient of suspicious transactions reports;
- Creates an inter-ministerial commission to coordinate anti-money laundering among the various Italian enforcement and regulatory agencies;
- Provides a safe harbor provision for those reporting suspicious transactions;
- Establishes organizational links among the agencies which are involved in the fight against organized crime; and
- Encourages the facilitation of international cooperation against money laundering.

Italy has criminalized money laundering for all serious crimes. The basic 1991 Italian anti-money laundering law requires customer identification, the recording of significant transactions (those above the equivalent of \$10,000), and the reporting of suspicious transactions and crossborder cash movements above \$10,000. Banks, stock brokerages, exchange houses and insurance companies are subject to the provisions of the law. Italy is considering extending the law to entities not now covered, such as casinos and notaries

The UIC functions as the Italian financial intelligence unit (FIU). It serves as the recipient of suspicious and large cash transaction reports, which had previously gone to local police precincts and thence to various regional authorities. The UIC receives millions of such reports per month; it scrutinizes these with the aid of sophisticated computer systems. After the UIC analyzes the reports and stores them in a unified database, it forwards them to the appropriate law enforcement agency—the Anti-Mafia Directorate (if the reports are connected with organized crime) or the Guardia di Finanza—for action if deemed necessary.

On the international scene, Italy served as president of the FATF in 1997–98. It underwent a successful second-round FATF mutual evaluation in 1997. The UIC is a member of the Egmont Group of FIUs. The Italian government has a number of bilateral agreements with foreign governments in the area of investigative cooperation on drug trafficking and organized crime. It also has in place an established system for tracing, freezing, seizing and confiscating assets. In accordance with Council of Europe procedure, Italy is committed to sharing these assets with the nations with which it cooperates.

Italy and the United States have in place a very successful MLAT and an extradition treaty. Italian–U.S. cooperation on money laundering cases is excellent, and the joint working of cases is common. However,

Italian prosecution procedures can be lengthy. In addition, the divergent laws of the two nations can create problems. For example, under Italian law a person may be charged with money laundering only if he/she did not play a role in the underlying predicate offense. This means that the United States cannot obtain extradition of a person for trial on both money laundering and the predicate offense. Conversely, Italian prosecutors do not always specify a predicate offense when bringing a charge of money laundering. Since such information is necessary under U.S. law, this means that the United States cannot always respond to Italian extradition requests.

Italy's anti-money laundering statutes are comprehensive as regards reporting requirements, investigation and enforcement. But although thorough internal auditing and training programs are in place in the financial sector, implementation by non-bank institutions still lag behind as evidenced by the relatively low number of suspicious transactions reports being filed by these entities. More diligent training and supervision could help to close this gap, which may allow criminals to utilize these institutions as they seek new ways to launder their illicit proceeds.

Jamaica (Concern). While Jamaica has not developed into a significant regional financial center, tax haven or offshore banking center, money laundering does occur, primarily through the purchase of assets such as cars and real estate. The laundering of proceeds through Jamaican banks and financial institutions does not appear to be prevalent.

Legislative efforts by the Government of Jamaica (GOJ) to fight narcotics trafficking and money laundering are based on the 1948 Dangerous Drugs Act, as amended; the 1994 Drug Offenses (Forfeiture of Proceeds) Act; the 1995 Mutual Legal Assistance on Criminal Matters Act; the 1995 Mutual Legal Assistance on Criminal Matters Act; the 1996 Money Laundering Act; the 1998 Maritime Drug Trafficking (Suppression) Act; and the 1999 Precursor Chemical Act. The 1996 Money Laundering Act criminalized narcotics-related money laundering and introduced recordkeeping (five years) and reporting requirements for banks and financial institutions (insurance companies, credit unions, currency exchange houses, money remitters, securities dealers) for currency transactions over \$10,000.

The GOJ made progress during 1999 in bringing its anti-money laundering regime in line with international standards, particularly those of the CFATF. The Money Laundering Act was amended in March 1999 to raise the reporting threshold to \$50,000 and to add a requirement for banks and financial institutions to report suspicious financial transactions in any amount to the Director of Public Prosecutions (DPP). Jamaica is also in the final stages of hiring personnel for the financial intelligence unit being created within the Office of the Director of Public Prosecutions. The Office of the Parliamentary Counsel has drafted amendments to the Money Laundering Act that will expand the list of predicate offenses to include fraud and firearms offenses. Further action is required, however, to address the critical issue of money laundering in relation to the proceeds of other serious crimes.

The Jamaican financial sector includes deposit-taking type institutions such as commercial banks (mostly retail banking), merchant banks, (commercial financing), building societies (financing for home ownership), credit unions and co-operatives, and non-depository institutions such as securities dealers/advisors, insurance companies and unit trusts. The Bank of Jamaica supervises the depository institutions (with the exception of credit unions and co-operatives) and licenses the exchange houses. The credit unions and co-operatives are quasi self-regulatory but are overseen by the Co-operatives Department. The various regulatory and supervisory entities for the financial industry, such as the Bank of Jamaica, the Securities Commission and the Superintendency of Insurance, have issued guidelines and procedures for their respective sectors regarding their obligations under the money laundering laws. They have also suggested approaches to meeting such obligations, and have conducted training sessions to assist in compliance.

Jamaica is a member of the CFATF, and underwent a mutual evaluation in March 1999. The GOJ has one year to carry out the recommendations contained in the report, following its adoption at the October 1999 CFATF meeting.

Current forfeiture laws require a criminal drug-trafficking conviction as a prerequisite to the forfeiture of assets. Jamaica does not have a civil forfeiture statute. Further GOJ action is needed in the area of asset forfeiture, since the current regime does not permit the GOJ to take full advantage of the forfeiture mechanism to augment the resources of its anti-drug agencies and deprive criminals of their illicit proceeds.

Japan (Primary). While there are no precise estimates concerning the scope of money laundering in Japan, Japan is suspected of being a major money laundering center. There is a growing drug market in Japan with increased trafficking activity within the illegal immigrant population. Law enforcement authorities believe that organized crime, e.g. the boryokudan, is responsible for much of the drug and other major crime, including money laundering.

In the past, Japan's anti-money laundering regime was viewed as virtually ineffective because of the limited scope of the money laundering predicates, the direct tracing requirements placed on law enforcement and the

low level of suspicious transaction reporting by Japanese financial institutions. However, during 1999, an increased commitment by the Government of Japan (GOJ) to strengthen its anti-money laundering regime resulted in the enactment of new anti-organized crime legislation which substantially increased law enforcement's ability to fight money laundering. The GOJ also encouraged a renewed awareness by Japanese financial institutions as to the importance of suspicious transaction reporting, which resulted in an increase in suspicious transaction reports from 11 in 1998 to over 900 during 1999.

In previous years, Japanese law enforcement focused its attention on the investigation and prosecution of drug crimes with little emphasis on the investigation of money laundering. The Anti-Drug Special Law, enacted in 1991, criminalized only drug-related money laundering, mandated suspicious transaction reports for the illicit proceeds of drug offenses, and authorized controlled drug deliveries. The Japanese police and prosecutors undertook few investigations and prosecutions into suspected money laundering. The limited scope of the law and the burden required of law enforcement to prove a direct link between money and assets to specific drug activity rendered the law fairly ineffective.

However, within the last two years, the Japanese National Police have re-evaluated their investigative priorities and increasingly are focusing their efforts on the financial aspects of organized crime. The largest of these financial cases originated in September 1997, when police in Osaka arrested a boryokudan leader who had received \$1.3 million in drug proceeds from junior gang members. In February 1998, the Osaka District Court, in the first use of the provisions of the money laundering law which prescribes the receipt of illicit drug proceeds, imposed a penalty of \$1.3 million on the boryokudan leader.

In August 1999, Japanese efforts to combat money laundering were strengthened by the enactment of anti-organized crime legislation. This new legislation expanded the scope of the money laundering law beyond drug trafficking to include money laundering predicates such as murder, aggravated assault, extortion, theft, fraud, and kidnapping. The new law also extended the confiscation laws to include the additional money laundering predicates and to include value-based forfeitures; created a financial intelligence unit; and authorized electronic surveillance of organized crime members. Japanese law enforcement agencies have welcomed the passage of the new law and believe that the new legislation will strengthen their ability to fight money laundering.

Japan plays an active role in international anti-money laundering fora. It is a member of the FATF, serving as the president in 1998-1999. Japan underwent a second-round FATF mutual evaluation in 1997. Japan is also a member of the Asia/Pacific Group on Money Laundering and is the current G-8 president.

With the passage of the Anti-Organized Crime Law, Japan now has the legal tools and agencies in place to successfully combat money laundering. Japanese law enforcement must now make full use of the tools they have been given to aggressively investigate and prosecute money laundering and financial crime.

Jersey (Primary). The Bailiwick of Jersey, one of the Channel Islands, is a British Crown Dependency. The risk of money laundering in Jersey lies in its sophisticated offshore services sector, at the layering and integration stages. Historically, company and trust service providers are weak links in the regulatory system. The majority of Jersey's offshore sector consists of Exempt Companies, which may not conduct business in Jersey, but serve as holding companies for concerns operating elsewhere. Exempt companies pay no Jersey taxes.

Until the enactment of the Proceeds of Crime Law 1999 ("the 1999 Law") there were significant gaps in Jersey's anti-money laundering system. The Drug Trafficking Offenses Law of 1988 criminalized drug-related money laundering, while the Prevention of Terrorism Law of 1996 did the same for the proceeds of terrorist activity. Under the 1999 Law, the predicate offenses for money laundering now extend to all offenses with a maximum sentence of one year or more. Overseas offenses are covered where, had the equivalent conduct occurred in Jersey, it would have been a predicate offense. There is no exemption for fiscal offenses.

Under the laws relating to narcotics trafficking and terrorism, all citizens are required to report suspicious transactions. The penalty for failing to report is 5 years imprisonment and/or a fine. The 1999 Law does not stipulate mandatory reporting, but provides an absolute defense for money laundering in cases where suspicious transaction reports were made to the Police or Customs officials. Banks, lawyers, accountants and trust companies are also required to implement customer identification procedures and to retain financial records.

Reports of suspicious transactions are made to the Financial Investigations Unit (FIU), which serves as Jersey's financial intelligence unit. The FIU was established by informal agreement between Jersey Police and Customs.

The Financial Supervision Commission (FSC) is responsible for regulating Jersey's banks, building societies, insurance companies and collective investment schemes. The Company Registry also falls within the scope of the FSC's responsibility. Beginning in the summer of 2000, Jersey plans to give the FSC responsibility for the licensing and supervision of company and trust service providers.

Jersey has special arrangements for financial business introduced by certain intermediaries. Under this system,

certain categories of individuals or institutions covered by the Money Laundering Order 1999, a financial institution need not know the beneficial owner of funds. This represents a potential gap in Jersey's system.

The 1999 Law went a long way towards addressing deficiencies in Jersey's ability to cooperate effectively with regulatory and criminal requests for assistance at the investigation stage, since it allows Jersey to comply with requests for assistance on the full range of money laundering offenses. Authorities are able to exchange available regulatory information with overseas counterparts, and to launch investigations into regulated institutions or persons on their behalf. However, they do not yet have the power to disclose information on individual client accounts, without the consent of the client, in response to a request for regulatory assistance. Significantly, there are no legal constraints on cooperation between law enforcement and regulatory authorities within Jersey.

Jersey is a member of the OGBS and has played a leading role in the organization's anti-money laundering program. The Financial Investigations Unit is a member of the Egmont Group.

Jersey has developed a comprehensive anti-money laundering regime and has clearly demonstrated the political will to ensure that its financial institutions and services industry is not used to launder money. Jersey's key to success in preventing its offshore financial sector from being used to launder money will be in the continued force with which it implements the new legislation and regulations.

Jordan (Other). Jordanian officials have in the past expressed concern about money laundering, but it is not a problem at present, since the country is not a major financial center, and foreign exchange entities are regulated by the government. The most recent instance of alleged money laundering involving Jordan took place in 1992, when the Central Bank of Jordan was accused of laundering Iraqi funds in Switzerland through such entities as the Iraqi Finance Corporation and the Jordanian Gulf Bank. The central bank denied the charges, and the accusations were never proven.

The Government of Jordan (GOJ) has not criminalized money laundering, and Jordanian officials say there is no move to draft such legislation in the foreseeable future, although Jordanian enforcement officials are supportive of such a move. Nor are there any financial laws that would assist in the investigation or prosecution of existing narcotics laws. Nonetheless, Jordanian officials report that some financial institutions cooperate with prosecutors' requests for access to financial records associated with narcotics offenses. The central bank has instructed Jordanian banks to be on the lookout for customers making "dubious" transfers and to be particularly careful when handling transactions made in foreign currency, especially if the amounts involved are large or if the bank has no information about the source of the funds. However, Jordan does not require depositors to disclose the origin of large cash deposits or transactions.

Jordan is a party to the 1988 UN Drug Convention. It does not have an MLAT with the United States.

Jordan needs to criminalize money laundering and to put in place a system of financial regulations, including requiring the reporting of suspicious transactions, in order to protect its financial system from abuse.

Kazakhstan (Other). Kazakhstan's financial infrastructure is advanced for the region. This, together with a significant organized crime presence and role in drug transshipment to Russian and Western European markets, give Kazakhstan substantial potential for hosting money laundering operations. The government has taken steps to combat money laundering and corruption and welcomes international training and assistance.

Kazakhstan's more than 200 organized crime groups are believed to be a big part of Kazakhstan's growing problems with money laundering and financial crime. These groups, which maintain ties with organized crime groups in the United States and Europe, have targeted banks, casinos and businesses engaged in food processing, distilling and export trade. They are extremely sophisticated and elusive. Kazakhstan officials estimate that \$10 billion in illegal raw material exports have occurred through illegal joint ventures, although this figure may be exaggerated.

Kazakhstan has criminalized money laundering and is in the process of drafting anti-money laundering legislation. Inadequate financial controls make detection difficult; bank examiners are not trained to look for evidence of money laundering; rather, banking examination procedures address safety concerns. Law enforcement agencies in Kazakhstan lack resources to conduct effective investigations. Kazakhstan needs statutes to delineate responsibility among the various law enforcement agencies. Kazakhstan customs enforcement faces serious problems in the areas of corruption, falsification of shipping documents and collection of revenue. Nevertheless, in 1999 Kazakhstani officials opened over 400 cases under the 1998 money laundering provision of the criminal code. Government steps to regulate the banking sector have reduced the number of banks and imposed relatively strict oversight of bank officials. The government has also made efforts to combat corruption.

Kazakhstan became a party to the 1988 UN Drug Convention in 1997. Kazakhstan has received U.S.-funded anti-money laundering and combating economic crime training.

Kenya (Other). Kenya's strategic location, sea and air transport infrastructure and its strong commercial and family ties to India and Pakistan continue to make it a significant transit country for South Asian cannabis and heroin. Although Nairobi serves as the financial center for East African region, it is not an offshore financial center. There is no direct evidence that Kenya is a major money laundering country.

To date, there is no comprehensive anti-money laundering legislation that criminalizes money laundering beyond narcotic drugs. Kenyan banks are required to keep records on customers with large transactions; however, Kenya no longer exercises rigorous currency controls at its borders. In June 1998, the Kenyan government announced that it would focus efforts on combating money laundering. In 1999, the President of Kenya issued a statement denouncing money laundering and granted the Central Bank of Kenya the power to supervise all Kenyan banks. However, there has been little progress in this area, and corruption and lack of political will remain significant obstacles. Kenya has no narcotics-related asset forfeiture and seizure legislation.

There are approximately 50 banks in Kenya, including several international institutions. Although some bank managers have been involved with fraud and illegal lending activities, there have been no arrests or prosecution for money laundering offenses.

Kenya is a party to the 1988 UN Drug Convention.

Korea (Republic of Korea) (Concern). Korea is vulnerable to money laundering for a variety of reasons. Korea is used as a transit country for international narcotics trafficking, especially from China, and its domestic narcotics consumption is on the rise. Korean organized crime groups cooperate with Japanese and Southeast Asian groups in the narcotics trade, and are increasingly penetrating Korea's business sector because of the presence of corruption and cronyism. Other sources of money laundering proceeds include corruption, prostitution, tax evasion, smuggling, and other financial crimes. The presence of alternative remittance systems in Korea allows criminals to transfer proceeds internationally.

Korea criminalized the laundering of narcotics proceeds with the adoption of the Act Against Illicit Trafficking in Drugs in 1995. A 1997 amendment to the Act requires financial institutions to report to the Prosecutor's Office transactions that are known to be connected to narcotics trafficking. Korea has adopted two other laws that address money laundering. The first was enacted in late 1997 and was titled the Act on Real Name Financial Transaction and Guarantee of Secrecy. It replaced an Emergency Presidential Decree issued in 1993 that required all financial transactions to be made under real names. This new legislation banned all financial transactions using anonymous, fictitious, and nominee names. The second law was the Anti-Public Corruption Forfeiture Act of 1994, which provided for the forfeiture of the proceeds of assets derived from corruption.

Realizing the need to criminalize money laundering for all serious crimes and to create an anti-money laundering regime, Korea drafted its Act on Money Laundering Prevention. The Act contains provisions for a definition of money laundering, the predicate offenses for money laundering, customer identification, record keeping requirements, and suspicious transaction reporting requirements by financial institutions to an authorized agency. Korea's draft anti-money laundering was suspended pending improvement of the country's economic and social conditions following the recent financial crisis.

Korea is a member of the Asia/Pacific Group on Money Laundering. The United States and Korea cooperate in judicial matters under a 1993 MLAT. The United States and Korea also signed an extradition treaty in 1998.

Korea needs to criminalize money laundering for proceeds beyond those derived from narcotics trafficking for all serious crimes. Korea should enact and implement anti-money laundering legislation that meets international standards to protect its financial services industry from financial crimes and money laundering.

Korea (Democratic Peoples Republic of Korea)(Concern). The money laundering situation within North Korea remains an enigma; however, North Korea's alleged sponsorship of money laundering and other criminal activities abroad make it a country of concern. North Korea's reputed use of Macau as a base of operations for money laundering, narcotics trafficking, terrorism, arms trafficking, and counterfeiting (especially by North Korean individuals with diplomatic status) is of concern to Macanese authorities. In 1999, China granted North Korea's request to establish a consulate in Hong Kong, despite the grave reservations of Hong Kong authorities. Hong Kong enforcement officials fear a repeat of North Korea's track record in Macau. North Korea's state-owned mint is alleged to print counterfeit U.S. dollars for laundering in Russia, China, Macau, and other Asian countries.

Kuwait (Other). Although Kuwait has not yet enacted anti-money laundering legislation, the Kuwaiti Central Bank in 1997 ordered domestic banks to take measures to deter money laundering, including checking the identities of customers and the nature of their business. Banks are also to inform the central bank of all cash deposits over \$13,000, and to notify authorities of any "irregular" funds transfers. The Governor of the central bank denied that Kuwait's banks are involved in money laundering, but stated that these measures were preventative in nature. Kuwait's banking sector is composed of six commercial banks, two specialized banks, one Islamic bank, and a branch of a Bahrain-based bank.

A senior official in Kuwait's Ministry of Finance stated in late 1999 that draft anti-money laundering legislation had been sent to the Kuwaiti cabinet for review, specifically to the Economic Committee, which includes the Ministers of Finance, Commerce and Industry, and Planning. Upon approval from the full cabinet, the draft law will be forwarded to the National Assembly. The time frame for this process is uncertain, but the Finance Ministry has expressed a wish to expedite passage of the draft law.

As is the case of the other members of the GCC, Kuwait is represented in the FATF by virtue of the GCC's membership in that body.

Kuwait's move to enact anti-money laundering legislation is an encouraging sign of its commitment to deter financial crime.

Kyrgyzstan (Other). Kyrgyzstan is used as a transit country by the narcotics-source countries of Central Asia. Kyrgyzstan is not an important financial center nor is money laundering a major problem. The major sources of illegal proceeds are narcotics trafficking, embezzlement of foreign assistance by government officials, smuggling of consumer goods and other commodities, official corruption and tax evasion.

The country has extremely favorable conditions for the development of a money laundering problem. In 1999, a senior official stated that money laundering in Kyrgyzstan had become a major spin-off activity of the drug trade. Kyrgyzstan has not criminalized money laundering and has no money laundering legislation on the books. In 1995, the central bank drafted anti-money laundering legislation, which was not adopted when government ministries failed to support it. The central bank also instituted provisions on customer identification and an exception to the bank secrecy rules for suspicious transaction reporting, but these provisions are generally ignored by the commercial banks. There are no established reporting procedures, and oversight of the banking sector is minimal.

The Kyrgyz legislature has approved an asset forfeiture statute; however, law enforcement officials complain that the law is weak and proceedings can be drawn out through a lengthy judicial process.

Law enforcement agencies lack the resources to conduct effective money laundering investigations. Kyrgyzstan has expressed interest in further training programs and equipment from foreign counterparts.

Kyrgyzstan became a signatory to the 1988 UN Drug Convention in 1994.

Laos (Other). Laos is not a major financial center, and it has no money laundering legislation. Effective money laundering legislation will first require an underlying body of banking law and regulation, most of which does not currently exist. The country does have strict laws on the export of the local currency, the Lao kip.

The Government of Laos is a party to the 1971 UN Convention on Psychotropic Substances and has stated its goal is to become a party to the 1988 UN Drug Convention. The government is working with the UNDCP and other foreign consultants to develop the fundamental regulatory framework necessary to bring Laos into compliance with the 1988 Convention. In the meantime, the Laotian Government sends officials to all relevant ASEAN conferences on regional anti-money laundering practices.

With regard to asset forfeiture, Laos enacted customs legislation in 1994 which states that the means of conveyance of any contraband can be seized along with that contraband.

Latvia (Concern). Money laundering remains a major concern in Latvia and is for the most part tied to organized crime. Latvia is a Baltic transportation center and thus serves as a location for the laundering of criminally derived proceeds from both foreign and domestic sources. The major domestic source of criminal proceeds is the smuggling of contraband gasoline, alcohol and tobacco; additional sources of funds include trafficking of narcotics, Russian capital flight and tax fraud. Some Latvian banks are used by Russian organized crime groups for money laundering. Russian funds are either deposited directly into Latvian banks or else deposited indirectly through offshore centers. Money laundering schemes commonly involve bank accounts opened in Latvia by Latvian shell subsidiaries of foreign companies that conduct financial transactions with shell corporations in offshore jurisdictions. The funds entering Latvian accounts may be wired abroad or withdrawn in cash.

Latvia's anti-money laundering legislation, the Law on the Prevention of Laundering of Proceeds Derived from Criminal Activity, became effective on June 1, 1998. Money laundering was criminalized by the addition of Article 151-4 to the Latvian Criminal Code on April 30, 1998. The criminal provisions apply to proceeds derived from all serious crimes.

The anti-money laundering law provides for a definition of money laundering, the types of transactions and financial institutions covered by the law, customer identification, record keeping requirements, suspicious transaction reporting, establishing a financial intelligence unit, and the establishment of internal rules for financial institutions to implement an anti-money laundering program.

The Office for the Prevention of the Laundering of Proceeds Derived from Criminal Activity (Control Service),

the Latvian financial intelligence unit, has jurisdictional responsibility for money laundering violations. It is located in and supervised by the Latvian Prosecutor's Office. The Council of the Prosecutor General issued the Control Service's Charter on June 17, 1998. The Control Service is a member of the Egmont Group.

Latvia participates in the Council of Europe's PC-R-EV, which will conduct a mutual evaluation of Latvia's money laundering regime in March 2000. The U.S.-Latvia MLAT entered into force in 1999.

Latvia has established a solid legislative basis for combating money laundering. Latvia is in the process of implementing the provisions of the law and has identified weaknesses that it has indicated it will address in future legislation. The Council of Europe PC-R-EV's first Mutual Evaluation Report on Latvia will provide an assessment of its money laundering regime that Latvia could use to further strengthen its anti-money laundering efforts in building an effective regime that fully meets international standards for combating money laundering.

Lebanon (Primary). Following its devastating internal conflict, money is slowly coming back into Lebanon, which is presently one of the largest issuers of sovereign debt in the region. The Lebanese financial system is still one of the more liberal and advanced in the region, and is used extensively by Syrians who cannot conduct financial transactions in their own country due to government restrictions. Although Lebanese enforcement, regulatory and judicial officials deny that large-scale money laundering is going on in Lebanon, all acknowledge that a variety of factors make the country attractive to potential money launderers: Lebanon's long tradition of bank secrecy (anonymous accounts are permitted and disclosure of information to the authorities is permitted only in restricted circumstances); the cash-intensive nature of its economy; the heavy use of foreign currency (there is heavy dollarization); and the influx of remittances from expatriate workers in the UAE, Saudi Arabia and South America. U.S. sources in the region say that while no in-depth study of money laundering in Lebanon has yet been carried out, it likely takes place through the layering of transactions in Lebanese banks and through the purchase of property and businesses. Sources of funds to be laundered include narcotics, smuggling and counterfeiting. Lebanese government officials allege that whatever money laundering does occur in Lebanon originates outside the country, in such nations as Cyprus, Turkey and Syria, but they provide no details. Up to now, no money laundering cases have been brought to trial in Lebanon or are even under investigation.

An anti-narcotics law that criminalized narcotics-related money laundering and in theory made it easier for the government to prosecute money launderers went into effect in March 1998. The law is considered inadequate for combating money laundering since it does not require the reporting of suspicious or large cash transactions, and does not address bank secrecy in general. It does provide for the seizure of assets and for piercing bank secrecy on a case-by-case basis. To date there have been no prosecutions of money laundering cases under the new law, nor are any investigations in progress. Certain crimes such as counterfeiting and the selling of stolen goods, while not covered under the anti-money laundering law, are independently prosecutable in Lebanon.

The Banking Control Commission (BCC) is the Lebanese governmental body that supervises and examines commercial banks. BCC examiners may not review individual deposit accounts (they review deposit totals), and there is no access to depositors' names. They must report any unusual activity to the central bank. A fee is imposed on all deposit accounts, for insurance purposes and to ensure secrecy—in effect, all deposit accounts are anonymous. A customer may waive bank secrecy by giving permission for a third party to review account information. Ninety percent of commercial banks are also audited by international firms, as required by law, which must report suspicious activity. However, the Lebanese Bankers Association could cite only two cases involving suspicious funds transfers, both from abroad.

Non-bank financial institutions, such as exchange houses, stock brokerages, money couriers and insurance companies, are not required to report unusual activity, but the amount of money they handle is not significant.

Lebanese bankers, because of perceived government corruption and past breaches of trust, do not trust the government to put in place an anti-money laundering regime. They believe that their self-regulating system, embodied in the Lebanese Bankers Association's (LBA's) Due Diligence Convention, is adequate to combat money laundering and ensure the integrity of the financial system. The LBA is in the process of revising the Convention to strengthen the prerogatives and investigative powers of the LBA's Supervisory Committee. However, penalties for non-compliance with the Convention are weak. Lebanon's long tradition of bank secrecy (described by several government officials as "sacred") is unlikely to change in the near future, since both private bankers and Lebanese officials see it as a lure to help rebuild the country as a regional financial center. Lebanese law authorizes the operation of offshore banks, but the Governor of the Lebanese Central Bank stated in June 1999 that he has not authorized the issuance of any offshore licenses and has no plans to do so. He has also rejected requests from a number of Russian banks to establish operations in Lebanon.

Lebanon has no financial intelligence unit. If the BCC informs the central bank of a suspicious money movement, the bank sends an investigative request to the Prosecutor General, who in turn sends it to the Ministry of Justice (MOJ). The MOJ sends the request to the Financial Crimes Bureau of the Internal Security

Forces (ISF). Should an FIU be established at some future date, it would likely be housed in the ISF.

Lebanon is a party to the 1988 UN Drug Convention. However, the Lebanese government expresses reservations about the sections of the Convention pertaining to bank secrecy. Lebanon is an observer in the OGBS, having lost its full membership in that organization when it refused to undergo a mutual evaluation. Lebanon has endorsed the Basle Core Principles and is in the process of implementing them. Lebanon and the United States do not have an MLAT.

Lebanon needs to expand its anti-money laundering legislation to international standards to include non-drug related money laundering, and to require the reporting of suspicious transactions. It also urgently needs to reexamine the issue of bank secrecy to allow easier penetration in cases of money laundering.

Lesotho (Other). Lesotho is becoming attractive to narcotics traffickers, but does not have high levels of money laundering. However, the significant amounts of counterfeit U.S. and South African currency being passed in Lesotho and the region are linked with narcotics trafficking.

Lesotho does not have an offshore sector. The domestic banking sector is small and risk averse, but provides limited financial service options that could potentially facilitate significant money laundering. Banking sector legislation and regulations require banks to be aware of clients who routinely make large cash deposits and to share information on suspicious transactions with central bank regulators. Policy discussions to promote the business and financial services sector include active recognition of the risks associated with money laundering.

Legislation to counter official corruption of elected officials and civil servants was introduced in early 1999. The government actively participates in discussions on countering official corruption, money laundering and drug trafficking within the Organization of African Unity, the Commonwealth of Nations, Southern African Development Community and the UN. The cabinet is actively considering new laws, based on the UN Drug Convention model, on money laundering and the seizure and forfeiture of assets gained via corruption and narcotics trafficking. Lesotho's criminal codes presently allow for the seizure of vehicles involved in drug trafficking offenses.

Lesotho has no bilateral narcotics or mutual legal assistance agreements, but cooperates with South Africa in joint operations. Lesotho is a party to the 1988 UN Drug Convention.

Liberia (Other). Liberia is increasingly a transshipment point for illicit drugs from Asia and South America to markets in Europe and the United States, and there are reports that Liberia may be used in the transshipment of diamonds and other commodities. Thus, Liberia may be vulnerable to money laundering activity. However, Liberia is neither a financial center nor a significant player in money laundering. Liberia's offshore activity seems concentrated in the ship registry sector. Bearer shares are permitted in the formation of Liberian companies, but there is no information available on the extent that this facilitates money laundering. Liberia reportedly has 16 banks, but only a small number are open to the public.

Liberia is not a signatory to the 1988 UN Drug Convention.

Liechtenstein (Primary). Liechtenstein's low tax rate, liberal business incorporation rules and strict bank secrecy contribute to its popularity as a financial center. Money laundering in Liechtenstein is believed to take place in its well-established offshore services sector. Liechtenstein offers a variety of offshore services and products, including anonymous accounts, bearer shares, and insurance and reinsurance company formation. Liechtenstein has more than 75,000 registered offshore companies, of which more than 25,000 are holding companies ("letter-box companies"). Holding companies have nominal offices in Liechtenstein, and the fees they pay account for 30 per cent of state revenues. Liechtenstein's absence of tax on income earned offshore means that a properly established entity with income outside of Liechtenstein could have little or no tax liability.

Money laundering, both drug-related and non-drug-related, has been a criminal offense in Liechtenstein since 1993, but early legislation was not comprehensive, and the enforcement of more recent legislation has reportedly been ineffective. Asset forfeiture legislation is also in place. The Professional Diligence Duties Act (PDDA) (1997) and the Professional Diligence Duties Ordinance (1997) require financial institutions, insurance companies, investment firms, fiduciaries, and attorneys to establish the identities of clients, third parties, and beneficiaries. The only exceptions are when the client is subject to the PDDA, is a juridical person, or is a foreign bank subject to the EU (or similar) money laundering directive that already deals with a Liechtenstein bank. The PDDA also requires the above entities to report suspicious transactions to the Financial Services Authority (FSA), which conducts spot checks to ensure compliance. Customer identification and beneficial ownership information must be on file. Through September, 1999, 47 suspicious activity reports were filed with the FSA, the majority by banks. Most investigations were initiated following requests for assistance from abroad. Of 41 cases passed on to prosecutors, 33 are pending and eight have been dismissed.

On May 1, 1999, the former Office of Bank Supervision was subsumed into the FSA, in an effort to consolidate Liechtenstein's anti-money laundering regime into a single authority and to expand its powers.

Requirements for disclosure should be considered in conjunction with Liechtenstein's very strict bank secrecy, established by the Banking Law, which has been in effect since January 1, 1993. This law binds employees of banks and finance companies with a duty of non-disclosure. In addition, government employees having access to information which is subject to these bank secrecy provisions are bound by the same duty of non-disclosure. Almost all information that a bank acquires from its own research or in the course of its dealings with a client is considered privileged. Third parties to transactions also benefit from Liechtenstein's bank secrecy: any information that comes into a bank's possession regarding associates or relatives of a client is also subject to the nondisclosure requirement.

The Persons and Companies Law (PCL) establishes each individual's right of privacy with respect to his financial affairs. Under this law, a party can seek damages if an unauthorized disclosure is made. Penalties for unauthorized disclosure include a prison term of up to six months. Liechtenstein is one of the few in which bank secrecy is legally enforced.

The PCL is also the basis on which a wide range of entities may be established in Liechtenstein. Some of the more common are limited liability companies or corporations, either with or without shares; foundations, which may be set up by trustees; trusts; and the Anstalt. The Anstalt is a commercial or noncommercial (e.g. asset management or asset investment) "establishment," a company with its base in Liechtenstein and the majority of its activities taking place outside of Liechtenstein. Trusts and trust enterprises can make the settlor of assets the ultimate beneficiary, thereby undermining the fundamental notion of a trust—its irrevocability. A salient feature of all of these entities is that the owners, founders, shareholders or settlors can remain anonymous.

As a member of the European Economic Area (EEA), Liechtenstein has incorporated much of the EU money laundering directives into its laws. However, the financial services sector is not affected. The EU is pushing for tax harmonization within the Union, which could lessen Liechtenstein's advantage as a tax haven.

Liechtenstein is not a party to the 1988 UN Drug Convention, nor does it participate in FATF activities. It is a member of, and an active participant in, the Council of Europe's PC-R-EV, and is scheduled to undergo a mutual evaluation by that body in 2000.

Liechtenstein does not have an MLAT with the United States. Although its bank secrecy laws can make cooperation difficult, cooperation with the United States on money laundering-related offenses has generally been good.

Although Liechtenstein has a strong anti-money laundering regime in place and has tightened the regulation of financial fiduciaries, no trustee has lost his license, nor has there been a successful prosecution of a money laundering case. In addition, few resources—four people—have been devoted to the FSA, which is tasked with due diligence oversight of the entire financial services sector. Tax evasion in Liechtenstein is not a crime, and Liechtenstein does not disclose bank account information linked to either tax evasion or tax fraud to a foreign country.

During a February 2000 visit by the Swiss foreign minister, Liechtenstein's head of government promised to help enact legislation to improve Liechtenstein's ability to respond rapidly to judicial assistance requests on money laundering.

Lithuania (Other). Money laundering remains a problem in Lithuania. Sources of illicit proceeds include smuggling and narcotics trafficking, but most funds appear linked to capital flight, profit concealment and tax evasion schemes. Although the bulk of the proceeds laundered through Lithuanian banks are from foreign sources, there are domestic sources as well. International money laundering schemes involve banks located in Russia, Lithuania, Hungary and the United States. Lithuania's anti-money laundering program is still in the early stages of implementation, but the framework appears to be in conformity with international standards.

Lithuania's 1997 anti-money laundering law requires the reporting of both suspicious and large transactions, defined as those exceeding \$12,500. Financial institutions must also identify and keep a register on the customer if the monetary operations are in excess of \$12,500. The Bank of Lithuania issues currency transaction reporting requirements and regulations. The Bank of Lithuania is required to communicate money laundering violation information to law enforcement and other state institutions upon request. Non-bank financial institutions operate under guidelines similar to those applied to financial institutions. The Bank of Lithuania has the right to examine all books, records and documents of any economic or credit institution, whether or not licensed by the Bank.

In 1999, the Tax Inspection Department's counter-money laundering department investigated money laundering at one of Lithuania's banks.

Lithuania is a party to the 1988 UN Drug Convention and a member of the Council of Europe. Lithuania participates in the Egmont Group. It is an active participant in international anti-money laundering efforts, including joint money laundering investigations. Lithuania has received substantial U.S.-funded anti-money

laundering training in recent years and is targeted to receive further training in money laundering investigative techniques and in combating economic crime.

Luxembourg (Primary). The Grand Duchy of Luxembourg is one of Europe's major financial centers due in part to its favorable tax environment. Strong bank secrecy laws have made Luxembourg attractive to criminal elements seeking to launder funds. Money laundering is believed to take place in Luxembourg's banks and offshore sector, which offer a high degree of secrecy and wide range of sophisticated financial services. Eager to dispel the image of the country as a locus for laundered funds, Luxembourg authorities have undertaken to strictly enforce strict legislation passed in 1998 and increase cooperation with international anti-narcotics measures.

Luxembourg's anti-money laundering legislation consists of Loi d7 Julillet 1989 (updated in 1998) and Loi du 18 Decembre 1993. These laws criminalize the laundering of proceeds for all offenses. They also implement the customer identification, record keeping, and suspicious transaction reporting requirements as dictated by the EU anti-money laundering directive. The Government of Luxembourg has continued its efforts to increase awareness of reporting requirements and to strengthen enforcement.

Strict bank secrecy laws and Luxembourg's position as a major world financial center hosting more than 209 banks that operate as "universal banks" with an unrestricted range of services gave the Grand Duchy a reputation as a money laundering haven. Striking back, Luxembourg passed new, strict anti-money laundering laws in 1998 and took steps to harmonize its practices with those of other EU members. Two important consequences of this are that bank secrecy, while still strong, has been weakened, and the tax regime, while still favorable, is becoming more like that in other EU nations, somewhat diminishing Luxembourg's attractiveness for money laundering.

The government of Luxembourg licenses offshore banks, non-bank financial institutions and businesses. Banking controls are implemented by the Luxembourg Central Bank. Luxembourg has strict bank secrecy. Foreign institutions seeking to become established in Luxembourg must demonstrate prior establishment in a foreign country, and meet stringent minimum capital requirements. Banks are required to undergo annual audits. However, only the Commissioner of Bank Control can gain access to the identity of beneficial owners of accounts. The Commissioner of Bank Control is only allowed to share information with bank regulators of other countries with respect to the solvency, liquidity and management of Luxembourg subsidiaries and branches. Non-bank financial institutions must meet minimum capital requirements, and are also regulated by the Central Bank. In addition to offshore banks, in 1999 Luxembourg had 1,650 offshore investment funds, 118 insurance companies and 279 reinsurance companies.

Luxembourg corporate entities must maintain a registered office in Luxembourg. There is a requirement for minimum share capital in the amount of approximately \$10,000. The directors of the company must be identified, and are included in a government registry. There is, however, no requirement to identify the beneficial owner of the company and bearer shares are permitted. Companies are required to pay an annual tax/license fee of approximately \$150. One of the most popular offerings of Luxembourg's offshore sector is the SOPARFI (Société's Participation Financière; the suffix SA (Société Anonyme) is used), which is a public or private limited liability company for holding shares in Luxembourg or non-resident companies. SOPARFIs enjoy several important tax benefits, including an exemption from withholding tax and an exemption on dividends from EU subsidiaries.

Luxembourg is a party to the 1988 UN Drug Convention. Luxembourg's financial intelligence unit (FIU) is the Anti-Money Laundering Unit, which reports to the Public Prosecutor. The Unit is a member of the Egmont Group. Luxembourg is also a member of the FATF. A fund established in 1992 from drug-related money laundering seizures (currently worth over \$1 million) helps finance international anti-drug trafficking efforts in South America.

Luxembourg has cooperated vigorously with foreign law enforcement authorities, including U.S. law enforcement authorities. In 1999, Luxembourg police provided DEA-Brussels significant cooperation and support in the seizure of a Luxembourg bank account containing \$72,000 in drug-related proceeds. Additionally, the police were instrumental in helping to identify additional companies and accounts that led to a follow-up seizure of an additional \$300,000. Other ongoing investigations are meeting with equal levels of cooperation.

The Government of Luxembourg needs to ensure that bank secrecy can be easily lifted in cases of criminal investigations.

Macau (Concern). Low taxes, a free port, flexible corporate laws, no foreign exchange controls, and a laissez-faire approach to governing give Macau an environment conducive to money laundering. Macau serves as a gateway for trade with China and as a transit point to remit funds and criminal proceeds to and from China, Hong Kong, and other Asian countries. Organized crime racketeering, loansharking, prostitution, and money laundering associated with Macau's casino industry are major enforcement concerns. Organized crime groups

based in Macau are known to launder their proceeds through joint ventures and real estate purchases in China, or through cross border cash transfers, front companies, casinos, real estate purchases, currency exchanges, and alternative remittance systems.

Alternative remittance systems (ARS) serve as money laundering mechanisms and are widely used by ethnic Chinese communities throughout the world including Macau. The laundering of criminal proceeds through ARS are extremely difficult to detect or prevent.

The Chinese ARS can transfer large sums of money efficiently and quickly without leaving financial records tied to the transactions. The paper trail is eliminated by avoiding official reporting requirements to Customs authorities that bulk cash or monetary instruments would attract at the border, and commercial bank reporting requirements that cash or suspicious transactions require.

The Chinese ARS relies on a network of businesses such as jewelry stores, gold shops, travel agencies, money exchangers, finance companies, and import/export companies. At certain stages of the money transfer, the system depends on legitimate banks to balance the accounts of the parties conducting the transaction. No physical transfer of funds takes place; the transaction is merely a credit entry in the sending company's account and a debit entry in the receiving company's account. Even though physical funds are not moved during the transfer of funds using the Chinese ARS, the books must be balanced to reflect the actual exchange of value that the entries in the correspondent accounts represent. To accomplish this, the entities conducting underground transactions would use larger banks to transfer money usually through foreign intermediate banks to settle their accounts.

The ARS is much faster than bank procedures since large currency transactions can be conducted in a matter of hours. Fees are kept low, since the Chinese underground bankers also profit by taking advantage of unofficial currency exchange rates that are more favorable than official exchange rates. ARS uses businesses located within the community where banks may not be present or located at some distance. ARS hours tend to be more flexible than commercial bankers' hours.

Macau has enacted three laws that deal with money laundering. These are the Macau Financial System Act approved by Decree Law N^o32/93/M on July 5, 1993, the Law on Organized Crime approved by Decree Law N^o6/97/M on July 30, 1997, and Decree Law N^o24/98/M of 1 June, 1998 which established preventive measures for the Law on Organized Crime.

The Macau Financial System Act provides for regulatory measures to prevent the use of the banking system for money laundering. It requires the mandatory identification and screening of financial institution shareholders, customer identification requirements, recordkeeping requirements, requirements for financial institutions to submit financial statements verified by outside auditors, and a list of suspicious transaction indicators. It also has provisions to allow for the exchange of information between the Macau Monetary and Exchange Authority with other supervisory agencies. These regulatory measures are applicable to credit institutions and financial companies headquartered in Macau and branches of credit institutions headquartered abroad.

Article 10 of the Law on Organized Crime (Decree Law N^o6/97/M) criminalizes money laundering for the proceeds of all domestic and foreign criminal activities and contains provisions for the freezing of suspect assets and instrumentalities of crime. Although legal entities may be civilly liable for money laundering offenses, their employees may be criminally liable.

The preventive measures in Decree Law N^o24/98/M set forth requirements for reporting suspicious transactions to the Judiciary Police. These reporting requirements apply to all legal entities supervised by the Macau Monetary and Exchange Authority and the Inspectorate of Gaming. Pawnbrokers, antique dealers, art dealers, jewelers, and real estate agents must also report suspicious transactions.

Macanese authorities are confident in the legal basis to combat money laundering among legally established financial and commercial entities. They are concerned that they lack the mechanisms to effectively control money laundering through ARS operating in Macau. The two major problems they have identified are obtaining evidence to prove that funds in the ARS are criminal proceeds, and the inability to control the free flow of currency in and out of Macau.

Macau offers two types of limited liability company formation that have implications for money laundering. These are public corporations with the suffix designation "SARL" and quota companies with the suffix designation "Lda". Quota companies are more popular with foreign investors. Both types of limited liability companies do allow for shielding beneficial ownership since shareholders in quota companies may be nominees and SARLs are allowed to issue bearer shares. Although these commercial entities are subject to Macau's anti-money laundering legislation, the characteristics allowing for anonymity are attractive for money laundering activities.

Macau has no formal established financial intelligence unit. According to Macau's anti-money laundering legislation, the Judiciary Police receive criminal transaction reports and conduct investigations into criminal

activities. Macau participates in meetings of the Asia/Pacific Group on Money Laundering but is not an official member. Macau and the United States have not signed an MLAT. Prior to Macau's reverting from Portuguese to Chinese administration, the United States and Portugal relied on the exchange of letters rogatory for judicial assistance.

Although Macau has successfully prosecuted money laundering offenses under its anti-money laundering regime, it should consider adopting measures to address money laundering loopholes identified through the use of alternative remittance systems and bulk currency movements across its borders. Macau should also review provisions in its company formation statutes that prevent Macanese authorities from identifying beneficial owners of businesses that might serve as conduits for money laundering. Creation or designation of a financial intelligence unit could provide Macau a less formal channel of communication for information on money laundering and other crimes that would complement Macau's reliance on letters rogatory and Interpol channels to exchange information of value to investigators, prosecutors, and regulators.

Macedonia, Former Yugoslav Republic of (Other). Macedonia is currently neither a major financial nor money laundering center. Facing many of the same problems as other former Yugoslav republics, but further complicated by its proximity to Albania, Kosovo and Bulgaria, Macedonian money laundering activities tend to be connected to financial crimes, such as tax evasion, financial and privatization fraud, bribery and corruption, rather than the laundering of narcotics proceeds. Macedonian officials show awareness of the country's potential for money laundering activities and are developing a legal structure that should help it address money-laundering problems.

Turbulent political conditions in the Balkans and a cash-based economy create concerns of banking sector vulnerability to money laundering. In response, Macedonian officials are drafting anti-money laundering legislation.

In October 1999, Macedonia underwent a mutual evaluation of its anti-money laundering capability, conducted by the Council of Europe's PC-R-EV. The report will be available in June 2000. Macedonian law enforcement authorities have received U.S. money laundering training on combating financial crime.

Macedonia became a party to the 1988 UN Drug Convention in 1993.

Malaysia (Concern). Malaysia is not an important regional financial center, but it offers a wide range of financial services (in the traditional financial sector as well as through alternative remittance systems) potentially attractive to money launderers. The Government of Malaysia (GOM) has a well-developed regulatory framework, including licensing and background checks, to oversee onshore financial institutions. The GOM strongly discourages money laundering, and there is no evidence that government officials are complicit in money laundering activity. However, the lack of a comprehensive anti-money laundering statute makes money laundering an area of concern. Malaysia does have an asset forfeiture law that allows seizure of criminal assets.

The Labuan Offshore Financial Services Authority (LOFSA) on the island of Labuan is of particular concern. The LOFSA (often referred to simply as "Labuan") provides a wide range of financial services such as offshore banking and trust partnerships, which are restricted to the fields of accounting, actuarial science, engineering and law. There are 63 offshore banks (55 foreign-owned), approximately 56 insurance companies, six mutual funds, five fund managers, and 16 trust companies operating in Labuan. Because there is no requirement to register offshore trusts, their number is not known. Nominee (anonymous) accounts are permitted in Labuan, as are nominee (anonymous) company directors at Labuan's approximately 1,700 international business companies. There is no requirement to disclose the beneficial owner of a corporation. There is, however, a government registry of corporate directors and shareholders; this information is not available to the public. Malaysia has several pieces of legislation dealing specifically with Labuan.

Malaysia is a party to the 1988 UN Drug Convention. It is an observer at the Asia/Pacific Group on Money Laundering, and recently became a member of the OGBS.

Malaysia has no bilateral agreements for the sharing of information on money laundering, but does allow foreign countries to check the operations of their banks' branches. Malaysia's general record of cooperation with U.S. counternarcotics agencies is excellent.

The Government of Malaysia (GOM) needs to enact comprehensive anti-money laundering legislation. Further expansion of Malaysia's participation in multinational and bilateral anti-money laundering organizations would also be helpful in ensuring that money launderers do not abuse Malaysian financial institutions, including those in Labuan.

Maldives (Other). The Maldives is neither a financial center nor significantly involved in money laundering. Despite some local hope that the Maldives could become an offshore financial center, its banking laws remain antiquated, frustrating efforts in that direction. Currency controls remain in place.

The Maldives signed the 1988 UN Drug Convention in 1989, but is not yet a party because its legislature has not yet approved the Convention. There are no laws specifically addressing money laundering or asset seizure. There is no information indicating how the Maldives plans to meet the obligations imposed by the Convention.

Malta (Other). Malta does not at present have a serious money laundering problem. The crime rate remains low, and the major sources of illicit proceeds are drug dealing and fraud. However, bank secrecy laws and the tax code, which are designed to attract outside investors, especially those with whom Malta has double taxation treaties (29 in force), continue to provide possible incentives for money laundering. Malta's offshore sector also puts the country at risk for money laundering activity.

The Malta Financial Services Centre has been successful in attracting considerable numbers of offshore entities—as of 1999, there were four offshore banks, 14 credit institutions, 16 Malta-based collective investment schemes (mutual funds), 84 overseas-based collective investment schemes, and nearly 25,000 registered international business companies. The Government of Malta (GOM) has said that it intends to phase out all offshore operations by 2004. Until then, Malta's offshore sector will face the same vulnerabilities to money laundering as those of other countries.

The GOM criminalized money laundering in 1994 with passage of the Prevention of Money Laundering Act. The Act imposed a maximum fine of \$2,633,000 and/or 14 years in prison for those convicted of this crime. The Act also provided for asset forfeiture. Also in 1994, the Central Bank of Malta issued the Prevention of Money Laundering Regulations, applicable to financial and credit institutions, life insurance companies, and investment and stock firms. The Regulations impose requirements for customer identification, record keeping, the reporting of suspicious transactions, and the training of employees in anti-money laundering topics. Suspicious transactions are reported to the competent authority that supervises an institution (in the case of banks, the Central Bank of Malta). Should the authority suspect money laundering, it is required to forward the report to the police.

Malta is a member of the Council of Europe and the OGBS.

Marshall Islands (Concern). The Republic of the Marshall Islands is a constitutional government in free association with the United States. Comprising a collection of atolls and reefs in the north Pacific equidistant from Hawaii and Indonesia, the Marshall Islands has maintained a relatively low international profile. The Marshall Islands has been the focus of increased international attention with the development of its offshore sector, which is managed by a U.S.-based company. Non-resident corporations (NRCs)—the equivalent of international business companies (IBCs)—have been linked to the laundering of criminal proceeds from Russia and other jurisdictions. In 1999, the Russian Central Bank instituted regulatory measures to scrutinize offshore financial transactions involving the Marshall Islands and other offshore financial centers to prevent illegal financial transactions. Features of NRCs make them ideal vehicles for money laundering.

The Associations Law of the Republic of the Marshall Islands of 1990 is the legislative basis for establishing NRCs. The law was patterned after the incorporation statutes of Delaware and New York, with certain provisions borrowed from United Kingdom law. Several types of corporation formation models are available, with confidentiality and asset protection provisions typical of other offshore centers. These include nondisclosure of beneficial ownership, the availability of bearer shares, and the marketing of shelf companies. Officers, directors, and shareholders may be of any nationality and live anywhere. Their names need not be disclosed on incorporation records. Corporate entities may be listed as officers and shareholders, since NRCs have all the powers of a natural person. Although NRCs must maintain a registered office in the Marshall Islands, the Associations Law of 1990 allows for corporations to transfer domicile into and out of the Marshall Islands with relative ease.

Besides NRCs, the Marshall Islands offers non-resident trusts, partnerships, unincorporated associations, and domestic and foreign limited liability companies. Strong asset protection features are built into the Associations Law of 1990 for all of these entities. Banks and insurance companies are not licensed for offshore services in the Marshall Islands. Marketers of offshore services via the Internet promote the Marshall Islands as a favored jurisdiction, primarily for establishing NRCs.

The Marshall Islands has drafted anti-money laundering legislation under consideration for all serious offenses. However, the legislation does not contain requirements to report suspicious transactions to a central authority. Disclosure requirements for NRCs are minimal, and no annual reports are required. The Marshall Islands has no supervisory authority to monitor its offshore sector, which prevents effective oversight. The Marshall Islands does not participate in any international anti-money laundering fora, nor has it signed any bilateral agreements to exchange information to assist in criminal investigations and prosecutions for money laundering offenses.

The Marshall Islands needs to enact and implement anti-money laundering legislation that meets international standards in order to protect its financial services industry from financial crime and money launderers. Particular emphasis needs to be directed to its offshore financial center, which lacks prudential supervision.

Mauritius (Other). Mauritius is a growing regional financial center with ambitions to become the major financial center for the Indian Ocean and Southern and Eastern Africa. The Government of Mauritius (GOM) promotes itself as a low tax jurisdiction whose offshore sector serves as the gateway to investment in both Asia and Africa. Regional money laundering probably occurs in both the offshore and onshore sector.

Since passage of the 1992 Offshore Business Activities Act, 10,744 offshore entities have been formed, and eleven offshore banks have been licensed. Mauritius offers offshore entities zero rate taxation on net profits from offshore business operations, free repatriation of profits, freedom from exchange controls, a network of double taxation avoidance treaties, and concessionary personal income tax rates for expatriate staff. It also imposes no withholding tax on interest payable on deposits raised from non-residents by offshore banks, or on dividends payable by offshore entities; no estate or inheritance tax on the inheritance of shares in an offshore entity; and no capital gains tax.

Applications to form an offshore company are reviewed by the Mauritius Offshore Business Activities Authority (MOBAA), which then passes a recommendation to the Ministry of Finance. All offshore banking activities are subject to supervision by the Bank of Mauritius under the Banking Act of 1988. The Bank of Mauritius' prior approval is needed in order to open a foreign currency account with an offshore bank. Offshore insurance companies and other non-banking activities fall under the supervision of the MOBAA.

According to the MOBAA, as of December 6, 1999, the offshore sector in Mauritius consisted of 164 offshore fund management companies, 162 offshore trusts, 10 offshore insurance companies, 30 offshore finance companies, 4,560 offshore investment holding and trading companies, and 5,837 international business companies.

Money laundering is not a crime in Mauritius. The GOM has vowed to present an anti-money laundering bill to Parliament for the past two years, without any result to date. The 1986 Mauritian anti-narcotics law provides for asset seizure and forfeiture. However, while numerous assets have been temporarily frozen, no forfeitures have been finalized. The obstacle appears to be lack of cooperation between the national police and the public prosecutor's office. While Mauritius and the United States have no MLAT, the GOM has cooperated with the United States in anti-narcotics investigations involving money laundering.

Mauritius is a signatory to the 1988 UN Drug Convention, but has not ratified it.

Given Mauritius' large offshore sector, it needs to adopt strong anti-money laundering legislation to protect its economy and financial services industry from money laundering and other financial crimes.

Mexico (Primary). Despite the impact of the 1998 U.S. money laundering investigation Operation Casablanca on the Mexican and U.S. financial communities, Mexican drug trafficking organizations continue to exploit Mexican banks and money exchange institutions to place and transfer illicit proceeds to financial systems throughout the world. The smuggling of bulk shipments of U.S. currency into Mexico and the movement of the cash back into the United States via couriers and armored vehicles, as well as wire transfers remain favored methods for laundering drug-profits, and represent a long-term challenge for both governments. Identifying the true owners of the bulk cash that transits the U.S.-Mexican border in both directions must be a priority item for both governments in 2000 and beyond. Mexico has financial institutions that engage in currency transactions involving international narcotics trafficking proceeds that include significant amounts of U.S. dollars.

Mexico has made progress in its commitment to combat money laundering. During 1999, the Secretariat of the Treasury (Secretaria de Hacienda y Credito Publico - SHCP), the National Banking Commission (Comision Nacional de Banqueros y Valores - CNBV), and the Office of the Attorney General (Procuraduria General de la Republica - PGR), enhanced cooperation to enforce the measures available to them under the May 1996 money laundering law (Article 400 Bis of the Federal Penal Code) and corresponding 1997/98 regulations. With this Law, the GOM criminalized the laundering of proceeds related not only to the illicit drug trade but other serious crimes as well, and instituted penalties ranging from 5 to 15 years imprisonment for financial institution employees convicted of money laundering. Banks and other financial institutions (mutual savings bodies, insurers, financial advisers, currency exchange houses) are required to know and identify customers, maintain records of transactions, and report currency transactions over \$10,000 (CTRs) and transactions considered unusual or suspicious (SARs) to the Attached Directorate General for Transaction Investigations - DGAIO part of the Secretariat of the Treasury. The DGAIO, the Mexican financial intelligence unit, became operational in May 1997.

During 1999, the DGAIO received more than 6,000,000 CTRs and nearly 2,000 SARs, twice the number it received in 1998, but we are unaware of specific investigations or prosecutions that have been commenced or enhanced on the basis of these filings. The DGAIO and the Mexican banking community continue installation of computer systems to automate the filing of the CTRs and SARs, and have sponsored seminars and conferences for bankers, examiners and regulatory officials on their obligations under the law. The Money Laundering Investigative Unit established in January 1998 within the PGR continues to develop a staff of in-

house expert investigators to strengthen the money laundering cases presented to the judiciary. The absence of this type of expert financial investigators and lack of experience throughout the judiciary in applying the money laundering statutes has been a significant roadblock to successful prosecutions.

Mexico is a full and active partner in the U.S./Mexico High-Level Contact Group/ Money Laundering Group. In July 1999, a working level task force integrated by DGAIO, PGR and U.S. Customs and IRS was established to examine ongoing investigations and leads. Mexico and the United States continue to implement their bilateral treaties and agreements for cooperation in law enforcement issues including the MLAT signed in 1987, the Executive Agreement on Asset Sharing, signed in 1995, and the 1994 Financial Information Exchange Agreement (FIEA), signed in 1994. The PGR and the U.S. Department of Justice have initiated four coordinated investigations under the MLAT. In August, new legislation governing the use of seized and forfeited assets went into effect. The law created an office within the Hacienda to administer these assets for law enforcement activities. The law allows for the sharing of assets with third countries. The Mexican Hacienda and the U.S. Treasury Department initiated 16 simultaneous investigations under the FIEA. Of this total, the GOM initiated seven and the USG nine. Mexico and the United States continue to compare data on currency transported across the U.S.-Mexico border as reflected in the currency and monetary instrument reports (CMIRs) required by both countries. In January 1999, the GOM increased the reporting threshold for inbound currency from \$10,000 to \$20,000. Mexican law does not require the reporting of outbound currency. In December 1999, the Mexican and U.S. Treasury Departments concluded an MOU establishing additional conditions under which the Mexican FIU (DGAIO) and the U.S. FIU (FinCEN) can exchange CMIR information.

Through participation in FATF and the Egmont Group of FIUs, Mexico continues to expand its presence at international anti-money laundering fora. In October 1999, Mexico was accepted as an observer member in the FATF and is scheduled to undergo a mutual evaluation of its anti-money laundering program during March 2000. After the FATF mutual evaluation, Mexico will join the CFATF as a cooperating and supporting nation. Mexico has also expressed interest in assisting in the creation of a FATF-style body for the South American region. The Mexican DGAIO has advised other Western Hemisphere nations on the creation and operation of an FIU.

Despite the legislative and regulatory advances of the past few years and enhanced domestic and international cooperation, weak areas remain that hinder effective implementation of Mexico's anti-money laundering program. The customer identification provisions do not apply to third party beneficiaries, which affects the large volume of transactions made by individuals on behalf of the principal account holder. Some financial institutions are exempt from the CTR record keeping and reporting requirements if the customer is another financial institution, an exemption that affects reporting on licensed casas de cambio. Although the 1998 regulations for the reporting of CTRs and SARs are sufficiently specific, there is still considerable misunderstanding throughout the financial sector of what is required to be reported. The lack of qualified and experienced personnel in the regulatory agencies, and within the banking community to implement and enforce oversight and compliance programs, needs to be addressed. Additional efforts need to be directed towards developing cooperative relationships among law enforcement, financial regulators and the financial sector to reduce vulnerabilities to the financial system.

Moldova (Other). Moldova has conditions favorable to money laundering, and money laundering does occur. However, Moldova is not a regional or international banking center and has an underdeveloped banking system, with little evidence of extensive money laundering. Money laundering is connected mostly to twelve organized crime groups operating in Moldova. Some illegal proceeds generated by crime are laundered through various businesses and invested in commercial enterprises locally or transferred to bank accounts abroad. Local sales of smuggled consumer goods also act as conduits for the laundering of illegal proceeds. Corruption, bribery, and organized are believed to permeate the government from top to bottom.

Moldovan officials are very concerned with illegal proceeds being laundered and invested in their economy. In response, the Moldovan government established the independent Department to Combat Organized Crime and Corruption within the Ministry of Internal Affairs. In 1999, the Parliament approved on first reading a bill to criminalize money laundering. The bill establishes suspicious activity reporting requirements for bank and non-bank financial institutions. The second reading had not occurred at year's end.

The National Bank of Moldova has responsibility for bank oversight and regulation. Sanctions available include imposing fines, appointing temporary administrators, banning certain types of licensed operations, replacement of officials and institutional reorganization. Banks are allowed to maintain nominee accounts, but accurate documentation is required at the time the account is opened. Bank regulations require reporting and recording of any unusual, large or suspicious transactions, or frequent transactions unrelated to the client's normal activity. Financial institutions are required to immediately inform the police and the prosecutor's office of circumstances indicating an illicit transaction. Non-bank financial institutions follow similar guidelines as financial institutions.

Moldovan law enforcement officers have little experience in conducting money-laundering investigations. The

passage of the anti-money laundering will facilitate investigations in this area. Thus far, economic and financial crimes investigations have not resulted in any prosecutions, which is attributable to the poor quality of investigation, preparation and documentation.

Moldova is a party to the 1988 UN Drug Convention, and continues its efforts to meet its obligations. International assistance in the money laundering/financial crimes area includes a 1998 U.S. Treasury Department assessment report, which made recommendations aimed at strengthening Moldova's financial crimes/money laundering regime and U.S. Government-funded training on money laundering, economic crime and international financial institution fraud. Moldova also participates in the Southeastern Europe Cooperative Initiative (SECI) programs aimed at suppressing transnational organized crime.

Monaco (Other). The Principality of Monaco is not a major financial center. However, it is considered vulnerable to money laundering because of its strict bank secrecy and its extensive network of casinos. It remains an attractive tax haven because of its zero income tax and low business taxes. Russian criminal groups launder money in Monaco by purchasing high-priced private and commercial real estate.

There are 37 banks operating in Monaco, with most of the banking sector based on portfolio management and private banking. Monaco also has an offshore sector, and permits the formation of both trust and international business companies (IBCs). Five types of IBCs are permitted: limited liability companies, branches of foreign parent companies, partnerships with limited liability, partnerships with unlimited liability and sole proprietorships. Off-the-shelf (ready made) IBCs are not permitted. Incorporation generally takes 4 to 9 months. Monaco does not maintain a central registry of IBCs.

Money laundering in Monaco is a criminal offense. Monaco tightened its anti-money laundering law in 1994 to require banks, insurance companies and stockbrokers to report suspicious transactions and to disclose the identities of those involved. The law also stipulates that casino operators must alert the government about payments for gambling chips suspected to be derived from drug trafficking or organized crime. Another law imposes a 5–10 year jail sentence for anyone convicted of using ill-gotten gains to purchase property (which is itself subject to confiscation.)

The Monagasque government has established the Service d'Information et de Controle sur les Services Financiers (SICCFIN) to serve as the financial intelligence unit to collect information on suspected money launderers.

Mongolia (Other). Mongolia is neither a financial nor a money laundering center, but organized crime, narcotics and arms trafficking, and smuggling continue to generate illegal proceeds. Mongolia's long borders with Russia and China are difficult to control and Mongolia remains a transit country for contraband. The Mongolian currency, the tugrik, is freely convertible at a floating rate of exchange. There are no restrictions on hard currency deposits, withdrawals, or transfers, although withdrawals of \$100,000 or more require 24-hours advance notice (probably just to provide time to gather the currency, not because of law enforcement checks.) Some Mongolian banks have reliable facilities for the transfer of foreign currency abroad. Mongolia has bank secrecy laws, but no details are available.

Mongolian law enforcement officials have, in the past, indicated to their U.S. counterparts that most of Mongolia's enforcement problems are caused by Russia and China, that Mongolia is experiencing an increase in organized crime, drugs and financial crime, and that Russian organized criminal activity has found its way to Mongolia. Financial fraud still occurs, involving illegal money transfers and corruption of public officials, including the police. In 1999, Mongolia prosecuted high-level officials, including three members of parliament, involved in bribery connected with the tendering of a casino operation. The case prompted the Government of Mongolia to enact legislation rescinding the Law on Casinos, making them illegal. While these actions may only touch the surface, they at least demonstrate public awareness and government concern about corruption.

Montserrat (Other). Montserrat, a Caribbean Overseas Territory of the United Kingdom (UK), is still recovering from the devastation wreaked on it by the eruption of its volcano in 1995. The UK has provided over \$100 million to Montserrat over the past three years to rebuild its economy.

Prior to the volcano eruption, Montserrat had a small offshore sector. Montserrat's Financial Services Centre provided supervision for both the 21 offshore banks and the international business companies. There is no indication that the offshore sector has yet been revived in Montserrat.

Montserrat is reportedly still in the process of drafting all-crimes legislation that would criminalize all forms of money laundering and increase investigative authority for financial crimes.

Montserrat is a member of the CFATF.

Morocco (Other). There is no indication that money laundering is occurring in Morocco on a major scale. The country is not a regional financial center. Drug trafficking is an important source of illicit funds, which are then believed to be invested in real estate. In addition, the large volume of cash transactions, the absence of any

requirement to report suspicious transactions or cross border currency movements, and the nascent offshore banking sector in Tangiers all render Morocco vulnerable to financial crime. At the time of a 1995 FATF mission to Morocco, local Customs officials stated that they believed money was being laundered through the bulk smuggling of cash and the purchase of smuggled goods. However, central bank officials believed that only the system of unregulated money exchanges posed any threat. Morocco has no anti-money laundering law on the books.

The monetary authorities in Morocco are the Ministry of Finance and the central bank, Bank Al Maghrib. The latter is in charge of monitoring and regulating the country's 15 commercial banks and other financial institutions, primarily economic development banks and the stock exchange. Bank Al Maghrib has decreed that all financial institutions must institute a customer identification policy and maintain certain transaction documents for a certain (unspecified) period of time. Bank Al Maghrib is also a private bank and can engage in all private banking activities.

The Government of Morocco (GOM) encourages foreign investment, and to that end established an offshore zone in Tangier in 1992. Three offshore banks and approximately a dozen holding corporations are now operating in the zone. Both have free access to investment activities in Morocco and to capital participation operations in local corporations. Both also are exempt from registration fees, VAT, import duties, and taxes on dividends. Corporate taxes are negotiable. All other taxes for offshore companies are set at \$5,000 per year for the first 15 years. For banks, the tax is either \$25,000 or 10 per cent of profits.

Morocco is a party to the 1988 UN Drug Convention.

The GOM needs to enact anti-money laundering legislation that meets international standards in order to protect itself, in particular its offshore sector, against money laundering and other financial crimes.

Mozambique (Other). Mozambique is not a financial or a money laundering center. Regional money laundering probably does occur involving illegal proceeds generated in Mozambique and neighboring countries. Mozambique is a known transit country for narcotics, alcohol, tobacco, and other consumer goods being smuggled into South Africa. Illegal gold and stolen vehicles are smuggled from South Africa into Mozambique, and arms are reportedly smuggled to Angola via Mozambique. It is estimated that 70 per cent of Mozambique's consumer goods are smuggled into the country because of high tariffs and official corruption.

The internal policy of Mozambique's commercial banks is to report transfers abroad which amount to more than \$5,000. According to Mozambique's Attorney General, one method criminals use to launder drug or gun-running proceeds is to buy shares of local business enterprises. Proceeds can then be extracted from the businesses in the form of profits, making them appear legitimate.

In early 1997, the Government of Mozambique (GOM) enacted an extensive anti-narcotics law. However, only one of its 94 articles addressed money laundering. The GOM has reportedly been drafting legislation on money laundering and asset seizure, but there is no indication that it has been submitted for approval.

Namibia (Other). Namibia is not a financial center. There are indications of drug trafficking and abuse, but there is no evidence of narcotics trafficking-related money laundering. The Namibian government has been slow to implement anti-drug legislation, but bills reportedly under consideration include a money laundering act and a proceeds of crime bill.

Namibia is not a party to the 1988 UN Drug Convention.

Nauru (Primary). Nauru is an independent republic and an associate member of the British Commonwealth which has established an active offshore sector in an attempt to diversify its income base.

According to Nauru's Banking Act of 1975 and banking regulations issued in 1977, banks may be chartered for either resident or non-resident banking activity. The basic difference is where the bank conducts its activity, either within Nauru or abroad. This distinction is meaningless since non-resident banks are allowed to open subsidiary finance companies that provide financial services similar to resident banks. Banking charters may also include insurance licenses since Nauru has no restrictions on the organization of insurance companies. Nauru promotes itself as a base for offshore captive insurance operations. Nauru has no taxes, foreign exchange controls, or capital flow restrictions.

Nauru gained notoriety in 1999 due to allegations by Russian authorities of widespread money laundering through its offshore banking sector. Nauru's non-resident banks appear to be particularly susceptible to money laundering operations. In 1998, according to the Russian Central Bank, Russian financial transactions through accounts of banks chartered in Nauru amounted to \$70–80 billion. Nauru's Russian clientele base is built on the desire of businesses to avoid scrutiny by Russian officials. Some of these funds are thought to be criminally derived. Asian and South American clients with alleged ties to organized crime have also been linked to money laundering operations through Nauruan non-resident banks. In 1999, the Russian Central Bank instituted regulatory measures to scrutinize offshore financial transactions involving Nauru and other offshore

centers to prevent illegal transactions.

Correspondent bank accounts held by Nauruan non-resident banks in foreign financial institutions figure prominently in elaborate international funds movement schemes. Nauruan non-resident banks attract this level of financial activity primarily because of the ease of setting up the funds transfer mechanisms and the secrecy that Nauruan banks provide. Marketers of offshore services via the Internet promote Nauru as a favored jurisdiction for establishing offshore banks for several reasons, including ease of application, licensing and operation, and lack of government supervision. By their nature, Nauruan non-resident banks are ideal mechanisms in money laundering schemes.

Nauru's corporate statutes, the Corporation Act of 1972 and the Finance Corporation Act of 1972, allow for the formation of either holding or trading corporations. Holding corporations are formed for entities not engaged in commercial or trading activities, whereas trading corporations are formed for entities conducting commercial transactions. Holding corporations may be established by up to 20 shareholders and must remain closed to the public. Shareholder identities remain statutorily confidential, and holding corporations may issue bearer shares. For added confidentiality, holding corporations may be incorporated through the Nauru Government Commercial Authority, which is headed by a government-appointed commissioner. Trading corporations may be owned by holding corporations. Corporations may be formed within 48 hours following receipt of required forms by a registration agent. Annual meetings of Nauruan corporations need not take place in Nauru. Nauruan statutes prohibit the inspection of holding corporation records for regulatory or enforcement purposes.

Nauru's Trustee Corporation Act of 1972 governs the execution or administration of wills and trusts. The Act is patterned on the United Kingdom model with a few differences. These include provisions for irrevocable trusts, no restrictions on disposition of income, and the availability of purpose trusts. The Nauru Trustee Corporation may act as executor of wills for residents and non-residents alike.

The government-owned Bank of Nauru acts as the central bank for monetary policy only; it has no regulatory function over offshore banks. Nauruan authorities are unable to verify the information provided by applicants for offshore banking licenses or those registering corporations on the island. The required documentation is routinely processed through registered agents. A number of these registered agents advertise through the Internet, offering to provide all required documentation, including professional references and bank references from internationally known U.S. banks and investment companies. Even though the bank application requires a certified police record stating that the applicant has no criminal record, Nauruan authorities do not have the ability to check the bona fides of such documents.

Nauru has draft anti-money laundering legislation under consideration for all serious offenses. The legislation, however, has no requirement to report suspicious transactions and no central authority to monitor the criminal abuse of its financial system. Incorporation statutes have created a system of strict privacy and confidentiality to ensure the anonymity of customer and beneficial account owners. The statute preventing the inspection of holding corporation records obstructs international efforts to investigate and prosecute money launderers. Nauru does not participate in any international anti-money laundering fora, nor has it signed any bilateral agreements to exchange information to assist in criminal investigations and prosecutions for money laundering offenses.

Nauru officials indicated in January 2000 that they were willing to introduce reforms into the regulation of their offshore sector that would bring them into compliance with the FATF Forty Recommendations.

Nauru needs to enact and implement anti-money laundering legislation that meets international standards to protect its financial services industry from financial crimes and money launderers. Particular emphasis needs to be directed to its offshore financial center, which lacks prudential bank supervisory oversight.

Nepal (Other). Money laundering in Nepal is believed to be connected primarily with tax evasion by Indians, and, to a lesser extent, narcotics trafficking. It is possible that Indian nationals may, to some extent, be using the casinos located in the five-star hotels in Kathmandu to evade Indian income tax. However, it is unlikely that these casinos are used for any significant money laundering activities, based on the small size of the casinos and the strict Rastra Bank (Nepal's central bank) regulations that control the magnitude of the casinos' foreign exchange activities.

The Government of Nepal (GON) has drafted anti-money laundering legislation, but it has not passed, and there are no indications as to when this will happen. Nepal has no entity serving as a financial intelligence unit.

The GON is continuing with its plans to establish an offshore financial services center in Kathmandu. The objective of the Nepal International Finance Center (Nepal IFC) is to stimulate economic development in Nepal through access to new sources of capital and the transfer of financial skills. The GON is working closely with private consultants and various government agencies to ensure prudent supervision of the IFC. Since Nepal has yet to enact its anti-money laundering legislation or implement an anti-money laundering regime, special steps are being taken to make the Center unattractive to potential money launderers. The law facilitating the

creation of a center may be based on the International Banking Act currently in draft.

The GON needs to pass and implement anti-money laundering legislation that meets international standards in order to protect its financial institutions from money laundering and other financial crimes.

The Netherlands (Primary). The Netherlands serves a major transit point for narcotics entering Europe and is a major producer and exporter of drugs. Besides narcotics trafficking, another significant source of criminal proceeds laundered in The Netherlands is financial fraud committed within European Union member countries. The primary money laundering methods used in The Netherlands include cross border transportation of cash, the use of money transfer businesses, and exchange bureaus. Dutch authorities are concerned about the increase in the use of The Netherlands as a money laundering location and as a transit country for questionable proceeds from the former Soviet Union and other Eastern European countries.

The Netherlands criminalized money laundering by making the following crimes of the Netherlands Penal Code of February 2, 1994 applicable to money laundering: Articles 416 (intentional receiving), Article 417 (habitual receiving), and 417 bis (negligent receiving, should have reasonably suspected). The money laundering provisions apply to proceeds derived from any crime under Dutch law.

The Disclosures of Unusual Transactions (Financial Services) Act of 16 December 1993 and the Identification (Financial Services) Act of 16 December 1993 codify the FATF Forty Recommendations. These laws contain provisions for customer identification, recordkeeping requirements, suspicious transaction reporting, the creation of the financial intelligence unit, and internal anti-money laundering procedures and training for all Dutch financial institutions, non-bank financial institutions and casinos.

The Office for the Disclosure of Unusual Transactions (MOT) is The Netherlands's financial intelligence unit that came into existence on 1 February 1994 with the promulgation of the Disclosures of Unusual Transactions (Financial Services) Act.

The purpose of the Disclosures of Unusual Transactions Act is to maintain the integrity of the financial sector through the prevention of money laundering and through combating laundering itself. MOT is an administrative organ under the general leadership, organization, and control of The Netherlands Minister of Justice. The organization carries out this mission by receiving disclosures of unusual transactions. The MOT determines whether unusual transaction reports are suspicious, gathers preliminary investigative information, and provides the reports so designated to the National Public Prosecutor. The MOT fulfills an advisory role to the Dutch government and a liaison role to government agencies, financial institutions, and the public on money laundering information.

MOT consists of fifteen personnel. Eleven of these are permanent employees consisting of analysts, research experts, a financial specialist, data entry and administrative personnel, and managers. Three of the remaining personnel are contractors who are primarily responsible for information technology.

MOT has entered into information exchange agreements (memoranda of understanding or other types of accords) with foreign counterpart agencies or police organizations in a number of countries. MOT is a member of the Egmont Group.

The United States and The Netherlands have fully operational extradition and mutual legal assistance treaties. Bilateral cooperation on money laundering is strong. The Netherlands is an active member of the FATF.

The Netherlands has a comprehensive anti-money laundering regime that meets FATF standards and is subject to a continuous process of evaluation and enhancement. The strength of its anti-money laundering measures has resulted in effective prosecutions of money launderers and could serve as a model for other countries.

Netherlands Antilles (Primary). The Netherlands Antilles is comprised of Curacao, Bonaire, the Dutch part of Sint Maarten/St. Martin, Saba and Sint Eustatius. The islands are becoming increasingly vulnerable to money laundering because of a growing offshore sector and the presence of the gaming industry (which is not subject to any anti-money laundering regulations or control). The lack of border controls between Sint Maarten and the French St. Martin, and the absence of any cross border reporting system for cash or monetary instruments, pose additional risks.

The Netherlands Antilles remains diligent in attempting to deter money laundering. The Government is currently in the process of determining how to ensure that casinos and unlicensed remittance agents incorporate stringent anti-money laundering controls. A new asset seizure law has entered into effect, but the legal community questions whether the burden of proof should be shifted to make it easier to obtain ultimate forfeiture. As the law now stands, the prosecution must prove that the defendant knew the assets came from illegal activities in addition to proving the underlying crime. The islands enacted comprehensive anti-money laundering legislation mandating the creation of a reporting center (MOT NA) to collect and analyze unusual transactions. There are also know-your-customer requirements as well as reporting and record-keeping requirements. Criminals who would use the Netherlands Antilles to launder money are probably not

significantly deterred by the money laundering laws because standards for proving the underlying crime standard are so difficult to meet. The banking community, however, does seem to have changed its practices. Indications are that banks are taking fairly burdensome steps to ensure that they are in compliance with reporting requirements.

The staff at the MOT NA, though tiny, is exceptionally dedicated. The reporting center is burdened by the fact that it must process reports of all unusual transactions, which are far more numerous than reports of suspicious transactions. As a result, the MOT NA risks being overwhelmed by the sheer volume of reports of unusual transactions. (Unusual transactions consist of all transactions that are not in the norm, whereas suspicious transactions are those deemed to be connected with money laundering because of certain indicators.) Another difficulty for the reporting center is that the money laundering law requires proof of any underlying crime. That standard has so far proven impossible for police, who lack the sophisticated methods to build a successful case. Finally, the MOT NA must enter information obtained from police and public registers and databases manually, which is extremely time-consuming and allows the possibility of input error.

The Netherlands Antilles has a large number of offshore financial service providers, including over 50 offshore banks, mutual funds, international finance companies, and approximately 43 trust companies. Nearly 21,000 international business companies are registered in the Netherlands Antilles. The law on bank supervision states that offshore banks must have a physical presence on the islands, retain their records there, and not give or receive payments in cash. The offshore banks are supervised by the central bank, and some mutual funds are supervised by other entities. None of the other institutions are subject to supervisory oversight by any Netherlands Antilles authorities.

As part of the Kingdom of the Netherlands, the Netherlands Antilles is a member of the FATF, and underwent a second mutual evaluation report by the FATF in January 1999. The Netherlands Antilles is also a leading participant in the CFATF. The MOT NA is a member of the Egmont Group.

The Government of the Netherlands Antilles (GONA) has implemented most of its anti-money laundering program. However, it is imperative that anti-money laundering measures be enacted for casinos as soon as possible. Customer identification and unusual transaction reporting requirements for casinos need to be established, and measures put in place to assure that the beneficial owner and the manager of the casino are approved and checked by the competent authorities. The GONA should enact a cross-border currency reporting system for reporting cash or monetary instruments entering or exiting the Netherlands Antilles. It should also be encouraged to devote more funding to the MOT NA, so that the unit can hire more personnel to analyze the volumes of unusual transactions, and obtain electronic access to police and public registers.

New Zealand (Other). There is evidence that money laundering activity takes place in New Zealand (although not to a significant extent) and that commercial crime and narcotics proceeds play a role in these operations. New Zealand funds are not believed to be used significantly for the laundering of funds derived internationally. There is evidence of the presence of international organized criminal elements in New Zealand.

New Zealand criminalized money laundering in 1995 with an amendment to the Crimes Act 1961. The Act covers two offenses: engaging in a money laundering transaction with knowledge that the property at issue has resulted from the commission of a serious offense; and possession of property knowingly gained through the commission of a serious offense for the purposes of money laundering. The amendment offers a safe harbor provision to those who disclose transactions to the authorities.

New Zealand is a party to the 1988 UN Drug Convention. It is a member of the FATF, the Asia/Pacific Group on Money Laundering, and the South Pacific Forum. It has a financial intelligence unit that participates in the Egmont Group.

Nicaragua (Other). Nicaragua's financial sector is very small. While the extent of money laundering is unknown, the country is not a money laundering center. However, Nicaragua is considered vulnerable to money laundering because of the presence of drug trafficking and a lack of resources to combat it. Nicaragua may be a physical transshipment route for money, with the contraband secreted in motor vehicles, aircraft and appliances.

Legislation enacted in 1994 put in place some anti-money laundering measures, and a series of laws since then have expanded the scope. Drug-related money laundering has been criminalized, and the law now provides for the seizure and forfeiture of drug-related proceeds. The law requires banks to report transactions exceeding \$10,000 to a government commission, which also was tasked with detecting, analyzing and proposing ways to combat money laundering. The law also lifted bank secrecy for narcotics investigations.

A proposed comprehensive anti-drug law would tighten reporting requirements and extend coverage to a wide range of financial institutions, including credit unions, stock exchanges, savings and loan cooperatives, exchange houses, credit card operations, and casinos, which would have to identify their customers, maintain records for five years, and make records available for investigations. Individuals would be required to report cross-border inbound (but not outbound) currency transfers exceeding \$10,000. However, the bill does not

require the reporting of suspicious transactions, nor would it lift the provision limiting money laundering statutes to drug trafficking offenses.

Nicaragua became a party to the 1988 UN Drug Convention in 1990. Nicaragua is a member of the CFATF. The country has a counternarcotics cooperation agreement with Cuba.

Nigeria (Primary). The Federal Republic of Nigeria continues to be the money laundering and financial fraud hub of West Africa, and may be assuming that role for the entire continent. Nigerian money launderers operate sophisticated global networks to repatriate illicit proceeds from narcotics trafficking, various types of fraud schemes (including advance fee, document, immigration, insurance and entitlement frauds), theft and resale of automobiles, and the manufacturing and distribution of counterfeit U.S. currency.

Nigerian Advance Fee Fraud has arguably become the most lucrative financial crime committed by Nigerian criminals worldwide, with conservative estimates indicating hundreds of millions of dollars in illicit profits generated annually. This type of fraud is referred to internationally as "Four-One-Nine" (419), referring to the Nigerian criminal statute for fraud, and has affected a large number of American citizens and businesses. Typically, the intended target receives a fax or letter from an "official" associated with a wide variety of Nigerian government or business departments. The correspondence is aimed at enticing the victim into a money laundering, will beneficiary, currency, COD for goods/services, or a crude oil purchase scheme. The government of Nigeria (GON) has taken some measures to counter these schemes, and in 1998 began closely cooperating with U.S. officials, including the U.S. Postal Inspection Service, to identify and crack down on these frauds, as they are perpetrated through mail systems. The GON reportedly arrested over 100 individuals in 1998, and the Bank of Nigeria has issued an official advisory, which it maintains on its website, detailing advance fee frauds and warning consumers away from such "too good to be true" fraud schemes.

Nigeria has not made major changes in its anti-money laundering legislation since Money Laundering Decree No. 3 became law in 1995. This decree criminalizes drug money laundering; requires banks to identify customers and maintain records; and requires the reporting of suspicious transactions, foreign transfers of more than \$10,000 and large transactions (\$5,300 for an individual and \$21,000 for a corporation) to the central bank. It mandates that all transactions above \$5,300 be conducted through banks, and prohibits structuring transactions to avoid reporting requirements. It also requires banks to develop programs, including compliance units, to counter money laundering. The decree extends all these requirements to non-bank financial institutions. In 1996 the central bank issued guidance notes for banks reiterating these requirements, which includes a typologies list of potentially suspicious transactions.

Implementation of the decree is split between the National Drug Law Enforcement Agency (NDLEA) and the Money Laundering Surveillance Unit (MLSU) of the Bank Examination Department of the Central Bank of Nigeria. The required reports are forwarded to both offices.

NDLEA is the enforcement agency, but due to its drug enforcement charter, requires a drug nexus prior to initiating an investigation. As a consequence, non drug-related instances of money laundering are frequently not investigated. Corruption and a weak judicial system frequently stymie NDLEA attempts to prosecute narcotics and money laundering cases, especially in cases involving prominent suspects.

The Ministry of Justice has received the authorities and responsibilities of the abolished Miscellaneous Offenses Tribunal to prosecute money laundering.

The Money Laundering Decree provides for the seizure of property and assets of suspected narcotics trafficking and money laundering organizations. Forfeiture must, however, be preceded by a conviction in a court of law. Despite some seizures, there have been no prosecutions. Some of the seized assets were conditionally returned to their owners, who were nearly all free on bail.

Despite this, the government of President Obasanjo is making headway against money laundering. It is assisting in a major anti-money laundering investigation involving the overseas assets of the late General Sani Abacha and his cohorts. General Abacha, the last military dictator of Nigeria, allegedly systematically embezzled money from Nigeria's central bank through a system of false invoices and placed it in nearly 200 accounts in Switzerland and other countries. Documents furnished to Swiss authorities indicated Abacha authorized the transfer of money to overseas accounts in his name and in the names of 14 others. The network of fictitious accounts, commissions and kickbacks allegedly helped funnel as much as \$2.2 billion out of Nigeria. At the request of the government of President Obasanjo, the Swiss government has identified and frozen the assets in the accounts and started its own investigation. The current reported value of the assets in these Swiss accounts exceeds \$645 million, and Nigeria is seeking the return of the money at the completion of the Nigerian and Swiss investigations. Stolen funds have also shown up in accounts in Luxembourg, Belgium, Germany, and possibly France. This is, hopefully, step one in a series of money laundering investigations of prominent yet criminally oriented citizens by the government.

However, Nigeria still needs to amend its legislation to criminalize money laundering beyond narcotics and include reporting of cross border movements of currency. It needs to develop and fund a strong law

enforcement mechanism to ensure compliance with anti money laundering laws, and increase resources to crack down on international fraud schemes. The GON should also establish a centralized unit to receive and analyze information and work directly with foreign counterparts to cooperate in investigations and protect its financial system from the abuse of criminals and criminal organizations. This will be a tall and encompassing order given the success and prominence of Nigerian criminal organizations.

Niue (Concern). Niue is a self-governing parliamentary democracy in free association with New Zealand. In an effort to diversify its agricultural economy and boost revenues, Niue established an offshore financial center with the adoption of a series of laws in 1994. Niue's thriving offshore financial sector has been linked with the laundering of criminal proceeds from Russia and South America, especially through the use of its International Business Companies (IBCs). In 1999, the Russian Central Bank instituted regulatory measures to scrutinize offshore financial transactions involving Niue and other offshore centers to prevent illegal financial transactions.

Although IBCs are the most attractive feature of Niue's offshore sector, Niue also offers trusts, partnerships, financial management, and insurance services. Banks and insurance companies registered in Niue require annual audits and are subject to other supervisory controls. Niuean asset protection trusts are strong in that a court may set aside or reverse the transfer of assets only if fraud or duress can be proven. Added asset protection includes the ability to transfer domicile.

The International Business Companies Act of 1994 is the legislative basis for establishing IBCs. Marketers of offshore services via the Internet promote Niue as a favored jurisdiction for establishing IBCs for a variety of reasons. Niue does not require the disclosure of beneficial ownership, permits bearer shares, allows the marketing of shelf companies, and does not allow public access to registers of IBC directors or managers. In addition, IBC names may be incorporated in Chinese, Cyrillic, or other languages. Niuean IBCs have all the powers of a natural person. Internet marketers offer shelf companies, complete with associated offshore bank accounts and maildrop forwarding services. These features make Niuean IBCs ideal mechanisms for money laundering schemes.

The Offshore Banking Act of 1994 allows for three types of offshore banking licenses. Class A offshore banks are permanently established in Niue. Class B licenses may transact business only through a trustee company and in specified currencies. Class C licenses are granted to international companies and, unless granted an exception, must conduct business through a resident director. All offshore banks are subject to financial audits and must produce accounting records, share registers, transaction ledgers, and any other records upon request of a bank inspector.

Niue has draft anti-money laundering legislation under consideration for all serious offenses. However, the legislation contains no requirement to report suspicious transactions and does not provide for a central authority to monitor the criminal abuse of its financial system. Although offshore banks are subject to supervision by the Niue Monetary Board, audits are not conducted for anti-money laundering purposes. Niue's offshore corporate sector was designed with a minimum of government oversight, which prevents effective regulation. Niue does not participate in any international anti-money laundering fora, nor has it signed any bilateral agreements to exchange information to assist in criminal investigations and prosecutions for money laundering offenses.

Niue needs to enact and implement anti-money laundering legislation that meets international standards in order to protect its financial services industry from financial crimes and money launderers. Particular emphasis needs to be directed to its offshore financial center, which lacks prudential supervisory oversight.

Norway (Other). Norway is not a major financial center. There are only 20 commercial banks and about 130 savings banks serving a population of 4.5 million. Norway has no offshore sector, nor does it have casinos. Money laundering in Norway is related primarily to funds generated by the smuggling of liquor and cigarettes. According to OKOKRIM, Norway's Special Unit on Economic Crime, the country has experienced an increase in financial crime such as bank fraud following liberalization of the country's financial markets in the early 1990s.

Most money laundering in Norway takes place outside the bank and non-bank financial systems, since all financial institutions are required by law to report large or suspicious transactions to OKOKRIM. Records must be kept for five years. Structuring deposits (breaking them up into smaller amounts to circumvent reporting requirements) appears to be a problem for financial institutions. Large cross border money transfers conducted by banks are routinely reported to the Norwegian Central Bank and kept on record.

All forms of money laundering are a criminal offense in Norway, according to the Norwegian Penal Code. Legislation has been strengthened over the past few years to conform to the FATF Forty Recommendations. OKOKRIM has set up a money laundering unit that receives suspicious transaction reports and serves as Norway's financial intelligence unit.

Norway is a member of the FATF and the Council of Europe. OKOKRIM is a member of the Egmont Group.

Oman (Other). Oman is not known to have a significant money laundering problem. Its small banking sector is lightly supervised by the Central Bank of Oman (CBO), which does have the authority to suspend or reorganize a bank's operations. The CBO also supervises the Omani insurance industry and the network of currency exchange houses. Several years ago the CBO issued a circular to a wide range of financial institutions advising that they report all suspicious transactions to the CBO and to the Omani police, but it is not known if any such reports have actually been filed. There are no known cases of money laundering under investigation in Oman.

Cash transactions are common in Oman, as is the hawala/hundi remittance system used by expatriate workers in Oman to transfer money to their homelands.

Oman is a party to the 1988 UN Drug Convention and is a member of the GCC, which holds membership in the FATF.

In order to reduce its vulnerability to financial crime, Oman should enact legislation to criminalize money laundering and require the reporting of suspicious transactions to a central organization.

Pakistan (Primary). There are three principal sources of illicit funds in Pakistan: narcotics trafficking, corruption and smuggling. Narcotics trafficking proceeds come from the transshipment of narcotics produced in Afghanistan as well as Pakistan. Traffickers dealing in these narcotics operate all over the world, and the money laundering schemes associated with these trafficking operations are similarly global in nature. Large amounts of money are laundered, although the majority of the laundering takes place outside of Pakistan. Finally, many, if not all, of these schemes use the hawala (also called "hundi") alternative remittance system.

There are longstanding allegations of large-scale corruption and money laundering against former Pakistani Prime Minister Benazir Bhutto and her husband, Ali Asif Zardari. Bhutto is under investigation in several jurisdictions. It is possible that Bhutto could have used a combination of techniques to launder money, including moving money to international financial centers in Europe and the Middle East as well as hawala. Prime Minister Nawaz Sharif, deposed by a military coup led by General Pervez Musharraf, is also accused of corruption.

Many goods are smuggled across the relatively porous border between Afghanistan and Pakistan. For example, a smuggler will import goods into Afghanistan, which has low duties, and then smuggle them into Pakistan, which has high duties. He thus saves money on duties and sells the goods on the black market in Pakistan. In other cases, the goods are simply brought into Pakistan and sold. Smuggling operations may also involve the laundering of the proceeds of smuggling. Gold smuggling, often associated with hawala, is also an issue in Pakistan.

Pakistan has criminalized the laundering of the proceeds of narcotics trafficking. The Control of Narcotics Substances Act (1996) calls for the reporting of transactions believed to be associated with narcotics trafficking and also contains provisions for the freezing and forfeiture of assets associated with narcotics trafficking. New ordinances have been established by the Musharraf caretaker government addressing various financial crimes, particularly tax evasion and corruption. To date, few if any reports of narcotics-related transactions have been received, and it is too soon to evaluate the effectiveness of the new ordinances.

Pakistani banks are tightly regulated in many ways (e.g. account opening procedures—in addition to providing identification, a prospective customer needs an introduction or reference in order to be permitted to open the account), and it does not appear that they play a major role in money laundering schemes in Pakistan. The "hawala trade", however, which is part of the "black" economy in Pakistan, is completely unregulated and is used for many licit and illicit transactions. Estimates of the size of Pakistan's "black" economy place it as being from one half to equal in size to the "white" economy, so a comparable estimate could be made of the magnitude of hawala transactions. Pakistani hawaladars (hawala operators or brokers) are known to work closely with counterparts in the Middle East (particularly Dubai in the United Arab Emirates), the United States and Europe.

Pakistan does not offer offshore services.

Pakistan does not have a financial intelligence. Several agencies, most particularly the Anti-Narcotics Force and Pakistan Customs, play a major role in the investigation of financial crimes cases in Pakistan.

In past years, Pakistani authorities, most particularly senior officials in the Anti-Narcotics Force, had expressed an interest in developing a working relationship with the United States on money laundering.

The most significant money laundering cases involving Pakistan are the ongoing investigations of former Prime Ministers Benazir Bhutto and Nawaz Sharif.

Pakistan needs to do several things to establish an effective anti-money laundering regime. First, it needs to enact legislation that fully criminalizes money laundering beyond drug trafficking. Second, Pakistan needs to mandate and implement a system of reporting of suspicious transactions by all financial institutions in Pakistan. Finally, given the major role that hawala transactions play in money laundering in Pakistan, "anti-

hawala" countermeasures need to be developed and implemented.

Palau (Other). The Republic of Palau is not known as a money laundering haven. There have been no credible reports of any substantial money laundering activity's taking place in Palau. In late 1998 legislation was introduced which would have permitted the establishment of shell offshore holding companies with strict secrecy provisions. However, the President of Palau vetoed the legislation in early 1999, after visiting experts from the United Kingdom, New Zealand and Australia provided briefings on the various pitfalls involved in establishing offshore centers. Attempts by both Palauans and outsiders to establish offshore banks in Palau have failed as well.

The Government of Palau (GOP) has said that it remains interested in having Palau become an international financial center. However, the GOP has assured U.S. officials that it will consult fully with the United States and with experts from other countries in this matter.

In December 1999, reacting to allegations by the Central Bank of Russia of improprieties within the offshore banking sector, several international banks refused to process financial transactions from Palau, Nauru, and Vanuatu. This action sparked an initiative by the GOP to establish a national banking review commission to review future banking initiatives. This new commission has moved quickly to begin developing national banking laws.

Palau has signed on to Pacific Island Forum anti-money laundering initiatives. The United States has urged Palau to become more involved with the Asia/Pacific Group on Money Laundering and with the FATF, and along with other countries and institutions has offered assistance to Palau in the development of sound banking systems.

Panama (Primary). Panama is a major financial center, and as such is vulnerable to money laundering. Several factors make Panama an extremely attractive target for money launderers: Panama's international banking center, which has been long established as a tax haven; its operation of the world's second-largest free trade zone, the Colon Free Zone (CFZ); the country's dollar-based economy; and a proximity to major drug producing neighbors. Panama has financial institutions that engage in currency transactions involving international narcotics proceeds that include significant amounts of U.S. dollars.

Only drug-related money laundering is a crime in Panama. The Government of Panama (GOP) has enacted anti-money laundering legislation that provides for know-your-customer requirements and reporting requirements for unusual currency transactions and those exceeding \$10,000 for banks and non-bank financial institutions (including CFZ businesses, export processing zone businesses, finance companies, savings & loan institutions, insurance and reinsurance companies, remittance firms, exchange houses, stock brokerages, casinos, and the national lottery). The law also provides safe haven protection for bank officials who report suspicious transactions and provides punishment for offenders. It permits GOP cooperation in investigations initiated by third party governments and authorizes the tracing, freezing and forfeiture of assets related to money laundering. Most non-drug criminal activities associated with money laundering, such as intellectual property rights fraud, international trafficking in arms, stolen vehicles, etc., and which generate multiple millions in proceeds, are not covered by current Panamanian money laundering legislation.

The prosecution of money laundering cases in Panama is narrowly focused and legally arduous, requiring a criminal prosecution to prove that the money seized was obtained from specific drug trafficking transactions. A succession of Panamanian governments has thus far failed to show the political will to amend the law to facilitate prosecutions. In 1999 the GOP, under former President Balladeres, promised to amend Panama's money laundering law to criminalize money laundering beyond drugs and to provide for information exchange with other countries. The U.S. Government understands that the Balladeres administration had drafted an amended anti-money laundering law. In September 1999, a new administration, under President Moscoso, assumed office in Panama. To date, the amended anti-money laundering law has not been enacted.

Panama's banking law, enacted in June 1998, was a major achievement. The law created a Superintendency of Banks to serve as the supreme bank regulatory and supervisory entity, defined the types of banking licenses available, and set capital adequacy and liquidity levels. It also authorized foreign supervisory entities, under prior agreement with the Superintendency, to inspect the branch offices of foreign banks in Panama, which are subject to consolidated supervision. The Superintendency has the authority to grant banking licenses, to request information and periodic reports from banks, and to reorganize and even close banks. Banking licenses fall into two categories: general licenses for local and foreign operations, and international licenses for Panama's approximately 28 offshore banks. Panama has a large offshore sector, including more than 350,000 international business companies registered within its jurisdiction.

Panama adopted legislation on captive insurance companies (also called offshore insurance companies) by means of Law No. 60 of July 31, 1996. Captive insurance has become one of the most important sectors of the offshore financial industry, second only to banking. Captive insurance companies are corporate entities created and controlled by a parent company, professional association or group of businesses. The captive insurance

company provides insurance for the parent, association or group as an alternative to purchasing insurance on the conventional market. Under Panamanian law, captive insurance companies must be authorized by the Superintendency of Insurance and Reinsurance of the Ministry of Commerce and Industry. Captive insurance companies may insure or reinsure only the risks approved by the Superintendency. They may not insure or reinsure local risks pertaining to individuals or companies resident in Panama. Before a captive insurance company can be incorporated, it must request from the Superintendency of Insurance and Reinsurance authorization to adopt the articles of incorporation to organize the company as Panamanian or to register a foreign company in Panama to act as the captive insurance company. If the company intends to carry out the insurance of general risks, the required paid-up capital is \$150,000. If the company intends to carry out insurance of long-term risks, the paid-up capital is \$250,000.

Panama has established a financial analysis unit, the UAF. The UAF reports directly to the President of Panama, and the Director of Panama's UAF serves as the national coordinator for all money laundering affairs in Panama. The UAF gained a new Director as a result of the change in Panama's administration this year. The UAF gets seven or eight unusual transaction reports a month, which are used for developing cases. To date, the UAF has referred 20 cases for prosecution. The process is cumbersome: the referral must go from the UAF through the National Security Council (NSC) to the President's Office, and then to prosecutors in the Public Ministry (Attorney General's Office). This has been the main reason why Panama has not yet fully prosecuted a single money laundering case.

Panama's UAF was one of the first units in the region to be admitted to the Egmont Group in 1998. Panama has officially agreed to host the Egmont Plenary in May 2000. However, Egmont is still awaiting the official word from the new GOP.

In August, Panama hosted the "Third Hemispheric Congress on the Prevention of Money Laundering," organized by the UAF and the Panama Banking Association. Officials and experts from Latin America, the U.S. and Europe gathered to focus on money laundering issues.

Panama is a member of the CFATF, the Inter-American Drug Abuse Control Commission, and the Offshore Group of Bank Supervisors. An MLAT and a Financial Information Exchange Agreement are in effect between Panama and the United States.

The GOP should be encouraged to amend its anti-money laundering law to criminalize non drug-related money laundering offenses. It should also authorize the UAF to share information with its foreign counterparts in order to strengthen Panama's anti-money laundering program and to be a fully participating member of Egmont. The GOP also needs to change its law so that when sufficient information about a money laundering case is available, it can be sent directly to the prosecutors. If Panama lacks the will to remove the NSC from the case review process, the NSC should start turning the cases over for prosecution—Panama has had no prosecutable cases in three years. Another important next step will be for the Banking Superintendency to draft implementing regulations for the 1998 banking law; this is expected to take place by mid-2000. Panama needs to be able to demonstrate that its anti-money laundering laws are effective through the successful prosecution of, and cooperation with foreign authorities in, major money laundering cases.

Paraguay (Primary). Paraguay continues to be an attractive money laundering venue due to its status as a transit country for cocaine trafficking, its weak regulation of the formal financial sector, slow implementation of its money laundering law, and endemic official corruption. The multi-billion dollar re-export sector and the absence of regulation of the informal sector that services the contraband economy facilitate money laundering. Illicit funds also result from tax evasion and capital flight from Argentina and Brazil.

Although narcotics-related laundering does exist, most laundering is fueled by the regional contraband trade, centered in Ciudad del Este, generating \$4–14 billion according to U.S. estimates. Illicit funds are then laundered through Paraguayan financial institutions or across the border through Brazilian businesses and financial institutions.

Paraguay does not license offshore banks, although foreign banks are registered in Paraguay and non-residents are allowed to hold accounts. But all banks are supervised under the same regulations by the Paraguayan authorities. Until recently, Paraguay was considered an important tax haven, mainly for Brazilian deposits, as there is no personal income tax in Paraguay. However, major bank failures in 1995–98 have made Paraguay a less attractive center for foreign deposits.

Paraguay's anti-money laundering law 1015/97 (Preventing and Suppressing Illegal Acts Committed for the Purpose of Laundering Money or Assets), promulgated in January 1997, criminalized money laundering related to drug trafficking and other serious crimes. But since tax evasion and contraband smuggling are not classified as serious crimes, the laundering of their proceeds is not prohibited under the new law. The law mandated the reporting of suspicious financial transactions, set currency transaction record-keeping requirements, provided for cooperation with international law enforcement, permitted asset forfeiture, and established know-your-customer provisions for banks and other financial institutions.

The SENAD (Secretaría Nacional Anti Drogas) is the lead investigative agency on money laundering and is responsible for the enforcement of the Paraguayan anti-money laundering law. It contains a dependent investigating arm, the Financial Crimes Investigative Unit (FCIU), to investigate specific criminal offenses related to money laundering. The new law also established SEPRELAD (Secretaría de Prevención del Lavado de Dinero y Bienes) as an independent and principal policy making organization on money laundering, responsible for the implementation of the law. The SEPRELAD includes an inter-agency Financial Analysis Unit (FAU) as the country's financial intelligence unit (FIU). It is charged with receiving, analyzing, and processing disclosures of suspicious transactions. When the FAU determines that there are reasonable grounds to warrant an investigation, its findings are forwarded to the SENAD's FCIU for the actual investigation.

During the early part of 1998, Paraguay's FAU appeared to be making progress in obtaining personnel and equipment, and in June 1998, it was officially recognized by the Egmont Group of FIUs. It received several thousand SARs that resulted in investigations leading to two criminal convictions. But budgetary concerns stalled operations of the FAU in 1998—it lacked a permanent staff, equipment, and a permanent location. In 1999, the FAU moved to semi-permanent office space that is too small to accommodate the present staff of 6 officers and the more than \$50,000 in computer equipment that the U.S. Government procured. The FAU will have to move from these offices within a year as it plans to expand its staff to 14 in the future. SEPRELAD still lacks a budget.

SEPRELAD reported that it received an additional 3,300 SARs in 1999, bringing the total to approximately 5,500 since 1997. It indicated that a total of 55 SARs were forwarded to SEPRELAD for analysis in 1999.

The Government of Paraguay (GOP) has the legal tools, technical equipment, and agencies in place to combat money laundering. However, it must still take additional measures to fully fund and staff these agencies and fully implement its anti-money laundering law. Only then will the GOP be able to fully cooperate with other FIUs, and to investigate and successfully counter money laundering and financial crimes.

Peru (Concern). Peru is not a regional financial or offshore center and has not developed into a major money laundering haven. However, narcotics-related money laundering does occur. Peruvian Government officials have expressed concern over a recent increase in Peruvian and U.S. counterfeit currency in their national commerce.

Money laundering has been a crime in Peru since 1991, but only when it is related to drug trafficking or narco-terrorism. Additional anti-money laundering provisions were introduced with the passage on December 6, 1996 of The General Law of the Financial and Insurance System and the Organic Law of the Superintendency of Banking and Insurance (No. 26702), and its implementing regulations that went into effect in July 1998. This Financial Law requires banks and other financial institutions to identify clients and to report unusual and suspicious financial transactions to the Attorney General's office (Fiscalia), with a copy to the Superintendency of Banks. Financial institutions are complying with the reporting requirements, and the Fiscalia has allowed the Financial Investigations Unit (FIU), located within the Peruvian National Police, access to its information. The FIU researches and analyzes the information to determine if the transactions have a narcotics connection. The Financial Law had also required the reporting of large (over \$10,000) currency transactions, but this requirement was suspended under pressure from the banking sector.

Peru remains an active participant in the OAS/CICAD and is demonstrating a commitment to implement an anti-money laundering system that would meet international standards. Peruvian and U.S. officials have met to set the groundwork for developing a program that will include broader laws, comprehensive yet enforceable regulations for the financial sector, and the creation of a financial intelligence unit. New anti-money laundering legislation may be presented to the Peruvian Congress when it reconvenes in March 2000. In drafting a new comprehensive law, the Government of Peru should consider including requirements for the recording and reporting by financial institutions of large currency transactions, so that the information can be made available to law enforcement authorities upon request.

Peru is a party to the 1988 UN Drug Convention.

Philippines (Concern). A combination of rising crime, pervasive corruption, and the absence of effective legislation make the Philippines vulnerable to money laundering activity. The absence of anti-money laundering legislation and strict bank secrecy regime allow for criminal proceeds to be easily laundered in the Philippines or transferred abroad. The Philippines has experienced an increase in foreign organized crime activity from China, Hong Kong and Taiwan. Philippine drug lords are known to launder and invest their proceeds in Taiwan and Hong Kong. Insurgency groups operating in the Philippines fund their activities through narcotics and arms trafficking, and engage in money laundering through alleged ties to organized crime.

The major sources of criminal proceeds are trafficking in narcotics, arms, and women. The Philippines is a source country for marijuana and a destination and transshipment point for methamphetamines from China. Other sources of criminal proceeds include gambling, organized crime, prostitution, smuggling, intellectual

property counterfeiting, and corruption. Criminal proceeds are laundered through a variety of businesses such as nightclubs, pawnshops, currency exchanges, credit institutions, casinos and other gambling establishments. Many smaller cash-intensive businesses are known fronts for laundering criminal proceeds, primarily from narcotics trafficking. Many of the owners of these businesses have suspected ties to narcotics traffickers, and their clientele base cannot account for the level of business receipts.

Public and private corruption is rife. Public dissatisfaction with the current administration's inability to counter it has made corruption a national election campaign issue. Official corruption is endemic throughout all levels of government, as well as within the enforcement sector. Official corruption plays a major role facilitating criminal activity and in obstructing investigations. A related issue is the state of readiness of the Philippines' enforcement agencies. Although staffing levels appear to be adequate, pay is low and equipment is in short supply. Corruption is also a major concern in the country's free trade zones. Lax immigration and customs controls provide a refuge for international criminal activity to thrive.

The Philippines has not criminalized money laundering nor enacted anti-money laundering legislation. The proceeds of crime can be seized only during the investigation of predicate offenses, usually at the scene of the crime for evidentiary purposes. Bank secrecy is exceptionally strong. According to bank secrecy provisions, a bank may not disclose client information to any government official or agency. The one exception is on the basis of a court order—but only in cases of bribery or dereliction of duty of public officials, or if the funds in question are being litigated. A very powerful banking lobby in the Philippine congress has blocked all attempts to modify bank secrecy legislation.

The Philippines is preparing draft anti-money laundering legislation. Other draft laws contain anti-money laundering provisions. These include the Anti-Racketeering and Organized Crime Syndicates Act, patterned after U.S. Racketeer Influenced and Corrupt Organizations (RICO) law. It contains provisions requiring financial institutions to pay attention to complex and unusual transactions. It is not yet clear if this includes the duty to report these suspicious transactions to an appropriate government authority. Another draft law, the New Central Bank Act, grants authority to the central bank to examine records to prevent the criminal abuse of the Philippine banking system, as part of its regulatory authority to ensure the safety and soundness of the country's financial system. Fifteen banks are known to be registered in the Philippines' OFC. These banks are licensed and supervised by the central bank and are subject to its supervision.

The Philippines does not yet have a financial intelligence unit, but the Economic Intelligence and Investigation Bureau (EIIB) has responsibility for combating money laundering. It conducts research on the methods and extent of money laundering in the Philippines. The National Law Enforcement Coordinating Committee (NALECC) serves as an information-sharing network for intelligence and law enforcement agencies combating money laundering.

The Philippines is an active member of the Asia/Pacific Group on Money Laundering and has assisted neighboring countries in successful money laundering operations. In February 1999, the Philippines established the Center on Transnational Crime to combat narcotics trafficking, money laundering, smuggling, and terrorism. The Center is setting up a criminal information database containing information on known international criminals and will collect global anti-crime legislation. Association of Southeast Asian Nations (ASEAN) member states Brunei, Indonesia, Laos, Malaysia, Burma, Singapore, Thailand, and Vietnam will contribute information resources and share data through the Center. An MLAT is in force between the Philippines and the United States.

The Philippines is committed to criminalizing money laundering and to drafting anti-money laundering legislation that meets international standards. The greatest obstacle to these efforts is overcoming the resistance by commercial banks and their congressional allies to allow exceptions to bank secrecy provisions for anti-money laundering and other crime fighting measures. Adoption of appropriate regulatory and enforcement measures will assist the Philippines' efforts to combat financial crime, corruption, and organized crime.

Poland (Concern). As the first country from the Soviet Bloc in Central Europe to break away from Communist rule, Poland has experienced all of the difficulties of the rapid transition to a democratic country with a free market economy. Poland's central location and open borders make it a prime target for transnational crime especially narcotics trafficking. The rise in criminal activity and associated money laundering are major concerns of Polish authorities. Narcotics trafficking, organized crime, auto theft, tax fraud, smuggling, extortion, and counterfeiting are some of the primary sources of illicit proceeds generated in Poland. Poland serves as a transit point for illegal funds from former Soviet countries moving to offshore centers in Western Europe and elsewhere. Authorities have also been especially concerned that the large size of Poland's gray economy may offer many opportunities for money laundering. Banks, exchange bureaus and casinos appear to be vulnerable to money laundering.

Money laundering was criminalized with the enactment of Article 299 of the Penal Code in September of 1997. Since 1992 Poland has enacted a number of legislative measures to create an anti-money laundering regime,

but the process has been slow and not well coordinated at the national level. Despite the efforts made thus far, Poland has yet to prosecute a money laundering case leading to a successful conviction. Poland's current anti-money laundering regime has provisions for customer identification, record keeping requirements, suspicious transaction reporting, internal anti-money laundering procedures and training for all Polish financial institutions covered by the applicable laws, regulations, and resolutions. The provisions of Poland's anti-money laundering regime do not cover many non-bank financial institutions that have been traditionally used for money laundering.

Poland does not yet have a financial intelligence unit (FIU). Legislative proposals to establish an FIU have been drafted since 1996, but the creation of an FIU and a suspicious transaction reporting system are not anticipated until sometime in 2000.

The United States and Poland signed a mutual legal assistance agreement that came into force in August 1999. Poland is very active in international anti-money laundering fora. Poland's EU membership aspirations will require it to meet international anti-money laundering standards. Poland is a member of the Council of Europe and participates in the Council of Europe's PC-R-EV. In May 1999, Poland underwent a mutual evaluation by the PC-R-EV.

Implementing the recommendations of the PC-E-RV report will give Poland a regime that fully meets international standards for combating money laundering. As it now stands, Poland's anti-money laundering regime is incomplete and contains loopholes through which money laundering may occur.

Portugal (Concern). Portugal is an entry point for narcotics transiting into Europe, and officials believe most of the money laundering that occurs in the country is drug-related. Officials report that drug trafficking organizations have used offshore companies to wire funds to bank accounts in other offshore jurisdictions, and channeled money through bureaux de change.

Portugal has a comprehensive anti-money laundering regime in place. Decree-Law 15/93 penalizes the transfer of proceeds related to narcotics trafficking and calls for confiscation of property and assets connected with money laundering. Decree-Law 325/95, amended by Law 65/98, extended the crime of money laundering to proceeds of terrorism, arms trafficking, extortion, kidnapping, procuring, trading and trafficking in minors, trafficking in human beings, corruption, and serious economic offenses (specified in a separate economic crimes law). It also introduced supervision of non-financial institutions, and gave the Portuguese Judicial Police (PJP) the ability to trace illicitly obtained assets, including assets passing through casinos and lotteries. The law applies even if the predicate crime is committed outside of Portugal.

These legal measures apply to all financial institutions (including insurance companies) and many non-financial institutions, including casinos, property dealers, lotteries, and dealers in high-value assets (antiques, gems and precious metals, works of art, automobiles.) Financial institutions must identify their customers, maintain records for ten years, and demand written proof from the customer as to the origin and beneficiary of transactions exceeding \$12,600. They must cease transactions when money laundering is suspected and make a report to the judicial authority and the Office of the Public Prosecutor. All reports are then immediately referred to the Brigada de Investigaçao de Branqueamento de Capitais (BIB) of the Judicial Police for initial analysis. If suspicions are confirmed, the Judicial Police then conduct the actual investigation. The eight-person BIB, which functions as Portugal's financial intelligence unit (FIU), centralizes all information concerning reports of suspicious transactions and shares this information with foreign counterparts.

The system for reporting suspicious transactions is still relatively informal. Banking authorities first contact anti-money laundering authorities, and file a formal report only if the latter believe it is warranted. This has resulted in a relatively small number of formal reports filed (346 over a four-year period), although the number has slightly increased each year. The reports have triggered 184 investigations.

Decree-Law 170/93 requires declarations of cross-border movements of sums exceeding \$12,600.

Public and private sector regulators and organizations also play an important role in Portugal's anti-money laundering program. The Bank of Portugal comprehensively monitors compliance by financial institutions via inspections and annual internal control reports. The Portuguese Banking Association provides regular training courses on money laundering for employees of banks and other financial institutions. The Portuguese Insurance Institute, through Circular No. 27/97, monitors compliance by insurance entities, educates the insurance sector on risks specific to the industry, and informs the judicial authorities if it encounters evidence of money laundering. The Securities Commission (CMVM) regulates the securities industry, monitors compliance by financial intermediaries, provides training for brokers, and informs the judicial authorities if it encounters evidence of money laundering. The CMVM cooperated with foreign authorities in two major investigations involving laundered funds in Portugal.

The Government of Portugal (GOP) also has comprehensive legal tools to effectively cooperate with foreign jurisdictions and share seized assets. Portugal is a member of the Council of Europe and of the FATF, and currently holds the FATF presidency (1999-2000).

The BIB was admitted into the Egmont Group of FIUs in May 1999.

Portugal is a party to the 1988 UN Drug Convention.

The Portuguese islands of Madeira offer one of the few offshore centers within the EU. Madeira's International Business Center includes a free trade zone and an international shipping register, and also offers offshore banking, trusts, holding companies, stock corporations and private limited companies (the latter two acting much like international business corporations). All entities established in the Center are tax exempt until 2011. Companies can also take advantage of Portugal's double taxation agreements. Decree-Law 10/94 permits the establishment of branches of existing banks and insurance companies. Applications are submitted to the Central Bank of Portugal either for notification, in the case of EU institutions, or authorization, in the case of non-EU or new entities. The law allows establishment of "external branches," which conduct operations exclusively with non-residents or other Madeiran offshore entities, and "international branches," which may also conduct business domestically. Madeira has local autonomy, but as an integral part of Portugal, its offshore entities are fully regulated by Portuguese and EU legislative rules and supervised by the competent oversight authorities. As such, the sector is probably not widely abused by money launderers.

Portugal has put into place comprehensive and effective measures to combat money laundering. The system for reporting suspicious transactions could be improved, however, by instituting a more formalized system and by increased involvement and training for entities outside the banking sector. The GOP should also continue due diligence over the offshore sector, and pay closer attention to non-bank financial institutions, such as bureaux de change.

Qatar (Other). Qatar, which is neither a world nor a regional financial center, is not thought to be at major risk for money laundering. The banking sector is small, well organized and geared primarily to meeting domestic financial needs; it consists of six domestic banks, two Arab banks, and six non-Arab foreign banks. The Qatar Monetary Agency (QMA) functions as the nation's central bank. As such, it supervises and coordinates the banking system, including issuing directives and regulations to banks and other financial institutions. The regulations include mandatory customer identification policies, the reporting of large transactions, and the maintenance of banking records. The QMA is an independent agency, and its governor has cabinet status.

Qatar is a party to the 1988 UN Drug Convention. It is a member of the GCC, which holds FATF membership.

In order to maintain the integrity of its financial system, Qatar should consider criminalizing money laundering and require the reporting of suspicious financial transactions.

Romania (Concern). Romania's location in Southeastern Europe bordering the Black Sea makes it a prime transit country for trafficking in narcotics, arms, and persons. Its excellent land, sea, and air connections, combined with open borders and intermittent hostilities in the Balkans, make Romania's role in transnational crime even more prominent. The major sources of illegal proceeds generated in Romania are trafficking in narcotics and arms, alien smuggling, smuggling of commodities and goods, counterfeiting, auto theft, financial fraud, tax evasion, corruption, prostitution and pandering. Funds are laundered through banks, casinos, and business entities. Common money laundering schemes include the illegal use of the banking system for the transfer of illicit funds, the use of front and ghost companies, companies registered in offshore zones, false invoicing schemes, false documentation, and the under- and over-reporting of imported and exported goods, among others. Businesses are commonly used as fronts to launder domestic sources of criminal proceeds, given the cash-based nature of the Romanian economy.

Romania criminalized money laundering with the adoption of Law No. 21/99, On the Prevention and Punishment of Money Laundering that was adopted in January of 1999. The law became effective in April 1999. This law contains provisions for customer identification, record keeping requirements, suspicious transaction reporting, the creation of a financial intelligence unit (FIU), and internal anti-money laundering procedures and training for all Romanian financial institutions covered by the law.

The National Office for the Prevention and Control of Money Laundering (NOPCML) is Romania's FIU. The NOPCML is in its formative stages of development and is not yet operational. The NOPCML is an administrative agency that will act as a filter between financial institutions subject to reporting requirements and law enforcement authorities. The NOPCML's staff is composed of representatives from the various agencies concerned with money laundering and is subordinate to the government administration. The NOPCML's function will be to receive and evaluate suspicious transaction reports, cash transaction reports, and unusual transaction reports. It will gather information on suspicious transactions and forward preliminary cases to the Public Prosecutor's Office for investigation. The NOPCML has made tentative steps to become a member of the Egmont Group.

Romania and the United States signed an MLAT in May 1999, but it is not yet in force.

Romania is a member of the Council of Europe (COE) and participates in the COE's PC-R-EV. In July 1999, the

PC-R-EV conducted its first mutual evaluation report on Romania, which outlined in detail suggestions for the anti-money laundering law's implementation phase, as well as areas of improvement for future legislation. By taking into account the recommendations of the COE evaluators, Romania's will have an anti-money laundering regime that meets international standards and function effectively.

Russia (Primary). 1999 was a watershed year for financial scandals alleging widespread money laundering for Russia. Although these allegations have not been proven, scrutiny of Russian financial transactions revealed a basic misconception of the relationship of money laundering to the unauthorized export of capital under Russia's system of capital controls. Russian and U.S. investigations indicate that funds transfers from Russia were for the most part capital flight and not the laundering of criminal proceeds. Criminal proceeds may constitute a portion of the funds transferred. For this reason, a major focus of ongoing investigations in the United States, Russia, and other jurisdictions is to identify the origin of the funds.

Economic conditions rather than criminal motives generate most of the export of capital from Russia. These include a lack of confidence in ruble stability, lack of trust in the banking system, government corruption, onerous tax and regulatory regimes, weak property rights, and poor corporate governance. Survival for Russian businessmen entails the use of elaborate schemes including foreign and offshore financial transactions to protect assets and evade taxes. The role of U.S. banks in these financial transactions is to clear correspondent dollar accounts of Russian banks, and those of offshore accounts involved in Russian commerce.

The amount of Russian financial transactions through offshore zones is tremendous. \$78 billion was sent from Russia to offshore accounts in 1998, of which \$70 billion went through accounts of banks chartered in Nauru alone, according to the Central Bank of Russia. The funds transfers through Nauruan accounts are in no way indicators of economic activity. Much of these funds returned to Russia according to the Russian Central Bank. Nauru is attractive because of the ease of setting up the funds transfer mechanisms and the secrecy that Nauruan banks offer. In 1999, the Russian Central Bank instituted regulatory measures to scrutinize offshore financial transactions involving offshore centers to prevent illegal financial transactions.

Notwithstanding the muddling of capital flight into the picture, money laundering remains a pervasive problem in Russia. For the years 1996-1998, unauthorized capital exports averaged \$25 billion a year. Russia's enormous resources and size, combined with the prevalence of organized crime, corruption, and an inadequate legal framework, make it a risk for money laundering by any standard.

Russia criminalized the laundering of the proceeds of all illegal activity with the adoption of its Criminal Code on 1 January 1997. According to Russian law enforcement authorities, 250 money laundering cases were investigated in 1997 and 1,000 cases in 1998. However, Russia still lacks legislation establishing measures to effectively prevent and detect money laundering, and to cooperate with foreign authorities to prosecute it.

In July 1999, President Yeltsin vetoed the anti-money laundering legislation negotiated by the joint Duma/Federation Council Commission. His veto letter explained that the money laundering law contradicted Russia's international obligations under the European Convention on Money Laundering to which Russia became a party in May 1999, and would contradict the Constitutional provisions guaranteeing the free movement of goods and services and protecting property rights. He found that the reference to illegally derived proceeds was not consistent with the Criminal Code provisions defining a crime and that allowing the suspension of a transaction without a judicial decision potentially violated the constitutional right to privacy.

The Chairman of the State Duma Committee created a conciliation commission—comprised of representatives of the State Duma, the Federation Council, and the Administration of the President of the Russian Federation—to draft an anti-money laundering law acceptable to all concerned. The commission will work using the vetoed legislation and a version submitted by the Presidential Administration that takes into consideration the reasons for the presidential veto.

Russia recognizes the need for a financial intelligence unit (FIU) and has made efforts to address this concern. In mid-1999 the Russian government created the Interagency Center for Countering the Legalization (Laundering) of Illegally Derived Proceeds. Its purpose was to improve cooperation and coordination among Russian federal agencies in combating money laundering. The Center is based at the Ministry of Internal Affairs. As with all law enforcement activity, the Procuracy has oversight responsibilities in the efforts of law enforcement agencies represented at the Center. The Central Bank participates in the Center in accordance with the procedures set by a cooperation agreement signed with the Ministry of Internal Affairs. The agencies represented at the Center include the Ministry of the Internal Affairs, Ministry of Finance, Ministry for Taxes and Levies, Customs Committee, Federal Security Service, Federal Tax Police, Federal Currency and Export Control Service, Ministry of Economics, and the Ministry of Justice.

The Center has three principal missions. The first is to collect, analyze, and verify information on suspicious financial transactions. The second is to provide strategic analysis to detect and prevent money laundering at the national level. The third is to organize the efforts of federal executive agencies to detect and prevent money laundering, as well as fostering cooperation with similar foreign agencies and international

organizations.

Although it is as yet too early to assess the Center's performance, creating it on the basis of Russia's current anti-money laundering measures would constrain its effectiveness. Its abilities will be severely hampered without the adoption of anti-money laundering legislation that establishes the framework for suspicious transaction reporting, record-keeping requirements, and international cooperation, among other measures, consistent with international standards.

Throughout 1999, Russia has remained active in international anti-money laundering efforts. Russia continues to work with the FATF, and the FATF has expressed interest in having Russia join the organization once it passes adequate anti-money laundering legislation. Russia sends representatives to meetings of the Egmont Group, the informal international group of financial intelligence units. Russia also participates in the Council of Europe's PC-R-EV and will undergo a mutual evaluation by Committee member nations in 2000.

On the bilateral level, a Mutual Legal Assistance Agreement is in effect between Russia and the United States. The Agreement allows each side to request information and other material to support investigations. The United States and Russia signed an MLAT in June 1999. The Treaty will expand and increase the level of cooperation in investigating and prosecuting criminals once it is ratified and brought into force by both sides.

Russian authorities are aware of the need to adopt effective anti-money laundering legislation and implement appropriate measures to combat money laundering. These actions will add regulatory and enforcement tools in Russia's efforts to root out financial crime, corruption, and organized crime. The tasks now are to develop an anti-money laundering framework that meets international standards, conforms to Russia's legal environment, and respects the constitutional and human rights of its residents; and to implement this framework effectively, including through international cooperation,

Samoa (Concern). Formerly known as Western Samoa, this South Pacific country, while not a major offshore financial center, has developed an offshore financial sector as a means to expand its revenue base. Samoa's offshore sector is an alleged location for the laundering of criminal proceeds from Russia and other jurisdictions. Financial transactions through Samoan registered international business companies (IBCs) appear to be particularly useful to money laundering operations. In 1999 the Russian Central Bank instituted regulatory measures to scrutinize offshore financial transactions involving Samoa, as a preventive measure to thwart their use as mechanisms for money laundering and tax evasion schemes. Samoa licenses banks, insurance companies, trusts, and corporations for offshore operations; however, Samoan IBCs appear to be particularly vulnerable to money laundering abuse.

The International Companies Act of 1987 (and amendments) provide the legislative basis for establishing IBCs. The Act does not require the disclosure of beneficial ownership, permits bearer shares, allows the marketing of shelf companies, and allows no public access to registers of corporate directors or managers. In addition, names may be incorporated in Chinese script or other languages, provided that an English translation is attached to the incorporation documents. This provision is purportedly targeted at companies involved in investments or joint ventures in China. Corporate documents may be written in any language. Corporate entities may be listed as officers and shareholders since Samoan IBCs have all the legal powers of a natural person. Resident corporate directors and secretaries are not necessary. A registered trustee company must be appointed as the registered agent. There are no requirements to file annual statements or annual returns, to appoint an auditor, or to hold annual general meetings.

The Offshore Banking Act 1987 and the International Insurance Act of 1988 govern the operation of offshore banks and captive insurance companies respectively. These laws contain regulatory provisions that deter the use of these entities by parties seeking anonymity and unfettered operations. Marketers of offshore services via the Internet promote Samoa for the confidentiality and ease of establishing IBCs; however, other offshore centers are recommended for offshore banking, insurance, and trust operations.

Samoa has drafted anti-money laundering legislation under consideration for all serious offenses. It has no requirements to report suspicious transactions and no central authority to monitor the criminal abuse of its financial system. Samoa has no supervisory authority to monitor its offshore corporate sector. Samoa does not participate in any international anti-money laundering fora, nor has it signed any bilateral agreements to exchange information to assist in criminal investigations and prosecutions for money laundering offenses.

Samoa needs to enact and implement anti-money laundering legislation that meets international standards in order to protect its financial services industry from financial crimes and money launderers. Particular emphasis needs to be directed to its offshore financial center, which lacks prudential bank supervisory oversight.

Saudi Arabia (Other). The lack of an anti-money laundering regime, the widespread use of cash, and the existence of a flourishing, unregulated hawala banking network (used primarily by immigrant workers) suggest that Saudi Arabia is vulnerable to money laundering. An additional risk factor is the network of Islamic banks, which do not pay or charge interest but use fixed fees, often paid in cash.

The Saudi Arabian Monetary Authority (SAMA), which functions as a central bank, in 1995 published guidelines to help prevent Saudi banks from being used as channels for illegal transactions. In 1998, an interministerial committee reviewed all Saudi laws pertaining to money laundering and prepared amendments to bring them into conformity with the FATF Forty Recommendations. The proposed revisions, in the form of new legislation, were approved by the Saudi Council of Ministers in 1999; no details of the revisions are available. Individuals or banks suspected of money laundering are subject to criminal prosecution under Shari'a (Islamic law), the Banking Control Law, and Saudi labor law. Money laundering cases are currently heard in the Shari'a court, which bases its jurisdiction on the Koranic injunction that "assets arising from illegal action shall be forbidden and confiscated". However, as part of the process to implement the new law, the Ministry of Interior will establish a committee to refer cases for criminal prosecution to the Saudi Board of Grievances, which will hear the cases in accordance with the new legislation.

SAMA requires that banks set up money laundering control units to review policies and implement training programs. Banks are required to notify SAMA and police authorities if they suspect money laundering activity. SAMA and bank compliance officers meet monthly to share information on money laundering trends and cases. SAMA itself conducts semi-annual awareness courses on money laundering for bankers and enforcement officials, as well as customized courses for security and intelligence personnel and for judges.

According to post reporting, the Ministry of Interior maintains statistics on money laundering in Saudi Arabia, but that information is not publicly disseminated.

Now that it has enacted anti-money laundering legislation, Saudi Arabia needs to enforce it with full vigor to protect its financial system against money laundering.

Senegal (Other). Senegal is neither a financial nor a money laundering center. It has enacted legislation against narcotics-related public corruption, but the law does not specifically address money laundering. The Director of Senegal's Judiciary Police, however, has said publicly that he believes money laundering needs to be addressed.

In December 1999, the Franco-zone Central Bank of West African States (BCEAO) requested a police inquiry into a possible attempt to breach its computer-based SWIFT inter-bank money transfer network. The Dakar-based BCEAO is the central bank for Benin, Burkina Faso, Guinea-Bissau, Cote d'Ivoire, Mali, Niger, Senegal, and Togo, all of which use the French-backed CFA franc currency.

Seychelles (Concern). Seychelles is a growing offshore financial center and as such has the potential to develop into a money laundering center. However, there is little evidence of money laundering activity at present. The 1995 Economic Development Act, which contains provisions that provide protection from asset seizure and extradition, is on the books but has not been brought into force. The Government of Seychelles (GOS) has given assurances that the law will remain inactive.

Seychelles' 1996 Anti-Money Laundering Act criminalized the laundering of funds deriving from all serious crimes. The Act provides for the reporting of suspicious transactions, safe harbor protection for persons and institutions making such reports, record keeping and know your customer requirements, and forfeiture of the proceeds of crime.

As part of its strategy to diversify the economy and increase foreign exchange earnings, the GOS actively markets Seychelles as an offshore financial and business center designed to facilitate the registration of non-resident companies. A major defect of the program is that it still permits the issuance of bearer shares, a feature that can facilitate money laundering by making it extremely difficult to identify the beneficial owners of an international business companies (IBC). The Seychelles International Business Authority (SIBA), part of the Ministry of International Trade, acts as the central agency for the registration of IBCs, which now number over 2,700. The registered agent of an IBC presents memoranda or articles of incorporation to SIBA, which vets the IBC by investigating the validity of the documents submitted, the financial status of the applicant, the character and experience of the management, adequacy of capital structure, and ability of the applicant to cover liabilities and obligations. If the investigation proves satisfactory, SIBA then issues a certificate of incorporation. No minimum capital is required. There is no requirement to disclose the beneficial owner of an IBC, for which a minimum of one director or shareholder is required. Registration fees are inexpensive, ranging from \$100 to \$1000. Confidentiality is guaranteed by law—civil proceedings involving IBCs may be heard by a judge in chambers. IBCs pay no taxes in Seychelles, and are not subject to foreign exchange controls. IBCs are not required to file annual reports. Seychelles also permits offshore trusts (registered through a licensed trustee) and insurance companies. SIBA sponsors an Internet offshore advertising site.

The Ministry of Finance and Communications, operating through the central bank, is responsible for the registration and regulation of Seychelles banks. Although the law permits offshore banks, the GOS stated in January 1999 that the central bank has not yet issued any licenses for offshore banks, despite numerous applications, because of the failure of the applicants to meet what the GOS describes as "stringent" requirements, including minimum capital requirements and liquid assets and background checks into the

history of the bank and the experience of its management.

Seychelles needs to ensure that its offshore sector is subject to prudent supervision. It should move to eliminate the issuance of bearer shares and to require the disclosure of beneficial ownership of IBCs, as well as to repeal the Economic Development Act.

Singapore (Primary). Singapore is one of the largest financial centers in the world and a major financial center for Southeast Asia. As an international financial center, Singapore provides opportunities for money launderers to conduct a wide range of illicit transactions. Complicating enforcement is the difficulty of detecting illicit transactions in a financial sector this size, despite official efforts to counter such activities. The limited transaction records and the closely-held personal confidentiality characterizing "alternative" remittance systems (such as the Indian "Hawala" ("Hundi") system or the Chinese underground system ("chit" or "chop" system, traditionally associated with Chinese business activity) provide an additional attraction and medium for money launderers. Both systems exist in Singapore. Singapore also has many "cash and carry" businesses dealing in expensive consumer items (e.g. electronics) that have been used in money laundering schemes.

Singapore's anti-money laundering legislation, the Drug Trafficking (Confiscation of Benefits) Act, was amended in September 1999. The Act is now known as the Corruption, Drug Trafficking and other Serious Crimes (Confiscation of Benefits) Act (CDSA). The September amendments expanded the scope of predicate offenses to cover financial benefits derived from numerous serious crimes. The legislation extends to proceeds derived from activities that take place outside of Singapore, if such activity is illegal in Singapore.

The CDSA makes it an offense to launder the benefits of crimes defined in the CDSA as serious offenses, which comprise nearly 200 offenses including bribery, corruption, criminal breach of trust, counterfeiting, theft, extortion, robbery, misappropriation of property and cheating. Money laundering offenses include the retention, concealment or transfer of the benefits of drug trafficking or a serious offense; assisting in such offenses, even if not compensated; and failing to discharge a legally-imposed duty. Also regarded as offenses are the failure to disclose knowledge and/or suspicion of money laundering to the authorities or an employer, and interfering with a money laundering investigation by tipping off any person. The offenses are punishable by jail and/or financial penalties upon conviction.

While Singapore does not have a formal financial intelligence unit (FIU), the Monetary Authority of Singapore (MAS), which functions as Singapore's central bank, and the Commercial Affairs Department (CAD), established in 1984 to combat complex commercial frauds and white collar crime, play a significant role in the fight against money laundering. MAS's functions include the supervision and regulation of the banking, insurance, securities and futures industries, and the development and promotion of Singapore as an international financial center. The CAD investigates and prosecutes offenses under the Securities Industry Act, the Companies Act, the CDSA, and other financial laws. In January 2000, the CAD was reorganized and made a separate department within the Singapore Police Department. The consolidation of investigatory functions within a single department is designed to increase the effectiveness of money laundering investigations.

Singapore banks are required to combat money laundering by regulations based on the CDSA, the FATF Forty Recommendations, and the Statement of Principles of the Basle Committee on Banking Supervision and Supervising Practices. Banks implement a know-your-customer regime, which includes specific requirements for dealing with corporate clients, commercial inquiries and corporate documents. There are also procedures for dealing with shell companies and trust, nominee and fiduciary accounts, as well as accounts opened by lawyers and solicitors. "International personal banking," offered by some banks to nonresidents, seems primarily designed to facilitate investment and is governed by the same regulations as onshore banking.

The CDSA requires reporting of suspicious transactions to authorized officers. The reports are received and investigated by the CAD. Failure to make a report is an offense under the CDSA punishable by a fine. The CDSA provides safe harbor protection for the party making the report.

Singapore has strict bank secrecy laws. Banks operating in Singapore are required by the banking act to observe bank secrecy with respect to customers' financial information. However, such information may be divulged in specific instances; e.g., with customer consent, in bank-customer litigation, bankruptcy proceedings in Singapore and Malaysia, winding up and probate proceedings. Foreign bank regulators may also access information for supervision purposes. Since 1993, Singapore authorities have been empowered to exchange customer information with foreign authorities relating to drug trafficking money laundering. However, a prerequisite to the release of the information is a mutual legal assistance treaty, memorandum of understanding or other agreement in drug-related or criminal matters between Singapore and the other country. In September 1999, with the amendment to the CDSA, such mutual legal assistance has been extended to include serious offenses (as described above), though the condition that Singapore have an agreement with the foreign government still applies.

Singapore is a major offshore center with many non-resident companies, often referred to as international trading companies or international business companies (IBCs). Although there is overall supervision, there are

few restrictions on the activities of these companies, except for financial services, education and media. Singapore's attractiveness is enhanced by a tax on corporate profits of only 26 percent and by its various double tax and investment protection treaties with other countries that provide certain tax planning and security advantages.

Shelf companies are virtually non-existent in Singapore. An offshore company must have a local registered office with a physical address (a PO box cannot be used) and a minimum of two directors, at least one of whom must be a Singaporean citizen, permanent resident or employment pass holder. Bearer shares are not permitted. A company incorporated in Singapore has the same powers as a natural person.

Singapore is a party to the 1988 UN Drug Convention.

The 1999 amendments to the CDSA have tightened Singapore's anti-money laundering regime. However, one of the conditions to assist foreign authorities seeking information is the existence of a mutual legal assistance treaty, memorandum of understanding or other agreement in drug-related or criminal matters. Thus, Singapore bank secrecy makes it extremely difficult to obtain bank records where there is no current investigation or prosecution in Singapore. Currently the United States and Singapore do not have such an agreement, even though cooperation between the two countries on an informal basis has been very good. Another area of concern is Singapore's lack of currency reporting requirements when large sums of money enter the country.

Slovakia (Concern). Slovakia attracts money laundering for many of the same reasons as neighboring countries in Central Europe. These factors include its geographic location, transition to a market economy, the presence of domestic and foreign organized crime groups, and a sizable gray market economy—all of which attract and facilitate money laundering schemes. Slovakia remains a transit country for transnational crime, especially for narcotics trafficking to Western Europe on the Balkan Route from the Middle East and Turkey. The presence of organized crime activity generates the illegal proceeds, while the predominately cash-based economy provides avenues for money laundering. The availability of anonymous savings accounts in the form of bearer passbooks may offer a mechanism to launder illicit funds. Criminal proceeds from Russian, Ukrainian, Chechen, and Italian based organized crime groups are known to use the Slovak banking system to launder the proceeds of crime.

Besides narcotics trafficking, other sources of criminal proceeds laundered in Slovakia include smuggling, auto theft, arms trafficking, commercial and customs fraud, tax evasion and tax fraud, racketeering, prostitution, and trafficking in illegal aliens. Money laundering methods used in Slovakia include the use of the banking system for the transfer of illicit funds, fictitious companies, false invoicing schemes, false documentation, and the under- and over-reporting of imported and exported goods, among others. Banks, insurance companies, and casinos are the types of financial institutions used to launder illegal proceeds. Businesses are commonly used as fronts to launder domestic sources of criminal proceeds given the cash-based nature of the Slovak economy. Slovak authorities are concerned that the privatization process may be used to launder proceeds through the purchase of state-owned firms. The types of monetary instruments used to launder illegal proceeds include cash, letters of credit, and bank drafts.

The Slovak Republic's anti-money laundering legislation, Act No. 249/1994 as amended by Act No. 58/1996 "To Prevent the Laundering of Proceeds of Most Serious Crimes, Particularly of Organized Crime and to Amend Some Other Statutory Provisions Enacted by the Authority of the National Council of the Slovak Republic", became effective on October 1, 1994. On this same date, Article 252 "Legalization of Proceeds from Criminal Activity" of the Slovak Criminal Code came into force. The criminal provisions apply to all proceeds derived from all serious crimes.

The anti-money laundering law provides for a definition of money laundering, the types of transactions and financial institutions covered by the law, customer identification, record keeping requirements, unusual disclosure (suspicious transaction) reporting, a financial intelligence unit, and the establishment of internal rules for financial institutions to implement an anti-money laundering program. A weakness in the law is that only banks are required to report suspicious transactions. The law does not cover non-bank financial institutions, or casinos and other gaming establishments.

The Financial Intelligence Unit (OFIS) of the Bureau of Financial Police (UFP) serves as the Slovak financial intelligence unit and has jurisdictional responsibilities for money laundering violations. Provisions for this unit were made in Slovakia's anti-money laundering legislation, and the Ministry of the Interior regulation "Covering the Reporting Requirements of Banks" formally established it. This regulation specifically outlines how financial institutions are to comply with reporting requirements of suspicious transactions to the OFIS-UFP.

According to the Regulation "Covering the Reporting Requirements of Banks", financial institutions must report a suspicious transaction within 48 hours after its discovery. In cases where a bank employee discovers that a certain bank transaction will undoubtedly result in the laundering of illegally derived proceeds, the suspicious transaction must be reported immediately. The immediate reporting provision is mandated in order to allow

the OFIS-UFP to take necessary measures to thoroughly document suspicions of criminal activity.

In its role as Slovakia's financial intelligence unit, the OFIS-UFP receives and evaluates the suspicious transaction reports and then collects additional information to establish a suspicion of money laundering. Once enough information has been obtained to warrant suspicion that a criminal offense has occurred, the OFIS-UFP forwards the case to the State Prosecutor's Office for investigation and prosecution.

Slovakia is a member of the Council of Europe and participates in the Council of Europe's PC-R-EV. The OFIS-UFP is a member of the Egmont Group.

Slovakia has established a good legislative basis for an anti-money laundering regime in a relatively short time. As its money laundering regime was implemented, areas for improvement were recognized by Slovak authorities and outlined in detail by the PC-R-EV's first mutual report on Slovakia. Implementing the recommendations of the report will give Slovakia a regime that fully meets international standards for combating money laundering.

Slovenia (Other). Slovenia's economic stability and strategic location on the Balkan drug route continue to offer attractive opportunities for money laundering activities. The major sources of illegal proceeds include organized crime-related auto theft, narcotics trafficking, fraud, tax evasion, alien smuggling and the smuggling of goods. Organized crime activity appears to be on the increase, although it still appears to be much less of a problem than in neighboring countries. Money laundering occurs through the banking sector, currency exchange businesses, casinos, real estate transactions and the physical transport of illegal proceeds across borders.

Slovenia's 1994 Law on Prevention of Money Laundering criminalized money laundering. The law requires financial institutions, non-financial institutions such as casinos, and legal and natural persons to report all cash transactions exceeding \$22,000, and all suspicious transactions regardless of amount. Customer identification is also mandatory for all transactions, or series of transactions, exceeding \$13,500. Records must be maintained for five years.

The Office for Money Laundering Prevention, established by the 1994 law, serves as Slovenia's financial intelligence unit (FIU) and is charged with receiving and analyzing suspicious transactions. Through the end of 1998, the office had processed 166 reports, of which 28 were passed to law enforcement authorities for investigation. Although the number of prosecutions for money laundering increased from 5 in 1997 to 13 in 1998, none have as yet been successful. Slovenia's FIU is an active member of the Egmont group of FIUs.

Slovenia has undergone an anti-money laundering mutual evaluation conducted by the Council of Europe's PC-R-EV. Slovenia participates in the Southeastern Europe Cooperative Initiative, whose aims include control of transborder narcotics trafficking and organized crime.

Slovenia is a party to the 1988 UN Drug convention. It has actively sought to meet the Convention's goals since it gained independence in 1991.

South Africa (Concern). South Africa is the major financial center in the region. The nation has a relatively sophisticated banking and financial industry and modern communication networks, and is strategically located on major trading routes between southern Africa, south Asia, and South America. The integration of South Africa into the international trade and financial arena, together with the gradual phasing out of exchange controls since 1994, has rendered the country more attractive to international money laundering.

During the last few years, South Africa has tried without success to implement the anti-money laundering legislation it has in place. The first legislation that addressed money laundering in South Africa was the Proceeds of Crime Act of 1996, which criminalized money laundering for all serious crimes. The Proceeds of Crime Act was superseded by the Prevention of Organized Crime Act (POCA) of 1998 that was enacted in November 1998. Chapter 3 of the POCA repeats part of the Proceeds of Crime Act of 1996, which criminalized money laundering. This section of the POCA also establishes reporting requirements for suspicious transactions, provides a safe harbor provision for individuals reporting these transactions, and obviates all obligations, contractual or otherwise, to secrecy on the part of the transactors with the exception of attorney-client privilege. One of the main aspects of the new legislation is that new clients must be identified before they are allowed to open accounts, in order to prevent fraudulent accounts from being opened. The legislation calls for a financial intelligence unit (referred to in South Africa as a financial intelligence center) to receive reports made under the reporting requirements, and to analyze, investigate and disseminate the developed information. The legislation also provides for civil forfeiture of assets acquired through criminal activities. However, the POCA has been amended several times, and several challenges to arrests and seizures under the new version are pending. South Africa has had no prosecutions for money laundering.

South Africa has no offshore financial center.

The United Nations Global Program Against Money Laundering, which works with nations on fighting money

laundering, began working with South Africa in November 1999 to introduce a monitoring system for banks.

In September 1999, the United States and South Africa concluded negotiations on a bilateral extradition treaty and an MLAT, both of which are awaiting signature. The United States and South Africa also negotiated and initiated a Customs Mutual Assistance Agreement in 1999.

It is important that the Government of South Africa take more concrete steps to establish a comprehensive anti-money laundering regime, particularly in view of the importance of its financial sector to its own economy and those of the rest of the region.

Spain (Primary). Spain's historic and linguistic ties with Latin America attract Colombian narcotics traffickers who exploit Spain's position as a bridge to the rest of Europe, and have earned Spain the reputation as being the gateway for Latin American drug funds to Europe. A significant black market for smuggled goods, funded by drugs, has developed, particularly in the area of computer technology, and there is evidence that Russian organized crime groups have infiltrated Southern Spain's resort towns. This increasing Russian organized crime presence was highlighted by last year's arrest by the Spanish police of Leonid Terkejev, leader of one of the most dangerous organized crime groups in Moscow, and Alexander Sigarev, an ex-banker wanted by Interpol for bank fraud and money laundering. The investigations into these Russian organized crime groups have linked them to local judges, police and politicians.

Nonetheless, with an anti-money laundering program based on prevention, and through strict regulation of the financial sector, enforcement and international cooperation, Spain has the essential elements to fight these crimes. The cornerstone of its anti-money laundering program is Act No. 19 of December 28, 1993, Concerning Specific Measures for the Prevention of Money Laundering; its corresponding implementing regulations are contained in Royal Decree No. 925 of June 1995; and the various reforms made to the Penal Code, noticeably the November 23, 1995 reform (Organic Law 10/95). The 1993 Prevention Act criminalized the laundering of proceeds derived from narcotics trafficking, terrorism and organized crime. Subsequent to the 1993 Prevention Act, reforms made to the Penal Code in December 1995 extended the criminalization of money laundering to all serious crimes and established the Special Prosecutor's Office for the Repression of Corruption-Related Economic Crimes. Specialized investigative units, equipped to fight drug trafficking, financial felonies and money laundering, have been established in areas of high-intensity organized criminal activity.

The 1993 Prevention Act introduced requirements for the recordkeeping (six years) and the reporting of large currency transactions (\$17,000) and suspicious and unusual financial transactions. These recordkeeping and reporting requirements apply to banks and other components of the financial system (credit unions, credit card companies, casinos, real estate developers, investment, securities and insurance companies, stockbrokers, currency exchange houses, jewelers, and dealers in antiques, art, stamps and coins). The Act established the Commission for the Prevention of Money Laundering and Monetary Offenses as the ultimate authority to coordinate the anti-money laundering preventive efforts of all governmental agencies and the financial sector. The Commission has an Executive Service (SEPBLAC) which functions as Spain's financial intelligence unit (FIU). SEPBLAC, a multi-agency body located under the authority of the Bank of Spain (equivalent to the Central Bank), receives and analyzes the reports of suspicious and unusual transactions and has powers to request all information it deems necessary from financial institutions and other components of the Government. Reports indicating evidence of money laundering activity are forwarded to the law enforcement authority appropriate to the suspected criminal activity associated with the transaction. During 1996, regulations were issued for non-residents to inform the Bank of Spain of the importation of cash or bearer checks (in local or foreign currency) exceeding \$7,000, and for residents and non-residents to inform the Bank of Spain, customs authorities or their financial institution of any exportation of cash or checks (in local or foreign currency) exceeding \$7,000. In December 1997, regulations went into effect requiring financial institutions to report to the FIU inbound and outbound international funds transfers between \$3,500-\$35,000, as well as foreign exchange transactions involving cash between \$3,500-\$35,000 made by individuals on behalf of others.

Spain is party to the 1988 UN Drug Convention and an active participant in the FATF, having undergone various mutual evaluations of its anti-money laundering program. Spain has an MLAT and an extradition treaty in force with the United States and has similar agreements in force with numerous other countries, and can extradite persons suspected of money laundering. SEPBLAC has concluded agreements for the exchange of information with several counterparts and continues to be a leader in assisting other countries develop effective anti-money laundering programs. Spain has the ability to share assets seized as a result of a joint operation. The Council of Europe's Convention on Mutual Assistance and the Strasbourg Convention forms the basis for Spain's international cooperation regarding confiscated goods. Two investigative techniques that would enhance international cooperation, the use of controlled deliveries and undercover agents in money laundering cases, are under consideration by the Legislature. There seems to be close coordination among the large number of authorities involved in combating money laundering, and a commitment from the Spanish banking sector to do its share.

Sri Lanka (Other). Sri Lanka is not considered a major money laundering center, nor is it a tax haven, a financial center, or an offshore center. Under Sri Lanka's Bank Secrecy Act, financial transactions relating to narcotics trafficking are illegal. Draft legislation amending the Dangerous Drug Ordinance to include specific provisions against money laundering still had not been presented to Parliament at the end of 1999. A consultant from the U.S. Treasury played a key role in drafting the legislation, which also contains provisions relating to the forfeiture of assets from narcotics trafficking.

Sri Lanka is a party to the 1988 UN Drug Convention.

Sri Lanka needs to enact its anti-money laundering legislation and to expand its scope beyond narcotics-related money laundering. It should also consider establishing a suspicious activity reporting system and due diligence requirements for its financial institutions.

St. Kitts and Nevis (Concern). St. Kitts and Nevis is a two-island Federation and an independent member of the British Commonwealth. This country is at major risk for money laundering because of the high volume of drug trafficking activity through and around St. Kitts and Nevis, and the presence of known traffickers on the islands. A number of Russian organized crime figures have taken up residence in St. Kitts.

An opportunity available to these individuals, and to others in similar circumstances in St. Kitts and Nevis and elsewhere in the Caribbean, is the use of the economic citizenship program to buy Kittitian nationality and adopt new names. (An economic citizenship program offers citizenship for sale to foreigners who invest a specified amount of money in the country.) St. Kitts has the oldest economic citizenship program in the eastern Caribbean under the Citizenship Act of 1984. The Act contains three investment options to be paid in the Eastern Caribbean (EC) dollar-equivalent of U.S. dollars. The options are: 1) \$200,000 in St. Kitts and Nevis ten year Treasury bonds, or 2) \$250,000 in an investment project approved after March 1996, or 3) \$150,000 in a real estate development approved prior to March 1996. In addition, registration fees for Kittitian citizenship are the EC dollar-equivalent to \$35,000 for the head of household, \$15,000 for the spouse, and \$15,000 for each dependent under age 18. U.S. and other law enforcement officials view the programs as impediments to fighting international crime, because economic citizenships are being exploited by international criminals to conceal their identities and their illicit financial gains. Unscrupulous individuals take advantage of these weakly regulated programs to modify and/or create multiple identities. These identities are then used to aid in the creation of offshore entities used in money laundering, financial fraud, and other illicit activities, as well as to facilitate the travel of the perpetrators.

In 1995, St. Kitts and Nevis criminalized drug-related money laundering and mandated suspicious transaction reporting and record keeping by financial institutions. In 1999, Parliament approved an amendment to the law to include non-drug offenses, but the amendment has not yet been enacted into law.

Under the Federation's 1996 Companies Act, public and private companies on the two-island nation are exempt from income, capital gains and withholding taxes as long as they conduct their business exclusively with individuals who are not residents in the Federation. The Confidential Relationship Act of 1985 for St. Kitts and Nevis provides confidentiality for company officials or shareholders in the event foreign authorities seek private banking and financial records.

St. Kitts and Nevis each has its own offshore financial sector. The Federation has not enacted an overall banking bill, but Nevis has its own Offshore Banking Ordinance of 1996. In October 1997, St. Kitts enacted a law permitting offshore financial centers on the island. St. Kitts' several hundred offshore companies compete with Nevis's offshore industry, which consists of approximately 9,000 companies. New company creation and registration can be done quickly in Nevis, and is accomplished by the simple payment of the capitalization tax and fees to the Register of Corporations.

St. Kitts and Nevis is a member of the CFATF. In compliance with CFATF requirements, the country underwent a CFATF mutual evaluation in February 1999. The mutual evaluation report was completed and submitted to the Government of St. Kitts and Nevis for review and comment. After much delay, the Government finally responded with comments on the report, which can now be discussed at the March 2000 CFATF plenary session in Port of Spain.

St. Kitts has signed an MLAT and an Extradition Treaty with the United States. An exchange of instruments of ratification, which is the final step to bring the treaties into force, is scheduled for late February 2000.

The challenge before the Government of St. Kitts and Nevis is to enact expeditiously the amended anti-money laundering legislation approved by Parliament criminalizing money laundering beyond drugs, to implement its anti-money laundering legislation, and to draft regulations to supervise its growing offshore industry.

St. Lucia (Concern). St. Lucia is not a major financial center. However, St. Lucia has decided to develop an offshore financial services center, which may make the island more vulnerable to money laundering in the future. St. Lucia criminalized money laundering for crimes beyond drug trafficking through the Proceeds of Crime Act, 1993.

The Government of St. Lucia recently enacted additional legislation to combat money laundering. On September 9, 1999, the Parliament enacted the Money Laundering (Prevention) Act. On the same date, the House of Assembly passed a comprehensive inventory of offshore legislation. The offshore legislation consists of the International Business Companies (IBC) Act, the Registered Agent and Trustee Licensing (RATL) Act, the International Trusts (IT) Act and the International Banks (IB) Act.

An analysis of the October draft of the Money Laundering (Prevention) Act revealed the law contained know-your-customer provisions, suspicious transaction reporting requirements, and record keeping requirements. It also called for the creation of a Money Laundering (Prevention) Authority to inspect records kept by financial institutions, instruct financial institutions to undertake an investigation, disseminate information within or outside St. Lucia, make recommendations from information received, issue guidelines to financial institutions, advise the Minister for Legal Affairs, and consult with individuals for the purpose of exercising powers under the Act.

While the new offshore legislation is generally well constructed, the U.S. Government expressed to the government its concerns about the potential intermingling of commercial marketing interests and governmental regulatory roles and responsibilities in the offshore financial sector. Consequently, a U.S. delegation met with St. Lucian officials to discuss issues related to international financial services sector development. The U.S. delegation reiterated its concern about the importance of establishing clear lines of division between promotional and regulatory functions and of keeping the roles of the public and private sectors separate. The St. Lucian government agreed to review the U.S. concerns.

Both the Money Laundering (Prevention) Act and the offshore legislation were recently brought into force. U.S. agencies are reviewing the laws to assess whether they meet international standards regarding offshore regulatory regimes.

As a member of the CFATF, St. Lucia underwent a first mutual evaluation in compliance with CFATF requirements. The report on the evaluation, which preceded the establishment of St. Lucia's offshore sector, was reviewed at the July 1999 CFATF Plenary.

St. Lucia had signed an MLAT and an Extradition Treaty with the United States, and the treaties were brought into force by an exchange of instruments of ratification in February 2000.

Beyond ensuring that its offshore legislation prevents the intermingling of the government's regulatory role and responsibilities with commercial marketing of the sector, the St. Lucian government should move quickly to implement the legislation and enforce the new regulatory regime, including the Money Laundering Prevention Act.

St. Vincent and the Grenadines (Concern). St. Vincent and the Grenadines (SVG) has a large and growing offshore sector that is protected by strict secrecy laws and is inadequately regulated. The local economy is also affected by marijuana production for local use and export, as well as by cocaine transshipment through the islands. These factors combine to offer many legal and financial layers for criminals to launder money. SVG has enacted some of the anti-money laundering recommendations of the FATF and CFATF, but must do more to implement recent legislation, strengthen the existing regulatory framework, and organize a coordinated government effort to enforce such policies.

In 1999 the Government of St. Vincent and the Grenadines (GOSVG) took the important step of enacting the Proceeds of Crime Act, which criminalizes money laundering beyond drug proceeds and subjects corporations to criminal prosecution for money laundering. The Drug Trafficking Offenses Act of 1993 had criminalized certain activities relating to the transfer and concealment of drug proceeds. It allowed for some asset forfeiture and confiscation, but only after a conviction for drug offenses. The Eastern Caribbean Central Bank supervises the domestic banking sector, and in 1995 it issued Anti-Money Laundering Guidance Notes for licensed banks that follow CFATF recommendations. However, the Notes lack any enforcement authority. There are still no regulations requiring customer identification, the reporting of suspicious or large transactions, or the identification of beneficial owners of business entities.

SVG offers offshore banks, trusts, insurance companies, international business companies (IBCs) and international shipping companies. Internet advertisers consistently name SVG as one of the safest for securing financial privacy and "assets away from home jurisdictions." Section 39 of the International Trust Act specifically states "foreign judgements are not enforceable" against asset protection trusts established in SVG. In 1998 SVG also passed the Mutual Funds Act 1998 and the International Insurance (Amendment and Consolidation) Act 1998. Legislation in 1996 created an Offshore Finance Authority (OFA) to regulate offshore activities, but it lacks adequate staff and there are no mechanisms to ensure compliance by offshore entities. OFA is responsible for appointing an offshore finance inspector, licensing and regulating offshore banks, and overseeing the activities of the Registrar of Companies, which approves licenses for IBCs. Offshore banks are exempt from taxes for 10 years, and must be approved by the board of the OFA, upon prior approval by the Minister of Finance.

Adding another layer of secrecy, the St. Vincent Trust Service, the main marketer for the SVG government that claims to incorporate 95% of SVG's IBCs, maintains its office in Liechtenstein, another jurisdiction with investor-favorable tax policies and strict bank secrecy. It advertises on-line company registration, including ready to use, pre-named "shelf companies," and offers to register the company with a nominee director and bearer shares. It boasts that SVG is unlike an increasing number of jurisdictions that require the reporting of beneficial ownership to authorities, and has instead "passed the most stringent confidentiality laws to underline this fact and to protect clients." IBCs are also not required to file accounts with any authority, and are exempt from taxes for 25 years.

SVG is also putting in place the structure for an economic citizenship program, which has been described as competitive with that of Dominica, offering yet another legal layer under which criminals may hide.

Current SVG law limits the exchange of financial information, asset sharing or cooperative investigations with foreign authorities. The Confidential Relationships Preservation (International Finance) Act of 1996, for example, could impede international cooperation, although its most restrictive section has been removed. On-line marketers still quote the Act, stating that "confidential information may not be released under any circumstances where the disclosure would further a tax oriented investigation or prosecution by a foreign government." An updated extradition treaty and an MLAT between the United States and the SVG entered into force in September 1999.

SVG is a member of the CFATF and has undergone a mutual evaluation by that body.

The GOSVG needs to fully implement the Proceeds of Crime Act; issue regulations that require entities to identify beneficial owners, maintain records and report suspicious transactions; and establish a central authority to receive financial information and cooperate with foreign authorities. The GOSVG should also increase resources to properly supervise the offshore sector and adequately train regulatory and law enforcement personnel on money laundering operations and investigations. Particular caution is warranted in implementing an economic citizenship program without proper due diligence, since such a program could offer yet another avenue for international criminals to hide themselves and their illicit profits.

Suriname (Other). There are indications that money laundering occurs in Suriname, reportedly through over-valuation of purchase prices, the sale of gold purchased with illicit funds and sold in Suriname, and manipulation of accounts in commercial and state controlled banks. Casinos, many of which opened in 1998, may also facilitate money laundering. The police have created a financial investigative unit to begin information gathering and have begun work on money laundering laws, but the present legal regime is inadequate to prevent money laundering. There are unsubstantiated reports of money laundering, drug trafficking and associated criminal activity involving current and former government and military officials.

Suriname enacted new anti-narcotics legislation in January 1999. The new law provides for greater police investigative and property seizure powers, as well as longer prison sentences. Representatives of Suriname's police force and prosecutor's office continue to participate in regional anti-drug and money laundering conferences.

Suriname is a party to the 1988 UN Drug Convention. The challenge before the Government of Suriname is to complete its effort to enact adequate laws to address asset forfeiture and money laundering, and to apply forcefully the provisions already in effect.

Swaziland (Other). Swaziland is not a major financial center. However, its narcotics trafficking, outdated legislation, limited enforcement capabilities and easy cross-investment with South Africa all provide the potential for money laundering. U.S. law enforcement sources report that money laundering in Swaziland is on the rise.

Swaziland's anti-narcotics law dates from 1929 and does not specifically address money laundering. The Government of Swaziland drafted a Money Laundering Act in 1997, but it has not been enacted. The new Attorney General of Swaziland said publicly in November 1999 that he would "rekindle the flame" for this legislation. The Swazi Minister of Finance has stated that amendments to strengthen existing central bank regulations dealing with requirements for setting up financial institutions have gone to the cabinet.

Swaziland is a party to the 1988 UN Drug Convention.

Sweden (Other). In 1999, Swedish anti-money laundering legislation was amended to cover proceeds from all types of criminal activity. Previously, money launderers were usually prosecuted for a receiving offense, such as receiving stolen goods.

Swedish law requires financial institutions, insurance companies and currency exchange houses to verify customer identification, inquire into the background of the transaction, and verify identities for each transaction, particularly in the case of new customers involving amounts over \$13,250. Any suspicious transactions are to be reported to the police financial intelligence unit (FIU). The law was changed in 1999 so

that non-complying institutions, rather than individual officers, will be sanctioned for violations. In addition, the police FIU may now demand identification from dealers in antiques, jewelry, junk and art; from companies buying and selling new and used vehicles; and from enterprises which deal with gambling and the sale of lottery tickets.

Swedish law provides for the seizure of assets derived from drug-related activity.

Sweden is a member of the FATF and the Council of Europe. Its FIU participates in the Egmont Group.

Switzerland (Primary). Switzerland is a major international financial center. It is considered to be vulnerable to money laundering because of the strength of the Swiss franc, the sophisticated nature of financial services available in Switzerland, and the level and nature of bank secrecy available in Switzerland. It is believed that the proceeds of a wide range of illicit activities (most notably narcotics trafficking and corruption) conducted around the world are laundered in Switzerland.

Several pieces of Swiss legislation address money laundering. Money laundering was criminalized by article 305bis of the Swiss Penal Code. Additional legislation includes articles 58 and 305ter of the Swiss Penal Code, CFB (Swiss Federal Banking Commission) Directive 91/3 (of 1/7/98) and the Agreement on the Banks' Obligation of Diligence.

Swiss law requires banks to determine the identity of customers conducting transactions in excess of \$64,000, and foreign exchange houses to determine the identity of customers conducting transactions in excess of \$16,000. Reporting of suspicious transactions to the Money Laundering Reporting Office (MROS) by banks, lawyers, accountants, insurance brokers and financial advisors is mandatory. The MROS was established by the Money Laundering Act of October 10, 1997 (which also addresses the regulation of asset managers), and is part of the Federal Office for Criminal Police Matters. The MROS serves as Switzerland's financial intelligence unit (FIU) and participates in the Egmont Group. Disclosures to the MROS are not subject to civil or criminal prosecution or administrative sanctions if due diligence was exercised in association with the disclosure. Failure to disclose carries penalties of up to \$128,000 and possible revocation of the financial institution's license.

Although the term "Swiss bank secrecy" is often used monolithically, there are actually three distinct areas of bank secrecy in Switzerland: civil, criminal and administrative. Each of these is addressed by an appropriate area of Swiss law:

Article 28 of the Swiss Civil Code obligates Swiss banks to maintain their clients' privacy. If the customer is aware of a potential and unauthorized release, a court order may be obtained to prevent the release of information. In case of unauthorized release, the bank may be sued for breach of privacy.

Article 47 of the Swiss Federal Banking Law criminalizes unauthorized release of information. This applies not only to the bank and its employees, but to parties attempting to discover protected information.

Finally, there are administrative consequences associated with the unauthorized release of information. The banker making the unauthorized disclosure will most likely be terminated, and there is also the possibility that the bank's license will be revoked or that it will lose its membership in the Association of Swiss Banks.

There are, however, exceptions to these secrecy provisions. The most important of these comes from the U.S.-Swiss MLAT of 1973 that establishes the countries' mutual obligations to assist one another in criminal prosecutions. This treaty provides for the disclosure of information in cases stemming from a wide range of offenses. Not all tax offenses are covered, but Switzerland will disclose information pertaining to tax fraud cases.

Switzerland's banking sector provides accounts to residents and nonresidents alike (the latter can be opened through various intermediaries who often advertise on the Internet and also offer various offshore services), or as part of private banking activities, which are an important aspect of Swiss banking. These accounts are typically opened by individuals for taxation or investment purposes, or by Swiss offshore companies in order to conduct business (including tax avoidance and investment).

Switzerland's offshore sector offers two types of companies: the stock company and the limited liability company. The stock company requires share capital of \$64,000 to be on deposit before the company can be formed; from this capital, bearer shares may be issued. There is no requirement to disclose the beneficial owner of the corporation. The limited liability company requires share capital of \$12,800 to be on deposit before the company can be formed. The limited liability company cannot issue bearer shares, and the identity of the beneficial owner must be disclosed and is available in the commercial register. In general, it can be said that a properly established and well managed Swiss company (of either type) could significantly minimize its tax liability from both business undertakings and investments.

Switzerland is a member of the FATF.

Syria (Other). Opportunities for money laundering in Syria are considered limited. Although illicit proceeds from the drug trade may flow through Syria, it is generally believed that they are moved to Lebanon for laundering purposes. Syria is not a major financial center, the banking system is state-controlled, and transactions in (as well as handling of) foreign currency is generally prohibited. However, the private sector routinely conducts foreign currency transactions to finance imports, generally by using letters of credit from Lebanon and Europe. The private sector also has restricted access to foreign currency earnings from exports.

In 1996, the Government of Syria (GOS) began allowing individuals to open foreign currency accounts at the Commercial Bank of Syria. There is no restriction on withdrawals from these accounts, or from any account in Syrian pounds.

In practice, there are means for businessmen and private citizens to move currency illegally across the Syrian borders, particularly those with Lebanon. There are reports that such transactions occur with the tacit approval, if not involvement, of Syrian government officials. Lebanese sources state that Syria accounts for a large percentage of Lebanon's banking business.

Syria has no anti-money laundering legislation. It does have a law providing for the seizure of assets financed by profits from the drug trade, and the GOS has made use of this law.

Syria is a party to the 1988 UN Drug Convention.

In order to deter money laundering activity, Syria needs to draft anti-money laundering legislation that criminalizes money laundering, mandates the reporting of suspicious transactions, and authorizes authorities to act on such reports.

Taiwan (Primary). Taiwan is at major risk for money laundering, because Taiwan individuals are involved in narcotics trafficking in Southeast Asia. However, money laundering in Taiwan is primarily a problem due to the smuggling of normal commercial products (especially agricultural goods) from the Peoples Republic of China (PRC) to evade current restrictions. Other sources of money laundering proceeds include fraud, insider trading, tax evasion and other financial crimes, as well as drug trafficking. Offshore criminal proceeds are likewise sent to Taiwan for laundering. Organized crime groups from Taiwan launder money through joint ventures and real estate purchases in China and other Asian countries. Alternative remittance systems (ARS), commonly known as underground banking, also serve as mechanisms to launder criminal proceeds. The ARS is widely used in Taiwan and by ethnic Chinese communities throughout the world. The laundering of criminal proceeds through this system is extremely difficult to detect or prevent.

Taiwan's anti-money laundering legislation, the Money Laundering Control Act (MLCA) became effective April 23, 1997. The MLCA criminalized money laundering for all serious crimes with references to specific predicate offenses listed in the Criminal Code, other criminal statutes, and the Banking Law, Securities Exchange Law, and the Bankruptcy Law. Major provisions of the MLCA include customer identification and transaction recording requirements, disclosure of suspicious transactions, designation of a suspicious transaction receiving agency, and international cooperation.

The MLCA empowered the Ministry of Finance in consultation with the Ministry of Justice, Ministry of Interior, and the central bank, to designate an agency to receive suspicious transaction reports. The decision was made to establish this agency, the Money Laundering Prevention Center (MLPC), within the Ministry of Justice's Investigation Bureau. The MLPC, Taiwan's financial intelligence unit, became operational on April 23, 1997.

During implementation of the MLCA, Taiwan authorities realized the need to amend the Act to include certain offenses such as tax evasion and gambling as predicate offenses for money laundering. Taiwan is considering prohibiting financial institutions from informing their clients that their suspicious transactions will be reported to the MLPC, a move that would bring the MLCA in line with international anti-money laundering practice. Another amendment under consideration is to make pawnshops, travel bureaus, antique dealers, auto dealers, and real estate businesses subject to the provisions of the MLCA.

The United States and Taiwan, through the American Institute in Taiwan (AIT) and its Taiwan counterpart, are examining the possibility of negotiating a Mutual Legal Assistance Agreement (MLAA). Taiwan is a founding member of the Asia/Pacific Group on Money Laundering and actively participates in the Group's meetings. The MLPC is a member of the Egmont Group.

Tajikistan (Other). Tajikistan's prominence as a drug-transit country is not matched in the money laundering area. Tajikistan is not a financial center, and its underdeveloped banking sector will prevent it from becoming a significant money laundering country in the near future. As a matter of policy, Tajikistan does not encourage or facilitate the laundering of proceeds from illegal drug transactions. Government actions in 1999 showed a willingness, but little ability, to combat drug-trafficking related problems.

Tajikistan is a party to the 1988 UN Drug Convention. It has as well a bilateral cooperation agreement with the United States, which is facilitating the delivery of anti-money laundering training, including such topics as the

investigation and prosecution of money laundering crimes, controlling international money laundering and investigating economic fraud.

Tanzania (Other). Tanzania is not a financial center, but it continues to be a major transit point for the shipment of a variety of illegal drugs. There has been a sharp rise in the activities of organized crime, which in turn has spawned a myriad of cash-intensive businesses set up to launder money, including travel agencies and import-export firms.

Narcotics related money laundering is a criminal offense in Tanzania, but enforcement of the law is virtually non-existent. There is a great deal of corruption among law enforcement officials, who take bribes for overlooking narcotics and money laundering offenses, thus creating an atmosphere conducive to financial crime in Tanzania.

Tanzania is a party to the 1988 UN Drug Convention.

Thailand (Primary). Thailand's role as a transit country for Southeast Asian narcotics makes it a prime target for money launderers. Thailand's geography and economy are factors that help account for this role. Northern Thailand forms part of the Golden Triangle with Burma and Laos. Although Thailand has made significant strides in reducing the production of illicit narcotics, it still serves as a major narcotics trafficking route from the Golden Triangle because of its good transportation infrastructure and international connections. Thailand's sizable Chinese minority population maintains economic and cultural ties to China, Singapore, Hong Kong, and to Chinese communities in other Southeast Asian countries. This community is a particularly intensive user of the alternative remittance systems (ARS), which facilitates the transfer and laundering of criminal proceeds from narcotics consuming countries such as the United States to producer countries such as Burma and Laos. Corruption among banking and government officials facilitates money laundering activities. Finally, the size of Thailand's economy and large gray economy provides ample possibilities to launder criminal proceeds or transfer them abroad.

The major sources of proceeds laundered in Thailand are narcotics trafficking, smuggling—particularly petroleum products—arms trafficking, trafficking in people, prostitution, and illegal gambling. Money laundering methods include the use of bank accounts, false invoicing schemes, commodities purchases, stock market investments, real estate purchases, and businesses with high volume cash transactions.

A widely used money laundering method in Thailand is the ARS known as "phoi kuan". The laundering of criminal proceeds through this system is extremely difficult to detect or prevent. It was introduced into Thailand by Chinese immigrants and is used by ethnic Chinese communities throughout the world. The ARS can transfer large sums of money efficiently and quickly without leaving financial records tied to the transactions. The paper trail is eliminated by avoiding official reporting requirements to Customs authorities that bulk cash or monetary instruments would attract at the border, and commercial bank reporting requirements that cash or suspicious transactions require. The system is still used for its traditional purpose of conducting legitimate transactions, however, it is also used for tax evasion and as a means to move and launder criminal proceeds.

The ARS relies on a network of businesses such as jewelry stores, gold shops, travel agencies, money exchangers, finance companies, and import/export companies. At certain stages of the money transfer, the system depends on legitimate banks to balance the accounts of the parties conducting the transaction. No physical transfer of funds takes place; the transaction is merely a credit entry in the sending company's account and a debit entry in the receiving company's account. Even though physical funds are not moved during the transfer of funds using the Chinese ARS, the books must be balanced to reflect the actual exchange of value that the entries in the correspondent accounts represent. To accomplish this, the entities conducting underground transactions would use larger banks to transfer money usually through foreign intermediary banks to settle their accounts.

The advantages of using the ARS include anonymity, speed, price, and convenience. The system is much faster than bank procedures since large currency transactions can be conducted in a matter of hours. Fees are kept low, since the Chinese underground bankers also profit by taking advantage of unofficial currency exchange rates that are more favorable than official exchange rates. ARS uses businesses located within the community where banks may not be present or located at some distance. ARS hours tend to be more flexible than commercial bankers' hours.

Thailand's anti-money laundering legislation, the Money Laundering Control Act B.E. 2542 (1999) became effective August 20, 1999. The Act criminalized money laundering for the following predicate offenses: narcotics trafficking, prostitution, pandering, arms trafficking, financial institution fraud, embezzlement, public corruption, smuggling and other customs violations, extortion, and blackmail.

Major provisions of the Money Laundering Control Act include those dealing with customer identification, record keeping, and the reporting of large and suspicious transactions. The Act also creates three agencies to handle various aspects of the Act—the Money Laundering Control Board, the Business Transactions Committee,

and the Money Laundering Control Office.

The Money Laundering Control Board advises the Cabinet and formulates government policy on money laundering issues. It also monitors and evaluates the effectiveness of the Money Laundering Control Act and the performance of the Business Transactions Committee and Money Laundering Control Office.

The Business Transactions Committee executes operational aspects of the Act that address suspect transactions and the disposition of proceeds. It may audit and suspend suspect financial transactions related to money laundering for a period of up to three days. In cases where there is evidence that a financial transaction is related to money laundering it may suspend the transaction for up to ten days. The Committee may compel physical and juridical persons, as well as government agencies and officials, to provide oral or written testimony and documentation in money laundering investigations. It can conduct search and seizure operations for the purpose of investigating, monitoring, and freezing of assets or evidence of money laundering offenses. In addition, the Committee may freeze assets related to a money laundering investigation for a period of up to ninety days if there is probable cause that the assets are perishable.

The Money Laundering Control Office is Thailand's financial intelligence unit (FIU), which became operational in 1999. It receives, analyzes, and processes suspicious and large transaction reports as required by the Act. The Business Transactions Committee tasks the Office with administrative functions such as collecting evidence and identifying witnesses for money laundering investigations. The Office is also tasked with providing training to the public and private sectors concerning the provisions of the Act.

The U.S.-Thai MLAT entered into force in 1993. Thailand is a member of the Asia/ Pacific Group on Money Laundering (APG). It co-chairs the APG's Working Group on Alternative Remittance Systems and will host the next meeting of the Working Group in March 2000. The MLPC is a candidate member of the Egmont Group of FIUs.

Thailand has a small offshore banking sector that offers tax advantages to commercial banks operating businesses that may accept deposits, extend loans, and conduct other financial services only in foreign currency. Commercial Banking Act B.E. 2505, as amended by the Commercial Banking Act B.E. 2522, established these offshore banks to operate as Bangkok International Banking Facilities (BIBF). BIBFs were listed by the United Nations Drug Control Program and by the World Bank as potentially vulnerable to money laundering activities because they serve as transit points for funds and as tax havens for non-residents permitting physical separation of funds from their owners. BIBFs are now subject to the recently enacted Money Laundering Control Act. Implementation of the Act will probably discourage the use of BIBFs as money laundering mechanisms.

Thailand's anti-money laundering program is still in the early stages of implementation, but the legislative framework appears to be in conformity with international anti-money laundering standards. Thailand has made rapid and laudable progress in its efforts to combat money laundering.

Tonga (Other). Tonga is not considered an important regional financial center, and financial crimes have not shown any discernible increase. The law permits offshore banks, but according to late 1999 information from the Government of Tonga, all previously issued licenses for offshore banks in Tonga were revoked in 1991. One new offshore banking license was reportedly issued in 1997 but revoked in 1999.

Laws are still in place in Tonga regarding offshore banks. They are regulated by the Reserve Bank of Tonga, and enjoy favorable tax treatment, freedom from exchange control, freedom from disclosure of information regarding the owners of the accounts, and exemption from registration procedures. Domestic banks are required to know, record, and report the identity of customers engaging in "significant" transactions, including large currency transactions.

The government is expected to introduce a draft bill to criminalize money laundering based on the UN Model Law ("Money Laundering and Proceeds of Crime Bill") in Tonga's parliament in early 2000. The new law will also include due diligence provisions for financial institutions. Tonga has endorsed the Basle Core Principles for Effective Banking Supervision, and is in the process of amending its Financial Institutions Act to ensure consistency with the Principles.

Tonga needs to follow through on its draft bill criminalizing money laundering.

Trinidad and Tobago (Other). Trinidad and Tobago has a well-developed and modern banking sector, but it is not an important regional financial center, nor is it a tax haven or offshore center. The country is experiencing an increase in financial crimes, mostly in the form of counterfeiting and credit card fraud. Reports from the Government of Trinidad and Tobago (GOTT) indicate that the same individuals who are involved in drug trafficking also engage in money laundering. It is likely that some money laundering takes place in banks, credit unions, stock brokerages, insurance companies, casinos, and some retail businesses.

Currently, only drug-related money laundering is a criminal offense, although a law to expand predicate

offenses to include "serious crimes" is being drafted. Although not legally required to do so, banks in Trinidad and Tobago have subscribed to a money laundering prevention agreement under which they require a declaration of the source of funds for large transactions (\$1,600 for individuals and \$6,350 for businesses.) At present the GOTT allows financial institutions to report suspicious transactions to the relevant authorities, but proposed legislation would require banks and other financial institutions to report both suspicious and significant transactions. Persons reporting suspicious transactions are protected by law from prosecution and civil liability. Banking records must be maintained for 14 years, although some banks maintain them for longer periods.

The central bank has set money laundering guidelines, including due diligence provisions, that apply to all financial institutions that are subject to the Financial Institutions Act of 1993. These include banks, finance companies, leasing corporations, merchant banks, mortgage institutions, unit trusts, credit card businesses, and financial services businesses. Credit unions and exchange houses are not subject to the guidelines.

GOTT customs regulations require that any sum above \$5,000 (in currency or monetary instruments) entering or leaving the country be declared. Cash above \$10,000 may be seized, with judicial approval, pending determination of its legitimate source.

The GOTT has an inter-ministerial counternarcotics/crime task force that investigates drug trafficking and related money laundering. Six people are currently on trial charged with transferring assets derived from narcotics trafficking. They are the first persons in Trinidad and Tobago to be charged with money laundering under the 1991 Dangerous Drugs Act.

The GOTT has legislation in place that allows it to trace, freeze and seize assets. Current legislation does not allow for the sharing of forfeited assets with other countries. Authorities may seize legitimate businesses if they are used to launder drug money.

Trinidad and Tobago is a member of the CFATF, which is based in Port-of-Spain. It underwent a CFATF mutual evaluation in 1997. An MLAT with the United States came into force in November 1999. The GOTT's international cooperation record in the area of information exchange on financial crimes has been excellent.

The GOTT needs to follow through with its draft legislation to broaden the criminalization of money laundering, to require the reporting of suspicious transactions, and to provide for asset sharing with other countries.

Tunisia (Other). Little information is available about possible money laundering activity in Tunisia. It is not a regional financial center, and the Tunisian government keeps a strong hand on the management of the economy. However, a number of factors may make Tunisia vulnerable to money laundering. One is the presence of an offshore banking sector consisting of eight banks, reportedly closely regulated by the Tunisian Ministry of Finance and the Central Bank. There are no offshore trusts or insurance companies. In the area of international business companies, there are approximately 1,200 offshore manufacturing companies (regulated by the Ministries of Commerce and Industry) and 300 offshore trading companies (regulated by the Ministry of Commerce). Unlike the manufacturing companies, the 300 offshore trading firms may or may not import goods to Tunisia for export. As a rule, they match up third country supply and demand, and broker trade deals with no goods ever entering or leaving Tunisia. The Government of Tunisia (GOT), recognizing that the trading firms present a possible money laundering venue, closed down 30 of them in late 1999 because of suspicions that their stated purpose (trading used clothing) was not their primary business.

Offshore companies may be 100 percent foreign-owned. Anonymous directors are not permitted, and the names of all such individuals (or companies) must be listed in the Tunisian official government journal when the company is organized or when there is a change in the directorship.

Another factor to be taken into account is the small network of three offshore casinos, which is aimed at the five million tourists who enter Tunisia each year. Tunisian security officials and the Ministry of Finance closely monitor the activities of the casinos.

Tunisia has no comprehensive anti-money laundering statute. The only legislation dealing with money laundering is contained in a 1992 anti-narcotics law which makes it illegal to assist anyone involved in narcotics trafficking, including transferring funds, offering services, or procuring facilities which would enable trafficker to invest or disguise drug trafficking income. The law applies even if the illegal activity takes place in another country. The law also provides for the seizure of drug-related assets. There is no limit on the amount of currency that may be brought into the country, but any amount over \$1,000 must be declared.

In view of the risks posed by the presence of its offshore sector, Tunisia should draft strong anti-money laundering legislation and implementing regulations.

Turkey (Primary). Turkey is an important and increasingly sophisticated regional financial center for Central Asia, the Caucasus, the Middle East as a whole, and Eastern Europe. It is also on the transit route for Southwest

Asian opiates moving to Europe, although domestic consumption of narcotics is low. While narcotics trafficking is a source of illicit proceeds, most money laundering that takes place appears to involve tax evasion rather than narcotics transactions, and local narcotics trafficking organizations are responsible for only a small portion of the total of funds laundered in Turkey. Terrorist financing is also an issue. Money laundering takes place in both banks and non-bank financial institutions. According to early 1999 information from the Turkish Ministry of Finance, other major money laundering methods in Turkey include the cross-border smuggling of currency, bank transfers into and out of the country, and the purchase of high-ticket items such as real estate, gold and luxury automobiles. Information indicates that illicit funds are integrated into the economy through the financing of the construction of large apartment complexes and other buildings. The system of casinos, which had been considered a venue for money laundering, was closed down in 1998. Turkey is not an offshore financial center, and has no secrecy laws that prevent disclosure of client and ownership information to bank supervisors and enforcement officials.

The Government of Turkey (GOT) has been active in the fight against money laundering for several years, primarily as a means of reducing tax evasion and preventing terrorist organizations from financing their activities in Turkey. Turkey criminalized money laundering in 1996 for a wide range of predicate offenses, including narcotics-related crimes, smuggling of arms and antiquities, terrorism, and trafficking in human organs and in women. Enactment of the 1996 law was considered a major accomplishment, as Turkey was among the first countries in the area to criminalize money laundering. The Council of Ministers subsequently passed a set of regulations that mandate the filing of suspicious transaction reports (STRs) and customer identification, and require the maintenance of records for five years. These regulations are applicable to banks and a wide range of non-bank financial institutions, including insurance firms and jewelry dealers. The number of STRs being filed is steadily rising, as banks and financial institutions become more aware of what constitutes an STR. However, the requirement for the reporting of large cash transactions is still not being enforced, as the GOT believes it would impose too great a burden at a time when financial institutions (many of whose computer systems are not very sophisticated) are still getting used to STR reporting. Turkey also has in place a system for identifying, tracing, freezing and seizing narcotics-related assets, although Turkish law allows for only criminal forfeiture.

The FATF, of which Turkey is a member, has conducted two reviews of Turkey's anti-money laundering program. The second review noted that while Turkey was making progress, several areas need to be addressed. The suspicious transaction reporting system is satisfactory, but the low number of reports being filed is a cause for concern. The report suggested that intensive training for the private banking sector is needed to improve compliance. The report also stated that another area of weakness is the lack of sufficient supervision by the government over financial institutions.

The 1996 anti-money laundering law provided for the establishment of the Financial Crimes Investigation Board (FCIB), which receives and investigates suspicious transactions reports and serves as Turkey's FIU. The GOT strongly supports the FCIB, which moved into new headquarters in late 1998 and has increased its staff and the quality of its computer equipment. The FCIB cooperates closely with the United States in money laundering investigations, and has requested (and received) U.S. assistance in obtaining information on several cases.

Turkey participates in the FATF, and the FCIB is an active member of the Egmont Group of FIUs. The GOT is reviewing a draft agreement with the EU on the sharing of forfeited assets related to money laundering and criminal activities. The GOT is cooperating closely with the United States and with its neighbors in support of the development of a regional anti-crime center in the Balkans under the Southeast Europe Cooperation Initiative.

Turkey has an MLAT in force with the United States and the two countries cooperate closely on a case-by-case basis on narcotics investigations and proceedings.

Based on its demonstrated commitment to fighting money laundering, the GOT now needs to maintain the momentum it has generated in setting up its anti-money laundering regime. Implementing the regulation for the reporting of large cash transactions would be a recommended first step. It also needs to ensure that it has in place a prudent system of supervision over its financial institutions.

Turkmenistan (Other). Turkmenistan is not a financial center, and its financial sector is not developed enough to accommodate elaborate money laundering activities. In the past, however, Turkmen officials have expressed concern that criminal groups might be laundering money through casinos or hotels.

The Criminal Code of 1997 has no specific law addressing money laundering. Presidential Resolution No. 0210/02-2 of October 17, 1995, however, gives the central bank authority over all international financial transactions. Under the Resolution, any company making an electronic transfer of funds to an account abroad must provide documentation establishing the source of the money. Turkmenistan's tax inspectorate is responsible for checking for irregularities; if any are found, the tax office turns the case over to law enforcement services for investigation. No cases have been reported to date.

Turkmenistan is a party to the 1988 UN Drug Convention.

Taking into account the Turkmen government's interest in combating money laundering, the U.S. government has scheduled training on international money laundering investigations for Turkmen officials in 2000 or 2001.

Turks & Caicos (Concern). The Turks and Caicos Islands (TCI), a British Caribbean Overseas Territory, remains vulnerable to money laundering. Offshore services offer bank and corporate secrecy opportunities for criminals to hide their money. However, in 1998 TCI passed comprehensive anti-money laundering legislation, and in 1999 the territory agreed to undergo a comprehensive review of its offshore industry and make any necessary changes to prevent criminal abuse of the financial sector.

The TCI's offshore services include banking, insurance, trusts, international business companies (IBCs) and other exempted companies. Shelf companies are available and accounts are not required to be kept or filed with any authority. For IBCs, there is no disclosure of beneficial owners to government authorities, and bearer shares are permitted. Public information indicated that some 13,300 IBCs and three offshore banks were on the registry. Trust legislation in the TCI also allows establishment of asset protection trusts that secure assets out of the reach of foreign governments. The Financial Services Commission (FSC) licenses and supervises all domestic and offshore finance-related operating entities. The FSC includes a Superintendent, a Deputy Superintendent of Professional Trust Companies, and a Deputy Superintendent of Insurance. The Companies Registry, which monitors the incorporation or the registering of new companies, is also under the jurisdiction of the FSC.

In 1998, the TCI governor signed the Proceeds of Crime Ordinance, criminalizing money laundering related to any crime and establishing extensive asset forfeiture provisions. The law also legislates a Reporting Authority to receive financial disclosures. It will consist of the Attorney General, the Collector of Customs (or his representative), the Superintendent of the Financial Services Commission or his representative, the Commissioner of Police or his representative, and the Superintendent of the Criminal Investigation Department or his representative. The Authority may disclose information it receives to law enforcement agencies in TCI or to foreign governments. The law also authorizes the governor to issue a code of practice to give practical guidance for entities to comply with the law, and to issue additional guidelines for the Reporting Authority. The law also includes a safe harbor provision for reporting of suspicious transactions to the Reporting Authority. Although the law is in force, the Authority has not yet been established. Guidelines are currently being drafted and are scheduled to be issued in early 2000. They are expected to include requirements for customer identification, record keeping, and reporting of suspicious transactions.

In 1999, the TCI also embraced a plan to review the offshore services in Britain's Caribbean Overseas Territories. The project is jointly funded by British and local officials and follows a white paper published in March by the British Foreign Secretary. Independent examiners will investigate all offshore sectors and regulations, as well as cooperation in international anti-money laundering programs, to determine what actions, if any, are necessary to bring the territories up to international standards to prevent criminal abuse of their offshore sectors. The evaluation is scheduled to be completed by mid-2000.

The TCI government cooperates with foreign governments in narcotics and money laundering investigations. After a three-year joint investigation with the Royal Canadian Mounted Police (RCMP), in February 1999 the Turks & Caicos authorities and RCMP seized the main office, records, and assets of the British West Indies Trust Co. Ltd., a TCI offshore company. The same day, RCMP arrested company trustee Richard Hape, a Canadian citizen, on charges of conspiring to launder drug money.

Turks & Caicos is a member of the CFATF and underwent a mutual evaluation in April 1997.

The TCI government needs to fully implement the Proceeds of Crime Ordinance, issue guidelines for supervised entities, and establish the Reporting Authority to act as a financial intelligence unit. Complying with recommendations from the financial review will also help improve financial oversight and protect the TCI's financial sector from abuse by international criminals.

United Arab Emirates (Primary). The United Arab Emirates' (UAE's) position as a major financial center renders it vulnerable to money laundering. The lack of a U.S. law enforcement presence in the UAE makes it difficult to formulate a complete and accurate assessment of the money laundering situation there. There is, however, ample information available from U.S. and foreign money laundering cases which indicates a connection to the UAE. Most money laundering activity is believed to involve the proceeds of foreign criminal organizations and illegal activities, with the UAE serving as a conduit to international financial markets. The UAE has an open economy with a highly developed financial system, no exchange controls, and low taxation. It is also a highly cash-intensive society. Finally, the hawala (or hundi) alternative remittance system flourishes in the UAE, particularly Dubai. All these factors suggest that the UAE is at high risk for money laundering.

There is no anti-money laundering legislation in place in the UAE. A money laundering/banking law has circulated in draft form for several years, but there is no estimate of when it may be enacted. The UAE's central

bank, the National Bank of Abu Dhabi, has established anti-money laundering guidelines, based on guidelines established by the British Bankers' Association. Banks are required to report large or suspicious transactions to authorities, but there is no effective mechanism to ensure compliance. While bankers reportedly provide information to authorities when requested, lack of a safe harbor provision may make them reluctant to do so. The UAE has not adopted due diligence laws making bankers responsible for the money laundering activities of their banks. It also has not adopted a system for identifying, tracing, freezing, forfeiting and seizing illegal assets.

It is believed that as in most, if not all, of South Asia, the hawala (or hundi) alternative remittance system is the primary mechanism for money laundering in the UAE. Local hawaladars (hawala brokers or operators) there take advantage of the lack of exchange controls (found in India, Pakistan and elsewhere) and do a thriving business in licit and illicit remittances. The gold market in Dubai is arguably the largest in both the Middle East as well as South Asia. The gold market also plays a key role in hawala remittances due to the high demand for gold in the region—gold is used as a parallel currency, if not the currency of choice, in certain transactions.

Hawala was a major factor in Operation Seek and Keep, the final phases of which occurred in 1999. This investigation, which was conducted by a multi-agency task force (Immigration and Naturalization Service, Internal Revenue Service, FinCEN, U.S. Postal Inspection Service, U.S. Customs Service and the Federal Bureau of Investigation) dismantled a global alien smuggling ring. Aliens were smuggled to the United States from several destinations, most particularly India. Many of the fees for the smuggling of these aliens were paid by U.S. businessmen seeking "indentured servants" to help in the operation of their businesses. Hawala was used extensively to move and launder the money in these operations. A key component of this was the transfer of funds to a Dubai-based business with a U.S. bank account. This bank account is currently the subject of an asset forfeiture proceeding.

The UAE is not an offshore center in the traditional sense, although there are plans to establish an offshore banking unit on Abu Dhabi's Saadiyat Island. Many local businessmen do, however, offer services equivalent to those associated with traditional offshore centers, such as nonresident incorporation. Even though there are no corporate registration agents for the UAE (as there are in or for many traditional offshore centers such as Singapore), it is possible to obtain essentially the same service. Someone seeking to use the UAE as a base of operations can pay a local businessman a fee for the use of his business name, or, in a somewhat more formal arrangement, enter into a partnership arrangement. In these partnerships, the local businessman will own at least 51% of the business, and the other partner(s) will remain effectively invisible (the partner may actually fund the entire business to gain access to the UAE as a base of operations). Even in a partnership, there is often no record of the identity of the foreign partner (who may actually be the full owner of the business). This makes it difficult if not impossible to identify beneficial owners of businesses or assets in the UAE.

Another service often associated with offshore centers is nonresident banking with high bank secrecy. This too is available in the UAE through hawala. Hawala transactions can be conducted there without any formalities, and most hawala transactions, particularly those of an illicit nature, leave little or no paper trail. In many cases hawala transactions are conducted by local businessmen on behalf of others, so it is difficult, if not impossible, to identify the source, destination and owners of the money involved in these transactions.

The UAE does not have a financial intelligence unit. The UAE is a member of the GCC, which is a member of the FATF. Despite this, the UAE has not taken steps to comply with the FATF Forty Recommendations.

The UAE has been generally receptive to U.S. Government overtures to cooperate on money laundering issues, and has welcomed money laundering related training and visits by U.S. officials to discuss money laundering.

The UAE needs to take concrete steps to address money laundering. Systematic enforcement of existing bank regulations would be a first step, as would enacting and implementing comprehensive anti-money laundering legislation based on established international standards. Since hawala is a major component of money laundering in the UAE, special steps would have to be taken to deal with it.

Uganda (Other). Money laundering is thought to occur in Uganda, but there is no good estimate of the amounts of currency involved. There are suspicions that local banks may provide a conduit for money laundering, but Ugandan enforcement officials have been unable to prove this because of the lack of adequate laws to assist them. A new anti-narcotics bill which is scheduled to be brought before the next session of Parliament should address this issue and aid in the investigative and prosecutorial process. Asset seizure is also addressed in the draft law.

Ugandan authorities are frank about their lack of expertise in combating money laundering and about their desire to obtain training. Germany provided Uganda with anti-money laundering and mutual assistance training in 1999.

Uganda needs to enact its draft anti-money laundering legislation to protect its financial institutions against financial crime and money laundering.

Ukraine (Concern). Although Ukraine is generally not considered an attractive location for international money laundering activities, significant criminal proceeds are generated in Ukraine and either laundered domestically or transferred abroad for subsequent laundering. Ukraine's location makes it a transit country for transnational crime, primarily narcotics trafficking. Other sources of illegal proceeds include smuggling, tax evasion, tax fraud, arms trafficking, and illegal alien smuggling. The presence of organized crime activity and rampant corruption provide favorable conditions for money laundering.

Foreign criminal proceeds are known to be laundered in Ukraine and transferred abroad. Funds leaving Ukraine are transferred to financial institutions in the former Soviet Union, Western Europe, the United Arab Emirates, Cyprus, the United States, and to offshore countries. For the most part, the funds do not return to Ukraine. The funds that do return are invested in businesses and real estate, or are deposited in bank accounts. Laundering of funds through the use of correspondent accounts in foreign banks, in particular in the Baltics and offshore zones, is a significant problem.

The types of financial institutions used to launder proceeds include banks, insurance companies, front financial companies, trust companies, currency exchanges, casinos, and real estate companies. Ukrainian financial institutions are used to launder funds from countries of the former Soviet Union. The types of monetary instruments used to launder proceeds include cash, bank drafts, traveler's checks, credit cards, wire transfers, and letters of credit.

Ukraine has drafted anti-money laundering legislation that appears to meet international standards. Article 194 of its draft Criminal Code will criminalize money laundering for all serious crimes. The Ministry of Justice anticipates introduction of these legislative initiatives into the Ukrainian Parliament sometime in 2000.

Ukraine participates in the Council of Europe's PC-R-EV. In May 2000, Ukraine will undergo a mutual evaluation conducted by the PC-R-EV.

In July 1999, the United States and Ukraine signed an MLAT. In September 1999, both countries exchanged diplomatic notes that provided for the provisional application of the MLAT. Provisional application will continue until the MLAT enters into force.

Ukraine should continue with its current efforts in addressing money laundering. The PC-R-EV's first mutual evaluation report on Ukraine may indicate areas for improvement. As Ukraine continues to implement its money laundering regime, taking into account the recommendations of the report will create a more effective regime that fully meets international standards for combating money laundering.

United Kingdom (Primary). The United Kingdom (UK) is one of the largest financial centers in the world and the largest in Europe. Some of the oldest and most established financial institutions (including banks, exchanges and insurance companies) in the world are based in the UK. Some UK financial institutions have a significant international presence due to connections developed during the British Empire. As a major financial center with significant international connections and well established financial institutions, the United Kingdom is vulnerable to money laundering.

In addition to money laundering through its traditional financial institutions, the UK has also had problems with money laundering through the hawala (or hundi) alternative remittance system. It is generally believed that the majority of hawala transactions, conducted by the United Kingdom's sizable South Asian population, represent essentially legitimate or "back home" remittances. Under UK law, hawala operators are held to take deposits on behalf of their clients; since unlicensed deposit taking is illegal, so are hawala transactions. There are, however, known instances of hawala money laundering associated with narcotics trafficking and other crimes.

The United Kingdom has implemented the provisions of the EU's Anti-Money Laundering Directive and the FATF Forty Recommendations. There is no single piece of anti-money laundering legislation in the United Kingdom. The significant majority of anti-money laundering provisions are contained in the Criminal Justice Act of 1993 (CJA93), the Prevention of Terrorism Act of 1989 (PTA89), the Drug Trafficking Act of 1994 (DTA94), and the HM Treasury Money Laundering Regulations of 1993.

UK laws and regulations require the reporting of suspicious transactions, customer identification and record retention. Reporting requirements apply to banks and non-bank financial institutions, as well as to lawyers, accountants and other professionals. Although bureaux de change are not regulated, they are subject to the reporting requirements.

Suspicious transaction reports are filed with the Economic Crime Unit of the National Criminal Intelligence Service (NCIS), which serves as the UK's financial intelligence unit (FIU).

On June 1, 1998, the Bank of England Act 1998 (BEA98) came into effect, transferring responsibility for UK bank supervision from the Bank of England to the newly established Financial Services Authority (FSA). The FSA's primary responsibilities lie in areas relating to the safety and soundness of the institutions under its

purview. The FSA does, however, play an important role in the fight against money laundering through its continued involvement in the authorization of banks. UK and certain foreign banks must have the authorization of the FSA to take deposits. Banks incorporated in the European Union or European Economic Area (Norway, Iceland and Liechtenstein) are subject to "home country" supervision.

The UK's banking sector provides accounts to residents and nonresidents (who can open accounts through various intermediaries, who often advertise on the Internet and also offer various "offshore" services), or as part of private banking activities. Private banking constitutes a significant portion of the British banking industry. Both resident and nonresident accounts are subject to the same reporting and recordkeeping requirements. Non-resident accounts are typically opened by individuals for taxation or investment purposes.

The NCIS is a member of the Egmont Group of FIUs. The UK is a party to the 1988 UN Convention and a member of the FATF.

Uruguay (Primary). With a modern banking system and economic and political stability, Uruguay is considered a financial center in the Southern Cone region, and as such remains attractive to money laundering. U.S. and European law enforcement officials believe that funds from illicit activities, including drug trafficking and contraband smuggling, may be laundered through Uruguayan financial institutions. Uruguayan investigations and criminal trials have identified Colombian organized crime groups laundering drug profits through the banking system. However, there is at present no solid indication of widespread money laundering in Uruguay.

Uruguay's anti-money laundering program continues to improve under the coordinated efforts of the National Drug Council and the central bank. The laundering of funds derived from narcotics trafficking became illegal upon passage of the October 28, 1998 Anti-Drug Law No. 17.016. Articles 71 through 74 of this Law prohibit financial institutions, including offshore banks and currency exchange houses, from opening or maintaining anonymous bank accounts, and mandate financial institutions to transmit information on financial transactions to the Central Bank of Uruguay. Financial institutions are not required to report suspicious transactions, but the central bank may revoke the licenses of banks and exchange houses involved in money laundering. The law does not contain a due diligence provision that would make bankers responsible if their institutions launder money.

The Anti-Drug Law also facilitates the lifting by the courts of traditionally strong bank secrecy laws to conduct money laundering investigations. If there is reasonable cause to suspect criminal use of the banking system by a specific person, the courts have the power to order access to the individual's bank accounts. The central bank and the courts have legal responsibility for asset tracing, and judges may issue orders to seize assets at any time and without prior notice. The Law also expressly authorizes Uruguayan courts to provide records to foreign authorities in criminal investigations. Subsequent to this Anti-Drug Law, in January 1999 the Transparency Law entered into force as a tool to fight government corruption. It criminalized a broad range of potential abuses of power by public officials, including the laundering of funds related to cases of public corruption, and instituted financial disclosure requirements for high government officials.

Prior to the passage of the 1998 Anti-Drug Law, a series of communications issued by the central bank (91/47, 91/55, 93/68 and 1452) had already required banks (including offshore banks), currency exchange houses and stockbrokers to record currency transactions over \$10,000, identify the individuals making such transactions, establish databases to identify and analyze these transactions, and make their records available to the central bank upon request. The 1998 Anti-Drug Law reinforced these central bank anti-money laundering provisions. With U.S. assistance, the central bank has recently acquired computer systems to manage this information and is developing a database to allow for the analysis of the information and detection of possible money laundering activity. Although no existing Uruguayan laws explicitly address the sharing of seized narcotics assets with other countries, the Government of Uruguay has not ruled out such sharing and has expressed a willingness to negotiate bilateral sharing agreements. Uruguay and the United States have successfully implemented their 1984 extradition and 1994 mutual legal assistance treaties.

The Uruguayan government is encouraging the development of the offshore financial sector. The Uruguayan offshore program allows for the establishment of offshore financial investment companies (SAFIs) per the 1948 Offshore Companies Act, Law No. 11,083; free trade zone companies (FTZs) per the 1989 Companies Act, Law No. 16,060; and offshore banking enterprises (OBEs) per Decree 15,322 of 1989, which reactivated a dormant 1982 offshore banking law. The offshore financial investment companies (SAFIs) are best known for being used as investment holding companies. However, they are also used as trading companies, brokerage firms, and export and import companies, as well as to transmit funds to and from neighboring countries. The SAFIs are required to maintain a registered office in Uruguay and a set of accounting books. The minimum number of shareholders required is one, and shareholders do not have to be registered with the government. The FTZs are used within the nine Uruguayan free trade zones for manufacturing and distribution. The OBEs are used by large international banking institutions to provide foreign exchange services and finance the trade of multinationals operating in the region. OBEs are permitted to do business only with nonresidents and in foreign currency. They may neither accept resident deposits nor offer checking account services. Applications

for OBEs must be approved by the Central Bank of Uruguay, which also approves the directors, issues the rules for accounting and financial statement preparation, and monitors their activities. The central bank also performs background checks on applicants for OBEs, although the thoroughness of these investigations is not clear. Offshore banks are subject to the same requirements as other financial institutions, including annual audits. In addition to the OBEs, the private commercial banking system in Uruguay is composed of 21 banks, 10 financial institutions, and 10 savings and loan organizations.

The Uruguayan Banking Association adopted a Code of Conduct in May 1997 that requires member banks to identify all new clients, scrutinize currency deposits greater than \$10,000 or large deposits of foreign currency comprised of bills in large denominations, and to establish a database to capture information on deposits of more than \$10,000 in large denominations or easily negotiable instruments.

Uruguay is a party to the 1988 UN Drug Convention.

Criminalizing the laundering of proceeds originating from all serious crimes, mandating the reporting of suspicious financial transactions, and establishing regulations concerning the transport of currency and negotiable instruments across its borders are essential elements which the GOU should consider to strengthen its anti-money laundering regime.

Uzbekistan (Other). Uzbekistan is not an important financial center, and is of little significance for narcotics-related money laundering. Because the local currency is not convertible, and banking services are unsophisticated, Uzbekistan does not attract narcodollars. There is a significant black market for smuggled consumer goods in the country; however, the market does not appear to be funded by narcotics proceeds.

The country has no specific laws or international agreements regarding money laundering; regulations regarding money laundering and asset seizure are vague. A decree issued in October 1998 allowed banks to offer anonymous hard currency accounts, but the measure has thus far failed to draw significant deposits. There are strict controls on the amount of currency that can be carried across Uzbek borders. Currently, residents and non-residents may bring in up to \$10,000 tax-free (a one percent duty is levied on amounts in excess of this figure). Non-residents may export as much currency as they brought in; residents may carry out up to \$1,500.

Uzbekistan is scheduled to receive U.S. assistance to establish a financial intelligence unit, and has received U.S. anti-money laundering and financial institution fraud training.

Uzbekistan is a party to the 1988 UN Drug Convention.

Vanuatu (Concern). Despite progress in adopting anti-money laundering legislation, there continue to be concerns regarding the operations of the Vanuatauan offshore financial sector that, in 1999, received considerable international attention because of alleged ties to Russian criminal activities. The government has moved to tighten application procedures for new International Companies (ICs) and for "exempted" (i.e. offshore) banks, aiming especially at possible Russian connections.

The offshore financial center of this chain of South Pacific islands contributes significantly to the government's revenue base. Vanuatu's offshore sector consists of exempted banks, ICs, insurance companies, internet gambling and trusts. Of these, ICs are of the greatest concern. Vanuatu's incorporation statutes contain provisions that shield the identity and assets of beneficial owners of business entities. In 1999, in response to indications that Russian entities were taking advantage of Vanuatu's company secrecy provisions, the Russian Central Bank issued a directive requiring Russian banks handling government funds to exercise caution in transactions involving certain Pacific jurisdictions, including Vanuatuan ICs. The anonymity and secrecy provisions available through ownership of Vanuatuan ICs, along with the ease and low cost of incorporation, make them ideal mechanisms for tax evasion and money laundering schemes.

The legislative basis for establishing International Companies is the Companies Act of 1986 and the International Companies Act of 1992. These statutes do not require the disclosure of beneficial ownership, permit bearer shares, allow the marketing of shelf companies, and do not allow public access to registers of directors or managers. In addition, corporate names may be in any language and script. Vanuatuan ICs have all the powers of a natural person other than engaging in banking or insurance activities. Officers, shareholders, and directors may be of any nationality and live anywhere. Their names need not be disclosed on incorporation records. Corporate entities may be listed as officers and shareholders. Marketers of offshore services via the Internet promote Vanuatuan registered shelf companies complete with associated offshore bank accounts and maildrop forwarding services.

Vanuatu also licenses 62 banks and insurance companies for offshore operations. Vanuatu's Financial Services Commission (FSC) regulates these businesses to varying degrees. Vanuatu is increasing its regulatory authority over these entities out of safety and soundness concerns. There is no statutory bank secrecy in Vanuatu. Offshore banks registered in Vanuatu are subject to FSC regulations, which include the requirement to report quarterly, disclose beneficial ownership and undergo external audits and banking supervisory inquiries.

Vanuatu criminalized money laundering for all serious offenses with the adoption of the Serious Offenses (Confiscation of Proceeds) Act N^o 50 of 1989. Tax evasion is not considered a predicate offense for money laundering. The Serious Offenses Act lacks two important provisions to effectively combat money laundering. One is a provision for the forfeiture of the instrumentalities used or intended for use in the commission of a money laundering offense. In this context, instrumentalities would be property used or intended to be used in any manner, wholly or in part, to commit a criminal offense. Seizure and confiscation of the instrumentalities as well as the proceeds of crime is very important in combating money laundering. The other is the lifting of corporate secrecy to establish beneficial ownership of legal entities that are the focus of investigations.

Vanuatu's legislation is silent on the standard of proof required for money laundering offenses. Case law in Vanuatu has shown that proving the criminal origins of proceeds, especially of offenses committed abroad, is extremely difficult. Linking criminal proceeds seized in Vanuatu with the offense committed abroad through a complex series financial transactions conducted by related corporations operating in several offshore jurisdictions is all but impossible. Vanuatuan investigators and prosecutors are unfamiliar with investigating these schemes. These factors have limited Vanuatu's ability to comply with foreign requests for assistance.

Vanuatu has enacted legislation, the Financial Institutions Act N^o 2 of 1999, which contains many provisions of the FATF Forty Recommendations to combat money laundering. It is also introducing draft legislation, the new International Banking Act, that according to Vanuatuan authorities will bring it into full compliance with FATF standards. Vanuatu has also established an Offshore Banking Supervision Unit that will monitor criminal abuse of its offshore banking sector to include money laundering. The unit is too new to determine its effectiveness. Vanuatu is a member of the Asia/Pacific Group on Money Laundering and the OGBS.

Vanuatu has made commendable progress in adopting anti-money laundering legislation. Vanuatu should consider amending its laws with respect to the instrumentalities of crime, lifting corporate secrecy of ICs for money laundering and applicable criminal investigations. It should also consider providing training to Vanuatuan investigators and prosecutors for complex international financial transactions typical of money laundering schemes.

Venezuela (Primary). Venezuela is not considered a regional financial center since its banking sector contracted significantly after the 1994–95 banking crisis, and the stock market has remained small. Venezuela does not have an offshore financial sector. However, it is this relative weakness of the banking sector, proximity to drug-source countries, newness of the financial regulations aimed at controlling money laundering, and corruption that continue to make Venezuela a prime target for money launderers. The proceeds from Colombian cocaine trafficking organizations constitute the primary source of the funds laundered in Venezuela, followed by contraband smuggling. Venezuelan banks, savings and loans, currency exchange houses, stockbrokers, real estate transactions, and casinos have been utilized to launder illicit funds. Venezuela has also been identified as a player in the Colombian black market peso exchange scheme that is driven in part by the demand for U.S. dollars by Colombian smugglers who need dollars to engage in illicit foreign trade. U.S. law enforcement has seen evidence of purchases of dollars by Venezuelan nationals, brokers located in Venezuela and businesses located in Venezuela's free trade zones that are being utilized to facilitate this black market peso exchange scheme. A U.S. interagency and multilateral working group is being formed to focus on this problem, and Venezuelan officials have expressed a strong interest in participating in the group.

During the last two years, the Government of Venezuela has improved its ability to combat money laundering, including the effective enforcement of information exchange agreements, strict regulation of the banking and financial sectors, adoption of a new Code of Criminal Procedures, creation of a financial intelligence unit (FIU), enhanced law enforcement cooperation, and expanded participation in multilateral anti-drug, anti-money laundering groups. The 1990 U.S.–Venezuela Kerry Amendment Agreement has facilitated the exchange of information on cash transactions in excess of \$10,000 or the equivalent in other foreign currencies. Under the auspices of the 1994 Mutual Legal Assistance Agreement, Venezuela and the United States have also exchanged money laundering information. A 1997 Customs Mutual Assistance Agreement has allowed for the exchange of customs information used in money laundering investigations. In July 1997, a new banking resolution went into effect for banks and other financial institutions requiring them to report all cash transactions over \$10,000 to the Superintendency of Banks and Other Financial Institutions. This banking resolution also mandates the reporting of suspicious financial transactions to the National Guard or the Technical Judicial Police, with a copy to the Superintendency of Banks and Other Financial Institutions. It contains strict customer identification requirements and provides a safe harbor protection from civil liability to bankers for reporting suspicious financial activities.

The implementation and enforcement of the September 1997 Casinos Law requiring the reporting of gambling transactions is progressing effectively, and the National Drug Council (CONACUID) initiated investigations into the casino licensing process and the activities of state lotteries. Significant resources and efforts are being devoted to the transition into the new judicial system as a result of the adoption in December 1997 of a new Code of Criminal Procedures that transformed the system from a secret, inquisitorial process to an open,

adversarial system. In June 1998, Venezuela established an FIU (Unidad de Inteligencia Financiera – UNIF) within the Superintendency of Banks and Other Financial Institutions that is collecting and analyzing financial information on transactions possibly linked to money laundering. The UNIF pursued leads provided through the U.S. Operation Casablanca case in which Venezuelan lawyers and bankers were indicted for involvement in the laundering of drug proceeds during 1998. Venezuela renewed its participation in the CFATF, and underwent an evaluation of its anti-money laundering program in November 1999. The UNIF is a member of the Egmont Group.

Although currently only drug-related money laundering is a criminal offense (per the 1993 Organic Drug Law), the pending Organized Crime Bill contains a comprehensive list of offenses for which money laundering will be a criminal offense, and will broaden assets forfeiture and sharing provisions. This legislation will also provide law enforcement with stronger arrest and investigative powers by authorizing the use of modern investigative techniques such as undercover agents, wire-tapping, and controlled seizures. During 1999, significant arrests were made under the 1993 Organic Drug Law but there were no money laundering convictions. As part of President Hugo Chavez' focus on combating corruption, a series of investigations was initiated of mid-level public officials for involvement in corruption, including drug-related cases, and convictions were obtained in cases not linked to drugs. Over 200 judges were investigated for corruption and misuse of office, and 43 were expeditiously removed from office. For the first time, judges were subject to extensive scrutiny by a special commission. The passage of the Organized Crime Bill and continued forceful actions against corruption must remain Venezuela's top priorities against drug trafficking and money laundering.

Vietnam (Concern). Vietnam is not an important financial or offshore center, and its banking sector is small, with a low rate of return, and little trusted by Vietnamese persons or businesses. Newly approved legislation criminalizing money laundering is an important step in the direction of creating a legal framework that will help Vietnam deal with money laundering and the new forms of financial crime that accompany the implementation of market reforms.

Vietnam's borders with China, Laos, and Cambodia and its long coastline make it a transit country for transnational crime, especially for narcotics trafficking from the Golden Triangle. Foreign and expatriate criminals exploit the loopholes in outdated laws and take advantage of the inexperience of Vietnamese business managers to commit commercial fraud and use Vietnamese businesses to launder criminal proceeds. Financial crimes are also carried out in collusion with corrupt government and banking officials. Organized crime groups from China are known to use Vietnam as a staging area for importing contraband and stolen vehicles into China. With the opening up of its economy to foreign investors and the loosening of its border controls, Vietnam has experienced an increase in narcotics trafficking, commercial fraud, advanced fee fraud, smuggling, tax evasion, trafficking in women, and the laundering of foreign criminal proceeds.

Money laundering methods identified by Vietnamese authorities include the use of letters of credit to purchase businesses and real estate, direct capital investments in businesses, false invoicing schemes, commodities trading, and criminal proceeds posing as foreign investment loans. In addition, Vietnamese expatriates living abroad are suspected of transferring the proceeds of narcotics trafficking and other crimes to Vietnamese banks. There is no specific secrecy law covering client and ownership information, but long-standing banking procedures are observed in practice.

Newly approved Article 251 of the Vietnamese Penal Code criminalizes "offenses involving legalizing money and property obtained by criminals". To take effect on July 1, 2000, Vietnam's new anti-money laundering law requires that financial institutions report suspicious transactions and maintain records sufficient to reconstruct significant transactions. Bankers are protected in their dealings with law enforcement authorities, but there is no "due diligence" provision making individual bankers responsible if their institutions launder money. The law also provides for the forfeiture of seized assets.

Vietnam is a signatory to the 1988 UN Drug Convention; it is not a major participant in international money laundering fora. However, Vietnam cooperates with neighboring and regional countries to combat money laundering and serious crimes.

As Vietnam updates its legal framework during its transition to a market economy, implementation of the new law will have an important impact on Vietnam's ability to prevent, detect and prosecute the abuse of its financial system from money laundering.

Federal Republic of Yugoslavia (Serbia and Montenegro) (Concern). Allegations of state-sponsored money laundering and smuggling make Yugoslavia a country of concern for money laundering. With ongoing international sanctions shrinking Yugoslavia's economy, the press reports that government officials and their cronies control state-owned companies, the banking system and the black markets for those goods in short supply. Government officials oversee the smuggling of, and illicit trade in, petroleum products, cigarettes, alcohol, and other goods.

Yugoslavia has not yet criminalized money laundering nor enacted anti-money laundering legislation, and no

legislation of this type is pending in Yugoslavia's legislature. Yugoslavia does not belong to any international or regional anti-money laundering organizations.

The level of crime and corruption in Yugoslavia and the absence of anti-money laundering laws encourage a climate favorable to money laundering and other financial crimes. Yugoslavia's European aspirations would be furthered by the enactment anti-money laundering legislation and development of the regulatory and legal framework to monitor and prevent the laundering of criminal proceeds within Yugoslavia, and by cooperation with foreign authorities to investigate and prosecute international money laundering cases.

Zambia (Other). Zambia is not a major financial or money laundering center. However, in an effort to deal with money laundering problems created by drug barons, arms traffickers and automobile theft rings, the Government of Zambia introduced a comprehensive anti-money laundering bill in 1998. That bill was subsequently withdrawn and new legislation introduced that would strengthen the government's ability to deal with money laundering, in part by subjecting commercial banks to investigation and penalties should they fail to implement know-your-customer procedures. Some bankers, however, have complained that the onus on the banks is too heavy. The Minister of Finance, in his budget speech to the Parliament, stated that the passage of the bill is a government priority.

In a further effort to deter money laundering, the Bank of Zambia (BOZ) directed in October 1998 that all bureaux de change transactions with individuals be limited to \$5,000; any transactions above that amount were to be handled through commercial banks. The BOZ based its decision on the fact that the bureaux, unlike commercial banks, are not required to follow know your customer procedures, and that there had been an increase in money laundering through the bureaux.

Zimbabwe (Other). Zimbabwe is not a financial or money laundering center. Its position as a significant transit point for drugs coming from the subcontinent destined for the European and South African market, combined with the recent liberalization of its economy, put it at risk for money laundering, although U.S. law enforcement sources report that local banking sources have not yet noted an alarming amount of suspicious activity.

Zimbabwe's Anti-Money Laundering Act criminalized drug-related money laundering. The Law Development Commission of Zimbabwe has drafted a bill to present to Parliament that would strengthen the Act. The draft bill would require financial institutions to establish customer identification procedures and to report transactions above a certain sum to a financial intelligence unit. It would also establish a money laundering board consisting of representatives of government, private, and public financial institutions.

[End.]

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